

Real reform in schools funding:

- achieving a mature partnership between Commonwealth and State governments
- putting public schooling back at the centre of national priorities and agreements
- adopting national target resource standards for schools to guide planning for greater public investment
- using public funds to narrow resource gaps between schools that cannot be justified on educational grounds
- protecting public investment against erosion through inflation
- consolidating funding in the interests of efficiency and effectiveness.

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There's a lot at stake over the next few months in the countdown to the Gonski panel's final advice on schools funding. That advice, and the Government's response, could determine the long-term future of schooling across Australia and, in particular, the nature and quality of public schooling in this country.

The purpose of this paper is to offer a constructive contribution to this most difficult of policy areas. While ambitious in its scope and operation, the advice is in keeping with the potential offered by the review for a genuinely comprehensive and sustainable reform of schools funding for all schools.

The Gonski panel has given little indication of its thinking on the key issues. It has released four commissioned research reports canvassing a range of issues and options, some of which are contradictory and all of which are unclear about how those issues and options would apply to the development of funding mechanisms.

This is not just a matter of values and principles, but also of funding formulae and conditions. Funding arrangements must be able to deliver desired outcomes through appropriate and sustainable formulae and procedures. This important element of schools funding policy was missing from the commissioned reports.

This is a serious problem. In the real world, it is as essential to achieve workable funding mechanisms as it is to have clear and defensible policy principles and priorities. Policy machinery is integral to the achievement of policy goals and outcomes.

Schools funding in Australia has got to the point where dysfunction, if not corruption, is evident on a number of fronts. These have been slowly corrupted through many political compromises, none of which may have seemed to be very important at the time. While there is a range of issues that arise from current funding arrangements for schools, with views about their relative importance varying across the political spectrum, there are at least six key problem areas that cannot be ignored by the Gonski panel.

1. Imbalance in Commonwealth and State responsibilities for schools

Both levels of government in the Australian federation spend significant amounts on Australian schools. But there are serious consequences arising from the imbalance in the public funding of government and non-government schools between the Commonwealth and the States and Territories.

Table 1 below provides a general picture of the funding decisions of Commonwealth and State governments.

Table 1

**Government recurrent expenditure on schools 2009
(\$billion)**

| | \$bn | % |
|-------------------------------|---------------|-------------|
| government schools | | |
| Commonwealth | \$3.6 | 15% |
| State | \$20.5 | 85% |
| Total public | \$24.1 | 100% |
| non-government schools | | |
| Commonwealth | \$6.2 | 74% |
| State | \$2.2 | 26% |
| Total public | \$8.4 | 100% |
| all schools | | |
| Commonwealth | \$9.8 | 30% |
| State | \$22.7 | 70% |
| Total public | \$32.5 | 100% |

Note: excludes capital grants and funding from fees and other sources of private income (around \$1.4bn for government schools and \$6.5bn for non-government schools).

Source: Deloitte Access Economics, *Assessing existing funding models for schooling in Australia*, Table 2.1

The divergent funding responsibilities of Commonwealth and State governments for government and non-government schools are clear from this table. The nation's 6,740 public schools received around \$3.6 billion from the Commonwealth in 2009, just 15 per cent of their total public funding. The more than 2,700 non-government schools across Australia, by contrast, depended on the Commonwealth Government for 74 per cent of their total public funding of \$8.4 billion.

State governments, on the other hand, spent the bulk of public funding on government schools: some 85 per cent of the \$24 billion in public recurrent funding for government schools, and 26 per cent of the \$8.4 billion spent on non-government schools from public sources.

These imbalances mean that the two, and often competing, school sectors are each drinking from a different well.

The historical background to the evolution of public funding for schools is well-traversed in the Allen Consulting Group report commissioned by the Gonski panel. That report

outlined the political decisions, and compromises, taken over time, particularly since the introduction of substantial public funding of non-government schools by the Whitlam Government in the 1970s (Allen:pp17-23).

Table 2 below provides a snapshot of enrolment trends arising from the key eras in Commonwealth funding for schools.

Table 2

**Trends in Commonwealth funding of schools
Selected years: 1976 - 2011**

| | <i>Whitlam</i> 1975 | <i>Fraser</i> 1983 | <i>Hawke</i> 1991 | <i>Keating</i> 1996 | <i>Howard</i> 2007 | <i>Rudd</i> 2010 | <i>Gillard</i> 2013 |
|-------------------------------|------------------------|-----------------------|----------------------|------------------------|-----------------------|---------------------|------------------------|
| Funding | | | | | | | |
| <i>government schools</i> | 68% | 47% | 45% | 42% | 34% | 38% | 37% |
| <i>non-government schools</i> | 32% | 53% | 55% | 58% | 66% | 62% | 63% |
| Enrolments | | | | | | | |
| <i>government schools</i> | 79% | 76% | 72% | 71% | 66% | 65% | 65% |
| <i>non-government schools</i> | 21% | 24% | 28% | 29% | 34% | 35% | 35% |

Notes:
excludes joint programs 1975-1993
excludes BER funding in 2011
Figures for 1975 and for the 1974-5 biennium.
Figures for 2013 are Budget Projections, and are subject to the outcomes of the funding review.

Sources:
Parliamentary Library Research Notes Nos 14 (1994) and 41 (2004); Budget Papers No. 1 1996, 2007 and 2011 Schools Commission, Report for the Triennium 1976-78, Table C.1
Australian Bureau of Statistics, Schools Australia , Cat 4221.0, selected years
DEEWR Budget Statements 2011, Outcome 2, Tables 2.2.1 and 2.2.3

The accretion of policy principles and funding formulae over time has had the effect of reversing the balance of Commonwealth funding for government and non-government schools over the period since 1976.

At the root of the dysfunction in schools funding is this imbalance in the role of Commonwealth and State/Territory governments for the funding of schools in both sectors. The mechanism by which this funding is shared is poorly delineated.

The unbalanced funding commitments of Commonwealth and State governments that have developed over time have created the conditions for confusion about the purposes and priorities of public funding for schools; and about the responsibilities of each level of government for the support of government and non-government schools.

Public funding for schools is contaminated by the fundamental problem of ‘vertical fiscal imbalance’ in the way that Commonwealth and State financial decisions interact. State governments are severely constrained in the flexibility they can give to changing needs and priorities, with spending on public schools limited by ongoing obligations to provide school places for all who apply for enrolment, by the outcomes of teacher salary negotiations, and by demographic changes in student numbers and the teaching force. Spending on public education represents around one-quarter of all State expenditures, but needs to compete with increasing demands for more and improved services in health, policing, transport, roads and other infrastructure.

By contrast, the Commonwealth Government has had much greater growth and flexibility in its revenue and expenditure decisions. In relation to schools, this has generally been to the benefit of the non-government sector. These are the schools drinking from the deepest well.

If the Gonski review process fails to address this key feature of Australia’s federal system, the underlying fragility of public funding of public schools will put at risk the large numbers of children and young people who depend on a high quality public system for their educational futures.

2. *Absence of Commonwealth responsibility for public schooling*

A sinister aspect of the federal history of schools funding was the loss of an explicit legislative commitment by the Commonwealth Government for the support of high quality public schooling. When the Howard Government came to power in 1996, one of its first steps was to remove Commonwealth legislation with long-standing provisions requiring government agencies to have regard to: *the primary obligation, in relation to education, for governments to provide and maintain government school systems that are of the highest standard and are open, without fees or religious tests, to all children* (Schools Commission Act 1973, S13(4); Employment, Education and Training Act 1988, S24(2)).

At the same time, negotiations of broad national education agreements with the States and Territories have only served to obscure any particular responsibility of the Commonwealth for high quality public schooling.

3. *Absence of an explicit funding rationale or standard*

The Commonwealth Government currently provides general recurrent grants based on arbitrary linkages to a contestable funding benchmark of political convenience.

Commonwealth general recurrent grants for schools are calculated as a percentage of State spending on government schools, the Average Government Schools Recurrent Cost (AGSRC) measure. For government schools, the Commonwealth sets its general

recurrent per capita grants at 10 per cent of AGSRC. For non-government schools, funding levels range over 46 subsidy categories depending on a measure of each school's socio-economic status (SES). Schools with the highest SES score receive 13.7 per cent of AGSRC. Funding is then provided over a sliding scale for the remaining 45 categories to a maximum of 70 per cent of AGSRC for the most SES-disadvantaged non-government schools.

These 'percentage link' settings for government and non-government schools are entirely arbitrary, derived in the main from political and financial judgements at critical times over decades. There is no educational rationale for the 10 per cent figure for government schools, and certainly none for the 13.7 per cent provided for the highest SES-advantaged non-government schools. Nor is there any educational reason for the 1.2 or 1.3 per cent increase for each step of the SES scale, up to the maximum of 70 per cent.

The AGSRC figure is by definition an average of the *outcome* of State and Territory funding decisions. If a genuinely national approach were to be achieved, it would be necessary to apply a funding benchmark that is relevant to all schools, government and non-government. An AGSRC-like funding benchmark cannot be both the *outcome* and the *driver* of funding for public expenditure on government schools from all sources, Commonwealth and State.

What is needed instead is an explicit funding benchmark based on the resources schools need to achieve desired educational outcomes.

4. *Consideration of all resources when assessing schools' need for public funding.*

A key issue with current Commonwealth funding arrangements arises from the decision of the Howard Government to base its funding of non-government schools on a measure of socio-economic status (SES) for the funding scheme it introduced in 2001. This has had the effect of breaking the long-standing link between total income from fees and other sources of private income and the level of entitlement to public funding for non-government schools.

The inevitable outcome of the Howard Government's policy – extended for a further five years by the Rudd and Gillard governments pending the advice of its review panel - has been a growing inequity in schooling outcomes (NOUS: p19) and a widening of the resources gaps between schools, arising in the main from unregulated private fees and the exchange of students between the sectors (Argy; Cobbold; Preston).

A more socially responsible policy would be to develop schools funding arrangements that reduced, rather than increased, educational and resource inequities between schools; and, as stated in the Gonski panel's emerging issues paper, that '...equity should ensure that differences in educational outcomes are not the result of differences in wealth, income, power or possessions' (DEEWR, 2010: p5).

5. *Indexation arrangements lack integrity.*

The policy of linking Commonwealth per capita grants to varying percentages of AGSRC also means, in effect, that these grants are supplemented each year by the outcomes of State budget decisions on government schools' expenditures. Most State governments also link their funding of non-government schools to changes in their per student funding of government schools (Deloitte: Table 5.3).

AGSRC calculations embody a range of educational, political, industrial and statistical elements. The outcomes of these calculations go beyond the effects of inflation on schools' resources.

At least two of the commissioned reports for the Gonski panel raised questions about the application of AGSRC for the indexation of Commonwealth grants. While noting that the AGSRC indexation policy reflected policy commitments to maintain parity in funding across sectors, Deloitte Access Economics pointed out that the cumulative increase in AGSRC over the period 1998-99 to 2007-08 was 59 per cent, compared with 35 per cent for the Consumer Price Index and 43 per cent for the education Labour Price Index (Deloitte:p71). The Allen Consulting Group argued that AGSRC has significant limitations, such as relying on average expenditure rather than the differential cost of meeting the needs of students and schools in all schools across the nation. Their report also noted that AGSRC fails to take into account the relationship between cost and educational outcomes (Allen: p7).

In most areas of public expenditure, the real value of the resources provided by government is protected against the effects of inflation by an appropriate form of annual indexation or supplementation. Governments currently commit around 60 per cent of their recurrent expenditure on teaching salaries, another 15 per cent on non-teaching salaries, for clerical and support staff, and 25 per cent on non-salary costs, such as teaching materials and equipment (National Report on Schooling 2008, Table 19). A composite index of these effects on the price of schooling would have increased by around 3-4 per cent each year over the past decade.

By contrast, annual AGSRC increases have ranged from around 3 per cent to 9 per cent over the same period, an average of 6 per cent (Daniels: 2011; Ferrari: 2011). That amounts to the equivalent of an over-payment – that is, the difference between AGSRC indexation and the real effects of inflation in schools - of around \$1 billion over the current funding quadrennium.

What this means, for example, is that some independent schools with relatively high socio-economic status scores received an additional \$500,000 or more in public¹ funding from AGSRC indexation in 2010, of which around \$300,000 would have reflected genuine inflation. The \$200,000 plus difference between these amounts provided a windfall gain from the public purse that would have enabled these schools to employ an additional 2 -3 teaching staff or equivalent.

As well as embodying price changes in the cost of existing teaching and other recurrent resources, AGSRC would increase if State governments reduced class sizes in the early years of primary schooling and/or in schools with concentrations of disadvantaged students.

A further example of the inequity built into AGSRC indexation: when non-government schools exercise their right to exclude students from poor families who cannot pay fees or troublesome students with high resource needs, it would have the effect of increasing the costs of delivering services for these students in the government sector. The non-government schools in this example would then benefit from the resultant increase in indexation arising from the current AGSRC arrangements.

Another example: average per student costs will increase as government systems lose enrolments but are unable to balance these losses with comparable reductions in teacher numbers and their fixed costs, due mainly to public schools' legal obligations to maintain access to all. As Ross Gittins (2008) points out:

..the drift of students from public to private not only increases the number of per-person grants going to the private schools, it also increases the size of the grant per person because the public schools suffer diseconomies of scale. (If that sounds crazy, it is.)

As can be seen from the above examples, AGSRC indexation lacks policy, financial and ethical integrity.

6. *Too many unstable, 'clip-on' programs.*

Here is a list of the assortment of special purpose, targeted programs supported by the Commonwealth in 2011:

National Specific Purpose Payments (NSPPs)

Incorporated in NSPPs, in addition to general recurrent and general capital grants, is a number of long-standing Commonwealth programs for schools:(Commonwealth Budget Paper Number 3 2011:Table 5.3; DEEWR Administrative Guidelines: p96):

¹ That is, Commonwealth and State funding combined.

- Indigenous Supplementary Assistance
- Indigenous Funding Guarantee
- Languages Other Than English
- Country Areas
- Literacy, Numeracy and Special Learning Needs – Schools Grants and students with disabilities
- English as a Second Language – New Arrivals.

For government schools, these programs have been folded into National Education Agreements. For non-government schools, the programs are administered separately under conditions set by Schools Assistance legislation and related administrative guidelines.

National Partnership Payments (NPPs)

The range of programs incorporated into NPPs, excluding funding for early childhood development and the wind-down of the Building the Education Revolution fund, include (Commonwealth Budget Paper No. 3 2011; Table 2.4):

- Closing the gap in the Northern Territory
 - Quality teaching, accelerated literacy
 - Supporting remote schools – additional teachers
 - Teacher housing
- Digital education revolution
- East Kimberley development package
- Education investment fund
- Fort Street High Schools noise insulation
- National solar schools
- School pathways program
- Improved learning experiences and educational outcomes for schools students with a disability
- Secure schools program
- Smarter schools
 - Improving teacher quality (a)
 - Literacy and numeracy (b)
 - Low SES school communities
- Trade training centres in schools

(a) to be discontinued in 2013-14

(b) to be discontinued in 2012-13

Schools Support programs

The Commonwealth also funds schools directly through a range of ‘school support’ programs (Commonwealth Budget Paper No. 3 2011: Table 2.2.3):

- Rewards for school improvement
- Empowering local schools
- Reward payments for great teachers
- Teach next (for non-teaching specialists seeking a career change into teaching)

- National trade cadetship
- Online diagnostic tools
- Australian Baccalaureate
- Indigenous ranger cadetships
- National Asian Languages in schools (c)
- Grants and awards
- National schools chaplaincy program
- Helping children with autism
- Quality outcomes
- Framework for open learning
- Local schools working together (d)
- Indigenous education

(c) to be discontinued in 2013-14

(d) to be discontinued in 2012-13.

State and Territory governments also provide a range of targeted programs for their schools, including (Deloitte: Table 5.3):

- Support for students with learning difficulties
- Priority schools funding
- Priority actions schools program
- Support for student engagement and at risk students
- Behaviour management
- Priority country areas program
- Participation programs
- Whole site literacy and numeracy
- English as a second/additional language
- Social inclusion supplement
- Launching into learning
- Raising the bar and closing the gap

State and Territory governments also fund targeted programs for non-government schools, mainly for students with disabilities.

Conditions and accountabilities for these programs vary widely. Some require evidence that the appropriate resources, or inputs, have been applied; or that educational outcomes have been achieved; or that justify rewarding school authorities for attaining agreed objectives.

The plethora of targeted programs outlined above presents a bewildering array of funding sources for school and system authorities. For many school leaders, it has required an increased workload for the preparation of applications and for meeting accountability demands. Their experience with short-term, targeted programs over the years has created uncertainty about their schools' eligibility for targeted funding and about the likely life-cycle of programs over the years ahead. This burden falls most heavily on the most hard-pressed schools with the least advantaged students.

What needs to be done?

Genuine reform of schools funding policy must respond to each of the above problem areas:

Achieving a mature partnership between Commonwealth and State governments

The most effective and sustained way of re-balancing responsibilities for the public funding of government and non-government schools would be to pool current budget commitments of Commonwealth and State governments, and then to allocate those funds over time to government and non-government schools and systems according to nationally-agreed objectives and priorities.

Given the fraught nature of political discourse in Australia in recent times, a national agreement on funding for all schools across both levels of government would be an ambitious objective. It would require a clear vision of the benefits to schools, students and parents and strong political leadership to achieve those benefits.

The recently-confirmed compact on health funding provides an indication of the way that sustained and authentic negotiations on national responsibilities can succeed.

The Commonwealth would need to play a leadership role in offering significant real increases in funding towards nationally-agreed objectives, subject to agreements with States and, for non-government schools and systems, with relevant school authorities. At the very least, such agreements should insist on maintenance of financial effort in real terms from State governments and school authorities.

Putting public schooling back at the centre of national priorities and agreements

The de facto positioning of the Commonwealth Government as the major source of public funding for non-government schools has obscured its responsibility for the quality of education in government schools. At the same time, the historical reasons for State and Territory governments funding of non-government schools have become redundant.

All governments, but particularly the Commonwealth, should formalise their responsibilities for the resourcing of all schools, in the context of their policies for curriculum, teaching, assessment and school reporting. A foundation for this kind of commitment would be for governments to provide the level of resources public schools

need to meet their particular legal obligations to provide open access to schooling of the highest standard.

The most appropriate way of formalising this commitment would be for all governments, Commonwealth and States, to include a statement of this principle in their relevant legislation. Taking this step would enable all public funding programs for schools to be properly evaluated and audited.

Adopting national target resource standards for schools to guide planning for greater public investment

A separate and explicit statement of the resources schools need to meet agreed educational outcomes would provide a principled means of striking a balance between our educational aspirations and what can be afforded in practice. Resource standards provide a benchmark against which public funding decisions can be assessed in a transparent and impartial way. They can also provide a rational basis for planned public investment in schools and the setting of priorities.

Without explicit standards of school resourcing, educational policy decisions will continue to be taken in a resources vacuum; and schools funding decisions will continue to be taken in an educational vacuum.

There is little sense in setting curriculum or teaching standards in the absence of a full understanding of the resources schools need to make their achievement possible. It is clear, for example, that much of the energy spent on developing a national curriculum will be wasted without the supply and quality of the teachers required to deliver that curriculum.

Resource standards based on the actual costs of schooling, linked to the varying contexts in which schools operate and to the achievement of desired outcomes, provide a defensible basis for schools funding.

The Allen Consulting Group's report to the Gonski panel provides a helpful guide to the potential benefits and applications of national schools resource standards. Focusing on the operational, or recurrent, resources of schools, the Allen report presents a funding model with greater policy integrity than the current normative and flawed AGSRC benchmark. Their suggested model addresses both the needs of all students for high educational outcomes and, through their idea of applying loadings and weightings beyond a 'base' standard, the varying needs of students with special needs.

While providing a useful conceptual framework for the development of national schools recurrent resource standards, the Allen report presents a generally sterile view of the way its preferred model would work in reality.

First, the report perpetuates a false dichotomy between ‘inputs’ and ‘outputs’ in education policy (Allen: page xi). The relationship between inputs, outputs and outcomes was better understood by the late Professor Peter Karmel:

Economic theorists use the concept of a ‘production function to describe the mathematical relationship between the input of factors of production (labour, equipment and raw materials) and output of product. The concept of a production function is, however, difficult to apply to education. This is partly because teachers vary greatly in their attributes, as does the quality of the environments in which they work and the students with whom they work. But it is also because the outputs/outcomes of education are intended to serve a wide range of purposes, and quantitative measurement of many of the desired outcomes is either difficult or conceptually impossible (Karmel: pp4-5).

This kind of advice has been hard to swallow by governments in their continued search for education policy objectives that limit, or divert attention from, pressures on their budgets for real improvements in school resourcing.

The focus in the Allen report on outputs and outcomes turns attention away from the real resources that would make up the National Schooling Recurrent Resource Standards (NSRRS). A better approach would be to reverse the process taken in their report and focus instead on the NSRRS as a statement of the inputs/resources schools need to achieve desired educational outcomes.

Second, the report defines the NSRRS in *per student* terms (Allen: p7). As such, it lends itself to justifying per capita or voucher funding, despite the report’s strong advice that the standards should incorporate both student and school level resourcing components (Allen: p49).

The problem with a per capita funding model is that this is not the way that schools work in practice, where costs relate to such factors as student mobility, school size, location and demography as well as raw student numbers. Most schools are resourced by the application of school staffing and budget formulae that, while responding to changes in student enrolments, do not automatically allocate resources on the basis of uniform per student costs. In the current circumstance where some 95 per cent of all schools are dependent on government for at least the cost of their teachers, a more finely-tuned approach to the workings of a NSRRS for the delivery of recurrent resources to individual schools is appropriate.

Third, the report’s focus on efficiency, and to a lesser extent effectiveness, has led it to develop a funding model incorporating ‘reference schools’ identified as achieving the minimum standard for reading and numeracy in NAPLAN tests for at least 80 per cent of their students (Allen: p9). The ‘80 per cent’ benchmark followed discussions with ‘educational outcome measurement experts’ (Allen: p85).

Outcomes for the reference schools would then be validated by data and professional judgments at school level. Once validated, financial data for the reference schools would be extracted from MySchool holdings. Loadings for schools with varying needs would then be estimated from other 'reference schools' covering a range of schools and student characteristics (Allen: pp 9-11).

The report acknowledges that broader measures of school performance should ideally be used for this process, but is constrained by the absence of publicly-available information beyond NAPLAN data.

But even in the short term, NAPLAN can provide only generalised information about performance in the five domains in years 3, 5, 7 and 9. It cannot provide valid information to inform resource allocation across all the areas of the national curriculum and across all the years of schooling, including, in particular, the concentrated learning required for the senior secondary years.

A better approach would be to apply real data about schools that reach higher standards of performance on a range of measures, including NAPLAN and senior secondary outcomes. This would then give an indication of the resources required to achieve exceptional learning outcomes, in the context of each school's student profile.

Efficiency in the use of public resources is important. But it cannot be seen in isolation from considerations of all aspects of school planning: quality; equity; equality of opportunity and social inclusion; stability; predictability; flexibility; sustainability; and transparency.

Finally, the approach taken in the Allen report neglects arguments about the need for increased *investment* in school education. Instead, the report relies on current expenditures in its reference schools.

The need for greater public investment in schooling in Australia has been widely recognised. Public spending on schools in Australia was around 3.0 per cent of Gross Domestic Product, well below the OECD average of 3.5 per cent. At the same time, private expenditure on schooling, at 0.6 per cent of GDP, was double that of the OECD average of 0.3 per cent (OECD 2011: Table B2.1, p229).

The NOUS paper for the review panel reports on research indicating that serious educational improvement and reform requires targeted resourcing (NOUS: p64). This complements the advice of the Australian Council for Educational Research (ACER) that governments need to make '...significant concentrated investments in residualised schools within low SES communities' (ACER: p83).

Leading economics writers have also argued convincingly for increased investment in education to develop the knowledge, skills, creativity and productivity Australia will need in the difficult times ahead for the global economy (Gittins 2011; Irvine 2011).

Rather than basing the proposed national school resource standards on current expenditures, a reformed schools funding scheme should have higher, target resource standards as its centrepiece. Target resource standards would enable governments to calibrate funding increases over time as budget revenue trends and spending priorities allow. Target standards would also provide scope for governments to distribute funding increases across schools according to assessments of relative needs and priorities.

Such increases would enable schools and systems to plan for more sustained educational improvement. For example, strategies to increase the participation of young people in schooling to Year 12 or equivalent to 90 per cent of 15-19 year olds would require additional teachers, professional development programs, teacher and student mentoring, teacher accreditation programs, reformed teacher career structures, para-professional and educational technology support, community liaison staff, and professional incentives for attracting and retaining experienced and high quality teachers for the most disadvantaged schools and communities. Target resource standards could also support the development of customised teaching and learning strategies for schools where there is a concentration of disadvantage, which in turn would require higher teacher leadership skills to drive school improvement and for planning, reviewing and engaging with others (NOUS; p10).

The ACER report for the review panel also points out that:

By delivering significant investment funding for a period of up to ten years (above and beyond recurrent funding) schools will be given the latitude to invest as appropriate in areas such as quality teaching practices, materials, school leadership and facilities. A key expected outcome of this investment strategy would be an increase in school enrolments within residualised schools to deliver long term savings in the unit costs of schooling. (ACER: p41)

This report also points out that most of this investment would be targeted at schools in the public sector, which serve the bulk of students with special needs: disability; indigeneity; English as a second language; low income families; and in remote and very remote areas (ACER: pp10-23).

Constructing national recurrent target resource standards for schools, with consideration of the issues raised above, would be a major step towards the development of a funding model for schools that has integrity, rationality and sustainability.

As noted in the Allen report, it may also be possible in the longer term to incorporate capital funding in national resource standards (Allen: p11). This would need to recognise the more complex circumstances within which school authorities plan for capital works in schools, especially for the varied effects of demographic change on schools.

Using public funds to narrow resource gaps between schools that cannot be justified on educational grounds

When governments come to the point of taking decisions about the allocation of public funding to schools and systems, those decisions should consider all available resources, including income from school fees and other sources of private income. Public funding should not be able to be used by schools to widen resource gaps between schools.

Protecting public investment against erosion through inflation

It is important that public investment in national resource standards be protected from the effects of inflation on schools. As in other areas of public policy, this requires annual adjustments to offset the effects of price changes on the components of the resource standards. This would be best achieved through the construction of a bespoke index that measures price changes in those components. As noted above, this kind of index would reflect weightings drawn from national accounts: around 60 per cent for teachers' salaries; 15 per cent for the salaries of non-teaching staff; and 25 per cent for non-salary recurrent costs.

Consistent with the proper use of price deflators to assess the extent of real changes in value, quality changes would not be measured by a new 'schools' price index. Quality changes would in fact be covered by the adoption of target resource standards and progress towards those standards over time.

Consolidating funding in the interests of efficiency and effectiveness.

The final step in the reform of schools funding outlined in this paper would be to fold the current array of specific purpose or targeted programs into the proposed national resource standards. Many of these programs relate to the ways in which loadings and weightings would be applied with the national resource standards, to take account of the varying needs of schools.

This process would need to be phased in over time, to minimise disruption to schools and to assess the most appropriate ways of integrating all programs into the allocation of resources to schools.

The Commonwealth, in conjunction with the States and Territories, should have an ongoing role in supporting research and evaluation in all aspects of schooling, including the gathering of evidence for the further development of national resource standards over time.

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