

AUSTRALIA'S *School Funding System*

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Introduction

Australian governments spend over \$30 billion on primary and secondary schools each year.¹ Yet the process of school funding, including the way in which amounts are calculated, distributed and reported upon, is unavailable not only to the wider public but to some extent even to those working in education. Although Australia's total spending on schools is small by international standards (given the size of its population), it is significant enough to warrant a more transparent process.

Accountability, comparability and transparency are challenging school systems in a wide range of areas. Collecting data on school attendance and making it comparable across states; establishing a national curriculum; creating a national testing regime; evaluating teachers against nationally agreed standards – all vary in their complexity but all are motivated by a single philosophy; namely, that education should be made more transparent in order to hold those responsible for it accountable thereby ultimately improving the service.

A belief that underpins each of these proposals is that the central planks of education can be measured and quantified in a clear and logical fashion. Despite this, those who push for these initiatives recognise, to a greater or lesser extent, that education is a complex process that cannot be reduced to a simple process of inputs and outputs. Regardless, there is a growing consensus that clarity and focus can be improved through careful measurement. The mantra of "what gets measured gets done" is being increasingly applied to education by both administrators and politicians alike. Teachers as well as administrators agree that a statistical spotlight can and should be shone into the black box of education.²

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In Australia, colonial railways were built to three different gauges, a problem in pre-Federation days once the lines of different systems met. The term "rail gauge debate" now refers to any policy area in Australia that needs national harmonisation but where sensible consistency is prevented for some reason. "Rail gauge" issues are particularly evident in school funding. School funding, which is the area of education that should be most amenable to quantification and measurement, is plagued by inconsistency. Arguably, the lack of consistency and transparency in this area has a broader impact, as all other aspects of education are dependent on the primary issue of funding. It is theoretically possible to measure and report school resourcing in a clear and logical fashion yet it remains resistant to greater comparability, transparency, and accountability.

Professor Max Angus, a trenchant critic of school funding arrangements in Australia, believes that financial reporting remains obscure because no political party has any motivation to fix it (2007b). He believes that maximum flexibility comes from maximum obscurity, which appeals to politicians seeking maximum freedom to do as they will.³

As Angus observes, not only is it impossible to know at the present time the actual funding that any individual school receives but there are also different processes for funding schools within sectors as well as between States. There is even a lack of financial comparability between the Commonwealth and the States,⁴ to the extent that the same reporting year is not used, much less the same accounting system.⁵ To take just one example, "user cost of capital" (UCC) is a concept used in State reporting of school funding as an aspect of accrual accounting but not in Commonwealth reporting. Commonwealth funding does not rely on this concept. This may seem an arcane point except that UCC constitutes 13.6 per cent of total recurrent expenditure in government schools.⁶ UCC is only one of many inconsistencies in school financial reporting and shows that even without transparency, lack of comparability can make meaningless even the current, highly aggregated form of reporting that exists in school finances today.⁷

Angus notes the negative consequences of this confusion; the Commonwealth and the States ritualistically allocate blame to each other using different sets of data while the real knowledge needed for a new debate, one about the relationship between student performance and school resources, fails to materialise (2007b, pp.114 & 116).

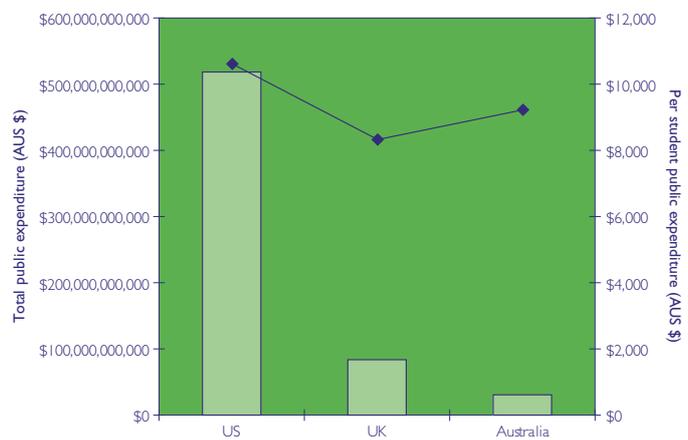
The appropriate allocation of resources is as important for Australia's schools as is the need for increased resources (McGaw, 2007). The aim of this essay is to describe the processes of school funding that currently exist in Australia to argue that more can be done to implement a consistent and transparent system.

How much is spent on schools

In 2004-05, the United States (US) spent \$518 billion in Australian dollars (AUS \$) to educate just under fifty million students and the United Kingdom (UK) spent \$83 billion (AUS \$) to educate approximately ten million students.⁸ In 2004-05 (the latest publicly available figures), Australian governments spent 30,815 million dollars, or nearly \$31 billion, to educate 3.3 million students in 10,000 schools across the country.⁹

Whilst low in real international terms, Australian governments nevertheless spend a significant amount of money on school education and are comparable to the US and the UK in terms of per student spending. The Australian funding of schools derives in part from Commonwealth and in part from State governments.

Figure 1: Total and per student public funding on primary and secondary schools, ex capital.¹⁰

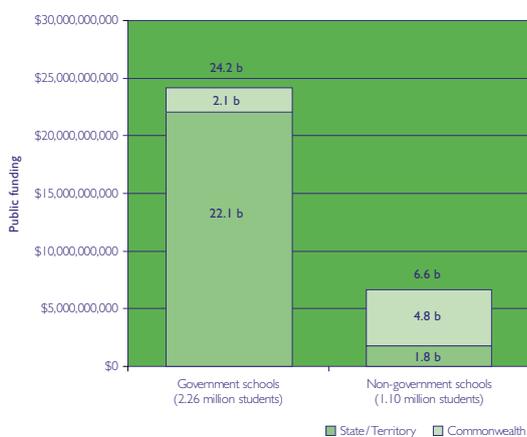


Source of Funds

School sector and type of government are the two axes along which arguments about school funding occur. While most school funding comes from the Commonwealth through its wider tax base, the States' share of these taxes (in terms of untied general purpose funding or specific purpose payments) is generally recognised as State funding of education.¹¹

Taking this into account, most funding to schools comes from State governments (77.5 per cent), while the remainder comes from the Commonwealth (22.5 per cent). In 2004-05, States provided 91.3 per cent of the total funding available to government schools, while the Commonwealth provided 73.0 per cent of the total funding available to non-government schools. The States provide most of their funding to government schools (93 per cent) while the Commonwealth provides most of its funding to non-government schools (70 per cent), as seen below.¹²

Figure 2: Government recurrent funding for schools, 2004-05

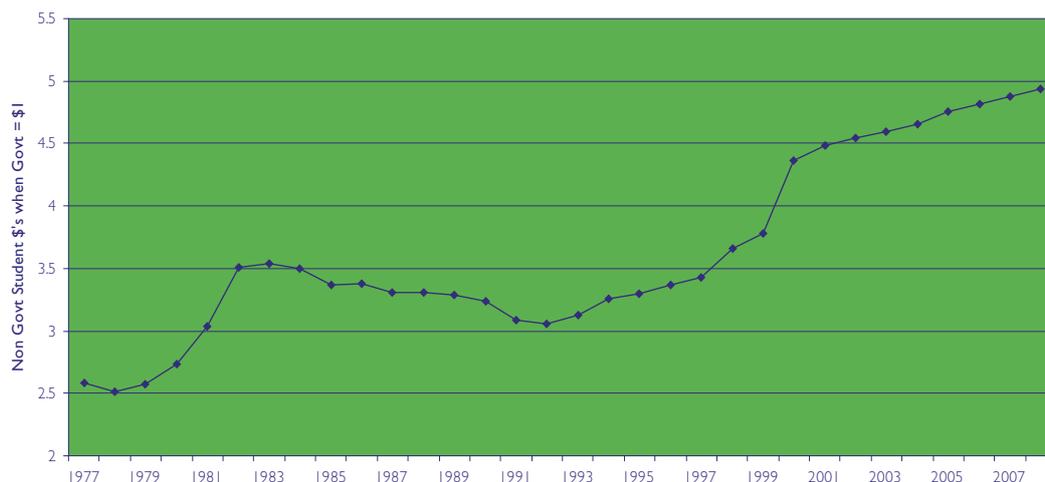


Although the Commonwealth has traditionally provided most of its funds to the non-government school sector, the extent of this contribution has waxed and waned over time. Figure 3 shows the extent to which Commonwealth funding has fluctuated over the years between the two sectors, government and non-government.

This is per capita funding and not reflective of any enrolment shift between the sectors; it shows the proportion of Commonwealth funds given to each non-government student compared to those given to each government student. What becomes apparent is that the changing level of Commonwealth support for non-government students decreases or plateaus whenever a federal Labour government is in power (1983-96), and increases whenever a Liberal government is in power (1977-83, and 1996-2007).¹³ One possible conclusion to be drawn is that school funding, at least at the Federal level, is a highly political exercise.

Commentators acknowledge that school funding has always, to a greater or lesser extent, been a political exercise.¹⁴ But the school funding debate might rise above a sterile ideological battle if Australia was to have a national and transparent model based on comprehensible measures of need applying equally across the sectors.¹⁵ Such a national model is not foreseeable, at least in

Figure 3: Commonwealth recurrent payments to non-government students, 1977-2007: Ratio of non-government dollars per student to each government school dollar



Source: Commonwealth final and estimated expenditure as reported in "green books" and demographic data from ABS.

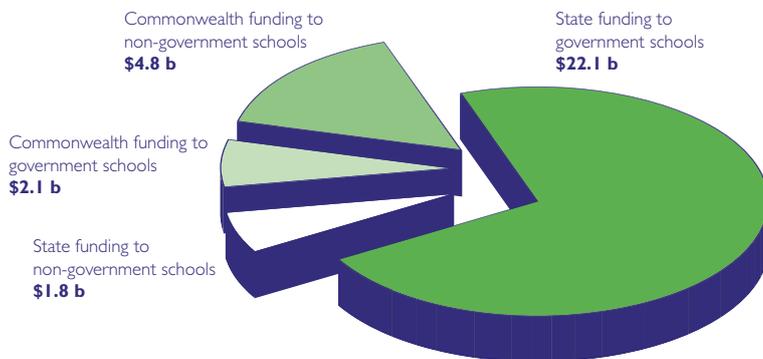
Notes: This chart has not been constructed or confirmed by the author but has been obtained from private data. The per capita ratio is the non-government per capita amount divided by the government per capita amount. These per capita amounts are obtained by dividing total Commonwealth expenditure on government and non-government schools, as reported in the Commonwealth's "green books," by enrolment data for government and non-government schools, as reported in ABS data (and also attributing expenditure on "special education non government support centres" to non-government schools).

the short term. As Max Angus has noted, simply providing information on the actual quantum of resources acquired by individual schools from all sources is a radical proposal at the present time (2007b, p. 112). Not only does this information not exist uniformly but some States are incapable of reporting at the school level. And as mentioned earlier, there is currently no national comparability in school funding between the States and the Commonwealth.

Dividing the school funding pie

To understand how the current system of school funding operates, it is necessary to examine the various mechanisms by which the \$31 billion recurrent funding provided by governments in Australia is distributed.

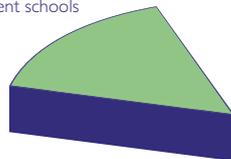
Figure 4: Australia's \$31 billion school funding pie



The mechanism by which Commonwealth funds are distributed

To non-government schools

Commonwealth funding to non-government schools
\$4.8 b



The process by which the Commonwealth funds non-government schools (remembering the Commonwealth is the main funder of non-government schools) is transparent, to the extent that the system is relatively easy to understand and the per capita amounts (at least in general if not to individual schools) can be viewed on the website of the Commonwealth's Department of Education, Science and Training (DEST).

Commonwealth funding to all schools occur through a combination of mechanisms, such as recurrent grants (85.2 per cent), targeted programs (8.0 per cent), and capital programs (6.8 per cent).¹⁶ But the

two concepts that drive Commonwealth funding to non-government schools are:

- a) Average Government School Recurrent Costs (AGSRC, introduced in 1993)¹⁷, and a
- b) Socio-Economic Status (SES) funding formula (introduced in 2001).

The AGSRC establishes the per student amount to be spent for all students while the SES formula distributes it to non-government schools (not to government schools).

The AGSRC amounts for 2005 were:

- primary school AGSRC \$6,787
- secondary school AGSRC \$8,994

States and Territories indicate how much is spent per student on average in government schools and the Commonwealth then adjusts this amount to derive the AGSRC. This adjustment occurs by stripping out accrual aspects, such as superannuation and depreciation, from the State and Territory figures (which explains why the Commonwealth AGSRC amount is less than the State and Territory amount on which it is based).¹⁸

States and Territories come together under the auspices of the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) to derive an aggregated, national cost for educating a child in a government primary school and a government secondary school (there are two separate amounts). There are various protocols governing the calculation of these figures but basically, the figures are driven by the total amount spent on schools and the total number of school enrolments. In 2003-04, these amounts were \$9,015 per student in primary schools and \$11,552 per student in secondary schools which became, in 2005, the AGSRC amounts of \$6,787 and \$8,994 respectively. The reason for the eighteen month delay (from State costs in 2003-04 to Commonwealth AGSRC in 2005) is the time involved in preparing the data. In summary, eighteen months after States and Territories have incurred costs for government school students, this figure becomes the basis of Commonwealth funding to non-government schools, through the mechanism of the AGSRC.

Separately, there is a socio-economic status (SES) funding model which applies a proportion of AGSRC to non-government schools for each student they enrol, depending on the school's SES status. The amount depends entirely on the school's SES score, which is based on the combined average SES of the communities in which each student's home is situated. However, in 2005, only half of non-government schools (1,300) were actually funded according to their SES score. Just over half (1,302) were in one of three categories

("funding guaranteed" or "funding maintained," the latter having two sub-categories) that received an adjusted amount because a strict application of their SES score would have given these schools less funding.

Once allocated a SES score, the per student amount that non-government schools receive ranges from a low of 13.7 per cent of AGSRC for schools with a SES of 130 or higher (high SES schools), to 70.0 per cent of AGSRC for schools with a SES of 85 or lower (low SES schools). Non-government primary and secondary schools get the same proportion of their respective AGSRC amounts (remembering there are different AGSRC amounts for primary and secondary schools) if they have the same SES score. Non-government schools also receive additional income from State government grants, interest-free government loans in some cases, and private fees and donations.

There are significant problems with the SES grading process. The primary problem is that the SES model only funds non-government schools, even though it is based on the average cost of government schools. The AGSRC stands for "average government school recurrent costs." What this means is that non-government schools are funded on the average costs of educating a child at a government school. Issues arise with linking government schools costs to non-government school funds. The first is that as more students drift to private schools, the average cost in government schools increases because:

- a) There are fewer government students being taught in the same number of schools (loss of economies of scale), and
- b) Enrolments in the government school sector decrease while their share of equity group enrolments increases.

This last point, known as "residualisation," is significant. The government school sector appears to be losing market share amongst those students who are least expensive to teach but are increasing their share of those students facing the greatest educational challenges and costing the most to teach (eg, Indigenous students, low SES students, students with disabilities).¹⁹ Consequently, as average government school costs increase, it results, through the AGSRC nexus, in a rise in Commonwealth funding to non-government schools that are not necessarily facing the same cost pressures. This does not mean the Commonwealth is giving less money to government schools but rather that its funding to non-government schools may be disproportionate to that sector's needs.²⁰

To summarise, "average" school costs are increasingly problematic as a means of determining adequate funds to educate real students. Both government and non-government schools are receiving funding

based on an "average" student even though non-government schools may be recruiting a student body with below average costs. On the other hand, government schools appear to have an increasingly expensive student body.

Other issues include that:

- a) The system does not actually measure a school's resources and in fact ignores a school's capacity to generate its own income through fees, investments, donations and fundraising in measuring need (the stated rationale from the Commonwealth is that to reduce funding for schools that exceed a limit on private income would act as a disincentive to private efforts to raise funds).
- b) The local community's SES may not reflect the individual student's SES in a particular non-government school. Some students may come from the wealthiest home in a disadvantaged area. Barry McGaw has recently described this phenomenon as "relatively advantaged students from disadvantaged communities carry[ing] with them to a non-government school a government voucher based on the students they leave behind in their communities" (2007).
- c) Although a formula, the SES system is not applied consistently with scope for compromise arrangements to alter the formula. As mentioned above, in 2005, over half of non-government schools received an adjusted amount because the strict application of their SES score would have resulted in less funding.

Commonwealth funding to government schools

Commonwealth funding to government schools
\$2.1 b



The Commonwealth funds government schools according to a flat rate of AGSRC, 8.9 per cent for government primary schools and 10.0 per cent for government secondary schools. As mentioned above, this is different to the situation that applies in non-government primary and secondary schools, which get the same proportion of their respective AGSRC amounts if they have the same SES score. This different treatment results in lower funding received by government primary schools from the Commonwealth, as illustrated in the following table.

Table 1: Different treatment for government primary schools.

\$6,787 Primary AGSRC amount for 2005	\$8,994 Secondary AGSRC amount for 2005
Government Schools – Flat rate of \$604 per primary school student (8.9 per cent of \$6,787) and \$899 per secondary school student (10.0 per cent of \$8,994).	
Non-government Schools – rate varies depending on school's SES but no distinction made between primary and secondary. For example, a non-government school might have a SES that warrants 20% of AGSRC but that would translate into 20% of \$6,787 for primary students and 20% of \$8,994 for secondary students. Primary is funded at the same rate, not a lower rate, as for secondary.	

In 2005, this distinction resulted in \$100 million less funding for government primary schools than if they were funded at the same rate as government secondary schools, remembering that no distinction between primary and secondary students is made for non-government schools. In other words, government primary schools get a lower rate of a lower amount.

The final point to note about the AGSRC is that it is generous as an indexation method to both sectors. The AGSRC operates as an index as well as an amount. The AGSRC index is simply the rate at which the AGSRC amounts have changed from year to year. Funding for all school sectors increases because Commonwealth targeted funding is supplemented annually by the AGSRC index, which rose on average 6.6 per cent annually from 2000-2003, rather than the consumer price index (CPI), which rose on average only 3.8 per cent annually over the same period (March 2000-March 2003). The AGSRC amounts supplement Commonwealth recurrent grants to schools, which constitute 85.2 per cent of Commonwealth funding, while the AGRSC index supplements Commonwealth targeted programs to schools, which constitutes 8.0 per cent of total funding (Commonwealth capital grants, constituting 6.8 per cent of total funding, are supplemented by the Building Price Index).²¹

The mechanisms by which State funds are distributed

To non-government schools

State funding to non-government schools
\$1.8 b



Table 2: State recurrent payments to non-government schools, 2004-05²²

Jurisdiction	Total amount
NSW	\$668 m
VIC	\$320 m
QLD	\$394 m
WA	\$202 m
SA	\$140 m
TAS	\$36 m
ACT	\$36 m
NT	\$29 m
Total	\$1,788 m

There are a wide variety of ways by which non-government schools are funded by States and Territories, but together, about \$1.8 billion is provided to the non-government sector each year from this level of government.

The best way to conceptualise State funding to non-government schools is through two steps:

- a) The process by which a total pool of funds is calculated for non-government schools, and
- b) The process by which this pool of funds is distributed.

Although there is a rich history behind the actual share of public funding that each State has made available to non-government schools,²³ the end result is that the nexus between the AGSRC and non-government school funding continues at both the State as well as the Commonwealth level. Like the Commonwealth, most States, including New South Wales (NSW), Queensland (QLD), Western Australia (WA) and Tasmania (TAS), use the average cost of educating a government school student in their State as the basis for payments to non-government schools. Although there is some variation, generally, approximately 25 per cent of this "State adjusted AGSRC" (as distinct from the national, Commonwealth AGSRC) make up the pool of funds available for non-government schools in those States that use the AGSRC mechanism. Other States use different models but most are based on historical precedent, adjusted for inflation but using mechanisms such as the CPI rather than the AGSRC.

There is also a variety of means used to distribute these funds once the pool has been determined. The number of students a school enrolls is consistently employed as one aspect but beyond this, there is no pattern amongst the States.

Some States (NSW,WA and the ACT) use a version of the Education Resource Index (ERI), which was a funding model used by the Commonwealth until 2001. The ERI takes account of all the resources available to non-government schools but most of the States using the ERI have been obliged to update it with their own data because the categories of need previously maintained by the Commonwealth are now obsolete, having been last updated in 2001. This is because the Commonwealth moved to the SES system in 2001 which resulted in Federal data previously used to track total resources to non-government schools not being updated.

Others use different formula to distribute funds to non-government schools, usually informed by a core or base funding entitlement followed by a needs-based funding calculation (QLD, VIC, SA & TAS). NT distributes funds to non-government schools largely based on enrolments only.

State funding to government schools

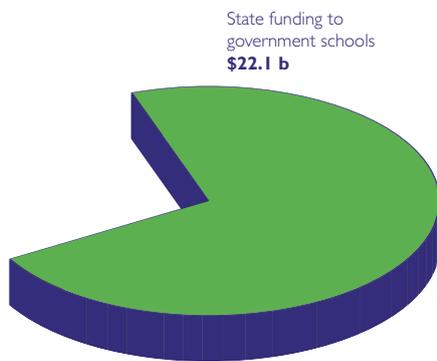


Table 3: State recurrent payments to government schools, 2004-05²⁴

Jurisdiction	Total amount
NSW	\$7,451 m
VIC	\$4,724 m
QLD	\$4,289 m
WA	\$2,565 m
SA	\$1,651 m
TAS	\$587 m
ACT	\$408 m
NT	\$403 m
Total	\$22,078 m

These funds constitute the largest slice of the school funding pie yet the mechanism for distributing funds to government schools differs from State to State and is in most cases not immediately accessible.

Broadly there are two main processes for distributing State funds to government schools, which can be described as centralised and decentralised modes of funding.

So called decentralised funding is when a great proportion of funds are provided to an individual school to spend. Some jurisdictions, notably VIC and SA and to a lesser extent ACT, do decentralise a significant proportion of their funding to government schools (VIC nearly 100%; SA 80%). Yet the majority of States do not decentralise funding and even of those States which do decentralise, only one, VIC, gives schools the freedom as well as the funds to employ staff (the largest component of any school budget).²⁵

A characteristic of centralised systems, such as that employed in NSW, WA, and QLD, is that funding cannot easily be disaggregated into its component parts. Information is readily available on what is being spent across all schools in terms of broad function (eg, teacher salaries, redundancies, or capital) but is not otherwise easily broken into component parts; eg, not easily by student type (students with disabilities or those from low socio-economic backgrounds) and not at all by individual schools.

Such systems cannot report financial information on a school by school basis, even notionally. States that centralise funding are not structured to report payments at an individual school level and do not have the capacity to do so. These jurisdictions would require major changes to their systems, processes and technology to be capable of reporting school funding at the school level.

The key distinction between the two modes is that decentralisation provides more autonomy to school principals over staffing and other budget items. The former Federal government viewed this as a virtue, having held VIC and SA up as a model for other States to follow (Nelson, 2003). Yet there are numerous reasons why States centralise, rather than decentralise, school funding, including;

- This mode is often favoured by principals.* Asking principals to manage funds and employ staff is often felt by principals to distract them from their primary task of school leadership.²⁶ It should be noted that surveys of principals in more decentralised systems have said they "would not wish to see a return to a highly centralised approach to resource management" (ACT, 2004, p. 4).
- It is cheaper.* States achieve significant economies of scale through system wide provision (eg, State-wide processes for employing staff, State-wide cleaning contracts, etc).

There are many arguments for decentralisation but it is beyond the scope of this essay to consider them

in detail. The main issue with centralised systems relevant to this paper is its lack of transparency and its general inability to disaggregate school expenditure.

The fact remains that the largest slice of the school funding pie is the least transparent and the least well understood. Finance data is reported at a high level of aggregation across the education sector, not only in schools but also in higher education and vocational education and training (Burke, 2003, p. 6). Yet within schools, the highest level of aggregation, and the concomitant inability to disaggregate data, occurs in centralised State government funding to government schools. This situation needs to change. As Max Angus has observed, "it is hard to carry any argument forward that some categories of schools need more funds than others while at the same time arguing that it is better not to know the facts" (2007b, p. 113).

To summarise, there are numerous mechanisms for allocating funds in Australia based on need, ranging from the Commonwealth's SES system to its variants in State jurisdictions. Yet none operate in unison and none calculate their combined effect. Moreover, there is no unified system for gauging the existing resource levels of schools. Consequently, there is no understanding of the real levels of need that exist at individual schools.

Options

Cross-sectoral Funding

Education commentators in Australia who are otherwise opposed on most issues are united in their belief that Australian schools should be funded on the same basis regardless of sector.²⁷

Brian Caldwell notes that many have suggested pooling Commonwealth and State funds and then disbursing these funds equally across sectors through an agreed framework. But in considering the fate of these suggestions, he notes that "it is too soon to speculate on what may emerge in the years ahead, but an important determinant will be where constitutional powers for education will lie" (2007, p. 128). A High Court decision made at the end of 2006 may prove significant in this regard.²⁸ This legal decision related to section 51 of the Constitution (the corporations power) and the legality of the Work Choices Act (which was upheld by a 5-2 majority). However, the dissenting judges (Kirby and Callinan) saw significant implications for wider Federal / State relations. Kirby said the decision "reveals the apogee of federal constitutional power" and that "once a constitutional Rubicon such as this is crossed, there is rarely a going back" while Callinan observed that "the consequences for the future integrity of the federation as a federation,

and the existence and powers of the States will be far-reaching" (para 614, 615 & 619).

The growing power of Australia's Federal government may have implications, unknown at the present time, for school funding structures. But in any case, it is unnecessary to dissolve State power to rationalise the current system. Employing similar funding methodologies at both State and Commonwealth level and between school sectors would sufficiently improve transparency and accountability to positively affect student outcomes as well as create a more sound footing for future debates.

Transparency

In the UK, an "Education Funding Strategy Group" was given responsibility for overseeing the development of a new school funding system in the wake of a Government green paper in 2000.

The principle of transparency governed this group's proceedings as well as its outcomes. Not only were technical papers and grant allocations from the new system placed on the Department's web-site, but also minutes of meetings. This example shows that a national, transparent school funding system can penetrate to a deep level.²⁹

Greater transparency was an explicit objective of this UK initiative,³⁰ as was greater decentralisation of funding responsibility to schools (the aim was to reduce the amount of funding administered by local education authorities, LEAs, to approximately 10 per cent of the total, with the remainder being administered by schools). The initiative had been inspired by a 1996 report by the National Union of Teachers, which stated that the Government should define for itself "independently of historic spending patterns," how LEA spending should take account of equalisation of needs (Coopers and Lybrand, p. 3). The end result was a formula designed to equalise needs. But the notion that the total amount of school funding itself can be considered "independently of historic spending patterns" (that is, a priori to historical expenditures made in previous years), was an issue pursued more vigorously in the US rather than the UK.

Adequacy

When talking about school funding, one should never lose sight of the central issue of how much money is adequate for successful outcomes. This central issue has been driven most strongly in the US, thanks largely to its culture of litigation. In the US, plaintiffs have sued State education systems for not providing a constitutionally "adequate" education and they have been successful in 75 per cent of cases (Rebell, 2007). The litigation and the resulting court orders have driven new

methodologies for determining "adequate" school education in over thirty states in America since 1990. The court orders have dramatically shifted the conceptualisation of school funding where the notion of adequacy, based on standards, now determines the quantum of funding for education, rather than the other way around. The rise of adequacy studies, and the serious assessment of what constitutes adequacy, has been a significant feature in US educational research although gaps have been identified in these US studies:

Little if any attention was given, however, to the critical, practical cost analysis question of what level of resources needs to be made available now in order to reach a desired outcome goal at a particular point in the future. To what extent do extra resources need to be provided to students currently in the second grade who are achieving at a 55 percent proficiency level to ensure that five years from now 75 percent will achieve proficiency, or that eight years from now 100 percent will? These are the types of difficult questions that must be posed and answered if the output measures used in adequacy cost study are to have any real credibility. (Rebell, 2007, p. 18).

This lacuna links to the liability Max Angus sees in Australia's inadequate school funding system; that the knowledge needed for a new debate about the relationship between student performance and school resources remains hidden.

Conclusion

The current funding system is not held in particularly high regard by education commentators. Australia's system of school funding has been variously described as containing "considerable deficiencies" (Burke, 2003, p. 6), "quite remarkable difficulties" which makes it "very frustrating" (Hayward, 2004, pp.5-6), "unsatisfactory" and "deficient" (Australian Senate, 2004 p. 46-47), a "failure" (Watson, 2007, p. 149), "exceedingly complicated" (Bonnor, 2007, p. 121), "inequitable and inefficient" (Vickers, 2005, p. 274), "irrational" (Connors, 2007, p. 7), and "unhelpfully complex and exceedingly opaque" (Angus, 2007b, p. 113).

Australia's \$30 billion system of funding schools is fragmented by level of government (State or Federal), type of sector (government or non-government), location (State or Territory), accounting approach (cash or accrual), and even time period (financial or calendar year). Several sources of income flow into schools, none of which operate in unison and none of which report at an individual school level in a timely manner. The fact that this essay, written in 2007, uses 2004-05 data

as the latest publicly available is indicative. This delay gives a sense of the obfuscation that applies to the reporting of school financial data, even at a highly aggregated level.

One commentator has described the current situation as "irrational and asymmetric" with "no constitutional, educational or logical grounds" (Connors, 2007). The system encourages blame shifting between governments and high level claims that the Commonwealth under-funds government schools and counter-claims that most public funding goes to government schools anyway, rather than informed debate. The end result is that members of the education community, much less the general public, have no clear idea what individual schools actually receive from both levels of government, nor if their income is appropriate to their needs.

Contrary to some commentators, this author does not believe the complexity is due to public officers seeking to maintain a system that is comforting in its capacity to placate special interests while confounding critics. Rather, the lack of comparability and transparency in school funding is driven by the same forces that have created similar rail gauge issues in Australia's past, namely, comfort with the status quo and uncertainty about change.

One area of broad concurrence is the need for change. Every side of the debate wants a more coordinated approach. For example, a report commissioned by the NSW Public Education Alliance asks for "a credible mechanism for the collection, coordination and analysis of data" (Connors, 2007, p.31) while the Independent Schools Council of Australia similarly states that it "would support any reasonable and genuine moves by governments to bring about a more coherent and coordinated approach to the funding of all schools in Australia" (ISCA, 2004, p. 1).

If any change is to occur in this area, it will occur through MCEETYA, the clearing-house for government coordination on education issues. This body should consider carefully a recommendation from a recently completed, long-term study into the future of Australia's primary schools. Recommendation eleven of this report suggests MCEETYA adopt a common financial reporting instrument for government and non-government schools based on principles of comparability and transparency (Angus et al, 2007a, p. 84).

This recommendation should be adopted because the current system is unnecessarily complex and fragmented. Funding reform is an essential plank for broader educational reform in Australia, dependent as all aspects of education are on the primary issue of funding. Improved consistency and transparency in this area would improve efficiency (by understanding better the impact of

school resources on student outcomes) and equity (by understanding better the level of real need in individual schools, and funding appropriately) and as such is a worthwhile goal.

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Notes

- 1 \$30.8 billion in 2005. This amount does not include school fees paid by parents or capital expenditure by governments which, if included, would raise the total to approximately \$37 billion. This essay concerns itself with recurrent public funding of schools (the \$31 billion) and uses the latest publicly available figures, which is 2005 financial data (or 2004-05 financial data).
- 2 A recent study into the resourcing of Australia's primary schools found that primary principals and teachers believe the rise in external assessment required of schools has had a beneficial effect in focusing their efforts on areas of weak student performance. See Max Angus, et al. (2007a), p.31.
- 3 In commenting on the prospect of establishing a national system of school funding, Angus states that "neither side feels compelled to reach an agreement since an agreement would impose some constraint over spending priorities" (2007b, p.115).
- 4 This essay uses "States" for "States and Territories" and "Commonwealth" rather than "Australian Government" to avoid confusion with other Australian governments.
- 5 States report on a financial year while the Commonwealth reports on a calendar year. States use accrual accounting while the Commonwealth uses a combination of cash and accrual accounting.
- 6 MCEETYA *Australian National Report on Schooling* (ANR), 2005, Statistical Appendix, table 19.
- 7 Trevor Cobbold (2003) provides a good list of the inconsistencies between government and non-government school finance collections.
- 8 See U.S. Department of Education (November 2006); Department for Education and Skills (DfES), (November 2006). The exchange rates that applied on 31st December 2004 have been used to exchange US dollars and UK pounds into Australian dollars. See: <http://www.rba.gov.au/Statistics/HistoricalExchangeRates/2003to2007.xls>. Accessed 28 September 2007.
- 9 Productivity Commission *Report on Government Services 2007* (PC ROGS 2007), table 3A.9. There were 3,344,652 students in 2004-05 and 9,623 schools in 2005 (see table 3A.3). The amount of \$31 billion does not include the \$4.8 billion received by non-government schools through private income, or the \$1.2 billion spent on capital projects, which, if both were included, would bring the total to nearly \$37 billion in 2004-05. (See MCEETYA, ANR, 2005, Statistical Appendix, table 23). Table 23 of the ANR Statistical Appendix provides per capita amounts only but total amounts come from calculating the total number of non-government students in 2005 (1,103,346) to derive the 4,820 million received by non-government schools as private income. Capital costs for government schools totalled \$1,112 million in 2004-05 (see table 19 of ANR), while additional capital from the Commonwealth to non-government schools was \$105 million (see table 28 of ANR).
- 10 In order to achieve comparability, the per-capita figure for each country has been derived simply by dividing total funding by total enrolments.
- 11 The NSW government describes specific purpose payments SPPs as a means "to implement policies in areas which are the constitutional responsibilities of the States. An agreement between the Commonwealth and the State governs each SPP, and details the specific purposes. These agreements typically last three to five years, and are renegotiated after that time." (NSW Budget Statement, 2003-04, Section 7.4).
- 12 PC ROGS data have been used for this diagram rather than ANR data because the ANR does not describe government school expenditure by source of funds, while PC ROGS does.
- 13 Of course, the exception is the Labour government of 1972-75, which increased funding to non-government schools.
- 14 See Gerald Burke and Andrew Spaul, "Australian Schools: participation and funding 1901-2000," Centenary Article, *ABS Year Book Australia*, 2002, 1301.0. See also Connors, L (2007). pp. 37 & 73.
- 15 The non-sectoral school funding model of the Netherlands has been proposed as a model for Australia. See Barry McGaw, "A 21st century vision for schools," address given to the Australian and New Zealand School of Government conference, *Schooling for the 21st Century*, 28-29 September 2005, Sydney, Australia.
- 16 Commonwealth, 2005 *Green Book*, table 1.
- 17 As reported in Wilkinson (2007, p.148).
- 18 The actual process by which the Commonwealth makes this adjustment is unclear but the broad methodology for converting State accrual amounts to Commonwealth cash amounts is described in the Quadrennial Administrative Guidelines. See *Australian Government Programmes for Schools Quadrennial Administrative Guidelines, 2005-08, 2006 Update*, appendix G, paragraphs 12-16, p.236.

- 19 Although non-government schools educate around one third of students, they enrol less than ten percent of Indigenous students as well as very low numbers of students with a disability. See PC ROGS Table 3A.17 and Australian Senate Employment, Workplace Relations and Education References Committee Report, *Education of Students with Disabilities*, December 2002, p. 124.
- 20 The independent sector's own analysis of the quadrennial funding arrangements for 2005-08 shows that independent schools will receive a 27 per cent increase over the next four years, excluding increases due to enrolment growth (ISCA, 2005, p. 4).
- 21 Commonwealth targeted programs supplemented by the AGSRC index include Literacy, Numeracy and Special Learning Needs Programme, English as a Second Language – New Arrivals, Country Areas Programme, Languages, and Short Term Emergency Assistance. Commonwealth, *Quadrennial Administrative Guidelines. 2006 Update*, appendix G, pp.235-236 and Commonwealth, *2005 Green Book*, table 1.
- 22 Productivity Commission, *Report on Government Services 2007*, table 3A.9. Totals may not add due to rounding.
- 23 For such a history in NSW, see Grimshaw, W. (May 2004), pp. 6-15.
- 24 Productivity Commission, *Report on Government Services 2007*, table 3A.9. Totals may not add due to rounding.
- 25 SA allocates teacher salaries to individual schools but then takes that funding away by employing all teachers centrally. However, most jurisdictions do not provide even a notional allocation of funds for teacher salaries to individual schools.
- 26 See, for example, the Vinson Inquiry into Public Education in NSW, 2002, chapter 12.
- 27 See, for example, Buckingham (2000), Caldwell (2007), McGaw (2005), Watson (2007). Interestingly, the Netherlands are often suggested as a model for Australia to follow, where the Dutch constitution makes it illegal to differentially fund state and non-state schools (OECD, 2007, p. 17).
- 28 See *New South Wales v Commonwealth* [2006] HCA 52; 81 ALJR 34; 231 ALR 1 (14 November 2006)
- 29 We find, for example, concern that a funding system based on students' prior performance could send a confusing message by appearing to reward failure and penalise success, even though it may be the case that low performing students drive the greatest costs in schools. See minutes from 15th June 2001. The formula eventually used measures of poverty and other indicators of social background rather than prior attainment. For this particular discussion, see <http://www.dfes.gov.uk/efsg/docs/meeting/67.doc> & <http://www.dfes.gov.uk/efsg/docs/56.doc>. Accessed 27th August 2007.
- 30 See the home page. See <http://www.dfes.gov.uk/efsg/>