

Schools Funding Futures

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The public funding of government and non-government schools has reached a critical point in its history. The Labor Government has set in train an independent and comprehensive review of funding policy for the decisions that will have to be taken when the current legislated funding period ends in 2012. By contrast, the federal Coalition has promised to retain and 'improve' the funding arrangements put in place by the Howard Government in 2001.

This is a significant issue for our schools, in particular for the many students who depend on a commitment to increased public investment in high quality public schooling for their life chances. Retaining the current funding scheme beyond 2012 will entrench the inequities and injustices that are embedded in its structure and operation. In such circumstances, public funding to non-government schools would continue to be distributed without regard to the full range of their income and resources; and without a formal funding standard based on the needs of students and the differing workloads in schools to meet those needs. The effect will be to further exacerbate the imbalance in the funding responsibilities of Commonwealth and State and Territory governments for government and non-government schools respectively.

Extension of the current Commonwealth general recurrent funding scheme to the next funding quadrennium would increase funding for non-government schools by more than \$ 2.3 billion over the 2012 level, to a total of over \$9.5 billion; compared with a \$652 million increase for government schools, to a total of \$3.1 billion, over the same period. This is the funding equivalent of an additional 8,300 teachers for the non-government sector, five times the additional 1,670 teachers in government schools that Commonwealth funding would support. Such an imbalance and injustice would be the clear outcomes of extension of this Commonwealth funding scheme, even if countered by State and Territory increases over that period.

Government schools' share is projected to continue to decline to just 35 per cent of all Commonwealth funding for schools by 2016, if the current scheme is allowed to continue beyond 2012.

Resolving the underlying issues and complexities of \$35 billion in public funding that is currently delivered to Australia's 10,000 public and private schools is central to the future of quality schooling in this country.

These matters are too important to be left to the vagaries of the current federal election campaign. What is needed instead is a considered and comprehensive analysis of all funding options and their implications for schools across all states and sectors.

Commonwealth general recurrent grants

Central to such a considered review are the decisions that will have to be taken before the end of the current funding quadrennium for the Commonwealth's general recurrent grants program in 2012.

When the then Rudd Government came to power in 2007, it honoured its election commitment to extend the Howard Government's funding policies for the Commonwealth's general recurrent grants program over the 2009 – 2012 funding quadrennium.

Under these policies, Commonwealth general recurrent grants for government schools were paid according to the number of students in primary and secondary schools. Per capita grants were linked to a measure of State and Territory governments' spending on teaching and non-teaching school staff and other forms of recurrent expenditure: the Average Government Schools Costs (AGSRC) data for primary and secondary school students. Commonwealth general recurrent funding for government schools flowed from the formula: 8.9 per cent of the primary AGSRC of \$8,044 in 2008; and 10 per cent of the secondary AGSRC of \$10,061 in that year.

In aggregate, Commonwealth general recurrent funding for the 2.3 million students in Australia's public schools was just under \$1.9 billion in 2008.

For non-government schools, Commonwealth general recurrent per capita grants were spread over a continuum of forty-six subsidy levels ranging from a minimum of 13.7 per cent of AGSRC to a maximum of 70 per cent of AGSRC, for both the primary and secondary figures. Grants to the bulk of non-government schools, including the large Catholic school systems, clustered around 50 to 60 per of AGSRC. Subsidy levels for each non-government school were determined according to an indirect measure, through census collectors' districts, of the socio-economic status (SES) characteristics of each students' home district.

The total level of Commonwealth general recurrent funding for the 1.1 million students in non-government schools across Australia was just over \$5.5 billion in 2008.

Federal Labor has also honoured its commitment to set up an independent review of schools funding to advise on the funding arrangements that will need to be put in place when the current legislated funding period ends in 2012. The final terms of reference for that review, released by Minister Simon Crean on 9th July, 2010, augur well for a comprehensive and inclusive approach to that review¹. The Labor Government had already given a commitment that its future policies will ensure that ‘no school will be worse off’² following the review.

The Federal Coalition, on the other hand, has stated its commitment to the retention of the current SES funding scheme, while acknowledging that the model could be improved to improve outcomes for the most disadvantaged students³.

Barring unforeseen developments and commitments during the course of the federal election campaign, the future of Commonwealth general recurrent funding for government and non-government schools hangs in the balance.

Implications of extending the Commonwealth’s SES funding scheme

Retention beyond the current funding quadrennium of the Commonwealth’s SES funding scheme for non-government schools, and the related commitments for Commonwealth general recurrent per capita grants for government schools, would extend until 2016 the anomalies and inequities currently built into that scheme..

School resource levels: One of the key features of the SES scheme is that Commonwealth general recurrent grants are paid to non-government schools without any regard to the resources available to each school from fees and other sources of private income. The SES scheme, for example, makes no distinction between those non-government schools located in low SES areas that draw their students largely from that local community and those schools that draw their students from only the better-off families from surrounding low SES communities, who can afford to travel and to pay higher fees to support higher resource levels. Commonwealth funding is determined by each school’s SES score (unless they are protected from funding cuts, as outlined below), and not by their actual resource needs or financial situation.

School fees? When the scheme was introduced from 2001 by former Minister David Kemp, the Howard Government claimed that high resource schools in receipt of increased Commonwealth grants would use those increases to ‘...reduce the fee burden on parents’. But school fees and other sources of private income in Catholic and independent schools increased by more than 60 per cent between 2001 and 2008. This was double the increase in teacher salary levels over that period and almost three times the general rate of inflation as measured by the consumer price index.

¹ Terms of reference and further information about the funding review can be found at: <http://www.deewr.gov.au/fundingreview>.

² The Australian 6th July 2010,

³ Christopher Pyne, Speech to the Christian Schools National Policy Conference, Canberra, 25 May 2010.

Private income in non-government schools: 2001 and 2008

	2001	2008	Increase	
	\$	\$	\$	%
Catholic schools				
fees	\$1,421	\$2,398	\$977	69%
other private income	\$433	\$661	\$228	53%
total private income	\$1,854	\$3,059	\$1,205	65%
Independent schools				
fees	\$5,267	\$7,699	\$2,432	46%
other private income	\$675	\$1,074	\$400	59%
total private income	\$5,942	\$8,773	\$2,832	48%
All non-government schools				
fees	\$2,830	\$4,540	\$1,710	60%
other private income	\$521	\$828	\$307	59%
total private income	\$3,351	\$5,368	\$2,017	60%

Source, *National Reports on Schooling, 2001 (Table 26) and 2008 Table 23*.

When introducing the SES funding scheme, Minister Kemp also advised that it would provide an incentive for increased private effort in schools. Since the major expression of ‘private effort’ in relation to non-government schooling is the fees charged to parents, this confirms the policy confusion built into the purpose of the schools funding arrangements. The above figures make clear that, of these two rationales, the former has prevailed over the latter, with the effect of adding to the widening resources gap between government and non-government schools overall.

Perhaps the final nail in the coffin of any policy intention to ‘reduce fee pressure’ is the recent election policy announcement by the Federal Opposition that it would, if elected, provide tax relief for school fees. The Coalition appears to have gone full circle in its policy rationale for increased funding for non-government schools. Its SES funding scheme having removed all downward pressure on non-government school fees and allowing fees to escalate, would now provide public funding in the form of tax relief to reduce the resultant ‘fee pressure on parents’. In the absence of any cap on fees, as any economist knows, the most likely effect of this measure would be further fee increases.

Saves money? A further rationale for the increased public funding for non-government schools arising from the SES scheme was that it would save public money overall, when funding from all Commonwealth and State sources was taken into account. This kind of justification for public funding of private schools has a long history in the politics of Australian education, based on the assumption that State governments, in particular, would reduce their funding commitments for public schools, including through school

closures, when significant numbers of students moved from public schools to the private sector.

But the political and financial realities are quite different from this theoretical assumption. In 2006, for example, some 200,000 additional students were enrolled in non-government schools compared with the 1996 level. Had these 200,000 students been accommodated instead in public schools over this decade, this would have required additional public funding of around \$2 billion. Over that same period, however, the real increase in public funding for these same students, in the non-government sector, was more than \$3 billion⁴, mostly provided by the Commonwealth. In other words, governments funded the additional non-government school students by \$1 billion more than would have been required for the equivalent number of students in fully publicly-funded government schools.

Funding standard? The SES scheme contains no rationale or explicit standard for the level of funding provided for each school. The minimum grant for non-government schools is calculated at the arbitrary level of 13.7 per cent of AGSRC regardless of the fees charged by that school or the income received from State Governments. This percentage link increases incrementally over forty-six subsidy steps until it reaches the maximum grant set at 70 per cent of AGSRC for each year.

The AGSRC measure is a moving standard, determined by State per student expenditures on government schools, passed on as a share of funding to all non-government schools, without any regard to the relevance of the funding increases for the non-government school in receipt of the increased funds. Apart from salary increases for teachers and other school staff, AGSRC incorporates funding increases for schools with special needs, such as reduced class sizes or teaching support for students with learning difficulties or for schools in isolated areas. Most insidiously, AGSRC increases flow from the financial diseconomies experienced by schools with declining enrolments continuing to meet their legal obligation to provide services for all who wish to choose a public schooling for their children, or where there is no alternative.

The use of AGSRC as a de facto funding standard has the effect of passing on real increases to all SES-funded non-government schools, over and above the effects of inflation on schools and without regard to the specific needs of the schools receiving those increases. For example, the funding generated by the costs of educating the disproportionate share of students with disabilities in government schools is distributed across all non-government schools but without regard to targeting these funds to the actual students with disabilities in that sector.

And, of course, the AGSRC ‘standard’ means that there is no explicit funding standard for Commonwealth general recurrent funding of government schools. Average costs are the statistical outcome of government funding decisions on government schools. These

⁴ J McMorro and L Connors, *New Directions in Schools Funding: a proposed model*, University of Sydney, March 2010.

are, in no sense, a policy rationale for determining appropriate funding levels and distributions to these schools.

Federalism? A growing issue generally, but for the Commonwealth general recurrent grants scheme in particular, is the imbalance in the legal and financial responsibilities of Commonwealth and State and Territory governments for the provision of public funds for students in public and private schools. State and Territory governments continue to have a constitutional responsibility to provide public schooling for their citizens and fund around 90 per cent of the recurrent resources in their schools. These governments also fund non-government schools, providing around one-third of the total public funding received by schools in that sector.

Over time, the Commonwealth Government has increased its share of public funding of non-government schools to the point where the majority of these schools, including those within the large Catholic school systems, now receive more than half of their total income from that level of government alone.

This leaves public schools dependent for the bulk of their funding on the level of government within the Australian federal system with the least capacity to raise revenue from taxes and other budgetary sources to meet their growing needs. It leaves them in competition for funds within tight State budgets with public services in other areas, such as health, transport, social security and policing; while the non-government sector is securely linked to the level of government with the higher revenue-raising capacity and with the greater flexibility to manage competing budget priorities.

We have reached the stage in our history where a more considered and national approach to schools funding policies and frameworks is necessary, despite the inherent difficulties of achieving this within our federal system of government. Without such national agreement, public funding of government schools will continue to suffer.

Funding maintenance? A decade after the introduction of the SES funding scheme, it is still the case that it applies only to the less than half of all non-government schools, those that stood to benefit financially from application of the SES model. The other schools, where the SES formula produced a funding reduction, have been protected from those cuts by separate arrangements. Those independent schools that continue to be funded at the level they would have received under the previous system of the Hawke/Keating Governments, have been categorised as *funding maintained* schools. Some 60 per cent of Catholic systemic schools have had to be funded as *Catholic maintained* schools to continue to receive the same indexed general recurrent grants they received in 2004, when they were *deemed* to have a SES score that provided funding increases beyond 2001.

The former Department of Education, Science and Training estimated that the cost of the *funding maintained/Catholic maintained* policy for the 2004-08 quadrennium was over \$2.7 billion: \$2.15 billion for Catholic systems and \$0.56 billion for the independent

schools⁵. The annual bill for these funding protections is now around \$0.8 million, and would reach *\$1 billion annually* by 2016 if the arrangements were continued into the next funding quadrennium.

Non-government schools in receipt of SES general recurrent funding, but which are found when reviewed at the end of each funding quadrennium to have a higher SES score, are also protected from the full effects of re-categorisation by further *funding guarantee* arrangements. These schools continue to receive the dollar amount received at the end of the previous quadrennium – that is, their funding is frozen in dollar terms – until the value of their new SES score is equal to their former funding entitlement. In the previous quadrennium, over 260 independent schools were in this category⁶.

Funding projections: Table 1 below projects Commonwealth general recurrent grants for government and non-government schools to the end of the current quadrennium in 2012, compared with the year 2008 as a base.

Note the increase of \$231 million, or 12.2 per cent, in general recurrent grants to government schools in 2009 in this table. This reflects the Labor Government's decision to rectify the long-standing anomaly in the formula for government primary schools, by increasing the per capita rate for primary schools from 8.9 per cent of AGSRC under the Howard Government's model, to 10 per cent of AGSRC, the same percentage rate as for government secondary schools. The increases for the remaining years, building to an annual increase of \$147 million, or 5.8 per cent, by 2012, reflect modest demographic growth and continuing increases in the AGSRC index.

The increases in general recurrent grants for non-government schools shown in Table 1, ranging from \$356 million (6.5%) in 2009 to \$461 million (6.9%) in 2012 are generated from the combined effects of projected enrolment increases and transfers from government schools and, as for government schools, AGSRC trends.

At the end of the current quadrennium, assuming no further policy changes arising from the federal election, total Commonwealth general recurrent funding for non-government schools are projected to total over \$7.1 billion, almost three times the \$2.5 billion projected for government schools.

The factors underlying the Commonwealth general recurrent grants formula will drive further increases over the next quadrennium, should the scheme be continued after the election and the current Government's review. Table 2 below projects these increases from the end of the current funding period in 2012 through to the year 2016. These projections reflect the underlying patterns of funding increases for both sectors, culminating in total general recurrent grants of \$9.5 billion for non-government schools by 2016, and \$3.1 billion for government schools in the same year.

⁵ Department of Education, Science and Training, *Review of SES Funding Arrangements for Non-government Schools*, December 2006, p27.

⁶ Op.cit., p14.

Table 1

Commonwealth general recurrent grants 2008 – 2012

	2008		2009		2010		2011		2012	
	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>
Government schools										
	2,273,253	\$1,888	2,283,242	\$2,118	2,294,658	\$2,235	2,308,426	\$2,360	2,326,893	\$2,497
Increase			9,989	\$231	11,416	\$117	13,768	\$125	18,467	\$137
%			0.4%	12.2%	0.5%	5.5%	0.6%	5.6%	0.8%	5.8%
Non-government schools										
	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>
	1,171,221	\$5,517	1,188,996	\$5,873	1,208,020	\$6,261	1,228,557	\$6,680	1,251,899	\$7,141
Increase			17,775	\$356	19,024	\$388	20,536	\$419	23,343	\$461
%			1.5%	6.5%	1.6%	6.6%	1.7%	6.7%	1.9%	6.9%

Sources:

Commonwealth Budget Papers 2010: *Budget Paper No 3; DEEWR Budget Statements*, programs 2.1 and 2.2

DEEWR, *Commonwealth Programs for Schools*, 2008 update, Appendix D

DEEWR, *Commonwealth Schools Programs for Non-government Schools for 2009 to 2012*

MCEEDYA, *National Report on Schooling in Australia*, Table 26

ABS, *Schools 2008 and 2009*, 4221.0; and *Population Projections 2006 to 2101*, 3222.0, Chapter 3.

Note: DEEWR enrolment projections updated by ABS final data for 2009

Table 2
Commonwealth general recurrent grants 2012 - 2016

	2012		2013		2014		2015		2016	
	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>
Government schools										
	2,326,893	\$2,497	2,347,835	\$2,644	2,371,314	\$2,803	2,395,027	\$2,971	2,418,977	\$3,149
Increase			20,942	\$147	23,478	\$159	23,713	\$168	23,950	\$178
%			0.9%	5.9%	1.0%	6.0%	1.0%	6.0%	1.0%	6.0%
Non-government schools										
	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>	<i>students</i>	<i>\$m</i>
	1,251,899	\$7,141	1,278,189	\$7,648	1,307,587	\$8,207	1,340,277	\$8,822	1,376,465	\$9,501
Increase			26,290	\$507	29,398	\$558	32,690	\$615	36,187	\$679
%			2.1%	7.1%	2.3%	7.3%	2.5%	7.5%	2.7%	7.7%

Sources: see Table 1

The projected funding trends in Table 2 would produce increases in Commonwealth general recurrent grants between 2012 and 2016, as outlined in Table 3 below.

Table 3
Projected Increases in Commonwealth
general recurrent grants for schools: 2012 - 2016

		<u>Increase 2012-2016</u>	
		\$m	Equivalent number of additional teachers
government schools		\$652	1,670
	%	26.1%	
non-government schools		\$2,360	8,380
	%	33.0%	

Sources: see Table 1

This table also translates the funding increases into the equivalent number of teachers those increases could purchase for each sector. These data suggest that Commonwealth general recurrent grants could fund the equivalent of an additional 1,670 teachers in Australia's government schools by the end of the next funding quadrennium; while the funding equivalent in the non-government school sector would be over 8,380 additional teachers in that sector, more than five times the increase for government schools funded by the Commonwealth's general recurrent formula.

While the Commonwealth's general recurrent moneys must be spent on legitimate recurrent resources, the largest and most significant component of schools' recurrent expenditures is the number of classroom teachers. These funding increases could be offset in some schools or sectors by diverting other sources of income to capital or other kinds of recurrent expenditure. But the above figures provide at least an indication of the dimensions of the projected funding increases for each sector.

The above tables are intended to illustrate the likely outcome of continuing the Commonwealth's general recurrent funding scheme beyond the current funding period. They do not take into account increased funding provided by State and Territory governments over the period; and of course the projected increases in Commonwealth funding would include the passing on of increased State and Territory funding into the AGSRC calculation. *But the Commonwealth alone is responsible for its own policy arrangements, including for the funding implications outlined in the above tables.*

The Commonwealth could offset the growing imbalance in its general recurrent programs for government and non-government schools through targeted programs. Indeed, the Rudd Government has provided significant real increases for schools through its National

Partnership Programs, such as for computers in schools, trades training centres, quality teaching and schools in low socio-economic communities⁷.

New or increased targeted programs could emerge from the current federal election campaign, but these are unknown at this stage. Table 4 below projects the current array of Commonwealth special purpose and national partnership programs into the new funding quadrennium, to provide a more complete picture of Commonwealth budgetary trends:

Table 4

Projected Commonwealth funding for schools 2013 - 2016

	2013	2014	2015	2016
	\$m	\$m	\$m	\$m
Special Purpose Payments				
government schools				
<i>general recurrent</i>	2,644	2,803	2,971	3,149
<i>targeted programs</i>	1,557	1,635	1,717	1,803
s/t	4,201	4,438	4,688	4,952
non-government schools				
<i>general recurrent</i>	7,648	8,207	8,822	9,501
<i>targeted programs</i>	685	719	755	793
s/t	8,333	8,926	9,577	10,294
Total	12,534	13,364	14,265	15,245
% government schools	34%	33%	33%	32%
National Partnership Payments				
government schools	571	600	630	661
non-government schools	291	306	321	337
Total	862	906	951	998
% government schools	66%	66%	66%	66%
Total Payments for schools				
government schools	4,772	5,038	5,318	5,613
non-government schools	8,624	9,232	9,898	10,631
Total	13,396	14,269	15,215	16,244
% government schools	36%	35%	35%	35%

Sources: Budget Paper No. 3, 2010, Part 2, Payments for Specific Purposes. Table 2
Some differences due to rounding.

⁷ Note that the federal Opposition has foreshadowed cutting some of these programs, as part of its savings measures to fund other 'priorities', such as tax concessions for school fees – but that is another story.

The funding cuts to National Partnership Programs included in the Coalition's Budget savings measures – including programs for quality teaching (around \$200 million in 2012), computers in schools (\$200million from 2012) and trades training centres (just under \$300 million in 2013) – would fall disproportionately on government schools and reduce government schools' share of total Commonwealth funding indicated in Table 4 even further, to 34 per cent and below.

Table 4 illustrates the dominating effect of the general recurrent grants program on overall Commonwealth schools funding trends. It reveals the insidious influence of the underlying features of the general recurrent grants formula in leading a downward spiral in government schools' share of total Commonwealth funding for schools.

That formula was put in place by the Howard Government, and its influence on the overall trends in Commonwealth funding for schools will endure if it is allowed to continue into the next funding quadrennium. Commonwealth general recurrent grants for government schools would have to be increased by some \$2 billion by 2016 if government schools were to receive the same share of Commonwealth funding that applied when the Howard Government came to power in 1996.

The current review of schools funding provides the best opportunity for decades to take stock of the ways that public funding for all schools, from all sources, can best support quality schooling for all. It would be helpful if both sides of politics supported the review process, and resisted the temptation to pre-empt or subvert its outcomes with hastily-conceived pre-election commitments.