

Education Research Paper

Over-Funding of Private Schools to Increase While Public Schools Remain Under-Funded

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Summary

The current school funding arrangements are heavily biased against public schools. Private schools will be over-funded by \$6 billion to 2029 while public schools will be under-funded by nearly \$60 billion.

The over-funding of private schools will occur because they will be funded at over 100% of their Schooling Resource Standard (SRS) until at least 2029. The sources of the over-funding are:

- \$2.4 billion from funding at over the Commonwealth target of 80% of the SRS;
- \$2.5 billion from funding at over the States target of 20% of the SRS;
- \$1.2 billion through the Commonwealth's Choice and Accountability slush fund (from 2020).

This over-funding is just the tip of the iceberg. It does not include over-funding built into the new Direct Measure of Income (DMI) method of calculating the financial need of private schools. The DMI ignores income provided by grandparents and untaxed capital gains income as well as donations to private schools. This means that the financial need of schools is over-estimated and they receive even more funding than warranted.

While the Morrison Government is bent on massively over-funding private schools, it has washed its hands of adequately funding of public schools. Public schools will remain severely under-funded indefinitely according to the current funding agreements between the Commonwealth and state governments. Public schools will only be funded at 91% of their SRS by 2029. The total under-funding from 2021 to 2029 will amount to \$57.9 billion. They will be under-funded by \$6-7 billion annually over the period.

The vision of the Gonski report to re-direct education policy and funding to reducing inequity in education has been extinguished. The Gonski funding model was progressively dismantled by the Abbott and Turnbull Governments and the Morrison Government has completed the demolition with the complicity of Coalition and Labor state governments.

There is now no option other than to return to the drawing board and design a new funding model to address disadvantage and improve equity in education.

Introduction

This paper provides new estimates of the over-funding of private schools provided by the Morrison Government. They are based on data published last year by Senate Estimates. The paper also provides new estimates of the under-funding of public schools.

Under changes to the Australian Education Act in 2018 by the Turnbull Government the Commonwealth committed to funding private schools to 80% of the national Schooling Resource Standard (SRS) by 2023 with the remaining 20% to be funded by state governments. At the time, both the Catholic and Independent school sectors were funded at below 80% in all states except the ACT. The model aimed to fund Catholic and Independent schools in nearly all states at 80% of their SRS by 2023. Individual schools funded at over 80% of their SRS would transition to 80% by 2027.

In 2020, the Morrison Government introduced a new method of calculating Commonwealth funding of private schools. It changed the method of assessing the financial need of schools from an area-based measure of family capacity to pay fees to one based on a measure of family income called the Direct Measure of Income (DMI). All schools will transition to the new method by 2022.

The new funding method will result in Catholic and Independent schools being funded at above 80% of their SRS from 2022 and they have until 2029 to adjust to being funded at the lower level. This paper estimates the over-funding at \$2.4 billion. It also provides estimates of over-funding from other sources.

Over-funding of private schools

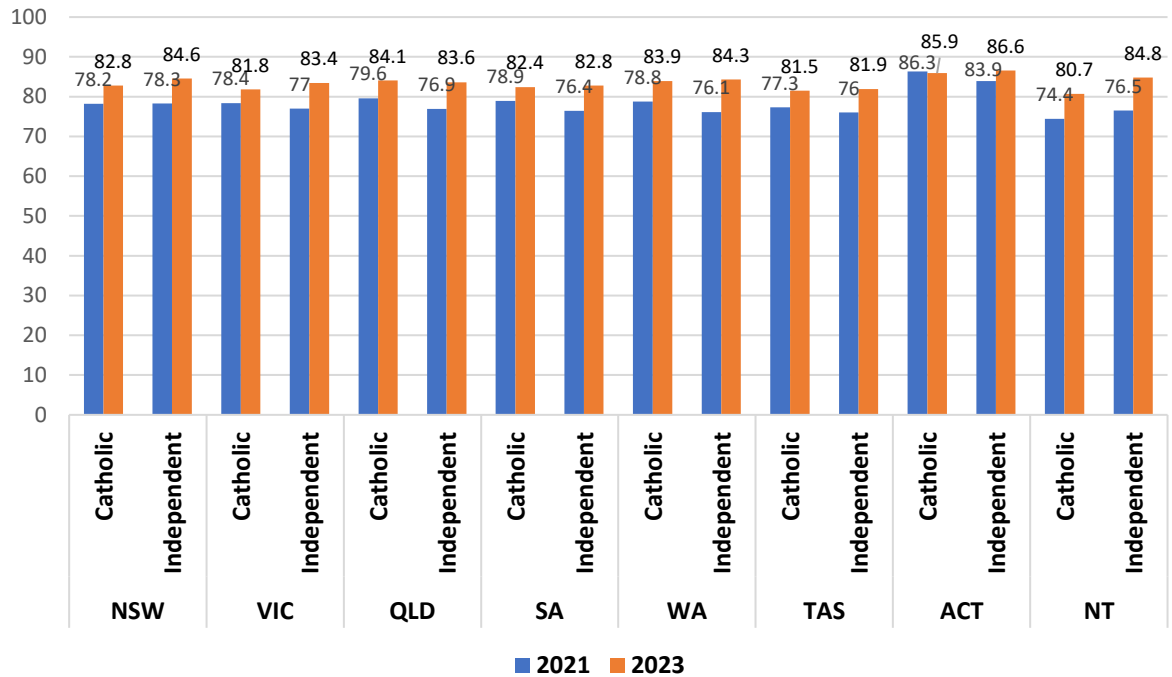
The new method will increase the funding shares to over 80% from 2022 and schools have until 2029 to adjust to the 80% target. Department of Education figures published by Senate Estimates show that Catholic and Independent schools will be funded at more than 80% of their SRS in each state by 2023 [Chart 1].

For example, the Commonwealth share of funding for NSW Catholic schools will increase from 78.4% in 2021 to 82.8% in 2023 while that for Independent schools will increase from 78.3% to 84.6%. Private schools in Western Australia and the Northern Territory will gain the largest increases. For example, the Commonwealth share for Catholic schools in Western Australia will increase from 78.8% to 83.9% in 2023. Funding for Independent schools will increase from 76.1% in 2021 to 84.3% in 2023.

The funding shares will remain at over 80% for another five years beyond 2023 as they will only progressively decline to 80% by 2029. The total over-funding to 2029 is estimated at \$2.4 billion - \$1.2 billion for Catholic schools and \$1.2 billion for Independent schools. In the next two years alone, private schools will be over-funded by about \$1 billion comprising \$451 million to Catholic schools and \$547 million for Independent schools [Chart 2]. Over-funding will progressively decline after 2023 until the 80% target is reached in 2029 but history suggests that it will continue beyond 2028.

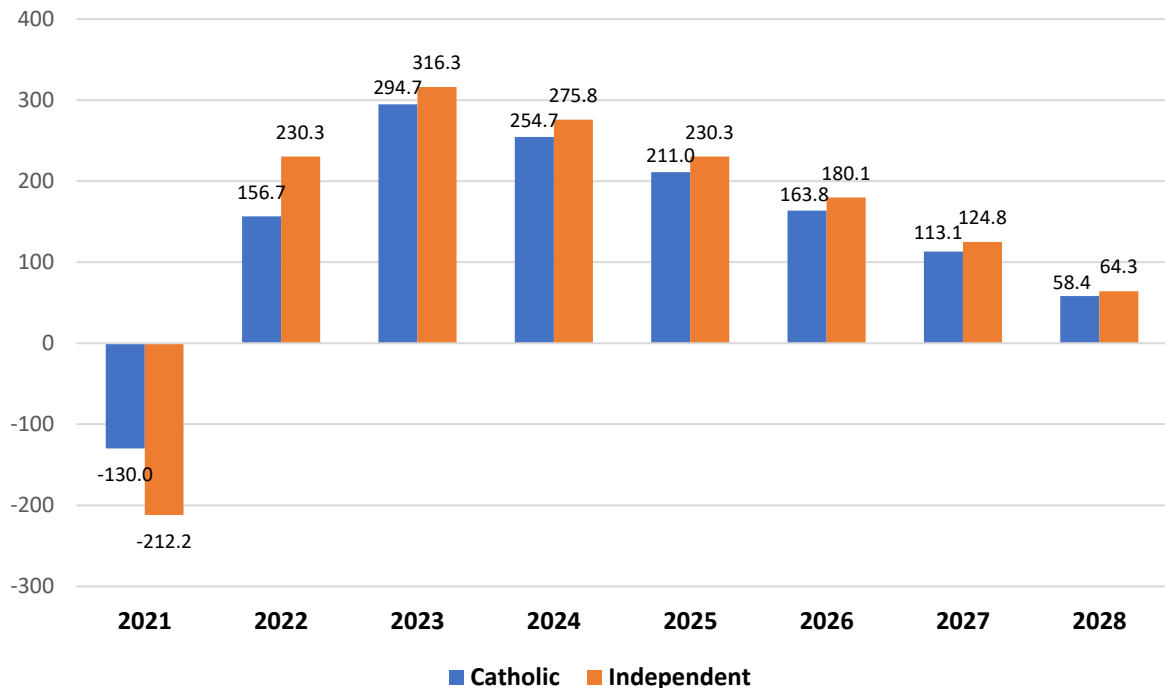
Private schools in NSW, Victoria and Queensland will receive over three-quarters of the over-funding. NSW private schools will receive \$792 million in over-funding, Victorian schools \$374 million and Queensland schools \$627 million [Chart 3].

Chart 1: Commonwealth Share of Schooling Resource Standard, 2021 & 2023 (%)



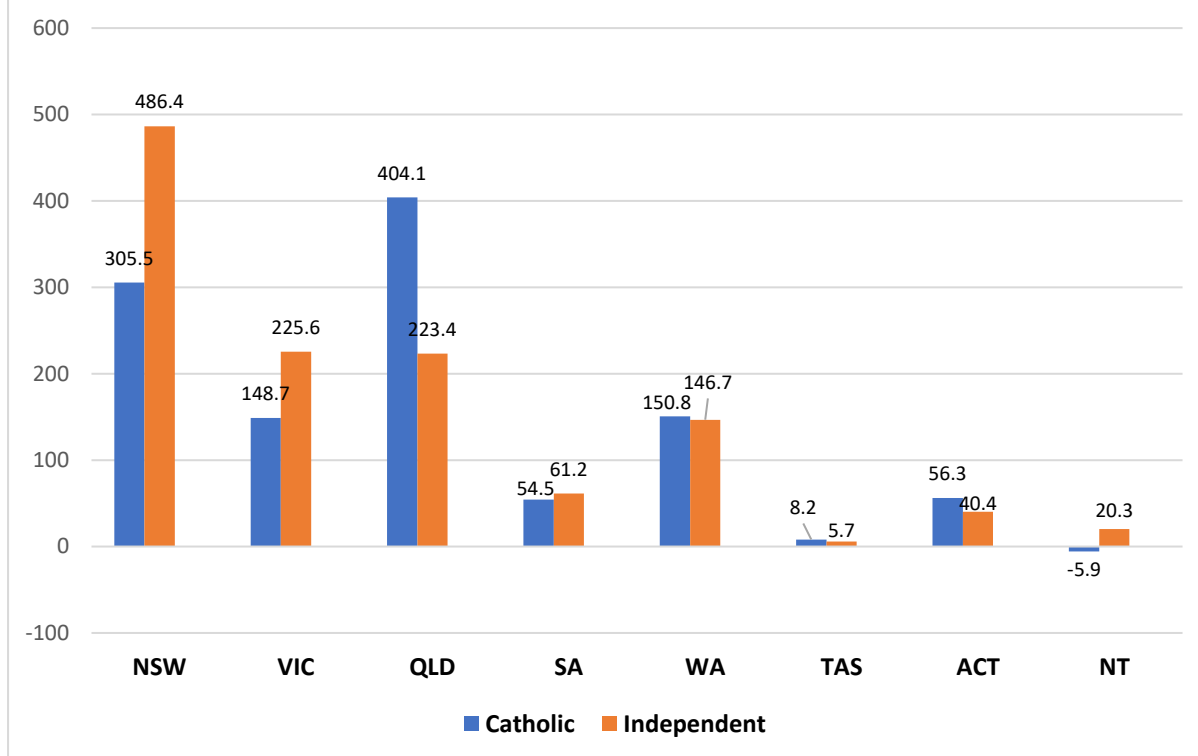
Source: Senate Education and Employment Committee, 2019-20 Budget, Additional Estimates, Answer to Question on Notice No. SQ 20-000151.

Chart 2: Commonwealth Over-Funding of Private Schools Under Direct Measure of Income, 2021-2028 (\$M)



Source: Based on Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.

Chart 3: Commonwealth Over-Funding of Private Schools Under Direct Measure of Income, States, 2022-28 (\$M)



Source: Based on Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.

Private schools are over-funded by even more because the DMI [vastly under-estimates family income](#) by ignoring income provided by grandparents in a variety of ways such as funding school fees partially or wholly and in indirect ways through funding house purchases, house renovations, car purchase, etc. which frees up income for families to pay school fees. As a result, the financial need of schools is over-estimated and schools receive much more Commonwealth funding than warranted.

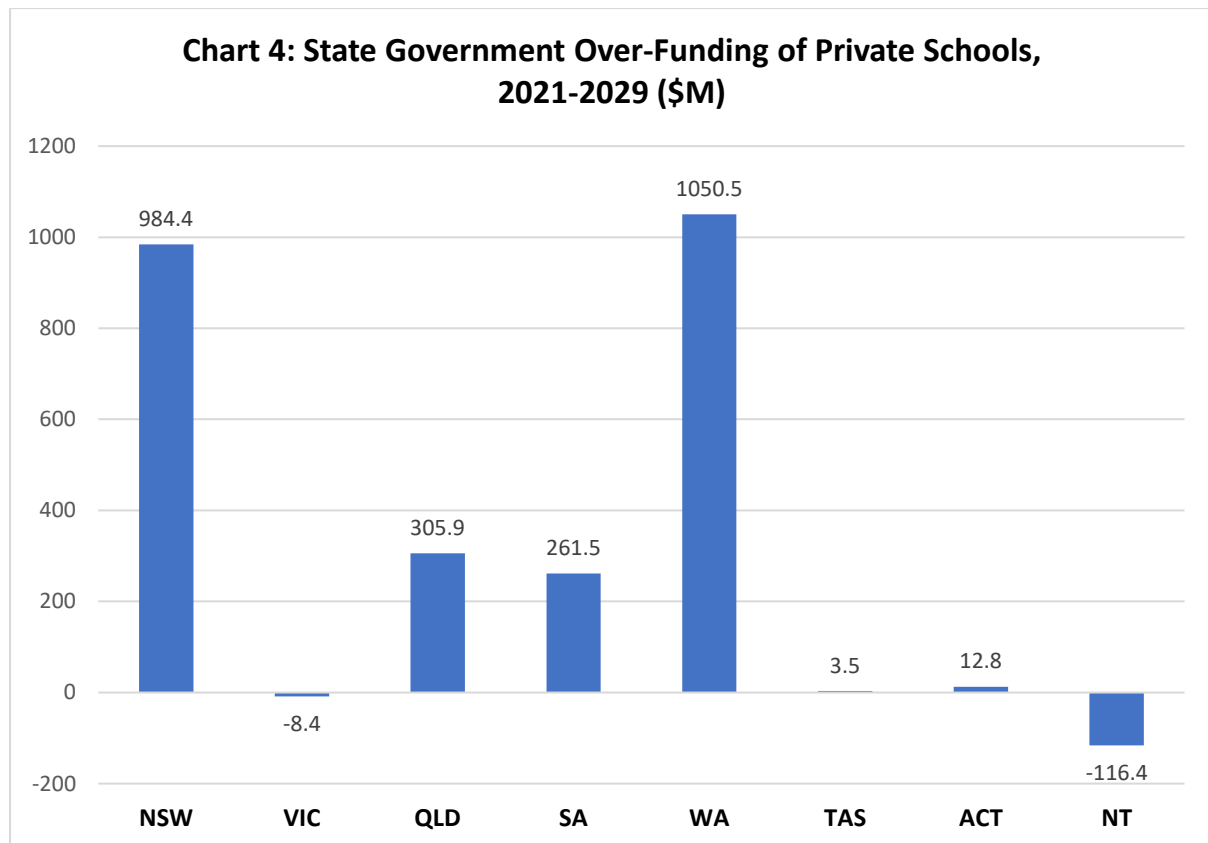
Family income is also under-estimated because the DMI excludes the non-taxed component of capital gains as only 50% of the gain is taxable. Many high income families with children in private schools are likely to be recipients of this non-taxed income because [80% of the tax concession goes to the top 20% of income earners](#).

In addition to all this over-funding, private schools also benefit from a slush fund called the Choice and Affordability Fund which will provide \$1.2 billion over 10 years from 2020 to 2029 (\$1.1 billion from 2021). Catholic schools will receive \$727 million and Independent schools \$455 million. This funding is not based on need. As the former Prime Minister Malcolm Turnbull said in his memoirs, the Fund was introduced by the Morrison Government “without any particular rationale, other than as a way of buying some peace” with private school organisations and the Catholic Church. Such special funding is not available to public schools.

Although the Fund is supposed to expire in 2029, the agreements between the Morrison Government and private school organisations on the distribution of the Fund state that it will be reviewed in 2027. This indicates that the Fund is likely to be maintained indefinitely and that the extent of future funding is up for negotiation.

All states except Victoria and the Northern Territory currently fund private schools at over 20% of their SRS. Under the bilateral funding agreements between the Commonwealth and state governments, the ACT and Tasmanian Governments have agreed to reduce their shares to the target 20% of their SRS by 2023 and the NSW Government by 2029. The Queensland, South Australian, and Western Australian governments have not committed to reducing their share to 20% in the future. It is possible that other states may choose to follow these precedents allowed by the Morrison Government.

This continuing over-funding will add another \$2.5 billion to the Commonwealth over-funding to 2029 [Chart 4]. Over \$2 billion will be provided by the NSW and Western Australian Governments.



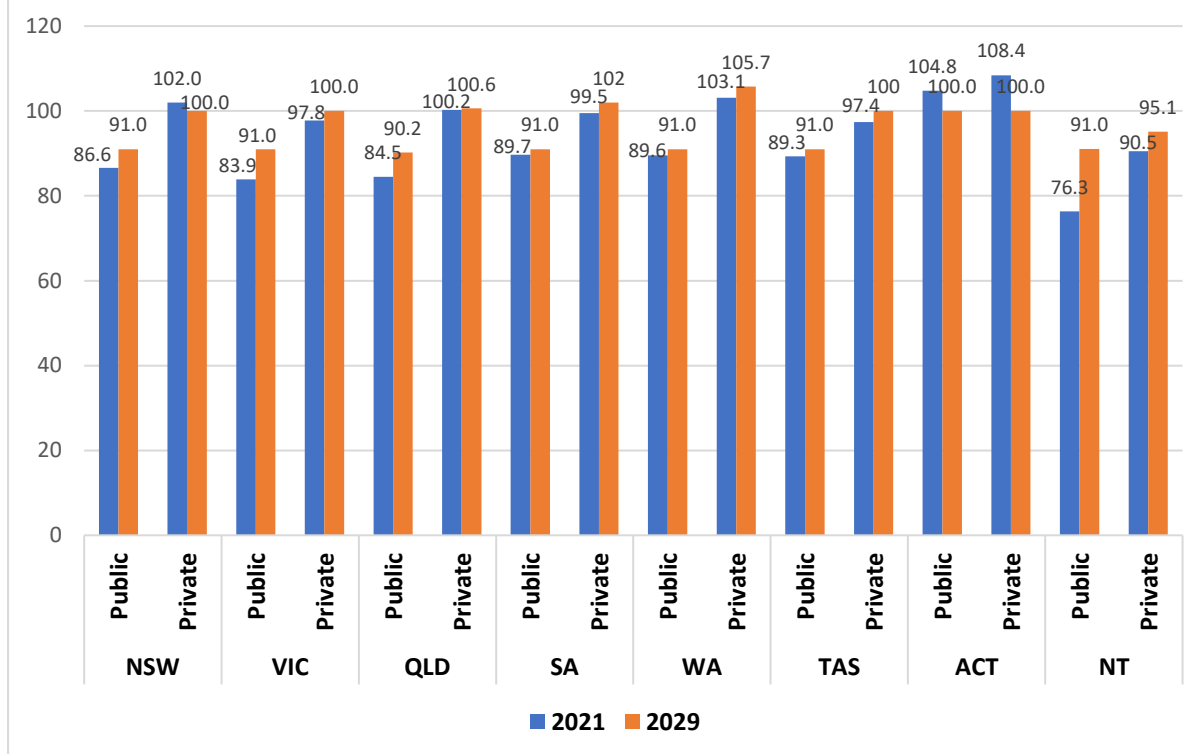
Source: Estimated from figures provided in the Commonwealth-State Bilateral Funding Agreements 2018-2023 and Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.

The total over-funding of private schools from all sources is estimated by adding over-funding due to the DMI, the Choice and Affordability Fund and state government over-funding. It amounts to \$5.9 billion over the period 2021-2029. This does not include the huge over-funding built into the DMI because it ignores major sources of family income.

Under-funding of public schools

In contrast to the over-funding of private schools that will continue indefinitely under the DMI, public schools will remain under-funded indefinitely. At best, public schools will only be funded at 91% of their SRS by 2029 [Chart 5]. This is the case in all states except Queensland (90.2%) and the ACT (100%). Private schools will be funded at 100% or more in all states except the Northern Territory.

Chart 5: Government Funding Share of Schooling Resource Standard, Public & Private Schools, 2021 & 2029 (%)



Sources:

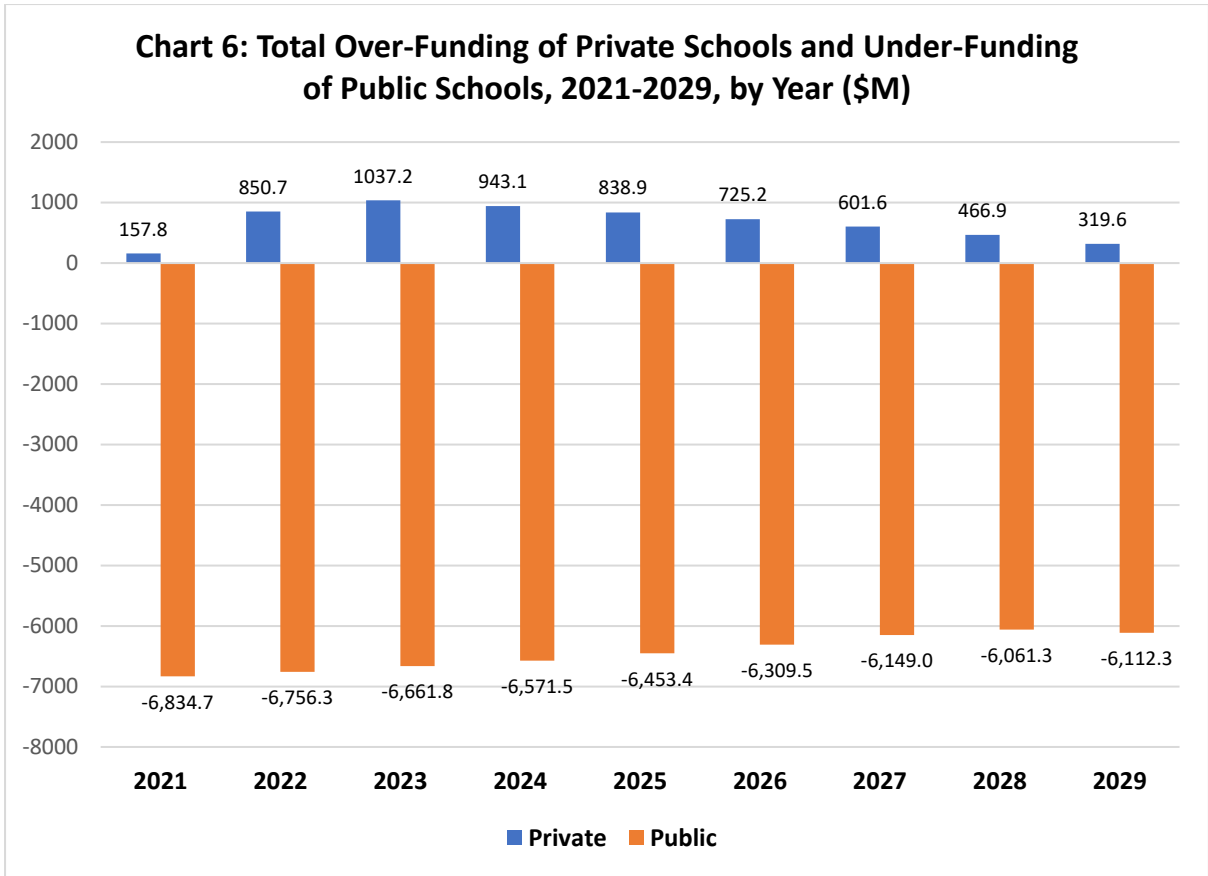
1. Senate Education and Employment Committee, 2019-20 Budget, Additional Estimates, Answer to Question on Notice No. SQ 20-000151
2. Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973
3. Commonwealth-State Bilateral Funding Agreements 2018-2023.

Continuing under-funding of public schools is formalised in bilateral funding agreements between the Morrison Government and Coalition and Labor state governments. Under the agreements, the Commonwealth will fund public schools to 20% of their SRS by 2023 and state governments will fund them to 75% by 2027 (2028 in the case of Victoria, 2032 in Queensland and 80% in the ACT by 2023).

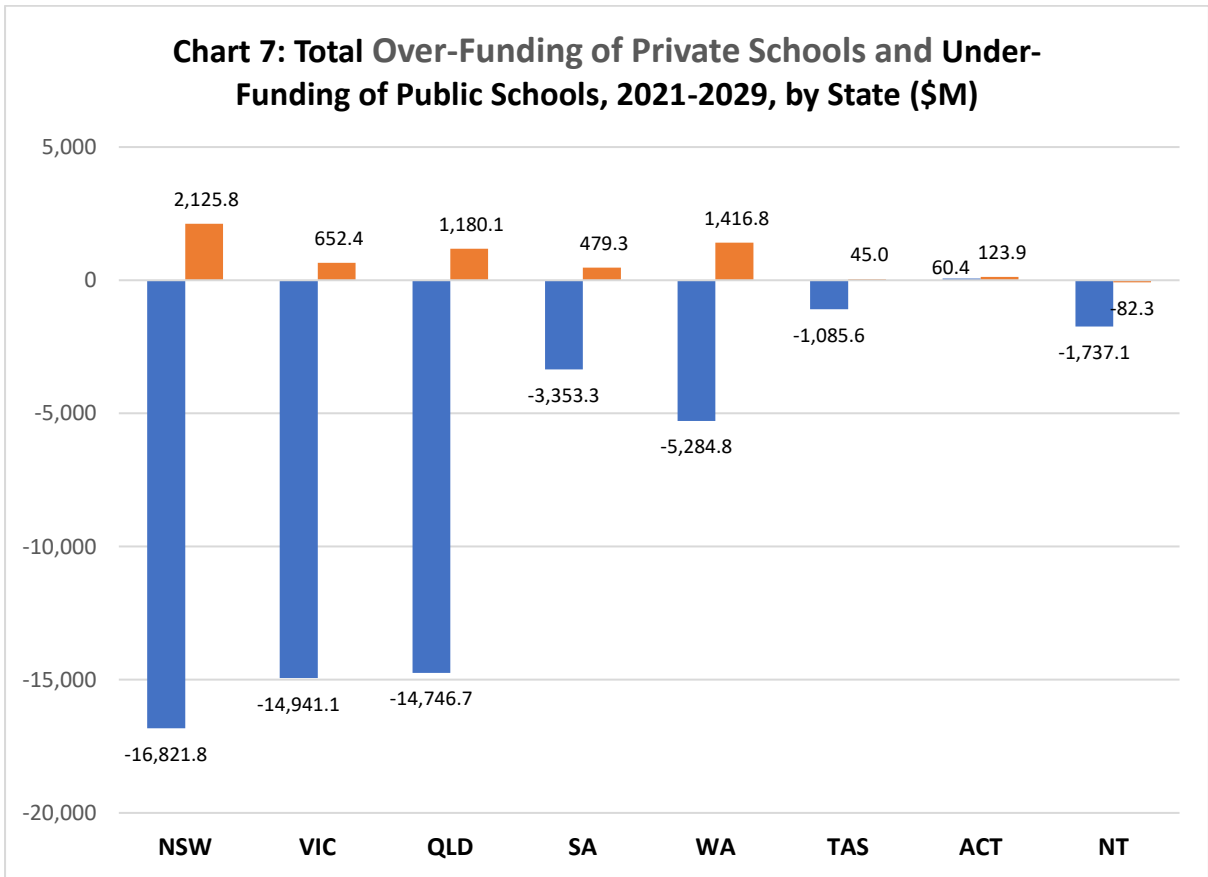
The total target share of 95% for public schools is a deception. The Morrison Government has allowed all state governments except the ACT to claim other expenditure not included in the calculation of the SRS up to four percentage points of the SRS. This means that the states will only ever have to fund public schools to 71% of their SRS while the Commonwealth funds 20%. Even if the states deliver on the increases, public schools will only ever be funded at 91% of their SRS.

In another stark contrast between funding for public and private schools, the same accounting trick is not applied to state funding of private schools. State governments are committed to funding private schools to at least 20% and more of their SRS without any allowance for expenditures not included in the formal definition of the SRS.

Overall, public schools will be under-funded by \$57.9 billion over the nine years inclusive from 2021 to 2029. In contrast, private schools will be over-funded by \$5.9 billion over the same period. The annual under-funding of public schools will amount to \$6-7 billion while over-funding of private schools will increase to over \$1 billion in 2023 and then gradually fall to just over \$300 million in 2029 [Chart 6].



Sources: See Chart 5



Sources: See Chart 5

Public schools in NSW will be under-funded by \$16.8 billion, by \$14.9 billion in Victoria, and by \$14.7 billion in Queensland [Chart 7].. Under-funding will be smaller but significant in the other states except the ACT.

School funding should be completely overhauled

The current school funding arrangements heavily favour private schools and will do so until at least the end of the decade. The funding policies of the Commonwealth and state governments will dramatically increase the already large resource advantage that private schools hold over public schools.

Current funding policies favour privilege in education ahead of addressing disadvantage. Public schools enrol over 80% of all disadvantage students – low SES, Indigenous, disability and remote area students – and 95% of all disadvantaged schools are public schools. It is unconscionable that the learning needs of these students and schools are subordinate to funding already well-resourced schools.

The vision of the Gonski report to re-direct education policy and funding to reducing inequity in education has been extinguished. The Gonski funding model was progressively dismantled by the Abbott and Turnbull Governments and the Morrison Government has completed the demolition with the complicity of Coalition and Labor state governments.

The original Gonski report made two key mistakes. First, it bowed to Julia Gillard’s edict, not included in the terms of reference, that no school would lose a dollar of funding. This decree ensured that elite private schools whose resources massively exceed those of public schools would continue to be over-funded by the taxpayer at huge cost.

The second mistake was to continue to rely on the concept of capacity to contribute as the way to assess the financial need of schools. The problems in assessing capacity to contribute are insuperable. All methods ignore major sources of family and school income as well as family and school wealth with the result that private schools are hugely over-funded.

There is now no option other than to return to the drawing board and design a new funding model to address disadvantage and improve equity in education. This is the fundamental challenge facing education in Australia as it is one of the most inequitable education systems in the OECD.

The basic principle behind government funding of private schools should be that no school operates with less total resources than a community standard necessary to provide an adequate education for all students. Governments have the responsibility to ensure that children should not be deprived of an adequate education because their parents enrol them in under-resourced schools.

Government funding for private schools should only fill the gap between the income from fees and other sources of income and the community standard. Schools with private income above the community standard are not entitled to baseline government funding because it extends their resource advantage over public schools. This is the model proposed to the Gonski review by [Save Our Schools](#).

Under this model, government recurrent funding for private schools would incorporate three features:

- A baseline component that varies between schools to take account of the funding obtained from private sources such as fees and donations,

- A discount factor applied to the baseline funding which varies according to the extent to which private schools meet the same social obligations of public schools, and
- Funding loadings for disadvantaged students and locations.

This model would provide a genuine needs-based funding model that eliminates the vast over-funding of private schools under the current approach.