Australian Education Union

Pre-Budget submission to the Department of Treasury on priorities for the 2018-19 Budget

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Introduction

The Australian Education Union (AEU) represents around 187,000 educator members employed in the public primary, secondary, early childhood and TAFE sectors throughout Australia.

We welcome the opportunity to respond to the invitation from the Assistant Minister to the Treasurer the Hon. Michael Sukkar, to submit our views on priorities for the 2018–19 Budget.

We note the focus in the letter of invitation on the Turnbull Government’s commitment to budget repair while supporting fairness, opportunity and security.

This submission makes the case that properly funding and resourcing education, from the early years through schooling to post-secondary education in the VET and tertiary sectors, is essential to fairness, opportunity and security in this country.

The AEU believes the proper funding of public education through a needs-based, sector-blind model that incorporates the Schooling Resource Standard (SRS) provides the basis for fairness and equality of opportunity in education. As such, it should be seen as a “sensible and responsible” investment rather than viewed in a reductionist way as a cost that must be contained.

Recent changes to Commonwealth funding arrangements for education contained in the Australian Education Amendment Bill 2017 have dismantled the co-ordinated needs-based approach to schools funding initiated by the Australian Education Act 2013. This submission will demonstrate these changes are neither fair nor fiscally responsible. On the contrary, they deepen the existing inequity between school systems and the gap in learning outcomes in education.

The AEU’s position, which is supported by a large and credible body of national and international research, is that investment in equity in our education system is vital to Australia’s social cohesion, employment and commercial prospects.

The Organisation for Economic Development’s (OECD) recent Education at a Glance (September 2016) accurately conveys this view when it says:

> Giving all people a fair chance to quality education is a fundamental part of the social contract. It is critically important to address inequalities in education opportunities in order to improve social mobility and socioeconomic outcomes, and to promote inclusive growth through a broadened pool of candidates for high-skilled jobs. ...

> Higher levels of educational attainment are associated with several positive individual, economic and social outcomes... [individuals] generally have better health, are more socially engaged, and have higher employment rates and higher relative earnings.¹

In light of the positive correlation between equity in education and a broad range of social indicators, it is imperative that government ensures that government schools are funded at a minimum of 100% of the SRS.

**Schooling and the SRS**

The current situation with regard to school education is untenable. For decades it has been widely recognised that our schooling system is inequitable. Funding arrangements have been characterised by ad hoc political accommodations and failed to take account of the actual needs of Australian schools, students and school communities.

This has been a major factor in the much-publicised decline in the performance of Australian students in international testing, and in achievement and educational attainment gaps between students from disadvantaged backgrounds and those from more advantaged backgrounds, which are greater than in comparable nations.

Decades of research, including the Gonski Review and the body of independent research commissioned by the review, has established beyond doubt that those most affected by these inequities are the most vulnerable and disadvantaged students and the schools, predominantly in the public sector, which serve them.

The 2015 Program for International Student Assessment (PISA) data, provides further confirmation of the long-term trend whereby students from relatively advantaged backgrounds perform significantly better than those from disadvantaged backgrounds. It shows that achievement gaps in science, maths and reading performance between students in the highest and lowest Socio Economic Status (SES) quartiles are comparable to around three years of schooling; one and a half years between metropolitan and remote school students; and over two years between Indigenous and non-Indigenous students.

These understandings regarding inequity in learning outcomes formed the basis of the major changes to Australia’s funding arrangements proposed by the Gonski Review and the subsequent legislation, the *Australian Education Act 2013*. The aim of the Act and the National Education Reform Agreements between states and the Commonwealth was very clear: to lift the achievement of all students through increased investment in schooling that targeted disadvantaged cohorts, thus reducing the impact of aggregated social disadvantage on learning outcomes.

By implementing and fully funding the Gonski funding arrangements over a six year transition period beginning in 2014 – a base per-student funding level with additional needs-based loadings targeted to disadvantage – the objective was to bring schools across the country up to an appropriate level of resources, the Schooling Resource Standard (SRS). This standard was recognised as the minimum requirement to give every child, regardless of background, the opportunity to achieve their potential.

The *Australian Education Act 2013* entailed significant growth in Commonwealth support to public education in order to meet student need and deliver the SRS. Recurrent funding to schools was to increase according to the dictates of a range of bi-lateral agreements between the federal government and states, typically aimed at bringing schools to 95% of the SRS by

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2019. Of those increases, a high proportion – $12 billion of the original $14.5 billion announced by the Gillard government, or 83% – was to be directed to government schools.\(^5\)

The additional resources provided by these new funding arrangements is having a demonstrable impact on learning. The AEU has documented the positive impact of increased resources extensively in its publication “Getting Results”.\(^6\) The recent *Australian Education Amendment Bill 2017* has curtailed this progress toward equity and, contrary to the values this budget aspires to, makes educational opportunity a matter of privilege.

**Australian Education Amendment Bill 2017 – unjust, inefficient and necessitating fiscal repair in education funding**

The *Australian Education Amendment Bill 2017* dismantles much of the architecture of the *Australian Education Act 2013*, particularly the application of a systemic model to achieving needs-based funding of all students regardless of socioeconomic advantage. In doing so, the 2017 Bill introduces changes to schools funding that will result in, simultaneously, the systematic underfunding of the government school system and the overfunding of the non-government school system.

**Disproportionate share of cuts to government schools as %**

Despite the high proportion of children from low-income households in the government school system\(^7\), both the draft *Australian Education Amendment Bill 2017* and the final Bill entailed significant cuts with a disproportionate impact on children in government schools. The draft 2017 Bill entailed a cut of $22 billion\(^8\) to schools funding, which would reduce the existing plans for annual increases in recurrent funding. Of that $22 billion cut, more than $16 billion was to come from funding allocated to government schools under the previous funding arrangements\(^9\). Hence, while the purpose of the 2013 Act was to increase funding to target the needs of the most vulnerable children in society (typically those in government schools), 73% of the total cut to schools funding by the Turnbull government in the draft Bill were directed at precisely that cohort.

**Relative share of the cuts in dollars**

The final arrangements under the *Australian Education Amendment Bill 2017*, which are the culmination of a series of arbitrary negotiations in the senate worth a total of approximately $5 billion, entail a cut of $17 billion from the previous funding arrangements. These cuts are largely directed at public school children in need, while the non-government schools’ share of funding will dramatically increase. Under the funding plans implemented by the Gillard government, public schools were to receive over 80% of the funding increases. By contrast, recent amendments under the Turnbull government’s 2017 Bill will see government schools receive 49% of the increases.\(^10\)

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Cuts viewed as per capita increase in dollars

The effect of these funding changes is to push non-government schools per capita funding increases far in excess of public schools. This is visible in every state and territory with the exception of the ACT, which has received a “special deal” where an additional $57.9 million will be provided for Independent and Catholic schools over the next four years.\(^{11}\)

<table>
<thead>
<tr>
<th>State</th>
<th>Sector</th>
<th>2017 Commonwealth funding per student ($)</th>
<th>2027 Commonwealth funding per student ($)</th>
<th>Difference ($)</th>
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<tbody>
<tr>
<td>NSW</td>
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<td>4,422</td>
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<td>C</td>
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<td>12,522</td>
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<td>7,772</td>
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</table>

Data as at the 2017–18 Budget as per the amended Australian Education Act 2013.

Notes:
- The above table is based on recurrent funding only and does not include additional support for non-government schools to support their transition to new recurrent funding arrangements and while the National School Resourcing Board reviews the capacity to contribute measure.
- This table does not include additional support for the NT government system – see SQ17-000765 for more information about NT government system growth rates.
- Figures are reported in whole dollars and calculations may differ due to rounding.

Table 1: Commonwealth per student funding increases by state and sector 2017-2027 \(^{12}\)

This inequity in funding increases is also visible in the federal average nominal increase per student for each sector that has resulted from the 2017 Bill. The increase in funding per student in the non-government schools sectors is double that of the government schools.

\(^{11}\) http://canberraliberals.org.au/seselja-negotiates-extra-57-million-for-act-schools/  
\(^{12}\) Senate Committee: Education and Employment, Question on notice: Budget Estimates, 2017-2018, Department of Education. Question on Notice. SQ17 000827
Annual per capita increase per student as a percentage compared across school systems

Viewed as a percentage, the increase in annual funding per student appears to be relatively even handed: Public schools 5.1%; Catholic schools 3.5%; Independent schools 4.1%. However, this measure disguises the inequity of the Turnbull government’s policy. The purpose of the funding increases through the 2013 Act and NERA was to target socio-economic disadvantage, which is prevalent in the government schools system. Hence, a proportionately larger share of funding should continue to be directed to public schools. Proportionally equivalent funding increases for each sector under the 2017 Bill perpetuate unequal funding of the school sectors.

Government school funding as a percentage of SRS now and 2023

In 2023 Public schools everywhere except WA and the ACT will be funded at less than 100% of the SRS. This amounts to 87% of public schools being funded at less than 100% of the SRS.

The following tables show the current funding situation in government schools across the states and territories as a proportion of the SRS (Table 3; as at 2017), and then the estimated funding as a proportion of the SRS at 2023 (Table 4)

<table>
<thead>
<tr>
<th></th>
<th>ACT</th>
<th>NSW</th>
<th>NT</th>
<th>QLD</th>
<th>SA</th>
<th>TAS</th>
<th>VIC</th>
<th>WA</th>
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<tr>
<td>Federal</td>
<td>16.03</td>
<td>17.63</td>
<td>23.01</td>
<td>17.91</td>
<td>15.78</td>
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<td>17.01</td>
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<td>State</td>
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<td>71.44</td>
<td>67.18</td>
<td>73.3</td>
<td>72.05</td>
<td>75.85</td>
<td>66.15</td>
<td>85.74</td>
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<tr>
<td>2017 Total</td>
<td>113</td>
<td>89.07</td>
<td>90.19</td>
<td>91.21</td>
<td>87.8</td>
<td>94.19</td>
<td>83.16</td>
<td>98.7</td>
</tr>
</tbody>
</table>

Table 3: 2017 SRS proportions for public schools in each state and territory

According to these estimates, by 2023, in every state and territory, with the exception of ACT and WA, the federal government will have failed to enable schools to reach the Schooling Resource Standard.

<table>
<thead>
<tr>
<th></th>
<th>ACT</th>
<th>NSW</th>
<th>NT</th>
<th>QLD</th>
<th>SA</th>
<th>TAS</th>
<th>VIC</th>
<th>WA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
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<td>20</td>
<td>20</td>
<td>20</td>
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<td>20</td>
</tr>
<tr>
<td>State</td>
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<td>75.85</td>
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<tr>
<td>2023 Estimate</td>
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<td>95</td>
<td>95</td>
<td>95</td>
<td>95</td>
<td>95.85</td>
<td>95</td>
<td>105.74</td>
</tr>
</tbody>
</table>

Table 4: Estimated 2023 SRS proportions for public schools in each state and territory

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13 Senate Committee: Education and Employment, Question on notice: Budget Estimates, 2017-2018, Department of Education, Question on Notice, SQ17000827
14 Senate Committee: Education and Employment, Budget Estimates 2017-2018, Department of Education, Question on Notice, No. SQ16-000852
15 AEU internal analysis
Non-government school funding in relation to the SRS

In contrast to this shortfall in government schools funding, it is likely that the number of non-government schools receiving more than 100% of the SRS will increase to 65% or two thirds of non-government schools. This is because currently only one third of non-government schools receive less than 20% of their SRS entitlement from a state of territory government. Hence, if state and territory governments maintain private school funding at the same levels as the indexation of the SRS, the result will be 65% of private schools will receive more than their SRS entitlement in 2023.

Thus, the net outcome of the Turnbull government’s 2017 Bill is to fund 65% of non-government schools in excess of the SRS and fund 87% of government or public schools to less than 100% of the SRS.

The Turnbull government’s ‘80/20’ policy and the removal of the Commonwealth requirement to ensure 100% funding of SRS

While making very substantial cuts to the funding targeted at student need, the 2017 Bill also curtails the federal mechanism to redress inadequate funding of government schools – such as it was deployed through the 2013 Act and the National Education Reform Agreement (NERA).

Under the previous arrangements, the Commonwealth was required to increase government schools funding by at least 4.7% per year until they reach their SRS. This transparent and purposeful approach to funding has been stopped and in its place is the arbitrary 20% cap on federal government funding of government schools mandated in the Australian Education Amendment Bill 2017. There is no transparent or evidenced based rationale for this unequal funding arrangement. It creates, for all practical purposes, a legislative barrier to meeting the minimum funding target of 100% of the SRS in government schools. This is because increased federal funding of public education is the principal mechanism through which the historic and systemic underfunding of government schools by the states can be ameliorated. Federal funding was the mechanism used to comprehensively deliver the needs based reforms in the 2013 Act, and now the 20% cap mandated in the 2017 Bill has curtailed that capacity.

In contrast to this curtailment of government schools funding, the 80% federal government funding support for non-government schools, regardless of their state and territory funding, that is mandated in the 2017 Bill ensures overfunding funding of these institutions.

From a fiscal point of view, the federal government’s failure to meet its duty of care to children in public schools will exacerbate inequity, with deleterious fiscal consequences (elaborated on below).

16 Senate Committee: Education and Employment, Budget Estimates 2017-2018, Department of Education, Question on Notice,SQ-16000852
Excessive funding of non-government schools

In the context of its immediate objectives around budget repair, fairness and opportunity, it is incumbent upon the Turnbull government to provide a rationale for the systematic overfunding of the non-government school sectors. The government must explain on what grounds this is justified as an efficient and responsible use of public money. In addition, steps must be taken to ensure the public interest and public expectations of fairness are reflected in this budget. This is also in keeping with the latest findings of the Australian National Audit Office (ANAO) on DET schools funding arrangements under the Turnbull government:

“The arrangements established by the Department of Education and Training to monitor the impact of Australian Government school funding do not provide a sufficient level of assurance that funding has been used in accordance with the legislative framework, in particular the requirement for funding to be distributed on the basis of need.”17

This finding is consistent with the observations on current funding policy made above, namely, that Turnbull government policy in federal education funding is not consistent with the principle of need.

In response to this conclusion, the ANAO proposes the Turnbull government address the issue of the proper allocation of funding according to need and recommends:

“a risk-based approach to monitoring compliance with requirements established under the Australian Education Act 2013 and, in keeping with the intent of the Act, increase the transparency surrounding the allocation and use of Australian Government school funding.”18

Claims about current levels of schools funding are not credible

The principle of a risk based approach to “keeping with the intent of the Act” asserted here by the ANAO is useful in that it emphasises the importance of vigilance in ensuring federal government’s recent claims regarding a funding increase of $23 billion dollars19.

This claim must be considered in light of rising school sector costs. A further risk to the integrity of the objective of maintaining needs based funding is the deflation of funding against increasing student enrolments. This budget is an opportunity to ensure these approaches to managing deflationary risk, which have been absent to date, are applied with rigour.

Capital funding

Current inconsistencies in capital and recurrent funding in the independent and public systems result in further inequities in schools funding.

The differing status of capital funding as a separate category in the non-government school system has resulted in specific funding advantages in favour of non-government schools. Federal funding calculations typically have not incorporated this systemic difference i.e. non-government schools are disadvantaged.

17 ANAO Report No.18 2017–18; Monitoring the Impact of Australian Government School Funding, p. 8
18 Ibid, p. 10
The effect of this anomaly has been significant in that it creates an historic trend toward capital funding being a burden that dilutes recurrent funding in the government school system.

The AEU recommends a separate capital funding stream in order to address the anomaly and to assist in ensuring the capital needs of the government school system are met.

Currently, capital funding of non-government schools is substantial: “The Government is increasing its investment in capital funding for nongovernment schools from an estimated $141.4 million in 2017 to an estimated $182.5 million in 2021”. On the importance of expanded capital funding in non-government schools the government notes:

> “Additional funding of $300 million over 10 years will help disadvantaged non-government school communities to provide good quality school infrastructure, which in turn supports better school outcomes. Educational infrastructure is an important influence on student outcomes. Studies show the quality of school infrastructure can have an effect on school attendance, attainment and student behaviour”.

The AEU recommends this budget introduce a comparable level of funding for government schools in order to ensure adequate resources are available to meet student need in this area. This position is consistent with the Gonski Review, which highlighted the critical importance of the federal government taking responsibility for capital funding in public schools independently of recurrent funding:

Recommendation 10: “The schooling resource standard should: be a recurrent resource standard which, which includes a provision for general maintenance and minor acquisitions below an established capitalisation threshold but does not include capital costs”.

Recommendation 29: “Funding for capital purposes should be available to both government and non-government systems and schools outside the framework of recurrent schooling resource standard.”

The shift toward greater inequity in schools funding and educational outcomes is closely linked to the demographic composition of the different school systems

The disparity in the funding between government and non-government is significant because the socioeconomic profile of schools in each of the sectors is very distinct.

> “Government schools have almost twice as many students from low-income families as they have from high-income families, while other (non-Catholic) non-government schools reverse this, having twice as many students from high-income families. Catholic schools have more students from high-income families than from low-income families, and the largest proportion of students in Catholic schools are from medium income families.”

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21 Ibid
22 Gonski Review for Schooling, 2013, p.xxiii
23 Ibid, p.xxvi
This trend toward household income differentials between students in the different school systems is more acute at the secondary level than the primary level. This means that as children grow older, they are exposed to increased socio-economic segregation in schooling.

Figure 1: Percentage of students in each of government, Catholic and other non-government primary schools with LOW, MEDIUM and HIGH family incomes, Australia, 2011²⁵

Figure 2: Percentage of students in each of government, Catholic and other non-government secondary schools with LOW, MEDIUM and HIGH family incomes, Australia, 2011²⁶

This trend toward inequity in resourcing and segregation between the school systems has become more pronounced in recent decades. In 1986 both government and non-government sectors had similar proportions of students from high and low-income households.

²⁵ Ibid p.5
²⁶ Preston. B, The Social Make up of Schools, 2013, p.6
Between 1986 and 2011 the difference in the ratio of low to high family income of students in the government and non-government systems became significantly more pronounced, particularly in secondary schools (See below, Figure 3).

![Diagram showing ratio of low to high family income of secondary school students, government and non-government schools, indexed to all secondary students in each Census year, 1986 to 2011.](image)

*Figure 3: Ratio LOW to HIGH family income of secondary school students, government and non-government schools, indexed to all secondary students in each Census year, 1986 to 2011.*

The distribution of low, high and middle-income households in the schools system means that the current bias in federal government funding to non-government schools has the effect of discriminating against the children in the government school system, who are typically from low-income and middle-income households. This type of bias has no justification in terms of social or fiscal policy. It simply leads to greater social stratification and inequity in learning outcomes, which weaken the Australian government’s fiscal position (the evidence for which shall be explored below).

**Residualisation**

As early as 1984, Preston introduced the term “residualisation” to describe the changing and unequal relationship between the school systems in Australia. Preston describes the concentration of students from lower socioeconomic backgrounds in government schools. Crucially, where the Budget principles of fairness and opportunity are concerned, Preston identifies a pattern where stratification in the distribution of student socioeconomic background in the schools systems is accompanied by not only a loss in direct participation, but also declining political and financial support for government schooling among middle and high-income households.

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27 Ibid, p.7
28 Preston B. (1984), Residualisation: What’s that?, The Australian Teacher, No. 8, May 1984, p. 5,
29 Preston. B (2013), p.8
Inequity in learning outcomes in Australia

Illustrative of this trend toward stratification is Australia’s pattern of inequity in learning i.e. the correlation between low socioeconomic status and poorer learning outcomes. For example, in 2009, 6% of the year 3 cohort did not meet the national minimum standards for reading. Children of the unemployed were grossly over represented in the sample at 14%\textsuperscript{30}. Yet over time, this disparity in learning outcomes between socioeconomic strata became more acute. By year 9 (2015) in the same cohort, 20% of the children of the unemployed failed to meet national minimum standards in reading. By contrast, the rates of underachievement among the children of senior management and qualified professionals remained static at 2% between year 3 in 2009 and year 9 in 2015.

In a society characterised by fairness and equal opportunity, we would expect public funding of the education system to help improve outcomes for children in lower SES quartiles over time. Unless we accept the notion that social stratification is based on ability, a position not supported by the Gonski Review\textsuperscript{31} or the weight of any evidence, then providing children with access to educational opportunity should directly result in a weaker correlation between social class (as measured by SES) and educational outcomes. However, in Australia, precisely the opposite is occurring. Educational opportunity is not equally available. The needs of children in higher income households have been privileged over the needs of children from lower income households. The result of which is that inequity in learning outcomes intensify the longer a child spends in the school system.

Disability

It is not only students from lower income households who suffer from lack of access to educational opportunity through funding inequities resulting from the recent Australian Education Amendment Bill 2017.

\textsuperscript{31} Gonski, D., Boston, K., Greiner, K., Lawrence, C., Scales, B. and Tannock, P. (2011), Review of Funding for Schooling: Final Report. Australian Government, p.105 asserts “The belief that the underlying talents and abilities of students that enable them to succeed in schooling are not distributed differently among children from different socioeconomic status, ethnic or language backgrounds, or according to where they live or go to school”
\textsuperscript{32} Rorris, (2016), p.14
The loading for students with a disability (SWD loading) has been an unfinished part of the Gonski reforms since 2014 due to intransigence of the Abbott Government and the slow rollout of the Nationally Consistent Collection of Data (NCCD).

The publication of the NCCD has exposed the huge difference between the numbers of students that schools currently are funded to support and the number they actually have to provide assistance for.

According to the Education Minister Simon Birmingham, the increase in the number of funded students through the SWD loading from 2018 is from around 212,000 to 470,000.

Instead of a flat rate for each student, there will be a level of funding (set out in the Australian Education Regulation) for each of the three highest levels of adjustment that students with disability are judged to be receiving in the NCCD: supplementary, substantial and extensive.

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<th>Base SRS per student in 2018</th>
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<th>Extensive</th>
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<td>146%</td>
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<td>$15,966</td>
<td>$34,135</td>
</tr>
<tr>
<td></td>
<td>33%</td>
<td>116%</td>
<td>248%</td>
<td></td>
</tr>
</tbody>
</table>

Table 5: Students with disability loading rates

As Table 5 (above) shows, the supplementary and substantial levels of funding are set well below the flat rate that currently applies to all students.

Despite the 122% increase in students, the increase in funding from 2017 to 2018 is 6.2% ($1.519b to $1.614b), a total of $368 per student.

Overall the increase for public schools in 2018 is $56 million but there will be cuts to public schools in SA, WA, TAS, ACT and the NT. The cuts will be most significant in Tasmania (44% less) and the Northern Territory (37% less).

To date the federal government has provided no clear evidence for how it set the funding levels for each of the three levels of adjustment. What is apparent is that funding levels have been set without any obvious relationship to student need, and hence without a coherent fiscal logic. This is a matter for the forthcoming budget to address, in a transparent manner, in consultation with appropriate schools and disability sector organisations.

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33 The AEU (2017), State of Our Schools Survey, demonstrates most principals (91%) agree they have “students with disability at your school who you have to assist using funds from other areas of your budget because they are ineligible for targeted government funding or the amount you receive is inadequate”.


Rural and remote

Much like children from low-income households across Australia, children living in regional, rural and remote communities have poorer learning outcomes than their urban peers. The severity of this inequity in learning is discussed in some detail in the AEU’s submission to the federal government’s Independent Review into Rural, Regional and Remote Education. Given the over representation of rural and remote students in government schools, and how the socioeconomic profiles of these cohorts lean toward lower SES quartiles, the funding changes in the Australian Education Amendment Bill 2017, will have a disproportionate impact on students in these types of locations. As a consequence, the Bill, particularly its impact on funding equity, is likely to widen the gap between student learning and attainment in urban and non-urban areas. In order to meet its obligation to regional, rural and remote communities, the Turnbull Government must take the opportunity presented in the current budget to address the disadvantage faced by these communities and protect the children in these communities from the impacts of funding inequity. This can be achieved through budget measures that will deliver 100% funding of the SRS and its associated loadings.

Indigenous

Geographic location and socioeconomic stratification are also important factors when considering the federal government’s obligations to meet the schools resourcing and learning needs of Indigenous children. The differential in learning outcomes is particularly acute in the context of Indigenous and non-Indigenous children in Australia.

Some of the key measures are as follows:

- Indigenous children are approximately 60 marks below the national average for numeracy and reading in Year 9.
- More than 25% of Indigenous children do not meet national minimum standards for reading in Year 9, compared to less than 5% for non-Indigenous children.
- More than 17% of Indigenous children do not meet national minimum standards for numeracy in Year 9, compared to less than 4% for non-Indigenous children.
- And, Indigenous children are five times more likely to not meet national minimum standards of reading in Year 9 than other children.

Resources are a crucial component for closing this gap in educational outcomes for Aboriginal and Torres Straight Islanders, particularly in regional, rural and remote communities. As noted by Riddle and Fogarty:

“Closing the gap in education is intrinsically linked to multiple aspects of socioeconomic disadvantage, including access to quality health, employment, incarceration rates and housing. These combine to form the social determinants of educational success.”

And as the AEU asserted in our Submission to the House of Representatives Standing Committee on Indigenous Affairs Inquiry into Educational Opportunities for Aboriginal and Torres Strait Islander Students:

This submission outlined a range of initiatives and programs that have shown real results for Aboriginal and Torres Strait Islander students. For example, Northern Territory schools funded under the National Partnership Program for low-SES schools saw funded primary schools make greater literacy and numeracy gains than unfunded schools.42

The submission also contains accounts of schools who have successfully invested extra funding gained under NERA to make tangible improvements to outcomes for their Aboriginal and Torres Strait Islander students.43

It is evident that the changes to Commonwealth Schools funding for the Northern Territory under the Australian Education Amendment Bill 2017 will make it much more difficult to capitalise on gains already made and jeopardise progress in remote and very remote schools in the Northern Territory. Despite having the highest levels of student disadvantage, the SRS share of NT schools will be cutback by the Federal Government from 23% to 20% by 2027.

**Evidence to support the link between schools resourcing and performance**

The extent of disparity in resourcing between advantaged and disadvantaged schools in Australia, and the impacts discussed above, are out of step with high performing schools systems across the world.

![Figure 5: Difference in Resourcing Between Advantaged and Disadvantaged Schools - Australia vs Top PISA Performers](image)

This is demonstrated by the OECD data above showing the relationship between equity in resourcing and PISA results. Inequity in resourcing in Australia is more pronounced than the trends in schools funding equity in top performing countries.

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41 Australian Education Union (2015), our Submission to the House of Representatives Standing Committee on Indigenous Affairs Inquiry into Educational Opportunities for Aboriginal and Torres Strait Islander Students, pp.4–5.
42 Ibid, p.10
43 Ibid, p.11
44 Rorris (2016), p.25
The OECD has also collected data showing that not only in the context of top performing countries, but in a global context, students perform better (illustrated in this case in reference to mathematics learning outcomes) when school systems allocate resources more equitably.45

Figure 6: PISA 2012 findings on link between school performance and mathematics test performance46

In this study it was found that the equity (or lack of) with which resources are distributed across schools has a significant impact on system performance. 30% of the variation in maths results across the OECD is explained by socioeconomic advantage.47

The direct and indirect costs to government resulting from the repudiation of a coordinated national schools funding system

The Gonski Review48 and the OECD49 point to a range of direct and indirect benefits accruing from an education system that is equitable and targets needs. By extension, a funding system that is inequitable must forfeit some of these benefits and in doing so accrue costs. Hence, the return to an arbitrary system of funding arrangements heralded by the Australian Education Amendment Bill 2017 will result in some of the dividends from a needs-based, sector-blind, system being lost. Equally, a range of costs must also result from the changes. As the decline in educational attainment in Australia has demonstrated, these costs compound over time in the form of more acute inequity in learning outcomes and the associated impacts of this inequity.

Further evidence to support this is discussed in Rorris (2016), page 28

Rorris, 2016, p.26

Rorris, 2016, page 5

Review of Funding for Schooling, Final Report, December 2011, p.Xiii


http://dx.doi.org/10.1787/eag-2017-en
This has been referred to as “the price of failure”. In an effort to measure some of the direct costs resulting from poorer educational outcomes and demonstrate the point more generally, Rorris has conservatively calculated the following fiscal outcomes in relation to increased unemployment and reduced tax revenues:

- The failure of the Australian government to retain all students to the end of year 12 schooling will generate direct financial costs in excess of $72 billion (current prices) by 2070. Specifically, the cost simulations show that by simply failing to keep students active and learning within the education system until year 12, the country will pay an additional aggregated amount of $60 billion in unemployment benefits by 2070 (2016 constant prices).

- Lost aggregated income tax revenues in excess of $12.2 billion by 2070 as a result of a greater number of people not being employed and therefore not paying income tax.

For the purposes of the Budget we note the correlation between lower educational attainment and increased incidence of crime is well established and any proper assessment of the value and impact of education, and hence the return on education funding, should include careful consideration of this data. Similarly, there is a strong correlation between public health outcomes and higher educational attainment.

Given the associations between educational inequity and such a broad range of social indicators, the AEU encourages the adoption of comprehensive measures of equity, particularly the attainment of the SRS and its associated loadings, in modelling returns and informing budget decisions in the context of education.

**Budget as an opportunity to set down the path to 100% of SRS for government schools**

The 2017 Bill effectively blocks the passage to 100% of the SRS for all government schools. The Budget is an opportunity to address this.

Because the 2017 Bill entrenches inequality – and does so without any coherent fiscal logic – it is essential this Budget ameliorate the negative impacts of the Bill.

The Budget is an opportunity to reinstate previous funding levels that were determined appropriate on the basis of need. Current funding levels are inadequate, and will result in unacceptable social impacts and an unnecessary fiscal burden (discussed above).

The government’s recent funding cuts are arbitrary and demonstrate an absence of a coherent rationale for education and education funding. The AEU calls on the Turnbull Government use this budget to fund schools to 100% of the SRS, including meeting the funding requirements of the associated loadings for students with complex needs.

**Early childhood**

The OECD policy recommendation from PISA 2015 (December 2016) regarding the crucial importance of access to quality early education for all children in order to improve

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50 Rorris 2016, p.34 notes the conservative nature of these estimates in the case of two fiscal outcomes resulting from lower education learning outcomes. The estimates do not provide any multiplier calculations of lost revenues from income and other tax revenues generated by having additional numbers of employed people.

51 Rorris 2016, p.34–37

52 Rorris 2016, p.39
educational outcomes at both school and system level is a good starting point for consideration of Early Childhood Education (ECE) in the 2018-19 Budget. The recommendation reinforces current evidence on the importance of quality early childhood programs for all children, and particularly for vulnerable and disadvantaged children, and the long term social and economic benefits for society of early investment in education. The OECD describes this in terms of an “accumulation of social disadvantage”\(^{53}\), which begins in early childhood. The evidence in Australia regarding the relationship between opportunities in early childhood education, educational attainment and social inclusion in later life is unequivocal.

The figure below, “The Index of Educational Opportunity in Australia”, shows the proportions of young Australians “meeting or missing the educational milestones”.

![The index of educational opportunity in Australia](Figure 7: Index of educational opportunity\(^{54}\))

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Those missing out on ECE are grossly over represented among below average achievers in assessments throughout their school lives and go on to be over represented among those who are unemployed.

This evidence regarding continuity between stages of educational inclusion/exclusion and life outcomes provides a comprehensive rebuttal to the position taken by the Productivity Commission regarding the relationship between fiscal investment in ECE and broader social outcomes. The Productivity Commission has taken the view, quite erroneously, that the benefits of ECE “accrue primarily to the child attending ECEC and to their family”\footnote{Productivity Commission (2015), Childcare and early childhood learning volume 1, Inquiry Report No.73, Canberra, p.13 quoted in O’Connell M, Fox S, Hinz B and Cole H (2016). ‘Quality Early Education for All: Fostering, entrepreneurial, resilient and capable leaders’, Mitchell Institute policy paper No. 01/2016. p.(v) Mitchell Institute, Melbourne. Available from: www.mitchellinstitute.org.au}. For this to be correct, the benefits of ECE in a Budget context would have to be calculated without including factors such as educational attainment in later life, employment, and other factors known to directly impact on the life experience and contribution a person makes to society, not least of all, financial contributions to the federal government made in the form of income tax. The OECD also takes a view that is entirely contrary to that of the Productivity Commission on the matter of investing in ECE. In its recent publication “Educational Opportunity for all: Overcoming inequality throughout the life course”, the discussion of the “vicious circle” in educational opportunity and exclusion is followed by detailed analysis of the benefits of thoroughgoing investment in ECE\footnote{OECD (2017), Educational Opportunity for All: Overcoming Inequality throughout the Life Course, OECD Publishing, Paris. \url{http://dx.doi.org/10.1787/9789264287457-en}, p. 53-68}.

For the purposes of informing decisions in this Budget, the AEU reiterates the point made above in the context of schools regarding the relationship between equity in education and social and fiscal benefit to society. The benefit accruing to society from social inclusion and equitable outcomes in education apply in the context of ECE just as it does elsewhere in the education system. Similarly, as Lamb et al point out, the role of socio-economic status in determining access to education, and hence outcomes, is equally significant in the context of ECE, where the process of residualisation, driven by marketization, is already present, and is likely to become more severe under the current fiscal approach to education:

“They miss out on learning and development in the early years are more likely to live in communities served by lower-quality ECEC services. The data generated through regulatory assessments of ECEC services demand a policy response, as market forces threaten to extend the social segregation evident in the school years into the early years of learning.”\footnote{Lamb, S, Jackson, J, Walstab, A & Huo, S (2015), Educational opportunity in Australia 2015: Who succeeds and who misses out, Centre for International Research on Education Systems, Victoria University, for the Mitchell Institute, Melbourne: Mitchell Institute. P.91}

Budget decision-making in ECE funding must be guided by the principles of equity and need. Equally, the evidence presented here and elsewhere, which demonstrates that consigning children to social exclusion on the basis of their socio economic background is as fiscally irresponsible (as it is morally repugnant), must inform the government’s approach.

Due consideration of these principles of equity and efficiency further underline the economic irresponsibility of successive Federal Coalition governments since 2013 in failing to commit to permanent provision of the Commonwealth’s share of the funding required to ensure universal access of 15 hours of preschool for all 4 year olds.
This is occurring at a time when public debate is now focussing on the Commonwealth and the States/Territories collaborating to extend the provision of universal access to preschool for all 3-year old children, as is the case for most peer OECD countries that already provide two years of preschool. For the preschool sector, the uncertainty of the future of funding for universal access for four year olds is inexcusable.

The Universal Access to Early Childhood Education National Partnership, implemented by then Federal Labor government with the aim of ensuring that every child in Australia has access to high quality early childhood education taught by a university-trained teacher in the year before school, provided funding from 1 July 2013 to 31 December 2014. The Abbott Government extended funding but only made a commitment to one year from 1 January 2015 to 31 December 2015. Subsequently, in response to public pressure, an $840 million extension of funding was made from 1 January 2016 to the end of December 2017.

That this funding has led to major improvements in access to preschool for four year olds, including substantial increases in enrolments, and higher quality early learning, is acknowledged by the Federal Minister himself.

Minister for Education and Training Simon Birmingham said the data from the ‘ABS’ Preschool Education, Australia, and 2015’ publication showed the Government’s Universal Access Agreement has encouraged an additional 16,088 children into early childhood education. The Government’s support for high quality early learning continues through its $843 million commitment to Universal Access, which ensures every Australian preschool child access to 15 hours of early learning a week. Quality early education in the year before a child starts school not only helps them develop vital literacy and numeracy skills, but also develops the important social skills that will help children adjust to classroom and playground settings.58

Even with the increased funding, Australia still underinvests in early childhood education by international standards, with the OECD’s Education at a Glance (2016) confirming that Australia’s spending accounts for just 0.5% of GDP compared to the OECD average of 0.8%.59

The need for the Commonwealth to maintain its funding share is highlighted by not only the gains resulting from the universal access funding committed to date, but also the data showing that despite the increase in preschool enrolments and evidence of the provision of higher quality ECE, there is still an unacceptable relationship between access and quality and SES in this country.

The AEU calls on the Turnbull Government to show its commitment to closing the gaps which remain in access and equity, by announcing in the Budget that it will, as a bare minimum, deliver its funding share of the commitment by all governments across Australia to universal access to preschool for all children in the year before schooling and improving the quality of early education services across the country on a permanent basis. Further, in order to bring our national commitment to, and investment in, preschool education closer to peer countries in the OECD, the 2018-19 Budget would also be an appropriate place to introduce steps towards the goal of providing high quality, developmentally appropriate preschool


education in the two years prior to school. Such a move would be very much in the national interest. All children benefit from high quality preschool education, but particularly those from disadvantaged and vulnerable backgrounds, from whom 15 hours a week in the year before schooling is simply not enough to ensure they are on the path to long-term health and wellbeing, successful education and a positive future.

**TAFE – a sector in crisis**

The TAFE sector in Australia is in crisis, and unless governments act urgently, and decisively, its role in the Australian education system is under threat. Successive Australian governments have failed to address systemic under-funding, and recent market “reforms” have further damaged TAFE, throwing its future into doubt. The Productivity Commission recently said that the VET sector was a mess, echoing the concerns of all major stakeholders. The Business Council of Australia warns that the residualisation of TAFE will ‘fail to deliver a good long term outcome’. They argue that governments need to define the role of the public provider in order to ‘maintain a sustainable TAFE network across the country’.

The National Centre for Vocational Education Research’s 2016 *Financial Information* confirms the widely held view across the sector that vocational education is in dire straits. The sector lost one-sixth of its financing in 2016, with operating revenues falling 16.8 per cent to $8.14 billion. Commonwealth revenue fell 27.3 per cent or $1.25 billion, while the states and territories withdrew an additional $425 million. Claims by the Federal Government that the figures reflected the federal clampdown on the VET FEE-HELP catastrophe do not stand up to scrutiny. Overall government funding for the sector has plunged 23 per cent since 2012 once funding for VET FEE HELP is eliminated from the statistics.

The 2016 figures are consistent with the trajectory that the sector has been on for more than ten years. Since 2005, government real recurrent VET expenditure has increased 4.1 per cent, while the number of government funded annual hours has increased 51.8 per cent. As a result, government real recurrent expenditure per annual hour has declined 31.5 per cent over the past 10 years — from $16.64 in 2005 to $11.40 in 2014 — at an average annual rate of decline of 4.1 per cent.

The number of government funded vocational education students has fallen by almost 17 per cent since 2012 across all jurisdictions, but in TAFE, student numbers have fallen by 25 per cent, as all states and territories endure cuts to campuses, courses and staff.

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60 Productivity Commission 2017, *Shifting the Dial: 5 Year Productivity Review*, Report No. 84, Canberra p86
65 NCVER 2017, *Students and Courses 2016*, NCVER Adelaide Table 2
In NSW, Victoria, Queensland and South Australia, job losses have gutted the TAFE sector:

<table>
<thead>
<tr>
<th>State</th>
<th>TAFE job losses</th>
<th>% of workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW(^{66})</td>
<td>5,163</td>
<td>35</td>
</tr>
<tr>
<td>Victoria(^{67})</td>
<td>8,048</td>
<td>44</td>
</tr>
<tr>
<td>Queensland(^{68})</td>
<td>1,649</td>
<td>25</td>
</tr>
<tr>
<td>South Australia(^{69})</td>
<td>571</td>
<td>17</td>
</tr>
</tbody>
</table>

*Table 6: Job losses in the TAFE sector by state*

The 2017/18 Federal Budget offered little hope for the embattled TAFE system. The National Partnership Agreement for Skills Reform was cut, and replaced with the National Partnership Skilling Australia Fund. This represents a cut of $177 million to the states and territories in 2017/18, and annually cuts thereafter. Claims that the Skilling Australia Fund will deliver 300,000 new apprentices and trainees are looking increasingly unlikely particularly given the fact that, according to the Federal Governments own employment projections, achieving the target would require 30 per cent of all new jobs, up until 2020, going to apprentices and trainees – when they currently occupy just 2.2 per cent of jobs.\(^{70}\)

The Skilling Australia Fund is to be funded by a levy imposed by the government on employers using temporary and permanent migration programs. It requires matched contributions from the states and territories and the amounts available to them will depend on how much they contribute to the fund and will also be contingent on them meeting certain criteria – yet to be made public by the government. Modelling shows that the new charge is unlikely to raise enough money to finance the scheme.\(^{71}\)

No other Commonwealth-state agreements have been funded by such a mechanism. The uncertain revenue will make it difficult for the federal government to negotiate deals with the states.

So far, no agreement has been reached with states and territories nor has the enabling legislation been passed by the Australian Parliament.

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\(^{66}\) TAFE NSW Annual Report 2015 – 2016

\(^{67}\) Victorian Public Service Commission, *State of the Public Sector in Victoria*

\(^{68}\) Queensland Government, *Queensland public service workforce statistics*

\(^{69}\) Government of South Australia, Office for the Public Sector, *Workforce Information*

\(^{70}\) Cameron, D *Skilling Australia Fund*, The Australian TAFE Teacher, Spring 2017

\(^{71}\) The levy extracts $1200 a year from organisations that hire skilled migrants on a temporary basis, or $1800 if their turnover is more than $10m a year. Sponsors of permanent skilled migrants must pay one-off fees of $3000 or $5000, depending on their turnover. The Australian modelled the levy, and assumed that skilled migrant numbers would remain at 2015-16 levels, temporary migrants will stay in Australia for an average of two years, and 80 per cent of employers will meet the $10m turnover threshold, among other variables. However many commentators expect skilled visas to crash, particularly sponsored visas, as employers baulk at charges that have risen from $380 under the axed 457 visa scheme.
The failure of market reform

The failed market reform experiment initiated in the 2012 National Agreement for Skills and Workforce Development, and the National Partnership Agreement on Skills Reform has weakened the public system by requiring the diversion of public funds away from TAFE institutions, and undermined confidence in vocational education. The 2012 National Partnership Agreement for Skills Reform required the states to introduce a National Entitlement, which opened public funding to private providers in return for expanded access to VET FEE-HELP. Together, the introduction of the National Entitlement and the liberalisation of access to VET FEE-HELP were the key components of a concerted shift to organise the vocational education sector along market lines. Encouraged by low barriers to entry into the market, this has resulted in a massive expansion of the private for-profit vocational education sector in Australia, through rapid opening up of government funding. One of the unrealised requirements of states in the 2012 National Agreement for Skills Reform was the development of ‘strategies to support public providers’ by ‘enabling public providers to operate effectively in an environment of greater competition, recognising their important function in servicing the training needs of industry, regions and local communities’.

Despite this, by 2015, more than 44.7 per cent of recurrent government funding was allocated contestably, up from 18.6 per cent in 2005. The proportion of funding allocated to non-TAFE providers has grown from 6.7 per cent in 2005 to 27.4 per cent in 2015.

VET FEE-HELP has made the vocational education sector less accessible and less equitable. The Fee-For-Service VET FEE-HELP scheme, which comprised more than 94 per cent of loan value and more than 86 per cent of enrolments is a key mechanism whereby governments have colluded to shift the entire cost of higher level VET qualifications from themselves onto individual students. Under VET FEE-HELP the costs of qualifications and courses, and loan amounts have increased dramatically. Tuition fees rose by 345 per cent from $4,060 in 2009 to $14,018 in 2015. In the same time period, average loan costs grew from $4,861 to $10,739.

The Final Report of the Post Implementation Review of the VET FEE-HELP Assistance Scheme, the Final Report of the Review of the National Partnership Agreement on Skills Reform and the Redesigning VET FEE-HELP Discussion Paper (May 2016) all provide clear evidence that some of the most disadvantaged members of the Australian community were targeted by private for-profit providers on a massive scale, in a calculated manner. While high socio-economic status students were paying on average $12,835 for a VET FEE-HELP course, low socio-economic status students were paying $3,358 more ($16,193). Similarly, non-Indigenous students were paying $14,328, while Indigenous students are paying $5,649 more ($19,977).

75 Ibid
The costs of the VET FEE-HELP scheme grew to about $8 billion of taxpayer funds before it was axed in 2016, and replaced with the VET Students Loans scheme.

The Department of Education and Training has declared a “fair value loss” of $2 billion after modelling returns from VET FEE-HELP separately from the rest of the student loan schemes. The decision, outlined in the Department’s annual report, was based on estimates of the future incomes of more than half a million VET FEE-HELP students and it means the Federal Government has abandoned any hope of recovering at least a quarter of the scheme’s allocations.

The recalculation is part of a $6.1 billion write-down in the fair value of overall student debt. This includes estimates that $1.9 billion of new student loans taken out last financial year — including additional VET FEE-HELP loans — will never be repaid. The Grattan Institute has said that the department’s estimate that 82 per cent of 2016 loans would be repaid was “optimistic”.

This does not address what should be the fundamental matter for the government, which is whether some students have been so badly misled that their debts should be waived. As the Grattan Institute’s Andrew Norton has said: “This is just an actuarial exercise that shows that a large percentage (of loans) probably will never be repaid. It doesn’t write off any particular debt held by a student.”

| Benchmark: Halve Australians without qualifications at Cert III + above 2009-2020 | 47.1% (2009) | 42.5% (2014) | Not on track |
| Indicator: % of VET graduate with improved employment after training | 67.6% (2008) | 59.7% (2014) | Negative change |

Table 7: The COAG targets – the reforms have failed in their own terms

<table>
<thead>
<tr>
<th>Provider</th>
<th>Earnings before interest and tax (EBIT) (%)</th>
<th>Last reported status on web</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vocation</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Ashley Institute of Training</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Inturei</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Australian Careers Network</td>
<td>46</td>
<td>40</td>
</tr>
</tbody>
</table>

Table 8: Private providers – huge profits – huge failures

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76 Department of Education and Training Annual Report 2016-17 p120
78 Ibid
A National Partnership Agreement on TAFE

The 2018/19 Federal Budget represents an opportunity for the Federal Government to establish the basis of a new national strategy in the sector, with the highly regarded TAFE system as the centre of the strategy.

The AEU proposes a significant re-investment in TAFE and the scrapping of the National Partnership Skilling Australia Fund and its replacement with a new National Partnership Agreement on TAFE.

Australia’s publicly owned TAFE system represents a trusted and highly regarded network which has served the Australian community and economy for many decades. Governments invest in TAFE because it represents an investment in the system as a whole, and each dollar allocated by government to TAFE is invested in students, and in the development of resources and infrastructure for vocational education.

Whilst the components and funding of a new National Partnership Agreement on TAFE need to be negotiated with all states and territories, in the context of framing a budget for the TAFE system to redress the manifest damage of successive years of underfunding, and the policy disasters of recent times, a new National Partnership Agreement needs to address the following issues:

- The overall decline in funding to vocational education and TAFE between 2012 and 2016 of more than 23 per cent, making the sector the worst funded of all education sectors.
- The rapid and uncontrolled opening of access to government funding by for-profit private providers – which saw public funds formerly used in the TAFE system diverted to profits which in some cases reached levels of between 30 and 50 per cent
- The shift in funding and organisation of the sector from government resourced to User Pays through the mechanism of the failed student loans scheme – VET FEE-HELP. 85 per cent of funds for this scheme have gone to the private for-profit sector, and state governments have shifted effort, especially in Diplomas and Advanced Diplomas, from themselves, onto the Federal Government, but in the end, onto students. This has resulted in state government funding to vocational education between 2012 and 2016 declining by a massive 33 per cent.
- The manifest failure of the regulatory system, evidenced by the daily reports of rorting and profiteering, and the issue of what constitutes quality, and how it should be assured

In order to rectify this monumental failure in public policy, the AEU is proposing a new National Partnership Agreement for the TAFE system. The Agreement would, at a minimum return government funding to pre-market reform levels, immediately quarantine a minimum 70 per cent of funding to TAFE institutions and commence the process of rebuilding the system.

The failed experiment in establishing a student loans scheme should be acknowledged, the scheme should be closed, and any resources set aside to fund and administer it should be diverted directly to courses at TAFE institutions.

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81 Ibid
Other components of the Agreement would include:

- The establishment of new collaborative structures within TAFE campuses which would be responsible for the development and delivery of courses for students which meet agreed national and state criteria, and address local industry and community needs. These collaborative structures would be developed over an agreed timeframe, and should include local employers and unions, local government, community and regional organisations, all set within agreed state and national frameworks.

- Rebuilding and funding course development and curriculum centres at TAFE campuses, including investing in teachers and support staff through funding qualifications and professional development.

- Rebuilding the TAFE teaching workforce by investing in professional development and, in collaboration with the profession, rebuilding TAFE teaching qualifications, with a funded plan to ensure that all TAFE teachers have degree level teaching qualifications within an agreed time-frame.

- Rebuilding TAFE facilities and campuses by investing in infrastructure, including building and equipment, in collaboration where appropriate with local schools and communities, and universities.