

The Precarious State of Schools Funding in Australia following the 2016 Federal Election

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Jim McMorrow has held a number of strategic policy positions at national and state levels, including as Deputy Director-General, NSW Department of Education and Training, Director of Policy and Planning in the former NSW Ministry of Education, and First Assistant Commissioner of the Commonwealth Schools Commission.

The re-election of the Turnbull Government in July 2016 confirms the uncertain and troubling state of public policy for the funding of schools in Australia.

The Coalition had very little to say about its schools funding policies during the election campaign. Its election policy commitments were, to say the least, limited in both rhetoric and scope¹. To the extent that those commitments had any real substance, they were limited to the policy decisions contained in the May 2016 Federal Budget.

That Budget confirmed that the Coalition Government has abandoned the national goal of enabling all schools to reach the recurrent resource standards recommended by the Gonski Review and set out in the *Australian Education Act*. Whatever the many shortfalls and inequalities in their funding at the end of 2017, schools have been served notice that a Coalition government in Canberra has no plan to deal with them after that date. As far as the Coalition is concerned, schools operating at resource levels below their 'Gonski standard' will just have to soldier on.

Even the Budget's 'headline' announcement, \$1.2 billion extra for schools, is disingenuous. This \$1.2 billion has been allocated over four years from 2017-18 to 2020-21, to provide enhanced indexation of Commonwealth recurrent funding for schools over the calendar years 2018 to 2020.

The Government has moved away from the Abbott Government's decision to link funding levels after 2017 in all schools and systems to changes in the Consumer Price Index (projected at around 2.5 per cent per annum) and has replaced it with a new 'education sector specific' index of 3.56 per cent².

Recurrent spending in schools is essentially directed to teacher and non-teacher salaries, with a smaller proportion provided for non-salary educational items. The Budget papers project wages growth of 3 to 3.5 per cent per annum for the period after 2017-18³, and enrolment growth of over 1 per cent⁴. This suggests that the Commonwealth's additional \$1.2 billion over four years effectively adjusts its per student grants to offset the effects of inflation in schools.

Having abandoned the goal of enabling all schools to reach the 'Gonski' recurrent resource standards set out in the *Australian Education Act*, the Government's decision to index grants annually by 3.56 per cent after 2017 effectively 'freezes' the Commonwealth's contribution at the 2017 school year in real terms. Had the Coalition not allowed in the Budget for indexation to reflect education expenses, it would have been announcing a progressive cut in Commonwealth funding to schools from 2018 on, in real terms.

¹ Liberal Party of Australia, *Putting Students First*, July 2016.

² Budget 2016 Paper No. 2, page 80.

³ Budget 2016, Paper No. 1, Table 2, page 1-8.

⁴ Budget 2016, Department of Education and Training Budget Statements, Table 2.1.2, page 28.

Having repudiated any obligation for the fifth and sixth years of needs-based funding increases linked to the achievement of resource standards, the Commonwealth Minister has declared that the additional \$1.2 billion for indexation from 2018 to 2020 '...will be tied to a needs-based distribution of funding and reforms in our schools to help every parent have confidence that their (sic) child is receiving the teaching they (sic) require'⁵.

What this means is that the Commonwealth expects any re-distribution of its funding, to better reflect student need, to be effected by government and, perhaps, non-government system authorities. Because Commonwealth funding after 2017 will effectively be adjusted only for 'education specific costs', it implies that some schools within systems would need a funding cut to enable increases to flow to needier schools.

Of course, there is no way that such a re-distribution can apply across different schools within the non-systemic independent schools sector, where the least and the best resourced schools would receive the same rate of indexation.

(Note: at this stage, the Commonwealth Minister has not announced whether differential indexation would apply to schools operating above the national resource standard, as set out in Section 60 of the *Australian Education Act 2013*.)

Non-government schools will receive the greatest share of the additional \$1.2 billion. Based on projected enrolment and funding shares between the sectors, non-government schools can expect to receive around \$750 million, with the remaining \$450 million (or 38 per cent) allocated to government schools.

The Budget Papers provide more detailed information on the Commonwealth's funding commitments to the 2019-20 financial year. The Budget's summary table for schools is outlined below:

⁵ Simon Birmingham media release, *The quality reforms needed to get all Australian students ahead*, 1 May 2016

Table 1**Budget 2016: Commonwealth Students First Funding for Schools****Outturn prices**

	Estimates		Projections				Increase 2015-16 to 2019-20
	2015-16	2016-17	2017-18	2018-19	2019-20		
	\$m	\$m	\$m	\$m	\$m	\$m	%
government schools	5,766	6,442	6,936	7,277	7,671	1,904	33.0%
non-government schools	9,869	10,554	11,061	11,556	12,106	2,237	22.7%
All schools	15,636	16,996	17,997	18,833	19,777	4,142	26.5%

Source: Budget Paper No. 3 2016, Table 2.5

Excluded from this table are the allocations over the Budget period for National Partnership Programs (NPPs), which were the banner programs introduced by the Rudd and Gillard governments to promote quality and equity in schooling. Almost all NPPs for primary and secondary education are budgeted to terminate over the Budget estimates period⁶, with the exception of the schooling component of the Northern Territory Aboriginal Investment program.

Table 1 shows the effects of the Government's decisions to complete the phasing-in of the first four years of the 'Gonski' funding model (2014 to 2017) and the adoption of the uniform annual indexation rate of 3.56 per cent from 2018 to 2020. Funding for government schools in 2019-20 compared with 2015-16 is budgeted to increase by \$1.9 billion for government schools, or 33 per cent, and \$2.2 billion for non-government schools (23 per cent). The overall funding for all schools is projected to increase by just over \$4 billion, or 27 per cent⁷.

But the figures in Table 1 are expressed in 'outturn' prices, namely the money amounts allocated for each year. A better picture of the impact on schools is provided by adjusting the figures for the effects of inflation on the funding schools receive. This is done in Table 2 below, which 'deflates' the outturn amounts by estimated and projected price increases. As noted above, the major recurrent expenditure items in the operation of schools, around 75 per cent, are salaries and wages, especially for teaching staff, which are measured by the Australian Bureau of Statistics in the education component of their wage price index⁸. Changes in non-salary recurrent expenditures in schools generally reflect trends measured

⁶ Note that this includes the controversial \$60m per annum School Chaplaincy program, which at this stage is budgeted to end in 2017-18.

⁷ The higher rate of increase for government schools reflects the effects of the introduction of the Gonski funding model, with loading for schools and students with special needs, up to 2017-18.

⁸ ABS, *Wage Price Index*, 6345.0, December 2015

by the Bureau's consumer price index⁹. In this paper, data from these sources were applied to develop a *Schools Price Index* to report on the real changes in Commonwealth funding for schools in Table 2.

Table 2

**Budget 2016: Commonwealth
Students First Funding for
Schools**

constant Year 2015-16 prices

	Estimates		Projections				
	2015-16	2016-17	2017-18	2018-19	2019-20	Increase 2015-16 to 2019-20	
	\$m	\$m	\$m	\$m	\$m	\$m	%
government schools	5,766	6,304	6,610	6,728	6,868	1,101	19.1%
Annual increase (\$m)		537	306	118	140		
Annual increase (%)		9.3%	4.9%	1.8%	2.1%		
non-government schools	9,869	10,327	10,540	10,684	10,839	970	9.8%
Annual increase (\$m)		458	213	144	155		
Annual increase (%)		4.6%	2.1%	1.4%	1.5%		
All schools	15,636	16,631	17,150	17,412	17,707	2,071	13.2%
Annual increase (\$m)		995	519	262	295		
Annual increase (%)		6.4%	3.1%	1.5%	1.7%		

Sources: Budget 2016 papers (see Table 1); ABS education wage price indexes and consumer price indexes, selected years.

As can be seen in Table 2, the estimated real increase in Commonwealth funding for government schools over the Budget period to 2019-20 is calculated at around \$1.1 billion, or 19 per cent; while the increase for non-government schools is estimated at \$970 million or almost 10 per cent. Note the tapering down of the annual levels and rates of increase over the funding period: funding for government schools in the current budget year, 2016-

⁹ ABS, *Consumer Price Index*, 6401.1, March 2016.

17, is estimated to increase by 9 per cent over the previous year, reducing to around 2 per cent in 2019-20; while the annual rate of increase for non-government schools reduces from around 5 per cent in 2016-17 to 2 per cent in 2019-20.

The Government's decision to move to a version of a 'schools price index' based on major school expenditure weightings (75 per cent education salaries and 25 per cent Consumer Price Index) is a basis for protecting the real value of the Commonwealth's contribution to schools.

In doing so, however, it has chosen to apply a fixed rate of 3.56 per cent across the full three calendar years 2018 to 2020 in the Budget allocations. By contrast, the calculations underpinning Table 2 conform with the more conventional approach of using annual changes in education wage costs and overall consumer prices as projected in Budget Paper No. 1¹⁰.

In addition, the Government has chosen to adopt the education component of the CPI, rather than the full index across all categories, in its calculations. This means that its indexation rate is influenced by increases in school fees rather than by changes in the non-salary recurrent resources provided in schools. Increases in school fees are not necessarily a direct measure of inflation in schools. They frequently reflect aspirations by school authorities to provide resource betterments, including capital works, rather than compensating for changes in the price of a comparable 'basket' of recurrent resources across schools over time.

There is no educational rationale for using changes in school fees as a measure of inflation in schools. In adopting the education component of the CPI (that is, changes in school fees) as part of its indexation methodology, the Government appears to have accepted some of the pre-Budget submissions of non-government school authorities¹¹.

Because of these difference in indexation methodologies, the estimates in Table 2 show a small annual real increase in Commonwealth funding for schools after 2017-18. In this sense, this very small increase in Commonwealth investment in Australia's schools is the result of an accounting technicality rather than of a vision for a higher quality and more equitable school system.

The overall amounts in Tables 1 and 2 do not take account of levels and changes in student numbers in both sectors. An outline of the budget changes on a per student basis is set out in Table 3 below:

¹⁰ Budget 2016, Paper No. 1, Table 2, page 1-8.

¹¹ E.g. National Catholic Education Commission, *2015-16 Pre-Budget Submission*, 6 February 2016, pages 4-5.

Table 3**Budget 2016:
Commonwealth per student
for Schools****constant Year 2015-16 prices**

	Estimates			Projections		Increase	
	2015-16	2016-17	2017-18	2018-19	2019-20	2016-17 to 2019-20	
	\$	\$	\$	\$	\$	\$	%
government schools	2,369	2,552	2,632	2,679	2,735	183	7.2%
Increase (\$)		183	80	47	56		
Increase (%)		7.7%	3.1%	1.8%	2.1%		
non-government schools	7,580	7,871	7,955	8,063	8,180	309	3.9%
Increase (\$)		291	83	109	117		
Increase (%)		3.8%	1.1%	1.4%	1.5%		
All schools	4,185	4,397	4,471	4,539	4,616	219	5.0%
Increase (\$)		212	73	68	77		
Increase (%)		5.1%	1.7%	1.5%	1.7%		
Projected enrolments							
government schools	2,434,000	2,470,000	2,511,000	2,511,000	2,511,000	0	
non-government schools	1,302,000	1,312,000	1,325,000	1,325,000	1,325,000	0	
all schools	3,736,000	3,782,000	3,836,000	3,836,000	3,836,000	0	

Sources: Budget Paper No. 3 2016, Table 2.5; Department of Education and Training
Budget Statements Table 2.1.2

See also sources to Table 2

The trends in Table 3 reflect the greater numbers of enrolments in government schools as well as the larger share of Commonwealth funding directed to non-government schools. When Commonwealth funding is adjusted for inflation and expressed in per student terms, the Budget projects a real increase in funding of \$183 (around 7.2 per cent) for each student in a government school between 2015-16 and 2019-20. Although the rate of increase for each non-government school student is lower than this at 3.9 per cent, the total per student increase in non-government schools funding is higher, at \$309.

For a government school of around 500 students, the projected increase in funding by 2019-20 would be enough to finance an additional 0.9 of a teacher, on average, compared with its current level of resources. A non-government school of the same size would receive additional funding equivalent to 1.5 extra teachers over the same period.

System authorities, both government and non-government, would have the capacity to distribute the extra funding to provide targeted support for schools with the most needs;

but, as noted above, this is unlikely to be possible to achieve across all schools in the independent school sector.

The current Government's 2016 Budget reveals its decision not to commit to substantial reform of schools funding. Its decision to increase indexation of 2017 funding levels for all schools and systems regardless of relative need ignores the need for policies that address the growing inequalities in resources and outcomes within and between government and non-government school sectors across Australia.

At best, the Coalition Government has budgeted for a holding pattern in its policies and priorities for schools funding. There is no educational rationale for its future funding arrangements, other than its reluctant promise at the 2013 election to phase in the Gonski funding model to 2017 and effectively to freeze the resource standards achieved at that date for a further three years to 2020. The Coalition has abandoned the Gonski schools funding model without any rational alternative. Instead, it has emerged from the 2016 election with a policy that reflects an arbitrary political decision, with no underpinning principle in terms of the quality or fairness of schooling across Australia.

This is an unstable, and unsustainable, policy position. State governments will be increasingly urged by the Commonwealth and by the community to increase their funding for schools, and for the planning and funding of government schools in particular, to meet demographic pressures, which are also affecting a range of other essential services.

In this case, the Commonwealth may draw attention to its precarious Budget position in contrast with that of the apparent budget surpluses in most States. This kind of argument, however, is misleading, if not duplicitous. Commonwealth Budget conventions are very different from those of the States: Commonwealth budget positions compare revenues with all spending, both recurrent and capital, while States refer to 'operating' balances where only recurrent spending is deducted from revenue¹². When the Commonwealth makes this argument, it appears to be a new take on the Commonwealth/State blame game that bedevils the Australian federal system of government.

By contrast, the Labor Opposition has provided a clearer statement on policy priorities for schools. Labor has declared a strong commitment to a '...permanent and ongoing shift to needs-based funding' based on the Gonski model'¹³. Its funding commitments can be translated into the Budget framework and compared with the Coalition Government's allocations, as set out in Table 4 below.

¹² Ross Gittins, *Federal Budget 2016: what not to believe on the night*, Sydney Morning Herald, 1 May 2016.

¹³ Australian Labor Party, *Your child; our future*, February 2016.

Table 4
Difference between
Coalition and Labor
policies on Schools
Funding

Outturn prices

		Estimates		Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Aggregate 2016-17 to 2019-20
	\$m	\$m	\$m	\$m	\$m	\$m
government schools						
<i>Coalition</i>	5,766	6,442	6,936	7,277	7,671	28,326
<i>Labor</i>	5,766	6,442	7,342	8,898	10,119	32,801
<i>Difference</i>	0	0	-406	-1,621	-2,448	-4,475
non-government schools						
<i>Coalition</i>	9,869	10,554	11,061	11,556	12,106	45,278
<i>Labor</i>	9,869	10,554	11,125	11,835	12,568	46,083
<i>Difference</i>	0	0	-64	-279	-462	-805
All schools						
<i>Coalition</i>	15,636	16,996	17,997	18,833	19,777	73,603
<i>Labor</i>	15,636	16,996	18,467	20,733	22,687	78,883
<i>Difference</i>	0	0	-470	-1,900	-2,910	-5,280

Sources:

Budget Paper No. 3 2016, Table 2.5; Budget Paper No. 2 2016, Part 2, page 80;

Australian Labor Party, Your Child our Future: Labor's positive plan for schools, 2016;

Parliamentary Budget Office, *Post-election report*, 5 August 2016

Note: a negative number in the *Difference* rows and columns indicates an increase in spending and, therefore, a call on the Commonwealth Budget bottom line.

The estimates of Labor's funding commitments over the Budget period in Table 4 are based on its public statements and documents, and an understanding of how these would be presented in a budgetary process. At this stage, Labor has not specified the detail of how it would apply the further transition to the Gonski funding model or the way it would index funding for schools operating above and below the Gonski standards. The estimates in Table

4 assume that the total amount would reflect the funding arrangements provided for in the *Australian Education Act 2013* and the costings undertaken by the Parliamentary Budget Office prior to the July 2016 election¹⁴.

The estimates for Labor's contributions also take into account its intention to provide interim funding for students with a disability (\$267 million over 2016-17 to 2018-19), as well as the additional funding for these students allocated by the Coalition Government in the 2016 Budget (\$118 million over 2016-17 to 2017-18)¹⁵.

On these assumptions, Labor's policy commitments would increase the current Budget projections of Commonwealth funding for all schools by almost \$5.3 billion over the four years of the Budget estimates from 2016-17 to 2019-20: \$4.5 billion extra for government schools and \$0.8 billion for non-government schools. This difference between the sectors recognizes the significance of the Gonski funding model for government schools in the light of the higher number and proportion of students requiring more intensive support in the public sector.

Labor's commitments would enable the Commonwealth to meet its share (65 per cent) of the additional funding required for almost all schools to reach the recurrent resource standards recommended by the Gonski Review. It would then fall on the States and Territories to commit to their share (35 per cent) of the increased investment required to meet the Gonski targets.

The comparisons between the two major parties are stark. Rarely has a federal election had so much at stake for the nation's public schools. Its outcome – a narrow Coalition victory and an unpredictable Senate – has increased the state of uncertainty about the longer-term future of Commonwealth funding policy for schools. This is especially the case for the underlying rationale for Commonwealth funding responsibility for public schools.

Despite some uncertainties about the detail of Labor's policy commitments – such as the indexation rates that would apply to different categories of schools and the nature of agreements with states and territory governments – the essence of its policy is clearly drawn from the advice of the Gonski Review Panel and the provisions of the extant *Australian Education Act 2013*. Underlying that policy framework are the values set out in the preamble of the Act, including the principle that:

The quality of a student's education should not be limited by where the student lives, the income of his or her family, the school he or she attends, or his or her personal circumstances.

It is not clear that the funding commitments put forward by the Coalition during the election¹⁶ are consistent with this principle. Rather than commit to any clear position on

¹⁴ Australian Labor Party, *Your child, Our Future: Labor's positive plan for schools*. July 2016; Parliamentary Budget Office, *Post-election Report*, 5 August 2016.

¹⁵ Budget 2016, Paper No. 2, page 80.

¹⁶ Liberal Party, *Election Policy Commitments Issue 12: Putting Students First*, July 2016.

equity and needs-based funding, the Coalition's election policies refer more generally to national agreements on teaching quality, school autonomy, parent engagement and curriculum reform – all in a resources vacuum.

The Coalition's current policy, as noted above, effectively 'freezes' Commonwealth funding for schools at the level reached in 2017. This is well short of the funding required for all schools to reach resource standards set out in the Gonski report and the Australian Education Act. As a result, Commonwealth funding for schools in 2018 and beyond will not be distributed according to the needs-based formulae provided for in the legislation. It is likely that the legislation will need to be amended, at least in relation to the indexation rate provisions in sections 34 and 60 of the Act. Whether or not the Government will attempt to repeal the Act in full or amend relevant sections through regulations or the Parliament as a whole, including the extract from the preamble quoted above, is unclear at this stage.

This is an insecure and potentially volatile situation for schools. The politics of this instability will play out both overtly and covertly over the months ahead until the issues are brought to head through any changes to the legislation and in the context of the next election.