



Australian Education Union

Submission to the

Senate Education, Employment and Workplace Relations Committee

Inquiry into Schools Assistance Bill 2008 and the Education Legislation Amendment Bill 2008

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Introduction

The Australian Education Union represents 175,000 teachers and educators in the public primary, secondary, early childhood and TAFE sectors throughout Australia. We welcome the opportunity to provide this submission to the Senate Inquiry into the Schools Assistance Bill 2008 and the Legislation Amendment Bill 2008.

Public education is central to community building, capacity building and nation building. Yet neglect of public education under the previous government now sees Australia ranked second last against other OECD nations when it comes to direct public expenditure on public institutions.

The Prime Minister Kevin Rudd has said that “education is the engine room of equity, education is the engine room of opportunity and education is the engine room of the economy.” The AEU wholeheartedly agrees with this statement. We also agree with the commitment in the education platform of the ALP to the primary obligation of Government for the provision of high quality public schooling that is accessible to all children and young people.

The AEU contends that there will be no ‘Education Revolution’ guaranteeing equity and excellence to all students in Australian schools without significantly increased investment in public education and a commitment to ameliorating, rather than exacerbating, the effect of social background on educational achievement.

We submit the following to the Inquiry for its consideration.

The Title of the Bill

The AEU has a major concern with the title of the Bill. The so-called Schools Assistance Bill 2008 does not apply to the majority of Australia’s schools as it deals specifically with assistance to non-government schools which only constitute one-third of schools in Australia.

This is misleading and a more appropriate name for the Bill would be the Non-Government Schools Assistance Bill 2008.

Financial Reporting Requirements of Schools Receiving Government Funds

All schools which receive government funds should be subject to the same reporting requirements.

Any non-government school receiving government funding should be required to make full public disclosure of all sources of its funding and income.

Accordingly, the AEU supports the provisions of the Schools Assistance Bill that require non-government schools receiving government funds to demonstrate financial accountability

as a condition of funding. This should include proper auditing by a qualified accountant, reports on programs and financial operations of the school, and on the financial viability and funding sources of the school, as set out in Clauses 23 to 24 (2) of the Schools Assistance Bill.

The AEU also supports provisions in Clause 125 of the bill providing for the publication of the funding level used to determine the amount of financial assistance non-government schools receive each financial year.

Indigenous Supplementary Assistance to Non-government Schools

The AEU is concerned about provisions in the Schools Assistance Bill 2008 and the Education Legislation Amendment Bill 2008 which afford preferential treatment to non-government schools with significant Indigenous enrolments.

Indigenous children remain among the most disadvantaged students in the country and the overwhelming majority of Indigenous students attend government schools.

The new Bill would see the Commonwealth Government deliver a funding level of 70% of Average Government Student Recurrent Costs (AGSRC) to non-government schools in remote areas with significant numbers of Indigenous students, while public schools which educate over 85% of Indigenous students would continue to have their funding levels capped at 10% of AGSRC in secondary schools and 8.9% for primary schools. This is up to seven to eight times less than non-government schools.

The AEU believes there is no justification for denying the majority of Indigenous students adequate funding levels simply because they attend public schools. Government schools with significant Indigenous student enrolments should get no less Commonwealth Government funding than non-government schools.

The SES Funding Model

The Schools Assistance Bill 2008 is a bill which maintains and extends privilege for private schools.

It will see the continuation of the Howard Government's corrupt and discredited school funding arrangements, which favour private schools and disadvantage public schools, for another four years.

It should be noted that members of the present Commonwealth Government have previously demonstrated that they are aware of the flaws of the SES funding model. In 2001 Julia Gillard said:

This government, for its funding for private schools, has adopted a flawed index, the so-called SES model, which does not deliver on the basis of need. We know that the model is flawed, because it disproportionately delivers to category 1 schools – that is, wealthy schools.

(Private Members Business: Education: Schools Funding, August 20, 2001, p29693)

In August 2000 Ms. Gillard outlined her then objections to the SES model, stating,

There are the following five flaws in the SES model. Firstly, it could be argued that the model is flawed, proceeding as it does on the basis of the average government school costs figure. ... Secondly, this model uses only some aspects of the census data. ... Thirdly, the model may lose veracity the more geographically dispersed the students of a particular school are. ... Fourthly, the model may lose veracity in highly differentiated areas where wealth and poverty live cheek by jowl. The last objection to the SES model is more philosophical, that the model makes no allowance for the amassed resources of any particular school. This is a gaping flaw, one which the government would not allow to emerge in any other benefit distribution system. (States Grants [Primary and Secondary Education Assistance] Bill 2000: Second Reading, 4 September 2000, p20047)

The AEU is deeply concerned that despite this demonstrated understanding of the flawed nature of the SES funding regime, the present Commonwealth Government has nevertheless chosen to support and continue it.

The inadequacies of the SES model were confirmed earlier this year when the findings of an internal Commonwealth Government review of the SES funding arrangements for non-government schools, commissioned by the Howard Government in 2006, were leaked to *The Sydney Morning Herald*.¹ The report points out that “the consistency and equity of the SES funding arrangements is undermined by the fact that almost half the non government school sector is funded outside the ‘straight’ SES model”.

More specifically the report found that:

- a major inequity in funding lies in the guarantee from the inception of the SES formula in 2001 that no school will receive less money than it did the previous year;
- 60% of mainstream Catholic schools and 25 % of independent schools are funded above what would be their SES entitlement on their actual SES scores;
- over the previous 4 years \$2 billion had been paid to schools which had their funding maintained at higher levels than they would get if the federal funding formula had been strictly applied;
- the cost of maintaining the existing SES system will be \$26.5 billion over the 2009-2012 quadrennium;
- the non-government school sector will gain an additional \$2.7 billion in overpayments over the four years to 2012; and that
- individual schools will be overpaid by up to \$23 million each in the next funding cycle.

¹ *Review of SES Funding Arrangements for Non-government Schools. A report on an internal Departmental review into the effectiveness of the SES funding arrangements for non-government schools. December 2006.* The Report can be viewed at <http://www.aefederal.org.au/Publications/anlsesngs2006.pdf>

If Funding Maintained schools continue to be funded above their SES entitlement, the private school sector will gain an additional \$2.7 billion in overpayments over the next four years. Individual schools will be overpaid by up to \$23 million each in the next funding cycle.

The Report rejects the private school lobby's argument that the extra funding helps contain the amount of fees parents pay.

- 42 per cent of Funding Maintained schools increased their fees by more than 40 per cent during the period 2000 to 2004 compared to 24 per cent of SES-funded schools; and
- the number of Funding Maintained schools with annual fees below \$2500 fell by 24 per cent compared to a fall of 10 per cent for SES-funded schools.

The Report also reveals a disturbing pattern whereby a number of non-government schools, schools which have already been identified as receiving an overly generous share of government funding, are exploiting a loophole to claim even more public money.

- Funding Maintained schools are establishing campuses in preference to new schools, which provides a funding advantage for the new campus as a campus of a school has the same funding status as the parent school.
- If the campus were established as a new school its SES would be assessed and it would be funded accordingly.
- By calling new schools 'campuses' of an over-generously funded 'parent' school rather than new schools, such schools are able to access overpayments to which they would not otherwise be entitled. In some cases such 'campuses' are as far as 600 kilometres from the supposed parent school.

The Report concluded that while the generous arrangements for Funding Maintained schools were originally intended as transitional, they have now been a feature of the SES model for two quadrenniums and "there is no mechanism that would naturally unwind its effect. **Moving into the next funding quadrennium may provide an opportunity to address the Funding Maintained arrangements.**"

The proposed legislation does not take up this opportunity.

The AEU was disturbed by the findings of the DEST Review and subsequently commissioned education and funding expert Dr. Jim McMorrow to undertake research and analysis on Commonwealth schools funding arrangements.²

In his Report, Dr. McMorrow argued that until such time as the Howard Government's flawed and discredited funding arrangements are changed, the very least that the Rudd Government could do to end the disadvantage they represent to Australia's public schools

² McMorrow, J. 2008. *Reviewing the evidence: Issues in Commonwealth funding of government and non-government schools in the Howard and Rudd year*. The Report is available at <http://www.aeufederal.org.au/Publications/2008/JMcMorrowpaper.pdf>

would be to increase the Commonwealth Government general recurrent grants to government schools by an additional \$1.6 billion per annum.

In the words of Dr McMorrow:

Raising its commitment to this level for the 2.2 million children and young people served by public schools in Australia is surely the least any Commonwealth Government could do.

While this level of additional investment would still fall short of the level of funding government schools need to enable students to achieve the National Goals of Schooling, it would have the effect of restoring the share of Commonwealth funding to government schools to pre-1996 levels, when the ALP was last in office.

It is noteworthy that a former taskforce of the Ministerial Council for Education, Employment, Training and Youth Affairs (MCEETYA) identified that government schools are underfunded by at least \$2.9 billion (2007 prices) per annum, not including specific costs associated with special education and quality teaching nor the absolutely necessary need for additional capital investment.

In addition to Dr McMorrow's recommendation to increase Commonwealth Government general recurrent grants to government schools by \$1.6 billion per annum, significant additional funding for public schools is also essential to:

- address entrenched socio-economic disadvantage, consistent with the Government's proposed National Partnership for Low SES schools; and
- make up the \$2 billion annual shortfall in capital investment for government schools. Our public schools need modern buildings, facilities and equipment fit for 21st century learning and teaching.

A copy of Dr McMorrow's Report is attached as Appendix A.

Conclusion

The ALP went to the last election promising an Education Revolution and an education platform containing a commitment to the primary obligation of Government for the provision of high quality public schooling that is accessible to all children and young people.

Recognising and tackling the inequities and irrationalities of the SES funding system and redressing the underfunding of our public schools must therefore be at the heart of any education revolution which aims to guarantee a quality education to all and improve equity and fairness in the Australian education system.

While this legislation fails to meet that obligation, the AEU notes that the Commonwealth Government has announced a review of schools funding commencing in 2010 to be completed by 2011. It is hoped that this review will finally afford an opportunity to dismantle

the discredited and irrational SES funding system in favour of a funding model which is more fair and equitable for the majority of Australian school students who are educated in the public education system.

If as a nation we are serious about lifting overall student performance, addressing underachievement and striving for excellence and equity for all, a continuation of the current funding arrangements is not an option.

All students in Australian schools must be guaranteed a rigorous, rich and rewarding education aimed at providing them with all the knowledge and skills required for success in the 21st century. Properly resourcing the public education system, which educates the bulk of Australian students, lies at the heart of achieving this national goal.

Appendix A

Dr Jim McMorrow, *Reviewing the evidence: Issues in Commonwealth funding of government and non-government schools in the Howard and Rudd years, August 2008*

***Reviewing the evidence:
Issues in Commonwealth funding of
government and non-government schools
in the Howard and Rudd years***

Jim McMorrow

August 2008

About the author

Jim McMorrow is Honorary Associate Professor, Faculty of Education and Social Work, University of Sydney. A former teacher, Dr McMorrow has worked in senior policy advising and program administration roles at Commonwealth and State level for three decades; including First Assistant Commissioner, Commonwealth Schools Commission and Deputy-Director General, NSW Department of Education and Training. He has chaired and been a member of policy taskforces for the Ministerial Council on Education, Employment, Training and Youth Affairs, and been a member of the NSW Board of Studies, the NSW Board of Vocational Education and Training and the NSW TAFE Board. Dr McMorrow was also inaugural Chair of the NSW Institute of Teachers.

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Executive Summary

Legislation to provide Commonwealth funding for government and non-government schools for the 2009-2012 quadrennium is soon to come before the national Parliament. Members and Senators will be confronted with the financial and policy realities of the Rudd Government's decision to extend the Howard agenda for at least another funding period.

This paper is premised on that decision. It reviews the effects of policy changes introduced by the Howard Government between 1996 and 2007 for both sectors of schooling; and it looks forward and examines the implications in the light of current policy settings.

The paper focuses on Commonwealth funding policies and commitments, while recognising that State and Territory governments also have a key role to play in funding both government and non-government schools.

Analysis of funding trends over time and between sectors involves an array of complex technical issues. These have tended to inhibit informed public debate. The paper makes explicit the sources used and approach taken to present the data in the most appropriate way for an understanding of the underlying trends and policy issues.

Key developments in Commonwealth funding policies during the Howard years:

- Growing indifference towards public schools and their funding needs; and exploitation of the asymmetrical split in funding responsibility for schools between states and the Commonwealth to diminish Commonwealth responsibility for public education.
- At least three separate arrangements on increased funding and special provisions for Catholic systems only:
 - Re-categorising Catholic systems only from Category 10 to Category 11 under the former 12 subsidy level scale, for the purposes of providing general recurrent per capita grants, based on a measure of recurrent income from private sources: the Education Resources Index (ERI)
 - Funding Catholic systemic schools outside the arrangements applying to other schools when the Government introduced its new funding scheme for 2001-2004 based on socio-economic status (SES), by 'deeming' Catholic systems to be at a higher level than their assessed funding level
 - Bringing Catholic systems into the SES scheme for 2005-2009 by approving further increases for the schools within the system whose SES score attracted higher grants, but establishing a 'maintained Catholic' category to protect the

funding of the 60% of Catholic schools that would otherwise have had their funding cut by the SES formula.

- Introduction of the SES funding scheme for non-government schools from 2001, which replaced the measure of resources available to a school (ERI) with an indirect measure of the socio-economic status (SES) of school parents as a basis for entitlement to public funding. This scheme also removed the previous link between schools' resources and the level of public grant to which they are entitled, stimulating fee increases on the part of many schools.
- Decision to apply the scheme only to those schools that it benefited financially, while maintaining the level of funding available through the previous scheme to schools that would otherwise have had their grant reduced. This removed any semblance of integrity, and equity, from the scheme, with around half of all non-government schools being funded above the proper level according to the Commonwealth's own criteria.

In addition, the Howard Government maintained the link between increases in state funding of government schools – the Average Government Schools Recurrent Cost (AGSRC) measure - and Commonwealth funding of non-government schools, without regard to the increasing proportion of non-government schools operating at resource levels above those of government schools. This has the effect of entrenching a resource gap between schools that cannot be justified on the grounds of educational need.

Confronted by the complexities, both fiscal and political, of correcting the flaws and anomalies in the funding arrangements for non-government schools that it inherited, the Rudd Government made the decision to defer any action at least to the end of the next funding period in 2012.

The first Rudd Budget reveals the consequences of this decision.

For government schools, Commonwealth funds are projected to be cut in real terms by 2011-2012. The share of total Commonwealth schools funding being directed to government schools is projected to continue falling, to a level of 33.8 per cent by 2011-2012; having declined from 43 per cent to 35 per cent under the Howard Government.

For non-government schools, Commonwealth funding is projected to increase in real terms and its share of funding to rise correspondingly.

These conclusions are based on information currently provided in Budget papers and related sources. The assumptions could, of course, be modified by the content of the legislation on schools programs to be tabled in the Parliament later this year or by related events that may clarify the basis of these assumptions.

Consider the policy commitments by the Rudd government over 2009-2012 deriving from the Howard Government's funding policies and priorities:

Howard Government's schools funding policies: impact on 2009 - 2012 Funding Quadrennium				
Howard Policies	Rudd Commitments 2009 - 2012			
	government schools \$m	Catholic systemic schools \$m	Independent Schools \$m	All non- government schools \$m
Policy Initiative:				
1) Re-categorise Catholic systems to ERI Category 11	n/a	725	n/a	725
2) SES 2001-2004	n/a	451	1,313	1,764
3) SES 2005 -2009	n/a	345	n/a	345
Sub-total	0	1,521	1,313	2,834
"Funding Maintenance" Protections:	n/a	2,152	560	2,712
TOTAL	0	3,673	1,873	5,546
(See notes to Table 7 in main paper)				

These figures indicate that the financial consequences of the continuation of the Howard Government's key policy initiatives will garnishee more than \$5.5 billion from the total amounts soon to be legislated for the next funding quadrennium.

It is as if the machinery inherent in the Howard Government's policies is driving the Rudd Government's agenda, almost independently of its own stated priorities.

The Rudd Government's own policy decisions to date – much of which have been funded from the discontinuation of previous programs – will allocate funds across the government and non-government sectors. This allocation will not begin to redress the funding relativities of the Howard Government.

In the long run, it is not possible for the Commonwealth Government alone to resolve the fundamental issues underlying schools funding policies in Australia. That would require a 'root and branch' national review, including in the context of the Council of Australian Governments (COAG) agenda for reformed federal-state relations. Such a review would take some years to be realised.

In the meantime, however, the Rudd Government could implement some measures that are consistent with its own policy objectives and without prejudice to a longer-term national policy agenda.

If the Rudd Government were to implement its stated policy directions, it will require an increased investment in schooling; and specifically in public schooling, so as to begin to reverse the effects of the neglect of the resource needs of public schools by the Howard Government. If such action is not taken soon, the long term decline in the Commonwealth's funding commitments to public schools will continue to its inevitable progress towards the Commonwealth abrogating its responsibility for public schools.

The paper puts forward two suggestions for increasing Commonwealth funding to schools to begin re-aligning its investment in its own education priorities, for illustrative purposes. The suggestions are presented as 'scenarios' involving adjustments to Commonwealth general recurrent grants. These would also have the benefit of repairing the current arbitrary and anomalous formula, which delivers Commonwealth funding for government schools of 8.9% of primary schools' AGSRC and 10% of the secondary AGSRC – both significantly lower than the minimum grant of 13.7% paid to independent primary and secondary non-government schools with the highest socio-economic score.

These are set out in the table below.

Commonwealth Funding Projections and Scenarios to 2011-12 (estimated constant 2007-08 prices)						
	Howard Government		Rudd Government: projections and scenarios			
	1995-96	2007-08	2011-12			
	\$m	\$m	Budget \$m	Scenario 1 \$m	Scenario 2 \$m	
government schools						
Budget	2,104	3,541	3,477	3,477	3,477	
Scenarios (see note below)				827	1,559	
Total government schools	2,104	3,541	3,477	4,304	5,035	
non-government schools	2,778	6,597	6,821	6,821	6,821	
all schools	4,882	10,138	10,298	11,125	11,856	
% government schools	43.1%	34.9%	33.8%	38.7%	42.5%	
Scenario 1: increase general recurrent rates for government schools to 13.7% AGSRC						
Scenario 2: increase general recurrent rates for government schools to 17.5% AGSRC						
<i>See Table 19 in main paper</i>						

The first scenario in this table would increase Commonwealth general recurrent per capita grants for government schools to the minimum grant paid to independent schools: 13.7% of AGSRC for primary and secondary schools. This would increase Commonwealth funding for government schools by some \$825 million by 2011-12 in today's prices, but

would still fall short of the proportion of total Commonwealth schools funding that applied in 1996-97.

The second scenario in the table - increasing general recurrent per capita grants to 17.5 per cent of AGSRC – restores government schools’ share of all Commonwealth funding for schools to the 1996-97 level. It should be noted that, within the non-government sector, the Commonwealth applies this level of per student grant to only a handful of the highest resourced schools in Australia.

Raising its commitment to this level for the 2.2 million children and young people served by public schools in Australia is surely the least any Commonwealth Government could do.

Introduction

At the time of the writing of this paper, August 2008, the national Parliament is preparing to consider legislation that will define the new Government's funding commitments to public and private schools in Australia. The legislation will replace the Howard Government's *Schools Assistance (Learning Together – Achievement Through Choice and Opportunity Act 2004)* to establish the Commonwealth's¹ schools funding programs for the next quadrennium: 2009 to 2012.

The legislation is an important milestone for schools. It will extend the funding commitments that have already been made in the 2008 Budget; and provide substance to the policy obligations arising from the 2007 federal election.

This paper will outline the implications for schools of the policy commitments that have been made so far by the Rudd Government in the context of the framework that it has inherited from the Howard years.

The analysis will focus on the particular role of the Commonwealth Government in funding government and non-government schools. There is, of course, a parallel story to be told about the funding commitments of State and Territory governments. This will be touched upon at times in the discussion which follows, but is necessarily a question for a separate and broader analysis of national roles and responsibilities in this area of public policy.

Analysing trends in schools funding over time and between sectors is no easy task. It involves reconciling an array of technical issues: cash and accrual accounting; specific purpose payments and Budget estimates and projections; financial and calendar year programs; Commonwealth, State and private sources of funding; current and constant price levels; statistical discontinuities; and the like. Such complexities create the conditions in which it is relatively easy for various interests to exploit the technical difficulties for their own political purposes. They also inhibit informed public debate. The paper makes explicit the decisions that have been taken about these kinds of issues, in order to present the best basis for a proper understanding of trends in Commonwealth funding².

¹ This paper uses the term 'Commonwealth' rather than 'Australian' when referring to the national government, despite the use of the latter by the Howard and Rudd Governments. The change in nomenclature deserves public discussion and consideration in its own right, which has not occurred; but this issue is outside the scope of this paper.

² See also Andrew Dowling, *Australia's Schools Funding System*, ACER Policy Brief, December 2007.

The Howard Years: 1996 – 2007

Eleven years is a long time in politics, long enough to have a significant effect on major areas of public policy. That is certainly the case for Australia's schools.

When the Howard Government came to office in March 1996, the national government had established itself as a major player in Australian education. Despite some quibbles about its constitutional role and responsibilities in the schools arena, the Commonwealth contributed around \$1.4 billion to Australia's public schools, some 13 per cent of total public expenditure on those schools. For non-government schools, however, Commonwealth funding had by 1996 expanded to the point where it was providing around \$2 billion for the 26 per cent of all Australia schools in the non-government sector; and more than two-thirds of total public funding of non-government schools, and some 40 per cent of the total (public and private) income received by non-government schools, on average, in that year.

The Howard years changed these relativities dramatically. Consider the following figures:

Table 1				
Commonwealth Budget for Schools: Howard Government				
Actual expenditure:	Howard Government Outlays			
	1995-96	2007-08	Increase	
	\$m	\$m	\$m	%
government schools	1,441	3,541	2,100	145.8%
non-government schools	1,903	6,597	4,694	246.6%
all schools	3,344	10,138	6,794	203.2%
	% government schools	43.1%	34.9%	
Sources:				
Budget Paper No. 1 1996-97, Table 4.3 page 3-90				
Budget Paper No. 1 2008-09, Statement 6, Table 7				
Note: 'specific funding' and targeted programs pro-rated across sectors.				

Table 1 indicates that there were significant increases in Commonwealth's funding for both government and non-government schools over the years of the Howard Government. Government schools gained an extra \$2 billion. The increase for non-government schools, with only half the number of students of government schools, was a much higher \$4.7

billion. As a consequence, government schools' share of total Commonwealth declined from 43 per cent in 1995-96 to around 35 per cent by 2007-08³.

These increases include the effects of inflation, mainly increases in staff salaries, as well as increases arising from increased enrolments, especially in the non-government sector, and the flow-on effects of the 'real' increases that support resource improvements such as reduced class sizes, increased support staff and increased capital funding.

In order to understand the real benefits these dollar increases provided for students in schools over time, it is necessary to adjust them to cancel out the effects of inflation, which – for schools – arise mainly from increases in staff salaries. This requires a measure that can be used as a 'deflator' so that the figures can be expressed in constant prices. Unfortunately, there is no such measure available from public sources. Of the indexes that are available, the Consumer Price Index (CPI) is inadequate as the 'basket of goods and services' it measures has little relevance to the costs of schooling. The Implicit Price Deflator for Non-Farm Gross Domestic Product is sometimes used by government agencies⁴ for these purposes. Although preferable to the CPI, it too is an imperfect and very indirect measure of the resources actually used in schools.

A proper assessment of the real increases in the price of recurrent resources in schools requires the construction of a more direct measure based on the three major components of recurrent expenditure in schools, as reported in the *National Report on Schooling* by the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA)⁵:

- Teaching staff salaries (around 60% of total recurrent expenditure in 2006)
- Non-teaching staff salaries (around 15% of total recurrent expenditure in 2006); including support staff; administrative and clerical staff; teachers' aides; and buildings maintenance and operation staff
- Non-salary items (around 25% of total recurrent expenditure in 2006); including teaching materials, books, professional development.

Surrogate sub-indexes are available from Australian Bureau of Statistics (ABS) sources to construct a 'Schools Price Index'⁶: the Labour Price Index (education) for teaching staff salaries⁷; the Labour Price Index (all industries) for non-teaching staff salaries⁸; and the

³ Note that these figures include programs, identified as 'specific funding' and targeted programs in Budget tables, that have been allocated here across government and non-government sectors in proportion to their respective enrolments. See note to Table 1.

⁴ See, for example, Parliamentary Library Research Note No. 48, , *Commonwealth Funding for Schools since 1996*, June 2002.

⁵ MCEETYA, *National Report on Schooling 1996*, Table 19, page 22.

⁶ Or, more accurately, to re-construct such an index, which was operated by the former Commonwealth Schools Commission and its successors to supplement recurrent grants from 1974. The current supplementation index, based on Average Government Schools Recurrent Costs, was introduced by the Keating Government in 1993.

⁷ ABS, Labour Price Index, 6345.0

⁸ ABS, Labour Price Index, 6345.0

Consumer Price Index for non-salary expenditure⁹. These can be aggregated, using weightings derived from the balance of expenditures in the relevant years, to construct a combined index for the purposes of comparing expenditure trends in constant prices.

Comparisons of expenditure trends on capital programs can be made using the Buildings Price Index that the Commonwealth currently uses for indexation or supplementation of these programs.

Table 2 sets out the increases in Commonwealth Budget outlays between 1995-96 and 2007-08 in constant prices, as calculated from the application of the 'Schools Price Index' and the Buildings Price Index as discussed above:

Table 2				
Commonwealth Budget for Schools:				
Howard Government				
Constant 2007-08 price levels				
	Howard Government Outlays			
	1995-96	2007-08	Increase	
	\$m	\$m	\$m	%
government schools	2,104	3,541	1,437	68.3%
non-government schools	2,778	6,597	3,819	137.4%
all schools	4,882	10,138	5,256	107.7%
	% government schools	43.1%	34.9%	

Sources:
 Budget Paper No. 1 1996-97, Table 4.3 page 3-90
 Budget Paper No. 1 2008-09, Statement 6, Table 7
 Note: 'specific funding' and targeted programs pro-rated across sectors.

This table 'deflates' the raw amounts in Table 1 by the price indexes for all salary and non-salary increases as discussed above, to bring them to financial year 2007-08 prices. to allow a proper comparison. Overall, the 'real' increases remain substantial: an increase of over \$5.2 billion, or 108 per cent, overall. The differences between the increases for government schools (around \$1.4 billion or 68 per cent) and for non-government schools (\$3.8 billion or 137 per cent) remain stark.

⁹ ABS, Consumer Price Index 6401.0

Increases for government schools

The real increases in Commonwealth funding for government schools under the Howard years should be acknowledged. Some of the additional \$1.4 billion – around \$236 million in 2007¹⁰ - was due to the now-discontinued *Investing in our Schools* capital grants program. The bulk of the increase was due to the Commonwealth's supplementation index – the *Average Government Schools Recurrent Cost (AGSRC)* measure, which for supplementation purposes is increased each year from data provided by State and Territory governments on their expenditures on government schools.

What this means is that Commonwealth recurrent funding for government schools during the Howard years was driven almost entirely by the flow-on effects of State and Territory decisions on real resource improvements in these schools. Those decisions have provided reductions in class sizes, especially in the early years of primary schools, improvements in student-teacher ratios generally, and increased support staff for schools and teachers serving students with special needs. The consequent Commonwealth increases applied to only around 10 per cent of government schools' recurrent funding, that is to the proportion that the Commonwealth contributes to government schools' total recurrent funding.

What do these figures tell about the real story of resource improvements in government schools? Some three-quarters of the recurrent funding increases have purchased teaching and non-teaching staff. Table 3 below shows that an additional 32,695 staff were working in Australia's government schools in 2006 than there were in 1996.¹¹

¹⁰ Department of Education, Science and Training, *Australian Government Programmes for Schools – 2007 update*, Appendix D, page 209

¹¹ The year 2006 is used here for comparisons with 1996; data for 2007 are not yet available from published sources.

**Table 3
Costs of Staffing Resources in Government Schools:
1996 and 2006**

		1996	2006	Change	
				No.	%
Schools		7,088	6,902	-186	-2.6%
Students (full-time FTE)					
	primary	1,367,406	1,366,259	-1,147	-0.1%
	secondary	854,151	881,970	27,819	3.3%
	total	2,221,557	2,248,229	26,672	1.2%
Recurrent Resources:					
Teaching staff (fte)					
	primary	76,677	86,368	9,691	12.6%
	secondary	67,272	71,826	4,554	6.8%
	total	143,949	158,194	14,245	9.9%
Non-teaching staff:					
	Specialist support	4,288	5,442	1,154	26.9%
	Administrative and clerical (incl. teacher aides)	28,062	43,899	15,837	56.4%
	Building operations, maintenance & other	3,897	4,087	190	4.9%
	Non-school staff	7,642	8,911	1,269	16.6%
	Total	43,889	62,339	18,450	42.0%
Total staff:		187,838	220,533	32,695	17.4%

Sources:

ABS, Schools, Cat 4221.0 1996 and 2006

MCEETYA, National Report on Schooling, 1996 and 2006.

These additional staff were working in fewer government schools than in 1996.

Although student numbers in primary schools declined slightly over the period, almost 10,000 extra primary teachers were employed in government schools across Australia in 2006. This was mainly the outcome of policy commitments by State and Territory governments to improve class sizes in primary schools, especially in the early years of schooling.

Secondary teaching staff also increased over the period, but at a lower rate. The additional 4,550 secondary teachers followed continued growth in enrolments in government secondary schools. The extra teachers were also no doubt recruited in response to pressures to expand curriculum choice in secondary education, especially the burgeoning interest in vocational education and training courses in the senior secondary years.

The much higher rate of growth of non-teaching staff over the period – a 42 per cent growth compared with the 10 per cent increase in teaching staff – is of interest. The bulk of this increase was the almost 16,000 extra administrative and clerical staff and teacher aides that were employed in Australia’s government schools in 2006 compared with 1996. Some of this increase arose from deliberate policy, such as increased support for teachers of students with special needs. It may also reflect school-based staffing decisions to opt for cheaper non-teaching staff, or to differentiate teaching and non-teaching work more sharply. These trends in the balance of teaching and non-teaching staff over the period are deserving of separate study.

Commonwealth capital grants for government schools increased substantially between 1996 and 2006. Table 4 shows that, in constant Year 2006 prices, the Commonwealth increased its capital funding for government schools by some \$430 million in 2006 compared with 1996. All of this increase, however, was provided through the one-off *Investing in our Schools* program, which provided funding for small-scale capital projects for school communities. The general capital program has essentially been maintained in real terms at just under \$300 million.

Table 4				
Commonwealth capital grants for government schools: 1996 and 2006				
Actual prices:				
	1996	2006	Change	
	\$m	\$m	\$m	%
general program	\$211	\$293	\$81	38.6%
<i>Investing in our Schools</i> program		\$429	\$429	
Total capital grants	\$211	\$722	\$511	242.0%
Constant (Year 2006) prices:				
general program	\$293	\$293	\$0	0.0%
<i>Investing in our Schools</i> program		\$429	\$429	
Total capital grants	\$293	\$722	\$429	146.8%
Sources:				
States Grants (Primary and Secondary Education Assistance) Act.				
Report on Financial Assistance Granted to each State in Respect of 1996.				
Schools Assistance (Learning Together-Achievement Through choice and Opportunity) Act 2004.				
Report on Financial Assistance Granted in 2006.				

As Table 5 below illustrates, Commonwealth capital investment in government schools represented around one-quarter of the total capital funding of government schools for 2006. (This figure excludes the now-discontinued *Investing in our Schools* program).

Table 5				
Total public funding of capital works in government schools				
Constant (Year 2006) prices				
	1996	2006	Change	
	\$m	\$m	\$m	%
States and Territories	\$1,033	\$1,194	\$161	15.6%
Commonwealth: general program	\$293	\$293	\$0	0.0%
Total public	\$1,325	\$1,487	\$161	12.2%
% Commonwealth	28.3%	24.5%		

Note: Commonwealth's *Investing in our Schools* program provided \$429m in 2006

Sources:
 States Grants (Primary and Secondary Education Assistance) Act.
 Report on financial Assistance Granted to each State in Respect of 1996.
 Schools Assistance (Learning Together-Achievement Through choice and Opportunity) Act 2004.
 Financial Assistance Granted in 2006.
 MCEETYA, National Report on Schooling 1996 Table 16 and 2006 Table19.

When the 'Investing in our Schools' program is set aside, the States and Territories have been responsible for all of the real increase in capital funding for capital projects in government schools between 1996 and 2006, as Table 5 shows. States and Territories in aggregate have increased their capital funding by over \$160 million over the period, a real increase of around 16 per cent. This increase, however, is off a low base, and amounts to around \$660 per student in 2006.

These public outlays on capital works in government schools are significantly lower than total per student capital expenditure in Catholic and independent schools, as discussed in the next section.

Increases for non-government schools

The real increases in Commonwealth funding for non-government schools since 1996 are substantial, about twice the rate of increase as for government schools and at a much higher level. Table 2 above indicates that the increases for non-government schools in the federal Budget were some \$3.8 billion, compared with some \$1.4 billion for government schools, the latter serving twice the number of students. The Howard Government's budget decisions have accelerated the long-term decline in the share of the Commonwealth Budget directed to government schools, from 65 per cent in 1976, 45 per cent in 1986, 43 per cent in 1996 to 35 per cent in 2007.

Unlike the increases in Commonwealth recurrent funding for government schools since 1996 – which were almost entirely due to annual cost supplementation against AGSRC calculations – the increases for non-government schools arose from a complex of factors: enrolment shift, policy decisions and AGSRC supplementation.

Student numbers

Changes in student numbers by sector between 1996 and 2006 are outlined in Table 6¹².

These data show that there were an additional 225,000 students enrolling in Australian schools in 2006 compared with 1996, of which almost 200,000 were in the non-government school sector. The fastest rate of growth has been in independent schools: an additional 134,000 students, or 44 per cent more than in 1996.

	1996	% all	2006	% all	Increase since 1996	
					No.	%
government schools	2,221,557	70.7%	2,248,229	66.8%	26,672	1.2%
Catholic schools	615,572	19.6%	679,408	20.2%	63,836	10.4%
Independent schools	305,886	9.7%	440,399	13.1%	134,513	44.0%
all non-government schools	921,458	29.3%	1,119,807	33.2%	198,349	21.5%
all schools	3,143,015	100.0%	3,368,036	100.0%	225,021	7.2%

Source: ABS, Schools Cat 4221.0

¹² Note that ABS schools data for 2007 include additional pre-year 1 students, arising from a change to the structure of Queensland schooling from 2007. Table 6 compares 1996 with 2006, rather than 2007, to minimise the effects of this change in the scope of the ABS data. Changes also occurred in Western Australia over the period, but these are less significant overall. See explanatory notes 8 and 9 in ABS, Schools 2007 Cat 4221.0 p43.

Funding policy changes

This enrolment surge in independent schools was assisted in the early years of the Howard Government when it quickly moved to give effect to its policies to foster choice of schooling outside the public sector and to provide incentives for increased private effort in schooling. One of its first steps was to abolish the former Government's 'new schools' policy, where eligibility for Commonwealth funding for new non-government schools was conditional on their meeting planning criteria. These were designed to produce some degree of balance in the supply of and the demographic demand for school places.

This decision was closely followed by the commissioning of a review of the Commonwealth's general recurrent grants program by the financial and 'professional services' firm KPMG, in consultation with the non-government sector¹³.

That review took several years to come to fruition, but in 1998 the Government implemented its election commitment to re-categorise Catholic systemic schools upwards to Category 11 on the then 12-point funding scale. This decision, which applied to Catholic systems across Australia (except in Western Australia, which was already in Category 11, and in the Australian Capital Territory), effectively increased Commonwealth funding for Catholic systemic schools by around \$140 million annually, in Year 2007 prices.

The outcome of the funding review was the introduction of the Socio-Economic Status (SES) funding model in 2001. From that time, Commonwealth general recurrent grants have been paid to non-government schools across 46 subsidy categories based on an indirect measure of the SES of each school's community.

The SES model dramatically changed funding levels and arrangements in Australia. It provided additional funding of more than \$300 million annually for the schools that benefited from the scheme by the time that the scheme was fully implemented in 2004¹⁴.

The Government did not apply the model, however, to the large number of schools that would have received reduced general recurrent grants if they were given their assessed funding level, adopting instead a 'no losers' policy. In 2007, six years into the scheme, only half of all non-government schools were receiving their 'true' funding under the SES model for this reason. This has destroyed the integrity of the scheme in relation to fairness and transparency.

As an enticement to bring the large Catholic systems fully into the SES scheme in 2005 – they had been given a 'deemed' SES score for the 2001-2004 quadrennium – the Howard Government announced that Catholic systemic schools would receive increased funding for the 40 per cent of schools in that sector that warranted increased

¹³Ian Wilkinson, Brian Caldwell et al, *A History of State Aid*, Australian Government Department of Education, Science and Training, 2006, page 152.

¹⁴ Answer to Question E412, Senate Additional Estimates 22 February 2001.

funding under the SES model: an additional \$362 million over the 2005-2008 quadrennium¹⁵. The remaining 60 per cent of Catholic systemic schools, which would otherwise have received reduced grants if they were funded at their ‘true’ SES score, were also protected from funding cuts by being categorised as “maintained Catholic” schools¹⁶ and having their grants funded at their Year 2004 level, fully indexed each year as discussed below.

Supplementation: Average Government Schools Recurrent Costs

The final driver of the funding increases for non-government schools is the annual supplementation of recurrent grants by annual movements in per student expenditure on government schools by state and territory governments.

The Commonwealth uses the same index for government and non-government schools. But the application of the index on the much higher levels of Commonwealth funding for non-government schools, of course, provides a substantial funding windfall for most non-government schools.

For most of the 35 years of Commonwealth funding, there has been a ‘% link’ between its per capita grant and a funding standard. The current measure is called Average Government Schools Recurrent Cost (AGSRC). The latest AGSRC figures are just under \$8,000 per primary student and \$10,000 secondary.

Commonwealth general recurrent grants for government schools are provided as follows:

Primary = 8.9% of the primary AGSRC
Secondary = 10% of the secondary AGSRC.

For non-government schools, Commonwealth grants range over 46 different subsidy categories from a minimum of 13.7% to a maximum of 70% AGSRC, depending on assessed need.

The political rationale for the linking of Commonwealth general recurrent grants to resource standards in government schools was to support needs-based policies for the funding of Catholic and low-fee non-government schools. This rationale, however, is severely stressed by the continued application of the measure to virtually all non-government schools, including the large number that receive income from all sources – Commonwealth, State and private – that exceed those in government schools¹⁷.

¹⁵ Brendan Nelson and John Howard Joint Statement, *The Australian Government’s Agenda for Schools*, 22 June 2004.

¹⁶ Commonwealth of Australia Gazette, *Listing of non-government schools*, No. 8, 7 November 2007.

¹⁷ Louise Watson, *The total operating resources of private schools in 2004*, Lifelong Learning Network Discussion Paper No. 4, University of Canberra.

AGSRC is not only used to determine the level of grant. It also determines how much each year's grant will be increased¹⁸.

Commonwealth grants have been supplemented each year since 1974. The general idea is that the 'real' value of the grant should be protected. Since 1993, the supplementation index has been the state component of AGSRC or its equivalent.

Over the past decade, AGSRC has increased each year over the range 3% to 9%; at an average annual increase of around 6%. These figures compare with teacher salary increases of around 3-4% per annum. AGSRC increases also reflect State budget decisions to improve class sizes, to provide increased support for students with disabilities, to improve staffing in disadvantaged schools and to increase resources for indigenous students. That is, they provide 'real' increases. And AGSRC goes up as public schools get smaller and are obliged to operate less efficiently.

The AGSRC indexation mechanism automatically transfers all of these increases across to all non-government schools¹⁹, including those schools with high resources and whose students have no need for a share of the additional support that governments intended to be targeted for students with special needs. AGSRC indexation may be a highly-flawed policy mechanism, but it has proven to be a difficult issue to confront in highly-charged political contexts.

In broad terms, the estimated elements of the increases in the Commonwealth general recurrent grants program for both government and non-government schools between 1996 and 2006 can be summarised as follows:

¹⁸ Lyndsay Connors, *Too Smart by Half*, Centre for Policy Development, 23 June 2007.

¹⁹ Except those schools categorised temporarily as *funding guaranteed* schools.

Table 7
Elements of Commonwealth funding increases for schools 1996 - 2006:
Constant 2006 prices

General Recurrent Program

	government schools		non-government schools	
	Increase		Increase	
	\$m	% total	\$m	% total
Funding enrolment increases	34	8.2%	850	34.9%
Policy increases:				
<i>Catholic systems:</i>				
(1) Recategorisation to Category 11	n/a		139	5.7%
(2) SES scheme 2001-2004: 'deeming'	n/a		87	3.6%
(3) SES scheme 2005-2008: 'integration'	n/a		66	2.7%
<i>Total Catholic systems</i>	n/a		292	12.0%
<i>Independent schools:</i>				
SES scheme 2001-2004:	n/a		252	10.4%
Total 'policy' increases in 2006	0		544	22.4%
AGSRC indexation above inflation	376	91.8%	1,039	42.7%
Total general recurrent program	410	100.0%	2,433	100.0%

Sources:

Enrolments: ABS, Schools 4221.0

SES funding scheme: Senate Additional Estimates 6 June 2001, EWESBE 381 and answer to Question No. E412.

Catholic systems: Brendan Nelson and John Howard Joint Statement, 22 June 2004.

Commonwealth programs: Green reports on States Grants funding.

Note: The amounts in this table are sourced from programs funded under states grants legislation only and differ from Budget tables, which have a wider scope.

Note that the largest item in Table 7 is for AGSRC indexation, which for this period provided over \$370 million annually in Commonwealth general recurrent grants for government schools, and more than \$1 billion annually in real increases for all non-government schools, by 2006. These figures are expressed in constant Year 2006 prices; AGSRC also covered salary and other inflation increases in schools over and above the increases shown in this table.

As noted previously, this indexation is based on annual movements in State and Territory outlays on government schools, which provide the bulk of funding for those schools.

All State and Territory governments also provide grants to non-government schools, at a lower level, and most link their grants to their own annual increases in spending on government schools. Table 8 below shows that non-government schools' income from State and Territory governments increased by over 25 per cent in real terms between 1996 and 2006, with comparable increases in the Catholic and independent school sectors. The per capita increases in Commonwealth funding, however, were much higher for independent schools (97 per cent) than for Catholic schools (55 per cent).

Table 8
Per Capita Income and Expenditure in non-government schools:
1996 and 2006

		Constant prices 2006			
		1996	2006	Increase	
		\$	\$	\$	%
Non-government schools					
Catholic					
Students		615,572	679,673	64,101	10.4%
	Commonwealth	\$3,248	\$5,042	\$1,794	55.2%
	State	\$1,404	\$1,776	\$372	26.5%
	Private	\$1,853	\$2,637	\$784	42.3%
	Total Income	\$6,505	\$9,455	\$2,950	45.3%
	Recurrent Expenditure	\$5,828	\$8,335	\$2,507	43.0%
	Capital expenditure	\$898	\$1,186	\$288	32.1%
	Total Expenditure	\$6,655	\$9,521	\$2,866	43.1%
Independent					
Students		305,886	441,455	135,569	44.3%
	Commonwealth	\$2,076	\$4,095	\$2,019	97.3%
	State	\$1,231	\$1,539	\$308	25.0%
	Private	\$6,531	\$7,834	\$1,303	19.9%
	Total Income	\$9,838	\$13,468	\$3,630	36.9%
	Recurrent Expenditure	\$8,556	\$11,596	\$3,040	35.5%
	Capital expenditure	\$1,814	\$2,434	\$620	34.2%
	Total Expenditure	\$10,228	\$14,030	\$3,802	37.2%
Total non-government schools					
Students		921,458	1,121,128	199,670	21.7%
	Commonwealth	\$2,862	\$4,668	\$1,806	63.1%
	State	\$1,347	\$1,682	\$335	24.9%
	Private	\$3,397	\$4,691	\$1,294	38.1%
	Total Income	\$7,605	\$11,041	\$3,436	45.2%
	Recurrent Expenditure	\$6,729	\$9,624	\$2,895	43.0%
	Capital expenditure	\$1,201	\$1,679	\$478	39.8%
	Total Expenditure	\$7,836	\$11,303	\$3,467	44.2%
Government schools					
Students		2,221,557	2,248,229	26,672	1.2%
	AGSRC (adj)	\$6,622	\$8,593	\$1,971	29.8%
	Capital	\$456	\$659	\$203	44.6%
	Total	\$7,042	\$9,252	\$2,210	31.4%

Sources:
MCEETYA, *Annual National Report on Schooling, 1996 and 2006*

Table 8 includes figures for per student expenditure in government schools over the period. These include amounts for AGSRC, adjusted upward to allow for the fact that the Commonwealth's calculation is based on lagged state and territory data by some 18 months.

Note that, in 2006, total per student expenditure in independent schools at around \$14,000 per student is more than \$4,750 higher, on average, than in government and Catholic schools. That is, combined recurrent and capital expenditure on students in the independent school sector is on average around 50 per cent higher than AGSRC.

(Note: the AGSRC calculation, however, is a 'cash' figure, not the 'accrual' amounts incorporated in national reports since the year 2000. Accrual accounting estimates the costs of related liabilities, such as superannuation and staff leave entitlements, as well as the opportunity cost of the 'user cost of capital'. The complexities of accrual versus cash accounting are outside the scope of this paper: see Cobbold's 2003 paper for an erudite discussion of these issues²⁰. The cash comparison provides a more relevant picture of the funding available to schools. The handling of superannuation costs and liabilities is a critical issue here; most State governments face very high demands for providing pensions for the increasing number of retiring teachers in the decade ahead, which have not been funded and will need to be met from funds outside the education portfolio).

Note also the significantly higher per student expenditure on capital works in Catholic and independent schools, compared with government schools. Although some of this difference may be due to the continued expansion of student numbers in non-government schools, the scale of difference is significant, as revealed by Rorris in his recent paper²¹.

The funding increases for non-government schools noted here have fuelled significant improvements in real resources. Changes in recurrent resources for Catholic, independent and government schools between 1996 and 2006 are outlined in Table 9 below.

²⁰ Trevor Cobbold, *Estimates of Future Funding of Non-government and government schools*, Australian Education Union, 2003; see also Andrew Dowling, *Australia's Schools Funding System*, ACER Policy Brief, December 2007.

²¹ Adam Rorris, *Rebuilding Public Schools 2020*, Australian Education Union, 2008.

**Table 9
Schools, Students and Recurrent Resources in Schools:
change between 1996 and 2006**

	Catholic schools change		independent schools change		all non- government schools change		government schools change	
	No.	%	No.	%	No.	%	No.	%
Schools	9	0.5%	159	18.8%	168	6.6%	-186	-2.6%
Students (full-time FTE)								
primary	20,934	6.0%	68,162	52.1%	89,096	18.5%	-1,147	-0.1%
secondary	42,902	16.1%	66,351	37.9%	109,253	24.8%	27,819	3.3%
total	63,836	10.4%	134,513	44.0%	198,349	21.5%	26,672	1.2%
Recurrent Resources (FTE):								
Teaching staff								
primary	3,555	20.4%	5,702	70.1%	9,257	36.2%	9,691	12.6%
secondary	4,414	22.7%	7,750	51.7%	12,164	35.3%	4,554	6.8%
total	7,969	21.6%	13,452	58.2%	21,421	35.7%	14,245	9.9%
Non-teaching staff:								
<i>School staff:</i>								
Specialist support	272	43.1%	686	109.4%	958	76.2%	1,154	26.9%
Administrative and clerical (incl. teacher aides)	4,440	63.6%	5,566	95.6%	10,006	78.1%	15,837	56.4%
Building operations, general maintenance & other	734	45.9%	1,278	65.6%	2,012	56.8%	190	4.9%
Non-school staff:	818	55.1%	63	161.5%	881	57.8%	1,269	16.6%
Total	6,264	58.6%	7,593	90.0%	13,857	72.4%	18,450	42.0%
total increase in staff	14,233		21,045		35,278		32,695	

Sources:

ABS, Schools, Cat 4221.0 1996 and 2006

The first point to make from these data is that there were eighteen fewer schools across Australia in 2006 than in 1996: parents wanting to send their children to a public school had 186 less schools to choose from, despite a small increase in enrolments over the period. The number of Catholic schools was virtually unchanged in the face of an additional 64,000 students, suggesting a capacity to achieve a high degree of efficiency through expansion within existing schools, facilitated by the growth in capital expenditure reported in Table 8. Independent schools grew by almost 20 per cent over the period, which helped to accommodate an additional 135,000 students.

All sectors experienced a growth in their teaching force over the period: almost 10 per cent in government schools; 22 per cent in Catholic schools; and 58 per cent in the independent school sector. As noted above, the growth in teacher numbers in government primary schools, almost 13 per cent, was due mainly to State government decisions to improve student-teacher ratios and class sizes in primary schools, although the almost 7 per cent increase of secondary teachers was also significant. Improvements in teaching staff in Catholic and independent schools were also evident, with the latter sector recording the largest rate of growth of primary teachers at 70 per cent.

All sectors also experienced even higher rates of growth in non-teaching staff over the period. The more substantial increases were in independent schools, including a near-doubling of the number of specialist support staff and administrative/clerical/teacher aides since 1996. As noted above for government schools, the greater rates of growth of all levels of non-teaching staff, including system support, are deserving of closer examination.

Student-teacher ratios

Student-teacher ratios improved in all sectors are outlined in Table 10 below.

Table 10			
Trends in student-teacher ratios: 1996 and 2006			
	1996	2006	Change
<i>government schools</i>			
primary	17.8	15.8	-2.0
secondary	12.7	12.3	-0.4
all	15.4	14.2	-1.2
Catholic schools			
primary	20.0	17.6	-2.4
secondary	13.7	12.9	-0.7
all	16.7	15.1	-1.5
Independent schools			
primary	16.1	14.4	-1.7
secondary	11.7	10.6	-1.1
all	13.2	12.0	-1.2
All non-government schools			
primary	18.8	16.4	-2.4
secondary	12.8	11.8	-1.0
all	15.4	13.7	-1.6
All schools			
primary	18.1	16.0	-2.1
secondary	12.7	12.1	-0.6
all	15.4	14.1	-1.4

Source: ABS, Schools, Cat 4221.0

Also apparent from these data on students and staffing is that the recurrent operation of government schools and Catholic schools are broadly similar, when the broader range of responsibilities of government schools to provide schooling for all student populations and across all geographical areas is taken into account. The operating level of independent schools, especially secondary schools, are on average significantly more favourable than for other schools.

The Howard legacy

Since the 1960s, the Commonwealth has played an increasingly significant role in schooling, reflecting governments' growing recognition of the role of education in social and economic development. This is consistent with a general tendency towards centralisation in Australia's federal system since World War II, the result of a complex set of factors. From 1973, when the Whitlam Government introduced significant funding for schools, the Commonwealth and States became partners in schools funding. In the overall financing of schools, the Commonwealth was still a minor partner by 1996, with the States spending around three times more.

This unequal partnership entailed, in turn, an unequally and irrationally shared responsibility for funding government and non-government schools. Public schools remain largely dependent on State funding, competing with other key services including health and transport for the resources required to meet their legal obligation to educate all-comers.

Under the Howard Government, the Commonwealth distanced itself, in terms of both rhetoric and finance, from government schools and the responsibilities they carry.

The former Government's general policy indifference towards public schools has seen the share of total Commonwealth funding for schools. This is the case despite some real increases arising from the Commonwealth's peculiar supplementation arrangements and from the short-term injection of capital funds under the *Investing in our Schools* program.

By contrast, the Howard Government used its financial powers to strengthen its commitment to funding non-government schools.

The first Howard Government Budget in 1996 heralded a radical turning point in Commonwealth arrangements for schools funding. As noted previously, the Commonwealth announced the abolition of the 'new schools policy', introduced by the Hawke Government to provide some relationship between funding the supply of new school places and the demographic demand for them, without consultation with the States and Territories.

Continuing to act unilaterally, the Howard Government introduced new criteria for the recurrent funding of non-government schools in 2001. This new scheme broke with the past in several significant ways. The Howard Government severed the nexus that had previously existed between the private resources available to non-government schools and the level of their public funding entitlement. It also abandoned the policy of measuring the characteristics of the schools or school systems as the basis for determining their relative funding entitlements and introduced instead an indirect measure of the socio-economic status of the parents with children enrolled in each school.

Due in part to indexation arrangements for university grants, which were well below academic salary increases while those for schools were well above teacher salary increases, the point was reached where Commonwealth funding to non-government schools overtook its funding to the university sector, in the absence of public understanding or debate about this shift in priorities.

The Howard Government's schools funding arrangements for non-government schools were introduced and applied to schools without regard to the existing state and territory arrangements for funding the same schools; or to the anomalies which were thus produced.

As a result, federal funding arrangements for non-government schools lack national consistency, coherence or complementarity; and entail duplication in administration, accountability and public reporting²².

One thing is very clear from the Howard years: the resources gap between the government and non-government sectors, taken as a whole, has grown. But inequities within the non-government schools sector also increased as a direct result of Howard Government policies.

The largest increases in recurrent funds were provided for some of the best-resourced schools in Australia, which receive income from all sources enabling them to operate at more than twice the resource standards in government schools and most other non-government schools. Non-government schools are free to impose whatever parental fee increases their target markets will bear, without affecting the level of their entitlement to Commonwealth grants. Annual supplementation continues to provide real increases to these and other schools with resources above the means of most other schools. As a result the increase in enrolments in non-government schools has been achieved with little or no reduction on the socio-economic status of the sector as a whole²³.

The present funding arrangements are lacking an explicit rationale for deciding how much money should be given to each school or sector, or why. The Commonwealth's funding scale links general recurrent grants to its measure of Average Government Schools Recurrent Cost (AGSRC), as discussed above. Per capita grants for government schools are set at 8.9 per cent of primary AGSRC and 10 per cent secondary. These apparently arbitrary amounts arise from crude transitions from historical funding levels, whose rationales are now lost in the mists of time²⁴.

The minimum general recurrent per capita grants for non-government schools – 13.7 per cent of primary and secondary AGSRC – are also singularly lacking any clear funding rationale. Neither the standard – AGSRC – nor the percentage links have any relevance for the levels of funding provided for the 46 subsidy categories for non-

²² See Lyndsay Connors (ed.), *Making Federalism Work for Schools...*, NSW Public Education Alliance, 2007.

²³ Louise Watson, "Possible Futures for Commonwealth-State Relations in Sustaining and Improving Australia's Schools" in Lyndsay Connors, *op.cit.*, pp142-150.

²⁴ Commonwealth Schools Commission, *Funding Policies for Australian Schools*, Canberra, 1984.

government schools. The emphasis in public discussion of the Commonwealth's funding scheme for non-government schools has been on the measure for ranking schools (the SES index), and not the purpose or rationale for providing particular levels of funding.

Even so, the former Government was not prepared to act on its own convictions in ranking schools for funding purposes. As noted above, around half of all non-government schools (60 per cent of Catholic systemic schools) are funded above and beyond their 'true' SES score, under the Howard Government's 'no losers' policy. But even the 'no losers' are winners, as each year they continue to receive full supplementation through AGSRC indexation of their previous funding levels (set in the year 2000 for the 'funding maintained' independent schools and at 2004 levels for the 'maintained Catholic' schools). That is, the otherwise 'losers' – many of which operate at resource levels considerably higher than government schools - are continuing to receive real increases. The 'funding maintained' schools have the best of both the current and former systems: they are continuing to receive the funding level determined under the previous ERI scheme, but without the conditions set by that scheme, such as constraints on fees and other sources of private income and allowance for capital standards. And we don't know what the schools are doing with the high levels of public funding they continue to receive.

Some of the non-government schools and systems in the 'maintained' categories may recognise that their funding arrangements lack purpose or integrity. Some may even be continuing to lift their fees and to build their funding reserves in case the day comes when their protected status is lifted²⁵. And although the fragility of the arrangements has been acknowledged officially²⁶, the former Government was unwilling to respond.

The analysis of funding trends since 1996 in this paper has show that the largest single 'driver' of increases, for both government and non-government schools, has been the Commonwealth's cost supplementation index: Average Government Schools Recurrent Cost (AGSRC). That this is the case says much about the ways that funding formulae can overtake policy rhetoric and priorities. Few school communities would be aware of AGSRC increases, yet many would have heard of the former Government's priorities for school flagpoles, chaplains and ANZAC posters. The political dividend from the Government's AGSRC investment might be hard to measure, but the political costs of trying to remove it have been judged to be too hard to contemplate.

The Howard Government displayed indifference or even hostility to government schools and their teachers over its decade in office. Much public comment was made about the standards of learning and teaching in government schools, with the blame for alleged deficiencies readily sheeted to State and Territory governments. This 'blame game' was perhaps the most obvious feature of Commonwealth policy over

²⁵ See Justin Norrie, 'Fee rises despite big handouts', *Sydney Morning Herald*, January 4 2006.

²⁶ Department of Education, Science and Training, *Review of SES Funding Arrangements for Non-government Schools*, December 2006.

the period since 1996, painting government schools as the residuum of the outcomes of parental choice.

The asymmetrical split in funding responsibility for the government and non-government school sectors between the Commonwealth and States became even more pronounced as a result of Howard Government policies, creating a climate that reduced schools funding to a matter of cost-shifting, and to political opportunism generally. Opportunities to direct funding to real priorities, agreed between the funding partners, were squandered.

The Rudd Government has inherited a set of arrangements for schools funding that is lacking in rationality, integrity and transparency. Given the absence of any simple political remedies for dealing with these flaws, the Government has opted to avoid disturbing the arrangements so early in its term of office. It has, therefore, accepted most of the Howard legacy and defaulted on policy reform for the medium term. The new Government's dilemma is evident in its first Budget.

The Rudd Government: the first years

The first Budget of an incoming government is usually the first real opportunity for that government to establish its ‘stamp’ and credentials on key areas of policy.

This is not the case, however, for the Rudd Government’s 2008 Budget. It is, at best, a ‘transition’ Budget comprising a mix of election commitments and programs of the former government that have been retained, re-packaged or redirected²⁷.

The Rudd Government’s election commitments include the elements set out in Table 11 below.

Table 11
Commonwealth Budget for schools:
Budget Measures 2008

	Budget estimates					Totals
	2007-08	2008-09	2009-10	2010-12	2011-12	
<i>Election commitments</i>						
	\$m	\$m	\$m	\$m	\$m	\$m
Education tax refund		1,015	1,095	1,135	1,165	4,410
Digital education revolution	100	400	300	200	200	1,200
Trade Training Centres in Schools		233	243	253	264	993
National asian languages and studies in schools		10	21	31		62
National curriculum board		5	5	5	5	20
Local schools working together	20	20	18	5		63
Orthodox Jewish schools	4	4	4	4		16
School grants for on-the-job training		14	28	28	28	98
Enterprise and career education		1.6	1.6	1.6	1.6	6
Mentors for students		1.3	1.3	1.3	1.3	5
National Schools assessment and data centre		3	6	4	5	17
Totals	124	1,707	1,722	1,669	1,669	6,891

Source: Commonwealth Budget Paper No. 2, 2008.

Three programs dominate the list, making up some 96 per cent of the commitments: the education tax refund (\$4.4 billion over 4 years); the ‘Digital education revolution’ – a.k.a. ‘computers in schools’ (\$1.2 billion); and the fostering of trade training centres in schools (\$993 million).

The largest commitment, the education tax refund, is a tax measure and not strictly speaking an education program. The additional \$4.4 billion for this measure does not appear in the education portfolio’s Budget allocations.

²⁷ Department of Parliamentary Library, *Budget Review 2008-09*, Research Paper, 26 May 2008.

Some of the funding required for election commitments has been financed from savings resulting from re-prioritising existing programs, or ‘reaching our potential’ measures, including reductions to the Quality Outcomes Program (mainly teachers’ professional development), Teaching Australia efficiencies, work skills vouchers and a ‘rationalising’ of Australian Technical Colleges²⁸.

The Government has established a ‘flagship’ targeted program of some \$577 million over four years for a *National Action Plan for Literacy and Numeracy*. This funding will be provided from a redirection of moneys from former programs for Literacy and Numeracy Vouchers (a saving of \$465 million over 4 years), Rewarding Schools for Improving Literacy and Numeracy Outcomes (\$68 million) and Summer Schools for Teachers (\$96 million): a total savings of \$628 million, an apparent net saving for the Government of some \$50 million.

The former program for small-scale capital works in schools, the *Investing in our schools* program, will be ended in 2008. This program provided some \$1 billion over the 2005-2008 funding period. The program was not included in Budget estimates beyond 2008 and, therefore, does not formally count as ‘savings’.

The formal Budget allocations by sector are as follows:

Table 12
Commonwealth Budget for Schools: Rudd Government
Current prices as reported in 2008 Budget

Budgeted projected expenditure to 2011-12:

	2007-08 \$m	2008-09 \$m	Rudd Government Projections				Increase	
			2009-10 \$m	2010-11 \$m	2011-12 \$m	\$m	%	
government schools	3,126	3,138	3,324	3,397	3,546	420	13.4%	
non-government schools	6,392	6,406	6,812	7,265	7,723	1,331	20.8%	
sub-total schools	9,518	9,544	10,136	10,662	11,269	1,751	18.4%	
% government schools	32.8%	32.9%	32.8%	31.9%	31.5%			
School education - specific funding	620	1,036	908	776	778	158	25.5%	
all schools	10,138	10,580	11,044	11,438	12,047	1,909	18.8%	

Source: Australian Government, Budget Paper No. 1 2008-09, Statement 6, Table 7

Note the small increase in the allocations for both sectors in 2008-09. The Parliamentary Library, in their Budget review paper²⁹, has drawn attention to apparent discrepancies between the estimates in Budget Paper No. 1 and the much higher

²⁸ Commonwealth Budget Paper No. 2, 2008, Part 2 Expense Measures.

²⁹ Department of Parliamentary Library, *Budget Review 2008-09*, Research Paper, 26 May 2008, pp 68-9

amounts in the Portfolio Budget Statements³⁰. The amounts recorded in related program guidelines are also much higher³¹. The increases in general recurrent grants – due mainly to AGSRC supplementation and enrolment increases in non-government schools - will be offset by the discontinuation of the *Investment in our Schools* program. Subject to any formal clarification of the apparent discrepancies, the amounts in Budget paper No. 1, and Table 12 above, will be used in this paper as the basis for analysis.

As in previous years, the Budget papers include a separate line for ‘school education – specific funding’. This line accounts for some of the Rudd Government’s election commitments as outlined in Table 11 above, including the new moneys for the following programs: *Digital Education Revolution*; *Trade Training Centres in Schools*; and *National Asian Languages and Studies in Schools*. These moneys are likely to be distributed across the government and non-government sectors in line with enrolment shares. Table 13 below includes a notional re-distribution of the specific funding allocations across the sectors.

Table 13							
Commonwealth Budget for Schools: Rudd Government							
Current prices as reported in 2008 Budget							
Pro-rated projections to 2011-12 by sector:							
	Rudd Government Projections					Increase	
	2007-08	2008-09	2009-10	2010-11	2011-12	\$m	%
	\$m	\$m	\$m	\$m	\$m		
government schools	3,541	3,832	3,932	3,917	4,067	526	14.8%
non-government schools	6,597	6,748	7,112	7,521	7,980	1,383	21.0%
all schools	10,138	10,580	11,044	11,438	12,047	1,909	18.8%
% government schools	34.9%	36.2%	35.6%	34.2%	33.8%		

Note: 'specific funding' line in Table 7 of Budget Paper No. 1, 2008-09 pro-rated across sectors.

The figures in this table increase government schools’ share of total funding in comparison with Table 12. The effect is to slow the rate of the continuing decline over the past decades, in contrast to the accelerating rate during the Howard years.

The figures in the table are also expressed in ‘actual’ prices. Table 14 below provides estimates of funding increases by sector in estimated constant Year 2008-09 prices. These estimates assume continuation over the Budget period of the real increases experienced over the past decade, as measured by the ‘schools price index’ developed for this paper.

³⁰ Australian Government, *Portfolio Budget Statements 2008-09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, Canberra, 2008, p43.

³¹ Department of Education, Employment and Workplace Relations, *Commonwealth Programs for Schools: Quadrennial Administrative Guidelines – 2008 update*, Appendix D, p231.

The table includes the first year of the Howard Government, for comparison.

Table 14
Commonwealth Budget for Schools:
selected years 1995-96 to 2011-12
Constant 2007-08 prices
Notional projections to 2011-12 by sector:

	Howard				Rudd				Increase over 2007-08	
	1995-96	2007-08	Increase		2008-09	2009-10	2010-11	2011-12	Increase over 2007-08	
	\$m	\$m	\$m	%	\$m	\$m	\$m	\$m		
government schools	2,104	3,541	1,437	68.3%	3,685	3,636	3,482	3,477	- 65	- 1.8%
non-government schools	2,778	6,597	3,819	137.4%	6,488	6,575	6,686	6,821	225	3.4%
all schools	4,882	10,138	5,256	107.7%	10,173	10,211	10,168	10,298	160	1.6%
% government schools	43.1%	34.9%			36.2%	35.6%	34.2%	33.8%		

Notes:
 See notes for Table 1.
 'Specific funding' and targeted programs lines in Budget Papers pro-rated across sectors.

The reductions to government schools from 2007-08 due mainly to discontinuation of the *Investing in our Schools* program

Although the Howard Government's term formally ended in November 2007, Table 14 assumes that its final Budget decisions determined the allocations for the 2007-08 financial year. Similarly, the first practical year for the Rudd Government's programs for schools is assumed to take effect from 2008-09.

The Rudd Government's first Budget for schools markedly slows the rate of growth in Commonwealth funding for schools: from an average annual increase for all schools of almost 10 per cent in the Howard years to under 1 per cent per annum in the Rudd Budget. The estimated allocations for government schools in constant year 2007-08 prices, based on the assumption noted above that future inflation in schooling will be similar to that experienced over the past decade, are in fact showing a small reduction.

This appears to be due mainly to the discontinuation of the *Investing in our Schools* program, a projected reduction in student numbers in government schools in 2012 (see below), the maintenance of AGSRC indexation only for general recurrent per capita grants and the offsetting of new programs by the redirection of funds from other programs.

Funding for non-government schools has also slowed, but is still showing a real increase of over 3 per cent over the period 2008-09 to 2011-12.

As noted above, the projected allocations to 2011-12 should be treated with caution. A clearer picture of the Rudd Government's funding commitments for government and non-government schools should emerge from its legislation for the funding quadrennium 2009 – 2012 due to be tabled in the Parliament in late 2008.

The bulk of the Budget projections to 2011-12 is determined by the formulae driving the Commonwealth's largest program: the general recurrent per capita grants program. Consistent with its election commitment to retain the elements of the current scheme, the Rudd Government's forward estimates are likely to assume constant per capita rates for both the government and non-government sectors over the period, indexed annually by estimated increases in Average Government Schools Recurrent Cost (AGSRC).

At the time of writing, the Government has yet to respond to questions from Senate Estimates about the elements of Budget figures, including enrolments³². From previous answers to Budget Estimates committees, the figures in this year's estimates to 2011-12 are likely to assume a small overall increase in primary and secondary enrolments³³. Student enrolments in government schools, however, are projected to decline by around 3,000 students, or 0.1 per cent, since 2006; while enrolments in non-government schools are likely to increase by some 35,000 students over the same period.

³² Senate Estimates 2008-09, Education, Employment and Workplace Relations, Question on Notice EWO 16_09.

³³ Senate Estimates 2006-07, Education, Science and Training, Question on Notice No. E302_07

These enrolment trends partially explain the reported reduction in Commonwealth estimates for government schools to 2011-12 in Table 14. As noted previously, the former Government also provided substantial funding for capital works through its *Investing in our Schools* program, which has now been terminated.

The figures in Table 14 for non-government schools are also depressed, to a lesser extent than for government schools, by the termination of the *Investing in our Schools* program. But this is more than offset by the projected increases in enrolments in both Catholic and independent schools. Table 15 provides estimated enrolment trends over the period to 2012.

	2006	% all	2012	% all	Change	
					No.	%
government schools	2,248,229	66.8%	2,245,000	66.0%	-3,229	-0.1%
Catholic schools	679,408	20.2%	695,000	20.4%	15,592	2.3%
Independent schools	440,399	13.1%	460,000	13.5%	19,601	4.5%
all non-government schools	1,119,807	33.2%	1,155,000	34.0%	35,193	3.1%
all schools	3,368,036	100.0%	3,400,000	100.0%	31,964	0.9%

Source: trends based on answers to Senate Estimates Question on Notice E302_07

These are broad estimates for 2012 only and are subject to updated figures from answers to current Senate Estimates questions on notice, due later this year.

What is the significance for students in schools across Australia of the Budget projections set out in Table 14? If the real changes in Table 14 were applied for the employment of teachers in schools, for example, the effect would be to reduce the capacity of government school authorities to employ teachers. If there were no countervailing increases in State and Territory funding for teachers, the impact of Commonwealth funding would be a reduction more than 1,000 teaching staff in public schools by 2012.

By contrast, if the increased funding for non-government schools in the Budget estimates were expressed in terms of capacity to employ teachers, this would increase teacher numbers in those schools by over 2,650 by 2012. Student-teacher ratios would on average further improve to around 14.9 in Catholic schools and 11.8 for independent schools.

These projections are set out in Table 16 below.

	Students Change		Teachers Change	
	No.	%	No.	%
Government schools	-3,229	-0.1%	-1,194	-0.8%
Non-government schools				
Catholic schools	15,592	2.3%	1,030	2.3%
Independent schools	19,601	4.5%	1,628	4.5%
All non-government schools	35,193	3.1%	2,658	3.3%
All schools	31,964	0.9%	1,464	0.6%

While projections (such as set out in Tables 14 -16 above) need to be treated with caution, they do provide an indication of the outcomes of the allocations for government and non-government schools in the Rudd Government's 2008 Budget. If State and Territory governments continue to increase their outlays on government schools over the next few years, such increases would more than likely offset the real reductions in Commonwealth funding foreshadowed by the Budget. And, of course, the Rudd Government could clarify its funding commitments to government schools in the States Grants legislation soon to be tabled in the Parliament.

The projected resource improvements for Catholic and independent schools shown in Table 16 that are likely to arise from the Rudd Budget are also likely to be enhanced further by matching increases in relative funding by State and Territory governments and ongoing real increases in non-government schools' fees and other sources of private income, assuming the current balance of recurrent and capital outlays in those schools.

Conclusion

The first Rudd Budget should be given the benefit of the doubt. The Government has inherited what is known in some circles as a ‘wicked’ policy problem that is highly resistant to solution, hard to define and analyse, has multiple and conflicting policy goals and constituencies, is socially and financially complex and is unable to sit within the responsibilities of one level of government or organisation³⁴.

The forthcoming legislation for the 2009 – 2012 funding quadrennium may re-assert the new Government’s responsibility and priority for public schools, by beginning to redress the funding imbalance in Commonwealth funding of government and non-government schools that has been inherited from the Howard years.

If this is not done, and the funding allocations for the next quadrennium reflect the 2008 Budget estimates, the situation outlined above where Commonwealth funding for government schools would be reduced in real terms while funding for non-government schools would continue to increase, will be realised.

Whatever happens in the legislation, however, it is unlikely to address the underlying issues in Australia’s funding regimes for schools.

There is no agreed federal framework for determining the resource needs of all schools or for ensuring that public funding from both levels of government is being distributed fairly among schools having regard to social and economic priorities. There is a widely agreed and persistent need to raise participation and achievement levels in schools serving poorer communities; and clear evidence of funds being diverted to lesser purposes.

The demographic factors operating throughout the period to 2012 need to be understood. There is not expected to be rapid growth in the school population over this period. In this situation, the more students moving from the public to the private sector the more the cost per student rises in government schools because of the loss of economies of scale. The more the per student cost increases in government schools, the more the per student grants to non-government schools increase because the latter are indexed to the former. This automatic flow-on of increases in outlays on government schools to the non-government school sector takes no account of the competitive advantage of non-government schools through drawing their enrolments disproportionately from higher income families; nor of the fact that public school services must be maintained in many localities, regardless of depleted numbers, to provide an essential service.

The period to 2012 will be characterised by high rates of teacher turnover due to the continuing exodus of older teachers into retirement, creating the challenge of renewal of the teaching force without loss of expertise. Under current funding arrangements,

³⁴ Australian Public Service Commissioner, *Tackling Wicked Problems: a public policy perspective*, 2007, pp3-4.

there is a potential for public funds to be adding to the advantages of schools in favourable circumstances in the competition for teachers in areas of scarcity, at the expense of students in schools that are persistently harder to staff .

The only realistic way through these issues is to recognise that the Government has an election commitment to retain the essential features of its funding arrangements for schools, and to use the period to 2012 to develop a comprehensive and national approach for government, Catholic and independent schools. The Commonwealth Minister's proposed review of Commonwealth funding³⁵ will not on its own achieve this. A meaningful review must include State and Territory governments, and take into account conditions for access to schools and curriculum, recurrent and capital resource standards, quality and supply of teachers, and the rights and responsibilities of parents and school communities in all sectors.

The Least We Could Do?

It appears that the Rudd Government is bound to retain the key elements of the general recurrent funding arrangements it has inherited from the previous government. These include per capita grants linked to annual movements in Average Government Schools Recurrent Costs (AGSRC), continuation of the 'funding maintained', 'funding guaranteed' and 'maintained Catholic' categories for protecting schools that would otherwise lose funding, open access to per capita grants for new schools, unregulated access and enrolment criteria and indifference to the level of resources available to a school in assessing need.

From the standpoint of policy coherence and integrity, as well as principles of equity and transparency, these characteristics are fatal flaws. Such flaws cannot be corrected without the kind of national review outlined above. But, in the meantime, the Government could take action to correct the funding imbalance that occurred during the Howard years.

As noted in Table 17 below, the annual cost of the 'policy' changes introduced by the Howard Government for the non-government schools general recurrent per capital grants program amounted to some \$544 million in 2006. Table 17 also includes an estimate of the Budget outlays that have been necessary to meet the former Government's 'no losers' policy for those schools that would otherwise have had their general recurrent grants cut if they had been funded at the true SES scores. As noted previously, the Howard Government felt it was necessary to construct separate arrangements for 'funding maintained at Year 2000' and 'maintained Catholic at Year 2004' schools. Some \$495 million was required for this commitment in 2006. The Commonwealth estimates that the extension of this policy beyond 2008 will cost over \$2.7 billion for the 2009 – 2012 quadrennium³⁶. Although these amounts are not strictly funding 'increases, they are central to the Howard Government's scheme and

³⁵ P Kelly, 'Gillard to end school inequality', *The Australian*, 15 March 2008.

³⁶ Department of Education, Science and Training, *Review of SES Funding Arrangements for Schools*, December 2006.

represent at least a substantial opportunity cost for resources that could otherwise have been provided for priority areas of action.

Table 17
Elements of Commonwealth policy for non-government schools: 1996-2006

Constant 2006 prices

General Recurrent Program

	Catholic systems \$m	independent schools \$m	all non- government schools \$m
Policy increases:			
Re-categorisation to ERI 11	139	0	139
SES funding scheme: 2001-2004	87	252	339
SES funding scheme: 2005-2009	66	0	66
Total	292	252	544
Cost of 'Funding Maintained' schools in 2006	395	100	495
TOTAL	687	352	1,039

Sources: see Table 7

The policy increases in Table 17 did not apply to government schools.

Enrolment increases in non-government schools required an additional \$850 million by 1996; while indexation for annual movements in Average Government Schools Recurrent Costs (AGSRC), over and above salary increases and other inflation effects on schools, provided a further increase in real terms of just over \$1 billion. These increases are outlined for government and non-government schools in Table 17A.

Table 17A		
Commonwealth funding increases for schools 1996 - 2006: elements		
Constant 2006 prices		
	government schools	non-government schools
	Increase	Increase
	\$m	\$m
General Recurrent Program		
Funding enrolment increases	34	850
Policy increases:		
<i>Catholic systems:</i>		
(1) Recategorisation to Category 11	n/a	139
(2) SES scheme 2001-2004: 'deeming'	n/a	87
(3) SES scheme 2005-2008: 'integration'	n/a	66
<i>Total Catholic systems</i>	n/a	292
<i>Independent schools:</i>		
SES scheme 2001-2004:	n/a	252
Total 'policy' increases in 2006	0	544
AGSRC indexation above inflation	376	1,039
Total general recurrent	410	2,433
Costs of 'funding maintained' schools:		
government schools	n/a	
Catholic systems		395
Independent Schools		100
all non-government schools	0	495
Total policy increases and costs	410	2,928

Sources: see Table 7

This means that over the period 1996 to 2006, the Howard Government's policies and commitments benefited non-government schools by almost \$3 billion in real terms, including the costs of protecting 'funding maintained' schools against the full impact of its SES funding scheme. This is a funding advantage of some \$2.5 billion over the real increases provided for government schools.

Note again the very high contribution that AGSRC indexation makes to these real increases: \$376 m or 75 per cent for government schools, and over \$1 billion or 42 per cent for non-government schools. This is on top of the increases that AGSRC provided for the effects of inflation in schools – teaching and non-teaching staff

salaries and other recurrent costs of schooling – as measured by the schools price index developed for this study.

Table 17B projects the cost of the policy changes for non-government schools to 2012.

Table 17B				
Projections of the cost of Howard Government funding policy for non-government schools to 2012				
Constant Year 2006 prices				
Policy	2006	2012	2009-2012 (cumulative)	
	\$m	\$m	\$m	
<i>Catholic systemic schools</i>				
(1) Recategorisation to ERI Category 11	139	197	725	
(2) SES 'deeming' in 2001	87	123	451	
(3) SES 'integration in 2004	66	94	345	
Totals	292	414	1,521	
<i>Independent schools</i>				
SES scheme	252	358	1,313	
Total 'policy' increases	544	772	2,834	
Catholic systems	395	605	2,152	
Independent schools	100	154	560	
all non-government schools	495	759	2,712	
Total policy increases and commitments				
Catholic systems	687	1,019	3,673	
Independent schools	352	512	1,873	
all non-government schools	1,039	1,530	5,546	

Sources: see notes for Table 17

These figures suggest that the Rudd Government's extension of the Howard Government's funding policies and commitments for non-government schools will aggregate to over \$5.5 billion for the next quadrennium 2009 – 2012.

The Government cannot begin to redress this imbalance without injecting higher funding specifically for government schools. The funding increases contained in the 2008 Budget, even where offset by the discontinuation of former programs (e.g. *Investing in our Schools; Literacy and Numeracy Vouchers*), would normally be allocated across the sectors in line with their share of the affected students (e.g. Indigenous schools; students with disabilities; literacy and numeracy plan).

Tables 12 to 14 above demonstrate that government schools' share of Commonwealth funding for schools declined from 43 per cent to 35 per cent in the Howard years; and that this share is projected to fall further to just under 34 per cent by 2011-12. Additional earmarked funding of some \$1.5 billion for government schools would be required merely to reclaim the sector shares in place at the outset of the Howard years.

This would be difficult to achieve through targeted programs alone. As noted above, targeted programs have historically been available across the sectors, either as joint programs or as special purpose programs across government and non-government schools according to assessed need. Targeted programs for government schools, including Indigenous education, currently total around \$930 million, as set out in Table 18 below. Redressing the funding imbalance through targeted programs alone would more than double the level of targeted programs in a single year.

School authorities would have genuine problems in incorporating highly targeted programs of this magnitude into their funding and staffing regimes. The more effective and efficient course of action would be to integrate the funding into established recurrent programs, but subject to agreements with the Commonwealth about priorities.

Any such agreements, however, would need to be developed within the principles for federal-state relations announced recently by the Council of Australian Governments (COAG)³⁷. Those principles envisage the rationalisation of the number of specific purpose payments into a handful of new specific purpose payments supported by national agreements, including in the areas of school education and vocational education and training.

It is not yet clear how the existing array of Commonwealth programs for schools and the new Government's specific election commitments as outlined in the current Budget will be integrated into the proposed new federal-state arrangements. In the meantime, the discussion of possible new directions in this paper will assume the continuation of current program settings, formulae and conditions. The assumptions would, of course, need to be accommodated into any fundamentally new arrangements.

³⁷ Australian Government, *Budget Paper No. 3, Part 2: The COAG Reform Agenda*.

**Table 18
Commonwealth programs for schools 2008**

	<i>government schools</i>	<i>non- government schools</i>	<i>all schools</i>	<i>% govt schools</i>
	\$m	\$m	\$m	
General Recurrent	1,883	5,519	7,401	25.4%
Capital	310	234	543	57.0%
Targeted				
<i>Literacy Numeracy</i>	305	166	471	64.8%
<i>ESL</i>	114	10	124	92.2%
<i>Country areas</i>	24	5	29	82.8%
<i>Languages</i>	16	12	27	56.8%
<i>Pro-rated joint programs:</i>				
<i>Schools Assistance Act</i>	8	4	12	67.0%
<i>Annual Appropriations</i>	231	114	345	67.0%
<i>Indigenous Education Act</i>	234	78	312	75.0%
Total Targeted	932	388	1,320	70.6%
Total	3,125	6,140	9,265	33.7%

Notes: Excludes joint programs of \$12m and funding for non-government centres (\$37m).

Excludes ABSTUDY (\$113m) and Student Assistance (\$60m) programs

Source: Commonwealth Programs for schools - 2008 update, Appendix D

As noted previously, Commonwealth general recurrent grants are calculated in relation to annual movements in State and Territory expenditures, as the Average Government Schools Recurrent Cost (AGSRC) measure. In 2008, these per student rates were as follows:

Government schools: general recurrent grants

Primary 8.9% AGSRC = \$678 per student

Secondary 10.0% AGSRC = \$973 per student

Note the historical anomaly in the lesser percentage figure for government primary schools compared with their secondary counterparts.

Both levels of schooling, however, attract lower percentage links than in the non-government sector.

Commonwealth general recurrent grants for non-government schools are spread over 46 funding categories, with the minimum grant paid to schools with the highest socio-economic status (SES) scores as follows:

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Non-government schools: minimum general recurrent grants

Primary 13.7% AGSRC = \$1,044 per student

Secondary 13.7% AGSRC = \$1,333 per student

Commonwealth general recurrent grants could be paid to government schools at the minimum rate paid to non-government schools or higher. This would have the advantage of rectifying the glaring anomaly in the operation of the general recurrent grants program in the government and non-government sectors.

From the range of options available, two are put forward in this paper for consideration. The financial impact of increasing government schools general recurrent grants through two scenarios is set out in Table 19.

Table 19
Commonwealth funding for schools: projections and scenarios
Constant 2007-08 price levels

	Howard Government		Rudd Government: projections and scenarios		
	1995-96	2007-08	Budget	2011-12	Scenario 2
	\$m	\$m	\$m	Scenario 1	Scenario 2
				\$m	\$m
government schools					
Budget	2,104	3,541	3,477	3,477	3,477
Scenarios (see note below)				827	1,559
Total government schools	2,104	3,541	3,477	4,304	5,035
non-government schools	2,778	6,597	6,821	6,821	6,821
all schools	4,882	10,138	10,298	11,125	11,856
% government schools	43.1%	34.9%	33.8%	38.7%	42.5%

Notes: 'specific funding' and targeted programs lines in Budget Papers pro-rated across sectors.

Scenario 1: increase general recurrent rates for government schools to 13.7% AGSRC

Scenario 2: increase general recurrent rates for government schools to 17.5% AGSRC

Sources:

Budget Paper No. 1 1996-97, Table 4.3

Budget Paper No. 1 2008-09, Statement 6, Table 7

The first scenario would match the minimum grant paid to non-government schools with the highest score on the Commonwealth socio-economic status scale, an increase in general recurrent grants for government schools by around \$825 million a year, in 2007-08 prices. This would increase government schools' share of total Commonwealth funding for schools to 38.7 per cent by 2011-12, still less than the 43.1 per cent applying at the end of the Keating Labor Government's term of office.

The second scenario – increasing general recurrent grants to government schools to 17.5 per cent of AGSRC – would increase total Commonwealth funding of government schools by \$1.5 billion, achieving the goal of returning the balance to the 1996 proportion.

The 17.5 per cent AGSRC figure under scenario 2 is set for those non-government schools that have SES scores of 127: the fourth highest score on the Commonwealth's scale. By comparison, the average SES score for government school systems is likely to be under 100. The SES measure is set at an overall average of 100 for non-government schools, with the median score for all non-government schools at 98-99³⁸.

It is only schools with among the most socio-economically advantaged communities that attract general recurrent per capita grants as low as 17.5 per cent of AGSRC (that is, this is an extremely modest level of grant, relatively speaking, within the non-government sector itself). Only a very few of the most highly resourced independent non-government schools receive this level of per student grant, including the following³⁹:

Ascham School, Edgecliff, NSW
Cranbrook School, Bellevue Hill, NSW
Knox Grammar, Wahroonga, NSW
Sydney Grammar Preparatory School, Paddington, NSW
Melbourne Grammar, Caulfield, Vic
Geelong Grammar, Toorak, Vic
St Catherine's school, Toorak, Vic

The increased funding for government schools that would arise from the above scenarios has no connection with research into a national schools resources standard by a former taskforce of the Ministerial Council for Education, Employment, Training and Youth Affairs (MCEETYA). It can be noted, however, that the scenario levels fall short of the taskforce's recommended additional funding of \$2.4 billion (2003 prices) for government schools to meet the resources standard that would enable students to achieve the national goals of schooling⁴⁰. Scenario 2 would deliver less than two-thirds of this amount. State and Territory governments would need to provide the

³⁸ Department of Education, Training and Youth Affairs, *SES Simulation Project Report*, 1998, pp25-26.

³⁹ Commonwealth of Australia Gazette, No.8, 7 November 2007

⁴⁰ MCEETYA, Schools Resourcing Taskforce Secretariat, *Resourcing the National Goals of Schooling*, Stage 2 report, May 2005, Table 1.6.

remaining funds if the national goals were to be realised. But the increased Commonwealth share would be a substantial contribution in its own right.

The Commonwealth would be justified in seeking formal agreements with State and Territory authorities on the use of the additional funds, separately from the existing conditions and accountabilities for the receipt of general recurrent grants. Such agreements could be constructed so as to direct new recurrent resources into priorities for schooling in agreed areas. These areas could include: recognising and rewarding quality teaching; delivery of quality vocational education in schools; enhancing the development of national curriculum standards and related student assessment and reporting; establishing resources standards for supporting schools and teachers in the education of students with disabilities; improving school retention and participation to Year 12 or its vocational equivalent; enhancing transitions between early childhood education and care and primary schooling; meeting literacy and numeracy benchmarks for primary students; supporting national innovations in schooling; and extending educational opportunities for Indigenous students and teachers.

Last word

This paper acknowledges that the Rudd Government has inherited funding arrangements for schools that are riddled with anomalies and flaws. A perverse legacy, indeed.

The only way out in the longer term is for a root and branch review of the arrangements involving all the funding partners against consistent educational goals and criteria.

The Rudd Government's election commitments will have the effect of entrenching the inequities and anomalies for a further four years. In the meantime, there are steps that could be taken to contain the harmful effects and to reduce the funding imbalance that has occurred since 1996, such as by increasing funding for government schools along the lines suggested above.

This is the least that should be done to protect the educational interests of the more than two million children and young people whose educational futures depend on quality public schooling.

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