

# ISSUE ANALYSIS

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### School Funding, Choice and Equity

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EXECUTIVE SUMMARY

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- School funding is plagued by inconsistencies and divisiveness. Its complexity has led to widespread misinformation and perceptions of inequity.
- Existing models of government school funding tend to have historical and political foundations rather than clear objectives or rationales.
- School funding ought to have three main objectives: equity, efficiency and excellence. These goals are not being achieved in the current system.
- A new school funding model should be based on the needs of individual students, not on the type of school they attend.
- A Universal Weighted Student Funding (UWSF) system is a model that is best aligned with the key features of effective funding systems—and maintains school choice.
- UWSF has three main components: a National Resource Standard, a Guaranteed Student Entitlement, and Equity Weights. It can also be adjusted to take into account private inputs to schools.
- The issue of private inputs is the most difficult to resolve. The challenge is to design a public funding model that does not exacerbate socio-economic inequities but which also does not create disincentives to private investment in schools.
- One way to moderate public funding is to vary all students' public funding entitlements according to their household income or socio-economic status (SES), irrespective of the type of school they attend. This would require some government schools to charge fees and would create an additional means test for families.
- Another approach (described in detail in this monograph) is to vary public funding entitlements according to the level of tuition fees paid. A student attending any school, government or non-government, which does not charge compulsory fees (or which charges fees up to a certain threshold) would be eligible for the full public funding entitlement. Schools charging fees beyond the threshold would have their public funding discounted gradually until a minimum public funding level is reached.

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## Introduction

The current level of inconsistency and divisiveness in the funding systems for government and non-government schools indicates a clear need for reforming school funding in Australia. Widespread dissatisfaction with the current arrangements has been documented across the education sector. Forty percent of respondents in an Essential Research poll in 2009 said that the system for funding non-government schools should be changed. Polls conducted by the Associations of Independent Schools in NSW, South Australia and Queensland in 2010, and by the Australian Education Union (AEU) in 2011, each found that around two out of three people believe current funding to schools is inequitable, albeit for different reasons.<sup>1</sup> AEU survey respondents were inclined to believe that public schools were underfunded relative to non-government schools, while the Associations of Independent Schools' surveys found majority opinion supporting the opposite case. Nonetheless, this shows that funding systems are not well-understood and that misinformation is widespread.

Numerous research papers and reports explain the inconsistencies and anomalies in funding and make the case for reviewing funding arrangements.<sup>2</sup> Government school funding is obscure and highly complex; in some states, it has no clear rationale or formula. A recent paper reviewing state and federal school funding systems in Australia pointed out that there are 18 separate funding models in operation.<sup>3</sup>

According to a 2007 paper by Andrew Dowling, senior researcher at the Australian Council for Educational Research (ACER), 'most states cannot report financial information on a school-by-school basis, much less a student-by-student basis, even notionally.'<sup>4</sup> This year, average student expenditure in individual schools has been published for the first time on the federal government's My School website, marking a major upswing in school financing transparency. However, while the quantum of funding to each school is now readily available, it is still no clearer to the lay person how this funding has been allocated. Non-government school funding has some advantages over government school funding in that it is transparent and student-centred. Yet it is plagued by accusations of unfairness because special provisions have resulted in almost half the non-government schools being exempt from a strict application of the SES (socio-economic status) model.

An audit published by the Australian National Audit Office in 2009 reported that 47% of non-government schools were not being funded on the basis of their individual SES scores.<sup>5</sup> Most of these were systemic non-government schools (including the Catholic school system) that were given a 'Funding Maintained' provision, whereby they retained their previous levels of funding if their ascribed funding level under the new SES system was lower. Another group of schools was classified as 'Funding Guaranteed,' whereby their funding was frozen, resulting in a gradual decrease in real funding until their actual funding level matched their ascribed funding level. These provisions may have been defensible to avoid schools experiencing a sudden funding shortfall, but the result is a funding system that is ineffective for almost half its target schools. To be critical of this is not to suggest these schools are being 'over-funded' but rather that the system is not coherent in practice.

This monograph will not address the arguments for and against public funding of non-government schools. That debate is no longer relevant. The starting point of the proposed universal funding model is that school funding should be based on the individual needs of students and not the type of school they attend. How such funding arrangements might be tailored to meet various competing policy objectives is the major focus of this monograph.

**School funding should be based on the individual needs of students and not the type of school they attend.**

## **Objectives of schooling funding systems—equity, efficiency and excellence**

The overarching principle of public funding for schooling is not in question. However, it is useful to spell out the intended purposes and objectives of public funding for schools as this will guide policy decisions. Different priorities may require different policy approaches.

Over the past two decades, federal governments have been increasingly interventionist in schools policy. The Howard government and the Rudd/Gillard government have presided over substantial increases in funding to both the government and non-government school sectors, allowing them to exert increasing influence over schools and state education departments. Education policy has become increasingly centralised at the federal level, with the introduction of the National Assessment Plan for Literacy and Numeracy (NAPLAN) assessments, the My School national school information portal, the Building the Education Revolution scheme, and the development of a national curriculum.

These programs and policies all have pros and cons. However, there is a good case for preserving the dominant role of state governments in administering funding to schools. The main reason is to mitigate risk. Any new school policy that is applied nationally will uniformly affect all children. If there is some diversity in funding arrangements (for example, in allocating funding weights for disadvantage and disability), the risk of harm from a bad policy decision is reduced. Likewise, a good policy decision will be apparent in comparisons of productivity and performance and can be voluntarily adopted more broadly.

The funding mechanism proposed later in this monograph would appear to point to a national funding system. This may eventuate to be the simplest and best solution; however, it should not be considered the obvious or only option. Furthermore, central government distribution of funding can be, and should be, coupled with devolved school-level budgeting. Once a school's overall budget has been determined at either the state or federal level, individual schools ought to be able to decide, within reason, how best to use their financial resources.

### **Equity**

Comprehensive and detailed evidence of the higher risk of poor educational outcomes experienced by Indigenous children, as well as children from socio-economically disadvantaged homes, children in rural and remote areas, children with disabilities and with special needs, and children for whom English is their second language are readily available.<sup>6</sup> These factors are well known to be associated with educational disadvantage, and their effects are cumulative. Many children experience multiple risk factors.

In the 2010 NAPLAN assessments, distinct literacy and numeracy gaps associated with socio-economic factors, location and indigeneity were evident. Year 3 children with parents who had not completed school were six times more likely to have reading levels below the minimum national standard (13.1%) than children with at least one parent with a university qualification (2.2%). Year 3 children with parents who had been unemployed in the previous year were six times more likely to have reading levels below the minimum national standard (13.1%) than children with a parent who was in senior management or was a qualified professional (2.1%).

Year 3 students in very remote areas were eight times more likely to have reading levels below the minimum standard (41.3%) than children in metropolitan areas (5.1%). The overall literacy gap for Indigenous students is unacceptably large, but for Indigenous children in remote areas it is better described as a gulf. Nationally, Indigenous children were five times more likely to have reading levels below the minimum standard (24.8%) than non-Indigenous children (5%). Among Indigenous children in very remote areas, the rate of failure to achieve the national

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standards (56.1%) was 12 times higher than their non-Indigenous counterparts in metropolitan Australia (4.6%). The comparative failure rate in the Northern Territory is a factor of 15 (71.5%). Another 20.2% achieved only the minimum standard.<sup>7</sup>

Children whose personal circumstances place them at an educational disadvantage require more resources than their more advantaged peers if they are to have the same opportunities. Often such children have social, physical and emotional needs that make learning a great challenge and which cannot be ignored by schools.

The broadest category of disadvantage is socio-economic disadvantage. The majority of 'equity' funding—that is, funding aimed at closing achievement gaps between groups of students—is directed at this category. Indeed, the entire federal government funding system for non-government schools is based on a sliding scale of SES.

Without suggesting that there is no justification for providing extra resources for socio-economically disadvantaged students, a note of caution is necessary. It is extremely difficult to completely close achievement gaps associated with socio-economic disadvantage using only the school system. It is true that 'demography is not destiny.' Children from impoverished homes can achieve at high levels if given the opportunity. But there will always be a gap of some magnitude between the haves and have nots.

Consider the following scenario: All non-government schools are closed and every child attends the local public school. Equal funding is provided to every school, and schools are prohibited from charging fees of any kind. It is a foregone conclusion that aspirational middle and high SES families will always find ways to give their children educational advantages outside of the school setting through private tutoring, travel experiences, extra-curricular activities, and the benefits of their own education and attention. Not only this, neighbourhood schools will be highly segregated and peer effects will be just as strong as they would be in schools of choice. The only way to avoid this residential segregation is to deliberately allocate students to schools to achieve an even mix of social backgrounds (sometimes called 'bussing'), a solution with numerous drawbacks and which few would condone.

It must also be kept in mind that SES is just a proxy measure. Low household SES in and of itself is not a causative factor but a correlate of the quality of the home learning environment, among other things. The number of books in the home is another correlate for this, and is even more strongly related to educational achievement.<sup>8</sup> SES does not perfectly predict educational advantage or disadvantage.

Children spend a relatively small proportion of their time in school. In a typical school week, children spend only one-third of their waking hours at school (assuming nine hours sleep each night). Over a calendar year that includes 12 weeks of school holidays, this proportion reduces to 22%. During the remaining 78% of the time, higher SES children are much more likely to participate in activities that bolster learning, even if it is in non-formal ways—visiting cultural institutions such as museums and galleries and reading for pleasure.<sup>9</sup>

A number of studies show that the long summer holidays are associated with a large proportion of SES-related educational disadvantage in the United States.<sup>10</sup> A recent study found a slight closing of the SES gap over the school year but this was lost over the summer months; in fact, the gap had widened. Over the summer holidays, high SES students made literacy gains, average SES students made no gain or loss in literacy, and low SES students made literacy losses.<sup>11</sup> In effect, it seems, schools act as equalisers to a certain extent while in session, but what happens outside of school hours is highly salient. Unfortunately, no similar research has been published for Australia, and it should be an important area for future study.

The above points are not fatalistic but realistic. Australia has made some progress in the last decade in reducing the impact of SES on student achievement.<sup>12</sup> More progress can be made, but it will require solutions that involve more than simply feeding additional funding into the existing school structure and timetable.

**It is extremely difficult to completely close achievement gaps associated with socio-economic disadvantage using only the school system.**

Further information about closing the achievement gap comes from charter schools in the United States.<sup>13</sup> Among charter schools that have been highly effective in closing SES-based and black-white achievement gaps, two features are common. One is a teacher-centred pedagogy known as explicit or direct instruction. The importance of good teaching based on sound evidence of ‘what works’ cannot be overstated and has the potential to reduce the achievement gap.

The other feature of schools successfully serving disadvantaged children is an extended school day and an extended school year.<sup>14</sup> There are two benefits to children spending more time at school, especially those who live in communities with high concentrations of social disadvantage. The first is that it allows more time to be spent teaching core knowledge and skills without displacing other important parts of the curriculum. Extra time spent at school tends to have academic pay-offs if the learning program is aligned with the regular school curriculum and activities.<sup>15</sup> The other benefit is that it keeps students ‘off the streets’ and reduces the amount of time available for unproductive activities. Children with a low SES family background are less likely to attend supervised extra-curricular activities after school, and they often do not have the resources or support at home for homework and independent study.

Schools cannot be held wholly responsible for creating equity in education. However, effectively targeting financial and intellectual resources can go a long way in closing the gaps.

#### *Equity and school choice*

One of the most enduring criticisms of school funding policies that allow families choice in schooling is that it has an adverse impact on equity. The concern is that this results in self-segregation of students; the more socio-economically advantaged, higher ability students will be the most mobile, leaving some schools with high concentrations of disadvantaged students. These ‘residualised’ schools become trapped in a vicious cycle of low performance and low expectations.

Two commissioned reports prepared for the current Review of Funding for Schooling raised these concerns. A report by ACER discussed the evidence for ‘residualisation’ in schools by canvassing the evidence for changes in the socio-economic composition in the government, Catholic, and independent school sectors.<sup>16</sup> It cited a 2010 study showing that from 1975 to 2006, the average socio-economic status of students increased in the independent sector but declined in the government sector.<sup>17</sup> No evidence was presented showing increased concentrations of disadvantage in individual schools within school sectors, but the report acknowledged that socio-economic disadvantage did not just affect government schools.

The ACER report also discussed the findings of OECD reports that found academic achievement levels are positively related to school choice but which are equivocal on the impact of school choice on socio-economic stratification and equity. Fittingly, given the weakness of the evidence presented on choice and equity, the ACER report does not suggest changing policies to reduce school choice. Instead, it recommends that a ‘prudent approach for government policymakers in Australia would be to examine and redress any unintended negative effects associated with school choice policies affecting a whole jurisdiction or specific localised effects.’<sup>18</sup> There is no suggestion of throwing out the baby with the bath water and denying choice to all families. Rather, it advises awareness that not all students may benefit from choice to the same extent, and this necessitates developing specific strategies to help these students.

The other commissioned report on choice and equity was produced by a consortium consisting of the Nous Group, the National Institute of Labour Studies, and the Melbourne Graduate School of Education, collectively known as

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the Nous report. It is easy to detect an underlying antipathy to choice policies and to non-government schools in the Nous report. Several statements in particular are revealing. The first was a proposition for 're-directing resources from elsewhere—while controversial, we do need to question the extent to which public funds should continue to subsidise those already well-resourced selective schools that are not providing "value-add" in terms of student performance.'<sup>19</sup> This can be read as code for creating a 'hit list' of wealthy schools for funding reductions. To describe this idea as controversial is an understatement. On the three occasions that such a scheme has been broached by governments and oppositions, it has been political poison. Presumably the report authors realised this and mentioned this idea only once.<sup>20</sup>

The second indication of some hostility to school choice is in the description of choice as a 'zero sum game'—it results only in a rearrangement of students rather than creating an environment with incentives for improved school performance across the board, or a 'rising tide that lifts all boats.' The report contained an admonition that parents must be 'mindful of wider community benefits of having well-functioning schools irrespective of personal considerations around school choice for one's own children.'<sup>21</sup> Again, this was a one-off statement in the report; few if any parents will prioritise community benefits over the needs of their own children.

Furthermore, the report claimed that the superior academic performance of non-government schools (and indeed any school) is entirely a function of the higher socio-economic status of their students. The evidence for this is debatable, but perhaps the most problematic aspect of this argument is the logical conclusion: demography *is* destiny and schools make little difference to the outcomes of students. This conclusion is not borne out in the evidence presented in the rest of the paper, either in the analysis of distributions of performance between schools or the case studies which show multiple factors contributing to the decline of individual schools when faced with competition, including community demographic change and leadership quality.

But even while expressing quite strong criticism of school choice policies in the context of equity, the Nous report still did not go so far as to recommend curtailing choice. Indeed, it acknowledged the evidence for positive effects of competition among schools, albeit modest in size, making the reasonable observation that the smaller than expected effects may be due to the education marketplace being heavily regulated. The report recommended moderating the effect of competition on struggling schools by encouraging collaboration among schools, and suggested that the most successful schools might be encouraged, through financial incentives, to take on more responsibility for the education of the most needy students.

The accumulated evidence on the effect of socio-economic disadvantage over the last decade is convincing. It shows that the average level of socio-economic disadvantage of a school has an additional impact above and beyond an individual student's own level of disadvantage. Students, irrespective of their own background, will do better in a school with a higher average SES.<sup>22</sup> This finding highlights the way in which socio-economic disadvantage is manifested in educational outcomes.

It does not tell us, however, *why* concentrated disadvantage has such a powerful effect. The Nous report assumed that it is a peer effect, saying that 'school quality' is more accurately expressed as 'student quality at that school.'<sup>23</sup> There is little doubt that student ability and support of the home environment have large impacts on educational outcomes, but it is important not to overstate this. It is consistently estimated that socio-economic background predicts around 30% of student performance.<sup>24</sup> Indeed, an analysis of results from the Programme of International Student Assessment (PISA) published in the appendices of the Nous report shows a substantial gap between low and high performing schools; this gap cannot be

explained by the schools' socio-economic index or characteristics such as location and sector.<sup>25</sup> This suggests there are other in-school factors involved in producing high achievement, a conclusion supported by John Hattie's synthesis of research on school effects and the well-established evidence on teacher quality.<sup>26</sup> If enrolments decline in a school, there must be a precipitating reason for students to leave the school in the first place.

Second, it cannot be confidently concluded that school choice is the cause of 'residualisation.' That a concentration of disadvantage occurred in a school choice policy environment does not prove causation. There is no basis for comparison and therefore no reason to discount the possibility that schools would have become similarly stratified through the application of residential enrolment zones around schools.

Third, if students leave a school, there must be a good reason. As the *Nous* report pointed out, the decision to change schools is rarely an easy one.<sup>27</sup> If a school's enrolments decline to the point where it becomes unviable, it must either close or undergo a transformation. There may be some initial disruption involved, but this is surely preferable to allowing thousands of students to continue attending a substandard school.

Putting aside the burden of proof, there is no benefit in denying that there might potentially be some negative impacts of choice for some students, at least in the short term. To do so is naïve and does no credit to the case for choice. The point is that school choice has more benefits than drawbacks, and the potential difficulties for some students do not justify denying the benefits for the majority. Arguably, the best approach, and one that the ACER and *Nous* reports appear to endorse, is to provide safeguards to minimise any negative effects and provide extra support for students who are unable to seize the opportunities school choice affords.

### **Excellence**

The latest report on PISA has revealed a crucial but largely neglected aspect of school education in Australia—serious underperformance at the highest end of the achievement spectrum among 15-year-olds.<sup>28</sup> In the reading literacy component of PISA 2009, Australia was one of only four OECD countries—and the only previously high performing country—to have a significant decline in its mean score. In the other three countries with mean score declines, there was both an increase in the proportion of low performers and a decrease in the proportion of high performers.

In Australia, there was only a marginal, non-significant change in the proportion of low performers; the decline in the mean reading literacy score in Australia can be traced uniquely to a significant drop in the proportion of students in the two highest performance levels, from 18% to 13%. There was a similar pattern of decline in maths literacy in Australia between 2003 and 2009. Scientific literacy did not exhibit any performance changes, possibly because scientific literacy was introduced to PISA in 2006, and the interval between the two testing points is much smaller than the other measures.

The most recent results of TIMSS (Trends in International Maths and Science Survey 2007), which assesses maths and science knowledge, not only confirms the low proportion of high performing students in Australia but also offers a slightly different perspective. The largest proportions of high performing students (those achieving the advanced benchmark) in Year 4 maths were found in Singapore (41%), Hong Kong (40%), and Chinese Taipei (24%). Compared with these countries, only 9% of Australian students achieved the advanced benchmark. However, Australia outranked New Zealand (5%) and Sweden (3%), high performing countries in PISA, on this measure.<sup>29</sup>

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There is little doubt that to be competitive internationally, it is not sufficient to have a population that is broadly above average but skewed towards the bottom of the range of abilities. According to PISA and TIMSS, Australia has approximately twice as many students at the bottom of the academic spectrum as at the top. To balance these proportions, we need to reduce the number of low performers and increase the number of high performers. Although awareness of the plight of our top students is widespread, there is little evidence of any concerted policy effort designed to boost their performance, and there has been no public or academic exploration of the reasons for the fall in their international test scores. With few exceptions, Australia's best and brightest students largely have to fend for themselves.

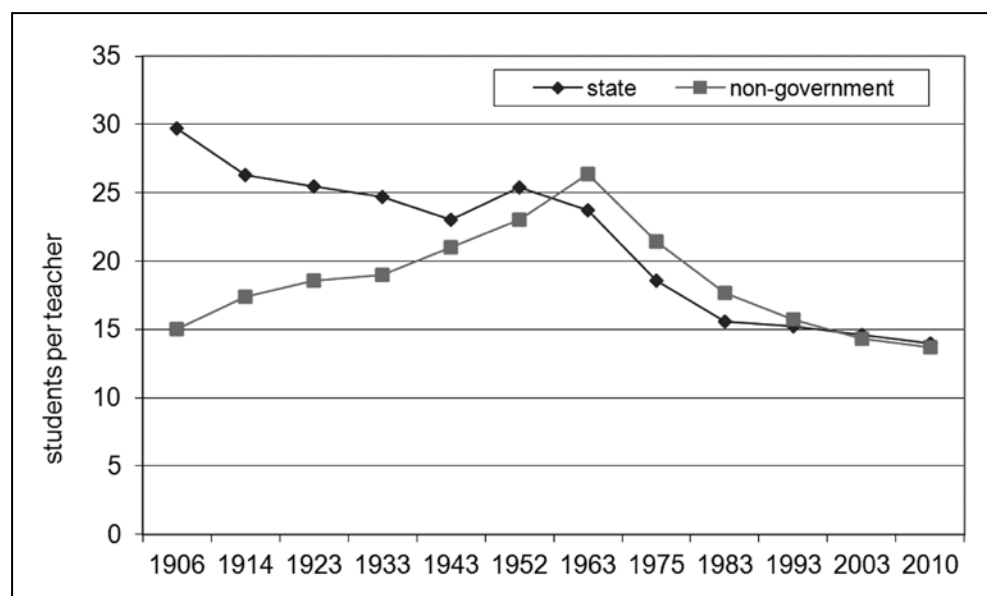
### **Efficiency**

Public expenditure on schools has been increasing steadily over the last five or six decades.<sup>30</sup> Even in difficult economic times such as those created by the recent global financial crisis, the Australian government substantially increased investment in schools, above and beyond those of a normal budget cycle, most notably through the Building the Education Revolution (BER) program. While BER was arguably an economic stimulus package rather than a well-developed educational investment, it nonetheless contributed to the enviable position of schools relative to other public services. School education is the third largest area of government outlay after social security and health care.<sup>31</sup>

In addition to one-off injections of funding such as BER, recurrent spending has grown significantly. A large proportion of this money has gone into increasing the number of teachers. Class-size reduction is only one part of this trend. There are also more teachers' aides, learning support teachers, and other specialised teaching and student welfare personnel in schools. Technology too is demanding more and more of schools' budgets. Gone are the days of chalk, pencils, paper and textbooks. A typical classroom in Australia today has a 'smart board' and at least several computers, all of which require substantial networking capability, software, electricity supply, and technical support and maintenance. Yet, there have been no appreciable payoffs in terms of student achievement, at least in the foundation skill of literacy ability.

Figure 1 shows that the ratio of students to teachers has never been lower in the last century.

**Figure 1: Student:teacher ratios (1906–2010)<sup>32</sup>**



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Despite incessant calls for increased public funding for schools, a number of studies have shown that there is no direct or simple relationship between the quantum of funding for school education and the outcomes of schooling. In Australia, real per-student spending on school education doubled from 1964 to 2003 with no accompanying increase in literacy or numeracy scores. Indeed, there was a small decline in these scores between 1975 and 1998 when spending increased by 10%.<sup>33</sup> While literacy and numeracy scores may be narrow gauges of educational quality, they are the fundamental outcomes of schooling and, as noted above, an unacceptably large number of students are still failing to gain even minimum standards in these areas.<sup>34</sup>

There may have been unmeasured payoffs for this investment in other areas of the curriculum, but the evidence suggests there has been no benefit to students' average proficiency in basic skills. Cross-country research supports this finding. A recent analysis of per student spending and TIMSS scores found 'no association between spending levels and average academic achievement' even after controlling for variables such as family background and school characteristics.<sup>35</sup> The same study found that increases in spending within countries over time did not lead to increases in student outcomes. Eric Hanushek calls this entrenched pattern of increased expenditure and stagnant educational outcomes a 'productivity collapse in schools.'<sup>36</sup>

PISA similarly reports a 'generally weak relationship between resources and performance' across OECD countries.<sup>37</sup> This is not to say that spending has no impact on student outcomes but that higher spending will not inevitably lead to higher quality schooling and better outcomes.

Both common sense and empirical evidence suggest that the mediating factor is how the money is spent. As in Australia, a large proportion of the increased expenditure in English-speaking countries appears to have been absorbed by increasing the number of staff in schools. It might be argued that increased investment was necessary just to maintain standards. Research however suggests this investment was misdirected—neither reducing pupil:teacher ratios nor actual class sizes has had clear, unambiguous academic benefits for students.<sup>38</sup> In a trade-off between class size and teacher salaries, the latter is more strongly related to better student performance.<sup>39</sup> In PISA, the only resource factor positively associated with higher reading scores was teacher salary relative to national income. That is, high performing countries were likely to prioritise paying teachers more over reducing class sizes.

In his highly influential book *Visible Learning*, John Hattie synthesised the results of more than 800 meta-analyses involving millions of students to determine the magnitude of the effects of a long list of student- and school-related factors on student achievement. Hattie's analysis attributes an effect size of 0.23 to school finances, which falls within the low-moderate range, and he reinforces the view that money does matter but only if spent in the right way.<sup>40</sup>

There is no sure-fire way to invest in schooling to guarantee improved results of a predictable magnitude. It is now generally accepted that quality teaching is the most important factor in how much a student learns. But although excellent teaching and effective teachers can be readily identified, creating them is an inexact science and remains contentious.

Schools cannot expect ever-increasing endowments from governments. Due to a combination of essential fiscal restraint and the cost demands of an ageing population, it will become necessary for governments to justify their educational expenditure and improve the productivity of schools. An important element of this will be research and evaluation. New programs and initiatives should be trialled properly and evaluated regularly to ensure they provide value for money. For example, any new literacy program should not be widely implemented without rigorous

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pilot studies that meet high empirical research standards. To date, this has not been a feature of government policy development in education and has arguably contributed to the lack of productivity growth with increased spending.

Another important element in achieving efficiency is to strike the correct balance between public and private spending on education. Analysis of the outcomes of public and non-government schools tells us that non-government schools achieve higher academic performance, school retention rates, and post-school outcomes than government schools. For the purposes of efficiency in public spending, whether this can be attributed to their higher levels of private resourcing or more advantaged family backgrounds is irrelevant. It is clear evidence that subsidising non-government schools provides at least the same returns on investment and even higher returns where private investment is encouraged.

### School funding and school choice

The federal government's Review of Funding for Schooling—colloquially known as the 'Gonski review' after the review committee's chairman, David Gonski—commissioned four research reports to inform its deliberations. The two reports focusing specifically on funding mechanisms were independently produced but had a notable level of agreement on the key features and principles of a 'best practice' school funding system.

The key features are (in no particular order):

1. **Neutrality.** Per student funding level is not dependent on school sector alone.
2. **Adequacy.** A school's budget should be sufficient to provide a quality education.
3. **Transparency.** Information about funding is understandable and easily accessible.
4. **Efficiency.** Resources are used in a way that maximises outcomes for given inputs.
5. **Certainty.** School budgets are stable and predictable.
6. **Flexibility.** Schools are able to manage their budgets according to local priorities.
7. **Accountability.** Clear expectations of standards and public scrutiny of performance.
8. **Incentive.** Private contributions to education are encouraged.
9. **Equity.** Funding levels reflect the individual educational needs of students.
10. **Effectiveness.** Funding allows education systems to achieve their stated objectives.
11. **Simplicity.** Funding formulas are based on clear principles and are no more complex than is necessary.
12. **Sustainability.** Potential future changes to funding levels are anticipated, scheduled and planned.
13. **Coherence.** Funding policies at different levels of government are complementary.
14. **Choice.** There is a diverse range of schools to meet the preferences and needs of parents and students.

All these features are compatible with, and arguably best served by, a school choice funding system such as weighted student funding. The term 'school choice' broadly means a funding and legislative framework based on the needs of individual students rather than on the type of school they attend. Some call this a 'voucher' system, but it has been variously called 'portable student funding,' 'student-centred funding,' 'pupil premium,' 'per-student funding,' 'stipends,' 'demand-side financing,' 'scholarships,' and 'weighted student funding.'

As little as a decade ago, a universal funding system for schools was considered a radical idea but it has now become mainstream view. There is support for at least

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the basic principles of universal weighted student funding from many people across the educational, political and ideological spectrum, including Brian Caldwell,<sup>41</sup> Jack Keating,<sup>42</sup> Mark Harrison,<sup>43</sup> Peter Dawkins,<sup>44</sup> Julie Novak,<sup>45</sup> Craig Emerson,<sup>46</sup> John Roskam,<sup>47</sup> and the Australian Primary Principals Association.<sup>48</sup> Numerous publications by The Centre for Independent Studies over the years have argued cogently for a school funding system that supports ‘school choice’ on educational, democratic, moral and economic grounds (see Appendix 2).

The proposed funding scheme in this monograph will be called Universal Weighted Student Funding (UWSF). In fact, the federal government already uses a quasi-weighted student funding scheme for non-government schools. Funds are allocated on a per-student basis; the minimum per-student entitlement (13.7% of Australian Government School Recurrent Cost (AGSRC)) is weighted for socio-economic status. State government funding models for public schools in some states, including Victoria and South Australia, also have some features of UWSF.

The basic principles of the proposed UWSF are:

1. All students are entitled to a basic level of funding for their schooling, irrespective of the type of school they attend.
2. All schools, government and non-government, are funded under the same conditions.
3. Students with greater need receive extra funding in addition to their basic entitlement, which is cumulative if they have multiple sources of disadvantage. Different sources and degrees of disadvantage have different ‘weightings.’
4. Students can enrol in any school that fulfils the educational and civic requirements. This includes religious schools.

Student-centred funding schemes have been in existence in the Netherlands for around 100 years, and in Sweden for close to 20 years. The Swedish system has been attracting a great deal of interest in other countries, particularly in England, where its influence can be seen in the creation of the ‘academies’ model of devolved school governance and the recent establishment of dozens of ‘free schools’—independently governed, publicly funded schools.<sup>49</sup> All schools in Sweden receive the same level of per-student funding, whether they are municipal schools or independent schools. The Swedish system allows for-profit organisations to open schools and receive public funds. However, true to the social democratic culture in Sweden, schools cannot charge fees. Several US cities and one large Canadian province have WSF schemes operating within the public school system.

As noted above, the basic principles of UWSF have many supporters in Australia. Casting the net wider finds that there are other people who support the concept of school choice albeit through other means such as tax credits. Yet, to date, there has been little detailed discussion about the ‘nitty gritty’ aspects of implementing a UWSF in Australia. This is mainly because so much of the debate over the last decade has involved getting to the point where a universal funding system is no longer seen as ‘right-wing’ or extreme.

Beyond the basic principles of a UWSF are a number of more contentious issues that must be resolved.

1. Baseline funding entitlement for each student
2. Weightings
3. Impact of private inputs, including fees, on a school funding model
4. Conditions to be attached to public funding, and
5. Capital funding that allows choice and diversity while minimising duplication and waste.

**All students are entitled to a basic level of funding for their schooling, irrespective of the type of school they attend.**

### ***National Resource Standard and Guaranteed Student Entitlement***

The development of a UWSF starts with the establishment of a national resource standard (NRS)—the minimum funding (from any source) per student in any school.

Determining an appropriate resource standard will be critically important to the success of a new school funding system. A new system should not be built on the assumption that current expenditure is the appropriate reference point for future expenditure. Nor should it be built on the assumption that funding will inevitably increase significantly.

An early attempt to determine a resource standard was made in 2005. The Schools Resourcing Taskforce for the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) calculated a National School Resource Standard by evaluating inputs and outcomes in a sample of schools. The first part of the analysis estimated the minimum costs associated with a specified level of achievement and participation in schools with low levels of disadvantage. The second part of the analysis estimated the additional spending that would be required to educate 'at risk' students (Indigenous, low SES and ESL) to the same level of achievement and participation as the students in the first study.

The National School Resource Standard study was groundbreaking in that it concentrated on efficiency and productivity rather than a 'wish list' of spending priorities without regard for the measurable results. The methodology of this study should inform future work in this area.<sup>50</sup> Professor Eric Hanushek's work critiquing the various methodologies used to calculate schooling costs in the United States is also instructive.<sup>51</sup>

One of the reports commissioned for the Review of Funding for Schooling also investigated the feasibility of calculating and applying a national resource standard. The Allen Consulting Group (ACG) reported favourably on the basic methodology used in the MCEETYA study and concluded that it would be possible to determine a valid national resource standard using existing outcomes and financial data. Implementation ought to be possible within two years.

However, the report discounts the potential for a national resource standard to be used to underpin a student entitlement funding model (such as a UWSF), saying only that it would be 'difficult to develop and implement.' It is difficult to see why an NRS, if it is indeed a valid benchmark, could not be used as the basis for a UWSF, particularly for recurrent funding. Capital funding provides a different set of problems and may require a different approach, at least in the short term. The ACG report noted that it may be feasible to incorporate capital funding into a national resource standard in the future.

The ACG report suggested that the most important potential application for a national resource standard would be to replace the Average Government School Recurrent Costs (AGSRC) as the guide for federal government contributions to school financing. In the present funding system, federal funding of non-government schools is indexed to spending in government schools. The guaranteed minimum level of federal funding for non-government schools in 2010 was \$1,243 for primary students and \$1,561 for secondary students—13.7% of AGSRC.<sup>52</sup> Non-government schools also receive per-student funding from state governments. The amount differs among the states and territories and varies according to SES. The Independent Schools Council of Australia (ISCA) estimates that total government funding (Commonwealth and state) in a high SES independent school is on average \$3,310 per student—roughly one-quarter of average expenditure on a student in a government school.<sup>53</sup>

The indexation arrangement inherent in the SES-based funding system for non-government schools has come under criticism for creating a false connection

**Determining an appropriate resource standard will be critically important to the success of a new school funding system.**

between the costs of educating students in the two school sectors.<sup>54</sup> Increases in funds to government schools to address real costs such as a growth in numbers of students with disabilities automatically flow to non-government schools. In a UWSF, indexation would not be an issue as all schools would be funded according to the same criteria.

As well as a national resource standard, which represents the minimum level of per-student funding from all sources, a UWSF should also encompass a guaranteed student entitlement (GSE)—a minimum level of per-student public funding. The GSE would be available to all students in all registered schools, irrespective of other factors, including private income. There are at least two reasons for a GSE. One is to acknowledge the fact that as Australian citizens whose families contribute to the tax revenue from which school funding is drawn, all students, regardless of their circumstances, should be entitled to some public contribution to the cost of their schooling. Another reason is because schools in receipt of public funding can be expected to meet at least some public accountability requirements.

### **Weightings**

The question of ascribing extra funds to needy students has two parts: Which student characteristics should be weighted, and by how much? There is potentially a long list of factors that make some children more difficult and therefore more expensive to educate. It includes intellectual and physical disabilities; learning difficulties; other special needs such as ADD/ADHD, Autism Spectrum Disorder and behaviour disorders; gifted and talented; high mobility; living in foster care; socio-economic disadvantage (both at the individual and school level); rural and remote locations; English language proficiency; recent immigrant status; and indigeneity. Within each of these categories are multiple degrees of disadvantage. Developing a workable weighting scale that is both sensitive and simple will require a great deal of consultation and cooperation.

Where WSF has been implemented, different jurisdictions have come to different decisions about weightings. Due to the lack of English translations, no information is available at this time about funding weights in the Swedish systems. In the Netherlands, children whose parents have a low level of education receive funding at 125% of the base rate, and the children of poorly educated recent immigrants are funded at 190%, or almost twice the base rate. The Dutch UWSF system, which includes parental choice and school autonomy, is considered to have resulted in a progressive and equitable distribution of funding to schools, even among critics of school choice.<sup>55</sup>

A lot can also be learned from looking at examples of public school WSF in the United States. There is significant variation in how WSF is implemented. One US study investigated weightings in public school WSF systems in two US cities—Houston and Seattle—and in Edmonton, Canada. Even within a single category, for example, Limited English Proficiency, the weightings range from 110% of basic entitlement in Houston to 127% in Seattle.<sup>56</sup> WSF systems have also been implemented in Sacramento, Cincinnati, Pittsburgh, Washington, D.C., and San Francisco. The San Francisco formula includes a ‘school foundation sum’ that covers the cost of a principal and an administration officer’s salary, to which are added the per-student base entitlements and the weightings.<sup>57</sup> This formula helps offset the diseconomies of scale in small schools and is an alternative to a small school weighting.

Other US cities, such as Rochester City District in New York State, are looking to introduce WSF systems as they attempt to maximise the effectiveness and efficiency of recently straitened education budgets. This does not indicate that WSF is invariably a cost-cutting measure but that periods of scarce resources impel administrators to seek ways to get the most out of every dollar.

**Developing a workable weighting scale that is both sensitive and simple will require a great deal of consultation and cooperation.**

### ***Private inputs***

Families, parents and communities are fundamental to educational success. The impact of family background and parenting, particularly in a child's early years, on children's educational achievement levels are well established in the research literature.<sup>58</sup> But while social and economic factors (such as household income and parental education and occupation) are important factors, the quality of the home learning environment is equally important. Low income does not preclude parents from fostering and encouraging early literacy and love of learning. There is increasing research in the emerging area of the relative impact of community characteristics above and beyond the individual family.

Most schools attempt to create partnerships with parents and the wider community. Often this is an informal process whereby teachers and parents negotiate and cooperate to provide the best possible education for children. Many schools create opportunities for parents to be involved in the school through events like special assemblies, parent-assisted reading groups, and P&C associations. Some schools have a community liaison officer whose role is to facilitate and increase parent involvement.

There are also formal partnerships between schools and communities such as mentoring programs, school-to-work partnerships like the No Dole initiative, and volunteer-driven programs like tutoring and homework clubs. Arguably, such partnerships should be developed at the individual school level rather than as a component of a national school funding scheme.

One of the most common ways in which parents contribute to their children's education is financially. In public schools, fees are voluntary but there are compulsory charges for some elective courses in secondary schools, and parents are usually required to pay for their children's participation in excursions and off-site sporting activities. In non-government schools, enrolment is generally conditional on payment of fees, with the exception of scholarship students. Course fees, building fund contributions, and excursion costs are additional and typically total several thousand dollars, but there is a very large amount of variability.

Whether a school funding system should take schools' private income into account is perhaps the most important question for this review and will probably be the most difficult to resolve.

The federal government funding model for non-government schools which preceded the current SES-based funding system, the Education Resources Index (ERI), included schools' private income as a factor. The decision to exclude schools' private resources from the funding model was the most controversial aspect of the SES-based system. There have been consistent calls for schools' private income to be reinstated as a factor in any new funding formula since ERI was abolished.

The issue of balancing public and private inputs to achieve an equitable distribution of finite resources has to consider three competing principles—need, entitlement and efficiency.

### *Need*

Some independent schools clearly do not 'need' public funding in the sense that they lack any of the accoutrements of quality education. In some independent schools, private income alone exceeds several times the total resource levels in other schools. Although these highly resourced independent schools are relatively few, they cannot be disregarded.

But if 'need' is the defining factor in public funding, should it be determined by the wealth of the school—which has sometimes been accumulated over many decades—or the wealth of the families in that school today? The existing SES-based system was designed to reflect the latter, while the ERI system took both into account.

And if need is factored into public funding, there is a reasonable argument that this should also apply to the large number of wealthy families in government schools. In his submission to the Review of Funding for Schooling, education researcher and consultant Brian Caldwell recommended that public school families who can afford it should be required to contribute to the capital costs of their school.<sup>59</sup>

Furthermore, how does the determination of need deal with relatively well-off parents who eschew school fees but instead purchase tutoring services and extra-curricular activities to supplement their child's public school education? This can also be viewed as an unfair advantage.

Clearly, basing a funding system on a measure of family or school need is not a straightforward proposition. The SES funding system takes no account of school income or assets in allocating funds. Instead, the average socio-economic status of families at that school is a proxy for need. The lower the school's average SES, the lower the ability of families to pay fees, and the greater the need of those families for public subsidies.

As noted above, inequities in society cannot be completely equalised in schools. People with more financial and intellectual capital will always have an advantage. The most a school funding system can aim for is to minimise these inequities without discriminating against families who want to do the best they can for their children, whether through their choice of school, spending their own money on their child's schooling, or giving their children learning opportunities outside of school.

### *Entitlement*

The entitlement view provides a very different perspective: public funding as an entitlement for each and every Australian child, without discrimination. In this view, public funding is the foundation of a child's schooling expenses, and private expenditure is additional and at parents' discretion.

This approach leads to the conclusion that private income should not affect public funding. A reduction in public funding to schools in response to private income is, in effect, penalising parents for investing in their children's education. As Milton Friedman argued so powerfully, would it be preferable for parents to spend their money on less useful things like alcohol, cigarettes or gambling?<sup>60</sup> In modern Australia, we can add expensive holidays and home renovations to the list of alternative expenses.

Stephen King and Malcolm Anderson have pointed out the irrationalities of public funding for education, where governments subsidise education well beyond what can equivocally be described as a public good, and actively restrict people from voluntarily paying more for their own or their children's education themselves.<sup>61</sup>

### *Efficiency*

The entitlement view adheres most closely to a UWSF. However, a UWSF that does not factor in private expenditure does not sit well with the important objective of efficiency. A UWSF system that indiscriminately provides every child with a base entitlement to cover the full cost of schooling as determined by a resource standard would require a huge increase in public funding. This increased public expenditure will either supplement or displace private expenditure, both of which are undesirable results. Unless educational outcomes improve proportionally, there will be a decline in school productivity.

This creates a dilemma for a full entitlement model. School choice and voucher advocates who argue their case based on conservative and classical liberal principles have tended to sidestep this problem. There is good reason to believe that competition and choice generated by a properly implemented UWSF would

**The most a school funding system can aim for is to minimise inequities without discriminating against families who want to do the best they can for their children.**

**The great challenge is to develop a funding model that achieves the efficiency objective without creating disincentives to private investment in schools.**

improve school productivity, but there is no guarantee it will be sufficient to offset the deadweight costs. It is also difficult to justify providing extra public funds to already well-resourced students and schools.

There are two possible approaches to factoring in private inputs to schools. One is to vary the base entitlement according individual household income. Students from the highest income families would be eligible for a base entitlement substantially lower than the resource standard, with the assumption that they can provide the balance from their own pockets. As income decreases, the level of the base entitlement increases until it meets the resource standard. Weightings for special needs would supplement the base entitlement.

In effect, this would be similar to applying the SES-based formula across the education sector. One major problem with this approach is that some government schools in high income areas would have to charge substantial amounts in compulsory fees, contravening the principle of free public education. This is not an inherently bad idea, but it is political poison and highly unlikely to be adopted. Furthermore, it would introduce yet another layer of means-testing for families who already face numerous disincentives to increasing their household income (family tax benefits and the Medicare levy).

The second possibility is to vary public funding with school income from compulsory fees. Non-government schools receive private income from a variety of sources apart from tuition fees, such as earnings from investments and capital accounts, bequests and fundraising. These sources of income, and the overall wealth of the school including its existing assets, should not be a factor in public funding. In a UWSF, it is students who are funded, not schools. Students wishing to enrol at a particular school should not be penalised for the efforts of the families who went before them. Long-established independent schools have accumulated assets and savings over a long period of time, often due to the ever-present threat of losing government support and as a buffer against the risks they take in financing their own capital works programs. Likewise, if total private income is factored in, this would disadvantage fundraising efforts in government schools and non-government schools alike. Rather than curtailing the ability of non-government schools to raise private income, the Review of Funding for Schooling should examine the impediments to the private fundraising capacity of government schools. Public funding should be sufficient to maintain school infrastructure and recurrent needs. Private fundraising would be for the 'extras' that independent schools enjoy: non-essential technologies, additional sporting / music / arts facilities, and so on.

The great challenge is to develop a funding model that achieves the efficiency objective without creating disincentives to private investment in schools. Indeed, policies should be developed to encourage voluntary private investment in all schools, including government schools.

A recent report by Jack Keating proposes a funding model that has the characteristics of a UWSF and which includes private funding as a factor. In Keating's model (described in the report as 'essentially conceptual'), all students are allocated a 'community standard' of funding for their education, regardless of school type, set approximately 20% lower than the national resource standard. Needs-based funding (that is, weights) are added to this basic entitlement. Keating's model brings schools' private income into the mix by reducing students' base entitlement against the community benchmark as private funding increases but with a guaranteed minimum of 15%. It is not completely clear whether private funding entails a school's total private income or just fee income. Keating suggests a sliding scale of public funding against private funding that would be activated once a threshold has been reached and with higher discounts at higher levels of private income.



A paper developed for a 2004 conference by Stephen King, Malcolm Anderson, Peter Dawkins, and Brian Caldwell presents a number of possible scenarios for school funding. They contend that there is no good reason to have separate funding systems for government and non-government schools and do not favour a 'flat funding scheme' that prohibits publicly funded schools from charging fees. However, they also see the need to mitigate the potential waste in providing extra public funding where it is not necessary to meet the purposes for which it is intended. One of King and colleagues' suggestions is a 'fee tax' whereby schools can charge a maximum 'top-up fee' before a student's public funding entitlement is reduced. The maximum would depend on the student's funding entitlement. For example, if the threshold is \$12,000, a student with a funding entitlement of \$10,000 could pay fees of up to \$2,000 before a 'fee tax' is activated, while a student with a funding entitlement of \$8,000 could pay fees of up to \$4,000 without a 'fee tax.' Other ideas include a requirement for fee-charging to schools to allocate a proportion of their fee income to providing reduced fee places or full scholarships to disadvantaged students.

Neither of these represents a fully developed funding model, but both provide original and creative thinking on a problem that has vexed policymakers for a long time. The most crucial component will be the caps, limits and discount rates applied to fees. Preferably, they should cut in at a relatively high level and not be unduly punitive.

### **Recurrent funding model proposal: Universal Weighted Student Funding**

The funding model proposed in this monograph has been developed with the funding principles of equity, excellence and efficiency in mind. Its design is influenced by the ideas of King and Anderson, and adapted from the Keating model to more easily show the similarities and differences in the proposals.

$$\begin{aligned} \text{Per-student Funding} &= [\text{NRS}] + [\text{Fees}] - [\text{Fee Penalty}] + [\text{Weights}] \\ \text{Where Fee Penalty} &= \text{FPR} * [\text{Fees} - \text{Fee Penalty Threshold}] \\ \text{Guaranteed Student Entitlement} &= \$3,000 \end{aligned}$$

In this model, the variables can be set at almost any level but will require careful calibration to preserve all three principles. In the following proposal, the national resource standard is set at \$10,000 and the weightings are set at \$1,000 for each category of disadvantage, for simplicity.

The GSE is set at \$3,000 as this approximates the level of combined state and federal government funding currently provided to a student in a high SES independent school.

The fee penalty part of the formula has two components: the fee penalty threshold (FPT) and the fee penalty rate (FPR). The FPT is the level of fees that is quarantined and does not affect the level of government funding. The FPR is the amount by which fees above the FPT are discounted. In this proposal, the FPT is set at \$5,000. This amount was chosen to encourage families to invest in their child's schooling. It applies to both non-government schools and government schools (in which fees would be voluntary). It allows an increase of 50% on top of the national resource standard without penalty.

For the purposes of this paper, the FPR has been set at 50 cents in the dollar, applicable to every dollar above the \$5,000 threshold until the \$3,000 public funding guarantee is reached. The graph below illustrates how public funding and fees would interact. The data presented in this graph are provided in Appendix 1. In practice, there could be multiple FPRs that apply at different fee levels, creating

**Policies should be developed to encourage voluntary private investment in all schools, including government schools.**

progressive penalties, with the proviso that there may be little advantage in making the model more complex.

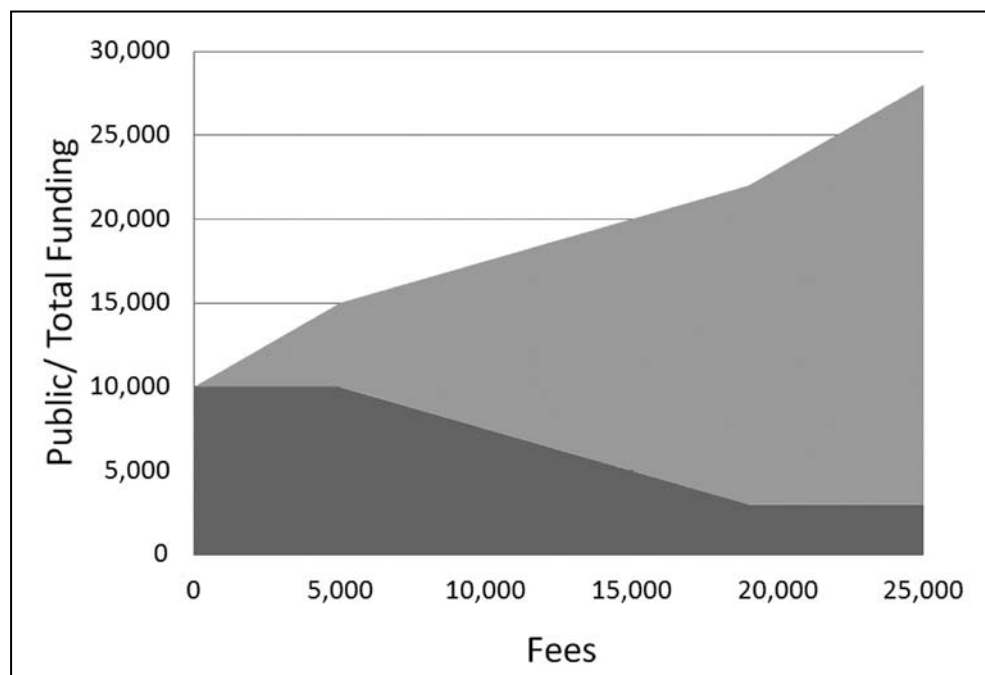
So, using these values for the variables in the model,

$$\text{Per-student Funding} = \$10,000 + [\text{Fees}] - [\text{Fee Penalty}] + [\text{Weights}]$$

$$\text{Where Fee Penalty} = 0.5 * [\text{Fees} - \$5,000]$$

Figure 1 shows the interaction of per-student public and private funding, before weightings are added. Public funding remains at the NRS of \$10,000 until private funding reaches \$5,000. For every dollar of private funding above \$5,000, public funding is reduced by 50 cents until the GSE of \$3,000 is reached. In this variation of the model, this occurs when private funding reaches \$19,000. Students attending schools that charge tuition fees of \$19,000 or more would be entitled to the GSE only.

**Figure 2: Funding model—public funding, fees and total pre-weight funding, \$ per student**



For example, a student attending a school (government or non-government) that does not charge tuition fees would receive government funding at the level of the NRS (\$10,000 in this model), plus any equity weightings for which they are eligible. A student attending a school that charges \$10,000 a year in tuition fees would receive a reduced level of government funding of \$7,500 per year, plus any equity weightings for which they are eligible. Again, the figures in this model are just examples to show how the formula is applied (see Appendix 1 for more examples).

Weightings for educational disadvantage would be applied after the base rate for each student has been determined. The major justification for this is to ensure that students from relatively low SES families do not have their public funding reduced heavily if they choose to pay tuition fees to attend non-government schools. Importantly, adding equity funding weights after the base rate has been calculated preserves public funding support for students with disabilities, irrespective of the school in which they enrol. In the current system, many students with disabilities receive far less public funding in non-government schools than in public schools.

**Students with special needs are entitled to much larger education and support subsidies in government schools than non-government schools.**

A UWSF delineates only recurrent funds for schools. Capital funding requires a separate approach, at least initially, and will not be addressed in detail here. Brian Caldwell's submission contains a recommendation that families who are able could be required to contribute to their government school's capital fund, much like in many non-government schools.<sup>62</sup> This idea has merit and ought to be considered.

### ***Allocation of funding: Roles of federal and state/territory governments***

Currently, all public funding for schools comes from one source: taxation revenue collected by the Commonwealth government. Some of this money is allocated to state and territory governments to budget and administer as they see fit, including the operation of government schools. The Commonwealth budget includes additional recurrent spending on schools, mostly per capita grants to non-government schools but also specific purpose payments to government schools to achieve certain outcomes such as the National Partnerships Program, which aims to improve literacy and numeracy. The Commonwealth government has significant outlays on capital projects in both school sectors.

This pattern of spending at the two levels of government has contributed to the divisiveness of debates over school funding. Differences in the amounts of Commonwealth expenditure on government and non-government schools are held as an example of disadvantage or bias, often ignoring the contribution of state governments and vice versa. A universal funding system, in which all schools are allocated their funding from one funding body or source, would remove this problem.

There are numerous possibilities for the delegation of funding responsibilities, but one interesting scenario proposed by Julie Novak is for state governments to be responsible for the base rate of school funding to all students and the federal government to be responsible for equity funding.<sup>63</sup> Alternatively, state governments might be responsible for recurrent funding, with the federal government providing capital funding.

### ***Accountability and regulation***

It is often argued that schools accepting public funding should be obliged to abide by certain conditions. This argument views public funding as largesse from government and which must be earned by meeting its requirements. Following this logic, schools that receive government funding become, in effect, government schools with the same obligations of open enrolment and secularity.

Another point of view is that as public funding for education is an entitlement for all children, as long as it is used for education, government should have no reason to intervene or place restrictions on how it is spent and where. History shows that there is always a risk for government interference to follow government funding.<sup>64</sup> An element of oversight is defensible to ensure proper use of tax-payers' money; however, it is necessary to create policy safeguards against excessive intervention.

Both arguments have merits. The aim of public funding for education is to provide access for all children to a good education. A well-educated populace is more likely to have a healthy democracy, a productive economy, and a higher quality of life. Schools that do not offer an education that serves this purpose do not meet the objectives of public funding. There is a role for government in ensuring that schools are of an appropriate academic standard and do not attempt to instil in their students values that are incongruous with a peaceful and tolerant society. Often, the terms 'public school' and 'government school' are conflated, but they have different meanings. A government school is a school owned and operated by government, while a public school is any school that educates children for the public good. This definition can apply to both government and non-government schools.

**History shows that there is always a risk for government interference to follow government funding.**

Non-government schools are criticised for being exclusive. This is true to an extent.

Non-government schools are financially exclusive as they are available only to families that can afford to pay fees. Some schools offer scholarships but these are generally offered to students of high academic, artistic or sporting ability. The point about financial exclusivity is a circular argument, however. Non-government schools do not receive sufficient public funding to operate on this money alone. They have to charge fees to make up the shortfall.

It is important to make the point that the so-called 'elite' independent schools that are used to exemplify non-government schools are not at all typical or representative of the broader independent school sector. Newspaper reports about the My School website reveal that independent schools have an average private income of \$8,200 per year.<sup>65</sup> To obtain that average, simple mathematics dictates that schools with annual fees of up to \$25,000 are being balanced out by a large number of schools with fees much lower than the average.

Furthermore, exclusiveness is not unique to non-government schools. Many government schools are exclusive in various ways. There are academically selective classes and schools, as well as elite, specialist sports, and performing arts schools that enrol students of high ability. Government schools are also sometimes financially exclusive. Several states maintain enrolment zones for public schools, giving first preference to children within a school's zone. If a school is popular, children from outside the zone are excluded. This becomes a case of financial exclusivity when house prices within a school's enrolment zone are high, as is often the situation for popular government schools. Only families who can afford the local real estate can enrol in the school.<sup>66</sup>

The religious character of non-government schools has also come under criticism, but a condition of secularism for schools accepting public funding will not gain any traction in the community or in government. Even though the large majority of religious schools have open enrolment policies, and do not explicitly exclude students of a different or no religion, they generally favour families within their faith community. In reality, with the exception of Catholic systemic schools, there is minimal demand for places in religious schools from families of a different faith. Religious schools are indelibly part of the education landscape in Australia, as they are in many countries with robust multicultural democracies. Care must be taken to ensure that they operate within the parameters of civil society and civil institutions, but outright prohibition is unfeasible.

Conditions regarding enrolment policies may have more support in the community. There are several facets to this issue and they require separate treatments in any funding model.

The first is the apparent lower enrolment of students with special needs, Indigenous students, and students from low-income families in non-government schools.<sup>67</sup> The implication is that these students are being deliberately rejected by independent schools. A more likely explanation is that the current funding and regulatory systems for non-government schools limit access for these students to non-government schools.

Students with special needs are entitled to much larger education and support subsidies in government schools than non-government schools.<sup>68</sup> Indigenous students typically have lower household incomes than non-Indigenous students and are less likely to be able to afford the fees necessary to attend non-government schools. The same barrier to access applies to all low-income students. Fees are largely unavoidable when public funding is lower than the cost of schooling. Indigenous students in the Northern Territory have an additional barrier to access in the form of government policies that actively prevent the establishment of independent schools in Indigenous communities.<sup>69</sup> It is probable, although such things can never be certain, that a fairer treatment of non-government schools in public funding

**Religious schools are indelibly part of the education landscape in Australia, as they are in many countries with robust multicultural democracies.**

for disadvantaged students and a more open education sector will result in a more even distribution of students and preclude the need for regulation of school enrolments.

The second aspect of enrolment conditions is discrimination. Should schools be able to discriminate against students who are, for example, pregnant or homosexual? The most reasonable answer, and arguably the one most acceptable to the majority of the public, is no. Religious schools may find this challenging, as indeed may people who are committed to school autonomy and independence. However, as civic institutions operating within a society, schools should follow the civic rules and values of that society. Apart from the moral case, if it is against the law for other civic institutions to discriminate on the basis of pregnancy or sexuality, schools should not be exempt. Nevertheless, it is reasonable to expect that schools should be able to enforce their own rules about acceptable behaviour within the school.

It is critical to ensure that an integrated funding system does not lead to over-regulation. An important objective of a UWSF is to allow more diversity, not to create more uniformity. Excessive conditions attached to public funding are a great risk to achieving this goal.

### ***Policy prerequisites***

This monograph focuses primarily on school funding, but it is important to note that school governance plays an important role in achieving the objectives of a fair and efficient school funding system.

A number of governance policies are prerequisites for a successful transition to a UWSF: school and system accountability; school autonomy; and freedom of entry and exit by students, staff and schools. Policymaking in these areas is moving slowly forward in some states, albeit with a few steps backward, most notably in NSW recently.<sup>70</sup>

If a UWSF is to have the desired effects, schools must have the financial flexibility to be able to respond to parent and student demands, new developments in educational research and practice, and the changing needs of the labour market. Government schools must be led down the path to autonomous operation, including budgets and staffing, so that they can hold their own in a competitive education sector. Decentralisation of teacher employment and school budgets will allow schools to hire the right mix of teaching staff, select the most effective programs, and make the most of their school budgets using local knowledge and capital.

Furthermore, there must be more freedom for new players to enter the market. There is a noticeable dearth of secular non-government schools in Australia. Regulatory reform might allow charter schools and for-profit schools to fill this gap.

With the introduction of NAPLAN and the My School website, the Australian school sector has gained a high level of public accountability and transparency. As these sources evolve and improve, parents and the community will have access to meaningful information about school performance and operation. A further option is to establish a school inspectorate to conduct more detailed audits of schools for the public record. A recent OECD report reinforced these areas as priorities for policy reform.<sup>71</sup>

### **Conclusion**

Due to the confluence of a number of factors, the time is right for an overhaul of school funding in Australia. Various reform initiatives of federal and state governments, including improved accountability and transparency as well as tentative moves towards increased school autonomy, have provided the context for a detailed review to ensure equity and objectivity in the way funds are allocated to schools. Australia's shaky performance on recent international student assessments has provided evidence that excellence is less common than it ought to be in our

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**It is critical to ensure that an integrated funding system does not lead to over-regulation.**

well-resourced education system. Global and domestic economic volatility has provided the imperative to focus on productivity and efficiency.

While the amount of funding to schools does not seem to have a simple or direct relationship with educational outcomes, common sense dictates that adequate funding is necessary to provide a standard of education that will make Australia competitive in the global economy. It is also clear that, within certain parameters, the way money is spent on schools is more important than the amount.

Furthermore, the mechanism by which school education is funded will dictate the level of access, participation and outcomes. School funding is currently the product of hundreds of political and policy decisions, both small and large. At the core of all school funding is state governments' disparate and often incomprehensible funding allocations to government schools. The federal government's funding system for non-government schools has a clearer rationale, but it too hinges on government school spending.

Defining the objectives of a funding system is an essential precursor to designing one. This monograph proposes the key objectives of a funding system should be equity (of access and outcomes for students and schools), excellence and efficiency. Any new school funding model must be child-centred and encourage private investment in schools—both government and non-government. A system of Universal Weighted Student Funding comes closest to achieving all these objectives.

## Endnotes

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**Appendix 1: Per student public and private funding, before adding equity weights**

Public Funding (\$p.a.)	Fees (\$p.a.)	Total (pre-weight) Funding (\$p.a.)
10,000	0	10,000
10,000	1,000	11,000
10,000	2,000	12,000
10,000	3,000	13,000
10,000	4,000	14,000
10,000	5,000	15,000
9,500	6,000	15,500
9,000	7,000	16,000
8,500	8,000	16,500
8,000	9,000	17,000
7,500	10,000	17,500
7,000	11,000	18,000
6,500	12,000	18,500
6,000	13,000	19,000
5,500	14,000	19,500
5,000	15,000	20,000
4,500	16,000	20,500
4,000	17,000	21,000
3,500	18,000	21,500
3,000	19,000	22,000
3,000	20,000	23,000
3,000	21,000	24,000
3,000	22,000	25,000
3,000	23,000	26,000
3,000	24,000	27,000
3,000	25,000	28,000

## Appendix 2: Selected CIS publications on school funding, school choice, autonomy and accountability

Available for download at [www.cis.org.au](http://www.cis.org.au)

1. Jennifer Buckingham, *The Rise of Religious Schools in Australia*, Policy Monograph 111 (16 September 2010)
2. Helen Hughes AO and Mark Hughes, *Indigenous Education 2010*, Policy Monograph 110 (20 April 2010)
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7. Jennifer Buckingham, *Making the Grade: School Report Cards and League Tables*, Issue Analysis 103 (20 November 2008)
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12. Jennifer Buckingham, *Valuing Education: A Response to the Australia Institute Report 'Buying an Education'*, Issue Analysis 43 (21 January 2004)
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14. Ross Harold and Jennifer Buckingham, *Public Education in New South Wales: Submission to the 'Vinson' Inquiry*, Issue Analysis 20 (28 November 2001)
15. Jennifer Buckingham, *School Funding for All: Making Sense of the Debate over Dollars*, Issue Analysis 17 (12 October 2000)
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