

**Education Research Brief**

# **Public Schools Are Swindled by Billions Under New Education Agreements**

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## Summary

Public schools in NSW and South Australia will be swindled out of about \$7.5 billion over the next decade under new special deals incorporated in education agreements recently negotiated with the Commonwealth Government. The loss to NSW public schools is about \$6.1 billion over the ten years and about \$1.4 billion for South Australian public schools. Public schools around the country will lose about \$16.5 billion over ten years if the swindle is extended to other states, as is likely.

The swindle is implemented by selectively changing the rules on what is included in the measure of the Schooling Resource Standard (SRS) for public schools. The SRS is calculated as the net recurrent income needed by schools to achieve successful education outcomes, taking account of a range of factors influencing those outcomes. It has been the key parameter in determining government funding of schools since the introduction of the Gonski funding model. Under Gonski 2.0, state governments are expected to contribute at least 75% of the SRS of public schools by 2023.

Until now, the SRS has been used as a nationally consistent funding measure accepted by all governments. However, what is included in its measure was selectively changed in the NSW and South Australian bilateral agreements with the Commonwealth and this change has major implications for the future funding of public schools.

The bilateral agreements permit the NSW and South Australian governments to artificially boost their share of funding public schools by claiming expenditures such as depreciation, school transport and other items in their share of funding the SRS for public schools up to 4% of the total SRS. These items are in fact explicitly excluded from the net recurrent income measure of the SRS as developed by the Australian Curriculum, Assessment and Reporting Authority (ACARA).

The sleight of hand means that the state governments do not have to increase recurrent funding for public schools by as much to achieve their 75% target shares because they can claim the additional expenditures up to 4% of the value of the SRS. The gap between their 2017 funding and the SRS target can thereby be reduced by four percentage points so that less recurrent funding is required to get to the SRS target. This amounts to a loss of funding for public schools that states would otherwise be required to provide.

As part of its agreement with the Commonwealth, the NSW Government has committed to an additional \$712 million for a School Equity Fund for public schools over ten years beginning from 2020. This is a pittance compared to how much public schools will be short-changed. It is a small offset against the prospective loss of \$6.1 billion. Public schools will still lose about \$5.4 billion. The promise is cheap public relations for the NSW Government.

The funding loss will hit disadvantaged students and schools hard. It amounts to about \$2,114 per disadvantaged student in NSW in 2018 and \$2,227 per student in South Australia. A funding boost of this order would make a huge difference to schools with high proportions of disadvantaged students, especially annually over ten years, and improve education outcomes for these students.

The inclusion of additional expenditure items in the SRS in the NSW and South Australian bilateral agreements sets a precedent for the negotiation of agreements with the other states. It is likely that other governments will demand the same 4% allowance for additional expenditures as part of their SRS target, although this may not occur for Western Australia, Tasmania and the ACT where public schools are currently funded at over 75% of their SRS by the state. Inclusion of similar provisions in other bilateral agreements would rob public schools in Victoria of about \$4.5 billion over the next ten years, Queensland public schools by about \$4.3 billion and Northern Territory public schools by about \$393 million.

The inclusion of additional expenditure items in the SRS as a measure of progress towards the 75% target undermines national consistency in the SRS and further undermines the integrity of the current funding model. It is contradictory to measure progress towards the SRS target by including items in the measure of state funding that are excluded from the national measure of the SRS.

The Commonwealth and the Liberal governments of NSW and South Australian have conspired to change the rules about what is included in the SRS to meet their own respective political interests. It reduces the future funding commitments of the states and the Commonwealth gets the states to agree to implement its national education policies as a condition of Commonwealth funding. The effect is to deceive the public about the extent of progress by state governments in meeting their target funding shares for public schools.

There are also provisions in the bilateral agreements that selectively favour private schools. The Commonwealth has granted another special deal for the NSW Government whereby the period to achieve the 75% target is extended from 2023 to 2027 despite previous Commonwealth statements that the states would be required to achieve 75% of the SRS by 2023. In contrast, the Commonwealth has committed to achieving its goal of funding all private schools to 80% of their SRS by 2023. As a result, under-funded private schools will achieve the Commonwealth funding target quicker than public schools will achieve the state target.

The bilateral agreement with the South Australian Government notes that the state government intends to maintain its funding share of the SRS for private schools at 22% for the term of the agreement to 2023. This means that private schools in South Australia will be funded at over 100% of their SRS from 2023 because the Commonwealth share will reach 80% by then. In contrast, there is no equivalent commitment by the state government to fund public schools beyond the 75% target (including the expenditure items that artificially increase the state share) so that they will remain under-funded.

The new bilateral agreements continue the tradition of special funding deals made by Labor and Coalition governments that undermine the integrity of the principle of needs-based funding. The Gonski 2.0 funding arrangements have been debased by special deals that advantage private schools. Public schools are doubly disadvantaged by the special deals that provide non-needs-based funding increases to private schools and smaller increases in state government funding than required under the national measure of the SRS.

The potential loss of about \$16.5 billion in funding over the next ten years is a major blow for public schools and the disadvantaged students they serve. There is little prospect of improving school outcomes for these students or reducing the massive achievement gaps between rich and poor in Australia while government funding policies continue to unfairly favour private schools and fail to ensure adequate funding for public schools.

Public school communities and organisations in Victoria, Queensland, Western Australia, Tasmania, the Northern Territory and the ACT should beware of what their governments are negotiating away in secret discussions with the Commonwealth.

## **New Commonwealth-State education agreements**

The Australian Education Act 2013, as amended by the Turnbull Government, in 2017 sets out the financial assistance that is payable by the Commonwealth to States and Territories (the states) for school education and the conditions attached to that assistance. The conditions include requiring the states to fund minimum shares of the Schooling Resource Standard (SRS) for public and private schools and to implement national policy initiatives for school education. The obligations of the Commonwealth and state governments are being formalised in separate bilateral agreements. All the agreements are to be completed by 7 December 2018.

The New South Wales and South Australian governments signed bilateral agreements with the Commonwealth in November. Negotiations are continuing with the other states, but the NSW and South Australian agreements set precedents for the others to follow. The SRS is the key parameter in determining school funding, but what is included in its measure has been changed in the NSW and South Australian agreements and this change has major implications for the future funding of public schools.

## **The Schooling Resource Standard**

The Australian Education Act 2013 includes funding requirements as a percentage of the SRS for public and private schools to be achieved by 2023, unless otherwise specified in bilateral agreements with the states. The Commonwealth share for public schools is set at 20% of their SRS by 2023 and 80% for private schools. The state shares for public schools are set at 75% and 15% for private schools.

In 2017, the state shares for public schools were below 75% of their SRS in most states: NSW – 70.8%; Victoria – 66.2%; Queensland – 73.2%; South Australia – 71.6%; Northern Territory – 63%. Public schools in Tasmania were funded at 76% of their SRS and those in Western Australia and the ACT at 85.5% and 96.4% respectively [derived from [Senate Committee on Education and Employment, Budget Estimates 2017-2018](#), Answer to Question on Notice, No. SQ17-000759].

The SRS of public schools is supposed to be the amount of funding each school needs to achieve successful education outcomes. It is comprised of a base amount per student plus funding loadings for various categories of disadvantaged students enrolled in the school, although there are issues about the methodology used to estimate the two components. It can be compared with the actual funding level of each school to determine the extent of under-funding (or over-funding). The estimated SRS for each school can be aggregated to get a total SRS amount by state and nationally.

The SRS is measured by net recurrent income per student as compiled by the Australian Curriculum, Assessment and Reporting Authority (ACARA). It includes income received by schools and a “notional income” derived from benefits provided by state education departments in the form of teaching staff, administrative support, IT support, etc. which are allocated to schools according to full-time equivalent enrolments.

The definition of net recurrent income used by ACARA was developed by a national Finance Data Working Group, with advice by the accounting firm Deloitte Australia, to support a nationally consistent system for the reporting of school financial data. The Working Group consisted of a representative of each of the government education departments and a representative from the Catholic and independent sectors as well as from ACARA. The definition explicitly excludes several costs incurred by government departments such as user cost of capital, depreciation, transport to and from school, payroll tax and umbrella services including expenditure on boards of studies, qualification authorities and NAPLAN [[Deloitte Letter of Accounting Advice 2010](#)].

## Special deal in new bilateral agreements

The [bilateral agreements](#) between the NSW and South Australian Governments and the Commonwealth set out required funding contributions towards the SRS by the respective governments over specified time periods. Under the agreements, the state funding contributions towards the SRS are measured by net recurrent income as reported by the ACARA methodology plus additional expenditure items not included in the ACARA measure. They are permitted to claim additional expenditures as part of the total SRS for their public schools that are excluded from the ACARA income measure of the SRS. The agreements allow the governments to claim these extra expenditure items up to 4% of the total SRS of their public schools.

The NSW Government claimed expenditure for capital depreciation and the NSW Standards Authority. Capital depreciation was \$546.7 million in 2017 [NSW Department of Education, Annual Report, 2016-2017, p. 23] and expenditure on the Standards Authority was \$145.2 million [NSW Education Standards Authority, Annual Report 2016-2017, p. 197]. The total for the two items of \$691.9 is more than the 4% that can be claimed in 2018 (\$518 million – see Table).

The South Australian Government claimed expenditure for capital depreciation, school transport, the SA Education Standards Board and the SA Education Certificate Board. Depreciation was \$109.1 million in 2017 [SA Department of Education Annual Report, 2017], expenditure on school transport was approximately \$45 million in 2016-17 [derived from ABS, Government Finance Statistics, Education and pro-rated by public school enrolments], expenditure on the Standards Board was \$4.1 million in 2017 [SA Standards Board, Annual Report, 2017-2018] and expenditure on the Education Certificate Board was \$20.3 million in 2017 [SACE Board of South Australia, Annual Report 2017]. The total expenditure on these items of \$178.5 million is more than what can be claimed in 2018 (\$115.8 million).

The inclusion of these additional expenditure items in the SRS as a measure of progress towards the 75% target undermines national consistency in the definition of net recurrent income and the SRS. It is contradictory to measure progress towards the SRS target by including items in the measure of state funding that are excluded from the national measure of the SRS. It undermines the SRS as an objective measure of the resources needed by schools.

The fact is that expenditures on depreciation, school transport, boards of studies, qualification authorities and NAPLAN were excluded from the national measure on school funding for good reason. They are not income or benefits received by schools that is available for expenditure relating to the ongoing operating costs of schools. Therefore, they are not part of the SRS as the recurrent income needed by schools to achieve educational success for all children, although there are questions about how well it is estimated.

It is also revealing that the states are not permitted to claim their whole expenditure on the additional items now included in the measure of progress to the target SRS but can claim only up to 4% of the total SRS. This indicates that it is a convenient rort negotiated between the Commonwealth and state governments in order to get a political agreement.

The new arrangement represents another special deal that undermines the integrity of the national funding model. What is included in the SRS is now subject to government manipulation to serve particular political interests. The Commonwealth and the NSW and South Australian governments have conspired to change the rules about what is included in the SRS to meet their own respective political interests. The change of rules reduces the future funding commitments of the states and the Commonwealth gets the states to agree to implement its national education policies as a

condition of Commonwealth funding. The effect is to deceive the public about the extent of progress by state governments in meeting target funding shares for public schools.

### Public schools will lose billions in funding

The sleight of hand of claiming expenditures in the state government share of the SRS of public schools for items that are formally excluded from the national measure of the SRS artificially boosts the figures for state government funding of public schools as a proportion of the state SRS. It means that state governments do not have to increase recurrent funding by as much to achieve the 75% target. The gap between their 2017 funding and the SRS target can be reduced by four percentage points by including the additional expenditures and less funding is required to get to the SRS target. Therefore, it represents a loss of funding for public schools.

In the case of NSW, it means a loss of additional funding of about \$518 million in 2018 that the state government would otherwise have had to provide (see Table). The loss will amount to about \$6.1 billion over ten years to 2027. It will amount to about \$116 million for public schools in South Australia in 2018 and about \$1.4 billion over the next ten years. The total loss for public schools in the two states will be about \$7.5 billion.

### Estimated Funding Losses for Public Schools (\$M)

Year	NSW	VIC	QLD	WA	SA	TAS	NT	ACT	Total	Total Excl WA, TAS & ACT
2018	518.0	381.9	362.8	180.2	115.8	39.5	33.6	23.4	1,655.2	1,412.0
2019	537.0	394.5	375.4	186.1	119.7	41.0	34.8	24.2	1,712.5	1,461.2
2020	556.6	409.7	338.4	193.3	123.7	42.4	36.1	25.1	1,775.3	1,514.5
2021	573.0	422.6	403.4	199.3	127.7	43.9	37.3	25.9	1,833.2	1,564.1
2022	593.2	438.2	416.7	206.6	132.6	45.3	38.6	26.9	1,898.0	1,619.2
2023	613.9	452.0	430.5	213.1	136.9	46.9	39.7	27.7	1,960.7	1,673.0
2024	634.8	467.4	445.2	220.4	141.5	48.5	41.1	28.6	2,027.5	1,730.0
2025	656.4	483.3	460.3	227.9	146.4	50.2	42.5	29.6	2,096.5	1,788.9
2026	678.7	499.7	475.9	235.6	151.3	51.9	44.0	30.6	2,167.8	1,849.7
2027	701.8	516.7	492.1	243.6	156.5	53.6	45.5	31.7	2,241.5	1,912.6
<b>Total</b>	<b>6,063.5</b>	<b>4,465.8</b>	<b>4,250.6</b>	<b>2,106.0</b>	<b>1,352.1</b>	<b>463.1</b>	<b>393.3</b>	<b>273.7</b>	<b>19,368.0</b>	<b>16,525.3</b>

**Data source:** [Senate Committee on Education and Employment, Supplementary Budget Estimates 2017-2018](#), Answer to Question on Notice SQ17-001173.

**Methodology:** The funding loss is estimated as 4% of the total SRS of each state. The total SRS of each state is calculated from figures for projected aggregate Commonwealth funding and Commonwealth shares of the SRS for 2018 to 2027 provided at Senate Estimates.

The NSW Government inserted an additional section in its Agreement whereby it committed to establish and fund a new School Equity Program for public schools which is in addition to the required minimum state contribution under the Agreement. It will start in 2020 with a 10-year commitment worth \$712 million. The new Fund is intended to complement the Commonwealth Government's \$1.2 billion Choice and Affordability Fund for private schools.

[The NSW Minister for Education, Rob Stokes](#), said the additional funding would bring schools closer to the SRS: "Because of the \$712 million, we will end up over the 75 per cent minimum for public schools by the end of the agreement [in 2023]". However, this additional funding is a pittance compared to how much public schools will be short-changed. It is a small off-set against the prospective loss of \$6.1 billion. Public schools will still lose about \$5.4 billion. The promise is cheap public relations for the NSW Government.

The inclusion of other expenditure items in the calculation of the SRS for South Australian public schools has ensured that they have already met the 75% target. The Bilateral Agreement says that state government funding for public schools in 2017 is at the target level of 75% of their SRS, in contrast to the estimate of 71.6% provided by the Australian Department of Education last year as noted above. Consequently, the state government is not required to increase funding for public schools to 2023 beyond increases according to indexation of the SRS. Public schools will remain significantly under-funded for at least the next ten years and probably more unless there is a change in government funding policy for public schools.

The funding that governments would have otherwise had to provide could have been particularly beneficial to disadvantaged students. For example, there were 241,269 students in the lowest ICSEA quartile in NSW in 2016 according to figures released by ACARA [[Senate Committee on Education and Employment, Additional Budget Estimates 2016-2017](#), Answer to Question on Notice, No. SQ17-000250]. Assuming about 245,000 in 2018, the funding deficit amounts to about \$2,114 per disadvantaged student compared to the \$291 per student from the new School Equity Fund. A funding boost of this order would make a huge difference to schools with high proportions of disadvantaged students, especially annually over ten years, and improve education outcomes for these students.

Similarly, disadvantaged students in South Australia lose the possibility of significant funding. According to ACARA, there were 51,864 students in the lowest ICSEA quartile in South Australia in 2016. Assuming about 52,000 in 2018, the funding deficit amounts to about \$2,227 per disadvantaged student.

Similar agreements with the other states are due to be finalised by the end of the year. It is likely that other governments will demand the same 4% allowance be included in their agreements, although this may not occur for Western Australia, Tasmania and the ACT where public schools are currently funded at over 75% of their SRS by the state. The total funding loss for public schools will amount to about \$16.5 billion if the 4% concession is extended to Victoria, Queensland and the Northern Territory, but not to Western Australia, Tasmania and the ACT [see Table].

### **Other provisions favour private schools**

The Commonwealth has also granted a new special deal for the NSW Government in its Bilateral Agreement whereby the period in which to achieve the 75% target is extended from 2023 to 2027. Prior to this, Commonwealth Government statements indicated that the states would be required to achieve 75% of the SRS by 2023 [[Fact Sheet: What is the impact of funding arrangements for each state and territory?](#)].

This special deal severely disadvantages public schools compared to private schools in NSW and elsewhere if it is granted to other states where public schools are funded under the 75% target. In contrast, the Commonwealth has committed to achieving its goal of funding all private schools to 80% of their SRS by 2023. As a result, under-funded private schools will achieve the Commonwealth funding target quicker than public schools will achieve the state target.

This difference highlights a basic feature of the Gonski 2.0 plan that also favours private schools and disadvantages public schools - a disparity in funding targets. Gonski 2.0 will increase Commonwealth funding of private schools to 80% of their SRS by 2023. It ignores the fact that state government funding of many private schools already exceeds 20% of their SRS. As a result, [many Catholic and Independent schools will be funded at over 100% of their SRS](#) under Gonski 2.0 by 2023, unless state governments reduce their funding share.

In contrast, state governments are only required to increase funding for public schools to 75% of their (distorted) SRS by 2027. There is no equivalent requirement to ever achieve 80% of the target. It means that, at best, public schools will be funded at 95% (75% + 20%) of their SRS in all jurisdictions except Western Australia and the ACT (which are currently funded at above 80% of their SRS) while all private schools will be at 100% or more of their SRS. Public schools will remain under-funded for the next 10 years and beyond, while private schools will be at least funded at 100% of their SRS and many will be over-funded.

In this context, it is noted that the NSW Bilateral Agreement indicates that the NSW Government share of private school funding will reduce from 25.29% in 2018 to 22.82% in 2023. However, there are no penalties to be invoked if the NSW Government fails to do this. The only requirement in the Agreement is that the NSW final share for private schools is **at least** 20% by 2029. Private school organisations will be fighting tooth and nail to maintain their over-funding.

While the South Australia Bilateral Agreement indicates that private schools are slightly under-funded by the South Australian Government at 19.72%, it also notes that the Government intends to maintain a funding share of 22% over the next five years to 2023. In contrast, there is no commitment to fund public schools beyond the 75% target that includes expenditure items that artificially increase the state share.

### **New agreements continue the tradition of special funding deals**

The new bilateral agreements continue the tradition of special funding deals that undermine the integrity of the principle of needs-based funding. The Gonski 2.0 funding arrangements are riven by special deals. The model itself is massive special deal for private schools because it will vastly expand the number of private schools that are over-funded, but even this is supplemented by several special arrangements for private schools.

The Turnbull Government incorporated special adjustment assistance for the relatively few private schools that would have their over-funding reduced by Gonski 2.0. It included a special national adjustment assistance scheme of \$40 million and an adjustment assistance package for ACT private schools worth \$58 million. In particular, [the ACT fund](#) will increase the already massive overfunding of many highly advantaged private schools in Canberra and delay, or postpone indefinitely, reductions in over-funding.

In August, the Morrison Government introduced a \$1.2 billion Choice and Affordability Fund for private schools to support school choice in inner-city, rural, remote and drought-affected areas. [It undermines the principle of needs-based funding](#) by selectively making additional funding available for private schools but not for public schools.

The Prime Minister even admitted the funding package is a special deal. [He told the ABC's AM program](#) that his new announcements "sit outside" the current needs-based funding arrangements. Even the [Centre for Independent Studies](#), which is normally supportive of government funding for private schools, described it as a "special deal" that undermines the Coalition's Gonski 2.0 funding model. At Senate Estimates in October, [the head of the Commonwealth Department of Education](#) confirmed that the fund "sits outside" the current funding arrangements.

At the same time, the Prime Minister announced a \$3.2 billion increase for Catholic schools that could also amount to a special deal. The increase is supposedly to implement a new measure of parent capacity to pay in private schools. However, the increase is the outcome of negotiations between the Government and Catholic Church authorities and was decided before the measure of capacity to pay has been determined. If the measure of capacity to pay has not been decided it is impossible to determine whether it will result in an increase in funding or the extent of the increase.



It is therefore possible that at least part of the increase will amount to further over-funding of Catholic schools.

### **Special deals augment the funding advantage of private schools**

To top off all these special deals, the Morrison Government has now provided a new allowance for Coalition state governments in NSW and South Australia to reduce funding increases for public schools over the next ten years. Public schools are doubly disadvantaged by the special deals that provide non-needs-based funding increases to private schools and smaller increases in state government funding than required under the national measure of the SRS.

The legacy of all the special deals made by Labor and Coalition governments since 2012 that have undermined the principle of needs-based funding and the integrity of the Gonski funding model is larger funding increases for private schools than public schools. [Total government \(Commonwealth and state\) funding for public schools](#) across Australia was cut by \$110 per student (-1%) between 2009 and 2016 while funding for Catholic schools increased by \$1,171 per student (15.2%) and for Independent schools by \$1,026 (16.3%).

Total income per student of Catholic and Independent schools is now much larger than that of public schools even though public schools enrol over 80% of disadvantaged students. [Figures published by ACARA](#) show that the average total income per student in public schools in Australia in 2016 was \$13,747 compared to \$21,092 per student in Independent schools and \$15,026 in Catholic schools.

Moreover, as revealed by [a recent ABC investigation](#), government funding even favours private schools over similar public schools. In 2016, 85% of Australia's private schools received more public funding than any similar public school, up from 58% in 2009. The analysis also shows that the gap favouring private schools has grown while the gap favouring public schools has shrunk. Where private schools receive more government funding than similar public schools, the median gap has grown by 76 per cent since 2009 to \$970 per student. Where public schools are ahead, the median gap has shrunk by 16 per cent, to \$1,730 per student.

This is the result of the special deals arranged by Labor and Coalition governments to maintain over-funding of many private schools while the vast majority of public schools are under-funded. And, it will get worse under Gonski 2.0. [The percentage of Independent schools](#) funded at over 100% of their SRS is likely to increase from 17% in 2017 to 66% under full implementation of Gonski 2.0 in 2027 while the majority of Catholic school systems will be funded at or above 100% of their SRS. In contrast, six of the eight public school systems will be funded at less than 100% of their SRS.

The new special deal to allow the states to over-state their progress towards the 75% target for public schools will extend the funding advantage of private schools. The potential loss of about \$16.5 billion in funding over the next ten years is a major blow for public schools and the disadvantaged students they serve. There is little prospect of improving school outcomes for these students or reducing the massive achievement gaps between rich and poor in Australia while government funding policies continue to unfairly favour private schools and fail to ensure adequate funding for public schools.

Public school communities and organisations in Victoria, Queensland, Western Australia, Tasmania, the Northern Territory and the ACT should beware of what their governments are negotiating away in secret discussions with the Commonwealth.