

Education Policy Brief

School Money Wars

Trevor Cobbold

June 2014

Save Our Schools

<http://www.saveourschools.com.au>

<https://twitter.com/SOSAust>

Key Points

1. Claims by the Federal Minister for Education, the National Commission of Audit, and the Grattan Institute of large government funding increases for schools over the past decade are incorrect.
 - Government funding per student adjusted for inflation increased by 1.3 per cent a year between 1999-2000 and 2011-12. This is three times less than the 3.8 per cent figure given by the Commission of Audit for 2000-2012 and the 44 per cent increase claimed by the Grattan Institute for 2001-2009 (which represents growth of 4.1 per cent a year).
2. The claimed large increases are over-estimated for several reasons:
 - They include book-entry items for government schools (user cost of capital and depreciation) and other items (payroll tax and school transport) that have increased significantly but which have no impact on school outcomes. These items alone account for 35 per cent of the nominal increase in government school funding since 2000;
 - They do not take account of increasing enrolments. Total school enrolments increased by nine per cent between 2000 and 2012, thus boosting government funding;
 - The figures under-estimate the actual cost increases facing schools because the GDP deflator was used to adjust for inflation instead of the wage price index for education and training. This results in under-estimation of cost increases and over-estimation of the increase in real funding;
 - They fail to take account of changes in the composition of enrolments. Indigenous, disability and senior secondary school students attract significantly higher funding per student than average and they increased as a proportion of all students from 19.4 per cent in 2000 to 23.6 per cent in 2012.
 - In addition to these flaws, the Grattan Institute estimate of a 44 per cent increase is based on two different measures of expenditure for the start and end period which further exaggerates the actual increase funding.
3. The annual increase in real government funding per student in private schools was significantly higher than that of government schools over the period – 1.96 per cent per annum compared to 1.25 per cent for government schools. In total, real government funding per student for private schools increased by 26 per cent over the period compared to 16 per cent for government schools.
4. The relatively small increase in real funding has been effectively used in some areas:
 - Year 12 outcomes have increased significantly;
 - Average international test results for Year 4 mathematics and for Year 4 Indigenous students have increased;
 - Average NAPLAN results for primary school reading and for Indigenous students have improved.
5. In large part, however, the funding increase has not been well-directed to those most in need of additional support. A large proportion of low SES students are below international and national standards and there are large achievement gaps between these students and high SES students. The abandonment of the Gonski funding plan has put the future of these students at risk.

School Money Wars

The claim that there has been a huge increase in government funding of schools over the past decade or more while school outcomes have declined is highly misleading. The increase in funding was relatively small and there have been some significant improvements in school outcomes.

The false claim is widely used in an attempt to discredit the Gonski funding reforms and justify the Federal Government's decision to abandon them. However, as demonstrated in the Gonski report, the real problem is that past funding increases were largely not directed to where they are most needed [Gonski et.al. 2011].

The Federal Minister for Education, Christopher Pyne, claims that government funding of schools increased in real terms by 44 per cent between 2000 and 2009 [for example, Pyne 2012, Pyne 2014a, 2014b]. This claim is derived from estimates published by the Grattan Institute for government funding of government and private schools [Jensen 2012a, p.10; 2012b].

Others have seized on the estimate as well to try to discredit the Gonski plan [for example, Prasser 2012, 2013]. Columnist for *The Australian*, Judith Sloan, magnified it further in saying that the increase was near 50 per cent [Sloan 2012].

The Grattan Institute had earlier estimated that government school funding increased in real terms by 18 per cent between 2000-01 and 2008-09 [Jensen et. al. 2011, p. 324]. However, this estimate has been ignored in favour of the more alarming 44 per cent. It is hard to understand how a well-funded body like the Grattan Institute could get such divergent estimates as 44 and 18 per cent for the same period, even despite that the former estimate is for all schools and the second is for government schools.

More recently, the National Commission of Audit joined the fray. It says that total government funding for schools increased by 3.8 per cent a year from 2000 to 2012 [National Commission of Audit 2014, p.125]. For comparison, the second Grattan Institute estimate amounts to an increase of 4.1 per cent a year over nine years.

The Commission of Audit estimate was cited by another columnist for *The Australian* that increased funding has not improved school outcomes [Ergas 2014]. Sloan has now adopted this estimate as well [Sloan 2014].

All these growth figures are significant over-estimates. They are over-estimates for several reasons: they include book-entry and other items which have increased significantly, but which have no impact on school outcomes; they do not take account of increasing enrolments; they under-estimate the actual cost increases; they fail to take account of changes in the composition of enrolments. In addition to these flaws, the second Grattan Institute estimate of a 44 per cent increase is based on two different measures of expenditure for the start and end period which exaggerates the actual increase.

The figures for government expenditure on schools used by the Commission of Audit and the second Grattan Institute estimate are based on figures in the Report on Government Services published by the Productivity Commission. These figures

include book-entry (user cost of capital and depreciation) and other items (payroll tax and school transport) for government schools (but not for private schools). These items do not affect student outcomes and for this reason they are excluded from new figures on school funding compiled by the Australian Curriculum, Assessment and Reporting Authority [Deloitte 2011].

The Report on Government Services shows that user cost of capital and depreciation increased by \$5.66 billion between 1999-2000 and 2011-12 (SCRGSP 2002, 2014). Government finance data shows that school transport expenditure increased by \$0.65 billion over the period and payroll tax is estimated to have increased by \$0.58 billion [ABS 2014a].¹

These items accounted for 35 per cent of the increase in total government funding of schools from 1999-2000 to 2011-12 (see table below). Removing these items leaves an increase in total government funding of government and private schools of \$19.5 billion.

The large funding increases estimated by the Grattan Institute and the Commission of Audit fail to take account of the increase in student enrolments between 1999-2000 and 2011-12 which boosted government funding. Total full-time equivalent enrolments increased by nine per cent over the period [ABS 2014b]. A more accurate measure of the increase is funding per student. Government funding per student, after allowing for the book entry and other items, increased from \$5501 to \$10,522.

An accurate measure of the increase in government funding for schools should also take account of rising costs facing schools. The Report on Government Services uses the GDP deflator to adjust for rising costs. However, this deflator underestimates cost increases in the education sector because it reflects the effect of productivity improvements in the rest of the economy which are not available to schools. Because it underestimates actual cost increases, it overestimates the increase in real funding.

A more relevant measure of increasing costs in schools is the wage price index for the education and training sector published by the Australian Bureau of Statistics [ABS 2014c]. Using this to adjust for rising costs gives a real increase in school funding between 1999-2000 and 2011-12 of \$1354 per student (see table below), or 17 per cent which is a far cry from the claimed increase of 44 per cent by the Grattan Institute over a shorter period.

This increase represents annual real growth of 1.3 per cent which is three times less than the rate estimated by the Commission of Audit. It is slightly below the average annual real per capita economic growth of about 1.5 per cent over the past decade or more [Australian Government 2014, p. 2-8].

The annual increase in real government funding per student in private schools was significantly higher than that of government schools over the period – 1.96 per cent per annum compared to 1.25 per cent for government schools. The total real increase in

¹ The payroll tax estimates are based on rates published in NSW Treasury 1999-2000 & 2011-12 applied to total salaries published in the Report on Government Services 2002 & 2014.

government funding per student over the period for private schools was much higher than for government schools – 26 per cent compared to 16 per cent.

Another reason why the second Grattan Institute figure is so high is that it compares expenditure figures compiled on a different basis. The estimate is based on government expenditure data published in the 2001 and 2009 National Report on Schooling in Australia (figures 3.1 and 8.1 respectively) [MCEETYA 2003, ACARA 2011]. Current dollar expenditure for 2000-01 was \$19.7 billion and for 2008-09 it was \$38.9 billion, amounting to an increase of \$19.2 billion. However, these expenditure figures are not comparable because the figures for government schools are compiled on a different basis for the two years: the 2000-01 expenditure is cash-based expenditure and the 2008-09 is accruals-based expenditure. The accruals-based expenditure for government schools in 2000-01 was significantly larger than the cash figure: \$17.2 billion compared to \$15 billion. Therefore, the total increase for the period is over-estimated by \$2.2 billion.

One factor contributing to the real increase in funding is the changing composition of enrolments. Indigenous students, disability students and senior secondary school students attract significantly higher funding per student than average and have increased as a proportion of all students. Funding for disability students in NSW government schools was about double that for other students in 2009-10 [NSW Legislative Council 2010, p. 23-24] while direct school funding per Indigenous primary school student in Australia was about double that of other primary schools students in 2010-11 and direct funding for Indigenous secondary students was 44 per cent higher [SCRGSP 2012, p. 109]. It is difficult to gauge the cost differential between the senior secondary years and other schooling years, but one indication can be gained by comparing costs in Tasmania and the ACT where there are separate government schools for Year 11 & 12 students. For example, funding per student in Year 11 & 12 colleges in Tasmania in 2012 was about \$1300 per student higher than in Year 7-10 high schools according to the My School website.

One reason for the higher costs in the senior secondary years is lower class sizes compared to the junior secondary years. For example, average class sizes in Queensland state schools for Years 11 and 12 in recent years have been about 18 compared to 23 in Years 8 to 10 [Queensland Department of Education 2013].

The proportion of Indigenous students, disability students and senior secondary school students in total enrolments in Australia increased from 19.4 to 23.6 per cent from 2000 to 2012.² The increase was larger for government schools than private schools. The proportion of these students in government schools increased by 5.1 percentage points compared to 2.7 percentage points in private schools.

In addition, there is evidence that funding per disability student has increased by more than for other students. For example, additional funding per disability student in NSW increased by 7.1 per cent a year between 2003-04 and 2009-10 compared to 5.8 per cent for the base funding level in government schools. A submission by the NSW Government to a parliamentary inquiry stated:

² These estimates are based on data from ABS, Schools Australia 2000 and 2012 and the Report on Government Services 2002 and 2014.

The cost of educating student with a disability or additional learning need is not only greater than for general education but the costs for this group is increasing at a greater rate. [NSW Government 2010, p. 24]

Governments have also increased funding for Indigenous students, although it is difficult to obtain estimates of the increase per student relative to increases for other students.

The criticism of the lack of responsiveness of student outcomes to increased funding also fails to acknowledge that there have been some significant improvements in school outcomes over the period that school funding has increased. Year 12 outcomes and primary school and Indigenous outcomes have improved in some areas.

Significant improvements have occurred in Year 12 outcomes over the last decade or more. Average retention rates to Year 12 increased from 72 per cent in 2000 to 82 per cent in 2013 [ABS 2014b]. In 2012, 13 per cent of young people did not attain a Year 12 or equivalent or Certificate II, compared to 21 per cent in 2001, and 14 per cent did not attain a Year 12 or equivalent or Certificate III compared to 23 per cent in 2001 [ABS 2011, 2013]. There was also a significant improvement in Year 12 outcomes for Indigenous students whose retention rate to Year 12 increased from 49 per cent in 2000 to 64 per cent in 2012.

There have been improvements also in primary school results in several areas in recent years. There was a significant increase in the average Year 4 mathematics results for The Trends in International Mathematics and Science Study tests between 2003 and 2012 [Thomson et.al. 2012]. There were significant increases in the percentages of Year 4 Indigenous, remote area and LBOTE students above the mathematics and science standards between 2007 and 2012.

In addition, there were improvements in NAPLAN results in primary schools. There were significant improvements in average Year 3 and 5 reading of 18 points between 2008 and 2013, which is equivalent to about half a school year of learning at these levels [ACARA 2013, MCEETYA 2009]. In addition, there were large improvements in the average reading scores of Indigenous and remote area primary school students, especially in Year 3. There were also small increases in reading amongst Indigenous and remote area secondary school students.

Clearly then, the relatively small increase in school funding over the past decade or more has been used to good effect in some key areas. While it is difficult to draw definite causal links, reductions in class sizes in the early years of school and targeting of resources to early literacy and numeracy learning appear to have contributed to lifting average primary school results and for Indigenous primary school students. The improved retention rates may reflect the expansion of vocational education opportunities in the senior secondary years but the tighter labour market in recent years may have also been a factor behind the higher retention rates since 2008.

However, the stagnation and declines in results in other areas show that the funding increase was not used fully effectively. In particular, there has not been any significant improvement in the results for low SES students. A large proportion of low SES students remain below international and national standards and the large achievement

gaps between these students and high SES students have not decreased. The largest increase in school funding went to private schools who enrol only a small proportion of low SES students.

The fact is that needs-based funding in Australia, especially for low SES students, has only ever been a very small proportion of total school funding as demonstrated by a research report prepared for the Gonski review [Rorris et.al. 2011. This was the whole point of the Gonski reforms – to better target future increases in school funding. As the chairman of the review stated in response to the criticism of the plan by the National Commission of Audit:

...the essence of what we contended, and still do, was that the way monies are applied is the important driver. Increasing money where it counts is vital. The monies distributed over the 12-year period to which the commission refers were not applied on a needs based aspirational system. [Gonski 2014]

A wide range of studies show that money matters for improving school outcomes for disadvantaged students [for example, Gibbons et.al. 2011, Ooghe 2011, Roy 2011, Jackson et.al. 2014]. The abandonment of the Gonski plan by the Federal Government means that the needs of these students will continue to be ignored.

Government Funding of Schools, 1999-2000 to 2011-12 (\$)

	1999-2000	2011-12	Increase
Govt School Funding	16592116000	36532898000	19940782000
Less : User Cost of Capital	813390000	5651550000	4838160000
Depreciation	684402000	1508866000	824464000
Payroll Tax	565822654	1149475986	583653333
School Transport	754000000	1401000000	647000000
Total Exclusions	2817614654	9710891986	6893277333
Total Govt School Funding less Exclusions	13774501346	26822006014	13047504667
Private School Funding	4095570000	10565070000	6469500000
Total Government Funding	17870071346	37387076014	19517004667
Govt School Enrolments (FTE)	2259168	2316848	57680
Private School Enrolments (FTE)	989472	1236287	246815
Total FTE Enrolments	3248640	3553135	304495
Total Govt Funding per Student	5501	10522	5021
Govt School Funding per Student	6097	11577	5480
Private School Funding per Student	4139	8546	4407
Real Govt Funding per Student (2008-09 = 100)	8007	9361	1354
Real Govt School Funding per Student (2008-09 = 100)	8875	10300	1425
Real Private School Funding per Student (2008-09 = 100)	6025	7603	1578

Data sources:

Recurrent expenditure: Report on Government Services.

User cost of capital: Report on Government Services.

Depreciation: Report on Government Services.

Payroll tax rates: NSW Treasury, Interstate Comparisons of Taxes. Rates are applied to total salary expenditure figures in the Report on Government Services.

School transport: ABS, Government Financial Statistics, Education.

School enrolments (full time equivalent - FT): ABS, Schools Australia.

Wage price index for public education and training: ABS, Wage Price Index.

References

- Australian Bureau of Statistics (ABS). (2011). Survey of Education and Work – Additional Data Cubes. Catalogue no. 6227.0.55.003, Canberra.
- Australian Bureau of Statistics (ABS). (2013). Survey of Education and Work – Additional Data Cubes. Catalogue no. 6227.0.55.003, Canberra.
- Australian Bureau of Statistics (ABS) (2014a). Government Finance Statistics, Education, Catalogue no. 5518.0.55.001, Canberra.
- Australian Bureau of Statistics (ABS) (2014b). Schools Australia. Catalogue no. 4221.0, Canberra.
- Australian Bureau of Statistics (ABS) (2014c). Wage Price Index. Catalogue no. 6345.0, Canberra.
- Australian Curriculum, Assessment and Reporting Authority (2011). *National Report on Schooling in Australia 2009*, Sydney.
- Australian Curriculum, Assessment and Reporting Authority (ACARA) (2013). *NAPLAN Achievement in Reading, Persuasive Writing, Language Conventions and Numeracy: National Report for 2013*, Sydney.
- Australian Government (2014). *Budget Paper No. 1: Budget Strategy and Outlook 2014-15*. Canberra.
- Deloitte (2011). 2009 Financial Data for My School.edu.au. Sydney: Australian Curriculum, Assessment and Reporting Authority.
- Ergas, Henry (2014). Submission to the Senate Select Committee on School Funding, April.
- Gibbons, Stephen, McNally, Sandra & Viarengo, Martina (2011). Does additional spending help urban schools? An evaluation using boundary discontinuities. Discussion Paper 128, Centre for the Economics of Education, London School of Economics, London, September.
- Gonski, David, Boston, Ken, Greiner, Kathryn, Lawrence, Carmel, Scales, Bill & Tannock, Peter (2011). *Review of Funding for Schooling*. Canberra: Department of Education, Employment and Workplace Relations.
- Gonksi, David. (2014). Jean Blackburn Oration, University of Melbourne, 21 May.
- Jackson, C. Kirabo, Johnson, Rucker & Persico, Claudia (2014). The effect of school finance reforms on the distribution of spending, academic achievement, and adult outcomes. NBER Working Paper No. 20118, Cambridge, MA, National Bureau of Economic Research.
- Jensen, Ben (2012a). *Catching up: Learning from the best school systems in East Asia*. Melbourne, The Grattan Institute.
- Jensen, Ben (2012b). Targeting the things that matter. Paper to Australian Council for Educational Research Conference, School Improvement: What Does Research Tell Us About Effective Strategies? Sydney, 28 August.
- Jensen, Ben, Reichl, Julian & Kemp, Andrew (2011). The real issue in school funding: An analysis of increasing government school expenditure and declining performance. *Australian Economic Review*, (44) 3, 321–329.
- Ministerial Council for Education, Employment, Training and Youth Affairs (MCEETYA) (2003). *National Report on Schooling in Australia 2001*. Melbourne: Curriculum Corporation.
- Ministerial Council for Education, Employment, Training and Youth Affairs (MCEETYA) (2009). *2008 National Assessment Program: Literacy and Numeracy*. Melbourne: Curriculum Corporation.
- National Commission of Audit (2014). *Towards Responsible Government*, The Report of the National Commission of Audit Phase One. Canberra, February.

- New South Wales Government (2010). NSW Government Submission to Inquiry into the Provision of to Students with a Disability or Special Needs, Sydney.
- New South Wales Legislative Council (2010). *The Provision of Education to Students with a Disability or Special Needs*. General Purpose Standing Committee No. 2, Sydney.
- New South Wales Treasury (1999). Interstate Comparison of Taxes 1999-2000, Research and Information Paper, Sydney.
- New South Wales Treasury (2011). Interstate Comparison of Taxes 2011-12. Research and Information Paper, Office of Financial Management, Sydney.
- Ooghe, Erwin (2011). The Impact of 'Equal Educational Opportunity' Funds: A Regression Discontinuity Design, Discussion Paper No. 5667, Bonn, Institute for the Study of Labor, April.
- Prasser, Scott (2012). The Gonski Review hasn't gone-ski far enough-ski. *The Punch*, 27 August.
- Prasser, Scott (2013). To Gonski or not to Gonski...? *Online Opinion*, 3 June.
- Pyne, Christopher (2012). Achieving Teacher Quality: The Coalition's Approach, Address to the Sydney Institute, 16 July.
- Pyne, Christopher (2014a). Keeping our commitments: Record funding for schools. *Media Release*, 13 May.
- Pyne, Christopher. (2014b). Speech to Christian Schools National Policy Forum, Parliament House, Canberra, 26 May.
- Queensland Department of Education, Training and Employment (2013). Class Size Target Achievement and Average Class Size, October.
- Rorris, Adam, Weldon, Paul, Beavis, Adrian, McKenzie, Phillip, Bramich, Meredith & Deery, Alana (2011). *Assessment of Current Process for Targeting of Schools Funding to Disadvantaged Students*. Camberwell: Australian Council for Educational Research.
- Roy, Joydeep (2011). Impact of school finance reform on resource equalization and academic performance: Evidence from Michigan. *Education Finance and Policy*, 6(2), 137-167.
- Sloan, Judith (2012). Why I don't give a Gonski for more school spending. *The Australian*, 28 August.
- Sloan, Judith (2014). Abbott is right to fund the Gonski shemozzle for only four years. *The Australian*, 27 May.
- Steering Committee for the Review of Government Service Provision (SCRGSP) (2002). *Report on Government Services 2002*. Canberra: Productivity Commission.
- Steering Committee for the Review of Government Service Provision (SCRGSP) (2012). *2012 Indigenous Expenditure Report*, Canberra: Productivity Commission.
- Steering Committee for the Review of Government Service Provision (SCRGSP) (2014). *Report on Government Services 2014*. Canberra: Productivity Commission.
- Thomson, Sue, Hillman, Kylie, Schmid, Marina, Buckley, Sarah & Munene, Ann (2012). *Monitoring Australian Year 4 Student Achievement Internationally: TIMSS and PIRLS 2011*. Camberwell: Australian Council for Educational Research.