



## **The Fantasy of Gonski Funding: The ongoing battle over school spending**

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**Blaise Joseph**

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# **The Fantasy of Gonski Funding: The ongoing battle over school spending**

Blaise Joseph



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# Contents

Executive Summary .....	1
Introduction.....	3
The Gonski Report’s school funding model vs ‘Gonski funding’ .....	4
Loadings for disadvantage: the high cost of needs-based funding .....	6
Funding of non-government schools .....	8
The futility of attempts to reach the revised SRS.....	10
A nationally consistent, simple, transparent school funding model?.....	12
Summary of differences between the Gonski Report and ‘Gonski funding’ .....	13
Issues with using the Gonski Report for future school funding arrangements .....	14
Assuming benefits of more school funding .....	14
Assuming benefits of universal free public schooling .....	16
Unrealistic goal of equality .....	16
Outdated data .....	17
Some sound proposals from the Gonski Report .....	18
Alternative school funding options.....	19
Transfer all school funding responsibilities to the states: end the blame game .....	19
School vouchers: simple, transparent, and fair.....	20
Charter schools: helping disadvantaged students .....	21
Conclusions .....	22
Appendix: The path from the Gonski Report to ‘Gonski funding’ .....	23
The National Plan for School Improvement (NPSI) .....	23
The Australian Education Act 2013 (AEA) .....	24
Participating and non-participating states and territories .....	24
The unfunded National Education Reform Agreement (NERA) .....	25
Endnotes.....	27

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Any errors in this report remain my own.



## Executive Summary

The Gonski Report, a review into government funding of schools, in 2011 proposed a new school funding model based around the Schooling Resource Standard (SRS).

The SRS had two components: a base level of government funding for students; and loadings (extra funding) for schools with disadvantaged students.

The Gonski Report's recommendations have largely not been implemented. The Rudd and Gillard governments' National Plan for School Improvement (NPSI) was substantially different to what was proposed in the Gonski Report.

In the NPSI, the loadings for disadvantage were greatly expanded (over 50% of Australian students are considered 'disadvantaged' and attract needs-based funding), there was no independent body to review and index the SRS, no nationally consistent school funding agreement, and a lack of transparency regarding allocation of school funding.

It is not accurate to refer to the NPSI school funding as 'Gonski funding.'

The revised SRS in the NPSI, with the greatly expanded loadings for disadvantage, is unreasonably high, which means that school systems around the country are unable to reach their specified SRS funding levels without even more significant increases in government funding.

The reason for school systems not currently receiving their SRS funding levels is due to the unreasonably high benchmark rather than some independent schools being 'overfunded.'

There are several fundamental issues with the Gonski Report which mean that future school funding agreements should not be based on the report, including:

- an assumption that much higher funding for schools with disadvantaged students would improve their results;
- an assumption that universal free public schooling should be continued; and
- the school funding formula being based on outdated data.

Australia's school results in international tests have been declining, but increasing school funding into the current system is not the solution, as there has been substantial real funding increases over the past decade while student results have stagnated or declined.

There are viable alternative school funding arrangements for governments to consider.

Transferring all school policy and funding responsibilities to the states (as recommended by the National Commission of Audit in 2014) would allow states to have school funding arrangements more appropriate for local needs, and the federal government would be able to avoid continual arguments with the states regarding allocation of school funding.

School vouchers — a way of funding schools that gives parents a voucher for each child which they can spend on any school they choose — would be a simple, transparent, and fair funding model if implemented at a state level.

Charter schools —government funded but privately managed schools — if implemented at a state level, have the potential to significantly help disadvantaged students without substantial increases in government funding.





## Introduction

It is a truism to say school funding is a controversial topic in Australia. There is a long history of ongoing arguments over federal and state government funding for government and non-government schools — and there is no sign this will end anytime soon.

In 2015–16, the federal government spent approximately \$4,135 per student in recurrent school funding, while state and territory governments spent on average approximately \$8,012 per student.<sup>1</sup> Government schools received \$13,376 per student, while non-government schools received \$9,850 per student, in total government funding on average.<sup>2</sup>

Australian governments, both federal and state, increased real per student recurrent funding by a total of 15.4% between 2005–06 and 2014–15.<sup>3</sup> This represents an average annual increase of 1.7% across 9 years.

However, during this period, Australia's performance in international education rankings has been stagnating or falling. Australian student results on the Programme for International Student Assessment (PISA) test — which assesses scientific, reading, and mathematical literacy — significantly declined in all three areas between 2006 and 2015.<sup>4</sup> On the Trends in International Mathematics and Science Study (TIMSS) maths and science test, Australian Year 4 and Year 8 students' science performance declined between 2007 and 2015, while Australian Year 4 and Year 8 maths results both saw some improvement across the same period (although no significant improvement from 1995 TIMSS results).<sup>5</sup> The concerning trends in Australia's performance on international standardised tests has naturally led to more debate about how Australian schools are funded.

In 2010, the Rudd government commissioned the Review of Funding for Schooling; the Gonski Report. The review was to examine existing school funding arrangements at the time and make recommendations concerning the future of government funding for schools. The final report was completed in December 2011.

The new school funding model proposed by the Gonski Report was based on a funding standard for every school, known as the Schooling Resource Standard (SRS). This had two components: a base level of funding

per student and loadings for schools with disadvantaged students (needs-based funding).

The Gillard and Rudd governments attempted to implement the Gonski Report's recommendations through The National Plan for School Improvement (NPSI), legislating The Australian Education Act (AEA) 2013, and entering into The National Education Reform Agreement (NERA) with states and territories. New South Wales, South Australia, and the ACT all signed up to the NERA, while Queensland, Western Australia, and the Northern Territory refused to participate (the status of Victoria and Tasmania was unclear going into the 2013 federal election but both are now non-participating states for the purposes of the NERA).

The incoming Abbott government in 2013 retained the NPSI school funding model, though rebranded the school funding arrangements and made some changes to the total funding allocation to state and territory governments. The government committed to funding the first four years of the six-year NERA funding agreements, but not the final two years in 2018 and 2019 (approximately \$7 billion of the total \$9.8 billion of extra funding had been allocated for the final two years of the NERA by the previous Rudd-Gillard government, but this had never been actually funded in the federal budget). The Turnbull government has said total federal funding for schools will grow from \$16 billion in 2016 to more than \$20 billion in 2020, above projected student enrollment growth and inflation.<sup>6</sup>

As much as any other policy area, debates about school funding often involve emotion, historical grievances, and fundamental misunderstandings. This paper clarifies exactly what the Gonski Report proposed, demonstrates how this was different from the NPSI, discusses the problems with the Gonski Report to begin with, and outlines some alternatives.

Australia's school results have been declining in international standardised tests while public debt continues to grow. For the sake of reversing the decline in both the country's education standards and its fiscal responsibility, getting school funding right is more imperative than ever.



## The Gonski Report's school funding model vs 'Gonski funding'

The Review of Funding for Schooling, known as the Gonski Report, was commissioned by the Rudd government in 2009 to review government funding of schools in Australia. A panel led by businessman and philanthropist David Gonski was appointed to conduct the review which was completed in December 2011.

The core proposal of the Gonski Report was a new school funding model based on a funding standard for every school, known as the Schooling Resource Standard (SRS).<sup>7</sup> The Gonski Report proposed that the SRS would replace all previous recurrent school funding arrangements of the federal government.<sup>8</sup> The SRS had two components:<sup>9</sup>

1. A base level of per student funding for each school; and
2. Loadings for disadvantage, which were extra funding for schools with disadvantaged students, as a percentage of the base level amount of per student funding.

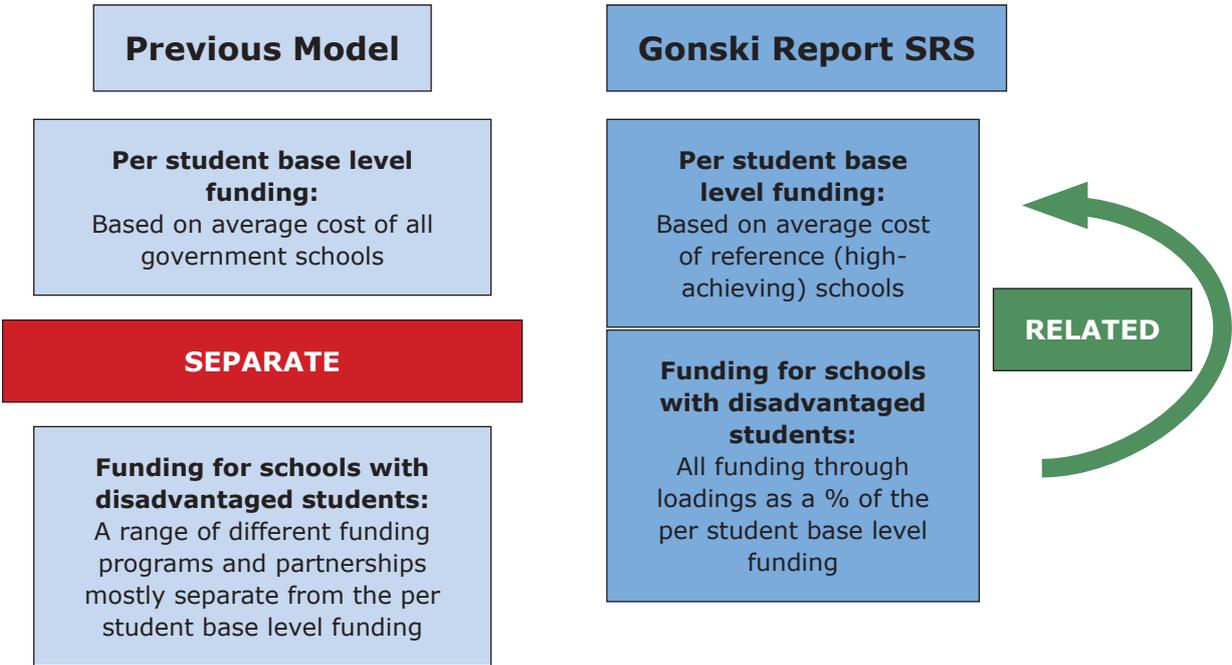
Prior to the Gonski Report, the per student base level amount used to be the Average Government School

Recurrent Costs (AGSRC), and the federal government allocated recurrent school funding to the states and non-government schools as a percentage of this base amount. The AGSRC base level amount was calculated using the average costs of all government schools, in contrast to the SRS base level amount which was calculated using the average costs of reference (high-achieving) schools.<sup>10</sup>

In addition to the base level AGSRC funding, federal funds for schools with disadvantaged students were provided under a number of different National Partnership agreements and specific programs with the states,<sup>11</sup> unlike the SRS where all funding for disadvantage was to be allocated consistently through loadings as a percentage of the base amount.

This meant that prior to the Gonski model, many schools received government funding below or above what they would be entitled to under the SRS. The Gonski Report outlined some principles to guide the transition arrangements for schools' funding, but did not propose a detailed transition plan.<sup>12</sup>

**Figure 1: Difference between the Gonski Report school funding model and previous federal school funding arrangements**



The base level of per student funding was calculated in the Gonski Report using the concept of 'reference schools' in the following process:<sup>13</sup>

1. Set a student outcomes benchmark for schools where at least 80% of students achieved above the national minimum standard in both reading and numeracy in each year from 2008 to 2010 (based on NAPLAN results).
2. Identify reference schools (irrespective of whether government or non-government) that met the student outcomes benchmarks, of which there were 1,408 schools.
3. Identify the net recurrent income per student (total income including both government and private funding) for each reference school in 2009.
4. Adjust the net recurrent income per student for each reference school to remove funding for disadvantage.
5. Use the adjusted net recurrent income per student data for reference schools to find an overall base level of funding per student for secondary and primary schools.

Using this methodology, the base funding amounts of the SRS were:<sup>14</sup>

- \$10,500 per secondary school student; and
- \$8,000 per primary school student.

These amounts were qualified as being initial estimates.

The annual indexation of the base per student amounts in the Gonski Report was not specified, but it was stated that they should be based on changes in actual costs in reference schools after surveying these schools each year to establish the extent of increased costs.<sup>15</sup>

The Gillard government responded to the Gonski Report in September 2012 with a six-year plan – Better Schools: The National Plan for School Improvement (NPSI).<sup>16</sup> Between September 2012 and the election in September 2013, the Gillard and Rudd governments implemented the NPSI through The Australian Education Act (AEA) 2013, and a series of agreements with the states, territories, and non-government schools. This gave rise to what is commonly referred to as 'Gonski funding' for schools, which has been partially continued by the Abbott and Turnbull governments.

The NPSI implemented this core framework of the SRS. The recurrent base per student amounts eventually adopted in the NPSI were:

- \$12,193 per secondary school student<sup>17</sup>; and
- \$9,271 per primary school student.<sup>18</sup>

These amounts are broadly in line with those of the Gonski Report, once inflation is taken into account.<sup>19</sup> However the NPSI applies a fixed annual indexation rate of 3.6%<sup>20</sup> rather than the more complicated method described above.

The NPSI dealt with the transition to SRS funding through having different indexation rates for schools being funded below or above their SRS:

- For schools that were currently funded above their SRS, the government funding for the school would grow at 3% per year<sup>21</sup> instead of 3.6% (once the government funding was back in line with its SRS, the school would then start receiving the standard annual increase of 3.6%)<sup>22</sup>; and
- For schools that were currently funded below their SRS, the government funding for the school would

grow at 4.7% per year<sup>23</sup> instead of 3.6% (once the government funding had caught up with its SRS, the school would then start receiving the standard annual increase of 3.6%).<sup>24</sup>

### Loadings for disadvantage: the high cost of needs-based funding

Though needs-based funding is occasionally credited as the ground-breaking proposal in the Gonski Report, needs-based funding has existed in Australia for many decades. The Whitlam Government in 1972 set up a Schools Commission that allocated government funding for schools with at least some consideration of need.<sup>25</sup> Also, almost all state school funding models had a needs-based component.<sup>26</sup> In 2009 for example, there were a range of government programs to fund schools with disadvantaged students (the same five sources of disadvantage for which there were loadings in the Gonski Report school funding model), totalling at least \$4.4 billion, which represented 11% of total recurrent school funding for the year.<sup>27</sup>

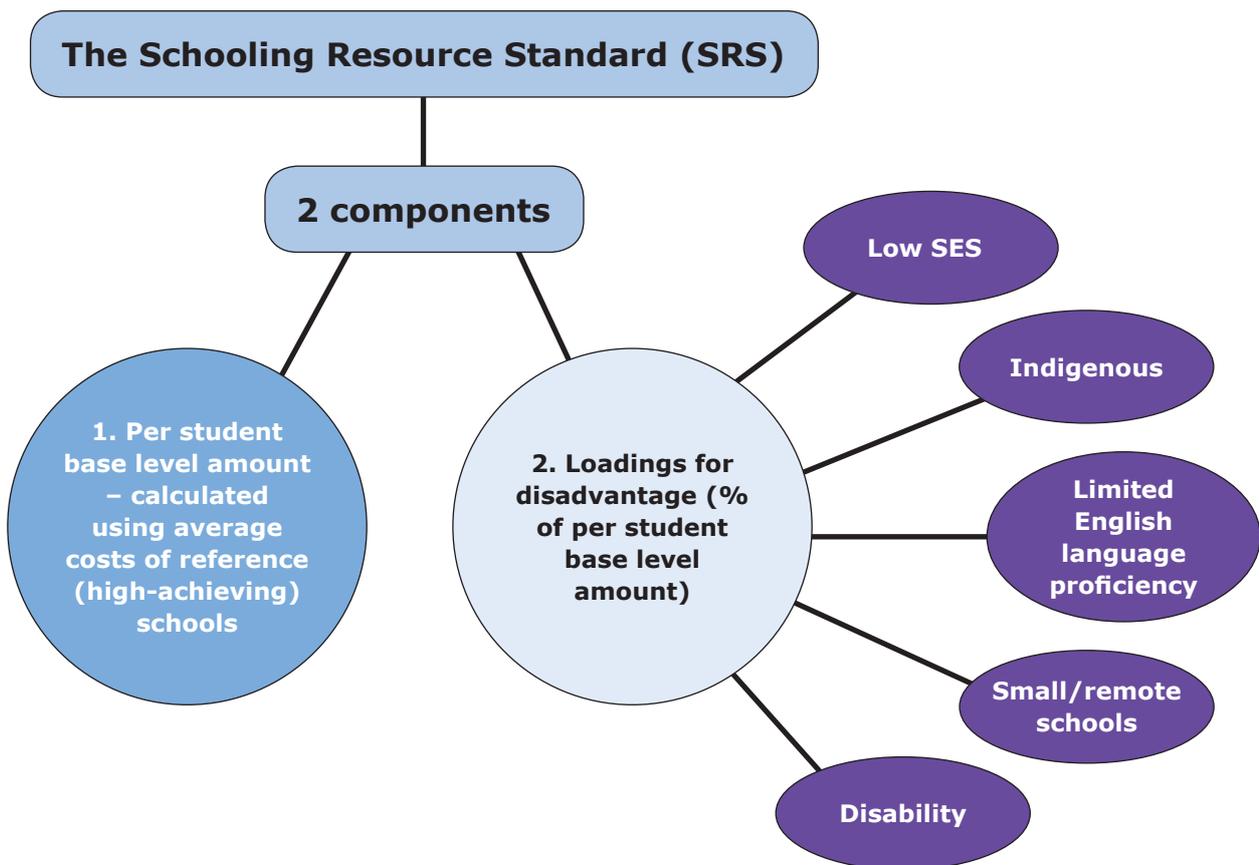
However, the needs-based funding proposed by the Gonski Report was different to previous federal arrangements in that it was a percentage of a base per student amount (as opposed to a range of funding programs for schools with specific types of disadvantaged students) and would result in a considerably higher amount of funding going to schools with identified disadvantaged students.

The needs-based funding component of the SRS was loadings for schools with disadvantaged students. Five sources of disadvantage, student-based and school-based, were identified:<sup>28</sup>

1. Students from low socioeconomic status (SES) backgrounds;
2. Indigenous students;
3. Students with limited English language proficiency;
4. Students with disabilities; and
5. Small/remote schools.

Schools with each source of disadvantage would receive an additional amount of funding as a percentage of the base amount, known as a loading.<sup>29</sup>

Figure 2: Summary of the Gonski Report school funding model



The NPSI implemented the needs-based funding component of the Gonski Report, with loadings for the same sources of disadvantage.<sup>30</sup> However, the loading amounts were substantially different to the initial estimates in the Gonski Report.<sup>31</sup>

Before introducing the AEA, the Gillard government entered into a series of negotiations about the NPSI with state and territory governments, the Catholic school system, independent school associations, and teacher unions.<sup>32</sup> These negotiations resulted in the loadings for disadvantage being expanded considerably, meaning the cost of attempting to reach revised SRS funding levels in Australia would be much higher.<sup>33</sup>

Gonski Report panelist Ken Boston described the negotiations about loadings in this way:

*"The NERA and NPSI contain needs-based loadings, but they were pulled out of the Canberra air, and negotiated in a hard-ball top-down fashion with the independent schools, the Catholic Education Commission, the AEU, and state treasuries. They are not founded on rigorous national evidence-based testing of the school resourcing standard or the loadings and indexation, to the extent envisaged by the Gonski Panel."<sup>34</sup>*

A comparison of the ranges of loadings for disadvantage in the Gonski Report and the NPSI, each a percentage of the base per student amount, is as follows:

**Table 1: Loadings for disadvantage ranges in the Gonski Report and the NPSI**

Source of disadvantage	Range of loadings in the Gonski Report (% of base per student amount) <sup>35</sup>	Range of loadings used in the NPSI (% of base per student amount)
<b>Low SES</b>	<b>10%–50%</b> for each student from the lowest SES quartile (the most disadvantaged 25% of all students) in schools, depending on percentage of students from the lowest SES quartile in the school.	Socio-educational advantage (SEA) <sup>36</sup> is used instead of SES, but they are both similar measures of disadvantage. There are loadings for the lowest two SEA quartiles (half) of all students, as opposed to only the lowest quartile. <ul style="list-style-type: none"> <li>• 15% + (approximately 47% x % of students from lowest SEA quartile in the school)<sup>37</sup> for each student from lowest SEA quarter in the school,<sup>38</sup> which works out to a range of approximately <b>15%–62%</b>.</li> <li>• 7.5% + (40% x % of students from second-lowest SEA quartile in the school)<sup>39</sup> for each student from second-lowest SEA quartile in the school,<sup>40</sup> which works out to a range of <b>7.5%–47.5%</b>.</li> </ul>
<b>Indigenous</b>	<b>40%–100%</b> for each Indigenous student in schools with at least 5% Indigenous students.	(20% + % of Indigenous students in the school) <sup>41</sup> for each Indigenous student in the school, <sup>42</sup> which works out to a range of <b>20%–120%</b> .
<b>Limited English language proficiency</b>	<b>15%–25%</b> for each student with limited English proficiency in schools, depending on circumstances such as recently arrived refugees in the school.	<b>10%</b> for each student with limited English proficiency in the school. <sup>43</sup>
<b>Disability</b>	<b>N/A</b> – the Gonski Report stated that there was not enough reliable data on students with disabilities in Australia to calculate loadings at that time. <sup>44</sup>	<ul style="list-style-type: none"> <li>• <b>223%</b> for each student with a disability in a special school<sup>45</sup> (a school which provides education designed specifically for students with disabilities).<sup>46</sup></li> <li>• <b>186%</b> for each student with a disability in all other schools.<sup>47</sup></li> </ul>
<b>School size/ location</b>	<b>10%–100%</b> depending on the size and remoteness of the school.	<ul style="list-style-type: none"> <li>• The loadings for school size are fixed amounts (indexed at 3.6%)<sup>48</sup> depending on the size of the school, rather than a percentage of the base per student amount. Depending on size, <b>smaller secondary schools receive up to \$240,000 and smaller primary schools receive up to \$150,000.</b><sup>49</sup></li> <li>• The range of the loading for location is <b>10%–80%</b>.<sup>50</sup> The calculation of a school's loadings for location uses the base per student amount, its loading for size, and its ARIA Index Value (a measure of remoteness).<sup>51</sup></li> </ul>

A large change is the loadings for low SES, which in the Gonski Report were to be applied only to the lowest 25% of students, but have been extended in the NPSI to include 50% of all students (double the number of students). Furthermore, the amounts for the lowest 25% are marginally higher than the Gonski Report estimated, while the amount for the next 25% are almost as high as for the lowest 25%.

The NPSI loadings for Indigenous students had a larger range (a lower minimum and a higher maximum loading) and also eliminated the minimum requirement for a school to have at least 5% Indigenous students before receiving a loading.

The loading for limited English language proficiency in the NPSI was lower than in the Gonski Report.

The loadings for school size and location combined work out to be higher overall in the NPSI than the respective loadings proposed in the Gonski Report. In addition, the loading for school size in the NPSI is a fixed amount rather than a percentage of the base per student amount.

Loadings for disabilities were allocated in the NPSI on the basis of state and territory definitions of students with disabilities,<sup>52</sup> without nationally consistent data, contrary to what the Gonski Report proposed. However, from 2013 to 2015, the Nationally Consistent Collection of Data on School Students with Disability (NCCD) has been phased in, and from 2016 onwards the new NCCD data has been used to allocate additional federal funding for students with disabilities (but the actual loadings for students with disabilities were still allocated on the basis of individual state and territory definitions of disabilities).<sup>53</sup>

The following table outlines what percentage of Australian students are eligible for each type of loading, and what percentage each loading makes up of the total cost of

the SRS, under the NPSI according to Department of Education data:

In total, the new loadings account for approximately 26% of overall recurrent school funding in the revised SRS, almost three-quarters of which is due to the loadings for students from low SES backgrounds and students with disabilities. By way of comparison, in 2009 before the new school funding model, needs-based funding accounted for only approximately 11% of total recurrent school funding.<sup>56</sup> This represents a significant increase in the proportion of school funding allocated on a needs basis, due in part to the expansion of the loadings in the NPSI. Furthermore, in the NPSI over 50% of all Australian students are considered 'disadvantaged' for the purposes of the revised SRS funding model.

### Funding of non-government schools

Most non-government schools have received government funding in the past on the system level, rather than the individual school. That is, approved authorities (for instance, the Catholic education office in particular states, and the Lutheran schools association) received funding they could then distribute to individual schools within their own systems, however they wished. However, there were still many individual independent schools that were their own approved authorities (not part of any school system) and so received funding directly.

The Gonski Report recommended that the government continue its practice of generally not funding individual non-government schools directly, but rather administer funds to each schooling system based on the needs of each school in the system.<sup>57</sup> The only requirement for the school systems to receive funding was transparency regarding how much funding is allocated to each school within the system, and disclosure if this allocation deviates substantially from the SRS.<sup>58</sup>

**Table 2: Eligibility and cost of each loading type in the NPSI**

	Proportion of Australian students who are eligible for loading under the NPSI <sup>54</sup>	Proportion of total cost of revised SRS in the NPSI <sup>55</sup>	Proportion of total cost of loadings in the NPSI
<b>Low SES</b>	50%	10.3%	40.4%
<b>Indigenous</b>	5.2%	2.0%	7.8%
<b>Limited English language proficiency</b>	3.0%	0.2%	0.8%
<b>Disability</b>	5.3%	8.8%	34.5%
<b>School size</b>	N/A – this loading is based on school characteristics.	1.7%	6.7%
<b>School location</b>	N/A – this loading is based on school characteristics.	2.5%	9.8%

Under the Gonski Report model, government schools and non-government schools were to be funded differently:

- Government schools were to receive the entire base per student amount and loadings in government funding.<sup>59</sup>
- Non-government schools were to receive only a portion of the base per student amount in government funding depending on socioeconomic status, but would receive the full loadings in government funding.<sup>60</sup>

Non-governments schools were to fund at least 10% of the base amount from private sources of income. There were some exceptions to this rule, such as non-government schools that: do not charge compulsory fees and have no capacity to do so; provide education to students with very high needs; or are sole provider schools.<sup>61</sup>

The Rudd government announced in 2010 that under any new funding arrangement no school would lose a dollar of funding per student.<sup>62</sup> On the basis of this announcement, the Gonski Report recommended a

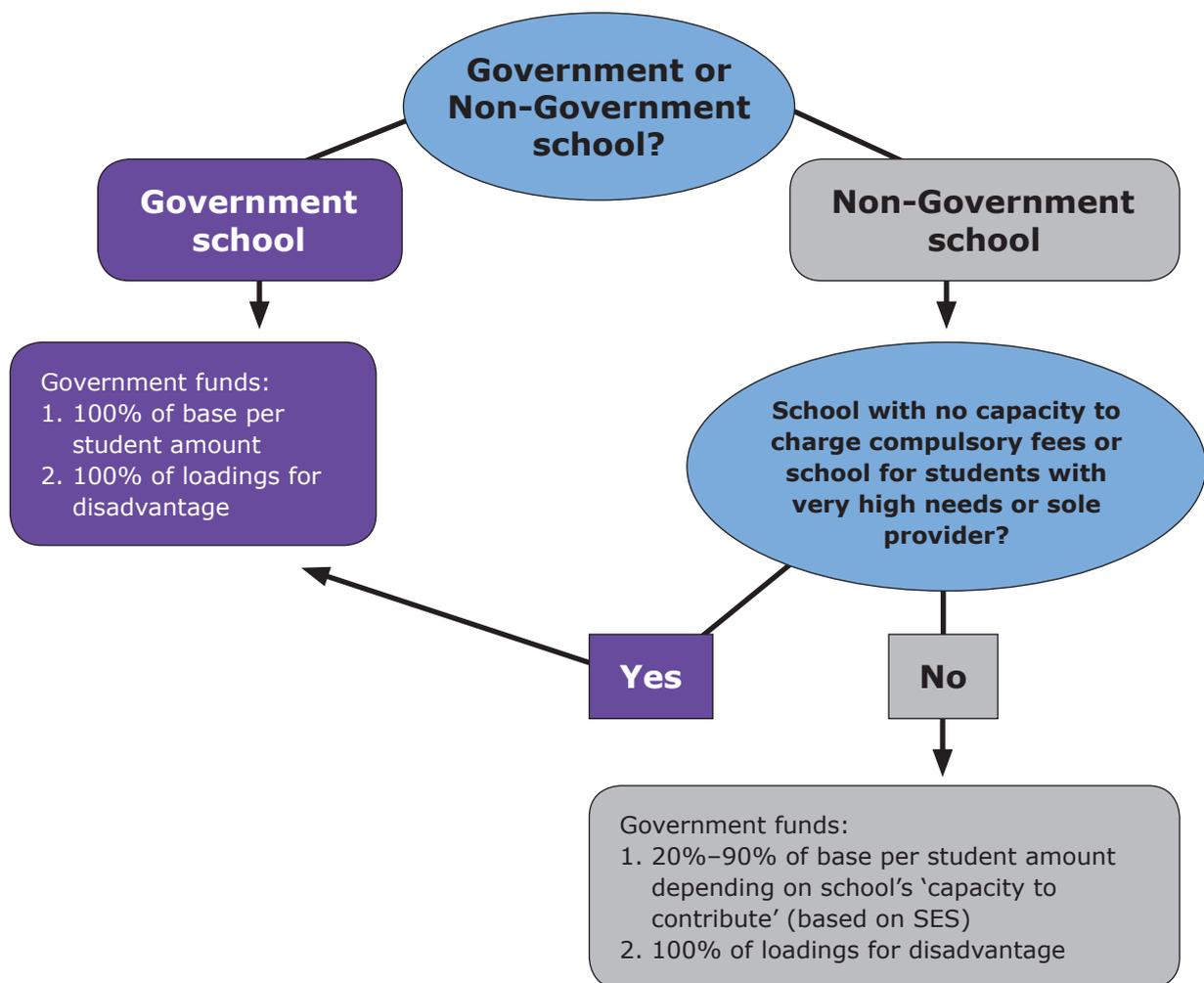
minimum government contribution for every non-government school of 20%–25% of the base amount.<sup>63</sup>

This meant that in the Gonski Report model, most non-government schools would receive government funding between 20% and 90% of the base amount, and 100% of the loadings for disadvantage. The exact government contribution of the base amount (between 20% and 90%) was to be proportionate to the school's capacity to contribute, based on the socioeconomic status of the school.<sup>64</sup>

The outline for how non-government schools were to be funded was implemented in the NPSI, where the government funds 20%–90% of the base amount depending on the school's capacity to contribute (using the school's SES score),<sup>65</sup> with some exceptions.<sup>66</sup>

The NPSI followed the Gonski Report's recommendation that non-government school systems retain their flexibility to distribute government funding to schools within the system, while including broad requirements for needs-based allocation of funding to schools and transparency of funding models.<sup>67</sup>

**Figure 3: Funding of non-government schools in the Gonski Report school funding model**



## The futility of attempts to reach the revised SRS

The original goal of the NPSI was for all schools in all states and territories to reach at least 95% of the revised SRS by 2019.<sup>68</sup> This was to be achieved through significant increases in both federal and state government spending across six years, from 2014–2019.

The federal Department of Education released data in 2016 projecting what percentage of the SRS each approved authority (government, Catholic, and

independent) would receive in total government funding in 2017, by state and territory.<sup>69</sup> The Department has also released data on the projected total public (federal and state government) spending on schools in 2017.<sup>70</sup>

Government school systems in all states and territories will receive below 95% of their SRS levels in 2017, except two (Western Australia and the ACT, due to the state/territory government funding already being relatively high). However Tasmania, Queensland, and the Northern Territory will still receive over 90% of their SRS.

**Table 3: Government school systems per student funding and % of SRS reached in 2017 by state/territory system**<sup>71</sup>

State/territory	Federal government funding per student (\$)	State/territory government funding per student (\$)	Total government funding per student (\$)	% of SRS reached in government funding
NSW	2,747	11,134	13,881	89.07%
VIC	2,571	9,999	12,570	83.16%
QLD	2,857	11,696	14,554	91.21%
SA	2,597	11,853	14,450	87.80%
WA	2,242	14,827	17,069	98.70%
TAS	3,271	13,533	16,804	94.19%
ACT	2,208	13,364	15,572	113.00%
NT	5,899	17,224	23,124	90.10%

**Table 4: Catholic school systems per student funding and % of SRS reached in 2017 by state/territory system**<sup>72</sup>

State/territory	Federal government funding per student (\$)	State/territory government funding per student (\$)	Total government funding per student (\$)	% of SRS reached in government funding
NSW	8,761	2,665	11,426	95.34%
VIC	8,807	2,383	11,191	95.32%
QLD	8,788	2,704	11,492	95.39%
SA	8,812	2,273	11,085	90.18%
WA	8,681	3,585	12,266	94.64%
TAS	9,833	2,757	12,590	90.07%
ACT	7,876	2,374	10,250	96.63%
NT	14,338	4,146	18,484	83.27%

**Table 5: Independent school approved authorities per student funding and % of SRS reached in 2017 by state/territory**<sup>73</sup>

State/territory	Federal government funding per student (\$)	State/territory government funding per student (\$)	Total government funding per student (\$)	% of approved authorities reaching 95% or more of SRS in government funding	Average % of SRS in government funding received by approved authorities
NSW	6,933	2,585	9,519	43.77%	100.10%
VIC	6,901	1,770	8,671	47.88%	95.61%
QLD	7,708	2,515	10,224	46.81%	95.77%
SA	7,517	2,028	9,545	18.03%	87.55%
WA	7,174	3,294	10,467	30.17%	91.72%
TAS	8,309	2,524	10,834	8.00%	85.14%
ACT	5,939	1,937	7,876	94.12%	131.79%
NT	11,930	3,668	15,598	22.22%	83.82%

Catholic schools system in four states and territories (New South Wales, Victoria, Queensland, and the ACT) will receive above 95% of their SRS levels in 2017, while the other four (South Australia, Western Australia, Tasmania, and the Northern Territory) will receive less than 95%. The Northern Territory is a clear outlier, as the Catholic system there will receive 83.27% of its SRS while in every other state and territory the Catholic system will receive over 90%.

For independent schools, the data is provided only at the approved authority level, rather than at a system or school level.

The percentage of independent school approved authorities reaching 95% or more of their SRS is a more accurate measure of current funding levels than the simple average percentage of SRS received in government funding by independent school approved authorities. This is because the average figures are inflated by relatively small numbers of approved authorities receiving significantly more than their SRS.

In every state and territory except the ACT, less than half of the independent school approved authorities will receive 95% or more of their SRS funding levels in 2017.

A clear pattern is that despite substantial increased federal and state government funding from 2014 to 2017, significant proportions of schools from each sector in most states and territories are still receiving well below 95% of their revised SRS funding.

There has been a focus in media on the argument about alleged 'overfunding' of independent schools and if their funding should be redistributed to address the concurrent alleged 'underfunding' of public schools.<sup>74</sup>

Some analysts have outlined that independent schools received a total of \$215 million above their specified SRS levels in 2014.<sup>75</sup> However, this situation is a result of the AEA not immediately overriding the numerous complex historical agreements between governments and independent schools. The only impact of the AEA on these agreements was to cut growth in government funding to 3% for any schools deemed to be over their SRS level — instead of the standard 3.6% for all schools receiving funding at their SRS level.

But some independent schools' 'overfunding' (according to the revised SRS) is not a significant portion of total recurrent school funding (over \$53 billion in 2014–15<sup>76</sup>) and so by itself cannot address the alleged 'underfunding' of the entire public school system. In addition, the same measure would show both the Catholic and independent schools systems as being largely underfunded across the states and territories, indicating that the public school system has not been especially disadvantaged by the revised SRS.

It appears that the reason for not reaching the revised SRS is the significantly expanded loadings, rather than the base amount or some independent schools being 'overfunded.'

The base per student amounts in 2014 were \$12,193 for secondary school students and \$9,271 for primary school students.<sup>77</sup> Approximately 57% of school students are in primary school and 43% are in secondary school,<sup>78</sup> which gives rise to a weighted average of \$10,527 per student. Indexing this amount at 3.6% (as the AEA does) gives rise to an approximate base per student amount of \$11,707 in 2017.

Government school systems in every state and territory are projected to receive above this base per student amount, while still generally falling short of reaching their SRS, as shown below:

With the exception of Victoria, every state and territory will receive thousands of dollars per student in needs-based funding (funding above the base per student amount) in 2017, and yet six states and territories will still receive below 95% of their SRS funding levels.

The example of the Northern Territory is striking. In 2017, it is projected to receive \$23,124 per student in government schools, which represents over \$11,000 per student in needs-based funding. Despite this, it is still projected to receive only 90% of its SRS in 2017. In fact, the majority of the cost of the SRS in the Northern Territory, 52%, in 2017 was due to the loadings.<sup>80</sup> This is a clear example of how the expanded loadings are the reason for government schools not receiving their full SRS, rather than the size of the base per student amount, or non-government schools being 'overfunded.'

**Table 6: Per student funding received above base amount and % of SRS reached in 2017 by state/territory**<sup>79</sup>

State/territory	Total government funding per student (\$)	(\$ Amount of government funding received per student above SRS base per student amount (\$11,707))	% of SRS reached in government funding
NSW	13,881	2,174	89.07%
VIC	12,570	863	83.16%
QLD	14,554	2,847	91.21%
SA	14,450	2,743	87.80%
WA	17,069	5,362	98.70%
TAS	16,804	5,097	94.19%
ACT	15,572	3,865	113.00%
NT	23,124	11,417	90.10%

In general, according to the latest federal Department of Education estimates, the loadings represent 26% of the cost of the SRS.<sup>81</sup>

The evidence indicates that the much higher loadings for disadvantage negotiated during the drafting of the AEA have substantially raised the cost of reaching the revised SRS. It would seem that very significant increases in government spending on schools will be required for all Australian schools to reach even 95% of the SRS, as long as the loadings remain so high. On this basis, it is possible to mount the argument that schools are not 'underfunded' but instead the target is set unrealistically and unjustifiably high.

## **A nationally consistent, simple, transparent school funding model?**

The Gonski Report identified the absence of a nationally consistent school funding model, as well as lack of simplicity and transparency in the school funding arrangements at the time.<sup>82</sup>

There was a wide range of programs and funding streams at the federal and state levels for both government and non-government schools. The funding was largely uncoordinated, inconsistent, opaque, and complex. There was a patchwork of different funding models and methodologies.

The proposed school funding model in the Gonski Report was meant to be a nationally consistent alternative to this previous conglomerate of school funding arrangements. The aim was to legislate national education agreements to implement the new school funding model. The model was relatively simple: in exchange for more federal government funding for government schools, the state governments would agree to funding schools using the proposed SRS so that all government recurrent funding for schools would be under the SRS alone, with no exceptions.<sup>83</sup>

In the interests of transparency, the basis of all government funding for schools would be publicly available — including the calculation and indexing of the SRS, the exact allocation of government funding to every school in Australia, and all school funding agreements between the federal government, state governments, and non-government schools.

In order to assist this greater transparency, the Gonski Report proposed establishing a new independent education body to review and index the SRS: the National Schools Resourcing Body.<sup>84</sup> The National Schools Resourcing Body was to be independent of government, but pass on recommendations about the SRS to the federal Education Minister for approval, who would retain ultimate authority over school funding.<sup>85</sup>

The Gonski Report recommended that to achieve this the federal government should revise the National Education Agreement with the states. Bilateral agreements with individual states and territories were to be developed as schedules to the revised National Education Agreement, and include transparent and locally flexible arrangements.<sup>86</sup>

In practice the National Education Agreement was revised and a new National Education Reform Agreement (NERA) was created by the federal government.<sup>87</sup> States and territories which signed up were then to enter into bilateral agreements as schedules to the NERA.<sup>88</sup>

However, while the school funding agreements allowed for local flexibility, the agreements were in fact opaque and the details of the bilateral agreements were never publicly made available. Also, though the Gonski Report suggested that all school funding agreements and legislation should support 12-year funding cycles to provide greater certainty,<sup>89</sup> federal government recurrent funding legislated for in the *Australian Education Act 2013* provided only a six-year school funding plan.<sup>90</sup>

Nor was the National Schools Resourcing Body created: the Education Minister with the Department of Education remain responsible for reviewing and indexing the school funding model.

More broadly, the attempt at implementing the Gonski Report's school funding proposals has been largely unsuccessful in creating a nationally consistent funding model. Several state and territory governments did not agree to the NPSI (Queensland, Western Australia, and the Northern Territory) while the remaining governments each entered into a different agreement with the Commonwealth. This means that federal government school funding continues to be significantly different by both states and sectors across Australia.

The federal Department of Education and Training has stated that there are at least 27 different Commonwealth school funding arrangements:<sup>91</sup>

- The SRS under the Australian Education Act 2013;
- Eight different arrangements for government schools (for each state and territory);
- Eight different arrangements for Catholic systemic schools (for each state and territory);
- Eight different arrangements for single Independent schools (for each state and territory);
- One for approved Independent schools systems; and
- One for approved authorities for more than one non-systemic school.

There is currently an overload of complexity in school funding, given that there is no nationally consistent school funding allocation model, a variety of different needs-based funding arrangements, and the numerous government and non-government school funding agreements each with their own terms.

There is also a general lack of transparency as to how the additional school funding is being allocated in each state and territory by both state governments and approved authorities, how the SRS was calculated including the loadings, and the details of the funding agreements with non-government schools. An example of the lack of transparency in the process is the fact that stakeholder participants in the negotiations leading up to the drafting of the AEA were all required to sign confidentiality agreements.

Not only has the attempt to simplify and uncover the school funding process been unsuccessful, it has cost the federal government more than anticipated. The Gonski Report estimated that the total cost of implementing its school funding model would be an additional \$5 billion per year on top of the existing level of school funding by both federal and state governments.<sup>92</sup> It was estimated that the states and territories would cover 70% of the increase, while the federal government would cover the remaining 30%.<sup>93</sup> However, the Gillard government indicated it would fund a significantly larger share of the additional funding than the Gonski Report estimated, and ended up funding 65%, leaving the states to fund the remaining 35%.<sup>94</sup>

### Summary of differences between the Gonski Report and 'Gonski funding'

The obvious conclusion is that the NPSI is substantially and practically different to what was originally proposed in the Gonski Report. It is inaccurate to refer to the

government funding for schools associated with the NPSI as 'Gonski funding.'

The same conclusion has been reached by one of the Gonski Report panelists, Ken Boston:

*"The...misunderstanding is that the Gillard and Rudd governments adopted Gonski, and then reached "Gonski agreements" with the states, promising additional "Gonski funding" over six years. The Gillard and Rudd governments did not adopt the Gonski Report, and neither has the current Labor Opposition...This response [the NPSI] to Gonski – which was far from implementing Gonski – was packaged as "Gonski agreements" and "Gonski funding". These terms are now widely accepted by the public and the media as meaning that Labor (now in Opposition) is committed to implementing the Gonski reforms. That is not what the record shows."<sup>95</sup>*

**Table 7: Differences between the Gonski Report and 'Gonski funding'**

Area of difference	The Gonski Report	The NPSI ('Gonski funding')
1. SRS indexation	Indexation of the SRS is based on the actual costs of reference (high-performing) schools.	Indexation of the SRS is a fixed rate of 3.6%.
2. Loadings for disadvantage — amounts	Low SES: apply to lowest 25% of students. Indigenous: loadings apply to schools with at least 5% Indigenous students. Disabilities: no initial estimates and stated work should be done to have nationally consistent data to base loadings on.	Low SES: loadings expanded to apply to lowest 50% of students. Indigenous: loadings expanded to apply to schools with any Indigenous students. Disabilities: loadings are not allocated based on nationally consistent data.
3. Loadings for disadvantage — rationale	Initial estimates only and stated that more work should be done to calculate loadings and come up with an educational rationale.	No objective basis. The loadings in the revised SRS appear to be arbitrary and lack an educational rationale.
4. Independent body to review and index the SRS	The National Schools Resourcing Body to review and index the SRS, providing an objective basis for the loadings and indexation.	No independent body (no National Schools Resourcing Body), no objective basis for the loadings and indexation.
5. Federal government share of increased school funding	The federal government covers 30% of the increased school funding, while the states and territories cover the other 70%.	The federal government covers 65% of the increased school funding, while the states and territories cover the other 35%.
6. Simplicity	A simple, nationally consistent funding model.	Lack of simplicity with 27 different federal government school funding arrangements. No nationally consistent funding model.
7. Transparency	The following are to be publicly available: calculation and indexing of the SRS, the exact allocation of government funding to every school system in Australia, and all school funding agreements between the federal government, state/territory governments, and non-government schools.	Lack of transparency with little or no information being publicly available regarding the calculation of the revised SRS, allocation of government funding to school systems, and details of bilateral school funding agreements between the federal government, state/territory governments, and non-government schools.



## Issues with using the Gonski Report for future school funding arrangements

The NPSI included six-year school funding plan, but the current government has indicated that it will not fund the final two years of the plan. As explained above, there are several major flaws in the NPSI, including a general lack of transparency, and a greatly inflated SRS which is not based on an educational rationale, unrealistically raises the school funding benchmark, and is unjustifiably expensive. A new approach to school funding is necessary.

However, the fact that the NPSI cannot accurately be referred to as 'Gonski funding' does not mean that future school funding models should simply adopt the Gonski Report's original proposals.

There are several fundamental issues with using the Gonski Report in future school funding arrangements, as the Gonski Report simply assumed that much higher funding for schools with disadvantaged students would lead to better student outcomes, failed to provide a rationale for universal free public schooling, and relied on data that is now out of date. Therefore, it would be highly problematic for future school funding agreements to be based on the Gonski Report or simple adjustments to the current model's SRS indexation rates.

### Assuming benefits of more school funding

The Gonski Report did not argue for more government spending on schools across the board, but did argue that the government should significantly increase funding for

schools with disadvantaged students. The assumption underpinning this argument was that increased funding for schools with disadvantaged students would improve outcomes in those schools.

In the years following the report, David Gonski himself and a fellow panelist Ken Boston have said that the report did not propose a particular level of funding, or more funding in general, but rather made the case for more needs-based funding.<sup>96</sup> Needs-based funding has existed for decades in Australia, but the Gonski Report essentially proposed increasing the amount.

The overall increase in funding associated with implementing the Gonski Report school funding model was actually due to the Rudd government's announcement that no school would lose a dollar of funding per student as a result of the review.<sup>97</sup> Without this announcement, the Gonski Report was advocating for the redistribution of — rather than an increase in — government funding of schools.

The Gonski Report clearly acknowledged that more funding by itself will not necessarily lead to improved results for disadvantaged students and that the evidence base is inconclusive.<sup>98</sup> However, the recommendations of the report are still based on the idea that more funding is necessary to improve underperforming schools.<sup>99</sup>

The Gonski Report assumed that allocating dramatically more funding for schools with disadvantaged students would improve student outcomes in those schools. This assumption was not contained in the terms of reference

for the review of school funding<sup>100</sup> and practically no attempt was made to defend it.

This is especially the case with respect to the report's calculation of loadings, where it was just assumed as a starting point that funding for low-SES students had to be increased.<sup>101</sup>

In the entire Gonski Report, there is just one relevant reference to any evidence for reallocating funding to disadvantaged schools: a 2007 OECD report, 'No more failures: Ten steps to equity in education'.<sup>102</sup> However, this report is outdated, mostly not relevant (only one of the ten steps relates to allocation of school funding based on need), and provides no specific evidence that more funding for schools with disadvantaged students

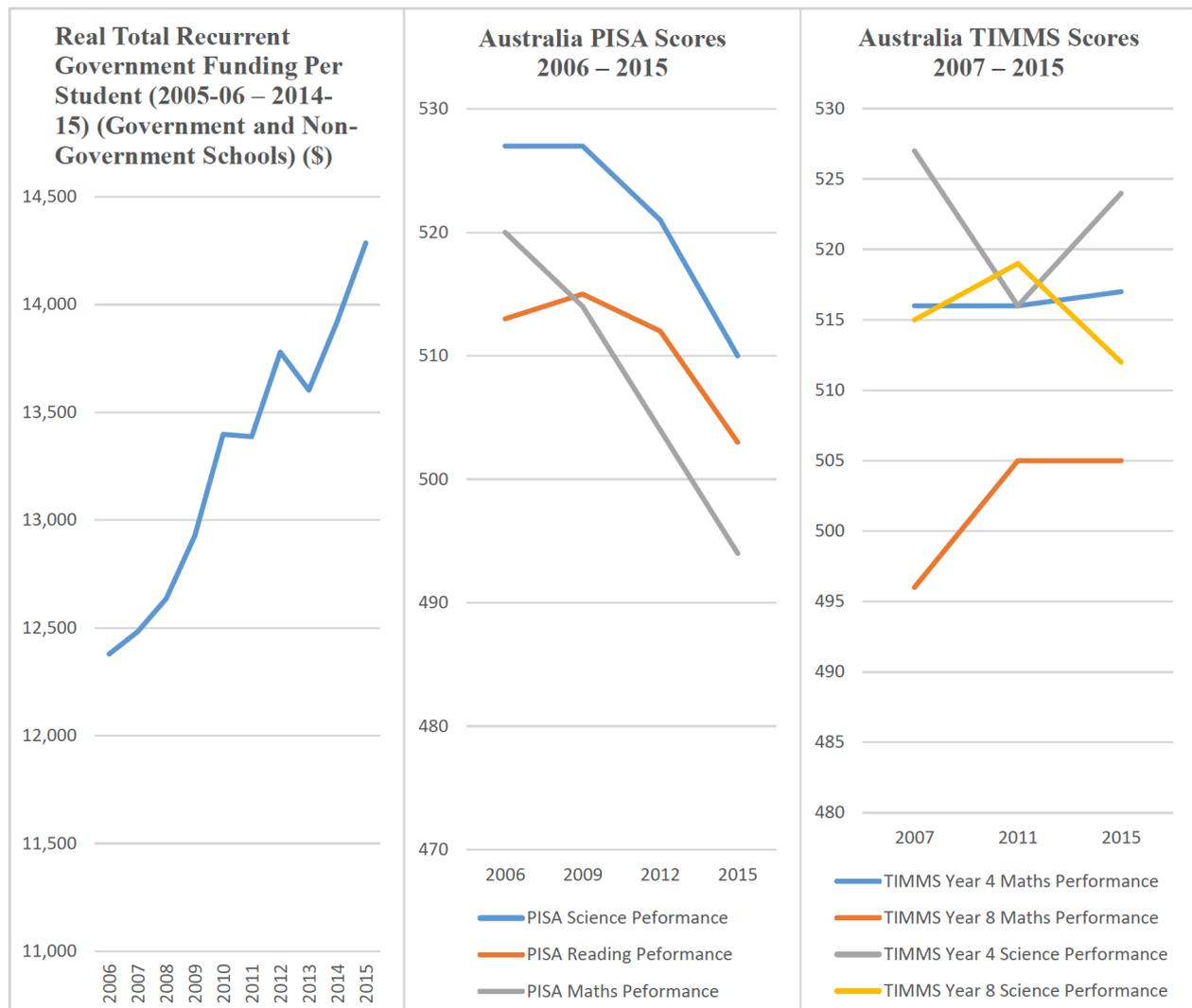
will improve educational outcomes in those schools, nor any evidence about the quantum of funding that might be required.<sup>103</sup>

In general, there is no clear link between government spending on schools and student outcomes.

Both the OECD and the Australian Productivity Commission have concluded there is no direct relationship between recurrent school funding and educational results.<sup>104</sup>

The lack of a direct relationship is clearly the case in Australia, as shown by the comparison below of government funding per student<sup>105</sup> and Australia's results in two international standardised tests, PISA and TIMMS, which assess maths, science, and reading:

**Figure 4: Comparison of Real Total Recurrent Australian Government Funding Per Student and Australia's Results in PISA and TIMMS<sup>106</sup>**



The fact that Australia's performance in both PISA and TIMSS have either declined or stagnated during the period in which there has been increased government funding per student in real terms (an increase of 15.4% across 9 years, equivalent to an average annual increase of 1.7%) suggests that there are diminishing marginal returns to school funding.

Recent studies on the relationship between school funding and student outcomes have come to conflicting conclusions.

A study by Ken Gannicott, former Head of the Graduate School of Education at Wollongong University, concluded that there is no positive relationship between a school's amount of funding and its NAPLAN results.<sup>107</sup> Another study by researchers at Macquarie University examined PISA results for education investment, school discipline, and education performance. The study found that school discipline is relatively more important than school funding in affecting education performance (school funding explained only 12% of the variation in school results, while classroom discipline explained the other 88%).<sup>108</sup>

Five other recent overseas studies suggest that increased school funding improves student results, especially for disadvantaged students.<sup>109</sup> Each study found evidence of positive effects of increased school funding on student outcomes. However, all five studies either do not consider the marginal effects of increased school funding off high bases of existing funding, or else relate to specific situations in the United States where the funding increases are coming off significantly lower bases of per student funding compared to current Australian levels of funding.<sup>110</sup>

Australia has a relatively high base of recurrent government funding per student compared to the OECD — in 2013, it was US\$10,932 for secondary school students (11% above the OECD average of US\$9,811) and US\$8,289 for primary school students (just 2% below the OECD average of US\$8,477).<sup>111</sup> Australian government and private funding for schools in general are also higher than the OECD average.<sup>112</sup> This means that the five studies cited above cannot be used as reliable evidence that increasing Australian government funding for schools with disadvantaged students will improve results.

In conclusion, while the Gonski Report did reject the simplistic notion that more funding is all that is needed in Australian schooling, there is no evidence base for its assumption that more funding for schools with disadvantaged students would improve student outcomes.

## Assuming benefits of universal free public schooling

Universal free public schooling has existed in Australia since the nineteenth century.<sup>113</sup> In practice this means that all parents, regardless of socio-economic status, are entitled to send their children to a local public school with no charge.

The Gonski Report adopted the principle that:

*"It is important for the future of Australian schooling that the government sector continues to perform the role of a universal provider of high-quality education which is potentially open to all. This has significant implications for funding and means that, in practice, funding for government schools from fees cannot be significant or compulsory."<sup>114</sup>*

This principle was not contained in the terms of reference for the review of school funding<sup>115</sup> and no attempt was made to defend it in the Gonski Report.<sup>116</sup>

There are two issues with continuing the policy of universal free public schooling in Australia.

1. It means a higher cost to taxpayers of school education. Public schools are constrained from receiving significant and compulsory parental contributions, even from high SES parents, meaning more government funding than necessary is spent on public schools.
2. It is inequitable and unfair. High-income parents in high SES areas (where public schools tend to perform better on average) are able to send their children to public schools for free, whereas low-income parents in low SES areas (where public schools tend to perform worse on average)<sup>117</sup> will likely have to make significant contributions to send their children to a private school if they are not satisfied with the quality of the local public school. While the underlying issue may be the long-term lack of consistency in the quality of public schooling, in the meantime parents in low SES areas are unfairly disadvantaged.

Although the Gonski Report did not discuss these arguments against the government providing universal free schooling, in future state governments should consider charging high SES parents to send their children to public schools, especially in high SES areas.

## Unrealistic goal of equality

The Gonski Report adopted an ambitious goal of student equity:

*"...that differences in educational outcomes should not be the result of differences in wealth, income, power or possessions."<sup>118</sup>*

This goal was not in the terms of reference for the review of school funding<sup>119</sup> and no attempt was made to defend it in the Gonski Report.<sup>120</sup> However, the report does go on to clarify the notion of educational equity:

*"Equity in this sense does not mean that all students are the same or will achieve the same outcomes. Rather, it means that all students must have access to an acceptable international standard of education, regardless of where they live or the school they attend."<sup>121</sup>*

While this nuanced view of equity (having an adequate minimum standard of schooling across the country) is both practical and reasonable, the initial goal (no

differences in educational outcomes due to wealth or income) is highly problematic.

There are several issues with adopting this goal of equity:

- It is unrealistic and pursuing it would be futile. No level of funding can entirely overcome educational inequality. Every country in the OECD has difference in student achievement between low and high SES students.<sup>122</sup> In fact, relative to the OECD average, Australia has lower variance between schools.<sup>123</sup>
- Pursuing it would be an expensive process. Significantly more funding would be allocated to remedy the inequality, which would ultimately be unsuccessful, resulting in a large ongoing cost to the taxpayer.
- It would place unreasonable expectations on schools. School principals, teachers, and support staff cannot be reasonably expected to make up for all the differences in a child’s development that occur in the home.

A high-quality education system can help to reduce the gap, and enable all hard-working and capable students to succeed, but not close it entirely.

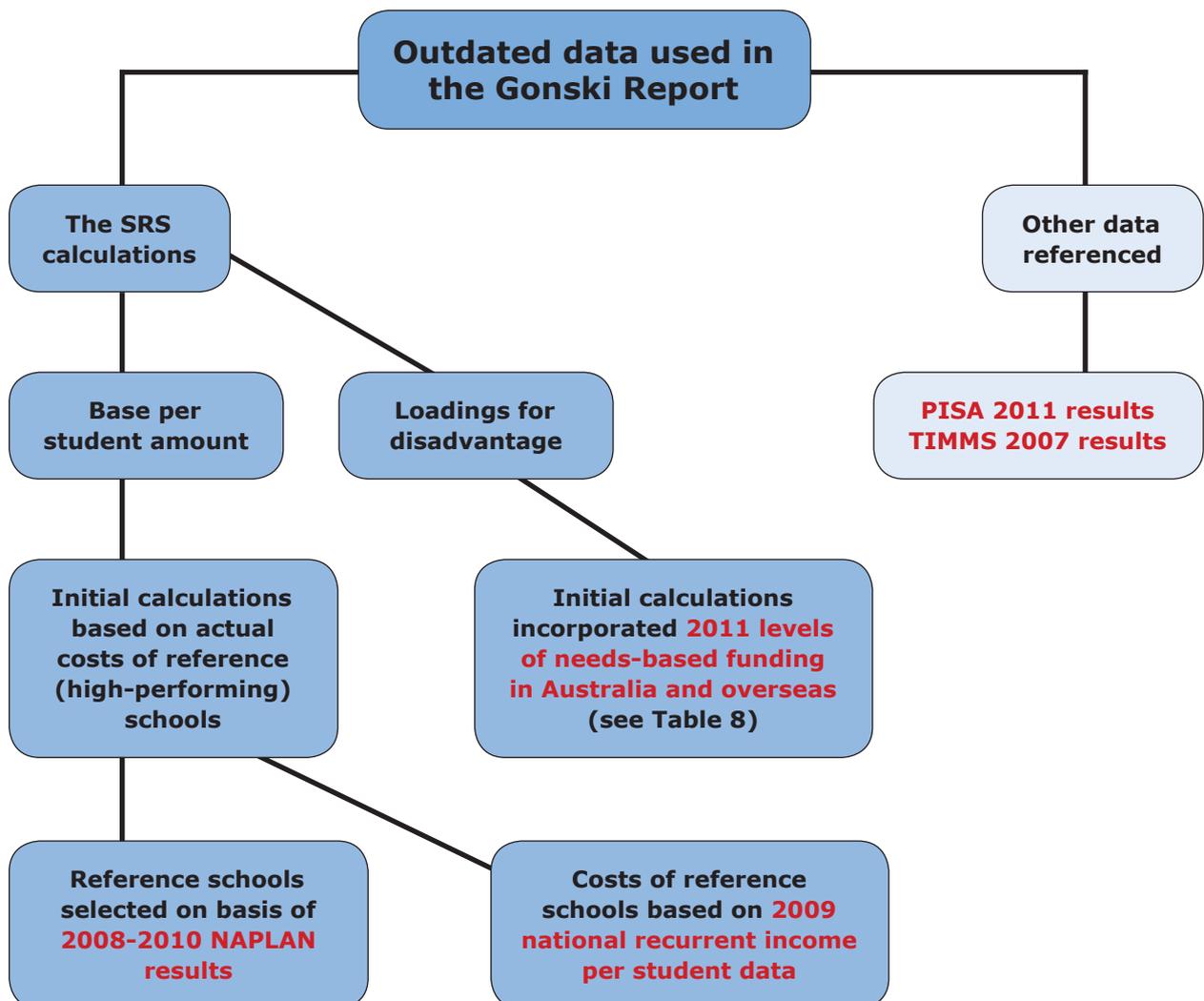
It is important that future school funding agreements are entered into with an understanding that government school funding policies have never — and will never — end the existence of a gap in average achievement between groups of students from different social and economic backgrounds.

### Outdated data

Given that the Gonski Report was written between 2009 and 2011, the data it was based on is now out of date. In fact, much of the data used in the report was already out of date as of 2011. The various uses of the outdated data in the Gonski Report are illustrated below:

With respect to the initial estimates of the loadings, the now outdated data used in the Gonski Report’s calculations for each source of disadvantage are shown on Table 8, Page 18.

Figure 5: Uses of now outdated data in the Gonski Report



**Table 8: Now outdated data used for calculating loadings for disadvantage in the Gonski Report**

Source of disadvantage	Data used in calculating loadings in the Gonski Report
Low SES status <sup>124</sup>	The basis of the calculation for the loadings for schools with low SES students was: <ul style="list-style-type: none"> <li>• The existing additional resources for students from low socioeconomic backgrounds was approximately \$1000 per student, as at 2011;</li> <li>• Assumption that additional funding for schools with students from low socioeconomic backgrounds should be much higher; and</li> <li>• Two overseas examples of loadings for socioeconomic status: the Netherlands of 30%–120% and Alberta (Canada) of 14%, as at 2011.</li> </ul>
Indigenous <sup>125</sup>	The basis of the calculation for the loadings for schools with Indigenous students was: <ul style="list-style-type: none"> <li>• Existing additional resources given to schools with high levels of Indigenous students were 80%–100%, as at 2011; and</li> <li>• Indigenous loadings would overlap with other school loadings such as socioeconomic status and school location.</li> </ul>
Limited English language proficiency <sup>126</sup>	The basis of the calculation for the loadings for schools with students with Limited English language proficiency was: <ul style="list-style-type: none"> <li>• The existing level of additional resources for schools with students with limited English language proficiency was approximately 17% of the AGSRC, as at 2011; and</li> <li>• Two overseas examples of loadings for limited English language proficiency: Alberta (Canada) of 36% and San Francisco (US) of 61%–94%, as at 2011.</li> </ul>
Disability <sup>127</sup>	N/A – there was not enough reliable data on students with disabilities in Australia to calculate loadings at the time.
School size/location <sup>128</sup>	The loadings range of 10%–100% was approximately the existing additional resources given to schools on the basis of size and location, as at 2011 (not actually proposed as a desirable loading).

There are several important implications of the outdated data in the Gonski Report:

- The school funding model in the Gonski Report cannot possibly be taken as a final product in its current form; and
- A significant amount of work would have to be done (extensive review, updating, and adjusting based on new data) in order to make the school funding model up-to-date and evidence-based.

Future school funding agreements should take this into account when discussing the possibility of implementing the original SRS as proposed in the Gonski Report.

### Some sound proposals from the Gonski Report

There were several evidence-based proposals, not directly related to government funding for schools, in the Gonski Report which have begun to be implemented. These include the following three measures:

1. Facilitating increased philanthropic giving to schools. The Gonski Report identified impediments to philanthropy in disadvantaged schools, such as donations to schools not being tax deductible.<sup>129</sup> Legislation passed Parliament in 2015 allowing for tax deductible donations to schools<sup>130</sup> through an education charity that gives disadvantaged schools

(measured using the school’s socio-economic status) access to private funds, called Schools-Plus.<sup>131</sup> This policy gives public schools in particular greater access to private funds and potentially saves taxpayers a significant amount of money.

2. Greater school autonomy. A recommendation of the Gonski Report was to empower local school leadership with greater autonomy and budgetary control.<sup>132</sup> This formed part of the NPSI<sup>133</sup> and was included in the AEA as a condition of school funding for participating schools.<sup>134</sup> There is evidence that suggests giving schools greater control over hiring staff and budgeting tends to boost student achievement.<sup>135</sup>
3. Early years literacy and numeracy testing. The Gonski Report suggested that an entry-level diagnostic tool for literacy and numeracy should be implemented.<sup>136</sup> There is now a proposal from the federal government to implement such an assessment nationwide.<sup>137</sup> There is a large body of evidence to suggest that a phonics check in particular will help identify at an early stage children who are struggling with basic reading skills, and facilitate needed intervention.<sup>138</sup>

These sound proposals from the Gonski Report should continue to be implemented and be further considered by both federal and state governments as part of future education agreements.



## Alternative school funding options

The Gonski Report does not provide a sustainable funding model the government can adopt. But the federal and state governments should not be content with the deeply flawed status quo, as there are other options that would improve school performance, give more choice and control to parents, and provide better value for taxpayer funds. A significant limitation of the Gonski Report is that it did not consider several viable alternative school funding arrangements.

### **Transfer all school funding responsibilities to the states: end the blame game**

Transferring all school funding and policy responsibilities to the states could have been considered under the terms of reference for the Gonski Report, but was not.

Instead, the Gonski Report chose to recommend a school funding model that was to be implemented on a national basis by the federal government. This proposal was always likely to fail in Australia's federation, as state governments would prefer to retain flexibility for allocating funding to local schools.

There was a contradiction in the Gonski Report proposals from the start: the federal government was providing additional funding as part of a nationally consistent funding model, but the states and territories would still allocate the money and decide how it was spent.

Inevitably the consistency principle was overridden by the subsidiarity principle (that state governments should be able to implement policies appropriate for their own local needs). Under the NPSI, states retained the flexibility to allocate funding how they wished, with only some general requirements for needs-based funding. In spite of this, not all state and territory governments agreed to participate in the NPSI, and there have been continuous arguments ever since the election of the Coalition government in 2013 between the federal and state governments concerning school funding allocation.

Given the significant complexities and issues with federal-state school funding negotiations, as shown by the NPSI through to the present time (see Appendix), it could be much better to simply have the states handle all school funding and policies.

The National Commission of Audit in 2014 recommended this change,<sup>139</sup> which would involve the federal government still giving money to states for schools but not being involved in the administration of school funding. It was suggested by the National Commission of Audit that the federal government give state governments three pools of school funding for government, Catholic, and independent schools (funding could not be reallocated between pools).<sup>140</sup> Only some basic conditions would be attached to the funding, such as transparency of school funding allocation and participation in national testing.<sup>141</sup>

The benefits of this approach include greater accountability by 'ending the blame game' between federal and state governments, a more efficient funding allocation that better caters for local considerations, and a reduced federal Department of Education with a smaller cost to the taxpayer.

However, David Gonski argued in 2014 that there are two potential downsides to the National Commission of Audit's recommendation:<sup>142</sup>

1. It would be a conflict of interest for state governments to fund non-government schools that are in competition with the government-run schools. Safeguards, such as federal funding being allocated in three separate pools for each school system, would be insufficient or be seen by the public to be insufficient.
2. It would result in different education systems in different parts of the country.

In regards to the first criticism, Gonski did not actually provide any argument for why allocating funding in pools for each system would be an inadequate safeguard. But in any case, the conflict of interest issue could be further ameliorated by having a few simple conditions attached to the federal funds, such as:

- A certain proportion of the funding must be allocated to approved school authorities on a per student basis;
- A minimum level of per student funding must be allocated to all approved authorities; and
- No discrimination of funding against schools on the basis of religion.

It would be essential, however, to ensure that the federal government does not include too many or too onerous conditions on the allocation of school funding, as this would defeat the purpose of the change.

In addition, it is important to note that state and territory governments already allocate substantial funding to non-government schools — in 2017, it is projected state and territory governments will provide on average recurrent funding of \$2,505 per student for non-government schools.<sup>143</sup> The National Commission of Audit proposal would only increase the amounts of state-allocated funding for non-government schools.

The second criticism by David Gonski, that the proposal would create a lack of uniformity across the country's schools systems, is actually one of the strongest arguments for the National Commission of Audit's recommendation. It is unclear why states having more control over funding of their local schools would be an undesirable result and Gonski does not present arguments for why this is a downside of the policy.

Individual states are better able to understand and cater for the needs of local schools than the federal government. There will always be different educational needs across different parts of the country. For example,

the Northern Territory will inevitably have very different needs to the ACT due to demographics and geography, and hence their school funding systems have to be substantially different for them to cater to their local populations.

It is unsurprising that attempts to implement a nationally consistent funding model have failed, such as when the Northern Territory, Queensland, and Western Australia refused to sign up to the NERA (see Appendix). If the federal government continues to try to allocate school funding to states with only limited local flexibility, this will undermine the states' ability to have school systems that are appropriate for their own circumstances.

Furthermore, transferring all school funding responsibilities to the states would allow for more competitive federalism, where states compete against each other to offer the best education system. This would be beneficial for students, as state governments would be under more pressure to ensure their school funding systems maximise student performance. There would also be greater accountability for school outcomes, as state governments would have to justify their own school funding systems and educational performance, without being able to blame the federal government.

There are relevant overseas examples in the OECD of decentralised school funding systems, where the federal government does not allocate money directly to schools, while lower levels of government manage distribution of school funding. For example, in Canada there is no federal department of education and provinces have full responsibility for school funding allocation.<sup>144</sup> Spain and Japan also have very decentralised systems where most school funding and policy responsibilities belong to provincial governments.<sup>145</sup>

In summary, transferring all school funding and policy responsibilities to the states in Australia would be in the interests of both the federal and state governments. The federal government would be able to avoid continual arguments with the states over school funding allocation and save a significant amount of taxpayer money by having a smaller Department of Education. The states would have greater control over their own education systems to better facilitate local needs, which would ultimately benefit students.

## **School vouchers: simple, transparent, and fair**

A school vouchers system is a way of allocating government funding for schools whereby parents are given a voucher for each child which they can then spend on any school they wish, in the government or non-government sectors.

Vouchers maximise school choice for parents and mean government funding is allocated to schools almost entirely on a per student basis. The value of the voucher usually corresponds to the amount of existing government recurrent funding per student.

Funding models based on school vouchers have been implemented in several countries around the world, including Sweden, Chile, and some states in the US.<sup>146</sup>

There is conflicting evidence about the impact of school vouchers on student achievement.<sup>147</sup> Overall, it appears that there is no significant link, either positive or negative, between vouchers and student outcomes, as the impacts vary depending on the context and implementation.<sup>148</sup>

In any case, there are other major pragmatic benefits of a school vouchers system:

- **Simplicity:** the funding model is simple, easy for the public to understand, and not open to complex government funding agreements with schools. There are potentially some additional layers of complexity, such as minimum levels of funding for schools and larger vouchers for disadvantaged students, but overall vouchers are much simpler than the current system.
- **Transparency:** it is clear exactly how funding is allocated to schools. There is no potential for arbitrary school funding formulas, or opaque agreements between governments and school systems based on historical levels of funding.
- **Fairness:** it treats all schools and all parents equally by allowing them to spend the same amount of government funding on the school of their choice. In particular, it gives low SES parents much greater school choice.

Vouchers are simple, transparent, and fair, in contrast to current school funding arrangements. Nevertheless, school vouchers were not considered in the Gonski Report, despite them being within the report's terms of reference.

School vouchers would work best in Australia if implemented at a state level rather than a federal level, so they can be consistent with state funding systems and local considerations. State and territory governments should consider vouchers as a potential new school funding model, particularly if they have been given all school funding responsibilities by the federal government.

## Charter schools: helping disadvantaged students

Charter schools are government-funded schools but autonomous and locally controlled. These schools are essentially privately run government schools, with significantly more flexibility than standard government schools. They enable more school autonomy and choice within the government school system.

While there are independent public schools in several states in Australia, these are not the same as charter schools: independent public schools are still owned and run by the government (the principals and staff are all government employees) in contrast to charter schools which are managed privately.<sup>149</sup>

Charter schools have existed for many years in the US and have been introduced more recently as Free Schools in England and Partnership Schools in New Zealand.<sup>150</sup> Based on the overseas experiences, there is some evidence that charter schools may have a small positive effect on overall student outcomes.<sup>151</sup>

Further, there is also a large body of evidence that charter schools significantly help disadvantaged students in particular.<sup>152</sup> This means that charter schools are capable of boosting the results of disadvantaged students without requiring considerable increases in government funding. In theory, charter schools have much more flexibility to cater for the needs of individual students, so it is unsurprising that they seem to greatly benefit disadvantaged students.

Given that improving outcomes for disadvantaged students was a key focus of the Gonski Report, charter schools would have been a very relevant option to consider. Nevertheless, the Gonski Report did not consider charter schools at all.

The policy of charter schools would work best if implemented by state governments, rather than the federal government, so that they are more aligned with the local needs and expectations of the particular state. Charter schools are a viable and worthwhile option for state governments to consider, especially if all school funding responsibilities have been handed over to the states.

## Conclusions

The Gonski Report has not been implemented. Contrary to popular belief, there is no school funding in Australia that can accurately be referred to as 'Gonski funding.'

The NPSI did not result in a nationally consistent funding model based on the Gonski Report, as several states and territories refused to sign up to the NERA. In addition, a long process of negotiations resulted in a revised SRS funding model that was substantially different to what was proposed in the Gonski Report (for a detailed discussion of the path from the Gonski Report to 'Gonski funding', see the Appendix).

There are at least seven significant differences between the Gonski Report and the NPSI:

1. The indexation of the SRS is a fixed 3.6% in the NPSI, while the indexation was to be based on the actual costs of reference (high-performing) schools in the Gonski Report.
2. The loadings for disadvantage in the NPSI were greatly expanded, such that the majority of all Australian students are now considered 'disadvantaged' and attract needs-based funding.
3. The Gonski Report recommended that an objective basis and educational rationale for the loadings for disadvantage should be worked out, but this did not eventuate in the NPSI.
4. The establishment of a National Schools Resourcing Body, to review and index the SRS, was suggested by the Gonski Report, but no such body has been created.
5. The Gonski Report estimated that the states and territories would cover 70% of the increase in school funding while the federal government would cover the remaining 30%. In the NPSI, the federal government ended up funding 65% of the increase instead and the states funded the remaining 35%.
6. While the Gonski Report proposed a simple, nationally consistent funding model, the NPSI resulted in 27 different federal government school funding arrangements.
7. Transparency was a key component of the Gonski Report school funding model, but the negotiations, SRS calculations, and school funding agreements as part of the NPSI have all been opaque.

However, it does not follow that future school funding agreements should simply implement the Gonski Report's school funding model as originally proposed, since there are several flaws in the Gonski Report's approach to school funding. It assumed that much higher funding for schools with disadvantaged students would lead to better student outcomes, failed to provide a rationale for universal free public schooling, and relied on data that is now out of date. For these reasons, it would be highly problematic to return to the Gonski Report to form the basis of future school funding arrangements.

The period from the release of the Gonski report in early 2012 through to the present time shows the apparently insurmountable difficulty of getting the federal government to agree with state governments and non-government schools on a consistent funding formula. A nationally consistent funding model is not viable.

Therefore, once a fair and feasible allocation of federal funding to schools is established, it is in the interests of the commonwealth, states, and students for all school funding responsibilities to be transferred to the states. State and territory governments would be able to implement school funding arrangements that better suit local needs, such as school vouchers (a simple, fair, transparent school funding model) or charter schools (which could greatly benefit disadvantaged students without costing significantly more taxpayer money).

Ultimately however, school funding reforms are only one part of the package needed to arrest the decline in Australia's international school rankings. Attempts to improve student outcomes in Australia by focussing entirely on school funding will inevitably fall short.

## Appendix: The path from the Gonski Report to 'Gonski funding'

### The National Plan for School Improvement (NPSI)

From the completion of the Gonski Report in December 2011 to the federal election in September 2013, the Gillard and Rudd governments' NPSI attempted to implement the report's recommendations.

The NPSI was to be implemented from 1 January 2014. At its core, the NPSI was meant to put into effect the new school funding model proposed by the Gonski Report. Although the plan also included other components separate from school funding, such as quality teaching, quality learning, empowered school leadership, meeting student need, and transparency and accountability.<sup>153</sup>

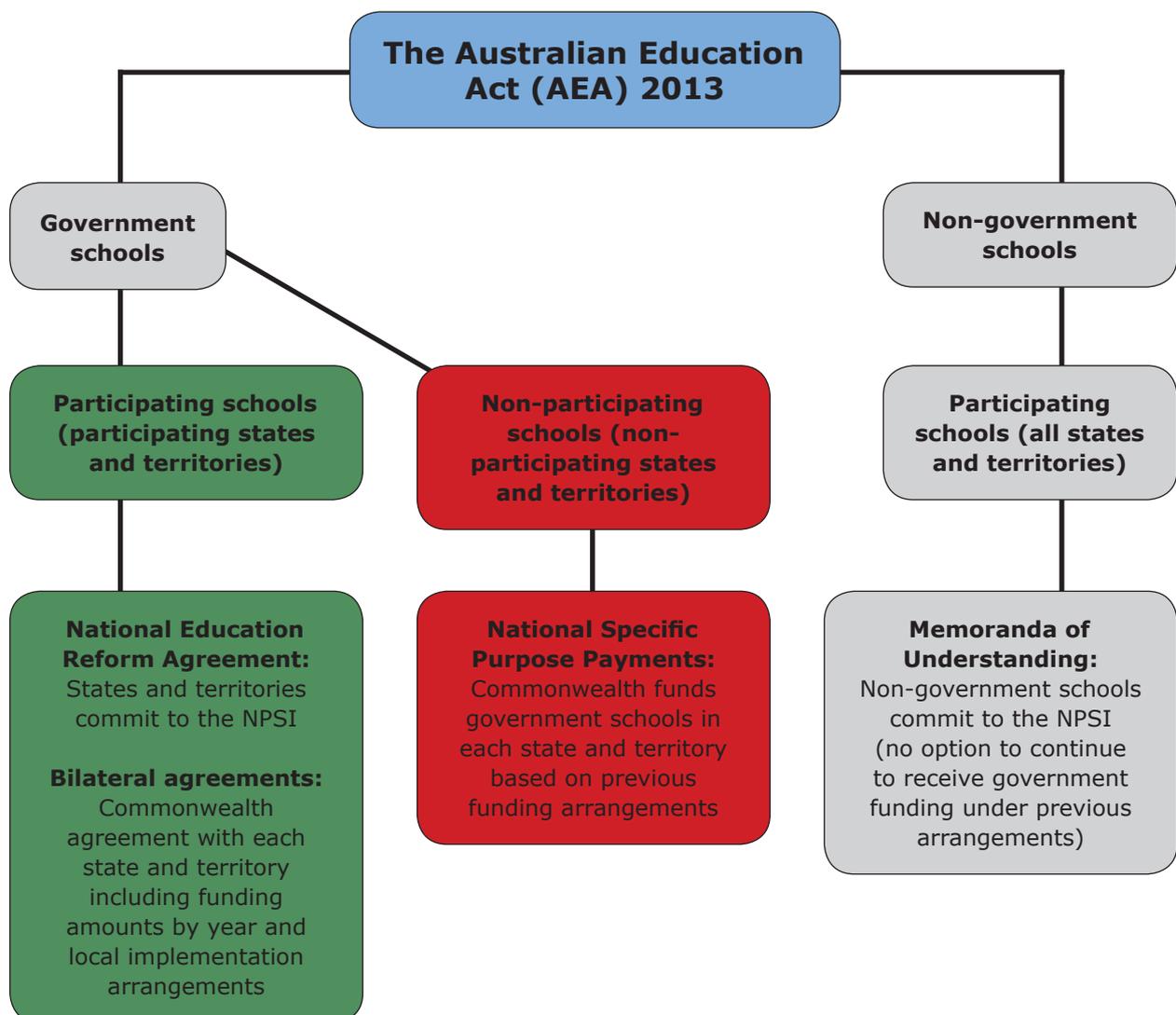
The NPSI required legislation, the *Australian Education Act 2013*, which passed parliament in June 2013 and commenced on 1 January 2014.<sup>154</sup>

For government schools, the NPSI was to be established through states and territories signing up to the National Education Reform Agreement, then signing heads-of-government agreements, and finally bilateral agreements between state and territory governments and the Australian Government.<sup>155</sup>

Non-government school education authorities were to commit to the NPSI through memoranda of understanding that would set out their implementation plans consistent with the new school funding model.<sup>156</sup>

Government schools in states and territories that did not sign up to the NPSI were to be funded under existing arrangements.<sup>157</sup>

Figure 6: The National Plan for School Improvement<sup>158</sup>



## The Australian Education Act 2013 (AEA)

The Australian Education Act 2013 (AEA) introduced by the Gillard government legislated a new school funding model based in part on the Gonski Report's proposed school funding model.

Before introducing the AEA, the Gillard government negotiated the details of the SES with the states, non-government school systems, and other stakeholders. This resulted in the SRS implemented in the AEA being significantly revised from what was originally proposed in the Gonski Report.

As a result of these negotiations, indexation of government funding for schools was adjusted in order to limit the impact of the new school funding model, in particular for non-government schools.<sup>159</sup> The indexation of schools currently being funded above their SRS was set at 3% (instead of the standard 3.6%) to make the transition of government funding towards the SRS funding model take place over a period of time. In other words, existing levels of government funding for all approved authorities would not be cut, and at least be maintained and indexed at 3%. The negotiations also meant that the loadings for disadvantage were greatly expanded.

Following the negotiations with state governments and non-government school authorities, and then discussions with crossbench senators, the AEA eventually passed parliament in June 2013. This gave the federal government authority to enter into school funding arrangements with states and non-government schools based on a new school funding model, the revised SRS.

### Participating and non-participating states and territories

States and territories that signed up to the National Education Reform Agreement, and signed a bilateral agreement with the commonwealth in order to implement the NERA, are referred to as participating states and territories.<sup>160</sup>

The AEA outlines the funding arrangements for participating and non-participating schools. Participating schools are government schools in participating states and territories, and all non-government schools (in all states and territories).<sup>161</sup>

Participating schools were to be funded according to the formula in the AEA,<sup>162</sup> which sets out the amounts of the revised SRS (both the base per student amount and the loadings for disadvantage), including indexation for schools currently funded below or above their SRS.<sup>163</sup>

Non-participating schools (government schools in non-participating states and territories) were to be funded on the same basis as they were before the AEA.<sup>164</sup> There would be National Specific Purpose Payments from the federal government to states for schools: the same recurrent amounts as previous years but the indexation arrangements were left to the federal Education Minister to decide.<sup>165</sup>

For state and territory governments that agreed to sign up to the NERA, there would first be Heads of Agreements, which would then be replaced by Bilateral Agreements, which would include details such as funding amounts by year, the implementation of the needs-based funding principles, local governance arrangements, and so on.

Not all states and territories agreed to participate in the NERA, and some that did failed to sign bilateral agreements with the Rudd-Gillard governments:

Queensland, Western Australia, and the Northern Territory each gave their own reasons for not signing up to the NERA. Their concerns included the prescriptive and input focus of the NPSI, giving the federal department of education more power over state schools, funding growth rates that were lower than would have otherwise occurred, and the reallocation of funding away from disadvantaged urban schools due to the loadings for school remoteness.<sup>167</sup>

There was some uncertainty about the status of Tasmania and Victoria as participating states, since they signed Heads of Agreements but did not enter into bilateral agreements. In 2014 the incoming Abbott government

**Table 9: Commonwealth NPSI agreements with states and territories** <sup>166</sup>

State/Territory	Heads of Agreement signed?	Bilateral Agreement signed?
New South Wales	✓	✓
South Australia	✓	✓
ACT	✓	✓
Tasmania	✓	✗
Victoria	✓	✗
Queensland	✗	✗
Western Australia	✗	✗
Northern Territory	✗	✗

confirmed that Tasmania and Victoria were both non-participating states for the purposes of the AEA.<sup>168</sup>

The Abbott government also announced in 2013, as part of its Students First school policy, that it would give additional recurrent school funding to Queensland, Western Australia, and the Northern Territory — the three non-participating states and territories that had clearly refused to sign up to the NERA.<sup>169</sup>

### The unfunded National Education Reform Agreement (NERA)

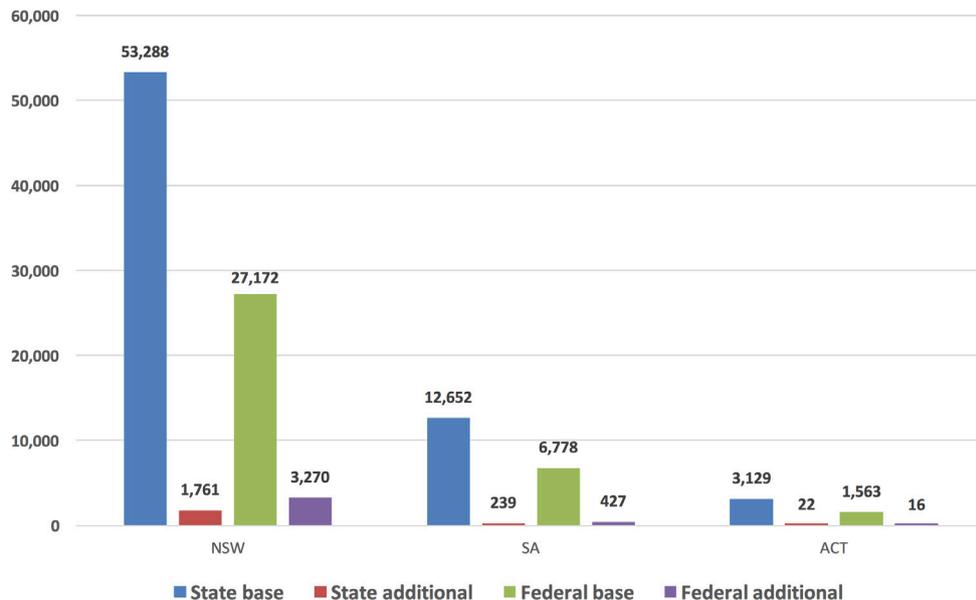
The NERA outlined the arrangements for the federal government to give school funding to the states in order to implement the SRS. The federal government was to make all payments to states in accordance with the funding formula outlined in the AEA. The states were to use this funding consistent with some needs-based funding principles.

All approved authorities currently underfunded were to have their school funding from the federal government increased by 4.7% per year until they reached their SRS. This meant that all participating states and territories were to receive this percentage increase on their existing school funding from the federal government.

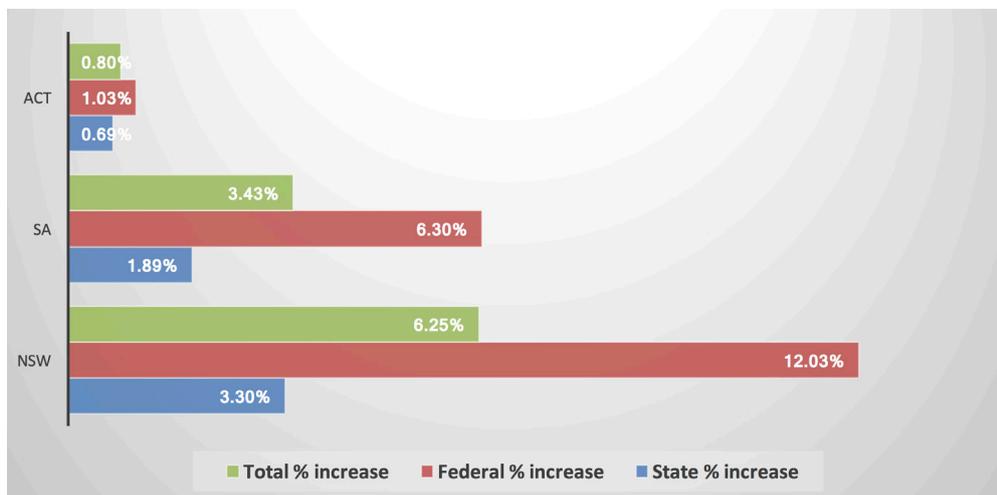
On top of the higher percentage increase on existing funding (4.7%), there was also to be significant additional funding, in order to accelerate the process to allow the schools systems in each state to reach their SRS levels more quickly. These amounts are outlined in the Heads of Agreements and bilateral agreements for each participating state and territory.

The base and additional funding amounts, and the additional amounts as a percentage of the base amount, for each participating state and territory across the entire period 2014–2019 are as follows:

**Figure 7: Base and additional recurrent school funding (across the 2014–2019 period) for participating states and territories (\$M)**<sup>170</sup>



**Figure 8: Additional funding as % increases of base funding (across the 2014–2019 period) for participating states and territories**<sup>171</sup>



**Table 10: Total Federal additional NERA funding by year<sup>173</sup>**

Budget Year	2013–14	2014–15	2015–16	2016–17	2017–18/ 2018–19	Total	2017–18/2018–19 as % of Total Amount
Additional Federal Funding (\$billion)	0.47	0.48	0.74	1.11	7.00	9.8	71%

The federal government accounted for approximately 65% of the overall additional funding in each state (the ACT was an exception where the federal government portion of the additional funding was only 43%). The overall percentage increases in federal funding compared to the base amounts was much higher in New South Wales (12%) compared to South Australia (6%) and the ACT (1%).

However, most of the additional federal government funding (over two-thirds) was never allocated in the budget at the time of the NERA in 2013, as the funding was largely earmarked for the two years beyond the four-year forward estimates, in the 2017–18 and 2018–19 budgets.<sup>172</sup> This is illustrated above.

The significant additional federal government funding of \$7 billion in the NERA for the final two years (and more for the revised SRS in future years) is problematic due to current federal budget constraints.

The incoming Abbott government, under the banner of its Students First policy, committed to providing school funding in accordance with the NERA funding agreements for the first four years (though not necessarily for 2017–18 and 2018–19). Additionally, the Abbott and Turnbull governments provided extra funding to non-participating states and territories for government schools equivalent to the per student funding they would have received had they been participating states and territories.<sup>174</sup>

In regards to participating states, they were no longer under any obligation to increase, or even maintain, their own recurrent school funding levels.<sup>175</sup>

Four states and territories reduced their recurrent school funding in 2014–15:<sup>176</sup>

- South Australia (a participating state) reduced its recurrent school funding from \$2.63 billion in 2013–14 to \$2.58 billion in 2014–15,<sup>177</sup> contravening what was agreed in the 2013 Heads of Agreement between South Australia and the federal government.<sup>178</sup>
- The ACT (a participating territory) reduced its recurrent school funding from \$771 million in 2013–14 to \$761 million in 2014–15,<sup>179</sup> contravening what was agreed in the 2013 Heads of Agreement between the ACT and the federal government.<sup>180</sup>
- Tasmania (not a participating state) reduced its recurrent school funding from \$879 million in 2013–14 to \$871 million in 2014–15,<sup>181</sup> contravening what was agreed in the 2013 Heads of Agreement between Tasmania and the federal government.<sup>182</sup>
- The Northern Territory (not a participating territory) reduced its recurrent school funding from \$624 million in 2013–14 to \$597 million in 2014–15.<sup>183</sup>

Given that half of the states and territories appear unwilling to commit to, or unwilling to afford, the increases in school funding associated with the NERA, it seems that the future of NERA school funding in its current form is highly uncertain.

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- Small schools (a secondary school with 100–500 students or a primary school with 15-200 students as defined in The Australia Education Act 2013 s43(1,3)) receive the maximum size loading of \$240,000 if a secondary school (s44(1)(b)) and \$150,000 if a primary school (s44(1)(a)).
  - Medium schools (a secondary school with 501–699 students or a primary school with 201–299 students as defined in The Australia Education Act 2013 s43(1,4)) receive a percentage of the maximum size loading amount depending on how many students it has over the lower limit (s51).
  - Large schools (a secondary school with at least 700 students or a primary school with at least 300 students as defined in The Australia Education Act 2013 s43(1,4)) receive no loading for size (s42(4)).
  - Very small schools (a secondary school with fewer than 100 students or a primary school with fewer than 15 students as defined in The Australia Education Act 2013 s43(1–2)) receive a percentage of the maximum size loading depending on its ARIA Index Value (which measures accessibility and remoteness), in addition to a starting amount of at least \$10,000 for a primary school and \$20,000 for a secondary school (ss46–50).
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- Major city schools receive no loading for location (The Australia Education Act 2013 s40(2)).
  - Inner regional schools receive up to 10% of [(the per student base level amount x the number of students) + the school's size loading)], depending on its ARIA Index Value (The Australia Education Act 2013 s41(1)).
  - Outer regional schools receive between 10%–30% of [(the per student base level amount x the number of students) + the school's size loading)], depending on its ARIA Index Value (The Australia Education Act 2013 s41(2)).
  - Remote schools receive between 30%–70% of [(the per student base level amount x the number of students) + the school's size loading)], depending on its ARIA Index Value (The Australia Education Act 2013 s41(3)).
  - Very remote schools receive 70%–80% of [(the per student base level amount x the number of students) + the school's size loading)], depending on its ARIA Index Value (The Australia Education Act 2013 s41(4)).
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- Cobbold criticises the public school figures for including depreciation, user cost of capital, school transport, and payroll tax.
  - However, taking these four items out of the figures only marginally affects the total increase (there is a large increase in real funding per student in public schools regardless).
  - Cobbold then uses a different index, the Wage Price Index for Public and Private Education and Training (as opposed to the General Government Final Consumption Expenditure Chain Price Index used by the Productivity Commission), which results in a much smaller total increase in real funding per student in public schools.
  - Using the Wage Price Index for Public and Private Education and Training for deflating school funding is flawed, as it does not represent the real increase in government funding, does not treat higher teacher real wages as increased funding, includes both public and private wages while only being applied to public schools, and ignores the many recurrent school costs that aren't teacher wages.
  - Therefore, given the relatively small difference in taking out the relatively minor cost items in public schools (depreciation, user cost of capital, school transport, and payroll tax) and the flawed alternative index used by Cobbold, this report uses the Productivity Commission's figures for increases in real funding per student.
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