

Education Research Brief

New Funding Agreements Defraud Public Schools

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Key Points

1. The new bilateral school funding agreements between the Commonwealth and the states are heavily biased against public schools in three ways:
 - Public schools will be under-funded indefinitely while private schools will be fully funded by 2023.
 - Private schools get more favourable phase-in arrangements than public schools.
 - Over-funded private schools get special funding assistance to adjust to lower funding levels but public schools facing funding reductions get no assistance.
2. Public schools will be defrauded of some \$60 billion over the period 2018 to 2027, an average of \$6 billion a year. The funding loss is due to two features of the agreements:
 - Public schools in all states except the ACT will only ever be funded at 95% of their Schooling Resource Standard (SRS) at best and more likely less because the states have only committed to funding them at 75% of their SRS while the Commonwealth will only fund them to 20%. The cumulative loss over the ten years is estimated at about \$41 billion.
 - The states can claim expenditures not included in the SRS measure as part of their SRS target share up to 4% of their SRS. This represents a loss of funding required to meet state target shares. If the states take advantage of this special deal, the cumulative loss over the next decade is estimated at about \$19 billion.
3. In contrast, private schools are guaranteed to be fully funded to 100% of their SRS or more by 2023.
 - The Commonwealth will fund all private schools to 80% of their SRS by 2023.
 - Private schools are currently funded at above 20% of their SRS in all states except the Northern Territory and possibly Victoria. There are caveats in the NSW, Queensland, South Australian and Western Australia agreements that allow these governments to continue to fund private schools at above 20% of their SRS.
 - The states cannot claim expenditures not included in the SRS measure as part of their target share for private schools. Consequently, they cannot reduce their funding commitments to private schools as they can for public schools.
4. The phase-in arrangements overwhelmingly favour private schools:
 - Private schools will be funded at 100% of their SRS or more by 2023 while public schools, apart from the ACT, will only be ever funded at 95% or less by 2027, by 2032 in Queensland and perhaps never in the Northern Territory.
 - Over-funded private schools have until 2029 to adjust to their lower funding. Public schools in Western Australia will have their state funding share reduced from 84.4% to 75% by 2022 and those in the ACT will have their funding share reduced from 92.9% to 80% by 2023.
 - Over-funded private schools get \$40 million in special assistance to adjust to lower levels of funding. Over-funded ACT private schools have a special deal worth \$58 million to adjust to reduced funding. Public schools facing reductions get no adjustment assistance funding.
5. In addition to these special benefits for private schools, the Morrison Government set up a \$1.2 billion slush fund only available for private schools which will ensure that private schools, on average, will be even more over-funded.
6. The Labor Party should undertake to re-negotiate the funding agreements to ensure public schools are fully funded by 2023. It should end the special deal whereby the states can claim additional expenditures outside the SRS measure as part of their SRS share and require the states to increase their funding for public schools. It should also require over-funded private schools transition to their SRS by 2023 and terminate their special adjustment funding.

Introduction

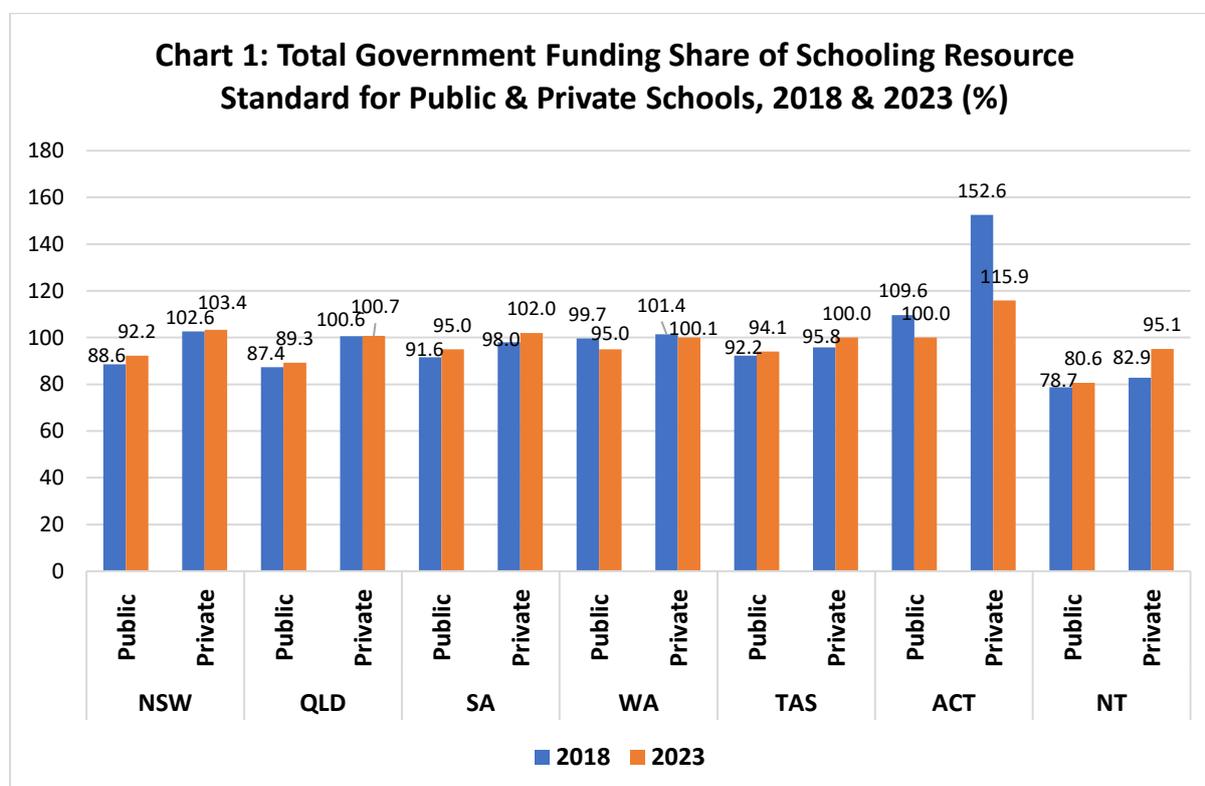
Public schools are being defrauded by school funding agreements finalised at the end of last year between the Commonwealth and state/territory governments (“the states”). Public schools in all states except the ACT will only ever be funded at 95% of their Schooling Resource Standard (SRS) at best, and more likely less. In contrast, private schools in all states except the Northern Territory are guaranteed funding at 100% or more of their SRS by 2023. The agreements are heavily biased against public schools and in favour of private schools.

The states have not committed to fully fund their share of the SRS of public schools but can exceed their target funding share for private schools. In addition, the states can claim expenditures formally excluded from the SRS as part of their target share for public schools and thereby reduce the extent of required funding increases in the future. This provision does not apply to state funding of private schools.

The agreements ensure that the national school funding arrangements are now systematically biased against public schools. It is appalling that Labor state governments have signed agreements to defraud public schools of much-needed funding. Only the Victorian Government is holding out for a better deal for public schools.

Chronic under-funding of public schools

In 2018, public schools were under-funded in all states except the ACT (see Chart 1 - comparative figures are not available for Victoria until it signs an agreement). The under-funding is extensive in several states – public schools are funded at less than 95% of their SRS in all states except Western Australia and the ACT and less than 90% in NSW, Queensland and the Northern Territory. In contrast, private schools are funded at 100% of their SRS or more in NSW, Queensland, Western Australia and the ACT. Private schools in South Australia and Tasmania are funded at nearly 100% of their SRS.



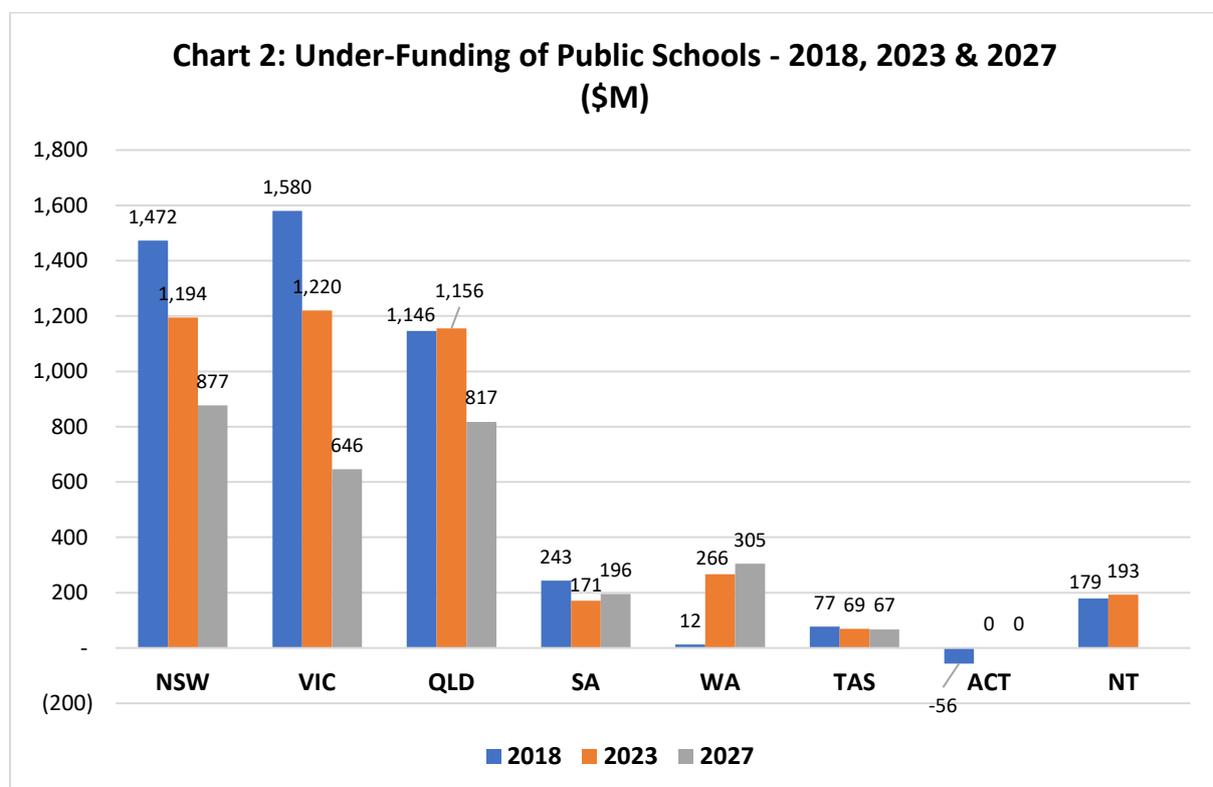
Sources: The shares are the total of the Commonwealth shares published in an FOI document released by the Department of Education in August 2018 and the state shares set out in the bilateral agreements.

Under the new funding arrangements, the Commonwealth Government will increase its share of funding public schools to 20% of their SRS by 2023. However, apart from the ACT, the bilateral agreements only commit the states to funding public schools at 75% of their SRS by 2027 (2032 in the case of Queensland and no commitment to any target beyond 2023 by the Northern Territory). Funding for public schools by 2023 will be considerably less than 95% of their SRS while private schools in all states except the Northern Territory will be funded at 100% of their SRS or more. Public schools in Western Australia will actually have their funding share cut from 99.7% in 2018 to 95% in 2023 under its bilateral agreement with the Commonwealth.

Public schools will be forever under-funded according to the new agreements. They will never be funded at 100% of their SRS under the current arrangements, except in the ACT, because the states have only committed to a 75% share by 2027 and the Commonwealth will only fund public schools to 20% of their SRS.

The under-funding amounts to billions. In 2018, public schools were under-funded by a total of \$4.65 billion. For example, NSW public schools were under-funded by \$1.5 billion, Victorian public schools by \$1.6 billion and Queensland public schools by \$1.1 billion [Chart 2]. There will be little reduction in the under-funding by the end of the agreements in 2023 when it will stand at about \$4.27 billion. NSW and Victorian public schools will be under-funded by \$1.2 billion and under-funding of Queensland and Western Australian public schools will increase.

By 2027, public schools will be still under-funded by \$2.9 billion. Under-funding for South Australian and Western Australian public schools will increase between 2023 and 2027 because they are due to achieve the 95% target by 2023 and remain at 95% while their total SRS entitlement continues to increase with indexation.

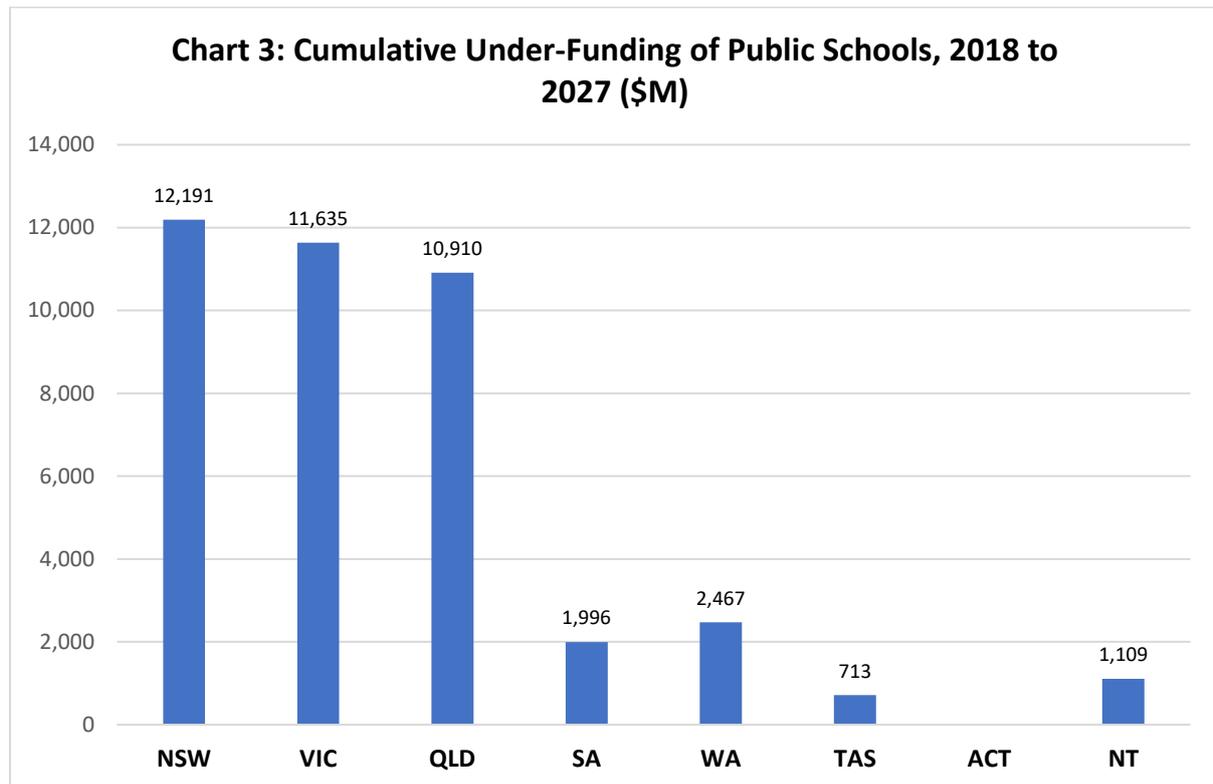


Source: Attachment Table A1.

While the total under-funding will gradually reduce to 2027 as the Commonwealth increases its funding for public schools to 20% of their SRS and the states increase their funding to 75%, under-

funding will start to increase again after 2027. This is because there is no commitment by the states, apart from the ACT, to increase their share beyond 75% of the SRS, but the total SRS entitlement for each state will continue to grow with indexation. Therefore, the dollar amount of under-funding at 5% of the total SRS will also increase each year.

The cumulative under-funding over the ten years to 2027 will be massive, being of the order of \$41 billion. Public schools in NSW will be under-funded by about \$12.2 billion, Victorian public schools by about \$11.6 billion and Queensland public schools by about \$10.9 billion [Chart 3].



Source: Attachment Table A1.

Private schools are guaranteed full funding or more

In contrast to the under-funding of public schools, private schools are guaranteed funding of at least 100% of their SRS or more by 2023. The Commonwealth guarantees funding to 80% of their SRS by 2023 and they are currently funded at above 20% of their SRS by all state governments except the Northern Territory and possibly Victoria. There are caveats in the bilateral NSW, Queensland, South Australian and Western Australian bilateral agreements whereby governments can continue to fund private schools at above 20% of their SRS.

The NSW agreement states that the state share for private schools will be at least 20% by 2029, signalling that it will likely be above this. The South Australian agreement states that the SA Government “intends to maintain funding of 22 per cent to the non-government sector for the period 2018 to 2023”. The Western Australian agreement states that WA Government “retains the flexibility to fund non-government schools above the minimum requirements for all or part of the term of the agreement”. The Queensland agreement also signals the intent of the state government to fund private schools at above 20%.

Following the agreements, private schools in NSW, Queensland, South Australia, Western Australia and the ACT will be funded at over 100% of their SRS in 2023. Over-funding for NSW private schools will actually increase from 102.6% in 2018 to 103.4% in 2023. However, private schools in NSW,

Queensland, South Australia and Western Australia are likely to be more over-funded than indicated in Chart 1 because their agreements indicate an intent by the governments to fund private schools at above 20% of their SRS.

The terms of the Western Australian agreement are particularly blatant in favouring private schools. The Western Australian Government will reduce its funding share of the SRS of public schools from 84.4% in 2018 to 75% by 2022. The schedule provides for a nominal reduction of the private school share from 26.3% to 20% by 2020, not 15%, and there is a let-out clause that indicates the WA Government will continue to fund private schools at above 20%. There is no similar let-out clause to allow public schools to be funded at above 75% of their SRS, let alone 80%.

The bias in favour of private schools in the Western Australian agreement stands in sharp contrast with the treatment of public and private schools in the ACT agreement. While the ACT Government has agreed to reduce its funding share of the SRS of public schools from 92.9% in 2018 to 80% in 2023 it is at least been consistent in its treatment of private schools by reducing their share from 37% to 20% over the same period.

Phase-in arrangements favour private schools

The phase-in arrangements also favour private schools. The Commonwealth has guaranteed that private schools currently funded below 80% of their SRS will achieve the target by 2023 while the states do not have to achieve the smaller 75% funding target for public schools until at least 2027.

[The Commonwealth Government had previously stated](#) that the states would be required to achieve 75% of the SRS by 2023. However, under the agreements NSW and Tasmania do not have to achieve the target until 2027, Queensland not until 2032 and there is no commitment that the Northern Territory will ever achieve the target.

Contrasting provisions also apply to schools currently funded above the respective targets. Private schools currently funded at over 80% of their SRS by the Commonwealth have until 2029 to adjust to the lower level of funding. Public schools in Western Australia will have their funding share reduced from 84.4% to 75% by 2022 and those in the ACT will have their funding share reduced from 92.9% to 80% by 2023.

Moreover, over-funded private schools get special funding assistance from the Commonwealth to adjust to their lower shares while public schools get no assistance. The Turnbull Government provided a special national adjustment assistance scheme of \$40 million and an adjustment assistance package for ACT private schools worth \$58 million (the funding has since been incorporated into the Morrison Government's Choice and Affordability Fund). [The ACT funding](#) will increase the already massive overfunding of many highly advantaged private schools in Canberra and delay, or postpone indefinitely, reductions in over-funding. Astonishingly, several schools will receive funding assistance to adjust to higher levels of funding.

Special deals in the agreements swindle public schools

The defrauding of public schools is not confined to a lower SRS target than private schools. Public schools are also being swindled by special deals in the bilateral agreements that allow the states to count other expenditures not included in the nationally agreed definition of the SRS as part of their contribution to achieving the 75% target.

All the agreements, except for the ACT, allow state governments to claim these extra expenditure items up to 4% of the total SRS of public schools. This allows the states to artificially boost their funding shares of the SRS of public schools by four percentage points and, therefore, do not have to

increase recurrent funding by as much to achieve the 75% target. It represents a loss of funding for public schools.

The additional expenditures allowed to be counted towards the achievement of the 75% target for public schools are depreciation, school transport, regulatory authorities, pre-school and early childhood (see Table 1).

Table 1: Other Expenditures Allowed in State Shares of the SRS of Public Schools

	Depreciation	School Transport	Regulatory Authority	Pre-School	Early Childhood
NSW	X	X	X	-	-
QLD	X	X	X	-	-
SA	X	X	X	-	-
WA	X	X	X	X	-
TAS	X	X	X	-	-
ACT	-	-	-	-	-
NT	X	X	-	-	X

Source: Bilateral agreements.

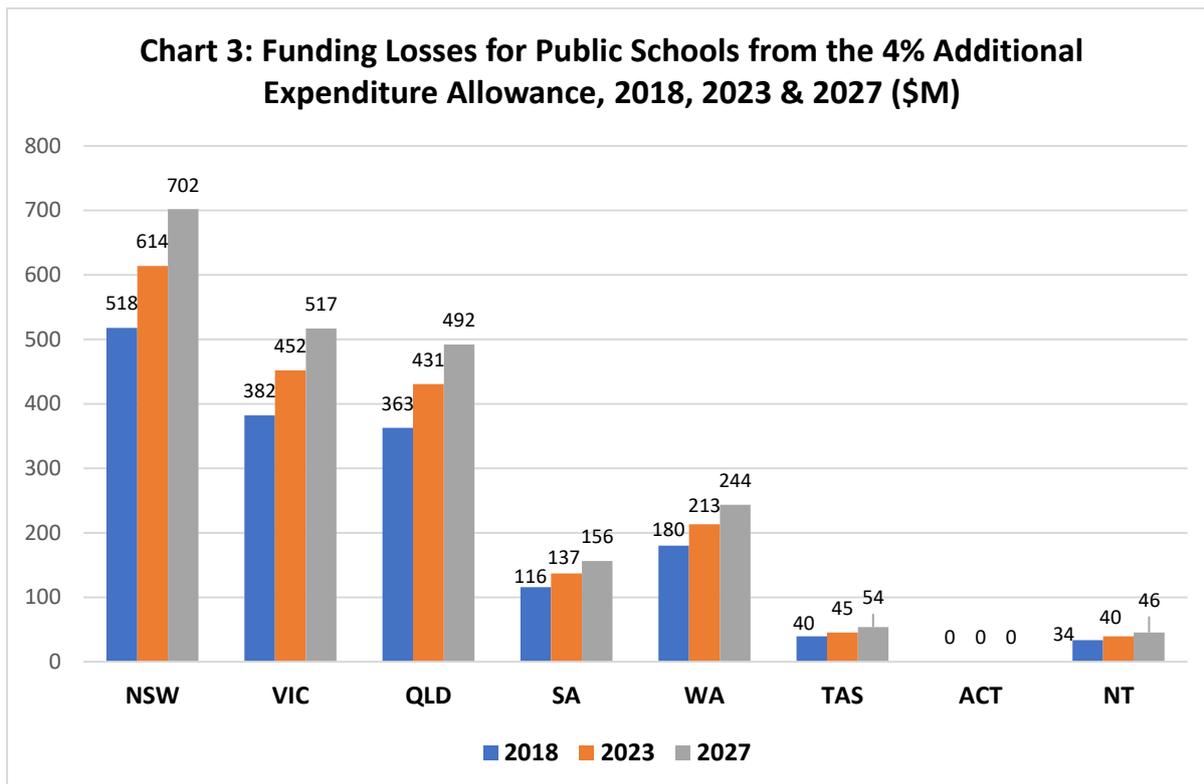
These expenditure items are not included in the nationally agreed definition of the SRS. The SRS of public schools is measured by net recurrent income per student as compiled by the Australian Curriculum, Assessment and Reporting Authority (ACARA). It includes income received by schools and a “notional 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.

This definition 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 definition excludes the items now counted towards achieving SRS target shares. Items 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 are explicitly excluded from the definition. In addition, the SRS only refers to school funding and not funding for other forms of education such as pre-school and early childhood which now can be claimed as part of the SRS target in Western Australia and the Northern Territory.

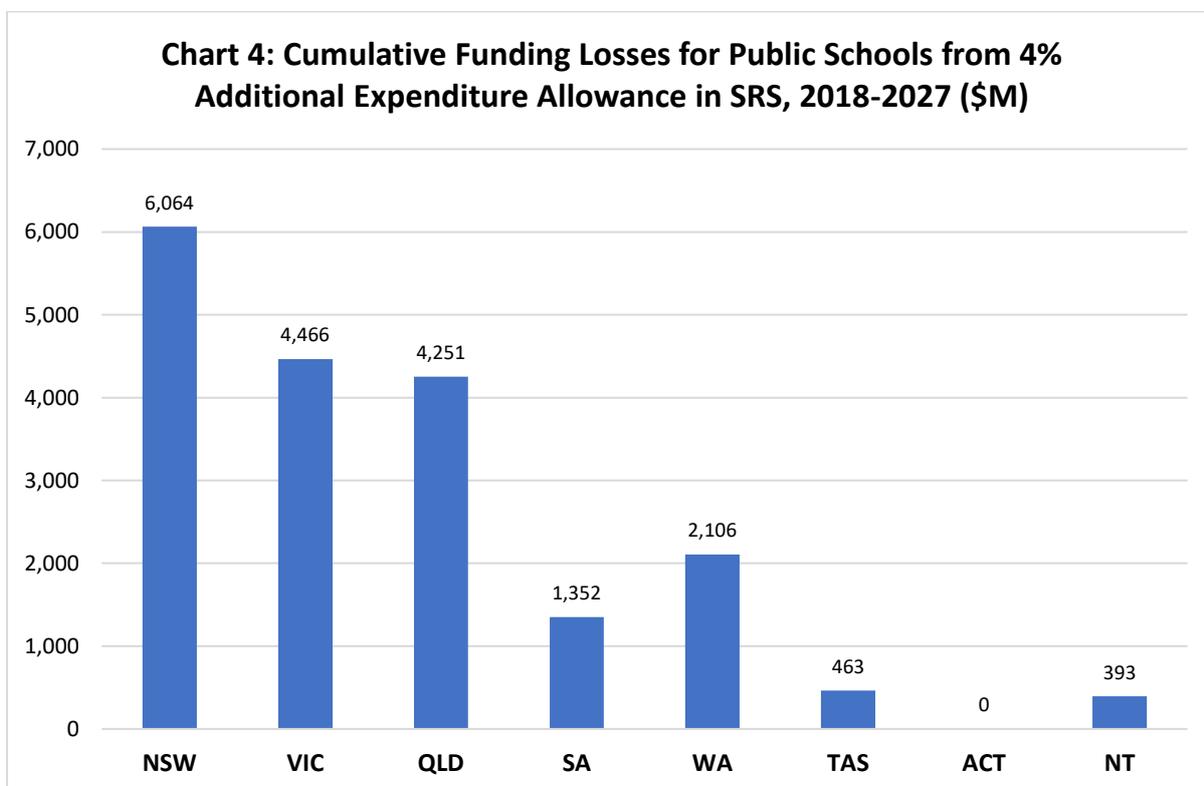
If the states take full advantage of this sleight of hand of including other expenditures as part of the SRS it will result in significant funding losses for public schools. Large losses will be incurred by public schools in NSW, Victoria (assuming the 4% claim is included in its agreement when finally negotiated) and Queensland. The likely losses for 2018 are: \$518 million in NSW, \$382 million in Victoria and \$362 million in Queensland [Chart 3]. The total loss to public schools across Australia is about \$1.6 billion.

In the case of Western Australia, the sleight of hand will allow the state government to reduce its share of funding of public schools by even more than indicated by the schedule in the Agreement. Instead of the share being reduced from 84.4% to 75% by 2022 as indicated in the Agreement its actual share of the SRS measured by the nationally agreed method would be only 71%.

The losses from the bilateral agreements will grow over time as the total SRS increases due to indexation. By 2027, the loss will amount to \$702 million in NSW, \$517 million in Victoria and \$492 million in Queensland. The total loss for Australia will be about \$2.2 billion. The cumulative loss over the ten years will be massive, for example, \$6.1 billion in NSW, \$4.5 billion in Victoria and \$4.3 billion in Queensland [Chart 4]. The total cumulative loss across Australia is likely to be about \$19.1 billion.



Source: Attachment Table A2.



Source: Attachment Table A2.

Only public schools are being defrauded by this sleight of hand in the bilateral agreements. The allowance for state governments to substitute other expenditures for actual increases in recurrent funding as defined for the SRS does not apply to private schools. Yet, private schools benefit from capital funding by state governments, school transport funding and regulatory and standards authorities funded by the states. If there is case to include these expenditures in the definition of the SRS, it should also apply to private school funding. The selectivity with which this new arrangement is applied reveals that it is designed to reduce the funding commitments to public schools by state governments while continuing over-funding of private schools.

Slush fund for private schools

In addition to all the new funding arrangements that favour private schools, the Morrison Government has introduced a special fund for private schools. In August 2018, 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.

This fund will ensure that private schools, on average, will be even more over-funded while public schools remain under-funded.

Conclusion

Clearly, the new school funding arrangements agreed to by the Morrison Government and all states apart from Victoria are heavily biased in favour of private schools and against public schools. Private schools are guaranteed to be funded at least 100% of their SRS or more by 2023 in all states except the Northern Territory. Public schools will only ever be funded at 95% of their SRS in all states except the ACT. In reality, they will be funded at less than 95% because of a special deal in the bilateral agreements that allow the states to claim other expenditure items not included in the formal definition of the SRS as part of their contribution to achieving their SRS target share.

As a result, public schools will miss out on upwards of \$60 billion over the next ten years, or \$6 billion a year. This is a massive loss of funding that could have gone a long way to improving school outcomes for disadvantaged students, over 80% of whom attend public schools, and to reducing the massive achievement gaps between rich and poor.

The new arrangements established under the bilateral agreements have put more nails in the coffin of the Gonski funding model. It has been progressively dismantled by the Abbott and Turnbull Governments and the Morrison Government has almost completed the demolition.

There is no longer an integrated national funding model as envisaged by the Gonski report. The effect of the agreements signed is to further fragment and undermine what is left of the national funding model. They destroy the integrity of the national measure of the SRS by selectively changing what is included in the measure. They give favourable treatment of private schools while reducing state funding commitments to public schools. They deceive the public about the level of state government funding of public schools and the extent of progress in meeting target funding shares by the states for public schools.

It will be up to a Labor Government fully implement the Gonski vision and provide the funding necessary to support public schools and disadvantaged students. It should undertake to re-negotiate the funding agreements with the states. It should end the special deal whereby the states can claim additional expenditures outside the SRS measure as part of their share. It should also ensure that over-funded private schools transition to their lower level of funding by 2023 and terminate their special adjustment funding.

To its credit, [Labor has promised](#) to deliver an extra \$14 billion for public schools over the next decade, with an additional \$3.3 billion in the first three school years. It also promises that a Labor Government would fund public schools at 22.2% of their SRS by 2022. It says that it wants all public schools to be funded at 100% of their SRS and that it will require the states to increase their funding.

Labor's promises are a huge advance on what the Abbott, Turnbull and Morrison Government's have done to public education. It is critical that a Commonwealth Labor Government ensure a much more rapid transition to achieving full funding for public schools. It should hold the states to account to increase their funding share. Many took advantage of being released of their Gonski 1.0 commitments by Abbott Government and cut their funding of public schools and once again they have been let off the hook by the special deals in the new funding agreements.

Attachment

Table A1: Under-Funding of Public Schools, 2018 to 2027 (\$M)

Year	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	Total
2018	1,472.3	1,580.1	1,146.4	243.1	12.2	76.7	-56.2	178.8	4,653.5
2019	1,457.9	1,518.6	1,148.6	230.4	150.7	76.3	-45.2	181.9	4,719.0
2020	1,426.3	1,459.6	1,149.7	216.5	253.2	74.2	-38.1	183.0	4,724.4
2021	1,351.0	1,384.0	1,163.7	201.2	320.9	73.3	-30.8	183.8	4,647.0
2022	1,272.4	1,309.0	1,160.6	188.9	304.8	70.7	-22.4	189.1	4,473.1
2023	1,194.1	1,220.4	1,155.9	171.1	266.4	69.4	-	192.7	4,270.0
2024	1,124.4	928.9	1,124.3	176.9	275.5	69.0	-	-	3,698.9
2025	1,048.6	841.7	1,089.1	183.0	284.8	68.5	-	-	3,515.7
2026	966.4	747.4	955.5	189.2	294.5	67.8	-	-	3,220.7
2027	877.3	645.8	816.9	195.6	304.5	67.0	-	-	2,907.1
Total	12,199.7	11,635.5	10,910.5	1,995.9	2,467.4	713.0	-	1,109.3	41,022.2

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

Methodology: The under-funding loss is estimated as the difference between the percentage of the SRS funded and 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 2018 share for the Victorian Government is derived separately from earlier data released by the Commonwealth Department of Education. Its share for 2023 is assumed to be 89.2% and 95% in 2027.

Notes:

1. It is not possible to estimate of under-funding in the Northern Territory beyond 2023 because there is no funding target in its bilateral agreement.
2. Totals may not add due to rounding.

Table A2: Funding Losses for Public Schools from 4% Additional Expenditure Allowance, 2018-2027 (\$M)

Year	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	Total
2018	518.0	381.9	362.8	115.8	180.2	39.5	-	33.6	1,631.8
2019	537.0	394.5	375.4	119.7	186.1	41.0	-	34.8	1,688.3
2020	556.6	409.7	338.4	123.7	193.3	42.4	-	36.1	1,750.2
2021	573.0	422.6	403.4	127.7	199.3	43.9	-	37.3	1,807.3
2022	593.2	438.2	416.7	132.6	206.6	45.3	-	38.6	1,871.1
2023	613.9	452.0	430.5	136.9	213.1	46.9	-	39.7	1,933.0
2024	634.8	467.4	445.2	141.5	220.4	48.5	-	41.1	1,998.8
2025	656.4	483.3	460.3	146.4	227.9	50.2	-	42.5	2,066.9
2026	678.7	499.7	475.9	151.3	235.6	51.9	-	44.0	2,137.2
2027	701.8	516.7	492.1	156.5	243.6	53.6	-	45.5	2,209.8
Total	6,063.5	4,465.8	4,250.6	1,352.1	2,106.0	463.1	-	393.3	19,094.3

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. It is assumed that the 4% allowance is included in the Victorian agreement when it is negotiated.