

## School Funding for All Making Sense of the Debate over Dollars

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### EXECUTIVE SUMMARY

Public debate over school funding is characterised by misinformation and misunderstanding. Any sort of agreement or compromise seems unlikely when so many of the arguments are based on erroneous premises.

The facts are:

- State and territory governments allocate the vast majority of their school education funding to public schools while the federal government's school education funding is weighted toward the non-government sector. In the 2000-2001 budgets, government schools are allocated 36% of Commonwealth funding and around 92% of state and territory funding.
- Total government expenditure for children in non-government schools is significantly less than that for children in public schools. Average per capita funding in 1998 was \$6037 for government school students and \$3451 for non-government school students.
- Under the Educational Resources Index system, funding for non-government schools has been allocated according to the level of income the school derives from private sources, including fees and donations of goods and services. Proposed new federal funding arrangements would measure the socioeconomic status (SES) of the school population, thereby determining the needs of parents rather than the school.
- Some of the schools classified as 'Category 1' schools—the wealthiest schools—under the ERI system will be eligible for increased funding under the SES system.
- The Enrolment Benchmark Adjustment (EBA) was designed to recover funds from the state government when enrolments in the non-government sector grow, because each child that enrolls in a non-government school costs the state government less and the federal government more.
- The funds recovered from the states under the EBA are not transferred directly to the non-government sector, as is commonly believed. Non-government schools receive funding on a per capita basis that is unrelated to the EBA.
- School funding in Australia is a complex combination of federal and state, tied and untied, recurrent and capital, and targeted programme grants. It is almost impossible to determine exactly how much of the total education budget is from each source and for each purpose.

As long as this arrangement exists, there will be acrimony between the school sectors, and competition for resources based on these divisions. A common non-discriminatory system of school funding is urgently required, where all schools are funded on the same basis regardless of sector. Such a system should be student-centred and would therefore reflect the needs and choices of students and their parents.

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**T**he debate over funding of schools is divisive at a fundamentally ideological level. Whether or not private (non-government) schools should be publicly funded boils down to the issue of freedom of choice.

Arguments against public funding of non-government schools stem from the belief that all taxpayers should contribute to a common system of schooling regardless of their desire to use it. This in turn is based on the notion of ‘common good’—the idea that public schools provide a common experience for a diverse range of children, regardless of background, thereby facilitating social ‘equity’.

Arguments in favour of public funding of private schools are based on the premise that private school parents, as taxpayers, should not be penalised for exercising their democratic right of choice. Choice advocates refute the idea that social equity can be achieved only through a monopolistic one-size-fits-all system.

Public subsidisation of non-government schools has now been in place for fifty years. It is extremely unlikely—and undesirable—that it will ever be abolished. The current federal government has increased funding to both public and private schools, but the increase in funding has been greater to the private school sector, reflecting the rate of increase in enrolments. This has been decried by public education advocates, and especially by teachers’ federations and education unions. Public debate on this issue consistently demonstrates a high level of misinformation and lack of understanding of funding arrangements between state and federal governments.

This paper will outline school funding in Australia as it stands to date. It will then explain why the current arrangements are cumbersome and untenable, and why they require urgent revision on the part of both federal and state governments.

*The history of school funding in Australia*

The first Australian schools were private church-run schools established by the Church of England in the early days of British colonisation. The churches of Rome and Scotland set up schools soon after. It was not until the mid-1800s that the idea of government responsibility for education was seriously considered. The first allocation of government funding for secular schools occurred in 1848, its aim being to establish government schools in areas where children did not have access to church schools. Government subsidies to church schools were introduced in the same year. Initially, the two school systems had separate Boards of Education, and the government schools were seen as merely supplementary to the church schools (Anderson 1990).

In the 1870s, government subsidies to church schools were abolished, and ‘free, compulsory and secular’ education acts were passed. Education administration became highly centralised to combat perceived low standards in schools and to ensure that schools met the secular requirements. In response to their subsequent financial difficulties, Catholic schools began a very successful recruitment campaign through their parishes, which saw their enrolments increase phenomenally. Throughout the period when there was no government funding of religious schools, Catholic schools, which could rely on the religious teaching orders, survived while other denominational schools floundered (Pascoe 2000).

Some government funding assistance to religious schools was reinstated in the 1950s, but many Catholic schools struggled because of declining numbers of voluntary teaching staff. As Catholics formed a substantial proportion of the voting demographic, government subsidies to Catholic schools became a key election issue. The Whitlam Labor government was voted into power in 1972 after promising to support all schools—public and private—on the basis of need (Centre for Educational Research and Innovation 1994).

The funding arrangements that have developed since then—a system of federal and state recurrent and capital grants—have allowed the establishment of hundreds of new schools. The Federal Labor government’s 1985 New Schools Policy restricted growth in the non-government sector by placing strict, generally prohibitive, requirements on the registration of new schools. New non-government schools were allowed to open only if they were not in direct competition with an existing government school, and even then they would be entitled to a fixed level of government subsidies for the first several years, regardless of the income of the school or its students.

From 1990 to 1996, an average of seven new non-government schools were registered each year. The Federal Coalition government abolished the New Schools Policy in 1997 and new non-government school registrations and enrolments subsequently increased to an average of 24 new schools each year from 1997 to 1999. Catholic schools have

maintained their majority share of non-government school enrolments, but the fastest growing category of non-government schools is low-fee, independent (non-Catholic) schools (Australian Bureau of Statistics 1991; 1994; 1997; 2000).

### **How the government funds schools**

Calls for increased government funding for education are incessant. There are longstanding tensions between those who control education funding—usually people outside the education system such as politicians and government bureaucrats—and the people who are directly affected by education funding—educators, parents and public education lobby groups. For good or ill, it is the former group who make the decisions about funding.

The share of government expenditure enjoyed by the education sector has been remarkably stable in the last 15 years, despite the many changes in social policy and the significant increase in the share apportioned to social security and welfare expenditure. However, since education funding has maintained its share as a proportion of GDP, it has increased in real terms as GDP has increased (Harrold 1998). As the proportion of retired and childless people in the Australian population grows, it will become difficult for the education sector to maintain its current share of public spending, let alone secure an increased share. In this context, increased funding for education is more likely to be realised by encouraging and supporting policy that increases GDP than by demanding a larger slice of the funding cake.

Also feeding into the reluctance of governments to respond to calls for increased funding is the resistance of teachers' federations and education unions to agree to performance measurement that might show a link between increased funding and improved outcomes. Without a rigorous evaluation of how money is spent, it is difficult to argue that more resources are either necessary or beneficial.

Even though public funding for both the government and non-government school sectors is increasing, particularly from the federal government, public education advocates claim that non-government schools 'drain' money from public schools. This is based on the notion that school funding is a zero sum exercise—an increase in funding to one sector implies a loss of funding to another. Budget figures which disprove this are often ignored, and it is a common argument that private schools are funded at the expense of public schools.

The assertions that non-government schools should not be publicly funded, typified in comments by Bev Baker, President of the NSW Federation of Parents and Citizens Associations (*Daily Telegraph*, 21 August 2000), are echoed in the sentiments of Federal Labor MP Mark Latham (*Daily Telegraph*, 1 September 2000) who claims that public subsidies for high fee schools are funded by "working class taxpayers". If by this he means low to middle income families, very rudimentary calculations show that these families do not pay enough tax to cover their own children's educational expenditure, let alone anyone else's. Therefore, it is more likely to be the high income childless families who pay more tax, and families with children in a non-government school, who are subsidising the public education sector.

Support for public funding of non-government schools rests on the reasoning that all parents are taxpayers, and as such they are entitled to government assistance for the cost of their child's education, regardless of the type of school they choose. Presently, they must pay out-of-pocket expenses on top of their contributions as taxpayers if they exercise their freedom of choice in selecting a non-government school for their child. An even greater injustice is that parents who choose to educate their child at home receive no government support whatsoever.

### *State and federal funding arrangements*

All children in each state and territory are compulsorily required to attend school (or register as home-schooled) from the ages of 6 to 15 years (16 years in Tasmania). By longstanding agreement, state and territory governments are responsible for the provision of public education. The federal government provides some additional funding for public education, but carries the major responsibility for public subsidies to non-government schools, which are then supplemented by parents paying fees.

In recent times, the federal government has been strongly criticised over the level of its support for non-government schools. Lack of attention to the state governments' role has led to widespread misunderstandings about funding of the different sectors. Letters

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The facts are that the 2000-01 Commonwealth budget allocates over \$5 billion in funding to schools—36% to government schools and 64% to non-government schools. At first glance, this appears unfair since the enrolment share in these sectors is approximately 70% and 30% respectively. However, since school education is a state function, the bulk of public school funding comes from the state or territory governments. In 2000-2001 in NSW, 92% of the \$5.4 billion in schools funding will go to government schools and only 8% to non-government schools. This pattern is repeated without significant variation in each of the states and territories. Therefore, the effect of Federal funding is to partially redress the imbalance in State funding.

State governments make only a nominal contribution to the cost of educating a child in a non-government school. Even when Commonwealth grants are included, each non-government school pupil receives significantly less in public subsidies than a student in a government school. Table 1 below shows that state and federal expenditure varies widely between the states and territories. On average, however, each student who enrolls in a non-government school saves the state or territory government approximately \$4000.

**Table 1: Government expenditure per student, 1997-1998**

	GOVERNMENT SCHOOLS*			NON-GOVERNMENT SCHOOLS		
	State (\$)	Federal (\$)	Total (\$)	State (\$)	Federal (\$)	Total (\$)
NSW	5199	673	<b>5872</b>	1218	2327	<b>3545</b>
VIC	4963	675	<b>5638</b>	823	2274	<b>3097</b>
QLD	5605	654	<b>6259</b>	1143	2441	<b>3584</b>
WA	5572	686	<b>6258</b>	1435	2551	<b>3986</b>
SA	5534	701	<b>6235</b>	941	2293	<b>3234</b>
TAS	5569	685	<b>6254</b>	1060	2270	<b>3330</b>
ACT	6267	638	<b>6905</b>	1062	2402	<b>3464</b>
NT	9087	713	<b>9800</b>	2718	2502	<b>5220</b>
<b>AUST</b>	<b>5363</b>	<b>674</b>	<b>6037</b>	<b>1100</b>	<b>2351</b>	<b>3451</b>

\* Includes superannuation; does not include payroll tax, long service leave.

Source: SCRCSSP 2000

### **Non-government school funding**

#### *Education Resources Index (ERI)*

The current funding arrangements for non-government schools have been based on the 'apparent private income' of the school. This is the aggregate of the school's resources derived from private sources. The majority of this income is tuition fees, but the apparent private income also includes the dollar value of donations, whether it is cash, goods or services. That is, if someone donates a painting or some equipment to a non-government school, or spends time doing voluntary work, the in-kind value of these goods and services must be included in a school's estimation of its income. The Education Resources Index or (ERI) is used to calculate the school's funding category—the greater the apparent private income, the lower the government subsidy. State government funding to non-government schools is calculated in a similar way.

This funding mechanism can act as a deterrent for schools to increase their revenue from private sources. Furthermore, it is a complicated time-consuming procedure and is not necessarily an accurate indicator of the wealth of the school population. For example, a school with children from predominantly low to middle income families that enjoys a high level of donated goods and services may be classed as having a high private income and be placed in a lower funding category. The school might then be tempted to discourage people from volunteering their time. Another possibility is that a school charging high fees may actually have a sizable proportion of families who could not be described as wealthy. Put simply, the high private income of the school does not necessarily mean that all children in the school are from wealthy families.

### *Socioeconomic status (SES) funding*

New funding arrangements currently being debated in the Senate are based on an index of the socioeconomic status (SES) of the school's population. Under these arrangements, a school need only provide the residential addresses of its students, and the socioeconomic index of the school community is calculated according to SES indices derived from the most recent ABS Census. The lower the socioeconomic status of the school population, the higher the level of government funding.

This is clearly a more open method of determining the wealth of the school's population, but it is not without its own problems. Funding is still on a per capita basis, but both the minimum and maximum level of government funding have been increased. As a result, many non-government schools, including some of the high-fee independent schools, will be eligible for increased government funding. The federal opposition has claimed that the 62 wealthiest independent schools—currently known as 'Category 1 schools' under the ERI funding system—will receive an extra \$60 million under the new SES arrangements. Predictably, this has caused controversy.

Dr David Kemp, Federal Minister for Education, Training and Youth Affairs, disputes this, asserting that the wealthiest schools under the ERI system will not necessarily be the schools serving the wealthiest communities under the SES system, and that the claims made by the opposition are based on this erroneous assumption. The new funding system will allocate 13.7% of AGSRC (Average Government School Recurrent Costs) per student to the schools serving the wealthiest communities. This translates to an average increase of \$43 per student in these schools in 2001, rising to \$198 in 2004 (Ministerial press release, 28 September 2000). However, it is also true that some of the 'elite' schools with the most assets, including ERI Category 1 schools, will be eligible for significantly more than this.

A major challenge to the validity of the SES funding system is that wealthy families who live in lower income areas are allocated the same SES as their area of residence. This will contribute to the school receiving a lower SES index and therefore higher funding. This is a real possibility. The opposite scenario is also possible, however, where a not-so-wealthy family living in a high income area is assigned an SES score higher than their own financial situation would warrant. There is very little that can be done to avoid this other than to conduct an intrusive time-consuming census of each school population, which may not be any more accurate.

Nonetheless, it is easy to see why there is so much opposition to the SES system when schools that have a great number of assets and facilities attract a bigger increase in funds than many obviously needy public schools. Why there are public schools that are so under-resourced when public education funding is at unprecedented levels is an important question for both state and federal governments to consider.

Another objection is that the Catholic systemic schools are exempt from the SES-based funding. All non-government schools in the Catholic system are funded at the ERI level negotiated by the Catholic Education Commission and the Federal government in 1998, rather than each school being individually assessed. Under this agreement, the Catholic system receives an increased level of funding, but whether this is more or less than they would have received under the individual SES funding arrangements is difficult to determine. The situation with the Catholic systemic schools is not a special exemption, however, even though it may appear so. All non-government schools were given the option to have their funding maintained at the same level as under the ERI or to be funded according to the SES system, under the proviso that no school would receive less funding as a result of the new arrangements.

### *The Enrolment Benchmark Adjustment (EBA)*

The Enrolment Benchmark Adjustment (EBA) was introduced by the Federal government in 1997 to counteract the cost-shifting between state and federal governments occurring as a result of increases in non-government school enrolments. As noted above, state and territory governments have the major responsibility for the funding and provision of public education, whereas the federal government provides the bulk of the public subsidisation of non-government schooling. This means that when a child enrolls in a non-government school, the financial burden moves from the state or territory government to the federal government, otherwise known as 'cost-shifting'.

For example, there were 326,423 children in non-government schools in NSW in 1999. Using the per capita expenditure for 1997-98, if these children had been enrolled

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in government schools, they would have cost the NSW State government an extra \$1.3 billion.<sup>1</sup> The subsequent funding obligation of the Federal government was approximately \$760 million.<sup>2</sup>

One of the common misconceptions is that the federal government uses the EBA to transfer funds from public schools to private schools. This is not necessarily the case. The money spent on school education comes from one original federal source, but is allocated in several different ways:

1. General (untied) grants to the states and territories, which are responsible for providing public schooling but are free to choose how much to spend on the provision of this service;
2. Tied (recurrent and capital) and targeted grants to government schools;
3. Tied (recurrent and capital) and targeted grants to non-government schools;
4. Targeted grants for joint school programmes (such as national numeracy and literacy programmes), which are administered through the states and territories.

States and territories spend their general (untied) grants as they see fit. Therefore, they decide how much of these grants to spend on schooling. To recap, each child enrolled in a non-government school costs the state government less than a child enrolled in a government school, and the cost of educating that child is transferred to the federal government and the parents. The EBA calculates how much the state has saved by children enrolling in non-government schools and deducts 50% of that amount from the general grants to that state. It is the state or territory's decision whether to deduct this money directly from the education portfolio, or to absorb the deduction elsewhere in its budget.

The money withdrawn from the state's general grants goes back into the overall federal funding pool to compensate for the increased burden it has accrued as a result of a growth in enrolments in non-government schools. Non-government schools do not receive any more funding than they would qualify for under the per capita funding arrangements described above. The EBA is purely an adjustment to account for the shift in financial responsibilities between the state and federal governments. If there is no significant change in enrolments in the two school sectors (there is a 'buffer' of 0.05%), or if there is an increase in the government share, the EBA is not triggered.

The EBA also has an indirect function. By reducing grants to states and territories when there is a shift in enrolments towards the non-government sector, it creates an incentive for state and territory governments to minimise this shift. In this way, the EBA encourages a focus on the quality of public education in order to maintain or increase enrolments and therefore funding.

The EBA is defensible in theory. In practice, however, it is problematic. Instead of calculating the deduction to be made from the state government general grants on a per capita basis, the EBA uses the *proportional* change in enrolments compared to the 1996 benchmark. This results in the unfortunate situation whereby public school funding can be reduced (by states passing their general grants deductions onto the education portfolio) when enrolments in public schools, in absolute terms, have increased.

In Queensland, for example, from 1996 to 1999, enrolments in public schools increased by 14,190 students. Yet because the proportion of all students this represents was less in 1999 than in 1996, approximately \$5 million dollars was withdrawn from federal grants to Queensland in 1999. Likewise, the federal government reduced general grants to NSW in 1999 by \$16.9 million because the proportion of children enrolled in government schools in that state had decreased from the 1996 benchmark—from 71.4% to 70% of enrolments. However, the actual number of children in public schools had increased by 3091 students. The NSW state government retaliated against this perceived injustice by deducting \$5 million from state funding to independent schools. This state has since witnessed an extraordinary public conflict between the federal and state education ministers.

In March this year, the Ministerial Council on Education, Employment, Training and Youth Affairs decided to review the EBA and recommend alternatives to the Federal

<sup>1</sup> The number of children in non-government schools (326,423) multiplied by the difference between the State's per capita contribution to public schools and the State's per capita contribution to non-government schools (see Table 1, p. 4) = \$1,299,489,900. This would be an underestimation of the 1999 costs.

<sup>2</sup> The number of children in non-government schools (326,423) multiplied by the federal government's per capita contribution to non-government schools (see Table 1, p. 4) = \$759,586,320.

Minister. No such recommendations have yet been made. There are several possible explanations for this lack of response. One is that no-one is able to come up with a suitable improvement to the EBA. Another is that the EBA is in fact a useful political red herring to draw attention away from the states' and territories' failure to stem the flow of students into the non-government sector.

Although Dr Kemp seems to view the lack of a suitable alternative as justification for maintaining the EBA, it would be in the Federal government's interest to initiate an evaluation of ways in which the EBA might be improved or replaced. Doing so could be seen as acknowledging widespread concern about the effect of the EBA on public education.

However, the states and territories must also be cooperative. Many states absorb the effects of the EBA as part of their general budgets, but others, such as NSW, have used it to reignite the school funding debate and have taken punitive measures against innocent parties. Such measures are unreasonable and do not contribute to resolution of the problem. It would be more useful to determine why enrolments in public schools are stagnating.

Resolving the problem of the EBA, however, would only be a temporary solution. The difficulties arising from two competing school sectors supported by different levels of government and funded according to different criteria remain. This is the crux of the problem.

### **The way forward**

It is almost universally agreed that public schools play a critical role in our education system. A large proportion of those people who support public education also support the right of parents to choose an alternative. Opinion begins to diverge on the question of whether such choice should be supported through government funding and, if so, to what extent. While it is unlikely that public subsidisation of non-government schools will ever be abolished, there will always be opposition.

Federal government funding policy seems to be designed to facilitate competition. But if competition between schools is to have a positive effect, it is important that government schools have the resources to be able to compete with the non-government schools. The statistics show that per capita expenditure from all sources in the government school sector is roughly equal to that in the non-government school sector. However, as a result of poor distribution of resources, inefficient budgeting, or other reasons, many public schools are apparently in dire financial difficulty. This is a systemic problem within the public education sector that needs to be addressed without delay.

Ultimately, the conflictual nature of the debate over school funding, and the improbability that it will ever be resolved while the current arrangements are in place, reinforces the need for a common system of school funding. If school education is to be publicly funded, it should be indiscriminately available to all students. But this does not necessarily mean a common one-size-fits-all system of schooling. Choice should also be available to all students, regardless of income.

There are many options for a common system of school funding. The most well-known is a 'voucher system', where parents are given an annual bursary to spend on their child's education in the school of their choice. The benefits of this system over the current one are many, not least the empowerment of parents to make decisions about what is best for their child.

A voucher system might also be progressive or means-tested, whereby the value of the voucher is relative to family income. Low income families would receive a voucher of higher value. Such a system would not only facilitate choice and make funding simpler (and less expensive), but would also satisfy equity concerns.

An alternative to a voucher system is a tax-rebate scheme. Parents (and perhaps even other family and community members or businesses) could claim tax rebates for the money they spend on school education. In this way, people spend their own money rather than 'churning' it through government departments. There would of course need to be a safety net for those children whose families' incomes do not support such a scheme.

Each of these schemes has its advantages and potential problems, but each is preferable to the current arrangements. Both allow parents to choose the school that is best for their child without financial penalty and give all schools an equal opportunity to attract students and therefore funding.

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## Conclusion

As an issue close to the hearts of many people, school funding incites passion and often resentment. It is encouraging that schools and education are important to so many, but alarming that the debate is frequently malicious. Part of the reason that there are such large divisions in opinion is that, too often, people have only part of the picture. Owing either to ignorance or perhaps deliberate intent, misinformation is rife in public schools. Often, this is conveyed through education and teacher's unions to teachers and parents, thus hampering efforts to come to any sort of agreement or compromise over funding entitlements. The arguments and divisions in loyalties between state and federal governments are confusing matters even further.

Australia is long overdue for a real discussion of the issue of universal school choice. A common non-discriminatory funding system would remove the divisions along the lines of school sectors and, arguably, improve education for all children.

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