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Senate Employment, Workplace Relations and Education
References Committee

Inquiry into Commonwealth Funding for Schools

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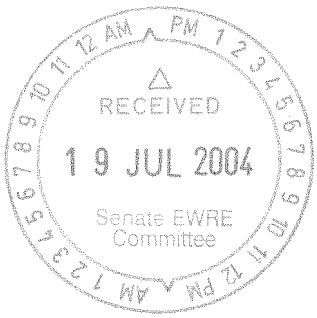
21 July 2004

The Secretary: John Carter
Senate Standing Committee on Employment, Workplace Relations and Education
The Senate
Parliament House
Canberra ACT 2600



Dear Mr Carter

Please find enclosed a report written by Alexis Esposto and myself on government funding of school education. We should like to submit the report to the Committee as part of its inquiry into Commonwealth Funding for Schools.

Yours sincerely

Dr David Hayward
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Policy Paper 1

An unfair go? Government funding of government and non-government school education

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Alexis Esposto

July 2004

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An unfair go?

Introduction

The Howard government's 2004–05 budget was generous to education, with funding increasing by 7% or $883m. With inflation running at around 2.5% and population growth tipped to be 1.2%, this is a significant real increase, enough to see government spending on education increase as a share of our national income (which is tipped to grow by around 6%). But the budget papers contain what would appear to be a curious education funding anomaly, which could easily slip past the undiscerning eye. It would be reasonable to assume that higher education would account for most of the $883m increase, for after all that is the only education responsibility that falls solely on the shoulders of the Federal government. Yet higher education only accounts for one-third of this growth. The single largest contributor is schooling, that part of the education system which is primarily a State responsibility. Over the next twelve months, the Federal government will spend an additional $576m on schools, and this will account for almost two-thirds of the increased education spending.

This unexpected development is undoubtedly good news for a country where so many people, both on the Right and the Left of the political spectrum, agree that school education is crucial for our collective future, but in desperate need of renewal (Teese and Polesel 2003; Marginson 1997, 2002; Donnelly 2004; Buckingham 2000a, 2000b, 2004). Of course, views about the nature of the problem vary. Those on the Right see it as stemming from the permissive values that have eroded our education system, courtesy of the power of education unions and Left intellectuals (see for example Donnelly 2004). Those on the Left point to the rise of markets and private property within education as well as the dominance of economic rationalism, which has resulted in our government schools being poorly placed to deal with the myriad problems confronting today's youth (see for example Marginson 1997).

But the growth in school funding is by no means straightforward, for it is not government schools that will do the best, but those in the non-government sector. Over the next twelve months non-government schools will be the beneficiaries of a 10% or $426m increase in Federal funding, an amount that is $138m or almost 50% more than the increase awarded to universities. Yet non-government schools account for only 32% of school students, and less than one-quarter of all students combined.

This is not the first Federal budget to treat the non-government school sector generously. Over the last eight years in particular the Federal government has been consciously redirecting its dollars towards non-government schools. And the results are there for everyone to see. Ten years ago the Federal government allocated a little over 62% of its school education budget towards the non-government sector. Today the figure is 71%, and rising fast. These trends in funding of government and non-government schools form the subject matter of this report.

We have some specific questions to probe. For some, this growth in non-government school funding is a very good thing. Those on the Right in particular see it as evidence of a government keen to allow parents to make choices about their children's future, for government funding now follows students rather than an ideological commitment to the public sector (Buckingham 2004). These funding trends simply reflect the rising number of children whose parents have chosen to send them to non-government schools.

But is it true that the increased funding is a product of growing student numbers in non-government schools? Or is the picture more complex? The Federal government has made many changes to its funding formulae over the last decade, and it could be the case that rising student numbers only account for a portion of the total increase. To what extent is this so? This is one of the core questions we address in this report.

Of course, not everyone agrees that funding should be attached to children and that parent choice should be the paramount value. Some argue that the key issue is the right of all children to attend schools of a high quality and that it follows from this that not all schools should be funded. Schools that restrict access to children on the basis of race, religion, likelihood of successfully finishing Year 12 or capacity to pay should not be funded by public money, or funded at a much reduced rate. Similarly, schools which do not openly provide data on financing, curriculum and other issues should not be eligible for core recurrent funding on the grounds that governments should not dole out money without first being sure that the education being provided is both appropriate and adequate (see for example Burchell 2004). Providing that schools meet these requirements, funding should as far as possible equalise education opportunities by lifting schools with little income and substandard facilities to an acceptable level.

If we follow this line of reasoning, the increased Federal government expenditure on non-government schools need not be a problem, for if it is focused on low income or high need schools it might in fact be well targeted money that will do us all some good. This in turn raises the question of which non-government schools have done the best out of the increased Federal funding. There are clearly enormous differences within the sector. There are Catholic schools and independent schools, whose ranks have been joined in recent years by a raft of tiny schools, that have been given Federal subsidies to open their doors even though they have low enrolments. Few non-government schools these days are genuinely needy. But some are very wealthy, and on top of whatever money they get from government they have as their base a large private income from high fees and a tremendous ability to generate donations and gifts that comes with a wealthy clientele built up over many decades. Geelong Grammar's fees, for example, are as high as $18,000 per student per year, and it has a very active Old Grammarians fund-raising club, which is very effective at generating non-fee revenue. It has assets worth almost $50m. So which non-government schools have benefited the most from the Federal government's investment in education? This is the second question explored by this report.

For its part, the Federal government acknowledges that it has been spending up big on non-government schools, and offers two main defences for doing so. First, it says that the States and Territories account for over 80% of school expenditure, and most of their money goes to government schools. The Federal subsidies are merely correcting for this anomaly, and if government schools are under-funded, that is an issue for the States. The Federal government also argues that it has done its utmost to ensure that the main beneficiaries of its increased spending have been high need schools. It is sure of this because it has introduced a new formula that funds schools according to the socioeconomic background of the parents whose children attend them, rather than the wealth of the school itself (which was the basis of the previous funding system).

These claims beg two further questions worthy of investigation. It might be true that the States and Territories account for most school education spending and that most of their money goes to government schools. But what's the overall picture when you add both sources of public expenditure together? Are non-government schools doing better than government schools from government expenditure, and to what extent?

And how confident can we be that the new funding formula genuinely funds according to need? Are there grounds for questioning how the money is dished out? Are the wealthier getting wealthier, and is this a good way to spend the public education dollar? These are the third set of questions addressed by this report.

In the final part we turn our attention to matters of policy. Here we summarise our findings and conclude with some policy recommendations.

We begin by examining data issues, and broad trends in government funding to government and non-government schools.

Research for this study was funded by the Australian Education Union

1. Federal, State and Territory government expenditures on school education

1.1 Introduction

The Federal and State governments spent approximately $23b on primary and secondary schooling in 2002–03.[1] This is a lot of money, representing almost 60% of total education expenses and almost 10% of all government expenses. It could reasonably be expected that the funding mechanisms and the purposes for which the funding is given are clearly explained and monitored. Such expectations are usually not met in systems like Australia's where the Federal and State governments jointly fund so many areas, and that is certainly the case for education spending. This lack of clarity has sparked renewed interest by academics in school funding issues, for no-one is absolutely clear how much is being spent by which tier of government on which schools, and if they are reasonably confident the data they use are typically 18 months to two years out of date (Cobbold 2003; Burke 2003).

In education, the States account for most of the school spending. In 2002–03 they accounted for $17.5b or around three-quarters of the total spent, with most (91% or almost $16b) being for government schools. The Federal government's balance of spending is the reverse of this, with only one-third of its expenditures going to government schools.

To complicate matters, Federal funding comes in the form of both recurrent and capital grants. And while most of the funding is recurrent and untied, there are a variety of smaller recurrent programs for causes such as indigenous education, literacy and numeracy programs for children from disadvantaged backgrounds, and support for children with disabilities. There are also establishment grants, only paid to new non-government schools for the first two years of their existence.

In this section we examine broad trends in expenditures by Federal and State governments combined. First, however, we explore data issues that make our task so much more difficult than it need be.

1.2 The data

The States and Territories do not report their data in the same format as the Federal government does, and some publish financial data using different terminology and accounting concepts, or publish data for programs that are not comparable with the other States'. This means it is not possible to use budget papers to obtain an overall picture of the most recent developments in funding. Instead, researchers depend on figures published by four separate government agencies, who also disagree on the best way to measure education funding trends. Importantly, all four publish data that are well out of date by the time they go to press.

To muddy the waters even further, it would appear that non-government schools do not collect their data using the same accounting concepts as in the public sector, and even were they to do so, important differences remain. Non-government schools borrow money for capital works. Government schools receive capital grants for this purpose. We can get around this by focusing on incomes of schools rather than expenditures, but then not all private fund-raising by schools is reported (Cobbold 2003). Government schools in some jurisdictions report a capital asset charge, while others do not, and nor does all of the non-government sector. This means that even though data for non-government schools are

[1] The data referred to in this section are from two sources. Federal funds are from Federal Government, 2003, Budget Statements, 2002–03, Budget Paper no. 3, Table 32. State funds are from Commonwealth Grants Commission, Relativities Update, 2004, Supporting Information, Table 2-43.

gathered and published, there are good grounds for questioning their comparability with government school financial data, and the differences between the States in their standards of financial reporting make it difficult to use budget papers to estimate latest expenditure levels. As Cobbold (2003: 12) puts it: 'strict comparisons of expenditure between government and non-government schools are still not possible because of different financial reporting systems used for the two sectors'.

One way to overcome this is by focusing on trends as revealed by time series data. Four organisations publish data in this form: the Commonwealth Grants Commission, the Federal Department of Education, Science and Training, the Steering Committee for Commonwealth/State Service Provision, and the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA). In his detailed analysis of the latter three sources, Cobbold (2003) points out that the data are inconsistent in treatment and scope, rendering them non-comparable. He also points out that the best data series are discontinued cash-based measures of financial performance, which have been ditched in favour of less adequate but technically superior accrual-based estimates. This means that the best time series data finish in 1999–2000.

An alternative source of time series data not considered by Cobbold are those published by the Commonwealth Grants Commission, which collects detailed statistics on government and non-government school expenditure by the States as part of its annual assessment exercise. There are two problems with these data. First, the Grants Commission stopped collecting cash-based estimates of spending back in 1998–99, and tried to move to an accrual–based system, but the data provided by the States were problematic. For the period from 1998–99 to 2001–02, the Commission advises that it has simply estimated expenditure trends by adjusting the last accurate cash numbers collected in 1998–99 by a 'best guess' index, and advises users not to treat its data for these years too seriously. The education data published since 2000–01, however, is clean. Sadly, in its latest report, the Grants Commission has decided no longer to publish the detailed figures on non-government school grants, so their time series now ends in that year.

We have chosen to overcome these quite remarkable difficulties by switching between the various time series, in full knowledge that there are problems with all of them and that the numbers may not fully reconcile. We switch between them simply because each provides a different but important window through which we can examine school funding trends. Our interest is with trends and proportions, so while the numbers may not match, they show similar patterns. The differences that remain are only in the order of 1–2%.

Where possible we convert the dollar figures to a per student basis. We also adjust for inflation. There is a highly technical debate within the literature about which is the best deflator to use.[2] We have chosen to use the Implicit Price Deflator for Non-Farm Gross Domestic Product, not because it is necessarily the best deflator but because it is widely accepted as a reliable one, and because we are interested in trends in expenditures rather than productivity gains, which is the preoccupation of those who argue about these matters.

[2] There are two different indexes used to adjust education expenditures for inflation: the Education Cost Index (ECI) and the Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP). While the two measures of real change produce different results (real growth is higher using the ECI adjusted numbers), the trend is the same.

A disappointing tale: Financial transparency and accrual accounting

Trying to make sense of recent developments in the funding of school education is a very frustrating task. Despite the large sums that are spent each year, there is no single source of up to date information on spending trends. Finding this information requires trawling through eight sets of budget papers prepared by the Federal government, the States and Territories. Even then it is difficult developing an accurate picture, because our governments report using different standards of accounting. Time series come and go, and it always seems that we are a long way from developing a clear picture. An excellent illustration of this is the move from cash to accrual accounting as the preferred system of public sector financial reporting.

Up until 2000, funding was reported by the States, Territories and the Federal government using a cash-based system of reporting. Although not technically complete, the data were clear and reliable, enabling a time series to be constructed stretching back more than a decade. In 2001, however, this cash-based data ceased being collected as part of the national move towards accrual accounting. The move was premised on the claim that this would make public finances more transparent, drawing on accounting systems widely used in the private sector. Unfortunately, the shift to accrual accounting has actually produced the opposite result. Not only is it impossible to reconcile the new data with the old, thereby abruptly ending the very useful cash-based time series, but each of the jurisdictions employ slightly different methods of recording. To complicate matters, while the government systems have moved across to accrual accounting, many of the non-government schools have yet to do so. This means that it is not possible to properly compare the financial information of the two main sectors. Arguably we know less about the financing trends of our education system today than we did five years ago, a remarkable development given that several hundred millions of dollars were spent on consultants to help move to this new system.

1.3 Broad trends

Drawing on Commonwealth Grants Commission data, Table 1.1 shows the broad trends in expenditure on government and non-government schools before and after adjusting for inflation. Columns two to four show current or nominal expenditures, while the rest of the table shows the expenditures adjusted for inflation and presented in 2001–02 prices. Between 1992–93 and 2001–02 total expenditure by the States and the Federal government on education increased by $7.6b or 65%. Adjusted for inflation, the increase was 40%, a significant amount by any standard. The bulk of this was accounted for by non-government schools, which enjoyed expenditure increases more than three times greater than those of the government school sector. Between 1992–93 and 2001–02, non-government school expenditure rose by 91% compared to 28% for the government school sector. While non-government schools did well in the period between 1992–93 and 1995–96, since then they have done particularly well. Between 1996–97 and 2001–02 expenditures on non-government schools grew almost twice as fast (48%) as expenditures on government schools (28%).

Table 1.1 Nominal and real (constant 2001–02 prices) government expenditure on government and non-government schools, 1992–93 to 2001–02

Year	Current prices ($ m)			NFGDP indexed (a) ($ m)		
	Govt	Non-govt	Total	Govt	Non-govt	Total
1992-93	9,619	2,170	11,789	11,353	2,562	13,915
1993-94	9,794	2,308	12,102	11,475	2,704	14,179
1994-95	9,795	2,486	12,281	11,379	2,888	14,267
1995-96	10,014	2,656	12,670	11,341	3,008	14,349
1996-97	10,276	2,980	13,256	11,402	3,307	14,709
1997-98	11,024	3,365	14,389	12,059	3,681	15,740
1998-99	12,185	3,684	15,869	13,234	4,001	17,235
1999-00	12,912	4,040	16,952	13,769	4,308	18,077
2000-01	13,726	4,519	18,245	13,988	4,605	18,593
2001-02	14,585	4,900	19,485	14,585	4,900	19,485
Change $m						
1992-93 – 1995-96	395	486	881	-12	446	434
1996-97 – 2001-02	4,309	1,920	6,229	3,183	1,593	4,776
1992-93 – 2001-02	4,966	2,730	7,696	3,232	2,338	5,570
Change %						
1992-93 – 1995-96	4.1%	22.4%	7.5%	-0.1%	17.4%	3.1%
1996-97 – 2001-02	41.9%	64.4%	47.0%	27.9%	48.2%	32.5%
1992-93 – 2001-02	52%	126%	65%	28%	91%	40%

Source: Commonwealth Grants Commission (2003: 59, 69, 90, 101) and 1999 Statistical Annex. (a) Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2001–02 = 100.0.

Table 1.2 shows a more detailed picture by comparing expenditures by sector on primary and secondary schools. Non-government schools experienced larger increases than government schools over the period between 1992–93 and 2001–02. They did particularly well between 1996–97 and 2001–02 and this was so for both primary and secondary schools.

Table 1.2 Real government expenditure on primary and secondary government and non-government schools (actual and per student), selected years 1992–93 – 2001–02 (constant 2001–02 prices)

Year	Government primary schools	Non-government primary schools	Government secondary schools	Non-government secondary schools
Total expenditure	**$m**	**$m**	**$m**	**$m**
1992-93	5,887	1,290	5,465	1,271
1995-96	6,211	1,510	5,130	1,499
1996-97	6,184	1,612	5,218	1,695
2001-02	7,813	2,482	6,772	2,418
Change				
1992-93 – 1995-96	5.5	17.0	- 6.1	17.9
1996-97 – 2001-02	26.3	53.9	29.8	42.7
1992-93 – 2001-02	32.7	92.3	23.9	90.3
Per student expenditure	**($)**	**($)**	**($)**	**($)**
1992-93	4,331	2,826	6,292	3,073
1995-96	4,542	3,140	6,006	3,401
1996-97	4,520	3,299	6,046	3,743
2001-02	5,614	4,601	7,823	4,788
Change				
1992-93 – 1995-96	4.9	11.1	- 4.6	10.7
1996-97 – 2001-02	24.2	39.5	29.4	27.9
1992-93 – 2001-02	29.6	62.8	24.3	55.8

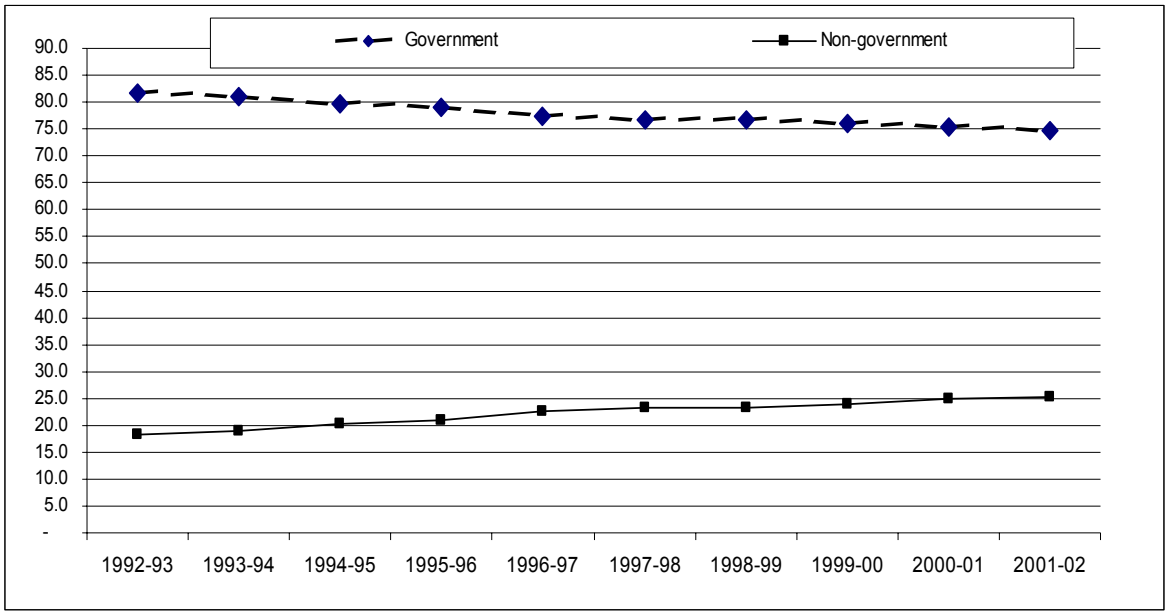
Source: Commonwealth Grants Commission (2003: 59, 69, 90, 101) and 1999 Statistical Annex. 2001–02 prices using Non-Farm GDP deflator. ABS (1993–2002).

These trends have been defended on the basis that, under current policy settings, education funding now follows students: non-government expenditures are rising not because of government favouritism, but because more parents are choosing to send their children to non-government schools. This is the principle of 'supporting parental freedom of choice', as the Prime Minister puts it. Or as the Minister for Education, Brendan Nelson, explains:

> The Howard government believes that every parent, having paid their taxes, deserves some level of public assistance to support the education of their child, regardless of which school their child attends (press release, 15 Feb. 2004).

The second part of Table 1.2 enables us to assess the extent to which the funding trends have been driven by changes in student numbers. It does this by showing expenditure trends on a per student basis. If non-government funding was increasing only because more students are opting out of government education, per student funding should remain largely unchanged, and growth in non-government schools expenditures will simply reflect increased student numbers. The table shows that between 1991–92 and 2001–02 per student expenditures on non-government schools grew at twice the rate of per student expenditures on government schools. While the trend is the same throughout the ten-year period under study, it is particularly evident in the five years to 2001–02. The table confirms that the favourable treatment of non-government schools is not only because more students are being educated in that sector. Also important are significant real increases in per student funding.

Figure 1.1 Change in total expenditure proportions for government and non-government schools



Source: Table 1.1

The generous funding treatment of non-government schools is evident in the rapidly growing share of total government school spending going their way. As is shown in Figure 1.1, since 1992–93 the proportion of total government expenditure on government schools declined from 81.6% to 74.9% in 2001–02, while for the same period the proportion of total government expenditure on non-government schools increased from 18.4% to 25.1%.

Table 1.3 Actual and projected real per student government expenditures on government and non-government schools, selected years 1992–93 to 2011–12 (2001–02 = 100)

	Actual per student expenditure			Projected student expenditure	
Year	**Government**	**Non-government**	**Year**	**Government**	**Non-government**
1992-93	5,095	2,943	2002-03	6,655	5,001
1995-96	5,105	3,265	2003-04	6,855	5,331
1996-97	5,113	3,512	2004-05	7,060	5,683
2001-02	6,461	4,692	2005-06	7,272	6,058
Change			2006-07	7,490	6,458
1992-93 – 1995-96	0.2	10.9	2007-08	7,715	6,884
1996-97 – 2001-02	26.4	33.6	2008-09	7,946	7,339
1992-93 – 2001-02	26.8	59.4	2009-10	8,185	7,823
			2010-11	8,430	8,340
Average annual growth	3.0	6.6	2011-12	8,683	8,890

Source: Commonwealth Grants Commission (2003: 59, 69, 90, 101) and 1999 Statistical Annex. 2001–02 prices using Non-Farm GDP deflator. ABS (1993–2002). Note: projections are extrapolated from trends in expenditures over preceding decade.

For its part, the Federal government argues that the story is more complex than this. While it is true that in recent years Federal government funding of non-government schools has been increasing faster than spending on government schools, it is nevertheless still the case that the average subsidy from all government sources is higher for government school students than for those attending non-government

schools. Minister Nelson comments that, while '68% of all school students attend state schools and receive 76% of the taxpayer funds which go to schools…32% attend independent and Catholic schools and receive the remaining 24% of taxpayers' funds' (press release, 15 Feb. 2004). This is true, but there are two important caveats to this line of argument.

First, should current funding trends continue, it will not take very long before non-government school students receive a higher government subsidy than government school students. This is shown in Table 1.3, which projects non-government and government school expenditures in 2011–12 (the right-hand side of the table) based on the expenditure trends evident over the last decade (the left-hand side of the table). The table shows that by 2011–12 government expenditure on non-government schools may exceed expenditure on government schools by $207 per student. It might be the case that the Federal government will have had a change of heart well before this stage is reached, but so far there are no clues as to when or at what point the government will take the view that a change of policy is necessary.

Second, even though government school students might currently receive a higher government subsidy than students of non-government schools, we should add to the government funding the monies received by non-government schools from private sources (the data shown in the table are *expenditures* by government schools, but *incomes* for non-government schools). In his modelling, Cobbold (2003) provides various conservative estimates of funding by sector in 2003–04, which take account of income from all sources. Table 1.4 shows his estimate of cash-based expenditures. The table shows that non-government schools in total will spend 14% more per student than government schools, with significant variation by sector. Catholic school per student expenditures are likely to be a little over 2% lower than in government schools, while independent school expenditures will be more than 40% higher.

Table 1.4: Estimate of per student expenditure by school sector, 2003–04

Government	$8,477	100.0%
Catholic	$8,280	97.7%
Independent	$11,890	140.3%
Non-government total	$9,688	114.3%

Source: Cobbold (2003)

1.4 Conclusion

This section of the report has analysed changes in school education expenditure between 1992–93 and 2001–02. The data shows that for both the government and non-government sectors, government spending has increased significantly in real terms. However, non-government schools have been the biggest beneficiary. This is clearly shown by Figure 1.1, which plots a decline in the proportion of education expenditure on government schools and an increase in government expenditure on non-government schools. These are not simply a function of trends in student numbers. Funding per student in non-government schools has risen at a much faster rate than in government schools. Furthermore, per student expenditure growth rate estimates suggest that by 2011–12 students in non-government schools will receive on average $207 more from the Federal government than students in government schools.

This discussion of broad trends leaves open the issue of how this relatively generous treatment of non-government schools has been effected. To what extent does the Federal government contribute to this? And what expenditure programs can be said to have caused the trends we've identified? These questions form the subject matter of the next section of this report. We begin by exploring trends in Federal funding.

2. Federal grant trends

2.1 Overview

In this section we provide a more detailed analysis of funding trends, focusing on three categories of grants provided by the Federal government to government and non-government schools:[3] the General Recurrent Grants program, the Capital Grants program and the Targeted Grants program.

Recurrent Grants are the most significant, and are intended to help with the general running costs of schools. The Capital Grants program is aimed at providing government and non-government schools with funds to improve physical infrastructure. Finally, the Targeted program is designed to assist government and non-government schools to teach disadvantaged students, including recent migrants, particularly in the areas of literacy, numeracy and educational participation, and to improve the outcomes of students with disabilities and students in rural locations.

2.2 Federal government recurrent grants

Recurrent grants constitute the bulk of Federal government grants to the States and Territories for schooling, accounting for 87% of grant monies. In 2002, recurrent grants to the government and non-government school sectors stood at $4.7 billion.

Changes in real recurrent funding for the 1993–2002 period are shown in Tables 2.1 and 2.2. Table 2.1 shows that recurrent grants have been increasing for all sectors. Over this period total recurrent funding rose by 77.5%. Disaggregation shows that funding for the Catholic system rose 3.1 times faster than for the government sector, while the independent sector rose 2.7 times faster than the government sector. The combined expenditure in the non-government sector increased almost threefold when compared to the government sector.

[3] The expenditure data used in this section of the report are obtained from the Department of Education, Science and Training (DEST) green report, also known as the States Grants (Primary and Secondary Education Assistance) Act for the period 1993 to 2002. This report provides information on financial assistance to each State and Federal Territory, and contains a detailed breakdown of expenditure from funds appropriated by the Act and a brief description of how funding was allocated. (DEST, 2002, p. v). It is important to note that between 1993 and 1996, according to our measures, funding for independent schools declined by 1.6% on a per student basis. Although recurrent grant funding for independent schools increased for the period by 11% (see Table 2.3) in terms of per student funding, independent schools experienced a funding decline of 1.6%. Student enrolment in the three school categories show that the number of students in government schools declined by 0.3%, while Catholic schools increased by 3%, and independent schools increased by 13% (from 271,032 to 305,886 enrolments). In terms of actual funding (see Table 2.3) between 1993 and 1996 the increase for government schools was 5.3%, 21.1% for Catholic schools, and 11% for independent schools.

Table 2.1 Real Federal government recurrent grants for schools, 1993–2002 (2002 = 100)

Year	Government	Catholic	Independent	Non-government	Total
	$m	$m	$m	$m	$m
1993	1,009	1,030	623	1,652	2,661
1994	1,047	1,116	662	1,777	2,824
1995	1,055	1,172	693	1,865	2,919
1996	1,062	1,247	691	1,939	3,000
1997	1,129	1,357	779	2,137	3,265
1998	1,169	1,542	850	2,391	3,561
1999	1,199	1,676	952	2,628	3,827
2000	1,264	1,850	1,057	2,907	4,171
2001	1,323	2,079	1,076	3,155	4,479
2002	1,361	2,162	1,201	3,364	4,725
Change					
1993-1996	5.3	21.1	11.0	17.3	12.8
1997-2002	20.6	59.3	54.1	57.4	44.7
1993-2002	34.9	110.0	92.9	103.5	77.5

Sources: DEST (1993–2002). Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2002 = 100.0.

Table 2.2 Real per student Federal government recurrent grants to the States, 1993–2002 (constant 2002 prices)

Recurrent funding per student ($)					Funding ratios		
Year	Government	Catholic	Independent	Non-government	Catholic to government	Independent to government	Non-government to government
1993	453	1,719	2,297	1,899	3.8	5.1	4.2
1994	473	1,852	2,346	2,010	3.9	5.0	4.3
1995	478	1,928	2,358	2,068	4.0	4.9	4.3
1996	478	2,026	2,260	2,104	4.2	4.7	4.4
1997	506	2,179	2,446	2,269	4.3	4.8	4.5
1998	522	2,447	2,582	2,493	4.7	4.9	4.8
1999	533	2,637	2,773	2,685	4.9	5.2	5.0
2000	562	2,884	2,956	2,910	5.1	5.3	5.2
2001	589	3,205	2,899	3,094	5.4	4.9	5.3
2002	603	3,291	3,100	3,220	5.5	5.1	5.3
Change							
1993-1996	5.6	17.9	- 1.6	10.8			
1997-2002	19.1	51.1	26.7	41.9			
1993-2002	33.2	91.5	35.0	69.6			

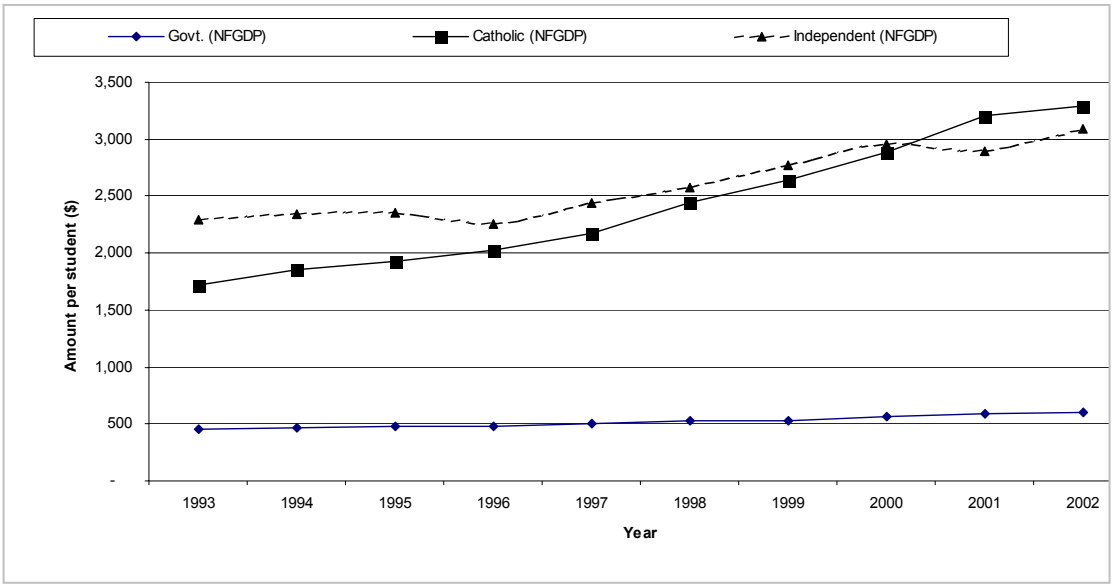
Sources: DEST (1993–2002), ABS (1993–2002). Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2002 = 100.0.

Recurrent funding increased at a consistently greater rate for the non-government sector over the nine years to 2002. Between 1997 and 2002 the increase was twice as large for Catholic and independent schools as it was for government schools.

The per capita expenditure trends reveal a more interesting pattern. Between 1993 and 2002 the main beneficiary of recurrent funding increases was the Catholic school system, which experienced an increase in per student funding of 91.5%, compared to 35.0% for independent schools and 33.2% for government schools. In 1993 the Federal government allocated 3.8 times more for each child in a

Catholic school than it did for a child in a government school, and 5.1 times more for a child in an independent school. By 2002, this ratio had risen to 5.5 times for a child in a Catholic school, while for a child in an independent school it remained the same.

Figure 2.1 Real per student Federal government recurrent grants to the States for government, Catholic and independent schools (deflated by the Implicit Price Deflator for NFGDP)



2.3 Federal government capital grants

Table 2.3 shows the dollar value of the capital grants as well as on a per student (primary and secondary) basis.

Table 2.3 Real Federal government capital grants to the States, selected years 1993–2003 (2001–02=100)

Year	Government	Catholic	Independent	Non-government	Total
	$m	$m	$m	$m	$m
1993	320	107	46	152	472
1996	239	95	34	128	367
1997	236	67	25	93	328
2002	233	64	28	91	324
Change					
1993-96	- 25.3	- 11.6	- 25.8	- 15.8	-22.2
1997-2002	- 1.3	- 5.2	- 9.0	- 1.3	- 1.3
1993-2002	-27.3	-40.4	-39.2	-40.0	-31.4
Per student expenditure	**($)**	**($)**	**($)**	**($)**	
1993	144	178	168	175	
1996	108	154	110	139	
1997	106	108	80	98	
2002	103	97	71	88	
Change					
1993-96	- 26.4	- 39.5	- 52.6	- 43.8	
1997-2002	- 2.5	-10.1	- 10.4	- 11.0	
1993-2002	-28.3	-45.6	-57.5	-50.0	

Sources: DEST (1993–2002), ABS (1993–2002). Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2001–02 = 100.0.

Table 2.3 shows that total capital expenditure declined substantially over the 1993–2002 period. While all school sectors were affected by this decline, the bulk of the fall was shouldered by the non-government sector. The independent sector experienced the sharpest declines, followed by the Catholic sector. However, capital grants account for only a small proportion of total government school expenditures. A far more important issue is trends in recurrent grants, a point to which we shall return presently.

2.4 Federal government targeted expenditure

We extend our analysis of Federal government funding to the government and non-government school sectors by looking at changes in targeted grants. These changes are shown in Table 2.4 for the 1993–2002 period.

Table 2.4 Real Federal government targeted grants to the States, selected years 1993–2002 (constant 2001–02 prices)

Year	Government	Catholic	Independent	Non-government	Total
	$m	$m	$m	$m	$m
1993	203	55	32	87	290
1996	245	69	22	91	336
1997	268	79	27	107	375
2002	319	96	47	143	462
Change					
1993-96	20.7	24.7	- 31.3	4.3	15.8
1997-2002	18.9	20.6	73.1	34.1	23.2
1993-2002	57.0	73.4	49.2	64.5	59.3
Per student expenditure	**($)**	**($)**	**($)**	**($)**	
1993	91	92	117	100	
1996	110	112	71	98	
1997	120	127	86	113	
2002	141	146	122	137	
Change					
1993-96	21.1	21.4	- 39.1	- 1.5	
1997-2002	17.4	14.4	42.4	20.9	
1993-2002	55.0	58.1	4.4	37.1	

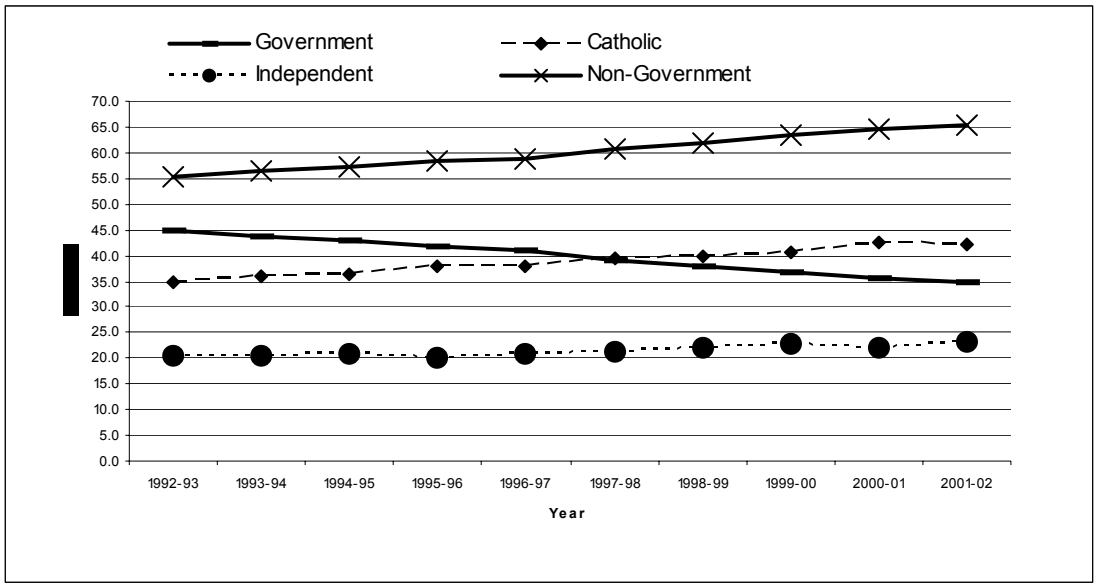
Sources: DEST (1993–2002), ABS (1993–2002). Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP).

Unlike the pattern of declining expenditure in capital grants, targeted expenditure increased for all school sectors over the nine-year period. Between 1993 and 1996, expenditure in targeted programs increased for the government and Catholic sectors but declined for the independent school sector. Between 1997 and 2002, the independent sector did much better than in earlier periods.

2.5 Total Federal government expenditure on school education

Figure 2.2 and Table 2.5 show the share of total Federal government grants for capital, recurrent and targeted funding going to each school sector over the nine years to 2001–02.

Figure 2.2 Proportion of total Federal government school grants (capital, recurrent and targeted) by school sector, 1992–93 to 2001–02



Source: Table 2.4.

The non-government school share of expenditures increased substantially (from 55.3% to 65.3%), while the government school share declined by ten percentage points (44.7 to 34.7%). The Catholic school share increased from 34.8% to 42.1%, while the independent school share increased from 20.4 to 23.2%.

Table 2.5 Real recurrent, targeted and capital Federal school expenditure, selected years 1993 – 2006–07

	Recurrent expenditure ($ m)		Total expenditure (R+T+C) ($ m)		Recurrent expenditure share (%)		Total expenditure share (%)	
Year	**Govt**	**Non-govt**	**Govt**	**Non-govt**	**Govt**	**Non-govt**	**Govt**	**Non-govt**
1993	1,009	1,652	1,532	1,892	29.5	48.3	44.7	55.3
1997	1,129	2,137	1,633	2,336	28.4	53.8	41.1	58.9
2002	1,361	3,364	1,913	3,598	24.7	61.0	34.7	65.3
Federal Budget Estimates								
2002-03	*1,432*	*3,645*	*1,998*	*3,909*	*24.2*	*61.7*	*33.8*	*66.2*
2003-04	*1,536*	*4,035*	*2,132*	*4,307*	*23.9*	*62.7*	*33.1*	*66.9*
2004-05	*1,632*	*4,360*	*2,255*	*4,645*	*23.6*	*63.2*	*32.7*	*67.3*
2005-06	*1,734*	*4,698*	*2,378*	*4,994*	*23.5*	*63.7*	*32.3*	*67.7*
2006-07	*1,840*	*5,049*	*2,510*	*5,358*	*23.4*	*64.2*	*31.9*	*68.1*
Change								
1997 – 2002	20.6	57.4	17.1	54.0	-3.7	7.2	-6.4	6.4
2002-03 – 2006-07	28.5	38.5	25.6	37.1	-0.9	2.5	-1.9	1.9
1997 – 2006-07	63.0	136.3	53.7	129.4	-5.1	10.3	-9.2	9.2
Average annual growth	6.3	13.6	5.4	12.9				

Sources: DEST (1993–2002). Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2002 = 100.0. Federal Budget Paper no. 3 (2003–04: 34, 35, 44).

There is one further implication of these trends, which is highlighted by the bottom half of Table 2.5. This shows the forward estimates of expenditures through to 2006–07. The trends that have been evident over the last five years are set to continue over the next five years, with the non-government school sectors set to expand their share of total Federal expenditures by almost two percentage points (from 66.2% to 68.1% by 2006–07), and the government school share set to decline by the same amount.

By implication, the data we have so far examined suggest that recurrent funding is increasing as a share of total Federal funds. Table 2.6 confirms this, showing recurrent funding as a proportion of total funding for the government and non-government schools. Recurrent funding has been increasing dramatically as a share of total funding, particularly for the non-government sector. Whereas recurrent funding accounted for two-thirds of total funds for both sectors in 1993, today it accounts for 72% for government schools, but over 90% for non-government schools. Not only have non-government schools done very well in terms of overall funding growth, the funds have been provided increasingly on an untied basis, which by definition means without clear outcomes in mind and associated performance indicators, except for the very broad ones outlined in the relevant Acts.

Table 2.6 Recurrent funding as percentage of total funding by sector, selected years 1992–2007

	Government schools	Non-government schools
1993	66%	66%
1997	69%	69%
2002	71%	71%
2003	72%	93%
2004	72%	94%
2005	72%	94%
2006	73%	94%
2007	73%	94%

Source: Table 2.4

2.6 The role of the States

The Federal government has one other defence for its relatively generous treatment of non-government schools. It argues that even though its funding of non-government schools has grown at a fast rate, it has treated government schools quite generously as well, offering significant real annual increases in funding, albeit at a lower rate than for non-government schools. Government primary and secondary schooling is primarily a State responsibility, and it is up to the States to ensure that it funds government schools appropriately. As Minister Nelson has recently put it:

> While the Australian government has been increasing, and will continue to increase, funding to state schools at about 6% per annum, the average State and Territory budget increase to state schools last year was only 2.1% – below the inflation rate (press release, 11 May 2004).

Minister Nelson is correct to say that over the last year Federal funding of government schools increased at a faster rate than State funding. A similar pattern is evident over the last ten years, with Federal grants to government schools increasing as a share of government schools expenditure from 8.9% to 9.3% in 2001–02. However, the pattern is a complex one. Most of the real growth in the Federal grant share occurred in the period up until 1996–97, when Federal grants were the equivalent of 9.9% of government school expenditures. Since the election of the Howard government, the Federal share has fallen to 9.3% (see Table 2.7).

Table 2.7 Real Federal government recurrent grants to government schools as a percentage of government school expenditures, 1992–93 – 2001–02 (constant prices. 2001–02=100)

	Government school expenditures ($m)	Aust govt recurrent grants for government schools	
		$m	% of total
1992-93	$11,353	$1,009	8.9%
1993-94	$11,475	$1,047	9.1%
1994-95	$11,379	$1,055	9.3%
1995-96	$11,341	$1,062	9.4%
1996-97	$11,402	$1,129	9.9%
1997-98	$12,059	$1,169	9.7%
1998-99	$13,234	$1,199	9.1%
1999-00	$13,769	$1,264	9.2%
2000-01	$13,988	$1,323	9.5%
2001-02	$14,585	$1,361	9.3%

Source: Tables 2.3 and 1.1. Deflated by the IPD for NFGDP. Note: the same pattern is evident when all grants are taken into account and not just recurrent grants.

2.7 Conclusion

This section has analysed changes in funding by the Federal government for school education between 1993 and 2002. It has shown that capital funding has declined for all school sectors over the period, while targeted and recurrent funding has risen. Recurrent funding is the key revenue source, and it grew at a faster rate than other sources of funding in the nine years to 2002, increasing its share of total funding by 9 percentage points.

The rapid increase in recurrent funding has mainly benefited non-government schools, with their share of total Federal government funding increasing by 12.7% to reach 61.0% by 2002. Federal budget forward estimates suggest this will increase to reach 64.2% by 2006–07. Government schools' share of funding, on the other hand, declined by 4.8 percentage points over the same period and is expected to further decline to 23.4% of total Federal recurrent expenditure on school education by 2006–07. The question is: why has recurrent funding grown so fast for the non-government school sector? We turn to this question in the next section.

3. Federal government recurrent grants to government and non-government schools

3.1 Introduction

From the mid-1970s until 1993, most Federal government funding was based on a principle of seeking to achieve a common resource standard for all schools, both government and non-government. In essence, this meant a system of funding based on need. This goal was expressed as a community standard, and funding was directed to bring the least well resourced schools in both sectors up to this, although in fact wealthier schools still received some funding. In 1993 it was argued that all government schools had achieved this standard, and so the community standard as a benchmark for all schools was abolished and Federal funding to both sectors indexed by the Average Government School Recurrent Cost index (AGSRC). This attempts to measure increases in State and Territory expenditure on government schools, and thus the recurrent cost of educating children in these schools. Federal government funding no longer sought to raise resource levels in all schools, although it continues to provide support indexed to the AGSRC.

Prior to 2001, the distribution of Federal government funding to non-government schools was based on the Educational Resource Index (ERI), which measured their capacity to raise private income. On the basis of their ERI, they were classified into twelve categories. Category 1 received the lowest level of Federal per capita funding because they were able to generate much more income than a non-government school classified in Category 12, which was deemed to have less chance of generating income (MCEETYA 1998: 175, 1999: 217).

In 2001, a new funding system was introduced using the Socio-Economic Status (SES) model. This tries to measure the socioeconomic background of parents who send their children to non-government schools as a basis of funding decisions. Rather than assessing the school's capacity to generate income (the ERI method), the new system tries to measure capacity to pay. This new funding model was phased in between 2001 and 2004. However, there is a real funding guarantee, so that a considerable number of independent schools are funded above their SES level. Catholic schools do not enter the SES scheme until 2005, and also have a funding guarantee. As a result, even from 2005 only about half will be funded at their actual SES rate.

This raises the question of what effect the new SES model will have on the trends we have already documented. Will this new needs-based method of funding reverse the trends we have seen? Or will it accentuate them? These questions form the subject matter of this section.

3.2 Catholic schools and the AGSRC index

Tables 3.1 and 3.2 show Federal government per capita grants to Catholic primary and secondary schools for the period 1991 to 2003.[4]

[4] The data for 1991 and 2001 are obtained from the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), while the data beyond 2001 are obtained from estimates to 2003 provided to the Parliamentary Library by the Schools Statistics Section, Research and Evaluation Branch, DEST. The data are analysed using the twelve-Category system. For the analysis in this section we only concentrate on Category 10 to 1998, while post 1998 the numbers correspond to Category 11. This is because the government reclassified Catholic schools to Category 11 (with the exception of the ACT).

Table 3.1 Federal government per capita grants to Catholic primary schools, 1991–2003 current prices ($)

	Catholic primary schools ($)	Catholic annual increase	AGSRC index	Real increase above AGSRC
1991	1,277			
1992	1,313	2.8		
1993	1,514	15.3	3.6	11.7
1994	1,620	7.0	5.1	1.9
1995	1,683	3.9	2.0	1.9
1996	1,756	4.3	2.5	1.8
1997	1,921	9.4	7.4	2.0
1998	2,045	6.5	4.6	1.9
1999	2,380	16.4	5.5	10.9
2000	2,608	9.6	7.4	2.2
2001	3,023	15.9	6.4	9.5
2002(a)	*3,216*	*6.4*	*5.2*	*1.2*
2003(a)	*3,422*	*6.4*	*na*	*na*

Source: MCEETYA (1991–2001). (a) DEST (2003).

Table 3.2 Federal government per capita grants to Catholic secondary schools, 1991–2003 current prices ($)

	Catholic secondary schools ($)	Annual increase	AGSRC index secondary	Real increase above AGSRC
1991	1,892			
1992	1,938	2.4		
1993	2,212	14.1	3.6	10.5
1994	2,367	7.0	5.1	1.9
1995	2,458	3.8	2.0	1.8
1996	2,567	4.4	2.5	1.9
1997	2,805	9.3	7.4	1.9
1998	2,986	6.5	4.6	1.9
1999	3,469	16.2	5.5	10.7
2000	3,807	9.7	7.4	2.3
2001	3,991	4.8	7.2	- 2.4
2002(a)	*4,246*	*6.4*	*5.2*	*1.2*
2003(a)	*4,518*	*6.4*	*na*	*na*

Source: MCEETYA (1991–2001). (a) DEST (2003).

Tables 3.1 and 3.2 show that Federal government per capita grants to Catholic primary and secondary schools have increased faster than the AGSRC index. Compounding this has been the shift in 1998 of all Catholic system schools from Category 10 to 11. This meant that Catholic primary schools received an additional 8.9% while secondary schools received an additional 8.7%. These increases are consistent with Burke (2002: 9) and Cobbold (2003: 4), who argue that Catholic school funding has been increasing by a rate well above the AGSRC index.

3.3 School funding in the non-government school sector

How have government schools fared compared to the different categories of non-government schools identified earlier? Tables 3.3 and 3.4 show changes in funding according to the twelve categories that used to be applied prior to the introduction of the new SES-based funding system (Category 1 is a proxy

for the most wealthy schools, and Category 12 the least wealthy). The trends shown are not a complete picture, because the SES model is yet to be fully put into effect. Table 3.3 shows that while all schools have benefited, non-government schools in Categories 2, 1 and 3 ranked first, fourth and fifth in terms of average annual funding growth, growing by 10.8%, 8.0% and 7.9% respectively. Schools in Categories 11 and 12, the most needy, ranked second and third, growing by 8.7% and 8.2% respectively over the period. Between 1991 and 2003, primary schools in Categories 1, 2 and 3 ranked in the top four in terms of per capita grant increases. Government primary school funding grew by 5.3%, the second lowest average annual growth over the period. The wealthiest schools did as well as, if not better than, many more needy schools; need was clearly not the sole determinant of success.

A similar pattern is evident with secondary schools. The average annual growth rate was strongest for the most affluent schools, that is, those classified in Categories 1, 2 and 3. These experienced the highest funding increases over the 1991–2003 period, at an annual increase of 10.7%, 9.0% and 8.9% respectively. By way of contrast, government schools experienced an increase of only 5.4%.

Table 3.3 Real Federal government per capita grants to government and non-government primary schools, by level of education and funding category, selected years 1991–2003 (a)

Year	1991	1996	1997	2000	2001	2002	2003	1991-96	2000-01	1997-03	2000-03	1991-03	Annual growth
Government schools	330	407	432	492	501	517	539	23.4	1.7	24.9	9.4	63.5	5.3
Non-government schools													
Category 1	473	542	570	651	888	748	927	14.4	36.4	62.5	42.4	95.9	8.0
Category 2	631	723	762	869	1,071	1,219	1,448	14.6	23.2	90.1	66.6	129.6	10.8
Category 3	777	904	952	1,087	1,305	1,283	1,510	16.4	20.1	58.6	39.0	94.4	7.9
Category 4	954	1,101	1,159	1,322	1,466	1,601	1,784	15.4	10.9	53.9	34.9	87.0	7.2
Category 5	1,092	1,302	1,380	1,607	1,717	1,620	1,767	19.3	6.9	28.0	10.0	61.9	5.2
Category 6	1,200	1,441	1,526	1,771	1,957	1,933	2,161	20.1	10.5	41.6	22.0	80.1	6.7
Category 7	1,316	1,583	1,675	1,939	2,099	2,935	2,309	20.3	8.2	37.8	19.1	75.4	6.3
Category 8	1,446	1,739	1,841	2,140	2,298	2,439	2,656	20.2	7.4	44.2	24.1	83.7	7.0
Category 9	1,517	1,904	2,035	2,421	2,561	2,551	2,711	25.5	5.8	33.2	12.0	78.7	6.6
Category 10	1,595	2,041	2,187	2,629	2,707	2,547	2,700	28.0	3.0	23.4	2.7	69.3	5.8
Category 11	1,671	2,187	2,351	2,854	3,162	3,300	3,422	30.9	10.8	45.5	19.9	104.8	8.7
Category 12	1,747	2,341	2,524	3,099	3,221	3,282	3,474	34.0	3.9	37.6	12.1	98.8	8.2

Source: MCEETYA (1991–2001). (a) Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2003 = 100.0. Estimates to 2003, DEST (2003). The twelve categories shown are from the old funding system. We have extrapolated from data to derive these estimates.

The introduction of the SES system appears to have accelerated the funding growth of the non-government school sector. In 2000–01, non-government primary schools experienced a funding increase of 36.4% compared to 1.7% for government primary schools, while non-government secondary schools

experienced a funding increase of 25.6% compared to 2.3% for government secondary schools. Between 2000 and 2003, primary schools in the top three categories (the wealthiest ones) received increases of between 39% and 66%, while the wealthiest secondary schools experienced funding increases ranging from 49.6% to 66.3%. The most needy non-government primary schools in Categories 11 and 12 experienced increases of between 12.1% and 19.9%, while the most needy non-government secondary schools experienced increases of 8.4% and 9.3%. Government primary schools experienced funding increases of 9.4% and government secondary schools increases of 10.5%. The most needy schools have not been the main beneficiaries of the funding increases.

The tables also highlight the differing policies of Labor and Coalition governments. While both have delivered significant real increases in funding to non-government schools, the largest increases have occurred under the Coalition. Also, whereas under Labor funding increases were skewed towards the schools in the bottom half of the ERI categories, under the Coalition it is schools in the top half and in particular the top one-third which have done best.

Table 3.4 Real Federal government per capita grants to government and non-government secondary schools, by level of education and Australian government funding category, selected years 1991–2003 (2002 = 100)

Year	1991	1996	1997	2000	2001	2002	2003	1991-96	2000-01	1997-03	2000-03	1991-03	Annual growth
Government schools	488	602	637	727	744	767	803	23.3	2.3	26.2	10.5	64.4	5.4
Non-government													
Category 1	751	860	905	1,032	1,296	1,434	1,716	14.6	25.6	89.6	66.3	128.6	10.7
Category 2	1,000	1,140	1,200	1,369	1,573	1,822	2,081	14.0	14.9	73.4	52.0	108.0	9.0
Category 3	1,150	1,321	1,391	1,587	1,837	2,078	2,374	14.9	15.7	70.6	49.6	106.4	8.9
Category 4	1,516	1,734	1,825	2,080	2,283	2,544	2,802	14.4	9.7	53.5	34.7	84.8	7.1
Category 5	1,615	1,894	2,009	2,332	2,484	2,682	2,875	17.3	6.5	43.1	23.3	78.0	6.5
Category 6	1,783	2,102	2,225	2,584	2,787	3,054	3,315	17.9	7.9	49.0	28.3	85.9	7.2
Category 7	1,951	2,308	2,444	2,832	2,991	3,213	3,425	18.3	5.6	40.2	20.9	75.6	6.3
Category 8	2,137	2,544	2,695	3,128	3,293	3,436	3,647	19.1	5.3	35.3	16.6	70.7	5.9
Category 9	2,249	2,791	2,979	3,539	3,679	3,769	3,966	24.1	4.0	33.1	12.1	76.3	6.4
Category 10	2,363	2,983	3,194	3,840	3,971	4,068	4,254	26.3	3.4	33.2	10.8	80.0	6.7
Category 11	2,473	3,193	3,432	4,166	4,174	4,357	4,518	29.1	0.2	31.6	8.4	82.7	6.9
Category 12	2,581	3,419	3,688	4,525	4,677	4,726	4,945	32.5	3.4	34.1	9.3	91.6	7.6

Source: MCEETYA (1991–2001). (a) Using Implicit Price Deflator for Non-Farm Gross Domestic Product (NFGDP), base 2003 = 100.0. Estimates to 2003, DEST (2003).

3.4 The role of the SES model

The long-term trend in recurrent funding has been a favourable one for non-government schools, a situation that has been accentuated subsequent to the introduction of the SES funding model which appears to have benefited the wealthiest schools the most.

Watson (2003) argues that the SES funding model is not the source of the problem. Although she acknowledges that it is not without its problems, she sees the model as superior to what went before. She claims that the generous treatment of non-government schools generally and the wealthiest ones in particular is the product of political decisions made by the Howard government at the same time as they introduced the new funding system.

She points to four decisions in particular which have produced the outcomes we have just referred to. First, the funding levels awarded to non-government schools at the top of the SES scale are simply too generous. This is a political decision and it could easily be reversed, with funding paid to schools in this category being cut from the current band of 13.6% to 37% of the average cost of running a government school (for schools in the top one-third SES categories) to, say, 8% and 25% respectively.

Second, the government promised that no school would be disadvantaged by the move to the new system, and that their funding levels would be maintained in real terms. What should have happened is that schools who would have been disadvantaged could have had their funding maintained in nominal terms, allowing inflation to adjust real funding levels over time.

Third, the government erred in tying non-government school funding to the AGSRC index. This is a measure of increases in government school expenditures, and there is no logical reason why non-government schools should be compensated using an index like this. It would be much more sensible to use an index that tried to estimate movements in *non-government* school costs. The AGSRC has been increasing by over 6% per year, well in excess of wage increases, even though the latter represent the main education cost.

Her final point is that the government should not have allowed the Catholic schools to be exempt from the new system in the way that they agreed to:

> In effect, the National Catholic Education Commission was allowed to pick its own SES ranking of 96 without any reference to the data that determines the ranking of every other private school in Australia.

Not only were they allowed to do this, but the Federal government agreed to real funding increases at this generous level. This was a mistake, and represents ‘a low point in the integrity of the public policy processes at the national level’.

3.5 The government’s response

The Howard government has taken exception to the claims that it is treating the wealthiest non-government schools too generously. According to Minister Nelson:

> Teacher Unions, in concert with the Labor Party, have waged a deceptive campaign claiming that students attending higher fee schools receive the greatest amount of Australian government funding….The reverse is true (press release, 22 Apr. 2004).

Nelson says that the new SES funding system is indeed equitable because per capita funding levels vary dramatically by socioeconomic status. Non-government schools in the highest SES category receive as little as $794 per capita, while those in the bottom category receive more than $5,600 per capita. He points to two prominent and wealthy independent schools to support his claim, Trinity Grammar and the King’s School, both in New South Wales. Measured in terms of per capita funding, these rank 2,548th and 2,523rd in 2003–04 out of 2,652 non-government schools.

It is true that per capita funding varies considerably in the way the Minister argues. This follows of course from the structure of the model, which offers a sliding pay scale which varies by the socioeconomic status ranking of the school. But the Minister would appear to have misunderstood what is at issue. The debate

has not been about the absolute level of funding to these wealthy schools in any single year, or whether it is less than the amount paid to schools identified by the model as having students from a lower socioeconomic status. It is the rate of growth in their funding since the SES model was introduced. As has been shown, this is substantially more than that of the most needy non-government schools, and substantially more than government schools. This rate of increase will continue to exceed government school funding throughout the next quadrennial. As Table 3.5 shows, this funding growth will continue through to 2008, with per capita public funding of King's School increasing by 62% for primary students and 69% for secondary students, while for Trinity the growth is 58% and 70% respectively. Government schools will receive an increase of around 25% over this same period.[5]

Table 3.5 Federal government per capita grants to King's School (NSW) and Trinity Grammar (NSW), 2003–08

	2003	2008	% change
King's School			
Primary	1,593	2,577	62%
Secondary	2,018	3,413	69%
Trinity Grammar			
Primary	1,825	2,891	58%
Secondary	2,249	3,828	70%

Source: DEST (2004).

3.6 Conclusion

We are gradually reaching the end of our puzzle. So far we have seen that Federal government funding has systematically favoured non-government schools, and that this has been especially so since the election of the Howard government in 1996. We have also seen that the non-government sector has done especially well since the introduction of the SES funding model in 2001. The main beneficiaries have been the wealthiest non-government schools. It is interesting to note in this regard that Geelong Grammar is one of the elite schools to have done very well. Does it really need this additional money? The school has recently announced how it will use this increased funding:

> Geelong Grammar School is pleased to announce the award of a number of scholarships for General Excellence. These scholarships honour the promise made by the Chairman of the School Council that the additional funding made available from 2002 to the School through the passage of the Commonwealth Government's schools' funding legislation will be devoted to scholarships…These scholarships will be granted to students who could not otherwise attend Geelong Grammar School without financial assistance (Geelong Grammar at Corio website, <http://www.ggscorio.vic.edu.au/index_news.asp?menuid=030.030.040>, accessed 20 May 2004).

This is an interesting development, which may open an otherwise exclusive school to a few more students whose families do not have the income necessary to send their children there. However, it also suggests that the funding is not really needed. It might also mean one less student for a government school which has far fewer resources than Geelong Grammar.

[5] Derived from Harrington (2004: Table 1).

4. Non-government school income

4.1 Introduction

Previous sections of this report have argued that non-government schools have systematically and dramatically benefited from Federal government financing systems, and that the biggest beneficiaries have been the wealthiest ones. This raises an interesting question: if government funding of non-government schools is rising this fast, are they becoming too dependent on the public purse as a source of income?

4.2 Trends in private income of non-government schools

Tables 4.1 to 4.3 show non-government average school income from government and private sources between 1991 and 2001. Private income has been growing at roughly the rate of inflation, but government funding has been growing faster. Total funding from private sources increased by 21.3%, whereas income derived from government sources (State and Federal grants) increased by 28.6%. Government income increased by 15% between 1997 and 2001, whereas private income over the same period rose by 7.0%. Between 1991 and 1996 the trend was in the opposite direction. Non-government schools were able to raise more income from private sources than government sources. For example, during this period State and Federal government income rose by 9.8%, whereas private income rose by 12.2%.

Table 4.1 Income per student of non-government schools, 1991–2001

	Non-government school income		Income Shares		
Year	Government ($)	Private ($)	Total ($)	Govt as % of total income	Private income as % of total Income
1991	3,498	2,763	6,262	55.9	44.1
1992	3,445	2,703	6,147	56.0	44.0
1993	3,582	2,805	6,387	56.1	43.9
1994	3,753	2,934	6,686	56.1	43.9
1995	3,836	3,082	6,917	55.5	44.5
1996	3,842	3,102	6,944	55.3	44.7
1997	3,912	3,131	7,043	55.5	44.5
1998	4,162	3,174	7,336	56.7	43.3
1999	4,260	3,262	7,522	56.6	43.4
2000	4,405	3,367	7,770	56.7	43.3
2001	4,498	3,352	7,850	57.3	42.7
Change					
1991-96	9.8	12.2	10.9		
1997-01	15.0	7.0	11.4		
1991-01	28.6	21.3	25.4		
Annual growth	2.9	2.1	2.5		

Source: MCEETYA (1991–2001).

Table 4.2 Income per student for Catholic schools, 1991–2001

Year	Government	Private	Total income	Govt to total income	Private income to total income
1991	3,789	1,488	5,279	71.8	28.2
1992	3,741	1,433	5,175	72.3	27.7
1993	3,914	1,504	5,418	72.2	27.8
1994	4,122	1,589	5,711	72.2	27.8
1995	4,213	1,670	5,884	71.6	28.4
1996	4,248	1,693	5,941	71.5	28.5
1997	4,321	1,694	6,015	71.8	28.2
1998	4,621	1,755	6,376	72.5	27.5
1999	4,756	1,796	6,552	72.6	27.4
2000	4,898	1,899	6,797	72.1	27.9
2001	4,968	1,854	6,822	72.8	27.2
Change					
1991-96	12.1	13.8	12.5		
1997-2001	15.0	9.5	13.4		
1991-2001	31.1	24.6	29.2		
Annual growth	3.1	2.5	2.9		

Source: MCEETYA (1991–2001).

Table 4.3 Income per student for independent schools, 1991–2001

Year	Government	Private	Total income	Govt to total income	Private income to total income
1991	2,814	5,755	8,570	32.8	67.2
1992	2,770	5,607	8,377	33.1	66.9
1993	2,850	5,694	8,544	33.4	66.6
1994	2,957	5,838	8,795	33.6	66.4
1995	3,047	6,030	9,077	33.6	66.4
1996	3,019	5,964	8,983	33.6	66.4
1997	3,107	5,947	9,054	34.3	65.7
1998	3,276	5,921	9,197	35.6	64.4
1999	3,345	5,963	9,308	35.9	64.1
2000	3,519	6,004	9,523	37.0	63.0
2001	3,686	5,941	9,627	38.3	61.7
Change					
1991-96	7.3	3.6	4.8		
1997-2001	18.6	-0.1	6.3		
1991-2001	31.0	3.2	12.3		
Annual growth	3.1	0.3	1.2		

Source: MCEETYA (1991–2001).

Tables 4.2 and 4.3 show that the independent schools have done particularly well. Between 1997 and 2001 private income fell by 0.1% while income from government sources rose by 18.6%. For Catholic schools, the government and private income ratios fluctuated slightly between 1991 and 2001. However, government income rose by 15% while private income rose by 9.5% between 1997 and 2001.

4.3 Have non-government schools become welfare dependent?

With almost $4 out of every $10 of independent schools' income, and more than $7 out of every $10 of Catholic schools' income, being funded by the taxpayer, we have reached a point where questions could be asked about whether and to what extent our non-government schools have now become too dependent on the public purse.

This is an important policy question, and it is interesting that it has not yet made its way on to the political agenda. Yet debates about these sorts of issues have had no trouble finding their way high up on the welfare agenda. The Howard government spent much of its first two terms talking about welfare dependency and the problems this created for those people – especially the unemployed, but also single parents and the disabled – who come to expect government to pay their way for them.

No doubt the response would be to say that there is a very big difference between these two issues. On the one hand, the welfare beneficiaries singled out for tough treatment have low levels of economic, social and political participation, whereas in the case of the non-government schools, private income is a significant additional source of finance, indicating a very different set of values and effort underpinning their case for government money. The picture is not as simple as this, however, for there are in fact very few welfare recipients who fit into this inactive and dependent category. As the McClure Report (2000, Appendix 3: 33) pointed out, the only classes of pension or benefit recipients who show little sign of civic, economic or social participation are elderly pensioners and the disabled, with the latter's physical impairments preventing them from enjoying the level of participation they crave for:

> Survey data from the Department of Family and Community Services show that, contrary to some popular images, most social security recipients are not socially and economically inactive…There is a subgroup of workforce age income support recipients (about 18% of men and 10% of women) who are not actively engaged in activities outside the home. Most are aged over 50…[and] their inactivity appears to be largely involuntary…[M]ost reported one or more barriers to employment. The most common barrier, reported by 90% of men and 75% of women, was illness or disability.

It is also the case that welfare beneficiaries are put through remarkably onerous and ongoing activity testing, some of which is on a weekly or fortnightly basis, to ensure compliance with policy guidelines. An Independent Review (2002), the Federal Ombudsman (2002) and the Productivity Commission (2002) have all drawn attention to the harsh nature of this activity testing and its unfair and unreasonable application, resulting in low income unemployed people having their incomes cut by up to 25% for no good reason. A similar level of harassment, surveillance and punishment for non-compliance with regulations is not in evidence in the case of non-government schools. Indeed, as was shown earlier, over time government grants to this sector have increasingly taken the form of untargeted recurrent funding that has no specific policy objectives or rigorously enforced performance measures tied to it.

This issue is especially important when consideration is given to the characteristics of the children who attend non-government schools. The case for funding this sector so generously was strongest when a disproportionate share of children from disadvantaged backgrounds attended non-government schools, especially Catholic ones located in poverty-stricken parts of the inner city, which could not levy the fees necessary to provide an adequate education.

Today, non-government schools no longer carry out this role in the way they used to. The poor Catholic schools have disappeared, having been swept away on a rising tide of affluence and government subsidy. Who educates children from low income backgrounds today? In her recent and detailed assessment of this question, Preston (2003: 10) draws on the 2001 census to show that government schools are mainly responsible for carrying out this role:

> 80% of primary students with low family incomes attend government schools, while fewer than 60% of primary students in high income families attend government schools. At the secondary level the difference between the income groups is even more marked. While more than three-quarters of secondary students in low income families attend government schools, fewer than half of the secondary students in high income families attend government schools.

This pattern applies irrespective of religious background. 56% of children from low income Catholic backgrounds attend government schools. Only 42% attend Catholic schools. While 62% of children from high income Catholic backgrounds attend Catholic schools, only 27% attend government schools. The picture is even more severe for children from non-Catholic religious backgrounds, as well as those from single parent and indigenous families.

4.4 Conclusion

This section has shown that the non-government school sector is becoming increasingly dependent on the public purse and that this trend is particularly evident in the Catholic school sector. For Catholic schools, $7.20 out of each $10 they receive comes from government sources. The dependence of the independent schools is not as pronounced, but is growing at a faster rate. It is now close to $4 out of every $10 coming from the public purse. While the extent of dependence varies within each sector (some schools receive higher government grants than others and higher incomes from other sources), such dependence is an interesting development. This is especially so given that little detailed financial and other performance data are disclosed publicly, or are not gathered because of ‘commercial in confidence’ considerations.

5. Conclusion

5.1 Introduction

This report began by asking a series of questions about trends in government funding of government and non-government schools. We can now summarise the answers that have been uncovered in the preceding sections. First, real Federal funding of education has increased considerably over the last decade. Second, while all schools are better off today than they were, the biggest beneficiaries have been non-government schools, and within this group it is the wealthiest schools that have done the best. The percentage increases in Federal grants to the wealthiest one-third of non-government schools dwarfs the increases paid to government schools.

Third, these funding trends are not simply the product of school enrolment trends. Funding increases to non-government schools go well beyond that which would follow enrolment patterns. Indeed, it would be a useful research exercise to identify the extent to which the enrolment trends have been encouraged by the real funding increases, rather than the other way round.

Fourth, these adverse funding trends appear to have been accentuated rather than alleviated by the Federal government's new Socio-Economic Status (SES) funding formula, which was meant to have a sharper and better defined needs basis than that which went before.

These trends are all the more worrying when seen in the light of Cobbold's (2003) incisive analysis of government funding trends. Using detailed data previously not available, he argues that this year:

- Non-government schools will increase their funding advantage over government schools from about 7–8% in 2000–01 to 12–17%;
- Catholic school funding will improve from 8–9% below government school expenditure in 2000–01 to being on a par with government schools;
- Independent schools will increase their funding advantage over government schools from 31–36% in 2000–01 to 40–44%.

Cobbold also points out that these estimates draw on measures of non-government school expenditure which tend to underestimate non-government school funding in comparison with government school expenditure because:

- Many non-government schools, particularly in the Catholic sector, still use cash accounting, and their expenditure is underestimated relative to the government school accruals measure;
- Private in-kind contributions to non-government school facilities and resources are omitted and these are likely to be higher than fees and donations to government schools, which are also omitted;
- Several forms of government assistance to non-government schools are omitted and some are included in government school expenditure. These include taxation concessions, access to services provided by State and Territory Departments of Education, and the administration of government funding and public accountability arrangements.

After adjusting for these factors, it is likely that the non-government school funding advantage over government schools would be higher than his estimates.

5.2 A case of capture?

The picture that emerges from all this is a funding environment that has been unusually favourable towards non-government schools, and the wealthiest ones in particular. Yet the Federal government has gone out of its way to conceal this. As has been shown, the Minister's comments basically sidestep the core issues. Instead of acknowledging that the wealthiest schools have experienced the most generous funding increases, he continually repeats the point that everyone already knows: that, in absolute terms, the wealthiest schools receive much less per annum than the poorest non-government schools. Instead of accepting that the Federal government is favouring non-government schools over government schools, the Minister maintains that government school funding is a State not a Federal responsibility.

In trying to defend what seems to be the indefensible, the Minister and those who defend Federal policies find themselves overseeing some strange education anomalies. Recently commentators drew a deep breath when it was revealed that the Federal government is now spending more on non-government schools than on the nation's universities. We can now add to this surprising finding by drawing attention to another revealing inconsistency. Whereas the Federal government has established a policy framework requiring universities to rely increasingly on private income, they have overseen a policy framework that encourages non-government schools to rely increasingly on the public purse. The latest figures show that Federal government grants (excluding HECS) now represent less than 35% of university operating income (Burke 2003). Independent schools now depend on government for almost 40% of their income, while the dependency ratio for Catholic schools is more than 70%. While universities are depending less on government grants, non-government schools are depending on them more.

It is, of course, one thing for governments to favour particular interest groups and to do so for questionable reasons. What interests us is the extent to which the Federal Department of Education, Science and Training (DEST) appears to be complicit in trying to conceal the truth. Over the last few years, there has been a revealing debate within the Federal parliament in which the Senate Employment, Workplace Relations and Education Committee has been probing the government for answers to the type of questions we have addressed in this report. The Committee has been trying to estimate the extent to which a funding gap exists between non-government and government schools. DEST has taken exception to the Committee's findings, and has entered into the fray with its own estimates of the funding difference. Cobbold (2003: 5) summarises the different views this way:

> The Senate Committee Report estimated…that the income of the Catholic education system will be 15.2% higher than expenditure on government schools and the income of other non-government schools will be 52.2% higher in 2004. DEST estimated that the income of Catholic schools will be some 20% below that of expenditure in government schools and the income of other non-government schools will be on a par with expenditure in government schools.

What accounts for these dramatic differences of view? This is the question that forms the focus of Cobbold's paper. The technical details do not need to detain us here. Cobbold shows that the Senate Committee makes some methodological errors, resulting in it understating government school income. He also shows that DEST has made some serious mistakes, including:

- comparing estimates of government school *expenditure* with non-government school *income*;
- omitting borrowings as a source of funding for non-government schools;
- failing to include capital expenditures, which are higher for the non-government sector, thereby choosing a measure that will understate non-government school finances.

The Department appears to have gone out of its way to produce figures which understate non-government school income, and overstate the position of government schools, to produce a result that is favourable to the government's position.

Most important of all, however, is the way in which DEST has appeared to use its considerable resources to help the non-government school sector mount a defence of current funding arrangements. The DEST estimates of funding trends were not in fact first published by the Department for general public use. They were first published in an appendix to a submission by the National Catholic Education Commission (NCEC) to the Productivity Commission's Review of the Disability Discrimination Act. Earlier we suggested that the non-government schools have become too dependent on government subsidy. We now extend this point, and we ask the question: has DEST been captured by the interest groups that represent non-government schools and, as a consequence, is it still able to offer an independent and unbiased assessment of contemporary policy settings and their effects?

5.3 Policy considerations

What can our policy makers do to address the issues we have raised in this report? Our recommendations fall into two categories: data collection and dissemination, and new funding principles based on the concept of equality of opportunity for all.

5.3.1 Data collection and dissemination

It is remarkable that there are so many glaring problems with official data on school funding, especially as it accounts for such a high proportion of government expenditure. There is an urgent need for additional resources to be allocated to rectify this situation. DEST could undertake this task. However, there are grounds for questioning whether it would be able to do this effectively at this point. Also, given that the States are such important players in funding school education, it would seem essential that they should have a say in the organisation that is responsible for this task. We recommend that this job be given to MCEETYA, for it already has the job of preparing the annual report on schooling in Australia. It would seem appropriate for MCEETYA to form a new subcommittee dedicated to the task of gathering timely and accurate data on education funding via a dedicated secretariat with expertise in financial reporting. The data should include, for government and non-government schools:

- operating expenses, including superannuation, and interest;
- operating income, including income from private sources such as fees, donations and bequests, and money raised from fund-raising activities, sponsorships and the like;
- capital expenditures;
- borrowings.

The data should be available in an accrual format as well as in a cash flow statement. It should be available on an aggregate and per capita basis, and be published not more than twelve months after the completion of a calendar year.

5.3.2 New principles for funding schools

Of all the institutions in liberal democracies which offer the opportunity for all children to realise their potential, arguably none is more important than education. If we really wish to make Australia the land of opportunity, there is nothing of greater significance than getting our education funding principles right. Under current policy settings, there is no clear statement of principles governing funding at the State or Federal levels. There are no long-term aims or funding targets. There is simply an annual budget round in

each jurisdiction, which reflect the ability of individual Education Ministers to argue their case successfully against Treasury, and perhaps a set of core underlying but often unarticulated values about the preferred status of the different education sectors. Education is too important for this situation to remain unchanged. We should have as a clear target a level of government funding of school education that is within the top 10% of the OECD, to be achieved within the next five years. There are those who would argue that a target like this is of little use, for what is of interest is not money but outcomes. We beg to differ, for what is clear is that funding levels do matter, which is precisely why those on the highest incomes choose to send their children to the best resourced schools. Our view is that a target like this should be a Federal priority, and what follows is a discussion of how the Federal government could put it into effect.

We need a set of principles governing the basis on which education funding should be provided. There are those who argue that the core issue is the right of taxpayers to have some government funding for the education of their children, irrespective of whether it is spent on the public or private sectors. There are others who argue that funding should be on a needs basis, allocated to schools based on the socioeconomic background of parents. We would argue that the core consideration should not be parents. It should be children. And the core value is not the right of parents to a government subsidy, but the right of all children to a high level of education provision in order that they all have available to them the same ladder of opportunity. This is very similar to the principle endorsed by MCEETYA at its meeting in 2002, which was agreed to by all jurisdictions except the Federal government (Martin, 2003).

We also need a set of principles about how government monies should be divided between government and non-government schools. If we use equality of opportunity as our core value, we would argue that:

a. We need a funding benchmark for government schools. This should be the best-funded schools in the country, which are the non-government schools in the top SES categories. The goal should be to ensure, over a ten year period, that government funding of government schools is sufficient for all children who attend government schools to enjoy a level of resourcing that is at least 85% of the funding from all sources received by the best-funded schools in the nation. It is indeed ironic that at a time when governments on both sides of the political fence have become committed to the market as a measure of success, that a simple indicator like this has not been used to assess how a private education market values the best education.

b. We need to be sure that government funding of non-government schools does not magnify education funding inequalities. Any school with a per capita income that exceeds the per capita income of government schools should not be eligible for any government funding. Again, government expenditure savings generated from the application of this principle should be redistributed towards government schools to help achieve principle (a).

c. Federal funding of non-government schools should be needs based, with need determined by an index of education opportunity. We do not believe that the current SES funding system fulfils this task. The SES model measures socioeconomic status by drawing on three indicators: family income, educational attainment of parents, and occupational status. Parents whose children attend non-government schools are required to reveal their postal address, which is then correlated with data at a broad neighbourhood level (census collection district) to estimate socioeconomic status. There are two problems with this method. First, one of the indicators is income, yet it is well known that the census is an unreliable source of information for this

purpose. Those reliant on pensions and benefits tend not to reveal private income which might result in their pension or benefit being reduced, while the rich simply do not disclose all their income – concealed through the use of trusts and the like – for fear of paying higher taxation. The method also involves what is known as an ecological fallacy: that it is possible to generalise from neighbourhood data to determine the socioeconomic characteristics of someone who lives in that area. The two do not necessarily follow. More fundamentally, the SES method is based on a measure of the socioeconomic background of parents, when the object should be education resources available to children. For these reasons, we favour a method that focuses on funding from all sources which are available to schools, so that funds can be distributed to the least well funded schools.

These principles no doubt would be highly controversial. They certainly point in the opposite direction to current policy settings which are accentuating educational inequality in this country. However, the principles draw on a rich set of education research that demonstrates how the current system ensures that it is the children of those already in privileged occupations who will end up taking over these positions in the decades ahead (see for example Teese and Polesel 2002).

We recognise that some of these principles will not be able to be put into operation immediately. They will need to be phased in over possibly a ten year timeframe, for otherwise they could cause unnecessary implementation difficulties and dislocation.

5.4 Concluding comments

This report proposes dramatic changes to the existing Federal school funding system that increasingly benefits a variety of private interests, with remarkably little transparency. Our recommendations may not be welcomed by parents who believe they are entitled to have some government contribution towards the cost of their children's education, irrespective of what this means for the broader pattern of educational opportunity.

But, ultimately, all policy ends up in the realm of values. We have taken as our guiding values the view that funding should be transparent; that it is the children rather than the parents who should be the focus of education policy; and that the core principle should be that educational opportunity is evenly shared.

We have shown that the current Federal funding system works against these values and principles, and that the Federal government appears to be unusually keen to hide this from view. It is time we had a more open approach to the public funding of school education. It is time that Federal government school education funding embraced wholeheartedly the core idea that all our children deserve a fair go.

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