



**Submission to the
Inquiry into the Australian Education Bill 2012
(Chris Curtis)**

(House of Representatives Standing Committee on Education and Employment)

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Summary

This submission is in relation to Section 9 of the Australian Education Bill 2012:

For any Government of a State or Territory, or non-government education authority, that reaches agreement with the Commonwealth on its implementation of the national plan referred to in section 6, the Commonwealth will provide funding for schools or school systems, through grants of financial assistance to States and Territories, based upon the following principles:

(a) every school student will have the opportunity to have an excellent education;

(b) base recurrent funding will be allocated according to a formula that calculates an appropriate amount for every school in recognition of the costs of providing a high quality education;

(c) educational disadvantage associated with any of the following circumstances will be recognised and addressed through providing additional recurrent funding in the form of loadings:

(i) having a disability;

(ii) being an Aboriginal person or a Torres Strait Islander;

(iii) having a low socioeconomic status;

(iv) not being proficient in English as a result of the ethnic background or immigration status of a student or a student's family;

(v) the size of a student's school;

(vi) the location of a student's school.

This submission argues that:

- 1) the method in the method used in the Gonski report to determine the school resource standard is complete nonsense and should be replaced with a more rational method;
- 2) the proposed changes to federal and state funding sources for the different education sectors makes sense;
- 3) the continued use of the socio-economic status funding model, relabelled "capacity to pay" is irrational and unjust and should be replaced with a model that uses the resources of the school to allocate funding;
- 4) size loadings are inefficient and should be replaced by a base funding factor for each government school;
- 5) transition arrangements are needed to move from a socio-economic status model to a school resources model.

Introduction

The Gonski panel has provided a wealth of information on our school funding system and the education challenge facing Australia. The system we have at present is a mess that has been developed by ad hoc changes over decades. Much of what the panel recommends – the school resource standard, a system of loadings, a newer division of funding shares by the federal government and the state and territory governments, extra funding of schools with concentrated disadvantage – is very good indeed, but the faults in the report are serious and have the potential to do great damage to equity in education. Thus, this submission focuses on them.

1. The School Resource Standard

1.1 The Flaws in the High-Performing Reference Schools Methodology

The Gonski report makes the following recommendations on the national schooling resource standard:

Recommendation 1

The Australian Government and the states and territories, in consultation with the non-government sector, should develop and implement a schooling resource standard as the basis for general recurrent funding of government and non-government schools. The schooling resource standard should:

- reflect the agreed outcomes and goals of schooling and enable them to be achieved and improved over time*
- be transparent, defensible and equitable and be capable of application across all sectors and systems*
- include amounts per primary and secondary student, with adjustments for students and schools facing certain additional costs*
- complement and help drive broader schooling reform to improve Australia's overall performance and reduce inequity of outcomes. (p xxi)*

Recommendation 4

From 2014, non-government schools should be funded by the Australian Government on the basis of a common measure of need that is applied fairly and consistently to all.

Recommendation 9

The Australian Government, in collaboration with the states and territories and in consultation with the non-government sector, should:

- initially base the per student component of the resource standard on an outcomes benchmark that at least 80 per cent of students in reference schools are achieving above the national minimum standard, for their year level, in both reading and numeracy, across each of the three most recent years of NAPLAN results*
- conduct additional research to validate the composition of the reference group used for setting the per student amounts to apply from 2014 onwards*
- broaden over time the scope of student outcomes covered in the benchmark to include other nationally consistent, whole-of-cohort measures*

- *review regularly the scope, methodology and data required to set the student outcomes benchmark.*
(p xxii-xxiii)

The Gonksi report's recommendations this area are based on the Allen Consulting Group's *Feasibility of a National Schooling Recurrent Resource Standard Final Report*, which concludes in 112 pages that it is possible to establish a national schooling recurrent resource standard but which does not get around to actually determining one (even though one had already been presented to the review panel).

The Allen Report does not determine the amount needed to resource schools and the methodology it suggests that someone else use to do the job is flawed. The underlying failing in the report is the reliance on the language of the 1990s about "providers", "service delivery" and "purchasers", a philosophy that did so much damage to Victorian education in that period. The national resource standard needs to be based on an explicit staffing ratio for schools, not the success, however determined, of "reference" schools under the current model. The report has taken something conceptually simple and buried it in complexities.

To determine the school resource standard by looking at what so-called "high-performing" reference schools cost is both bizarre and dangerous. It is bizarre because some differences in expenditure have nothing do with education (e.g., the different WorkCover levies in different states) and nothing meaningful is to be learnt by averaging out the costs of a \$30,000-fee private school and a \$10,000-a head public school that just happen to meet the same student results benchmark. It is dangerous because it adopts the "inputs don't matter" philosophy that so damaged Victorian schools in the 1990s.

Different schools have different electricity charges, different water charges, different gas charges, different WorkCover rates, etc. Public schools pay payroll tax; private schools do not. All these differences have nothing to do with the educational effectiveness or the educational efficiency of the school, but they feed into the cost formula.

One school might run a government-funded Victorian Certificate of Applied Learning program, which costs money and thus feeds into the formula, but VCAL runs at years 11 and 12 and has nothing to do with the school's year 9 NAPLAN results. Indeed, the school's year 9 NAPLAN results are affected by where the students were when they arrived in year 7, the results of their primary school education, yet the model takes no account of this.

If a high-fee private school charges \$30,000 per student and a middle-class public school spends \$10,000 per student, averaging them to get \$15,000 is meaningless. Indeed, Appendix H in the Gonksi Report hints, in particularly obscure language, that high-fee schools have had their fee levels discounted to calculate the average:

Step 3 – Setting base school characteristics

To obtain estimates of per student amounts holding everything else equal, a number of assumptions need to be made about the characteristics of the 'base' school, that is, one with no significant disadvantage that would attract per

student amounts only and minimal if any loadings. The main variables that need to be set in this way are:

....• The percentage of NRIPS sourced from private income – there are significant differences within the reference school group in the proportion of NRIPS that is publicly and privately funded. In the government sector higher NRIPS is associated with smaller and more remote schools with higher levels of disadvantage, which is controlled for in other settings. In the non-government sector, especially among secondary and combined schools, higher NRIPS is associated with higher private contributions, which have the potential to skew the estimated per student amounts. (Appendix H)

The report does not say exactly how it adjusted for the different proportion of private income in different schools. If it got the data from lots of schools, including high fee ones, to determine the cost of educating a mainstream student and then deducted the extra costs of the high-fee schools, that prompts us to ask why they would be in the mix in the first place only to be taken out because they had high fees.

It is not logical to put all the “successful” schools in a basket, make a statistical adjustment because some of them have high private income and then declare an average.

While the report has attempted to make adjustments for the different types of students in its reference schools, the whole exercise was completely unnecessary from the start. We know that teachers teach, and what students need is teachers. We know that more than 80 per cent of the recurrent core costs of a school are teacher employment.

1.2 The Logic of an Explicit Staffing Ratio

There is no need to specify any outcome standard. This view flies in the face of the recent fashion for outcomes based education, brought to Victoria in the 1990s as the justification for cutting the resources in schools. The outcomes sought and achieved are dependent on what is done with the resources provided, if those resources are sufficient to employ an adequate number of teachers to do the job required in each school. If the number of teachers employed is inadequate, teachers will cover the shortfall for a period of time by working extra hard, but eventually their morale will fall and their effort will decrease. There is a quantifiable amount of work to be done in schools. Preparation of courses and lessons, the delivery of lessons and the assessment and reporting on what students have or have not learnt are all takers of time – hours every week. To ignore this fundamental fact is absurd. The cost-cutting mentality simply ignores this fact as it is based on exploitation to the point of exhaustion.

The work of schools is teaching. It is done by teachers. The number of teachers a school needs is determined mathematically. As detailed in an earlier submission (Chris Curtis, *Submission to the Review of Funding of Schooling*) a pupil teacher ratio of 15:1 would provide sufficient teachers for years prep-2 and 7-12 and a PTR of 18:1 would provide sufficient teachers for years 3-6. These ratios support classes of no more than 25 students for most year levels and 21 students at prep to year 2 (within the current overall staffing levels of most jurisdictions) and adequate time for teachers to prepare curriculum and assess student learning (i.e., the sort of teaching loads

legally required in Victoria in the 1980s). A base of 2.0 in all but the smallest primary schools and of 8.0 in all secondary schools would provide principals, librarians, curriculum range in small schools, etc.

The Gonski report is also an opportunity for a long-term national settlement of teaching conditions; i.e., class sizes, teaching loads, time allowances for leadership responsibilities and promotion levels (classroom and administrative). It is not necessary that the federal government specify what these should be, but it would be valuable if the funding system made such a settlement possible.

It is essential that the government make the PTR behind a national resource standard explicit. The fact that different jurisdictions have different teacher salary levels is a further reason to base the national resource standard on the required staffing levels. This benchmark would allow different jurisdictions to continue to pay different salaries but would ensure that all schools are properly staffed. Whatever national resource standard is determined, the federal government would need to pay a fixed percentage of it, with each jurisdiction being free to spend an amount per mainstream student that would lift the students in its care above that national resource standard. However, it would be a mistake to set the national resource standard at the lowest possible level as this would encourage another race to the bottom.

The Gonski report recommends different rates for primary and secondary students. Several jurisdictions have recognised the importance of extra attention for students when they commence schooling and thus fund prep to year 2 at higher levels than years 3 to 6. Indeed, there are good grounds for funding prep to year 2 at the same level as secondary schools. The national SRS should provide for this.

2. Jurisdictional Requirements

The Gonski report makes the following recommendations on the sources of funds and extent to which the schooling resource rate must be allocated to students and schools:

Recommendation 22

The Australian Government and the states and territories, in consultation with the non-government sector, should negotiate more balanced funding roles as part of the transition to a new funding model for all schools, with the Australian Government assuming a greater role in the funding of government schools and the states in relation to non-government schools. This should occur within a governance framework that gives certainty and stability around expected future funding levels for schools from all government sources and operational independence for non-government schools.

(p xv)

Recommendation 23

Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, public funding for systems should be assessed and calculated at system level provided that systems:

- are transparent about the basis on which they allocate any public and private funding to member schools and the purpose for which it is spent*

- *report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard*
 - *continue to report income and expenditure from each source for individual member schools on the My School website.*
- (p xv)

The first recommendation removes the distortion in funding under which the federal government overfunds private schools while the state and territory governments underfund them. We should reach system whereby if the federal government allocates say 70 per cent of its funds to government schools and 30 per cent to private schools, the states do roughly the same.

The latter recommendation leaves open the possibility that an amount of money can be allocated for a particular student in a particular school but not even be granted to that school. A basic principle of public spending ought to be that the money granted is spent for the purposes for which it is granted.

States and territories should be free to supplement the national schooling resource standard, but not to undercut it. They may decide that extra teachers, extra teacher aides, extra software or extra professional development are required and thus fund it. They ought to be required to do this explicitly. They ought also be required to allocate this supplement to both state and private schools on the same basis as the national SRS so that we do not have the pressure to increase federal funding of private schools proportionately.

State and territory supplements ought to be reviewed by the national schools resourcing authority to see if they ought to become part of the national standard.

Similarly, systemic private school authorities ought to be required to ensure that the money allocated for each student was passed on to the school for which that money was allocated (minus whatever amount is regarded as systemic itself).

3. Replacing SES with Fees-Based Determinations

The Gonski report makes the following recommendations on the continuation of the SES model and its eventual refinement:

Recommendation 2

In a new model for funding non-government schools, the assessment of a non-government school's need for public funding should be based on the anticipated capacity of the parents enrolling their children in the school to contribute financially towards the school's resource requirements.

Recommendation 3

For the purposes of allocating public funding for non-government schools, the Australian Government should continue to use the existing area-based socioeconomic status (SES) measure, and as soon as possible develop, trial and implement a new measure for estimating the quantum of the anticipated private contribution for non-government schools in consultation with the states, territories and non-government sectors. (p xxi)

Recommendation 20

For the purposes of allocating public funding for non-government schools and systems, all Australian governments should:

- adopt a common concept of need for public funding based on the capacity of the school or system to contribute towards its total resource requirements*
- commence work as a priority to develop, trial and implement a better measure of the capacity of parents to contribute in consultation with the non-government sectors.*

The Australian Government should continue using the existing area-based SES measure until this better measure is developed.

Recommendation 21

For the purposes of allocating public funding for non-government schools, the minimum private contribution should be anticipated for schools with SES scores in the lowest quarter of scores. The minimum public contribution should apply to schools with SES scores above around 130. The precise school SES scores and the shape of the anticipated private contribution between these two points should be set in a way that balances:

- minimising the extent and incidence of any differences between the schooling resource standard required by each non-government school and system and the resources currently available to it from all sources*
- preserving reasonable incentives for an adequate private contribution towards the schooling*

resource standard across non-government schools with various capacities to contribute.

(p xv)

To ignore school resources and determine funding for private schools based on the capacity of parents to pay is both discriminatory and inequitable. It is discriminatory because there is no suggestion that public schools be funded in the same way - though this recommendation will give impetus to that idea. It is inequitable because it will force the most inclusive private schools to put up their fees and thus become more exclusive.

To say that schools that get more than the SES system would give them are overfunded is to accept the SES model in the first place as a fair method of distributing funds. As it is not a fair method in the first place, nothing can be concluded about overfunding from any difference between what a school gets and what it would have got had it got its SES amount. The funding guaranteed schools get what they would have got had the fairer, more rational education resources index still been in place. In other words, they are not overfunded at all: they are compensated for the underfunding that the SES model imposes because it takes no account of school fees. The ERI in some form should be restored. Then the funding would stay the same, but it would no longer misleadingly be called overfunding.

The key issue is: do we fund students at private schools on the basis of the schools' income (fees, etc) or on the basis of the income of the parents of the children at those schools? If we take the second path, which the SES model pretends to do and which the Gonski Report recommends a refined SES model would actually do, we open the way for fees to be charged in public schools on the basis of the income of the parents using them, a suggestion already made by Professor Brian Caldwell in regard to

capital costs (“Parental revenue 'untapped'”, Dan Harrison, *The Age*, June 14, 2011) and then we really do dismantle the public education system. We are far better to limit public assistance to private schools on the basis of their fees and thus encourage them to be more socially inclusive. The SES model pushes private school fees up, makes them more exclusive and thus pushes public schools down the SES ladder. That is why there are so many funding guaranteed schools in the funding system. The NSW Catholic Education Commission calculates that the restoration of the SES model would force low-fee private schools to increase their fees by about \$3000 a year. (“Gonski panel must come up with new funding model”, Brian Croke, *The Australian*, April 29, 2011)

If the government is unwilling to completely abandon the previous government’s SES model, it can at least reduce its applicability. Instead of giving maximum funding to the schools in bottom quarter of the SES table, it could agree to give the maximum funding to all schools with fees no greater than the \$1,698/\$1,692 calculated below irrespective of their SES rating and reserve the SES method for schools with higher fees, thus encouraging all schools, irrespective of their SES level, to reduce their fees and become more socially inclusive. High fee schools will not take this option, but those schools with low fees at present would be likely to, with some even reducing their fees if it leaves them no worse off. Basically, the government would be saying to private schools: if you become more inclusive, we will support you. There is an argument also that any private school that would become eligible for increased funding from the new system ought to be required to reduce its fees in order to qualify for the increased public funding. The long-term aim ought to be to produce a more socially inclusive education system.

4. Base Funding Factor

The Gonski report makes the following recommendations on loadings and the commencement rate for public support of private schools:

Recommendation 14

The schooling resource standard should include loadings for:

- *school size and location*
- *the proportion of students in a school who are Indigenous or from low socioeconomic backgrounds, with loadings to increase for schools where the concentration of such students is higher*
- *the proportion of students in a school with limited English language proficiency.*

Loadings for students with disability should be added as soon as possible once work underway on student numbers and adjustment levels is completed. The Australian Government should work with the states and territories and the non-government sector to develop and check specific proposed loadings by mid-2012.

(p xxiv)

Recommendation 17

Australian governments should base public funding for most non-government schools on the anticipation that the private contribution will be at least 10 per cent of the schooling resource standard per student amounts.

Recommendation 18

Australian governments should fully publicly fund the recurrent costs of schooling for non-government schools as measured by the resource standard per student amounts and loadings where the school:

- *does not charge compulsory fees and has no real capacity to do so, or*
 - *provides education to students with very high needs, such that without full public funding of the school's resource standard those needs would not be met.*
- (p xxiv)*

The Victorian government has funded its schools on a mostly per student basis since 2005. However, it also has base funding for each school (Student Resource Package).

The inclusion of base funding in the new funding system has certain advantages. Specifically, it provides a mechanism for states and territories to have some flexibility in the funding of their own systems, while preserving the integrity of the school resource standard, and it provides an intellectual basis for the differential public funding of private schools as opposed to public schools.

Size loadings are an unnecessary complication and have the effect of allocating extra funds inefficiently in that they will be applied to two small schools near each other when one school would be sufficient to meet the educational needs of the community. It is a misuse of public funds for two small schools near each other to get extra public funding because they are small. A base funding factor would not provide public support to two small schools near each other because the public authority would make (ideally) rational decisions about the locations of its schools as it would be the body paying the base funding for each one, whereas private school authorities wishing to establish a small school would be responsible for their own base funding. If they decided to establish another small school, they, not the taxpayer, ought to be responsible for the extra costs incurred by virtue of its small size.

Base funding allows the states and the territories to make reasonable planning decisions about where to locate schools and to have some flexibility in funding them. It is not necessary that the base funding amount be mandatory, only that it be provided for. Victoria phases out the base amount as enrolments increase. Again, there is no necessity for a phasing out being mandatory. Indeed, there are good arguments against having it phased out. However, the federal government does not need to take a position one way or the other or to provide any money to support base funding. It only needs to allow for base funding in the new system.

If base funding is included, it is necessary to recalculate the schooling resource standard. The logical basis is that the state and territory authorities plan where schools are needed. If a private school wishes to establish in the same area, it is illogical for the public purse to pay twice for the base funding of the school, though not illogical for it to pay for the marginal recurrent cost of any student in the private school (subject to various other requirements, particularly student needs). Thus, the base funding amount should determine the amount of fees a private school may charge before its public funding is reduced.

In the case of a primary school, the base funding factor is based on a minimum of two teachers; i.e., the equivalent of the funding for 30 students at the prep to year 2 rate

(\$8,320), or \$249,600 in total. There can be different points of a view on the viable minimum size of a school. If the minimum size of a viable primary school is set at seven classes of 21 students (the ideal class size for prep to year 2) or 147 students in total, the base funding works out at \$1,698 per student. We can expect the private school parents to contribute that amount and for the public purse to contribute the full SRS. If the school charges fees above \$1,698 (leaving aside capital costs), public support should reduce. The school would not be required to charge \$1,698. It could charge any amount it liked below that figure and still get full public support at the marginal recurrent cost per student rate.

In the case of a secondary school, the base funding factor is based on a minimum of eight teachers; i.e., the equivalent of the funding for 120 students at the secondary rate (\$8,320), or \$998,400 in total. If the minimum size of a viable secondary school is set at four classes of 25 students at years 7 to 11 (the ideal class size for years 7 to 12) and a 90 per cent retention rate to year 12 or 590 students in total, the base funding works out at \$1,692 per student. We can expect the private school parents to contribute that amount and for the public purse to contribute the full SRS. If the school charges fees above \$1,692 (leaving aside capital costs), public support should reduce. The school would not be required to charge \$1,692. It could charge any amount it liked below that figure and still get full public support at the marginal recurrent cost per student rate.

If the minimum viable school sizes are determined to be greater than those above, the fee level at which public funding would start to reduce would be lower.

The concept of a base funding factor provides a more logical and publicly justifiable basis for determining the cut-off level for private schools support than the arbitrary recommendation that private school fees be assumed to be 10 per cent of the SRS, particularly as the level of private school fees would have no effect on public funding if the SES model or parental capacity to pay were to be the method for determining the level of public funding.

The provision of full public support to the poorest private schools would not be more costly than the 10 per cent deduction recommended from the SRS because the amount under this system is the marginal cost amount and there are no size loadings.

5. Transition

Currently, schools that would have lost funds by the application of the socio-economic status model are compensated for that loss. Should the government move to the more rational education resources index model, other schools will have to be compensated for the loss that would face them under the guarantee that no schools would be worse off under a new funding system. The schools needing compensation are those that receive more funding under the SES model than their fees would entitle them to. This should be a transitional arrangement as in the long run, the policy aim is to have the fees reduced to the level that warrants the funding currently provided under the SES model.

Once the new model is in place, there will be no need ever again to calculate an SES level. The SES level is completely irrelevant to the new funding model as the new model is based on the school's fees and other income.

The SES level is of historical interest only. It will have been used to calculate the SES funding level. Once calculated, that SES funding level forms the guaranteed minimum funding for the school, but no further SES calculation is necessary. The calculated amount at the start of the new system would become the transition payment. It would then be indexed, but no further SES calculation would be required as changes in the SES level of the school's catchment are irrelevant under the new funding principles.

The transition process for systemic schools would be simpler than and different from that for non-systemic schools.

5.1 Systemic Schools

In the case of systemic schools, all that is necessary is that each system as a whole receives at least as much per student as it would have under the socio-economic status model. This is because the system retains the freedom to allocate its funds among its schools as it sees fit. (This submission argues that systems ought not have that freedom, but given that they are likely to keep it, there is no reason not to gain some advantage from it.)

The Gonski report makes the following recommendation on the extent to which the schooling resource rate must be allocated to students and schools:

Recommendation 23

Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, public funding for systems should be assessed and calculated at system level provided that systems:

- are transparent about the basis on which they allocate any public and private funding to member schools and the purpose for which it is spent*
- report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard*
- continue to report income and expenditure from each source for individual member schools on the My School website.*

(p xv)

While this recommendation leaves open the possibility that an amount of money can be allocated to a system for a particular student in a particular school but not even be granted to that school, it does provide the opportunity for the system to allocate funds in such a way that no school within that system loses funds. It is, nonetheless, unarguable that some of the loadings (e.g., that for students with disabilities) must go to the school in which the students it is allocated for are and they ought not be subject to re-allocation by the system authority.

The education resources index model would determine an allocation based on the fees and other income of each school, but that total allocation would be distributed to individual schools by the systemic authorities. It is thus crucial that the amount per

student be set at a level sufficient to ensure it at least equals the old SES-derived amount, including the previous guarantee that no school would be worse off.

5.2 Non-Systemic Schools

In the case of non-systemic schools, the long-term aim must be to bring the socio-economic status amount into line with the education resources index amount. Schools may immediately reduce their fees until they reach the level at which their school resource standard is equal to their SES payment. However, to do so would mean reducing the total resources available to the school. This is unlikely. Any compulsion on them to do so over a set period would also be difficult. They can, however, be encouraged to do so by three means. The first relates to the fact that the SES model relies on the average government schools recurrent costs. The second relates to indexation. The third relates to different school resource standard rates for the different levels of primary schools.

5.2.1. Restrictions on Eligibility for Loadings

First of all, schools receiving transition payments would not be eligible for loadings. This is justified because the transition payments are percentages of the old average government school recurrent costs amount (i.e., the total cost of educating a range of students), not of the new SRS amount (i.e., the cost of educating mainstream students only). In time, there will be schools that would receive more money under the SRS plus loadings than under the AGSRC. This will be all the incentive that they will need to move off the transition payments. These are likely to be schools for which the differences in funding between the SRS system and the SES system are small.

Budgetary requirements suggest that loadings ought to be phased in. The overwhelming need of those with disabilities suggests that disability loadings be put in place in full first. As the disability loadings will be the largest, they will make the greatest individual difference. They will also make a significant contribution to closing the gap between the SRS and the transition payments. Then there are English as a Second Language loadings. Then there are loadings for socio-economic disadvantage, which ought to be related to the students in the school, not the areas they come from. The Victorian system of student family occupation has proved successful in this regard. (Having loadings for size is not justified because it increases the overall costs of education by having size loadings for two small schools close to each other when one school would be cheaper. The way to deal with the extra needs of small schools is to have base funding factor, as explained above.)

5.2.2 Differential Indexation

Secondly, the indexation rates applied to the different elements ought also to be different.

Average weekly ordinary time earnings would be a valid measure of the increased costs in education and ought to be the standard method over the four-year funding period (with a review on the third year for the following four-year funding period). This measure would allow for increases in general costs and movements in the pay of teachers and other workers in education along the same lines as such movements in

the general community. The SRS, the level of fees at which the SRS starts to phase down (the threshold) and the transition payment ought to be at this standard rate of indexation. Any attempt to have a lower indexation rate for the transition payment than for the SRS would undermine the promise to maintain funding for individual schools.

Loadings out to be indexed at a higher rate as the system shifts to be more needs-based. This will automatically close the gap between the transition payment and the SRS plus loadings amount at a school would receive.

Schools in receipt of transition payments would be free to increase their fees to whatever level they liked, but they could not expect to receive the same real level of subsidy if they did so. Schools that increase their fees above the consumer price index rate would have the excess increase deducted from their transition payment. As the SRS is set as a percentage of the fees charged, it will increase at a greater rate than the transition payment and will eventually equals it, at which time, the transition payment would end.

5.2.3 Higher SRS for Early Years

Thirdly, there is a very strong case for the SRS to be higher for students in prep to year 2 than for those in years 3 to 6. The state equivalent in Victoria already is. This is not the case with the current SES-based payments to primary schools and would therefore not be the case with the transition payments. In other words, the gap between the SRS and the transition payment would be smaller in the case of prep to year 2 than in the case of years 3 to 6. In some cases, the SRS amount would exceed the transition payment. In all cases, the higher SRS for prep to year 2 would reduce the gap in total funding for the school under the new system and the older SES system. Reducing the initial gap would also reduce the time that the different indexation arrangements would take to remove the gap completely.

5.2.4 Examples

Examples will illustrate the points above more clearly. The SRS is based on that devised in the submission that argued for base funding for each school and then the marginal recurrent cost per student, called a student learning entitlement in the submission. In this case, the full amount (\$6,993 for years 3 to 6 and \$8,320 for all other levels) is paid to all public schools and to those private schools whose fees are no greater than \$2,000. (*Implementing Gonski* calculated the amounts at \$1,698 for a primary school and \$1,692 for a secondary school. This paper provides a further amount for the capital costs that must come out of private school fees and simplifies both figures to uses \$2,000. Further investigation may produce a more precise figure.) The phase down rate is set at 50 per cent; i.e., for every dollar increase in school fees, 50 cents will be deducted from the publicly funded SRS. The residual amount is set at 25 per cent of the SRS. (The Gonski report suggests 20-25 per cent. The higher percentage is chosen because the percentage in this example is of a lower total than in the Gonski report.)

Assume a primary school that has 100 students in prep to year 2 and 200 students in year 3 to 6 and that charges \$3,000 in fees. The SRS for prep to year 2 is \$7,820

(\$8,320 – (3,000-2,000/2)). The total income per student at those levels is thus \$10,820, meaning the total income for the school at those levels is \$1,082,000. The SRS for year 3 to 6 is \$6,493 (\$6,993 – (3,000-2,000/2)). The total income per student at those levels is thus \$9,493, meaning the total income for the school at those levels is \$1,898,600. The school's total income for prep to year 6 is \$2,980,600. Additional income would be provided for students with additional needs.

If that school currently receives a greater SES payment, say \$7,000 per student (greater than that is than the SRS for years 3 to 6), its total income would be \$3,000,000 (300 students by fees of \$3,000 each and the SES payment of \$7,000 each). The transitional payment would be only \$19,400 in the case of school that had no students eligible for loadings. That transitional payment would reduce in accordance with the number of students eligible for loadings.

If its fees were indexed at the CPI of, say, 3 per cent, while the SRS, the threshold and the transition payment were indexed at AWOTE of, say 4 per cent, the gap would close year by year.

The \$3,000 in fees would become \$3,090. The SRS for prep to year 2 would become \$8,147.80 (\$8,652.80 – (3,090-2,080/2)). The total income per student at those levels is thus \$11,237.80, meaning the total income for the school at those levels is \$1,123,780. The SRS for year 3 to 6 is \$6,767.72 (\$7,272.72 – (3,090-2,080/2)). The total income per student at those levels is thus \$9,857.72, meaning the total income for the school at those levels is \$1,971,544. The school's total income for prep to year 6 is \$3,095,324.

The SES payment would also increase by 4 per cent, to \$7,280 per student. With the fees at \$3090, the total income per student would be \$10,370, giving the school a total income of \$3,111,000. The transitional payment would be reduced to \$15,676 in the case of school that had no students eligible for loadings. The gap between what the school would get under the SRS and what it would get under the SES model has been reduced by \$3,724. It would take about five years for the gap to disappear and the school to no longer need transition payments. In the case of a school with loadings, the gap would disappear much more quickly.

Given that access to loadings is available only to schools that move off the transition payments, the school would in all likelihood never access transition payments.

Assume a secondary school that has 1,000 students and that charges \$4,000 in fees. The SRS is \$7,320 (\$8,320 – (4,000-2,000/2)). The total income per student is thus \$11,320, meaning the total income for the school is \$11,320,000. Additional income would be provided for students with additional needs.

If that school currently receives a greater SES payment, say \$7,500 per student, its total income would be \$11,500,000 (1,000 students by fees of \$4,000 each and the SES payment of \$7,500 each). The transitional payment would be \$180,000.

If its fees were indexed at the CPI of, say, 3 per cent, while the SRS, the threshold and the SES transition payment were indexed at AWOTE of, say 4 per cent, the gap would close year by year.

The \$4,000 in fees would become \$4,120. The SRS would become \$7,632.80 ($\$8,652.80 - (4,120 - 2,080/2)$). The total income per student is thus \$11,752.80, meaning the school's total income is \$11,752,800.

The SES payment would also increase by 4 per cent, to \$7,800 per student. With the fees at \$4,120, the total income per student would be \$11,920, giving the school a total income of \$11,920,000. The transitional payment would be reduced to \$167,200 in the case of school that had no students eligible for loadings. The gap between what the school would get under the SRS and what it would get under the SES model has been reduced by \$12,800. It would take about 14 years for the gap to disappear and the school to no longer need transition payments. This is a very long transition period. However, the transition payment would reduce every year and, given that access to loadings is available only to schools that move off the transition payments, the school would in all likelihood not wait for it to completely disappear before changing to the SRS model.

If the initial SES payment is very high, it is mathematically possible for the gap to increase, not reduce, over the transition period. In that case, the full weight of the transition will depend on the increase in loadings; e.g., indexing them at 6 per cent.

Detailed work by those with access to the actual figures for all schools is required to determine the precise figures.

5.3 States and Territories

The final complication is the fact that the states and territories have different models for allocating state and territory funds to private schools. The sooner, they agree to one national model, the better.

In the interim, federal funding for each school ought to be based on the school resource standard minus whatever the state or territory has determined by its own model. This would put all schools on the same basis and provide an incentive for the states and territories to accept the new model.

5.4 Transition Timing

Perhaps two thirds of schools would be removed from the number needing transition payments because they were systemic. Perhaps half the remainder would be removed because as primary schools the school resource standard for prep to year 3 was greater than that for years 3 to 6. More would be removed because they would gain by making themselves eligible for loadings. Differential indexation (lower for fee increases, higher for loadings) would quickly deal with the majority of those left.

The current situation of half the private schools in the country being funded according to a different model from the one supposedly in operation would end instantly. Few schools would require transition funding, and the numbers requiring it would reduce every year.

Most importantly, school funding would be on a just and rational basis for the long term. The socio-economic status funding model is fundamentally unjust.

Overall Conclusion

As a nation, we are so close to getting our funding system right. The Gonski report provides the best opportunity, not in a generation, but ever, so let us go the extra mile and not be misled by the outcomes-mantra of the opponents of the role of government. Schools need an explicit staffing formula. States and territories need provision for base funding that gives them the financial flexibility to plan their own school locations and that does not feed into the overall costs calculation. Private schools need to be encouraged to keep their fees low so as not to become more socially exclusive.

The way is open to us to build a more socially inclusive and successful education system. Funding is only a part of this, but it is a fundamental part. The Gonski panel has done much of the research and the thinking needed. The application of some strict logic at this stage will ensure success.

Chris Curtis
28/2/2013

Appendix: Inputs Matter

A strong element of much discourse on education in this era is that spending money makes no difference. This statement is repeated uncritically in media outlet after media outlet:

“Between 2000 and 2008, average expenditure per student rose by 34 per cent across the OECD, and by 44 per cent in Australia.”

(“High-spending Australia trails Asia in results”, Bianca Hall, *The Canberra Times*, February 17, 2012)

“He said the fall in Australia's performance in PISA occurred despite a 44 per cent increase in spending on education between 2000 and 2008”

(“Lessons from Asia show way forward for schools”, Justine Ferrari, *The Australian*, February 17, 2012)

“Researchers say that a huge increase in education spending - 44 per cent in the past decade - has been wasted because it failed to invest in making our teachers better.”

(“More dollars but less sense training our teachers and kids”, Paul Tatnell, *Herald Sun*, February 18, 2012)

The original report does not say “between 2000 and 2008”, “in the past decade” or “per student”. The Grattan report actually says,

Many systems continue to increase expenditure with little impact. Australian school expenditure has increased dramatically. Between 2000 and 2009, real expenditure on education increased by 44%.⁸ The average cost of non-government school fees rose by 25%.⁹ Despite this increase, Australia was only one of four countries that recorded a statistically significant decrease in PISA reading scores from 2000 to 2009.

⁸ *Combines real schooling expenditure for State and Territory and Commonwealth governments. MCEETYA (2001) Figure 3.1; ACARA (2009) Figure 8.1*

(Ben Jensen, *Catching up: Learning from the best school systems in East Asia*)

Government school education expenditure was \$16,592,116,000 in 1999-2000.

(Table 3.7 Operating expenditure by government education systems, 1998-2001 (financial year, accrual basis) ('000), *National Report on Schooling in Australia 2001*, Chapter Three, Resourcing Australia's Schools)

That is \$23,985,534,000 in January, 2012, dollars.

Government school education expenditure was \$30,800,000,000 in 2008-09.

(Figure 8.1 Recurrent Government funding for school education, Australia, 2008-09 (accrual basis), *National Report on Schooling in Australia 2009*, Chapter Three, Resourcing Australia's Schools)

That is \$33,286,265,000 in January, 2012, dollars

The total increase from 1999-2000 to 2008-09 is thus \$9,300,731,000 or 38.9 per cent, not 44 per cent.

As the expenditure figures are for governments, it seems only government school students ought to be counted. If private schools students are to be counted, then private school expenditure should have been included in the expenditure figures. (The average cost of private school fees is not the same measurement as total private school expenditure.)

In any case, the total increase in educational expenditure is not the point. Expenditure per student is what is relevant, and it rose by nowhere near 44 per cent between 1999-2000 and 2008-09.

Recurrent per capita expenditure on government schools, by level of education, Australia, 1999–2000 to 2008-09 financial years (accrual basis) (\$)

	Primary		Secondary		Overall	
	Actual	Jan 2012 \$s	Actual	Jan 2012 \$s	Actual	Jan 2012 \$s
1999-2000(1)	7,329	10,595	9,356	13,525	8,115	11,731
2000-01(1)	7,956	10,871	9,765	13,342	8,435	11,525
2001-02(1)	8,050	10,666	10,344	13,705	8,937	11,841
2002-03(2)	8,676	11,157	11,072	14,239	9,605	12,352
2003-04(2)	9,015	11,326	11,552	14,513	10,003	12,567
2004-05(2)	9,748	11,937	12,222	14,967	10,715	13,121
2005-06(3)	10,280	12,246	12,729	15,163	11,243	13,393
2006-07(3)	10,938	12,619	13,315	15,361	11,874	13,699
2007-08(3)	11,557	12,950	14,306	16,031	12,639	14,163
2008-09(4)	Not given		Not given		13,544	14,637

(1) *National Report on Schooling in Australia 2002*, Chapter Three, Resourcing Australia's Schools

(2) *National Report on Schooling in Australia 2005*, Chapter Three, Resourcing Australia's Schools

(3) *National Report on Schooling in Australia 2008*, Chapter Three, Resourcing Australia's Schools

(4) *National Report on Schooling in Australia 2009*, Chapter Three, Resourcing Australia's Schools

The Reserve Bank of Australia Calculator was used to determine January, 2012, dollars, using December of the first year in each financial year as the starting point

The per capita increase between 1999-2000 and 2008-09 is \$2,906 in real terms. That is a real increase over nine years of 24.7 per cent.

As the ABS says, "In the 10 years to 2007-08, GDP per person grew from \$41,000 to \$51,000 in real (chain volume) terms, an annual average increase of 2.2%".

(1383.0.55.001 - Measures of Australia's Progress: Summary Indicators, 2009 LATEST ISSUE Released at 11:30 AM (CANBERRA TIME) 30/04/2009)

A real increase in GDP per head of 24.4 per cent over ten years suggests that a per capita education expenditure increase of 24.7 per cent over nine of those years is not much more than economic growth over a similar period.

In other words, a country has to increase spending as the economy grows just to maintain education standards. Had Australia not increased education spending by that 24.7 per cent and had that lack of increase fallen totally on teacher salaries, the top teacher's salary in Victoria would now be \$67,407 and the beginning teacher's salary would now be \$45,697, neither one high enough to attract able people to teaching or keep them there.

It should also be noted that an increase in retention rates will lead to an increase in expenditure because it will increase the proportion of students in secondary school and thus, because secondary schooling is more costly than primary schooling, the overall expenditure per student.

It should also be noted that, as far as Victoria is concerned, 1999-2000 marks the first year of a government that set about re-investing in education to reverse the cuts made by the previous government. Thus, we have the following pattern for pupil teacher ratios and class sizes.

The primary pupil teacher ratio has been:

1981 (last full year of the then Liberal government) - 18.1:1;
1992 (last year of the previous Labor government) – 15.8:1;
1999 (last year of the last Liberal government) –17.2:1;
2009 (last year of the last Labor government for which figures are available) – 15.7:1.

Average primary class sizes over the last few decades have been:

1982 – 26.5 (*Report of the Victorian Commission of Audit*);
1992 – 23.5 (*Report of the Victorian Commission of Audit*);
1999 – 25.4 (*Summary statistics for Victorian Schools*, July, 2010);
2010 – 22.0 (*Summary statistics for Victorian Schools*, July, 2010).
(In line with government policy, the average for prep to year 2 classes has gone from 24.3 in 1999 to 20.5 in 2009.)

The secondary pupil teacher ratio has been:

1981 (last full year of the then Liberal government) – 10.9:1;
1992 (last year of the previous Labor government) – 10.8:1;
1999 (last year of the last Liberal government) – 12.6:1;
2009 (last year of the last Labor government for which I have figures) – 11.9:1.

Average secondary class sizes over the last few decades have been:

1982 – 23.0 (*Report of the Victorian Commission of Audit*);
1992 – 20.0 (*Report of the Victorian Commission of Audit*);
1999 – 22.7 (*Summary statistics for Victorian Schools*, July, 2010);
2009 – 21.5 (*Summary statistics for Victorian Schools*, July, 2010).

In summary, the increased expenditure since 2000 has done no more than restore the pupil teacher ratios that applied in primary schools 20 years ago (i.e., before the cuts of the 1990s) and has gone only a small way to restoring the PTRs that applied in

secondary schools 20 years ago (i.e., before the cuts of the 1990s). It has improved primary class sizes by about 6 per cent since 1992 but has left secondary class sizes 7.5 per cent worse than they were before the cuts of the 1990s.

It should further be noted that the students who sat PISA in 2009 did not have the benefit of the 2008-09 expenditure for all 10 of their years in school. The effects of an increase in expenditure in the last year of a ten-year period cannot be assessed by that year's results only. The students' 2009 PISA results were also affected by the lower expenditure in the early years of their education. It is not possible to judge the effect of educational expenditure without looking over the whole period of the students' education.

The Grattan report also attempts to draw some false conclusions about the effects of educational expenditure by referring to countries that spend less than Australia does without looking at their overall living standards:

Table 1 - Annual expenditure per student in selected OECD countries (2008)

	<i>Primary (USD)</i>	<i>Secondary USD)</i>
<i>OECD average</i>	7 153	8 972
<i>Australia</i>	6 723	9 052
<i>Korea</i>	5 420	7 931
<i>United Kingdom</i>	8 758	9 487
<i>United States</i>	9 982	12 097
<i>EU19 average</i>	6 479	8 116

Note: figures are expressed in equivalent USD converted using PPPs for GDP, by level of education and type of service, based on full-time equivalents for educational institutions on core services, ancillary services and R&D. Source: OECD (2011b)

(p11, Ben Jensen, *Catching up: Learning from the best school systems in East Asia*)

This ignores the relative living standards of each country. The salaries and working conditions of teachers and other employees in education relative to other employees need to be considered, not just their absolute values.

The OECD produces information that enables a comparison of educational expenditure with each country's overall living standards:

Table B1.4. annual expenditure per student by educational institutions for all services relative to GDP per capita (2008)

	<i>Primary (USD)</i>	<i>Secondary USD)</i>
<i>OECD average</i>	21	26
<i>Australia</i>	17	23
<i>Korea</i>	20	30
<i>United Kingdom</i>	24	26
<i>United States</i>	21	26
<i>EU19 average</i>	21	25

(OECD, *Education at a Glance 2011 OECD indicators*)

This puts a completely different complexion on the claim that spending makes no difference.

South Korea spends less per student than Australia does because it is a poorer country. OECD figures show that it actually spends 20 per cent of its per capita GDP on each primary student (compared with Australia's 17 per cent) and 30 per cent on each secondary student (compared with Australia's 23 per cent). Again education spending has to be examined relative to the overall income standards in the country.

Education expenditure needs to be examined in the light of long-term history and the overall living standards of the country being discussed. Students spend 13 years in schools. It makes no sense at all to look at spending and test results in the last and see an increase in spending since the first and say it made no difference.

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