Education Policy Brief

More School Funding Cuts by Stealth

Trevor Cobbold

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SAVE OUR SCHOOLS

http://www.saveourschools.com.au
https://twitter.com/SOSAust
saveourschools690@gmail.com

Key Points

1. The knives are out on school funding in the lead-up to the national education ministers' meeting next week to determine the funding arrangements to apply from 2018. The cuts are being disguised by fiddling with the rates of annual increases in funding provided by the current funding model. It amounts to a confidence trick on the public. School funding is being cut by stealth.

2. Claims by the Federal Government that it is increasing school funding from 2018 are a swindle. The Government refused to fund the planned Gonski increase of $7 billion in 2018 and 2019 and now it intends to cut the annual funding increases agreed under the Gonski plan from 4.7% a year to 3.56% a year. It is another step in the destruction of Gonski by the Coalition. It means a funding loss for schools of over $600 million for 2018-2020.

3. The new report by the Grattan Institute goes one step further than the Federal Government. It combines a reduction in annual funding increases from 4.7% to 3.6% with a reduction in indexation of the Schooling Resource Standard (SRS) from 3.6% to 2.5%. Its fiddling of indexation rates is a 'pea and thimble' trick. Its claimed savings are highly likely to be illusory. It is more likely that funding will not keep pace with rising costs over the long term and there will be little or no progress in reducing under-funding of public schools.

4. The Grattan Institute claims that the indexation rates in the current funding model are too high because cost increases (mostly wages) are low. This claim is misplaced as it misunderstands the role of the annual increases of 4.7% under the Gonski plan. Its proposed indexing of the SRS at 2.5% a year is very unlikely to keep pace with rising costs over the long term.
   - It is not well recognised that the National Education Reform Agreement to implement the Gonski plan provided for three sources of funding increases – the 'Gonski' additional funding, annual baseline funding increases, and funding for enrolment growth and changes in demographic composition.
   - The 4.7% rate was never designed simply as compensation for inflation. It was designed to maintain the Federal Government's average funding effort over the previous ten years (baseline funding), which included increased funding to match rising costs **and** additional funding over and above inflation. Its purpose was to ensure that the Gonski additional funding of $10 billion in Federal funding over six years was not financed by a cutback its existing funding effort. Reduction of the 4.7% rate is a straightforward cut in the Federal Government's funding effort.
   - The savings estimated by the Grattan Institute are highly unlikely because its assumption that wages will only grow by 2.5% per annum over the next ten years appears unrealistic. While wages growth in education at present is at its lowest since 1998, it averaged 3.7% a year to 2016 which is almost exactly equivalent to the legislated SRS rate of 3.6%. Even the historically low growth over the past four years averaged 2.85% a year, which is higher than the proposed indexation. Moreover, the Federal Treasury has forecast a return to higher overall wages growth with increases of 3.25% in 2017-18 and 3.5% in 2018-19, and wages growth in education tends to be about one percentage point higher than the economy-wide average.
   - The assumption that wages growth in education will be very low in the long term presents a major risk to future school funding. If the Treasury projections for the next few years are realised and if there is a return to higher wage growth over the long term, the reduction in indexation of the SRS to 2.5% a year will mean that funding for public and private schools at or near their SRS will not keep pace with rising costs and will be cut in real terms. It seems entirely premature to reduce indexation of the SRS.

5. Public schools will suffer the most from these funding cuts. The goal of the Gonski additional funding was to get all schools to 95% of their SRS by the end of the six-year transition period to 2019. This goal will be met for almost all private schools by 2017. However, public schools will remain well below their SRS forever because they were dependent on the large increase in funding planned for 2018 and 2019 to achieve the SRS target. The proposed cuts in annual funding increases from 4.7% to 3.6%, or 3.56%, means that their funding will only keep pace with rising costs over the long term.
   - NSW public schools were at 84% of their SRS in 2014 and will be only at 88% by 2017, while Victorian public schools were at 78% of their SRS in 2014 and will be only at 82% in 2017.
   - In contrast, Independent schools as a system were already at 95% of their SRS in 2014 and will be at 98% by 2017, while Catholic schools were at 90% of their SRS in 2014 and will be at 94% by 2017.

6. Over-funded private schools will benefit even more from the Government's single indexation rate for all schools. Private schools that currently receive more funding than they are entitled to under the current model will get a funding increase of about $25 million over the three years because their annual increase will rise from 3% to 3.56%. The large majority of these over-funded schools are highly advantaged wealthy schools with very few or no disadvantaged students.

7. The Federal Government and the Grattan Institute are proposing cuts to school funding at a time when increases are most needed. As shown by the latest national and international test results, high proportions of disadvantaged students are not achieving expected standards and there has been no reduction of the large achievement gaps between rich and poor. Many studies show that well-targeted funding increases lead to significant improvements in the results of disadvantaged students.

8. The claims by the Federal Government and the Grattan Institute that Australia cannot afford the current funding approach are erroneous.
   - Increasing school funding is an investment in the future. Improving school results for disadvantaged students promises large financial, economic and social returns.
   - There is a massive potential revenue pool available to fund a resurrected Gonski model. Reducing tax concessions for high income earners and clamping down on the use of tax havens by wealthy individuals and corporations could generate up to $40 billion a year in extra revenue.
   - It is paradoxical that the Grattan Institute report accepts the furphy that the current funding approach is too costly and unaffordable when the Institute has produced several reports demonstrating very large savings from closing tax loopholes and cutting back on tax avoidance by the wealthy.

9. The national education ministers' council should completely reject the proposals to reduce annual increases in recurrent school funding and indexation of the SRS. It will mean cutting funding by stealth and continuing under-funding of public schools at a time when increases are most needed. Ministers should resume the Gonski funding plan instead of fiddling with indexation rates. Gonski must be resurrected, not further demolished.

More School Funding Cuts by Stealth

The knives are out on school funding in the lead-up to the national education ministers' meeting next week to determine the funding arrangements to apply from 2018. The proposed cuts are being disguised by fiddling with the rates of annual increases in funding ('indexation' or 'escalation' rates) provided by the current funding model. It amounts to a confidence trick on the public. School funding is being cut by stealth.

The Federal Government has already announced it will cut annual funding increases for schools and a new report by the Grattan Institute also proposes to cut them. Schools face smaller annual increases in funding from 2018 if these proposals are implemented.

The Federal Government claims that it is increasing school funding over the next few years. This is a swindle. In the 2016-17 Budget, the Federal Government announced that its recurrent funding for all schools will be increased by 3.56% a year for the 2018 to 2020 school years [Budget 2016-17, Budget Paper No. 1, Budget Strategy and Outlook 2016-17, p. 5-19]. This represents a cut in school funding because baseline funding and additional funding for under-resourced schools are currently increased by 4.7% per year as part of the national agreement on the Gonski funding model. It is yet another step in the destruction of Gonski by the Turnbull Government.

The Coalition Government has already cut school funding by refusing to fund the last two years of the Gonski funding plan. This would have delivered an additional $7 billion to schools, including about $5.5 billion to public schools, in 2018 and 2019. Now, the Government is proposing to cut school funding even further from 2018. The Minister for Education, Simon Birmingham, misrepresents the proposed 3.56% indexation as an increase in funding when, in fact, the reduction from 4.7% represents a loss of over $600 million over the three years and an ongoing loss beyond then. The loss will be borne mainly by disadvantaged public schools and students. It means that public schools will never reach the national Schooling Resource Standard (SRS), which is the minimum level of funding from government and private sources that should be available to every school, and will remain under-funded for the foreseeable future.

The Government's announcement also implies that the current differentiated annual funding increases for schools in different circumstances will be replaced by a single rate. This will also have significant implications. In particular, private schools that continue to receive more funding than they are entitled to under the current model will get a funding increase of about $25 million over the three years because their annual increase will rise from 3% to 3.56%. The large majority of these over-funded schools are highly advantaged wealthy schools with very few or no disadvantaged students.

Thus, the Government's proposal means a funding cut of over $600 million for under-resourced public and private schools while wealthy private schools get an increase. This says it all about the Government's school funding priorities.

A new report by the Grattan Institute pulls a 'pea and thimble' trick with different annual funding increases to claim savings that can be used to support under-funded schools and make teacher workforce improvements. The report goes one step further than the Federal Government in that it combines a reduction in annual funding increases from 4.7% to 3.6% and a reduction in indexation of the SRS from 3.6% to 2.5%. However, the claimed savings are highly likely to be illusory. Its fiddles with the rates of annual funding increases will more likely mean a cut in school funding and no progress in reducing under-funding of public schools.

Reduction in annual increases in recurrent funding

The Grattan Institute justifies reducing the annual 4.7% increase because inflation is lower than it was in the past. However, this rate was never designed simply as compensation for inflation. It was designed to maintain past funding trends which included increased funding to match rising costs **and** additional funding over and above inflation. Its purpose was to protect the integrity of the planned Federal funding increase of $10 billion (the Gonski increase) over the six-year transition period and not have it financed by a cutback in the existing funding effort. The proposed reduction in annual increases of recurrent funding from 4.7% to 3.6% (Grattan Institute) or 3.56% (Government) is a straightforward cut in the ongoing funding effort of successive federal governments.

It is not well recognised that the National Education Reform Agreement (NERA) between the Federal Government and the NSW, Victorian, South Australian, Tasmanian and ACT Governments in 2013 to implement the Gonski plan provided for three sources of funding increases - 'Gonski' additional funding, annual baseline funding increases, and funding for enrolment growth and changes in demographic composition. For example, the Heads of Agreement between the Federal and NSW governments on National Education Reform includes the following clauses:

> 18. From 1 January 2014, NSW will contribute its existing funding for schools and school systems. This equates to $8.264 billion in 2014. This contribution will be escalated by 2.62 per cent from 2014 to 2015 and 3 per cent yearly thereafter.
> 19. In addition, NSW will also contribute $1.761 billion over six years (2014-2019) which includes 35 per cent of the additional investment required to transit schools and school systems under the SRS toward the SRS over this period.
> 20. From 1 January 2014, the Commonwealth will contribute its existing funding for education equating to $4.025 billion in 2014. The contribution will be escalated by 4.7 per cent per annum from 2014 to 2015 and yearly thereafter.
> 21. In addition, the Commonwealth will also contribute $3.270 billion over six years (2014-2019) which includes 65 per cent of the additional investment required to transition schools and school systems under the SRS towards the SRS over this period.
> 22. The funding amounts in clauses 18 to 21 will change if there are different enrolment growth rates and changes to student characteristics to those currently estimated in the SRS funding model… [p. 3]

Similar clauses are included in the Heads of Agreement with the ACT, South Australian, Tasmanian and Victorian governments. The Federal Department of Education has stated that the governments that did not sign the NERA are effectively funded on the same basis as those that did sign [Senate School Funding Select Committee, Hansard, 18 February 2014, pp. 1, 3].

The distinction between the annual increases to existing funding and the Gonski additional funding was clearly recognised in the report by the Senate Select Committee on School Funding. The relevant extract is:

> **Baseline funding**
> 5.38 Under the NERA, State and Territory Governments commit to maintaining their 'baseline' (existing) recurrent funding levels indexed by an agreed percentage. The Rudd/Gillard Governments committed to index its baseline recurrent funding amount by 4.7 per cent….
> **Additional funding**
> 5.39 In addition to maintaining their baseline recurrent funding with indexation, all governments that are party to the NERA agree to contribute an additional amount to ensure all schools are at least funded at 95 per cent of their SRS by 2019…. [pp. 69-70]

The Federal Department of Education has separately itemised the three sources of funding increases for each school sector for the first four years of the plan [Senate Standing Committee on Education and Employment, Additional Budget Estimates 2013-14, Answer to Question on Notice No. ED0264_14]. For example, the additional ('Gonski') Federal funding for public schools planned for 2014 to 2017 was $3 billion, the baseline funding increase was estimated at $1.9 billion and the increase due to enrolment changes was estimated at $565 million. The total funding increase planned for the period was $5.5 billion. A similar breakdown was provided for the planned $11.3 billion increase in state/territory government funding - $1.7 billion in additional funding, $6.2 billion in baseline funding and $3.4 billion for enrolment growth. While the Government is cutting the first two sources of funding increases, it has said that it will continue to make an allowance for changes in enrolments [Quality Schools, Quality Outcomes, p.14].

The Gonski additional funding was the key feature of the plan because it promised an additional funding increase of $15 billion above the existing funding effort by the Federal and state/territory governments over six years from 2014. This increase was defined as the difference between what would have been provided under the funding arrangements that preceded the Agreement and the new SRS that should be available to every school [NERA, para 63]. The additional funding was designed to get all schools to a minimum of 95% of their SRS by 2019.

This key feature of the Gonski plan was demolished by the Coalition Government under Tony Abbott and Malcolm Turnbull. It refused to fund the $7 billion in Federal funding that was due to flow to schools in 2018 and 2019 and it refused to tie the states to providing an additional $3 billion over this period as well. All this left a potential shortfall of $10 billion over the two years, depending on how many states fulfilled their commitments and didn't substitute Federal funding increases for their own. Only the NSW Government made a firm commitment to fund its share of the funding increase planned for 2018 and 2019, but this may be called into question if its education minister, Adrian Piccoli, a strong advocate of the Gonski plan, is shifted out of the portfolio as has been suggested.

The second source of funding increase was annual increases to existing funding levels. The Federal and state/territory governments agreed to maintain their existing funding effort by annual increases over the six years at agreed rates. It was intended to ensure a consistent baseline for calculating their respective shares of the additional Gonski funding and to ensure funding from one level of government was not substituted for funding from another level in the transition to the anticipated funding levels in 2019 (NERA, para 64).

The Federal Labor Government committed to increasing its baseline funding by 4.7% a year (Julia Gillard & Peter Garrett media release, 14 April 2013; Budget 2013-14, Budget Paper No. 1, Budget Strategy and Outlook 2016-17, p. 6-24]. This rate of increase was based on a 10-year rolling average of state and Federal expenditure on all schools from all sources and by data on current and proposed education spending by states and territories provided by state and Commonwealth treasuries [Senate Standing Committee on Education and Employment, Budget Estimates 2013-2014, Answer to Question on Notice No. EW0001_14]. As such, the 4.7% rate reflects trends in costs **and** real funding increases over the previous 10 years; it is not purely indexation for inflation.

The 4.7% escalation rate is used to determine the minimum annual funding increase for schools currently under their SRS. Under the Act, the Minister can determine the extent of the increase each year during the transition period, but it must be increased by **at least** 4.7% (s.59(3) & s.60 of the Education Act; Clause B2.1.4 of the online guide to the Act; Supplementary Explanatory Memorandum, pp. 26-27). As virtually all systems were below the SRS in 2013, this ensured that the Federal Government would at least maintain its funding effort while allowing the Minister to determine the allocation of the additional Gonski funding in each year for schools to achieve the 95% of their SRS by the end of the six-year transition period.

Thus, the Government's intention to reduce the annual increases from 4.7% to 3.56% per year from 2018 and the Grattan Institute's proposal to cut the increase from 4.7% to 3.6% represent a cut in funding compared to that planned under the NERA and the Education Act. They amount to a cut of over $600 million over the three years 2018 to 2020 and an ongoing loss thereafter. However, it will require a change to the legislation to be implemented.

As well as releasing the states participating in the NERA from their commitments to provide additional funding, the Federal Government also released them from commitments to maintain their existing funding effort. The participating states had agreed to index their existing funding levels by various amounts until 2015, and by 3% per annum thereafter. At present, there is no requirement for them to increase funding at all, even just to cover rising costs. As the Audit Commission report states, "…there is no obligation for the States to increase, or even maintain, their own funding levels" [National Commission of Audit 2014, Towards Responsible Government, Appendix Volume 1, February, p.261]. However, the Federal Government has stated that it will reverse its previous policy and require states and territories to at least maintain the real level of their per student funding from 2018 [Quality Schools, Quality Outcomes, p.14].

Public schools will suffer the most from these funding cuts. The goal of the Gonski additional funding was to get all schools to 95% of their SRS by the end of the six-year transition period to 2019. This goal will be met for almost all private schools by 2017 but public schools will remain substantially below their SRS forever.

Figures supplied by the Federal Department of Education to Senate Estimates in 2013 [Standing Committee on Education and Employment, Budget Estimates 2013-14, Answer to Question on Notice No. EW0002_14 & No. EW0007_14] show that Independent schools as a system were already at 95% of their SRS in 2014 and would be at 98% by 2017. Catholic school systems were at 90% of their SRS in 2014 and would be at 94% by 2017. In contrast, NSW public schools were at 84% of their SRS in 2014 and will be only at 88% by 2017, while Victorian public schools were at 78% of their SRS in 2014 and will be only at 82% in 2017. South Australian public schools were at 88% of their SRS in 2014 and would be still at this level in 2017.

Public schools were reliant on the large funding boost of about $7.3 billion in Federal and state/territory funding planned for the last two years of the plan to achieve 95% of their SRS by 2019. There is now no prospect of this since the Abbott and Turnbull Governments scrapped the Gonski funding for these two years and released the states from their commitments. The Associate Secretary of the Federal Department of Education informed Senate Estimates in October that the current funding agreements will see almost all private schools would reach the 95% target by 2019 but public schools would not [Senate Standing Committee on Education and Employment, Supplementary Budget Estimates, 2016-17, Hansard, 20 October, p.51].

The Turnbull Government's proposed reduction of the annual increases in funding from 4.7% to 3.56% (and that of the Grattan Institute from 4.7% to 3.6%) compounds this effect. Without the Gonski additional funding for the last two years of the plan, the annual increases in Federal funding of 4.7% at least allows public schools to make slow progress towards their SRS because the 4.7% rate is slightly higher than the indexation of the SRS, which is set by legislation at 3.6% a year. However, as the Government's proposed new rate is marginally below that legislated for the SRS and the Grattan Institute rate just matches it, there is now no prospect that public schools will ever be funded at their SRS even though almost all private schools will be at their SRS by next year.

To add insult to injury, some of the wealthiest private schools will get an increase in funding from the Government's proposed change in the escalation rate. This is because a lower rate of 3% currently applies to private schools whose funding was already above their SRS; that is, they receive more funding than they are entitled to under the current funding model. This is the result of the edict by the former Prime Minister, Julia Gillard, that no school would lose a dollar of funding under the new model. Schools were allowed to keep funding that they would have otherwise lost and it was increased by 3% per annum until their SRS entitlement, increased by 3.6% per annum, catches up with their actual funding level. The large majority of these over-funded schools are amongst the wealthiest schools in Australia. Over 70% of the over-funding went to schools with around 50% or more of their students from the highest SES quartile. The increase in indexation means an increase in funding of about $25 million over the three years from 2018 to 2020 for these over-funded schools.

At least the Grattan Institute report recommends ending annual increases for over-funded schools. The savings from such a change should be re-directed to under-funded public and private schools as the report proposes.

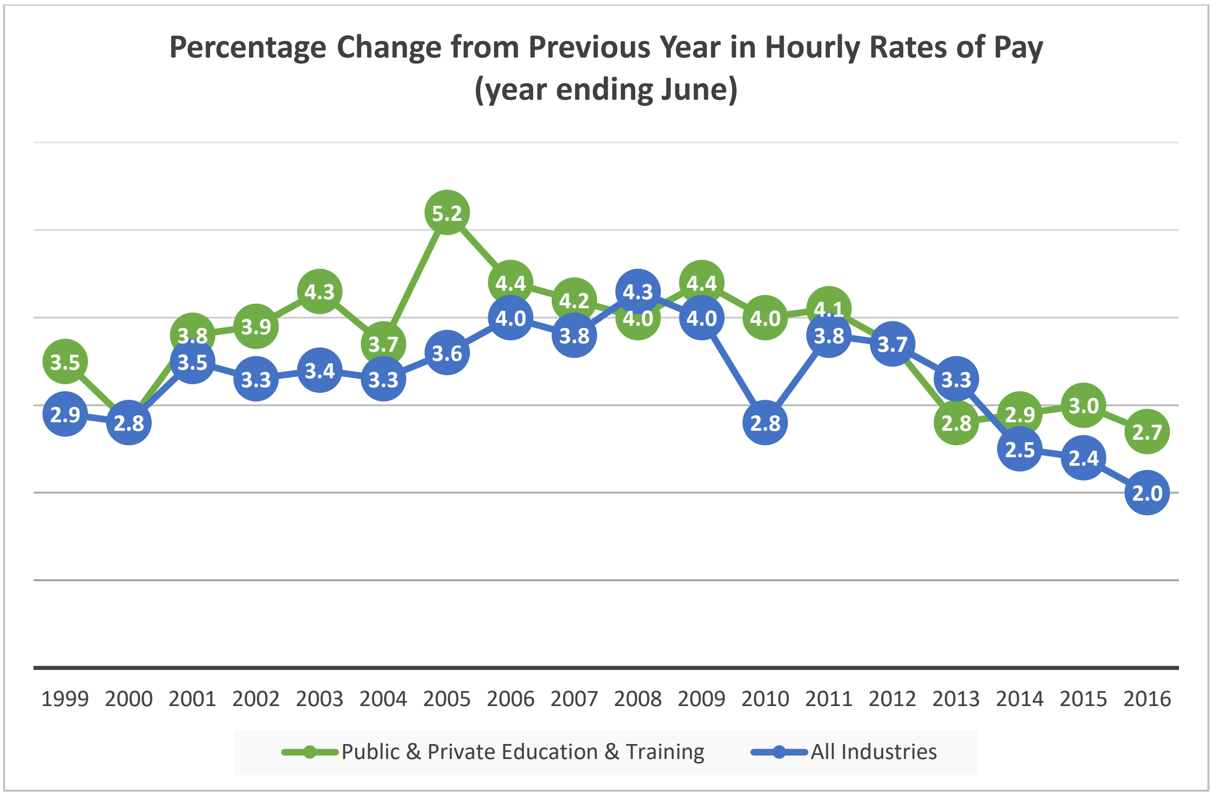
Reduction in indexation of the Schooling Resource Standard

The SRS represents the recurrent resources required to support a student with minimal educational disadvantage. It is the minimum level of funding (from government and private sources) that should be available to every school. The SRS is specified separately for primary and secondary schools.

The Education Act requires the SRS amounts to be indexed annually at 3.6%. The Federal Department of Education stated that this rate was derived from a 5-year forward estimate of average recurrent costs of all public and private schools [Senate Standing Committee on Education and Employment, Budget Estimates 2013-2014, Hansard, 5 June 2013, p. 103 & Answer to Question on Notice No. EW0001_14]. This was intended to maintain the real value of the SRS against rising costs. The Department stated that the 3.6% rate will increase the SRS at or beyond real terms to ensure strong but reasonable ongoing financial support for schools [Senate Standing Committee on Education and Employment, Budget Estimates 2013-2014, Answer to Question on Notice No. EW0002_14].

As noted above, the Grattan Institute proposal combines a reduction of annual increases in school funding with reduced indexation of the SRS from 3.6% to 2.5% per annum. It argues that the lower SRS rate is in line with current wages growth in education. It estimates that this reduction would generate large savings over the period 2015 to 2027 because less funding would be required to get under-funded schools to their SRS. It says that these savings could be used to top-up funding for schools currently well below their SRS and employ highly trained teachers.

However, the savings estimated by the Institute are highly unlikely because its assumption of 2.5% wages growth per annum over the next ten years appears to be unjustified. While wages growth in education is at its lowest since 1998 (see chart below), it averaged 3.7% a year to 2016 which is almost exactly equivalent to the legislated indexation rate. Even the historically low growth over the past four years averaged 2.85% a year, which is higher than the indexation proposed by the Institute. In addition, the Federal Treasury forecasts higher overall wage growth from next year and increases of 3.25% in 2017-18 and 3.5% in 2018-19 [Pre-Election Economic and Fiscal Outlook 2016, p. 16]. As wages growth in education generally exceeds that for all industries (see chart), it can be reasonably expected that it will be similar to the indexation specified for the SRS in the Education Act over the long term, or even higher as it often was in the past.



Source: ABS, Wage Price Index

The assumption that wages growth in education will be very low in the long term presents a major risk to future school funding. If the Treasury projections for the next few years are realised and if there is also a return to higher wage growth over the long term, the reduction in indexation of the SRS to 2.5% a year will mean that funding for public and private schools at or near their SRS will not keep pace with rising costs. Their funding will be cut in real terms.

Therefore, it seems entirely premature to reduce indexation of the SRS given its potential consequences for school funding. There will always be years when wages growth is lower than the historical trend rate, just as there will be years when it is above trend. Annual wages growth in education since 1998 has ranged between 2.7 and 5.2% and has nearly always exceeded 3%. Given this, it seems highly improbable that that wages growth in education will be only 2.5% a year for the next decade as the Grattan Institute assumes. Continuing indexation of the SRS at 3.6% a year seems not unreasonable; indeed, it seems necessary to prevent the erosion of the value of school funding by rising costs.

Education ministers should reject reducing annual funding increases

As far as the Federal Coalition is concerned, the Gonski plan will have done its job by the end of 2017. Almost all private schools will be funded at their SRS and that is all that matters for the Coalition. As Tony Abbott boasts, "It's in our DNA" to fund private schools [Sydney Morning Herald, 11 September 2012]. Scrapping the last two years of additional funding means that public schools will not achieve their SRS by 2019 and will forever remain under-funded to meet their needs, and under-funded in comparison with private schools. Reducing the indexation rates will almost complete the destruction of the Gonski plan. All that would remain are the disadvantage funding loadings, and there is no surety they will survive in their current state beyond 2017.

It is incredible that the Government and the Grattan Institute are proposing cuts to school funding at a time when increases are most needed. As shown by the latest national and international test results, high proportions of disadvantaged students are not achieving expected standards and there has been no reduction of the large achievement gaps between rich and poor. Simon Birmingham's claims of a large funding increase over the last 15 years are duplicitous. The increase, adjusted for inflation and enrolment growth, was only small and it was badly misdirected, with the largest increases going to schools least in need rather than those most in need. The Gonski plan promised to reverse this. Appendix A of the Grattan Institute report clearly demonstrates that well-targeted increases in funding can lead to significant improvements in the results of disadvantaged students.

The claims by the Government and the Grattan Institute that Australia cannot afford the current funding approach are erroneous for two reasons. First, increasing school funding is an investment in the future. As many studies show, improving school results for disadvantaged students promises large financial, economic and social returns. For example, an OECD report published last year showed that bringing all students in Australia up to the basic skill level in mathematics and science by 2030 would increase GDP in 2095 by 10 per cent and long-run economic growth by 0.18 per cent a year. It would generate an additional $27.5 billion a year in economic benefits and GDP would be 1.2 times higher by 2095.

Second, there is a massive potential revenue pool available to fund a resurrected Gonski model. Reducing tax concessions for high income earners and clamping down on the use of tax havens by wealthy individuals and corporations could generate $40 billion a year in extra revenue, easily enough to fully fund the Gonski plan and other much-needed social expenditure and simultaneously reduce the Budget deficit.

It is paradoxical that the Grattan Institute report accepts the furphy that the current funding approach is too costly and unaffordable when the Institute has produced several reports demonstrating large savings from closing tax loopholes and cutting back on tax avoidance by the wealthy. For example, it has estimated that the combined tax concessions for negative gearing and capital gains taxation cost the taxpayer $12 billion a year in foregone revenue, most of which goes to the wealthy. It also estimated that superannuation tax concessions cost the Budget more than $25 billion a year in foregone revenue, and most of the benefit goes to the wealthiest 20% of households who already have enough resources to fund their own retirement.

The education ministers' council should completely reject the proposals to reduce indexation of recurrent funding and the SRS. State/territory education ministers should take a stand. Reducing indexation is not a way forward. It will mean cutting funding by stealth and continuing under-funding of public schools at a time when increases are most needed. Ministers should resume the Gonski funding plan instead of fiddling with indexation rates. Gonski must be resurrected, not further demolished.