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SOCIAL WORK



THE UNIVERSITY OF  
SYDNEY

NEW DIRECTIONS IN  
SCHOOLS FUNDING

**A PROPOSED MODEL**

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## ACKNOWLEDGEMENTS

This report has been prepared on the premise that the reform of schools funding should be based on the entitlement of all students to quality teaching.

The purpose of this independent study is to contribute to informed public debate on a key and sensitive policy issue in Australia in the run-up to the Commonwealth government's review of schools funding, which is to occur in 2011.

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## PREFACE

The funding principles and arrangements proposed in this paper have the potential to resolve one of Australia's more enduring policy imbroglions: the relationship between the public funding of Australian government and non-government schools by Commonwealth, State and Territory governments.

Such resolution would be achieved by providing government and non-government schools with the security of an explicit, educational rationale for receiving funding from both levels of government, thereby establishing a clear connection between educational and funding goals and providing a mechanism for coordinating the responsibilities of Commonwealth, State and Territory governments to deliver the critical resource needed by all schools for achieving the best educational outcomes for their students, namely an adequate supply of high-quality teachers.

The proposed Funding Model would provide all families with confidence that all schools were resourced to meet high-quality standards. It would provide all families with the realistic choice of government schooling of the highest quality. It would establish an explicit, educational rationale for the public funding of non-government schools.

This Funding Model is designed to connect currently disjointed aspects of education policy in Australia – curriculum and assessment, teaching standards and professional development – to its central purpose, which is the quality of students' learning. The proposed Funding Model would create a better-aligned, higher-quality and fairer system of schooling.

The proposed Funding Model would provide all schools, irrespective of sector, with a more secure and predictable financial basis for planning. It would limit the scope of public funding as a means of fuelling a competition among schools that is won on the basis of resource disparities. It would properly position schools funding policy as the vehicle for achieving high-quality schooling for all.

This paper deals with the current situation and the need for reform, as well as identifying relevant precedents and current opportunities for such reform. In the first five chapters we describe the context, background and rationale for new directions in schools funding. We set out the broad educational imperatives for funding reform, an overview of how schools are currently funded, an account of key developments in the history of federal funding of schools in Australia and precedents for future action, a template for effective schools funding policy, and a consideration of broad policy options for the future.

In the final chapter we set out a proposal for a new, national Funding Model that would build on the strengths of the past, meet criteria for effective policy, and be capable of implementation in the Australian context.

The need for reform of schools funding has been acknowledged by the Commonwealth government, which has foreshadowed a review of funding arrangements in time to enable any changes that might result to be put in place for its next funding period, scheduled to begin in 2013. This paper has been developed, within that context, to provide a contribution to informed debate on future policy directions for schools funding.

The imperatives to reform schools funding arrangements, however, go well beyond Commonwealth funding for schools. There is now a serious lack of alignment generally between stated policy goals in education and the scale and distribution of public investment needed to meet those goals. As a result, many schools experience an imbalance between the teaching workload they carry and the resources they have for dealing with that workload.

## THE PRESENT CONTEXT OF SCHOOLS FUNDING

Funding schools is not an end in itself, but a means to achieving educational goals and purposes. Funding is one of the most powerful levers available to governments to achieve their policy goals. By 2007, about \$40 billion was being spent on Australia's schools, of which Commonwealth, State and Territory governments were providing about \$35 billion.

The decisions governments make about the scale of their investment and about whether to grant funds to, or to withhold funds from, particular schools and programs make a profound difference to the kind of school system we have. Such decisions affect whether, either by design or neglect, we have a stratified system in which opportunities vary widely depending upon social and economic disparities among families and geographical communities; or whether we build a system in which education is seen as a public good, providing a framework of opportunity within which each student is equally entitled to the conditions for achieving her or his personal best.

Education Ministers throughout Australia have set out their commitment to collaborate in ensuring that 'All young Australians become successful learners, confident and creative individuals and active and informed citizens' (Ministerial Council for Education, Early Childhood Development and Youth Affairs 2008).

While there is a limit to the extent to which we can appropriate ideas from other countries, there is useful international evidence to guide policy directions. OECD studies have identified systems that perform well, systems in which students' overall achievements compare favourably with their international peers. The OECD judges a country's success in providing students with equal opportunities in education on the range across the highest and lowest scoring students being relatively small (OECD 2003).

Using OECD studies as a guide, in an ideal system, schools would be supported and resourced to work with the diversity of our population. Rather than being preoccupied with designing student groupings to produce homogeneities, schools would embrace the challenge of working with the range of social and cultural realities, using such differences to drive innovation and improvement. In *What Makes School Systems Perform* (OECD 2003, cited above), it is concluded that strong education systems 'tend to succeed by providing good quality support for students, teachers and schools in the context of an integrated rather than differentiated school structure'.

In an ideal school system, the more challenging and complex the work of a particular school, the greater would be its resource entitlement. On the basis of OECD evidence, such a system would have a well-aligned instructional system in which, within an explicit and agreed curriculum, clearly stated standards for student performance would provide the basis for assessment of learning performance. Across schools with vastly different circumstances, all students would be active learners, whose teachers have the freedom and responsibility to exercise professional judgment about how best to engage their students.

In an ideal school system, sustaining and improving the quality of teaching would be given pride of place; and this imperative would be reflected in funding strategies and priorities. A strong link between the educational entitlements of all students and the funding responsibilities of governments would provide a basis for public accountability.

Funding schools adequately to meet the expectations and obligations we require of them is a necessary, though not sufficient, condition for students to complete schooling successfully. For most schools in Australia, the level of funding provided by governments largely determines the size of groups for teaching and learning, the amount of teaching time for engaging students in learning, and the school's capacity to provide intensive teaching in smaller groups and specialist assistance to under-achieving students from the time when they first show signs of falling behind. Its level of funding also affects the school's physical environment and its materials and equipment for teaching and learning.

## HOW OUR SCHOOL SYSTEM MEASURES UP

The overall quality of Australian schooling is high when compared with international data. It is marred, however, by what has become an entrenched problem of poor rates of participation in schooling and by under-achievement among too many of our young people. Overcoming these persistent problems requires a sustained and strategic effort by governments, school communities and society as a whole.

The OECD's Programme for International Student Achievement (PISA) sets out measures of the relationship between students' achievement and their socio-economic status in all participating countries. Using measures of socio-economic status, reading and science literacy, McGaw (2008) concludes that Australia is among countries that rate highly on measures of *quality*. On measures of *equity*, however, McGaw concludes that Australia should be aspiring to match the capacity of countries like Finland or Canada.

Australia's performance falls away sharply when measured in terms of completion rates for secondary schooling or the vocational equivalent. After sliding in international rankings, Australia's position is now close to the bottom third of OECD countries, with our early school-leavers concentrated in schools serving poorer communities.

This aspect of our national under-achievement is inextricably linked with broader inequalities. Using United Nations data on household income (after taxes and benefits) for 23 developed countries, Wilkinson and Pickett (2009) describe Australia as having a relatively high gap between the population's 20 per cent of highest earners and its 20 per cent of lowest earners. The significance of this finding is that there is a clear link between the degree of inequality in developed countries and a long list of health and social indicators, including students' overall performance at school. The gap between rich and poor is shown to have a profound effect on a society's well-being, whatever its overall level of income. The effects of this inequality go well beyond those directly disadvantaged, to damage the common weal. However, the OECD's Programme for International Student Achievement demonstrates that the links between low socio-economic status and low educational achievement and outcomes can be reduced through policy action.

In research commissioned by the Bradley Review (Commonwealth of Australia 2008) it was found that the overall demand for people with higher education qualifications is starting to exceed supply, a shortfall predicted to persist for a decade, particularly for workers with undergraduate qualifications. In addition to the individual and social costs of poor rates of school completion and achievement, the Bradley report warns that failing to deal with this persistent problem is to risk Australia's economic performance and competitiveness.

Australia is at risk of losing ground to other countries in educational performance and public investment in education. Among OECD countries, we now rank lower than we did a decade ago in relation to the proportion of 25-to-34 year olds with a degree-level qualification. Keeping pace internationally requires increasing the numbers and proportions of those completing their secondary schooling successfully, which requires increasing the participation rate of those currently under-represented, and their achievement levels (Commonwealth of Australia 2008)

## NEED FOR GREATER PUBLIC INVESTMENT IN AUSTRALIAN SCHOOLS

It is becoming increasingly crucial for Australia to have enough highly educated and trained citizens to deal with the complexities of a rapidly changing and interconnected world. The labour market's increased demand and reward for more highly educated workers puts governments under pressure to invest more in education to meet rising aspirations and expectations.

It is difficult to specify how much governments would need to invest in our school system to achieve the optimal outcomes for individual students and for our society as a whole. This difficulty has been described as follows by Karmel (2000):

*Economic theorists use the concept of a 'production function' to describe the mathematical relationship between the input of factors of production (labour, equipment and raw materials) and output of product.*

*The concept of a production function is, however, difficult to apply to education. This is partly because teachers vary greatly in their attributes, as does the quality of the environments in which they work and the students with whom they work. But it is also because the outputs/outcomes of education are intended to serve a wide range of purposes, and quantitative measurement of many of the desired outcomes is either difficult or conceptually impossible.*

In a recent speech to the Whitlam Institute, Treasury Secretary Ken Henry (2009) made the point that the question of optimal size of government is not one that can be answered by a technical, economic analysis. The fact that this also applies to the question of optimal public investment in schools does not obviate the need for a realistic relationship between the resources invested in our schools and the outcomes expected of them. Holding schools accountable for achieving outcomes in the absence of adequate and appropriate resources breeds a cycle of blame and frustration. This saps public confidence in our school system generally, and particularly in those schools responsible for serving students from the poorest communities.

Global trends have affected the provision of schooling in Australia. Along with pressures for governments to increase their investment in education, are trends for market-based competition and individual choice to drive the allocation of that investment. This has been accompanied by pressure from governments on public service providers, in particular, to demonstrate their efficiency, effectiveness and capacity to provide value for the public funding invested in them.

These trends have been seen strongly in Australia. As Tiffen and Gittins (2009) point out:

*The public share of total education spending in Australia was already at the low end of the spectrum in 1995 before the Howard government came to power. But it became even more so in the following ten years, making the private share of education spending third highest among the selected countries and the public share 12 points below their average.*

*Much of this was to do with the growth in private schools, and that points to another of its distinctive features, the public subsidy of private providers. One-fifth of Australian public spending on education goes to private institutions, almost double the overall average of 10.5 per cent, a particularly high figure when it is remembered that private universities have a negligible presence in Australia.*

This approach to schools funding has done nothing to improve Australia's relatively and persistently poor rates of school completion. On these grounds alone, our arrangements for funding schools merit an overhaul.

However, while both McGaw (2009) and Rorris (2008) conclude that there are demonstrable inefficiencies and inequities in Australia's federal funding arrangements, both agree that Australia's schools generally perform consistently well by international standards. In his paper on investment in Australian schools, Rorris (2008) argues that Australian schools perform consistently above their funding weight and provide good value for the dollars invested in them. He cites OECD data showing Australia to be middle-ranked (15th of 30 countries) in relation to total per capita spending on schools, while ranking far higher on measures of mean literacy and numeracy outcomes. This provides evidence, according to Rorris, that additional investment would generate educational outcomes that would more than justify the cost. Rorris finds it disturbing that Australia has made so little progress in growing its educational spending over recent decades, particularly

given the findings of World Bank education economists and others of an average 10 per cent rate of economic return on each additional year of schooling; and that the costs of allowing the continuation of current levels of Australian school completion rates are in the order of \$1 billion per annum.

The implications of relatively low public investment in education are clearly most significant for the schools that are totally reliant on public funding, namely government schools. Both McGaw (2009) and Rorris (2008) conclude that there is a demonstrable case for higher public investment in government schools in Australia. The vast majority of non-government schools are also reliant for their operation on high levels of public funding. There is now a mounting body of evidence for the need for greater public investment in schools generally and, in particular, in schools serving the poorest communities, including Indigenous and rural and regional communities.

In July 2001, the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) established the Schools Resourcing Taskforce to analyse and provide advice on school funding issues. The Council also endorsed a significant national project, 'Resourcing the National Goals', to form the major work of the taskforce. The aims of the project were to identify the costs of schooling in ways that would enable measures and comparisons of existing expenditure patterns to be made, along with cost estimates for efficient and equitable delivery of high-quality learning outcomes for all students; and to identify specific school, student and other factors that drive costs and also the extent of their impact. This project represented a concerted effort by all Australian governments to establish the actual costs of schooling across the spectrum of operational contexts, the impact of resource levels on student learning outcomes, and the central question of the recurrent funding requirements for meeting national goals.

The report of this project (MCEETYA 2005) concluded with an indicative costing for a specified level of attainment of the National Goals for Schooling. This was presented as a National School Resourcing Standard. This standard was a cost framework for measuring the required recurrent costs of schooling against specified levels of achievement in learning as well as school participation outcomes derived from the National Goals for Schooling. This standard provided a framework for integrating two types of cost analyses.

The first was a 'base cost' analysis, revealing the extent of current efficiencies attained by schools (and hence school systems) that demonstrate effectiveness against specified student performance data. The base cost estimate of schooling represented the actual average per capita recurrent costs of a set of government schools in which students were meeting a set of specified participation and learning benchmarks and in which students were drawing the least amount of funding because of their profile. The second tier of cost analysis looked to the future resource needs of schools that registered above the estimated 'base cost' owing to factors such as attributes of the students or the school that are outside the control of school management but that generate resourcing requirements additional to the base cost, such as for an expanded curriculum.

The report concluded that additional expenditure of around \$2 billion per annum in 2003 prices would be required for meeting the needs of those students in government schools who were at risk of not attaining the National Goals for Schooling. Teachers' salary costs were the largest component of these additional costs.

The former Commonwealth Department of Education, Science and Training sponsored and released a report on science, ICT and mathematics education in rural and regional Australia (SiMERR 2006). A highly detailed report, it documents the 'downward spiral' effect of resource shortage – in this case, a shortage of secondary science, ICT and mathematics teachers. All the indications are that finding qualified professionals to teach mathematics and science is becoming more difficult in many countries; and that Australia's shortage of teachers of science, ICT and mathematics could well be made worse by other countries seeking to attract Australian teachers in an attempt to overcome their own shortages.

The report sets out the dire consequences of the situation in which a large proportion of those teaching science in Years 7 and 8 in Australian schools do not have any university science in their professional qualifications. It reported the situation with mathematics as 'even more fraught'. The report identifies the risk of a 'downward spiral' effect in teaching quality in these areas.

*One consequence of requiring teachers to teach science and mathematics, despite their lack of suitable expertise and training, is the lower likelihood that they will be seen as enthusiastic role models. Further, such teachers may be ill equipped to give advice on careers in science and mathematics ... The net effect on students can be a negative image of science and mathematics that may become entrenched.*  
(SIMERR 2006)

Significant inequalities arise from some schools being less attractive to qualified teachers. Even where there is an adequate supply of qualified teachers overall, some students – in challenging schools serving low socio-economic communities or in difficult locations, or both – will still be vulnerable to various forms of teacher shortage. The shortage of qualified teachers of science and mathematics is most severe in rural and remote areas of the country. This contributes, in turn, to a lower rate of university attendance by students from rural and remote areas. Yet, as the SIMERR report points out, there is evidence that recruitment of future teachers for these rural communities relies heavily on attracting students from such schools in the first place. In this vicious circle, however, it is in these rural schools that students are most likely to be taught science and mathematics by teachers not specifically trained or expert in these disciplines.

The SIMERR study also reveals that school students in rural areas are achieving much lower standards than are their city counterparts generally. One of the biggest problems is retaining staff in country areas. The study found that a 20 per cent per year turnover of staff is six times more likely in rural areas than in metropolitan areas.

A key finding of an independent study on the future of Australia's primary schools (Angus, Olney & Ainley 2007) was that these schools lack sufficient resources to achieve fully the goals set for them by governments. In many of the schools serving low socio-economic communities, the shortage is acute. While the study notes that not all the challenges facing primary schools are due to a resource insufficiency, it describes the significant trade-offs that principals have to make to operate their schools within the resources available to them. The result is that most primary schools have areas of strength and weakness in providing the set curriculum, with their capacity to respond to mandated curriculum priorities beyond literacy and numeracy being variable. Even where there is a capacity for early intervention for students struggling to learn to read, the necessary assistance is rarely available beyond the early years. The need to mount special programs for literacy generally takes precedence over equivalent programs for numeracy, even though the same proportion of children struggle to reach benchmark standards, according to this study.

In addition, this important study provided evidence of difficulties in attracting and retaining sufficient and appropriately trained teachers. The study found evidence of a shortage of suitably trained and experienced teachers for key learning areas within the curriculum; and inadequate staffing for students with special learning needs, especially in schools serving areas of socio-economic disadvantage. Only one-third of principals felt that they had sufficient – or nearly sufficient – resources to operate their schools effectively for the students they enrolled. A further one-third of them identified fundamental unmet needs. A final one-third felt that they needed considerably more resources. Only 6 per cent of the principals reported having sufficient resources to meet expectations, while 3 per cent reported a gross insufficiency.

Among its recommendations, the Angus study proposed development of a framework that made explicit the shared and separate responsibilities of the Commonwealth, State and Territory governments for funding primary schools. It also recommended that governments adopt funding targets to increase differential allocations to those primary schools in the greatest need. This would entail recurrent grants being scaled according to socio-economic indices, so that schools with the greatest need would receive half as many resources again as more mainstream schools.

Further evidence of the need for a program of increased, strategic and planned investment in schools can be found in the recent body of work by Vinson (2002, 2006 and 2007). This work has documented the need for a national, high-quality and adequately funded approach to the education of all Australian children, beginning from their earliest years. According to Vinson (2006), without such measures we face a future in which the most vulnerable individuals have 'disadvantage piled upon disadvantage from the beginning of their lives' and 'an ever-increasing number of human disposal institutions to contain the inevitable consequences'. Having undertaken a national project to map the distribution of factors leading to social disadvantage in Australia, Vinson describes numbers of children trapped in what he called the 'Bermuda triangle' of neglect (crime, social disadvantage and limited education). His work has helped to bring about a national Social Inclusion Unit, a 'think tank' of social and economic experts aimed at connecting government social policies with economic feasibility.

The current scale of public investment in schools in Australia is relegating too many of our children and young people to schools that lack the resources to deal with the teaching workload they carry. Without commitment by governments to a program of increased and sustained recurrent investment over the coming years, this problem is becoming intractable, an unjustifiable situation given the extensive body of research evidence available to governments on how best to proceed.

### THE PRIMACY OF TEACHING

Governments cannot force children to learn, but they hold the key to creating the school conditions that are most conducive to effective learning. The best thing that schools can do to assist children and young people to do their best, individually and collectively, is to make sure that they spend as much time as possible working with an effective teacher. Of all the policy interventions open to governments to affect the quality of schooling, investment in high-quality teaching stands out as a winner (Darling-Hammond 2000, Lovat 2003, Hattie 2003). There is now abundant research evidence that investing in the quality of teaching is the surest means available to governments to bring about real and sustained improvement in students' achievement and school completion rates.

McKinsey & Company's 2007 study 'How the world's best-performing school systems come out on top' compared 25 school systems, including the 10 top-performing school systems. The study identified the primacy of high-quality teaching in the provision of high-quality education. The report was the outcome of an analysis of the achievements of the best-performing school systems as defined by the OECD's Programme for International Student Assessment (PISA), a survey of the current literature, and interviews with more than 100 experts, policymakers and practitioners. It argued that the quality of an education system cannot exceed the quality of its teachers; that the only way to improve outcomes is to improve instruction; and that 'high performance' requires every child to succeed. A subsequent paper from the Business Council of Australia (BCA), 'Teaching talent: The best teachers for Australia's classrooms' (2008), likewise accepted that the key to advancing our school system is our capacity to attract, retain, recognise and reward good teachers.

To do so requires policies based on some basic realities. One of the most basic realities about teaching, given that schooling is compulsory, is that it is a mass profession. In April 2008, for example, there were 276,822 people working as teachers in Australian schools; and one in every 38 or so people employed in Australia is a schoolteacher.<sup>1</sup> For every 14 students in our schools, there is now one teacher.<sup>2</sup> Teaching is by far the largest employer of graduates in Australia. There are 60 per cent more teachers than nurses and 50 per cent more teachers than accountants, the next two largest professions (Owen, Kos & McKenzie 2008).

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<sup>1</sup> 6202.0 - Labour Force statistics, ABS

<sup>2</sup> ABS, *Schools* 4221.0. 2006. Table 25



Teaching is an intellectually challenging task. There is a need for strategies to recruit and develop those with outstanding intellectual and moral strengths to lead the profession. Both the McKinsey and the BCA reports recognise that a focus on recruiting and rewarding individual teachers can take reform efforts only so far; and that public policy needs to extend well beyond a focus on recruiting the 'right' individuals to become teachers. Producing the highest standards of teaching requires collective effort (Connell 2009). Within school communities, principals and teachers need to work together to establish a culture and environment in which learning is valued. As well as recruiting and training the right people, there is a need for ongoing training and development to develop their proficiency and effectiveness as teachers, and to sustain delivery of the best possible instruction for every student.

There are compelling reasons for a greater and more sustained investment in teaching in Australia. The challenges that we now face include:

- the imperative to replace the exodus of retiring teachers, a phenomenon that is occurring internationally
- the effects of the age and subject qualifications of teachers on persisting, as well as new and emerging, forms of teacher shortage
- the operation of market forces in some schools being better placed to attract and retain teachers than in others
- the complexities of managing teacher supply and demand.

The teachers recruited to deal with the years of rapid expansion in the post-war school population are now retiring. *Staff in Australia's Schools 2007* (McKenzie and others 2008), prepared by the Australian Council for Educational Research in collaboration with the Australian College of Educators, revealed that almost one-third of teachers were aged 51 years or more. On average, school leaders were 50 years of age, with more than half of them over 51 and half of those again over 55. Although the average age of teachers appears to have increased only slightly in recent years, large numbers of young people are now starting to fill the places vacated by the retirees.

Australia is not alone in facing these high retirement rates, so there is now a highly competitive international market for teachers. This makes it even less sensible than usual to rely on recruitment of overseas teachers to fill vacancies. The retirement of the most experienced professionals brings the risk of loss of accumulated wisdom, skill and expertise. Numbers of research studies conclude that less experienced teachers will typically produce smaller learning gains in their students than do their more experienced peers, though most studies find evidence that the benefits of experience level off after the first five or so years of teaching (Fetler 1999, Murnane & Phillips 1981).

The peak in retirements nationally is predicted to occur in about 2012, with the retirement rate remaining high for much of the following decade. Both the resignation and retirement rates of teachers contribute to the challenge of maintaining the supply and quality of teachers. The replacement of older, retiring teachers with new entrants to teaching means that there will be an increasing proportion of teachers who are in their twenties and thirties, a time of job mobility and of taking leave for travel or for bearing and rearing children.

The value of investing in teacher recruitment will be undermined if new recruits are simply churned rather than retained. With the teaching profession becoming bifurcated by age and experience, it will be a tall order for school authorities to recruit the large numbers of teachers and leaders to replace those expected to retire during the next decade, while at the same time supporting the new recruits with induction programs, ongoing professional development and mentoring.

Because schooling is compulsory, governments are unable to countenance classes without teachers. A shortage of teachers brings the risk of pressure to reduce teaching standards, especially entry standards to teaching. When confronted with inadequate numbers of qualified teachers to staff schools in the past, school authorities have reduced the scope of the curriculum, raised class sizes, employed inadequately prepared and qualified teachers, and substituted non-teaching and paraprofessional staff for qualified teachers.



McKenzie and others (2008), cited above, report on the strategies used by primary and secondary principals in Australia to deal with 'hidden' teacher shortages. Primary principals report that the most common strategies are to combine classes across year levels (16 per cent of principals), require teachers to teach outside their field of expertise (14 per cent), recruit less-qualified teachers (11 per cent), share programs with other schools (10 per cent) and reduce the scope of the curriculum offered (9 per cent).

These strategies are also commonly used by secondary school principals, and to an even greater extent. For example, 43 per cent of secondary principals indicated that, in response to shortages, they asked teachers to teach outside their field of expertise, 22 per cent recruited less-qualified teachers and 19 per cent reduced the scope of the curriculum offered. This finding was consistent with the survey of teacher supply conducted by the Australian Secondary Principals Association (2006) and the recent 'State of our schools survey' conducted by the Australian Education Union (2009).

McKenzie and others (2008) also reveals differences in schools within each of the government and non-government sectors and also across both sectors, in school principals' reports of filling teaching vacancies. The students most likely to experience the effects of such strategies are those whose parents and communities are least capable of raising an outcry. This reinforces the deep, underlying market forces that make some schools far better placed than others to attract and retain teachers.

Under ideal conditions, the opportunities and benefits, as well as the risks and costs, arising from the changing demography of the teaching workforce would be shared equally among all schools and their students. But such conditions have never existed in Australia or in most comparable countries. Factors outside the school system itself operate to produce concentrations of students from families at the extremes of the socio-economic spectrum, by geographical area.

It is not surprising that, in Australia, all schools are not equally attractive to teachers, because only a shrinking proportion of schools enrolls a representative sample of the student population in their own localities, let alone a sample of the total student population. Those students who are the *least costly* to educate, and also those who are the most difficult and therefore *most costly* to educate, are not distributed evenly or randomly across all schools. The total workload of schooling is unevenly shared among teachers and schools, and resources are not commensurate with the workload many schools are obliged to accept.

There are schools, for example, that draw their students from emergency public housing or women's shelters, and from families dependent on welfare payments. Families in such circumstances often have nothing in reserve and few sources of support. Far from being a source of voluntary labour or donations, these parents are often difficult for schools to deal with, and consume scarce time and energy. Students in such families come to schools burdened with chronic pressures of domestic routines and of relationships strained to breaking point for much of the time. In such schools, much of the time available for teaching and learning is taken up in dealing with the need to manage the effects of these issues, including behaviour problems. Some schools manage to turn the burden of dealing with newly arrived migrants and refugees, who are living in the lowest-cost accommodation, into a source of educational enrichment – but only through teachers' extraordinary professionalism, goodwill and energy. Many hard-pressed schools face the problems of family transience associated with poverty. This is quite different from the kind of student turnover that occurs from parents moving overseas and interstate in the course of high-status employment.

Pat Thomson's 'Schooling the rustbelt kids' (2002) provides a vivid account of such forces at work in schools in South Australia. There are some schools, almost always those serving troubled communities, in which children and young people are growing up in hardship, where the circumstances in schools present a challenge even to highly able and committed teachers.

Regardless of whether they are in the government or non-government sectors, schools with concentrations of students from well-educated families and communities tend to have little difficulty in attracting and retaining well-qualified teachers, assuming an adequate overall teacher supply, whereas for schools serving

students at the other end of the spectrum, the very opposite is the case. It is these schools that are persistently hard to staff and that experience high turnover of teachers, even when the overall supply of teachers is adequate. In many rural and remote areas, the difficulty of attracting teachers (and other professionals) is compounded by socio-economic circumstances.

It is in these hard-to-staff schools that the very students who are the most reliant on what their schools can provide are the ones most likely also to be reliant on teachers in their first years of teaching. It is also where these early career teachers are reliant for professional support and leadership on new and relatively inexperienced school leaders.

This inequity can be described with reference to the market forces intrinsic to schooling itself. Parents prefer their children to attend schools with adequate and appropriate resources and with an orderly and caring environment for learning. Parents often seek to advantage their own children by placing them in schools with equally or more advantaged children. Few parents actively choose schools with a concentration of students from troubled families and communities, who will consume a disproportionate share of the teachers' time. And many teachers will seek to work in conditions where they perceive they are most likely to be able readily to teach effectively and to advance professionally.

If we allow a serious shortage to develop in the numbers or the quality of teachers, it is the children of the poor who fare worst. Educated, articulate and influential parents can be relied upon, understandably, to use every possible means to protect the educational interests of their own children. More advantaged students tend to have further family and community resources for learning, which provide a buffer should they experience the occasional shortfall in teaching at school. But this is not so likely to be the case for those growing up in our poorest communities. Vinson's report, 'Dropping off the edge' (2007), demonstrates the contribution of low school achievement to the crippling disadvantage that characterises our most troubled communities, even in times of strong national economic growth. The costs of failing to provide schools in our poorest communities with effective teachers go well beyond the individuals directly affected.

Teacher shortages intensify the (unfair) competition for teachers. Schools serving students at the highest end of the socio-economic spectrum have already put in place industrial agreements that use new accreditation standards as a framework for salary increases designed to attract, retain and reward teachers. Schools serving those at the other end of the spectrum generally bear the brunt of persisting and emerging forms of teacher shortages.

Problems of inequalities in access to the supply and quality of teaching are not unique to Australia (OECD 2005). Researchers such as Lamb and Teese provide evidence of these problems in Australian schooling. It is clear that there are market forces at work that make it difficult for many schools serving disadvantaged communities to recruit well-prepared teachers in the first place and then to retain them for long enough to make a difference. 'High staff turnover in such schools means that the benefits of professional development and capacity building, particularly delivered through new and innovative programs designed for disadvantaged students, do not stay with the school' (Lamb & Teese 2006).

A recent investigation in New South Wales identified that one of the factors leading to outstanding outcomes in government junior high schools was qualified staff with breadth and depth of experience (Pegg 2004). An earlier New South Wales study identified stability of staffing within a school or school faculty as a factor that supports achievement, in sharp contrast to staff 'churn' (Dinham & Sawyer 2004).

Research points to the conclusion that attracting able teachers (through higher rates of pay) to the most disadvantaged schools would assist students' learning in those schools, but that more than that is needed to establish and sustain the conditions that provide teachers with the intrinsic rewards that motivate them, that make it possible to teach effectively and to experience the professional rewards of their efforts. However, strong market forces pull in the opposite direction, market forces that have gained strength from current policies for funding schools.

Further complicating the task of raising teaching standards in Australia is the fact that it is not as straightforward as it may seem to predict how many teachers will be needed to staff our schools. Demand for teachers is, of course, based on projections of student numbers, which are determined by the birth rate, immigration and by school completion rates.

When the national fertility rate hit its lowest point, in 2001, education authorities were expecting ongoing and substantial reduction in the school population. The decline stopped in 2004 and since then has been climbing. The rise in the fertility rate from 1.73 to 1.85 per woman translates to an extra 30,000 births each year, which, all other things remaining equal, will require a further 2,000 teachers. Of course the years of decline still have to work their way through the primary and secondary school sectors; and there is debate among experts about whether a substantial increase in births will be sustained. To what extent is the current increase a 'bubble', a result of women in their thirties having the babies they put off having in their twenties? Whatever happens, the declines and the increases will be unevenly spread throughout the country, creating challenges for those with the responsibility of planning for school places and for projecting teacher demand.

Other variables that affect the patterns of demand for teachers include changes in class sizes, patterns of interstate and intrastate migration and rates of student retention to the end of secondary schooling. The balance of enrolments between government and non-government schools is another complicating factor, given different rates of teacher staffing across government, Catholic systemic and independent schools. For example, based on system averages, Australia would need an additional 40,000 teachers, an increase of some 17 per cent over the current teaching force, if all government and Catholic systemic schools were staffed as generously as are independent, non-government schools taken as a whole.

On the supply side, changes in the economy and the labour market more broadly can affect the numbers entering and remaining in teaching, while changes to superannuation policies may affect the age at which older teachers decide to retire. Different models of initial teacher education can also affect the match between demand and supply of teachers, and so can applications of technology to teaching and learning.

Improvements in coordinating national teaching data collection and analysis will make national planning for future teaching needs at least theoretically possible,<sup>3</sup> but the task will remain a difficult one, given the complex interplay of broad national factors and highly local factors. Some degree of uncertainty in predicting future needs must therefore be accommodated in any policy proposals for funding an adequate supply of high-quality teachers for Australian schools.

It is now widely known and accepted in professional and political circles that the factor most likely to assist an individual to do his or her best at school is the amount of time spent on task with an able teacher (Darling-Hammond 1997). Governments have not ignored this evidence. In fact Commonwealth, State and Territory governments have put in place a range of initiatives that acknowledge the centrality of high-quality teaching to achieving high-quality learning outcomes for students.

Governments have been collaborating to set standards for teaching and for national curriculum, assessment and reporting on school performance. But they have yet to commit themselves to defining the level of sustained public investment necessary for such standards to be realised in practice, or for related funding arrangements.

Future funding arrangements for schools in Australia need to be grounded in shared values and ideals, as well as in evidence of what works. This report is based on the belief that all our children are equally entitled to school conditions most likely to enable them to engage in learning and to achieve their personal best. While

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<sup>3</sup> This refers to the establishment of a working group in December 2007 by the Australian Education Systems Officials Committee (AESOC) at the request of MCEETYA. It was called the Quality Sustainable Teacher Workforce Working Group (QSTWWG) and its terms of reference include national collaboration on workforce initiatives, including improving teacher supply.

[http://www.curriculum.edu.au/mceetya/quality\\_sustainable\\_teacher\\_workforce\\_workinggroup,24775.html](http://www.curriculum.edu.au/mceetya/quality_sustainable_teacher_workforce_workinggroup,24775.html)

equal, children are not all the same, and the circumstances in which they are being educated vary widely. Principles of equity need to be applied to deal with these differences.

Equity in education has been defined by the OECD (2007) as having two broad dimensions: *fairness* and *inclusion*. *Fairness* demands that personal and social circumstances, matters beyond the control or influence of school students, should not be obstacles to their achieving their learning potential. *Inclusion* demands that decent basic minimum standards apply to all.

The important issues of equality of opportunity and of equity in education surely matter most in relation to what is most significant: access to quality teaching. It is not enough for governments to ensure an adequate overall supply of high-quality teachers. Access to high-quality teachers must be such as to give all our children a fair go to succeed at school and a fair share of the resources available.

To do so, there is now a need for a new national funding model for schools. This paper argues for a funding model that provides a rational alignment of the purposes we expect our schools to serve, the goals we expect them to achieve, and the public investment we are prepared to make in them. It should also pay due regard to the principle that all students are equally entitled to high-quality teaching.

Developing such a model is urgent and should not be deferred pending other structural reforms, such as major reform to our federal system. There is scope for using new and emerging forms of intergovernmental agreements to mobilise the necessary funding and to direct it to educational priorities, a process that could, of itself, contribute to the broader reform.

Proposals for reform of schools funding must be informed by political realities and by understanding that the forces that have shaped present funding arrangements are likely to have a persisting influence. This does not mean, however, that current arrangements for schools funding need to remain. The outcome of past decisions, they can be challenged and improved, as long as there is political will to do so. Understanding how schools are currently funded, a necessary starting point for reform, is the subject of the next chapter.

## CURRENT ARRANGEMENTS FOR FUNDING AUSTRALIAN SCHOOLS

In 2007 Australia's 9,560 schools spent about \$40 billion in providing primary and secondary schooling for more than 3.4 million students. These funds were directed to the employment of the full-time equivalent of 240,000 teachers and 84,000 non-teaching staff; to the provision of teaching materials, technologies and other non-staff recurrent resources; and to the building and maintenance of capital stock.

This is a significant investment in the nation and in its young people on the part of Commonwealth, State and Territory governments and school communities. The level and nature of these funding contributions, however, vary across government and non-government school sectors.

### GOVERNMENT SCHOOLS

#### Funding by State and Territory governments

State and Territory governments provide the bulk of funding for the 6,830 government schools across the nation. In 2007 State and Territory governments spent about \$23 billion of their budgets on recurrent resources in government schools.<sup>4</sup> This represents about 83 per cent of total recurrent funding for these schools.<sup>5</sup> Most of this funding was provided through general grants, based mainly on staffing formulae and other State and Territory government policy decisions on staffing and non-staff recurrent expenditure.

Some recurrent funding from State and Territory governments was also provided in the form of targeted programs, such as programs for special education (for students with disabilities) and for students from low-socio-economic communities, from non-English speaking backgrounds, from regional and rural areas, and from Indigenous communities. Much of this targeted funding augmented the general staffing allocations to government schools, and provided a means for taking account of the differential teaching and other staffing needs of schools that support higher proportions of students with special needs.

State and Territory governments also spent more than \$1.2 billion on capital works in government schools in 2007. This represented about one-third of total capital spending on government schools in that year.<sup>6</sup>

#### Funding by the Commonwealth government

In 2007 the Commonwealth supported the funding of government schools to the tune of about \$3 billion, with funding delivered through the following programs:

- *General recurrent per capita grants* set at 10 per cent<sup>7</sup> of the Commonwealth's calculation of the average per student recurrent costs in government primary and secondary schools (the Average Government Schools Recurrent Cost (AGSRC) measure). This figure is calculated from data provided by the States and Territories on their recurrent spending on government schools, with separate data being provided for primary and secondary schools.<sup>8</sup> In 2009, the AGSRC was \$8,380 for primary schools and \$10,646 for secondary schools, which amounted to Commonwealth general recurrent grants of \$838 for each primary school student in a government school and \$1,065 for each secondary student. Commonwealth general recurrent grants for government schools, which amounted to about \$1.8 billion in 2007, increased to more than \$2 billion in 2009.

<sup>4</sup> MCEETYA, *National Report on Schooling 2007*, Statistical Appendix, Table 19. Note that this figure excludes estimated 'notional user cost of capital'.

<sup>5</sup> Total funding includes voluntary contributions from parents and communities.

<sup>6</sup> This figure includes funding of some \$380 million through the former Howard Government's *Investing in our Schools* program, which has now been discontinued.

<sup>7</sup> Note that the Howard government set its general recurrent per capita grants for government schools at different levels for primary schools (8.7 per cent of the primary AGSRC measure; and 10 per cent of the secondary AGSRC measure). The Rudd Government corrected this anomaly in 2009, raising the primary rate to 10 per cent of the primary AGSRC, while maintaining the secondary rate at 10 per cent.

<sup>8</sup> AGSRC is calculated as a 'cash accounting' figure, in contrast to the accrual accounting conventions used for reporting per student expenditure in official national reports (the Ministerial Council *National Report on Schooling*; and the reports on government services by the Productivity Commission). It is a lagged measure, derived from 18 month-old data from the previous financial year.

- *Capital grants.* The underlying level of funding for the Commonwealth's general capital program for government schools amounted to just under \$300 million in 2007.<sup>9</sup> Commonwealth funding for the general capital grants program for government schools has been maintained at about this level in real terms for several decades.

Over and above the general capital grants program, there have been two major injections of capital grants for both government and non-government school sectors in recent years:

- The Howard Government's Investing in our Schools program provided \$1.2 billion for capital projects in all schools over the four years 2005–08. In 2007, government schools received more than \$235 million under this program.
- As a major part of its stimulus funding strategy in response to the global financial crisis, the Rudd Government's commitment of an additional \$16.2 billion over the four financial years 2008–09 to 2011–12 included \$11 billion for government schools. This averages at more than \$5 billion in annual capital funding for schools over that period, with government schools expected to receive up to 70 per cent of these moneys.
- These special injections of capital funding are substantial and have the potential to redress some of the effects of a longstanding neglect of capital stock in Australia's schools, especially in government schools. They are, of course, by definition, short-term. For this reason, the analysis of funding in this chapter, including supporting tables, uses only the longstanding Commonwealth general capital program, so as to provide a more realistic picture of funding commitments for capital works in schools over the longer term.
- *Targeted programs.* These include separate programs for literacy and numeracy, special education for students with disabilities, English as a second language, languages other than English, country areas and Indigenous education. Funding of these programs amounted to a total of almost \$550 million for government schools in 2007.
- *Quality outcomes.* These programs are directed to high-quality teaching and professional development, civics and citizenship, drug education, and careers and transitions. In 2007 total funding for joint programs for both government and non-government schools and teachers was about \$180 million, of which government schools' share was an estimated \$120 million.
- *National Partnership Programs.* In 2009, the Rudd Government significantly increased Commonwealth funding for schools for the next five years through new *National Partnership* programs, including:
  - New infrastructure programs: computers for senior secondary students (the Digital Education Revolution program) totalling \$1.2 billion for government schools, the building of Trade Training Centres in schools (\$715 million) and, as noted above, the more than \$11 billion for Building the Education Revolution capital works in government schools.
  - New moneys for Smarter Schools programs: teacher quality (\$295 million), literacy and numeracy (\$414 million), and schools serving low socio-economic communities (\$736 million) – a total for government schools of more than \$1.4 billion over five years.

Government schools also receive some funding from parents and local school communities. These funds are provided through voluntary charges for stationery, books and materials and for optional activities; donations for school equipment and minor works; and, in some cases, through semi-commercial activities such as 'rents' from local markets and other uses of school property. However, such charges cannot be compulsorily imposed on parents. To do so would be in contravention of the right of all school-aged students to attend school within the public system.

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<sup>9</sup> DEEWR, *Quadrennial Administrative Guidelines for Schools*, 2007, Appendix D, p. 229

The level of private contributions to government schools varies widely across schools and across States and Territories. In this paper, an estimated 5 per cent of total expenditure is applied,<sup>10</sup> which is about \$540 per student. On this assumption, total funding received by government schools from voluntary fees and charges and from other sources of private income across Australia would amount to more than \$1 billion.

When added together, the financial contributions of State, Territory and Commonwealth governments, and from parents and school communities, are substantial: a total investment in government schools of about \$28 billion in 2007.<sup>11</sup> These funds supported the employment in government schools of the full-time equivalent of about 160,000 teachers, 44,000 administrative staff (including teacher aides and assistants), 5,400 specialist support staff and more than 4,000 building operations and maintenance staff.<sup>12</sup> They also supported more than \$7 billion in non-staffing recurrent resources for schools, including books, teaching, curriculum and assessment materials and educational technology; and the building and maintenance of the capital stock of government schools, which is valued at more than \$40 billion Australia-wide.<sup>13</sup>

The implications of figures of this magnitude are sometimes difficult to grasp. A more realistic view of their effect may be gained when funding is expressed for each student, or each school.

Calculating the precise level of funding for each student would depend on the type of school attended, its location and the range of teaching and other services the school provides to meet the needs of students at the school. There are also differences in per student funding of primary and secondary schools, arising mainly from there being lower class sizes and a wider range of curriculum offerings in secondary schools. Across all these categories, national report data indicate that the average cost of providing schooling for each student in a government school in 2007 was just over \$11,400.

Of this amount, just under \$10,700 was used to meet the recurrent resource needs of each student. This figure is calculated from expenditure data provided by the States and Territories for the annual national report on schooling; and also for the regular reports on school education by the Productivity Commission. As such, the data are expressed in accrual accounting terms, which measure income and liabilities at the time these are incurred, rather than when cash is received or spent. Accrual figures are generally higher than cash accounting figures (such as those used by the Commonwealth in its application of the AGSRC benchmark for allocating and indexing its general recurrent grants for schools), as they impute costs for all liabilities and for the depreciation of capital stock and other assets.<sup>14</sup>

The salaries and related costs of the teaching staff are estimated to require around \$6,400 per student or 60 per cent of the total recurrent costs at that student's school in 2007. A further \$1,600 was needed for administrative, clerical and maintenance staff and for teachers' aides; and just under \$2,700 for non-staff-related recurrent costs.

Although average expenditure on capital works and projects is difficult to apply to particular students, given the wide variation in the age and quality of capital stock across all government schools, a figure of \$735 per student provides a general indication of the level of investment in this area.<sup>15</sup>

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<sup>10</sup> Senate Employment, Workplace Relations, Small Business and Education Committee 1997, *Not a Level Playing Field: Private and Commercial Funding in Government Schools*.

<sup>11</sup> These contributions have been significantly enhanced in 2009 and 2010 by the Rudd Government's new programs, including its *Digital Education Revolution* and national partnerships for supporting low socio-economic status students and schools, quality teaching and literacy and numeracy strategies; and its *Building the Education Revolution* funding in response to the global economic crisis.

<sup>12</sup> Australian Bureau of Statistics, *Major function of full-time equivalent school staff 2006*, Cat No. 4221.0.

<sup>13</sup> Productivity Commission, *Report on Government Services: School Education*, Table 3A.10.

<sup>14</sup> Accrual figures in Australian national reports also include a calculation of the 'user cost of capital' at the rate of 8 per cent of the 'total written down value of capital assets'; but these costs have no bearing on the operation of schools, and are not used in this paper.

<sup>15</sup> Note again that these data do not include the significant and short-term injections of capital funding provided by the Howard government's Investing in our Schools program and the Rudd government's *Building the Education Revolution* program.



These data on funding sources for each student in a government school in 2007 are presented in Table 2.1 below. Note that the bulk of public funding from State, Territory and Commonwealth sources was provided in general grants, through State and Territory allocations and staffing formulae and through Commonwealth general recurrent and capital grants. About three-quarters of recurrent funding was provided in this form. But both levels of government also provided significant funding through a range of targeted programs, as outlined above.

The Commonwealth's contribution to recurrent funding of \$1,300 per student represents just 12 per cent of total recurrent funding. Its capital funding of about \$132 per student, however, is a more substantial share, being just under 20 per cent of total capital spending on government schools.<sup>16</sup>

Another way of understanding the flow of funding for schools is to examine how the various sources are applied at school level. Again, this would depend on the size, location, educational level and characteristics of the school, and the students it serves.

An 'average' school of about 500 students (primary and secondary) would exhibit the funding flows as modelled in Table 2.2 below. These data indicate that such a school would receive income from all sources of just over \$5.7 million, of which more than \$5.3 million would be applied to teaching staff and other recurrent resources.

The relevant State or Territory government would provide over \$4.7 million, or 83 per cent, of the total income received by this school. The Commonwealth's contribution would total almost \$720,000, including \$440,000 in general recurrent and capital grants.

This 'average' school would receive about \$1 million through targeted programs: \$660,000 from the relevant State or Territory government,<sup>17</sup> and \$278,000 from the Commonwealth. As noted above, much of this targeted funding would be used by the school to augment the staffing and other general recurrent resources funded through general programs, to meet the teaching and other support needs of its schools with special language, cultural, health and socio-economic needs.

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<sup>16</sup> As noted in footnote 2 above, this figure excludes the boost in Commonwealth capital funding through the now-discontinued Investing in our Schools program and the Rudd Government's short-term Building the Education Revolution program.

<sup>17</sup> This estimate is based on figures reported in the New South Wales education budget. Other States may differ in their support for schools and students with special needs through general and targeted programs. But the overall provision is assumed to be comparable, in per student terms.



Table 2.1  
Funding arrangements for schools 2007: Government schools  
Per student

	Sources of income		Public		State or Territory		Commonwealth		Total public		Private	All income
			General		Targeted		Total		Total			
	General	Targeted	General	Targeted	General	Targeted	Total	General	Targeted	Total		
Recurrent												
Teaching staff	\$4,510	\$796	\$751	\$170	\$921	\$6,410	\$0	\$6,410	\$0	\$6,410	\$0	\$6,410
Non-teaching staff	\$1,128	\$199	\$0	\$300	\$300	\$1,603	\$0	\$1,603	\$0	\$1,603	\$0	\$1,603
Other recurrent	\$1,879	\$332	\$0	\$86	\$86	\$2,137	\$0	\$2,137	\$534	\$2,671	\$534	\$2,671
Total recurrent	\$7,517	\$1,326	\$751	\$556	\$1,307	\$8,843	\$751	\$10,150	\$534	\$10,684	\$534	\$10,684
%	70%	12%	7%	5%	12%	83%	7%	95%	5%	95%	5%	100%
Capital												
%	\$593	\$0	\$132	\$0	\$132	\$725	\$0	\$725	\$10	\$735	\$10	\$735
	81%	0%	18%	0%	18%	99%	0%	99%	1%	100%	1%	100%
Total	\$8,110	\$1,326	\$883	\$556	\$1,438	\$10,875	\$883	\$11,418	\$544	\$11,418	\$544	\$11,418
%	71%	12%	8%	5%	13%	95%	8%	95%	5%	95%	5%	100%

Sources:

MCEETYA, *National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.*

Australian Bureau of Statistics, *Schools 2008, Cat No. 4221.0*

Note: some differences due to rounding

Table 2.2  
Funding arrangements for schools 2007: Government schools

	Sources of income						Private	All income
	Public		Commonwealth		Total public	Total		
	State	General	General	Targeted				
Per school of 500 students								
Recurrent								
Teaching staff	\$2,255,042	\$397,949	\$2,652,991	\$85,000	\$460,467	\$3,205,121	\$3,205,121	
Non-teaching staff	\$563,761	\$99,487	\$663,248	\$150,000	\$150,000	\$801,280	\$801,280	
Other recurrent	\$939,601	\$165,812	\$1,105,413	\$43,000	\$43,000	\$1,068,599	\$1,335,467	
Total recurrent	\$3,758,404	\$663,248	\$4,421,652	\$277,881	\$653,348	\$5,075,000	\$5,341,868	
%	70%	12%	83%	5%	12%	95%	100%	
Capital	\$296,491	\$0	\$296,491	\$0	\$65,864	\$362,354	\$367,354	
%	81%	0%	81%	0%	18%	99%	100%	
Total	\$4,054,895	\$663,248	\$4,718,143	\$277,881	\$719,212	\$5,437,354	\$5,709,222	
%	71%	12%	83%	5%	13%	95%	100%	
Estimated number of staff	Teaching	Non-teaching						
Average salary + on costs	\$89,000	\$68,000						
Number of teachers	35	12						
Student-teacher ratio	14.4	42.6						

Sources:

MCEETYA, *National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.*

Australian Bureau of Statistics, *Schools 2008, Cat No. 4221.0*

Note: some differences due to rounding

## NON-GOVERNMENT SCHOOLS

Non-government schools in Australia receive income from the same range of public and private sources as does the public sector, but with much more variability among schools in the level and flow of funding sources than applies in the government school sector.

Overall, in 2007 the 2,730 non-government schools in Australia received more than \$13 billion from all declared funding sources: more than \$11 billion for their teaching and other recurrent resources, and \$2 billion for capital works. Of this amount, governments – Commonwealth and State or Territory – provided about \$8 billion, or 60 per cent of total funding.

### Funding by the Commonwealth government

Non-government schools receive the bulk of their public funding (more than \$5.6 billion in 2007) from the Commonwealth, through similar program categories as described above for government schools:

- *General recurrent per capita grants* provided about \$5 billion for non-government schools in 2007. Since 2001 these funds have been determined by a measure of each school's socio-economic status (SES). Funding for each primary and secondary student enrolled at the school is paid as a proportion of the Average Government Schools Recurrent Cost (AGSRC). The minimum grant, for schools with the highest SES score, is set at 13.7 per cent of AGSRC (\$1,100 primary and \$1,350 secondary). Per capita grants are paid over a sliding scale of 46 funding steps to a maximum, for the most SES-disadvantaged non-government schools, of 70 per cent of AGSRC (\$5,600 primary and \$7,000 secondary).

The general recurrent grants program is the largest of the Commonwealth's programs for schools. When the Rudd government assumed office in November 2007, it honoured its election commitment to retain this funding framework constructed by its predecessor.

The Howard government had itself inherited a complex set of funding policies for non-government schools, first put in place by the Hawke government and later modified during the Keating years. In short, those policies provided general recurrent per capita grants for non-government schools across 12 subsidy categories, with higher grants paid to schools with lower levels of income from private sources and vice versa. The core idea of the former Labor policies was that differential Commonwealth funding should reflect the recurrent resources actually available to students in their non-government schools from fees and other sources of private income.

When the Hawke government in 1984 established the 12-category funding scheme, it linked general recurrent grants to a 'community standard' of recurrent resources, as recommended by the former Commonwealth Schools Commission (1984). This approach was amended by the Keating government in 1994, when general recurrent grants were linked to annual changes in State or Territory expenditure on recurrent resources for each student in a government primary or secondary school, through the Average Government Schools Recurrent Cost index.

Over the first four years of the Howard government, from 1996 to 2000, the Keating policies for general recurrent grants were retained for independent schools. Funding for the large Catholic school systems, however, was increased to Category 11 for all Catholic systemic schools except those in the Australian Capital Territory, which retained Category 10 funding.

It was clear, however, that the Howard government, and in particular its energetic Minister David Kemp, was unhappy with the principles underlying the 12-category funding scheme. It saw the Labor program, which linked funding to the actual recurrent resources at each school, as having an inbuilt disincentive to private effort; and favoured differential funding based on a measure of individual parents' financial capacity as being more compatible with Liberal Party policy.

In 2000, Minister Kemp announced the introduction of new general recurrent funding arrangements, under which Commonwealth funding was provided over a sliding scale of 46 subsidy categories with each step linked to an indirect measure of schools' socio-economic status (SES) characteristics.

But this announcement of the new era of schools funding was marred by the fact that its application would have reduced funding to more than half of all non-government schools. The incompatibility of the SES policy and the formulae with the accompanying political decision that there should be 'no losers' in the transition to the new scheme, necessitated further arrangements to counter the effects of the formula itself. As a consequence, about 20 per cent of independent schools were classified as *funding maintained* schools, whose funding remained at their 2000 level, but with annual adjustments using the index applied to the SES-funded schools (the AGSRC measure). Catholic system authorities across Australia were protected against funding cuts by the device of 'deeming' them to be operating as schools with an SES score of 96,<sup>18</sup> which provided them with a small increase over their 2000 level.

In the lead-up to the 2004 federal election, the then Minister Brendan Nelson announced that the Howard government would remove the 'deemed' status for Catholic systems and replace it with SES funding of individual Catholic schools. But the 'no losers' commitment kicked in immediately to prevent funding cuts for the 60 per cent of Catholic systemic schools that would otherwise have been placed at a less favourable subsidy level. Thus, a *Catholic maintained* category was established, so that the 60 per cent could continue to receive their funding entitlement from the 2004 program year. As with the ongoing *funding maintained* (at year 2000 levels) independent schools, Catholic schools also continued to benefit from annual adjustments based on the AGSRC index.

The Minister also found that a further adjustment to the funding scheme was needed for the funding quadrennium commencing in 2004. Those independent schools re-assessed during 2003 as now having a higher SES score had their consequential funding cuts cushioned by freezing their 2003 levels in money terms – that is, not adjusted by AGSRC – until their new SES funding entitlement reached that cash figure through AGSRC 'inflation'. These schools came to be described as *funding guaranteed* schools.

It was this schools funding mélange that the Rudd government had committed to continue when it assumed office in late 2007, a commitment designed to neutralise schools funding as an issue during the 2007 federal election. But the new government knew that it would have to take full responsibility for the policies underlying the distribution of Commonwealth moneys for schools when the funding period ended in 2012. Any new arrangements would follow a formal review of schools funding, or at least the general recurrent grants program for non-government schools, before that date.

When the current funding period expires in 2012, the Howard government's general recurrent grants scheme will have been in place for twelve years. The Minister's foreshadowed review of that scheme would need to cover a range of critical policy issues, as outlined in the following paragraphs.

- First, the promised review will need to consider whether to change or to embed some of the funding outcomes arising from the Howard–Kemp policies. For example, the Rudd government will need to reject, modify or take responsibility itself for the high funding increases provided to some of the best-resourced non-government schools in Australia when the SES scheme was introduced in 2001. Continuation of the current funding arrangements after 2012 would entrench the Howard government's funding policies into a second decade and, potentially, permanently.

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<sup>18</sup> Catholic systemic schools make up two-thirds of all non-government schools, and on average would be operating close to the median SES score of 100.

- A related and fundamental issue with the SES funding scheme is that the allocation of Commonwealth general recurrent grants to individual non-government schools and systems does not take into account the level of resources, recurrent or capital, already available to students in those schools. Thus, policy decisions about priorities for the spending of public moneys are uninformed by the level of resources in the schools that are in receipt of funding from public sources.
  - The Commonwealth's general recurrent grants scheme for non-government schools is separate from, and takes no account of, the funding provided to these schools by State governments. At the same time, as noted above, Commonwealth general recurrent grants for government schools are set arbitrarily at 10 per cent of its measure of average government school recurrent costs (AGSRC), compared with the range of grants (13.7 per cent to 70 per cent) for non-government schools. This has created funding inconsistencies across the States and sectors.
  - Finally, as noted above, Commonwealth general recurrent grants are adjusted each year by the effects on AGSRC of State spending. Over the years, these annual adjustments in AGSRC have generally been higher than increases in costs arising from inflation, which in school settings is heavily influenced by movements in teachers' salaries. As a consequence, AGSRC indexation provides real increases in Commonwealth general recurrent grants for all schools, including those private schools with resources well above the standards in government schools or lower-fee non-government schools.
  - The Commonwealth's general recurrent grants scheme for non-government schools makes up almost two-thirds of its total budget for all schools. It is clear that the Rudd government's budget for schools is dominated by a program that lacks policy integrity.
- *Capital grants.* The Commonwealth provided \$120 million through its general capital grants program for non-government schools in 2007. Non-government schools also received \$80 million for capital works from the then government's Investing in our Schools program.
  - *Targeted programs/quality outcomes programs.* Non-government schools participate in the same range of Commonwealth programs for targeted groups and schools and for the fostering of high-quality teaching and learning as for government schools, but at a slightly lower level per student. This reflects the higher incidence of students with special needs in the public sector. In 2007, the Commonwealth provided almost \$300 million in the form of targeted or 'quality outcomes' programs across the non-government schools sector.
  - *National Partnership programs.* Commonwealth funding under the National Partnership programs has also been available for non-government schools since 2009, as for government schools. These programs include funding for new infrastructure and for 'smarter schools', as outlined previously, although the substantial moneys under the Building the Education Revolution program are scheduled to terminate in 2011.

#### Funding by State and Territory governments

State and Territory government also provided over \$2 billion for non-government schools in 2007, around 15 per cent of those schools' total income. The bulk of this funding was in the form of per capita recurrent grants, with most States providing differential funding for schools based on their assessments of relative needs. Some States also provide targeted funding for students with special needs, such as for students with disabilities, small-scale capital works and subsidies for interest paid on loans for capital works. But these latter payments are generally small in scale in comparison with the larger amounts paid for general recurrent purposes.

These are general figures only, covering all forms of non-government schooling in the Catholic and independent school sectors. A clearer picture emerges from the funding data provided in national reports for Catholic and independent schools separately.

### *Catholic schools*

Australia's 1,700 Catholic schools, enrolling over 690,000 students, educate just over 60 per cent of all students in the non-government sector. Most of these schools are administered by Catholic system authorities, based in the main on diocesan regional boundaries. A small number, owned for the most part by religious congregational orders, are formally non-systemic, independent schools but defined as 'Catholic' for statistical purposes.

The overall number of Catholic schools in Australia has remained virtually constant since 1975. The proportion of Catholic schools within the non-government sector has declined, however, from 80 per cent in 1975 to 62 per cent in 2007. This is because the number of independent non-government schools has more than doubled over that time, from 430 in 1975 to 1,024 in 2007.

In total, Catholic schools received income of over \$7 billion in 2007. This amount represented just over half of the total income of all non-government schools. Catholic schools, however, were dependent on public moneys for 72 per cent of their total income, compared with the 57 per cent of total income for non-government schools overall.

Funding received from the range of public and private sources of income for each student in a Catholic school in 2007 is outlined in Table 2.3 below.

The data in Table 2.3 indicate that total funding per Catholic school student was just under \$10,000 in 2007, some 13 per cent below the level for each student in a government school. This difference reflects the higher student–teacher ratios in Catholic schools; the relatively low levels of income from fees and other private sources; the lower average teacher salaries for a younger teaching force; and the relatively higher concentration of Catholic schools in particular areas and, as a consequence, lower diseconomies of scale.

Catholic schools received 80 per cent of their recurrent income from government: 21 per cent from States and 59 per cent from the Commonwealth; 9 per cent of their capital income from the Commonwealth government;<sup>19</sup> and 72 per cent of their overall income from public sources (19 per cent State and 53 per cent Commonwealth).

Commonwealth general recurrent grants provide the bulk of public funding for Catholic schools, at almost \$4,800 per student in 2007. As noted above, under current policies, inherited by the Rudd government from its predecessor, about 40 per cent of individual Catholic systemic schools are paid according to each school's SES score; and the remaining 60 per cent of Catholic systemic schools continue to have their funding maintained at the 2004 level, indexed by AGSRC. This means that 60 per cent of Catholic systemic schools are still being funded at the rate set for the 2001–04 funding quadrennium; while 40 per cent are funded at their true SES rate, ranging from 57.5 per cent to 70 per cent of AGSRC.

Catholic schools also receive significant recurrent funding from State governments. In New South Wales, for example, Catholic systemic schools are funded (\$1,680 per primary school student and \$2,300 per secondary school student, in 2007) at Category 11 of a 12-category scale based mainly on income from fees and other private sources.

Catholic non-systemic schools are funded on the same basis as other non-systemic independent schools. But a proportion of Catholic non-systemic schools has had to be protected under the former government's *funding maintained* policy as described above, under which independent schools that would have lost funding under the SES funding criteria continue to receive fully indexed per capita grants at the rate set by the Hawke and Keating governments.

<sup>19</sup> Modelling for this paper assumes that State governments provide all their support for non-government schools as recurrent grants; some continue to provide interest subsidies for capital works (a recurrent expense), while a few provide small scale capital grants for some schools.

Tuition fees and other recurrent charges in Catholic schools amounted to just over \$1,740 per student in 2007, about 20 per cent of total recurrent costs. Using income and expenditure data from public sources, it appears that parents and school communities contributed an estimated per student amount of \$1078 to meet capital resources totalling just over \$1,186 (160 per cent higher than in government schools), with the Commonwealth providing the balance of about \$109.

When applied to a model 'average' school of 500 students, these funding rates translate to the amounts and funding sources outlined in Table 2.4 below. Such a school is estimated to receive funding from all sources of just under \$5 million, of which \$4.4 million would be to provide the staffing and other recurrent resources required for the school's operations. The school would receive almost \$3.6 million in recurrent funding from public sources: just under \$2.6 million from the Commonwealth and \$1 million from the respective State government, in year 2007 prices.

Table 2.4 also indicates that this average Catholic school would have received almost \$200,000 in targeted moneys for students with special needs. As with schools in the public sector, this source of funding would vary considerably depending on the characteristics of each school's location, circumstances and student populations.

Within the non-government sector, tuition fees at Catholic systemic schools are relatively low. In 2009, for Parramatta diocesan schools in New South Wales, for example, fees range from about \$1,000 for a primary school student to \$2,000 for a secondary school student, with discounts for siblings and fee remissions in cases of financial hardship. Such fees are augmented by school building levies, service charges, donations and other income from a range of private sources and activities. In 2007, the total income from private sources reported in national documents was just over \$2,800 per student in a Catholic school.<sup>20</sup> For the modelled school of 500 students, income from private sources totalled over \$1.4 million, some 28 per cent of the total income of such a school.

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<sup>20</sup> This figure includes income from private sources in both systemic and non-systemic Catholic schools.

Table 2.3  
Funding arrangements for schools 2007: Catholic schools

Per student	Sources of income						Private	All income
	Public		Commonwealth		Total public	Total		
	State	General	Targeted	Total				
Recurrent								
Teaching staff	\$600	\$4,600	\$159	\$4,759	\$5,359	\$0	\$5,459	
Non-teaching staff	\$450	\$175	\$74	\$249	\$699	\$710	\$1,409	
Other recurrent	\$839	\$0	\$166	\$166	\$1,005	\$933	\$1,937	
Total recurrent	\$1,889	\$4,775	\$399	\$5,174	\$7,063	\$1,742	\$8,805	
%	21%	54%	5%	59%	80%	20%	100%	
Capital	\$0	\$109	\$0	\$109	\$109	\$1,078	\$1,186	
%	0%	9%	0%	9%	9%	91%	100%	
Total	\$1,889	\$4,884	\$399	\$5,282	\$7,171	\$2,820	\$9,991	
%	19%	49%	4%	53%	72%	28%	100%	

Sources:

MCEETYA, *National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.*

Australian Bureau of Statistics, *Schools 2008, Cat No. 4221.0*

Note: some differences due to rounding



Table 2.4

## Funding arrangements for schools 2007: Catholic schools

Per school of 500 students	Sources of Income		Total public	Private	All income
	Public	Commonwealth			
	State	General	Targeted	Total	
Recurrent					
Teaching staff	\$300,000	\$2,300,000	\$79,500	\$2,379,500	\$2,679,500
Non-teaching staff	\$225,000	\$87,500	\$37,000	\$124,500	\$349,500
Other recurrent	\$419,500	\$0	\$82,774	\$82,774	\$466,276
Total recurrent	\$944,500	\$2,387,500	\$199,274	\$2,586,774	\$3,531,274
%	21%	54%	5%	59%	80%
Capital	\$0	\$54,368	\$0	\$54,368	\$54,368
%	0%	9%	0%	9%	9%
Total	\$944,500	\$2,441,868	\$199,274	\$2,641,142	\$3,585,642
%	19%	49%	4%	53%	72%
Estimated number of staff	Teaching	Non-teaching			
Average salary + on costs	\$87,000	\$67,000			
Number of teachers	32	11			
Student-teacher ratio	15.4	47.2			
Sources:					

MCEETYA, *National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.*Australian Bureau of Statistics, *Schools 2008, Cat No. 4221.0*

Note: some differences due to rounding

### *Independent schools*

The above discussion of the funding sources for government and Catholic schools covers almost 90 per cent of all schools in Australia. Statistical conventions describe the remaining 10 per cent of schools as 'independent', recognising the array of authorities with responsibility for their operation, and their financial and legal status. While most operate as stand-alone schools, some do so within various forms of systemic administration. They vary as to social, educational and religious ethos. And their funding from public and private sources also varies greatly.

Because of this, it is difficult to generalise about the funding sources and levels of Australia's 1,024 independent schools. Some would have the operational characteristics of Catholic systemic schools, with the kind of financial profile as outlined in tables 2.3 and 2.4 above. These are schools with relatively low fees and a high reliance on public funding for their day-to-day operation.

A small number of other independent schools operates at the other end of the financial spectrum. Their fees and other sources of private income are very high – more than twice the average cost of running a government school or a lower-fee non-government school – and they receive lower levels of public funding from Commonwealth and State governments.

The remaining independent schools receive income from their mid-range fees and other sources of private funding. Their funding from public sources is lower than for the Catholic and lower-fee schools, but remains substantial. Student numbers in this kind of school have grown significantly over the past decades.

National reports of funding sources average the data across all categories of independent schools. But in doing so, they present a picture that generally approximates the operation of these 'mid-range' schools, as outlined in Table 2.5 below. This table indicates that the total income received by the 'average' independent school exceeds \$14,000 per student, significantly higher than that for students in government and lower-fee non-government schools.

This type of school would have received just under half of its recurrent income from government: 14 per cent from the State or Territory government and 35 per cent from the Commonwealth. Tuition fees and charges at just over \$6,000 per student, when combined with public subsidies, enable these schools to enjoy more favourable student–teacher ratios than do schools in the other sectors.

The 'average' independent school reported in Table 2.5 would also have received the bulk of its public funding from Commonwealth general recurrent per capita grants. The average amount shown in Table 2.5 of just over \$3,800 per student would suggest that the average SES score for schools in the independent sector was about 110 – some 10 percentage points higher than the national average score of 100. But the range of Commonwealth general recurrent grants for independent schools is wide, from around \$1,100 for each primary student in an independent school with SES scores of 130 or higher to over \$7,000 for each secondary student in a school with an SES score of 85 or lower.

This 'average' rate is also affected by the 20 per cent of independent schools continuing to receive their year 2000 funding levels, fully indexed each year by the fluctuating AGSRC, under the 'no losers' or *funding maintained* policy that the Rudd government inherited from its predecessor. This in effect means that about 210 independent schools, enrolling more than 150,000 students (almost 30 per cent of all independent school students), are continuing to be funded at the level to which they were entitled under the criteria set by the Hawke and Keating governments and extended until the year 2000 by the Howard government until it replaced those arrangements with the SES funding scheme put in place in 2001.

Table 2.5  
Funding arrangements for schools 2007: Independent schools

Per student	Sources of income						Private	All income
	Public			Total public				
	State	Commonwealth	Total	General	Targeted	Total		
Recurrent								
Teaching staff	\$1,612	\$3,797	\$3,917	\$120		\$5,529	\$1,519	\$7,048
Non-teaching staff	\$0	\$20	\$100	\$80		\$100	\$2,249	\$2,349
Other recurrent	\$0	\$10	\$56	\$46		\$56	\$2,293	\$2,349
Total recurrent	\$1,612	\$3,827	\$4,074	\$246		\$5,686	\$6,060	\$11,746
%	14%	33%	35%	2%		48%	52%	100%
Capital	\$0	\$109	\$109	\$0		\$109	\$2,319	\$2,427
%	0%	4%	4%	0%		4%	96%	100%
Total	\$1,612	\$3,936	\$4,182	\$246		\$5,794	\$8,379	\$14,173
%	11%	28%	30%	2%		41%	59%	100%

Sources:

MCEETYA, *National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.*

Australian Bureau of Statistics, *Schools 2008, Cat No. 4221.0*

A small number of independent schools was also receiving general recurrent grants in 2007 at the same amount in dollar terms as they were receiving in 2004, under *funding guaranteed* arrangements. As noted above, these are schools whose SES score was re-assessed in that year at a higher level than when the SES funding scheme was first applied in 2001. The previous government decided that such schools should be protected from immediate cuts to their per capita funding rate by freezing their grants in money terms – that is, not adjusted each year for AGSRC movements – until the level applicable to their new SES score reached that amount through the effects of annual indexation. In most cases, this transition would have been completed after three or four years, or until schools' SES scores were re-assessed for the 2009–12 funding quadrennium.

State governments also provide substantial per capita grants for independent schools, but these vary significantly across the nation. The New South Wales government pays its per capita grants across 12 funding categories for primary and secondary students in non-government schools, from \$730 per primary student in the lowest funding category to more than \$2,400 in the highest. The ACT government also applies a 12 category scheme, but at lower levels. The Victorian government provides 'core' and 'needs-based' funding, the latter including '... schooling relatives, a resource modifier, a funding guarantee, a student's family background measure ...' and the like. Queensland provides uniform per capita grants of \$1,036 for primary school students and \$1,554 for secondary school students, plus a 'needs component' distributed over all non-government schools – averaging about a further \$303 for primary school students and \$455 for secondary school students. South Australia and Tasmania also augment their per capita funding with 'needs' components (MCEETYA 2007, Table 2.10).

Most State and Territory governments also provide additional support for schools that enrol students with disabilities; and some provide funding for students' transport, interest subsidies on loans for capital works and for schools and students in remote areas.

Although the Commonwealth provides over two-thirds of recurrent funding from public sources for the average independent school, it is also the case that public funding of high-fee and high-SES independent schools is more equally shared across both levels of government.

The array of funding sources and criteria from State and Territory governments presents a confusing picture of how public recurrent funding is generated and provided to particular independent schools. The average figures outlined provides a general guide only to relative roles and responsibilities.

Capital expenditure in independent schools totalled over \$2,400 per student in 2007. This is more than twice the \$1,186 per student expenditure on capital works in Catholic schools; and 340 per cent higher than the \$735 spent on each student in a public school. All but 4 per cent of this expenditure on capital works in independent schools is met from private sources.

Some of this higher level of expenditure on capital works in independent schools might be explained by the growth in the number of schools, and students, in the independent sector. But it is also clear that these schools enjoy significantly higher capital standards overall.

Table 2.6 below outlines the effect of these per student funding levels for an 'average' independent school of 500 students:

Table 2.6

## Funding arrangements for schools 2007: Independent schools

Per school of 500 students	Sources of income		Public			Private	All income
	State	Commonwealth	General	Targeted	Total		
Recurrent							
Teaching staff	\$806,000	\$1,898,500	\$1,898,500	\$60,000	\$1,958,500	\$759,300	\$3,523,800
Non-teaching staff	\$0	\$10,000	\$10,000	\$40,000	\$50,000	\$1,124,600	\$1,174,600
Other recurrent	\$0	\$5,000	\$5,000	\$23,000	\$28,000	\$1,146,600	\$1,174,600
Total recurrent	\$806,000	\$1,913,652	\$1,913,652	\$123,186	\$2,036,837	\$3,030,163	\$5,873,000
%	14%	33%	33%	2%	35%	52%	100%
Capital	\$0	\$54,368	\$54,368	\$0	\$54,368	\$1,159,337	\$1,213,705
%	0%	4%	4%	0%	4%	96%	100%
Total	\$806,000	\$1,968,019	\$1,968,019	\$123,186	\$2,091,205	\$4,189,500	\$7,086,705
%	11%	28%	28%	2%	30%	59%	100%

Estimated number of staff	Teaching	Non-teaching
Average salary + on costs	\$90,000	\$68,000
Number of teachers	40	17
Student-teacher ratio	12.5	28.8

Sources:

MCEETYA, National Report on Schooling 2007, Statistical Appendix, Tables 5, 19, 22, 22A, 23, 24, 28, 29, 30, 31.

These data indicate that an independent school of 500 students would, on average, receive more than \$7 million from all sources: \$4.2 million from fees and other private income; and \$2.9 million from government. Some \$5.9 million of this amount is directed to staffing and other recurrent resources, of which \$2.8 million is provided by governments: \$0.8 million from State or Territory governments and \$2 million from the Commonwealth.

Although this modelled independent school receives about the same level of funding from the Commonwealth for capital works, some \$54,000, as do other non-government schools, it receives over \$1.2 million from fees, charges and donations for these purposes compared to just over \$0.5 million in a Catholic school of the same size. Tuition fees and charges for recurrent resources amount to \$3 million in this school. When added to the private contributions for capital purposes, income from private sources totals \$4.2 million, almost 60 per cent of the school's income from all sources and for all purposes.

#### *Teaching and non-teaching staff in schools*

Tables 2.1 to 2.6 indicate how schools spend the recurrent moneys they receive from government and private sources. Not surprisingly, most of these funds are directed to the employment of teaching staff. But a significant amount is spent on non-teaching staff.

All sectors have benefited from increased public funding of schools over the past decade or longer. Leaving aside the recent large interventions by the Commonwealth government in boosting capital works in schools, most of this increase has resulted in higher staffing levels. Table 2.7 below outlines staffing trends in government, Catholic and independent schools over the period 1993 to 2008. The staffing increases shown in Table 2.7 occurred in the context of overall student enrolment growth over that period, but with very different numbers and rates of growth in the government, Catholic and independent sectors, as shown in more detail in Table 2.8 below.

As would be expected, teacher numbers have grown in all sectors. In government schools, a 10 per cent increase was the result of (a) State and Territory policy decisions to reduce class sizes, especially in the early years of primary school, (b) other Commonwealth and State or Territory policies and programs to support students with special needs, such as English language support for school-aged migrants and refugees, and (c) a higher proportion of students staying to the end of secondary schooling. Shifts in population would also have led to an increase in demand for teachers, as new schools were opened in areas of population growth. That growth was likely to be higher than any reductions in teacher numbers in areas of population decline, in view of the need for public schools to continue to operate in those areas.

Rates of growth in teacher numbers were much higher in Catholic schools (32 per cent) and independent schools (95 per cent). It is likely that the factors for government schools, outlined above, also applied, at least in part, to non-government schools. But the increase would also have been due to the significantly higher increases in student numbers in Catholic and especially independent schools.

Table 2.7

## Trends in schools staffing (FTE)

	Government schools			Catholic schools			independent schools		
	1993	2008	Change	1993	2008	Change	1993	2008	Change
	No	No	No	No	No	No	No	No	No
<i>Teaching staff</i>	146,637	161,351	14,714	35,100	46,390	11,290	20,175	39,366	19,191
			10%			32%			95%
<i>Non-teaching staff</i>									
Support staff	3,744	5,369	1,625	435	1,046	611	410	1,626	1,216
Admin/clerical/teachers' aides	26,918	47,462	20,544	6,320	12,541	6,221	4,781	12,508	7,727
Buildings/maintenance	3,771	4,206	435	1,457	2,390	933	1,736	3,334	1,598
<i>Total non-teaching school staff</i>	34,433	57,037	22,604	8,212	15,977	7,765	6,927	17,468	10,541
			66%			95%			152%
<i>Total staff</i>	181,070	218,388	37,318	43,312	62,367	19,055	27,102	56,834	29,732
Non-teaching staff as a proportion of all staff	19%	26%	61%	19%	26%	41%	26%	31%	35%
Number of students	2,236,674	2,273,253	36,579	599,287	697,015	97,728	271,032	474,206	203,174
			2%			16%			75%

Source: Australian Bureau of Statistics, Schools 2008, Cat No. 4201. NSSC Tables 43a and 51a

FTE = full-time equivalent

Table 2.8  
Student numbers by school sector, 1993 and 2008

	1993			2008			Change			% Change		
	Primary	Secondary	Total	Primary	Secondary	Total	Primary	Secondary	Total	Primary	Secondary	Total
<b>Government</b>												
Male	700,707	444,502	1,145,209	712,409	455,597	1,168,006	11,702	11,095	22,797	2%	2%	2%
Female	659,062	432,403	1,091,465	664,784	440,464	1,105,248	5,722	8,061	13,783	1%	2%	1%
Total	1,359,769	876,905	2,236,674	1,377,193	896,061	2,273,254	17,424	19,156	36,580	1%	2%	2%
<b>Catholic</b>												
Male	174,502	127,386	301,888	192,722	156,060	348,782	18,220	28,674	46,894	10%	23%	16%
Female	169,069	128,330	297,399	187,751	160,482	348,233	18,682	32,152	50,834	11%	25%	17%
Total	343,571	255,716	599,287	380,473	316,542	697,015	36,902	60,826	97,728	11%	24%	16%
<b>Independent</b>												
Male	57,376	79,739	137,115	109,453	127,329	236,782	52,077	47,590	99,667	91%	60%	73%
Female	55,694	78,223	133,917	108,188	129,235	237,423	52,494	51,012	103,506	94%	65%	77%
Total	113,070	157,962	271,032	217,641	256,564	474,205	104,571	98,602	203,173	92%	62%	75%
<b>All schools</b>												
Male	932,585	651,627	1,584,212	1,014,584	738,986	1,753,570	81,999	87,359	169,358	9%	13%	11%
Female	883,825	638,956	1,522,781	960,723	730,181	1,690,904	76,898	91,225	168,123	9%	14%	11%
Total	1,816,410	1,290,583	3,106,993	1,975,307	1,469,167	3,444,474	158,897	178,584	337,481	9%	14%	11%

Source: ABS, *Schools 2008*, Cat no. 4221.0,  
NSSC Table 43a



Table 2.8 shows that of the 97,700 additional students in Catholic schools in 2008 compared with 1993, almost 61,000, or 62 per cent of that number were enrolled in Catholic *secondary* schools. The additional 203,000 students in independent schools, in contrast, included almost 105,000 *primary* school students.

Table 2.7 also reports the much higher rates of growth in non-teaching staff in all sectors between 1993 and 2008. Non-teaching staff in government schools, including support staff, administrative and clerical staff, teachers' aides and buildings and maintenance staff, increased by over 22,000 or 61 per cent of the total increase in teaching and non-teaching staff of around 36,500 over that period.

Some of this change in the balance of teaching and non-teaching staff since 1993 can be explained by the much higher levels of information technology support staff in schools in more recent years. It is also likely that greater numbers of teacher's aides and special support staff were employed to assist teachers in serving students with special needs, such as students with autism and other forms of behavioural and learning difficulties, and in providing English language support for new arrivals and other students with English language difficulties.

This kind of support for classroom teachers would also have been provided in non-government schools over the period. However, the 75 per cent increase in student numbers in independent schools might partly explain the increase in the number of administrative and buildings/maintenance staff, especially given that these schools largely operate as stand-alone administrative entities.

Table 2.7 reveals that non-teaching staff made up just over one-quarter of all staff in government and Catholic schools in 2008, almost one-third of all staff in independent schools in that year. This has led to more favourable student–staff ratios across all staffing categories in 2008 compared with 1993, as outlined in Table 2.9. As a consequence, overall student–staff ratios in government schools (10:1) and Catholic schools (11:1) were generally comparable in 2008, particularly taking into account likely differences in the range of students with special needs and disadvantaged backgrounds between those sectors and the unavoidable diseconomies borne by the public sector. By contrast, the overall ratio of one staff member for every eight students in the independent school sector is significantly more favourable than in the other sectors.

It is also possible that funding pressures on schools and systems could have influenced authorities to employ higher proportions of non-professional staff for financial reasons, since it can be less costly to employ non-teaching staff, including part-time staff with lower levels of leave and superannuation entitlements, instead of permanent full-time teaching staff.

Much more information and research is needed for a full understanding of these recent trends in employing higher numbers and proportions of non-teaching staff in schools. This would assist in developing a much more finely nuanced approach to assessing the teaching workloads of schools across the sectors and, in so doing, to informing governments and school authorities of the implications of their funding decisions.

Table 2.9  
Student-staff ratios in the three school sectors, 1993 and 2008

Number of students per staff member	Government schools		Catholic schools		Independent schools	
	1993	2008	1993	2008	1993	2008
<i>Teaching staff</i>	15	14	17	15	13	12
<i>Non-teaching staff</i>						
Support staff	597	423	1,378	666	661	292
Admin/clerical/teachers' aides	83	48	95	56	57	38
Buildings/maintenance	593	540	411	292	156	142
<i>Total non-teaching school staff</i>	65	40	73	44	39	27
Total staff	12	10	14	11	10	8

Source: Australian Bureau of Statistics, *Schools 2008*, Cat No. 4201. NSSC Tables 43a and 51a

## CONCLUSION

The tables in this chapter invite comparison of the school sectors. To do so without regard to underlying technical issues would, of course, be irresponsible. In particular, the national figures for government schools are derived from accrual accounting conventions that do not apply in the same form to reporting of non-government schools' financial profiles. This means that the data for government schools are inflated by estimates of possible future liabilities, such as depreciation of assets, provisions for staff leave and other entitlements, superannuation and the like. On the other hand, the figures for non-government schools include amounts that do not directly affect their recurrent operation, such as estimates of interest to be paid on loans, especially for capital works.

It would be naïve to assume that comparisons of funding levels and sources among government, Catholic and independent schools would not find their way into public discourse. In particular, those who believe they might benefit from public discussion are likely to promote their own interpretation of the data in representations to government and to the public at large. Drawing sensible conclusions from such representations is difficult, and contentious, in these circumstances.

It is also the case that the use of average data in national reporting disguises inequalities within and between the sectors. This kind of problem can be addressed only through policies that drill down to school level, taking into account the actual needs of particular schools, communities and students. However, we offer the following broad conclusions from the kind of data outlined in this chapter.

Almost 95 per cent of all schools across all sectors are now dependent on government for day-to-day operation. All government schools and at least three-quarters of non-government schools – those in the lower-fee, high public-subsidy category – receive more money from Commonwealth, State and Territory governments than is needed for their teaching staff costs. These latter schools are also able to cover some or all the costs of their teacher's aides and other non-teaching support staff from the income they receive from government.

Independent schools that have higher levels of income from private sources enjoy a resources advantage over their counterparts in the government, Catholic and other lower-fee non-government sectors. The tables in this chapter suggest that the average-sized independent school employs about eight more teachers for its 500 students than does a comparable Catholic school, giving the former a 25 per cent teaching staff advantage. This advantage remains over a comparable government school, but at a lower level: five additional teachers, some 15 per cent higher.

These comparisons suggest that teaching resources in Catholic schools, on average, are some 10 per cent lower than in a comparable government school. As noted above, however, Catholic schools are not required to offer places to all who seek them and, as a consequence, are able to operate at a higher level of efficiency. This enables Catholic schools to avoid the significant diseconomies reflected in government schools' financial data. It was these kinds of issues that led the former Commonwealth Schools Commission to recommend financial 'loadings' of up to 15 per cent on proposed target resource standards in government schools compared with its recommended resource standards for non-government schools.

It is also likely that the effects of accrual accounting conventions on the financial figures in national reports are higher than comparable reporting on Catholic schools. On balance, the most sensible conclusion to draw from these comparisons is that government schools and Catholic schools (and probably most other lower-fee non-government schools) with comparable student populations and communities operate at about the same standard of recurrent resources.

The non-government sector overall, and the independent school sector in particular, operates with significantly higher levels of capital expenditure than do government schools. Some of this higher average capital spending is no doubt due to the pressure for building works for new and expanding non-government schools. But it is also the case that students in non-government schools enjoy higher standards of capital facilities than do their counterparts in government schools, on average.

All schools, including government schools, have received a significant boost in their spending on capital works from the substantial interventions by the Commonwealth in recent years: the Howard government's \$1.2 billion Investing in our Schools (IOS) program; and the Rudd government's \$16.2 billion Building the Education Revolution (BER) program, its response to the global financial crisis. The IOS program was terminated in 2008, and the BER program is scheduled to end in 2011–12. However, the figures recorded in the tables of this chapter exclude the effects of the IOS and BER interventions, thereby providing a more realistic picture of long-term trends in income for capital purposes from Commonwealth, State, Territory and private sources. They confirm that government schools received income for almost all of their general capital works from State, Territory and Commonwealth governments.

Non-government schools, on the other hand, received more than 90 per cent of their income for general capital works from private fees, charges and donations, albeit at a higher level as noted above. This is, of course, an averaged result. Individual schools, especially new and expanding schools, would be receiving a higher proportion of their capital income from government, especially the Commonwealth government. However, on average, Catholic schools received only about 9 per cent of their total income for capital works from government whereas independent schools relied on government for only about 4 per cent of their capital income.

This overview of current funding arrangements for government and non-government schools reveals a complex array of funding sources and a poor delineation of responsibilities among the funding partners. Such arrangements are conducive to cost shifting and blame shifting, to contrived forms of accountability, and to waste of time and effort, all at the expense of a clear focus on educational goals and priorities. The time is ripe for schools funding to be reformed to provide the conditions most conducive to students' learning and, in particular, to sustaining an adequate supply of high-quality teachers.

## WHERE HAVE WE COME FROM? AN OVERVIEW OF RECENT DEVELOPMENTS IN SCHOOLS FUNDING

Understanding the history of schools funding in Australia is a necessary basis for formulating proposals for the future. By examining policy precedents it is possible to find strengths and achievements that can be built upon to achieve a funding system with the capacity to meet genuine educational priorities, to acknowledge the persisting problems that need to be resolved, and to identify risks that need to be avoided.

Understanding national schools funding policies entails a focus on how and why the Commonwealth has become such a significant partner in schools funding. The influence of the Commonwealth extends far beyond its direct funding contribution to schooling. Its role and influence has, moreover, undergone a startling transformation over the past four decades. The vagaries of Australia's federal system have contributed significantly to creating a situation where the rationale for schools funding has been largely obscured by an accumulation of piecemeal changes. The relationship between the workload of schools and the resources available for the work expected of them is now arbitrary.

The previous chapter described current federal arrangements for schools funding, including funding policies. The policy objectives behind these arrangements, inherited in part from the Howard government, represented an attempt to apply the disciplines of the market – choice and competition – to a structure for federal funding of government and non-government schools introduced by the Whitlam government in 1974, with a view to promoting greater equality in Australian society and to achieving the social as well as economic benefits of schooling.

The flaws created by the Howard government's attempt to graft its contrary scheme to the shell of the Whitlam structure merely added to the effects produced by the accumulated attempts of successive governments, each with their differing ideologies and political imperatives, to deal with persisting policy tensions in schools funding.

Devising a program of public funding for a mixed system of government and non-government schools is challenging. This is especially so when the mix involves distinctive secular and religious education traditions. Australia has not been alone in encountering this challenge, but few if any other countries have adopted policy solutions that have made schools funding as divisive and contested an issue as it is here.

The transformation in the role of the Commonwealth is central to this problem. When it became a significant partner in schooling in 1974, the Commonwealth was widely seen as a champion of equity and of equality of educational opportunity. The Disadvantaged Schools Program was a flagship initiative, designed to improve education for those students from families and communities that were poorly placed to protect or advance their own interests. But it was the Commonwealth's program of general recurrent grants that was to become the driver of overall funding trends over subsequent years.

From 1976, a steady shift started to take place in the Commonwealth's distribution of its schools funding between government and non-government schools. From a 70 per cent share of the Commonwealth's total funding in 1974, the government schools' share had dropped to less than one-third by 2007. The changing policies and priorities of successive governments had contributed to this reversal of the Commonwealth's funding shares for government and non-government schools, until by the end of the Howard government's term of office, there had been a complete reversal.

Under the Australian Constitution, direct responsibility for schools remains with the States and Territories. The Commonwealth government headed by Whitlam formally took over the funding responsibility for universities at the same time as it decided to become a significant partner in schools funding. By 2004, however, total Commonwealth outlays on non-government schools began to exceed those for the nation's universities, and became the Commonwealth's major budgetary outlay on education. This remains the case in 2009, where the Budget update shows outlays of \$7.2 billion on non-government schools compared with \$7 billion on universities (Department of the Treasury 2009).

A report by the Centre for Post-compulsory Education and Lifelong Learning (2004) described this development in the role of the Commonwealth in the following terms:

*The Commonwealth has now largely assumed funding in relation to higher education and non-government schools – sectors where private contributions are growing most strongly, which are most highly valued by the community and from which the highest student outcomes are obtained. However, these sectors are the least accessible and least comprehensive in terms of their student profiles.*

### BACKGROUND TO THESE DEVELOPMENTS

These developments in schools funding can be traced back to colonial times, as the legislation passed by colonial governments became the legal basis for the systems of school education that still operate in Australian States and Territories today. Australia has had a dual system of government and non-government schooling ever since legislation was passed in each of the colonies to provide free, compulsory and secular elementary education for all children in schools operated by colonial governments. By 1895, state aid to non-government schools had been all but withdrawn.

The pattern we see today emerged from the introduction of government schooling: government schools enrol the majority of students; Catholic schools make up the second largest sector; and various other non-government schools forming a minority. Within this pattern, however, there have been significant changes over recent decades as a result of the rapid growth in the number of these independent, non-government schools, and a shift in the balance of enrolments towards these schools and away from government schools.

*A History of State Aid to Non-government Schools in Australia* (Caldwell, Selleck & Wilkinson 2007) provides a useful, scholarly account of developments in schools funding from colonial times. It also includes references to other reputable accounts of the events and issues the cumulative effects of which we see today. This report records the increasing pressures for state aid, which led to various forms of indirect support from State governments and also, after the second world war, from Canberra. It also records that for about 80 years the major political parties were united in the general policy of confining public funding to government schools, a source of long-held grievance in the Catholic schools community, which continued to operate its own parochial schools.

So the first great watershed in the history of the provision of schooling in Australia and of public investment in schooling was the decision by governments in the late 19th century to make schooling compulsory and, accordingly, to provide free and secular government schools that were open to all comers, and to withdraw public funding from other (non-government) schools. The restoration of significant public subvention to non-government schools by Australian governments, and by the Whitlam government in particular, was to prove the second great watershed.

The second watershed was precipitated by the need for increased investment in both government and Catholic parochial schools. Both sectors were struggling to deal with the growth of the post-war school population, as well as with parental and societal aspirations for the expansion of secondary schooling. Catholic parochial schooling was near to collapse under the strain. This was because of staffing shortages and financial stress created by the onset of decline in recruitment of religious teachers on whose contributed services these schools had always relied.

### The Whitlam years

The funding system introduced by the Whitlam government was based largely on the recommendations of its Interim Committee of the Schools Commission headed by Professor Peter Karmel. The Karmel Report of 1973 detailed serious deficiencies in the resources available to most schools, gross inequalities in educational opportunities, a need for an overall improvement in quality and for a significant increase in public investment to deal with these issues.

The Karmel Report ushered in a new form of funding entitlement for children and young people, in addition to their inalienable entitlement to a free place in a government school. Governments across Australia now became partners in recognising that all children and young people were entitled to a decent quality of education, supported by a necessary standard of resources in their schools, whether parents opted to send them to government or non-government schools. This entitlement was backed by the extension of public funding to non-government schools on the basis of need, which was established in relation to explicitly stated resource standards. The belief that underpinned this entitlement was that every child, irrespective of location or school, should have as good an opportunity as any other child of completing secondary education and continuing to further education (Caldwell, Selleck & Wilkinson 2007).

The Interim Committee (1973) defined 'need' in relation to the resources available in schools. It explained its approach to need as follows:

*The method used by the Committee for assessing the needs of schools in the non-government sector is in principle the same as that used for the government sector. That is to say, attention has been paid to the use of recurrent resources within schools and not to the plight of parents or the wishes of school authorities to reduce debts. The method used by the Committee relies mainly on the real resources currently employed in a school.*

The assessment of need relied, in particular, on student–teacher ratios and defined standards that were linked to average resource levels in government schools in 1972. The Committee recommended that the Commonwealth supplement the funding to be provided by State education departments to enable a significant increase (40 per cent above the 1972 level for government primary schools, and 35 per cent for government secondary schools) over the following five years. It also recommended that the Commonwealth provide additional funding so that all non-government schools would also meet these targets. For this purpose, non-government schools were to be ranked using an index of their recurrent resources, according to eight categories of which Category A covered those schools least in need of assistance and Category H those schools most in need of public assistance. Schools in Category A were those already using resources well in excess of the 1979 targets. The Committee recommended that payments be made to Catholic authorities in the form of a block grant, sufficient to 'raise the quality of schooling for a total number of pupils equivalent to the 1972 enrolment figure' and to be distributed internally by these authorities on the basis of relative need.

The Interim Committee (1973) stated that its recommendations were:

*... aimed at raising the standards of all schools that are below the target and at phasing out the financial support of the Australian government for those schools above that target. In recommending this action the Committee does not do so because it disapproves of high standards – quite the reverse – but because it believes that government aid cannot be justified in maintaining or raising standards beyond those which publicly supported schools can hope to achieve by the end of the decade.*

It took no time at all for the Karmel Committee's approach to the concepts of entitlement and need to be contested. The Whitlam government was unable to get legislation for its Schools Commission through the Senate without extending public grants to schools that were operating beyond the target resource standards. This was, in part, a political manifestation of the way the Protestant–Catholic divide at that time fell along

party lines between the major political parties. The definition of 'need' proposed by the Karmel Committee would have advantaged the schools serving the largely working-class Catholic community, with its traditional links to Labor and excluded the wealthy independent schools, mainly Protestant, with their links to the Liberals.

In its 1973 report, the Interim Committee acknowledged the interaction between government and non-government schools; and the potential for the relationship between the sectors to change as a result of increased Commonwealth funding to the latter. It recognised inherent tensions between the traditions of government schooling and non-government schooling in this country when it stated, for example, in relation to the extension of public funding to non-government schools, that the 'strength and representativeness of the public school sector should not thereby be diluted'.

This was not only recognition of competing forces, but of the difficulties that might arise in the future from the uncoordinated expansion of the non-government school sector (Caldwell, Selleck & Wilkinson 2007). It reflected an understanding that, when schooling is compulsory, schools are competing for a finite number of students, defined by the birth rate, the immigration intake and by secondary school retention rates. The report anticipated the need for more coordinated planning of new non-government schools now that such schools were being publicly funded, but recommended no action in this area. These issues tended to lie dormant for as long as the school population was growing and funding for both sectors was expanding.

There were several significant features of the Whitlam funding policies worth noting here. One was the establishment of a nexus between public funding of government and non-government schools. This came about with the introduction of defined standards as targets for general recurrent funding of schools in both sectors. Another feature was the development of a Schools Price Index to adjust grants for price and wage increases, in order to maintain their real value. A further measure was the Whitlam government's phasing out of personal income tax deductions for school-related expenses, given the introduction of significant additional recurrent funding for schools in both sectors.

But to the extent that the Whitlam funding arrangements represented a political 'settlement' in relation to schools funding, it proved to be short-lived. The fact that there was no upper limit to the private income some independent, non-government schools could attain while still receiving public funding support was contentious from the start and remained so.

Worldwide economic downturn soon brought funding cuts from the Whitlam government to its expansive schools funding programs. This led to cuts to capital expenditure in the 1975 Hayden budget. The general recurrent grants program, however, was far less affected than were other Commonwealth programs for schools; and the cuts fell slightly more heavily on the government school sector than on the non-government school sector.

This was to prove a harbinger of things to come. This was the first sign of the factors that would ensure that the growth of recurrent funding to non-government schools would be at the expense of Commonwealth support for the other priorities identified by the Karmel Committee; that the Commonwealth would become the primary funder of non-government schools; and that there would develop an asymmetrical imbalance in the funding responsibilities of the States and the Commonwealth in relation to government and non-government schooling.

This is a serious issue in a federal system in which the Commonwealth government raises the lion's share of all revenues. The Commonwealth was readily able to increase grants to schools in the non-government sector, especially as this sector is only half the size of the public sector, at a rate that was far harder for States and Territories to match for the much larger public sector, given competing claims on their tighter budgets.



At the start of the schools funding arrangements in the 1970s, however, States and Territories were increasing their own public funding to government schools at a rate that meant the Karmel targets for these schools would be met within the five-year period. At the same time, Catholic systemic schools were losing the contributed services of religious teachers and were thus becoming relatively needier than were government schools. By 1976, subsidy levels for non-government schools were expressed in money amounts, rather than in terms of the 'percentage link' – that is, as a proportion of average government school costs. This issue of the nexus between the level of, and movements in, government expenditure on government schools and public funding of non-government schools has been a recurring theme in the history of schools funding in Australia.

The concept of 'need' soon proved also to be contentious. For as long as the Commonwealth's recurrent grants for non-government schools were based on 'need' according to the gap between a measure of the resources available to them and a standard, there was some inbuilt discouragement for school authorities to raise their fees significantly. Fee increases could have the effect of taking a school over the line into a less favourable funding category, one with a lower entitlement to public funding. This discouragement did not apply, of course, to those schools already receiving the minimum grant, generally the most highly resourced non-government schools.

The Karmel concept was grounded in the entitlement of the student to equality of opportunity – the chance for each student to achieve his or her personal best through schooling. Far from increasing their private effort, many non-government schools proved unable or unwilling even to maintain their private effort relative to their public funding. This led to a significant drift of non-government schools into the funding categories for the needier schools, which attracted more favourable grants from the Commonwealth. There was nothing to inhibit a non-government school authority, in the years preceding the Hawke government, from maximising its 'need' for recurrent funding from the public purse by directing more of its private income towards capital expenditure on buildings and facilities.

But there were those within the non-government school sector who felt that providing higher grants to those non-government schools with the poorest resources provided no incentive for such school communities to increase their private effort. Caldwell, Selleck and Wilkinson (2007) report on the resentment in some quarters that the system based on the report of the Interim Committee '... didn't take into account people from a similar community who might have pushed themselves harder to find funds to make a better school. So Catholic schools qualified for more funding in certain communities than non-Catholic schools'.

But this view of the 'needs' versus 'incentives' issue, which has been a persistent theme since the 1970s, overlooks the fact that when it comes to non-government schools, the major form of 'private effort' is, in fact, parents' fees. And it ignores the connection between the level of fees charged by schools and families' access to those schools. It is clear that access by member families to their schools is valued more highly by some non-government school authorities and communities than it is by others; with those schools making more effort to find a balance between school fees, educational and resource standards and affordability by parents in their target community.

There has been little or no apparent enthusiasm by non-government school authorities in Australia to take up the opportunity to operate schools charging no or very low fees in poorer communities along the lines followed in a number of overseas countries. When the Schools Commission put forward a proposal for 'supported' schools, concerned at those schools where even the highest subsidies were insufficient to provide the resources needed to educate the students from the community served by the school, it gained no support. This resulted from the unwillingness of non-government school authorities to risk the loss of their religious identity, to lessen their control over student admission or staffing policies, or to submit to public representation on their governing bodies (Caldwell, Selleck & Wilkinson 2007). The significance and effects of the public–private funding mix in schools involves questions that need to be made explicit in any proposals to be considered in the future.

### The Fraser years

The worldwide economic downturn that had started during the Whitlam years extended to the Fraser government and led to budgetary restraint. Over the period 1974–75 to 1982–83, total public expenditure on schools increased in real terms by 26 per cent, with the States increasing their expenditure on schools by 29 per cent and the Commonwealth by 15 per cent. Over the decade since 1976, Commonwealth spending on schools had increased in real terms by 35.4 per cent or \$382 million. But, of that increase, the net effect was that all except \$2 million had been the result of Commonwealth general recurrent grants to non-government schools, with offsetting cuts to most other programs. The only increases were to migrant and multicultural education programs (Commonwealth Schools Commission 1985).

During these years, the trends that had become apparent soon after the entry of the Commonwealth to schools funding gathered pace. Open-ended grants to non-government schools were linked directly to a measure of the average cost of maintaining students in government schools. Within a static budget, this had the effect of 'skewing' the distribution of funds from the Commonwealth in favour of non-government schools, especially when enrolments were increasing in that sector (Caldwell, Selleck & Wilkinson 2007).

During the Fraser years, the Commonwealth reduced the number of funding categories for non-government schools from six to three. With so few categories, there was a significant difference in funding among the three, and thus a significant funding advantage to be gained from moving into the most favourable categories. This incentive contributed to producing annual budget blowouts in funding for non-government schools.

The Fraser government's guiding philosophy was the expansion of parental choice of non-government schools. During this time, however, tensions appeared in established areas where there was a declining or static school population. The cumulative effect of open-ended public funding for unplanned expansion of places in non-government schools began to affect the viability of existing schools, both government and non-government.

This was one of the tensions that made schools funding a major issue in the 1983 federal election. The Fraser years had brought funding increases for all non-government schools. The ALP responded, in its election policy, to political pressure for the Commonwealth to give greater funding priority to government schools, to reduce its funding for non-government schools that had very high resources, and to give more to those that needed the funds most.

### The Hawke–Keating years

Caldwell, Selleck & Wilkinson (2007) refer to the period of the Hawke and Keating governments as one of 'change then stability' in relation to schools funding. When the Hawke government was elected in 1983, it was plunged into controversy when it attempted to implement its policy of a phased reduction in funding to a small number of non-government schools with atypically high resource levels. The period of relative stability that followed this initial conflict can be attributed to several factors.

The Hawke government, recognising that Australia had a 'dual system' of schooling, with its publicly funded government and non-government school sectors, formulated its policies with a view to achieving a more complementary relationship between the sectors. It also took a consultative approach to the development of policy through the Commonwealth Schools Commission, especially with the States. This gave due recognition to the States as the major funders of government schools and as key funding partners of non-government schools. While the change in Commonwealth funding priorities between the sectors was not sufficient to satisfy many government school supporters, for almost a decade it did reverse the rate of increase, now in favour of government schools. In addition, States generally brought their own grants to non-government schools into a parallel scheme to that adopted by the Commonwealth, so that there was a more complementary policy relationship between the two levels of government.

Based on the advice of the Commonwealth Schools Commission in its 1984 companion reports, *Commonwealth Standards for Australian Schools* and *Funding Policies for Australian Schools*, the Hawke government adopted arrangements for quadrennial funding of government and non-government schools, based on a *community* standard of resources. This standard was determined with reference to a judgment about a notional 'basket of services' containing the level and range of recurrent resources required in all schools.

For non-government schools, these arrangements included a more comprehensive definition of 'need'. This took account of the total private income of non-government schools (received for both recurrent and capital expenditure) for the purpose of ranking them in categories, to determine their entitlement to Commonwealth general recurrent funding against the community standard. The new measure used for this purpose was called the Education Resources Index (ERI), replacing the Schools Recurrent Resource Index (SRRI) that had been used previously.

The three categories were expanded to twelve, to better reflect the varying needs and circumstances of schools in the non-government sector. For those non-government schools thereby placed in a lower funding category than they had been previously, their grants were adjusted over time through inflation. Recipients of Commonwealth recurrent funding – State, Territory and non-government authorities – were expected to maintain their own funding effort, in the interests of progress towards the achievement of the community standard. This was a move in the direction of a contractual arrangement or compact of the kind common in other spheres, outside education, in relation to public–private partnerships.

Under the Hawke government, demographic planning criteria were applied for the first time to the general recurrent funding of new non-government schools. The New Schools Policy (which also applied in some circumstances to changing and expanding schools as well as to new schools) was designed to give priority, in consideration of proposals seeking Commonwealth funding, to expanding school places in those areas where there was a demographic need for school places. It was also designed to avoid the problems that had been experienced when funding was provided for new schools and places in areas experiencing enrolment stability or decline, in the interests of maintaining the stability and quality of services in existing schools as well as preserving the value of public investment in those existing schools (Caldwell, Selleck & Wilkinson 2007).

The introduction of resource agreements, designed to link the Commonwealth's educational objectives and priorities to its general recurrent funding were a further move towards developing a clearer link between this funding and the educational purposes and priorities it was intended to serve; and a more contractual approach among the funding partners.

During the years of the Keating government, one of the major changes was the 1993 abolition of the *community standard* as the benchmark against which Commonwealth general recurrent grants should be provided, through a return to using Average Government School Recurrent Costs (AGSRC) for this purpose.

Under the Hawke government, the Schools Commission was abolished and replaced by the National Board of Employment, Education and Training (NBEET), with the Schools Council as one of its four councils. The establishment of this Board reflected a shift in the role of the Commonwealth towards using the setting of national goals for education as a driver of economic development.

### The Howard years

The next watershed in schools funding policies in Australia followed the election of the Howard government in 1996. The Howard government's arrangements for Commonwealth recurrent funding of schools were grounded in the belief that the way to drive the quality of schooling was to use public money to promote parental choice of non-government schooling and by this means to stimulate provider competition (Kemp 2000).

Using public money to promote a transfer of students from schools in the public to schools in the private sector was also seen as a means of producing savings to the public purse, through providing an incentive for greater private investment in schooling. This philosophy was evident in the 1996 Commonwealth Budget context, where the Commonwealth introduced a mechanism known as the *Enrolment Benchmark Adjustment*. This was designed to ensure that the Commonwealth would recoup from the States a share of the savings anticipated to result from a decline in the size of the student population in the government school sector, relative to that of the non-government sector.<sup>21</sup>

In this policy scenario, the fundamental value and strength of government schooling was described by Prime Minister Howard as the 'safety net and guarantor of a reasonable quality education in this country' for the children of those with parents unable or unwilling to pay for private schooling (Armitage 2007). This stood in stark contrast to the values that had underpinned the entry of the Commonwealth as a highly significant player in schools funding under the Whitlam government and, later, under the Hawke and Keating governments. This abandonment of the principles that had underpinned the Whitlam 'settlement' brought into the open many of the underlying policy tensions inherent in schools funding for Australia's mixed school system.

Among the first changes was the abolition of the previous Labor government's New Schools Policy. This was consistent with the Coalition philosophy of promoting school choice and competition. Although the New Schools Policy had not had a dramatic effect on the number of new non-government schools that were opened, it had contributed to more effective planning (Caldwell, Selleck & Wilkinson 2007). However, the new government saw this as a constraint on parental choice, and non-government schools authorities saw it as unwelcome interference in their own decision-making.

Providing funding incentives to encourage parents to enrol their children in non-government schools was seen by the Coalition government as a means of reducing government spending on schools over the longer term. In the meantime, however, removing the constraints of the New Schools Policy had the potential to drive up Commonwealth spending on schools, since the national government was itself the primary source of public funding for the non-government sector. As noted above, the 1996 Budget contained the controversial (and technically flawed) *Enrolment Benchmark Adjustment* to ensure that the claimed 'savings' to States and Territories in the provision of public schooling from such a shift would be used to offset the Commonwealth's additional funding of non-government schools. This ignored the fact that the States and Territories were themselves providers of funding to non-government schools. This policy episode drew attention to the effects on schools funding of the generally poorly delineated relationship between the Commonwealth and States in Australia's federal system, where the capacity for mutual cost shifting was adding to the schools funding policy imbroglio.

Also among its first changes, the new Howard government abolished the Schools Council and, by degrees, the whole NBEET structure. The scheme adopted by the Hawke government for the general recurrent funding of government and non-government schools had been grounded in the advice of the Schools Commission and subjected to widespread consultation with the States as well as non-government school authorities. In 2000, by contrast, the Howard government acted unilaterally in introducing its own new funding arrangements for non-government schools, even though States and Territories (as the lesser partners in the provision of public funding for these schools) were clearly affected.

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<sup>21</sup> Department of Treasury, Budget Statement 3, 1996–97.

The scheme introduced by the Howard government broke the nexus between the level of private resources available in non-government schools and the level of public funding to which they were entitled from the Commonwealth. Instead, the assessment of 'need' was based on an indirect measure of parental capacity to pay, with the generic socio-economic status of the census collector districts in which they lived being attributed to individual parents with children at non-government schools. Non-government schools were then ranked according to a score based on a weighted average of these scores. Non-government school authorities were now free, under the SES-based scheme, to charge whatever private fees their target market would bear, without affecting their level of public funding from the Commonwealth.

The already attenuated link between educational resources, goals, outcomes and schools funding policies in Australia was weakened further during the years of the Howard government, with its policy focus on choice and competition. The policy stance adopted by the Howard government to its inherited role in funding government schools was largely one of indifference. From the introduction of its socio-economic scheme (SES) in 2001 for general recurrent grants to non-government schools, the Howard government simply expressed its per capita general recurrent grants to government schools as a percentage of AGSRC for primary and secondary schools. These figures turned out to be 8.9 per cent of AGSRC for primary schools and 10 per cent for secondary schools.

By this time, the situation had been reached where the minimum general recurrent grant the Commonwealth provided for a student in the non-government sector (that is, for those from the most socio-economically privileged backgrounds) was well above the grant provided in respect of any student in the government school sector. This minimum grant for non-government schools turned out to be the equivalent of 13.7 per cent of AGSRC – a figure, like the 8.9 per cent above, suggesting an arbitrary basis for these funding amounts. All grants for non-government schools were distributed over a 'continuum' of 46 subsidy levels from a minimum of 13.7 per cent of AGSRC to a maximum of 70 per cent of AGSRC. Grants to the mass of non-government schools, including the large Catholic systems, clustered around 50 to 60 per cent of AGSRC.

The difficulties experienced by the Howard government in its attempts to implement its SES-based funding scheme demonstrated that Australia's system of schooling is more a 'hybrid' than a 'dual' system. Within the non-government sector, the SES-based scheme was more congenial to independent than to Catholic systemic school authorities, both because of its underpinning philosophy and its financial implications. The scheme was not applied to Catholic systemic schools until 2004 and then only with some specially negotiated financial considerations. This demonstrated that the concept of a 'dual system' of schooling in Australia was a simplistic one. Particularly in relation to funding and planning, it could be argued that the government school sector and the Catholic sector constitute a 'dual system' of schooling. But in terms of their various traditions, values and practices, it would be difficult to view the independent non-government schools as a coherent sector except in a narrowly technical sense.

A decade after the introduction of the SES-based scheme, about half of all non-government schools are still receiving grants according to the category in which they were placed under the previous Labor scheme with its ERI index. The technical and administrative anomalies and flaws in this scheme have been widely documented (Department of Education, Science and Training 2006; Dowling 2007; Cobbold 2008).

Despite the Howard government's claims (Kemp 1999) that the increased funding provided to non-government schools through its SES funding arrangements would give low-income families greater access to those schools, it made no attempt to require schools to direct funding to this purpose. In the 2009 report of the Australian National Audit Office, *Performance Audit Report No.45 – Funding for Non-government Schools*, it was pointed out that little or no attempt has been made by the Commonwealth to hold the participating schools accountable for meeting these stated policy goals or to gather relevant data to enable such an assessment.

When the SES funding scheme was introduced in 2001, the significantly increased Commonwealth funding for high-fee, highly resourced non-government schools was justified by claims that these schools would use the increased funding to lower their fees. At the same time, however, the government removed all downward pressure on fees, arguing that non-government schools should be free to raise their private income without affecting their level of Commonwealth general recurrent grant; and that any restraint on fees constituted a disincentive to private effort. This was an example of either policy confusion or obfuscation. If the government's intention was to broaden the socio-economic composition of those families with access to non-government schools, its policy embodied a powerful nudge in the opposite direction.

The effect was merely to exacerbate an existing trend. A study by Ryan and Watson (2004) had already demonstrated that independent school authorities had used their public funding mainly to increase the quality of their services (for example, through reducing student–teacher ratios) rather than to broaden access to lower-income families through special arrangements for reduced fees. In fact, under the Hawke-Keating government's policies, for example, reducing fees would have constituted a breach by school authorities of the obligation for 'maintenance of effort'. Despite policy shifts, Ryan and Watson demonstrate that, in relation to independent schools, the percentage point increase in the enrolment share of these schools since 1975 had not substantially altered the socio-economic composition of their own student body. This had the effect of contributing, in turn, to a growing concentration of students from lower SES backgrounds in government schools.

Preston's (2008) analysis of census data between 1986 and 2006 confirms this pattern of exchange between the socio-economic profiles of the government and non-government school sectors, with an increasing concentration of low-SES students in the contracting government school sector, and an increasing concentration of high-SES students in the expanding non-government sector. The Australian National Audit Office report (2009), cited above, found that, in independent schools, private funding rises with a school's SES scores; but that this effect is far less marked in the systemic (predominantly Catholic) non-government schools.

This again illustrates the differences in the philosophies and practices of school authorities within the non-government sector. Evidence is cited from time to time by Catholic authorities of the exclusion from their own schools of students from lower-income Catholic families, their places being taken up by students from non-Catholic families that are able and willing to pay the required level of fees. This is generally brought forward as evidence of need for higher subvention from governments. As experience has demonstrated, however, increasing public subsidies will not, of itself, make non-government schools more generally affordable, since affordability depends on the private fees set by the school authorities. Providing subsidies for a private service while deregulating private fees is recognised by economists as a recipe for inflating the price to consumers.

The Howard government's schools funding policies were based on the philosophy that increasing the public funding for non-government schools should be used as a means of reducing the burden of the costs of schooling on taxpayers generally; while also returning a share of their taxes to those parents able and willing to pay for non-government schooling for their children.

The argument that increasing public subsidies to non-government schools reduces the call on the public purse has a long history in the politics of 'state aid' in Australia. This argument underpinned the threats by some Catholic bishops in the 1960s to transfer their students to public schools if government failed to meet their funding demands. It was the point of the Goulburn 'strike' in 1962, where Archbishop Eris O'Brien and his auxiliary Bishop John Cullinane closed the four Catholic schools in Goulburn. Some 2,000 students from these schools sought enrolment in the government school system, to demonstrate its inability at that time to accommodate the additional students. The 'strike' only lasted a week and the students returned to their re-opened Catholic schools (Campion 1987). The effects and the argument continue to this day.



The argument has face validity. The total income of non-government schools consists largely of public grants and private contributions, in the form of fees, charges, levies and donations. Commonwealth and State/Territory grants for non-government schools are, in general, linked to public spending on government schools, and are lower than 100 per cent of government school costs.

But there is a difference between a model that relies on an assumption about 'all other things being equal' and the real world in which they so rarely are. Whether or not increasing public funding of non-government schools will produce public savings depends on the circumstances at the time, which are likely to be complex. For example, it is now possible to use publicly available data to take a 'before and after' financial snapshot of the effect of increasing enrolments in non-government schools over the decade following the election of the Howard government, 1996 to 2006.

What this snapshot shows is that, had the students who made up the increased enrolments in non-government schools over the decade 1996 to 2006 been enrolled instead in government schools, the total public bill for schooling over that decade would actually have been \$1 billion less than it turned out to be. Using government schools to accommodate the extra 200,000 students who enrolled in non-government schools between 1996 and 2006 would have cost about \$2 billion of public money, whereas the actual increase in public funding for non-government schools over this period was more than \$3 billion.

The background to this calculation can be summarised with reference to the fact that the 200,000 additional students in question were entering a non-government sector in which the costs to governments, Commonwealth and States/Territories, were rising. Had these costs been held constant, in real terms, from 1996 onwards, then the Howard government's claims that its policies would save public money may well have been correct, although the savings would not have been significant.

In addition to the effects of State and Territory funding policies (through real increases to non-government schools and through the effects of the AGSRC index), the Howard government itself took a series of actions, as described in Chapter 2, which increased the public funding to non-government schools far beyond what was attributable to enrolment increases alone.

The claim that all parents who elect to send their children to non-government schools thereby produce savings to the public purse is not borne out by the evidence. In fact, the higher the level of public funding to these non-government schools, the weaker this claim becomes. This claim also needs to be considered within the context of the obligation and necessity for governments to continue to support government schools, of non-government schools drawing a disproportionate share of their students from more socio-economically privileged backgrounds (overall and, in most cases, locally), and of the government school sector left supporting a disproportionate share of those students who require more intensive and costly support from their schools.

In Australia, where public funding to non-government schools is largely free of planning considerations, the effect of a shift of students to the non-government sector can have the effect of driving up per student costs in government schools. This then has a flow-on effect, since average per student costs in government schools provide the basis for indexation of Commonwealth grants to non-government schools. It is not difficult to see why the Howard government's projections of 'savings' to the public purse proved false.

### The Rudd years

When the Rudd government came to power at the 2007 federal election, it honoured its commitment to maintain the Howard government's general recurrent funding arrangements for non-government schools. In addition, it honoured its election promises to change the system of income taxation rebates to include an education tax refund (at a cost of \$4.4 billion over four years), to begin to provide computers for all senior secondary students (\$1.2 billion over five years), and to establish new trade training centres in secondary schools (\$1.1 billion over five years). These latter two programs were allocated across government and non-government sectors according to secondary school enrolments, which are 60:40 in favour of government schools. Distribution of the education tax refund across the sectors is unknown at this stage.

One of the Rudd government's first substantial measures was to introduce legislation that extended its predecessor's general recurrent per capita grants program. Subsequently, it made the significant decision to increase Commonwealth general recurrent per capita grants for government primary schools from 8.9 per cent to 10 per cent of AGSRC, bringing those grants into line with the rate for government secondary schools. This ended one of the long-standing anomalies in Commonwealth general recurrent funding of government schools, as noted in Chapter 2.

The Rudd government's own funding policies and priorities for schools became clearer over the period following its first Budget. In late 2008, it announced new national agreements between the Commonwealth and the States and Territories, committing an additional \$3.5 billion for schools over five years. This major funding package included increased general recurrent funding for government primary schools, noted above, and significant new moneys totalling more than \$2 billion over five years for its Smarter Schools programs for quality teaching, literacy and numeracy, and schools serving communities with low socio-economic status. These Smarter Schools programs are subject to final agreements with, and financial contributions from, the States and Territories, but are likely to give government schools more than their enrolment share of these programs given the higher incidence of students with special needs in that sector.

These agreements were negotiated in the context of a more fundamental change, led by the Rudd government, to the form and structure of inter-governmental financial agreements in a number of key areas, with health and education being prominent. Governments agreed to establish a COAG reform council to coordinate national agreements and related national partnership payments and to strengthen accountability for the achievement of agreed outcomes. These arrangements were the first serious attempt at reforming and strengthening Commonwealth–State responsibilities in schooling since the establishment of resource agreements in the early years of the Hawke government.

A final major change in schools funding arrangements was the Rudd government's decision to provide more than \$16 billion over four years as part of its stimulus package in response to the global financial crisis in early 2009. Government schools are projected to receive about 70 per cent of these funds, given their enrolment share in primary schools to which most of the funds are being directed.

These major funding decisions began to turn around the funding imbalance that favoured non-government schools over the years of the Howard government. By the end of the current Budget estimates period in 2012–13, the Rudd government's funding for schools since it assumed office in 2007 is projected to be about \$77 billion in aggregate, being \$35 billion for government schools and \$42 billion for non-government schools (Department of the Treasury 2009). The continuing higher share of Commonwealth funding for non-government schools is principally due to its inherited general recurrent program, which forms some \$34 to \$36 billion of the \$42 billion projected for non-government schools over the five-year period of the Budget estimates (McMorrow 2010).



Most of the increase in total funding for schools over the Budget estimates period is due to the Rudd government's substantial investment in school infrastructure through Building the Education Revolution (\$16 billion), Digital Education Revolution (\$2 billion) and Trade Training Centres (\$1 billion) programs. The largest of these programs, Building the Education Revolution, will terminate in 2011. By 2012–13, the Rudd government will be providing just over \$13 billion for schools, comprising \$4.7 billion for government schools (an increase of \$2.1 billion or 80 per cent more than funding in the final Budget year of the Howard government in 2007–08) and \$8.3 billion for non-government schools (an increase of \$2.8 billion, or 50 per cent more than in 2007–08).

These funding commitments are projected to increase government schools' share of total Commonwealth funding for schools from the low of 32 per cent in the final year of the Howard government, to 36 per cent in 2012–13. These funding commitments in the outer years of the current Budget estimates will, of course, be subject to changing policies and priorities, particularly in view of the funding decisions following the forthcoming federal election. They are also potentially subject to any changes emanating from the foreshadowed review of the Commonwealth's general recurrent funding arrangements prior to the end of the current funding quadrennium in 2012.

One thing is clear from the Rudd government's Budget papers, however: its funding projections continue to be dominated by the funding commitments, structure and formulae inherited from the Howard government. As noted in Chapter 2, the promised funding review provides a timely opportunity for the Rudd government to clearly establish its own stamp on funding principles, policies and priorities for schools, rather than continuing to use the Howard government's flawed and inequitable funding arrangements for schools.

### KEY POLICY ISSUES AND TENSIONS

The watershed changes made by the Whitlam government introduced new complexities to schools funding arrangements in Australia, which arose from the need for public funding policies to accommodate a hybrid schools sector.

Such complexities are present in most education systems. They arise from divergent views about the purposes of schooling and from competing political ideologies, which are apparent within, as well as between, the school sectors in Australia and the two levels of government. Changes in the economic, social and political context would undoubtedly have contributed to some of the trends that are now evident, without the direct effect of the funding policy changes outlined above.

For some, schooling is about shared culture, a means by which a whole society passes on its most valued and best validated understandings about the world to new generations. For others, schooling is the means by which a particular section or sub-group of the society, a special-interest community, can provide its own formation, religious or other, for the children of member families. And for others still, the purposes of schooling may be individualistic and utilitarian, the means by which they seek to secure their own children's status and employment in a competitive world. For many, the purposes of schooling are a blend of all of these and more.

Some of the tensions related to schools funding over recent decades can be traced back to competing views about the role of government in society more broadly. These issues will continue to drive competing approaches to schools funding policy. These issues are made more complex in this country by the generally poorly delineated respective roles and responsibilities of Commonwealth and State governments within Australia's federal system. With the entry of the Commonwealth, schools funding became entangled in the complex web of Australia's federal system, including the fundamental problem of vertical fiscal imbalance. In relation to schools funding, however, it is the role of the Commonwealth that has undergone a metamorphosis over the past decades. Perhaps this is partly explained by the Commonwealth, with no responsibility for the direct provision of schooling, being opportunistic in seeking avenues for influence.

Just less than half of the new public funds injected into schools by the Commonwealth, starting in 1974, took the form of general recurrent grants to government and non-government schools. Another one-third of the total went into buildings. About 17 per cent went into targeted programs (for libraries, disadvantaged schools, special education, teacher development and innovation). About 70 per cent of the total funding from the Commonwealth at that time went to government schools and about 30 per cent to non-government schools. This approximated the relative share of enrolments between the two sectors.

By the end of the Howard years in 2007, this situation was completely reversed, with only 30 per cent of Commonwealth funding flowing to government schools and 70 per cent to non-government schools. This was, in effect, a turnaround in Commonwealth funding of schools of 40 percentage points in favour of non-government schools, while enrolments had changed over that period by only 12 percentage points.<sup>22</sup>

This shift in Commonwealth funding has occurred incrementally in the main, largely without any coherent or explicit rationale or explanation. The division of funding responsibilities between governments for the two sectors, government and non-government, is a product of political decisions. It is not based in legal or Constitutional requirements.

#### EFFECTS OF FEDERAL SCHOOLS FUNDING ARRANGEMENTS ON AUSTRALIAN GOVERNMENT SCHOOLS

The lion's share of public funding for schools is the amount States and Territories provide for government schools, which is determined annually through State budget processes. Flexibility in these State and Territory budgetary decisions is heavily constrained, particularly since the education portfolio represents about one-quarter of all State or Territory budget outlays. Changes to the government schools budget are driven primarily by the numbers of teachers required for the students they enrol, and by salary movements for teachers and other school staff.

Demographic changes also affect State and Territory budget outlays on schooling. Budget outlays are affected by trends in the blend of primary, junior secondary and senior secondary students, and by fluctuations in teachers' age profiles, such as the growing proportion of beginning teachers on lower salary scales, set against increasing pressures for teacher support and mentoring, for rewarding outstanding teaching and for meeting pension commitments for retired teachers.

Most policy decisions to increase funding for government schools take the form of pre-election commitments. These can involve significant expense, such as decisions to reduce class sizes in the early years of schooling. There is, however, a tendency for the costs of such policy decisions to be offset by savings in other areas of the education portfolio at other stages of the electoral cycle. Spending on government schools is also influenced by the need to respond to changes in the intensity of students' learning support needs, by changes in school completion rates or by the introduction of curriculum changes, such as the expansion of provision of vocational education and training in schools.

But this does not alter the fact that the annual budget for government schools in this country is largely the product of an underlying set of formulae that are predictable and, in a very real sense, driven by factors outside the control of State and Territory treasuries.

The nation's policy energy and effort in schools funding, in the meantime, has largely been invested in non-government schools, particularly through the changes in the funding role of the Commonwealth. Because of its implications for government schools, the way in which the funding role of the Commonwealth has evolved has been one of the most contentious aspects of federal schools funding policies over recent decades.

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<sup>22</sup> Excluding the short-term Building the Education Revolution stimulus moneys

The focus of this contention has altered over the years. It began with a concern about extending public funding from secular to religious schools and about the role of the state in supporting religion by this means. This concern was fanned by traditional sectarian rivalries among churches, with anxieties that one denomination might benefit from public funding more than another. This culminated in the DOGS (Defence of Government Schools) Case, where the High Court held in 1981 that the Constitution did not prohibit the Commonwealth from providing financial assistance to schools operated by religious organisations on the same basis as to other private schools. Concerns about the public funding of schools operated by religious organisations persist, but are often expressed in relation to schools run by those considered to be outside the mainstream, such as the Exclusive Brethren, or are taken up in relation to governments' responsibility for curriculum standards, rather than public funding.

By the end of the twentieth century, however, traditional cultural and political rationales for the public funding of non-government schools had been conflated with arguments drawn from neo-liberal economic theories. The Howard government policies signalled the use of non-government schooling as a ready-to-hand market mechanism for the distribution of public funding. This has had the effect of refocusing concerns about the public funding of non-government schools on the issue of social stratification and, in turn, on the future of public schooling.

Karmel (2000) pointed out that, in relation to schooling, such theories needed to be examined in terms of the benefits they might produce for some against the resulting inequalities. He argued that market solutions run the risk of increasing social stratification and retreating from the provision of common schooling for all Australians as an exercise in nation building. In 2001, a joint report of the Australian Council for Educational Administration and the Australian College of Education (2001) expressed similar concerns, namely that funding policies based on parental choice 'can lead to unproductive competition, to unfair advantage for a few, to the increasing privatisation of provision, and to the debilitation if not the destruction of the public system of education'.

Doherty, McGaw and O'Loughlin (2004) pointed to the radical nature of schools funding arrangements in Australia under the Howard government and the implications for public schools: 'Australia is unique in the extent to which non-government schools are able to combine private resources with government funding to achieve a substantial advantage over the public system'.

It is important to understand that growing social stratification among schools, with implications for the status of government schools, reflects broader social trends, whether or not it is also affected by schools funding policies.

The idea that each and every government school could or should be a microcosm of the society as a whole has always existed more in rhetoric than reality. Schools serve local communities and reflect the social composition of these neighbourhoods. The social and economic factors that lead to socio-economic stratification among neighbourhoods and regions show up directly in government schools, so that there are government schools that serve predominantly wealthy families in affluent areas and those that serve families at the other end of the socio-economic spectrum, where unemployment may be high and parental education levels low. The interactive effects of economic change, of growing affluence in society generally and in specific communities, changing real estate values, trends in the birth rate and in patterns of immigration and settlement – these continue to interact to affect the social composition of schools and school systems.

Vinson's 2004 analysis of the distribution of social disadvantage showed that 25 per cent of early school leavers in Victoria and New South Wales came from just 5 per cent of postcodes. These students are concentrated overwhelmingly in government schools. Yet there are many government schools, serving well-off localities, with a higher socio-economic profile than non-government schools in poorer localities.

There is some evidence, from countries without the stimulus of public funding on the same scale and conditions provided in Australia, that there has been a move by parents to various forms of private schooling. This may reflect rising levels of affluence, the rise of consumerism and the positioning of schooling as a positional good, the failure of governments to fund public schools at a level consistent with the aspirations of higher income parents, perceived deficiencies in some government schools, a search for comfort in homogeneities, and the desire for a sense of identity in increasingly diverse populations.

Vickers (2005) points out that:

*Australia is unusual in lacking clear mechanisms for adjusting the supply of school places to demographic demand. In the USA, for example, neighbourhood schools are funded through local property taxes, which means that local citizens are more inclined to reform their neighbourhood schools than to fund a parallel system of schools that would potentially lead to a wasteful duplication of existing facilities.*

She points out that approximately 90 per cent of children in the United States attend public schools from kindergarten to twelfth grade and that, despite substantial improvements in real family incomes over the past sixty years, this overall proportion has not varied greatly over that period. But this does not mean that public school systems are themselves immune from the process of social stratification, or the effects of social sifting and sorting, either in Australia or in comparable overseas countries.

Campbell, Proctor and Sherington (2009) report on the findings of their major four-year research project funded by the Australian Research Council about how market forces are playing out in relation to schooling. They describe the great disparities in the resources available in different schools, and also the process by which some schools in high demand are able to select their student intake while others are relegated to becoming 'safety net' schools that serve an over-representation of those children from families in trouble for a range of reasons. This is particularly the case for some government secondary schools in poorer areas of Australia's cities and towns.

Policies within the government school sector designed to foster diversity, choice and competition are described by Lamb (2007) and Rorris (2008) as having the effect of worsening the divides otherwise created by social geography. These include devolution of decision-making to individual schools, a focus on school-based management, and the relaxation of school catchment boundaries.

Statistics show that the rapid growth in enrolments in independent, non-government schools has brought about a shift in the balance of enrolments to these schools, away from government schools. But this is a net effect. It masks the process of social churn that has also been going on within the non-government schools sector in Australia.

There is evidence from within the non-government sector itself that the Catholic system has been losing students from poorer Catholic families to government schools, and from higher SES Catholic families to independent schools, while drawing their replacements increasingly from non-Catholic families. A 2004 study commissioned by the Catholic Education Commission of Victoria into the affordability of its schools in Victoria noted that differences in patterns for different schools, in relation to the proportion of students from low-income families, appear to reflect differing recruitment patterns among schools, with students being increasingly segregated in terms of family background, in a competitive market for students. (Catholic Education Commission of Victoria & Monash University – ACER Centre for the Economics of Education and Training 2004).

While it can be argued that broad social and economic trends have contributed to Australia's heading towards a two-tiered education system, with government schooling becoming the poor relation, it is also the case that public funding policies have been a significant factor in widening the resource gap between government schools and many independent non-government schools. By 2004, as reported by Watson (2004), more than one-quarter of independent school students were attending schools whose income from private

tuition fees alone exceeded the average expenditure per student in government schools. Overall, more than half (55 per cent) of students in independent schools were enjoying total resource levels higher than the average in government schools. This is despite the fact that these schools generally were serving students drawn disproportionately from more socio-economically privileged backgrounds.

To gain an accurate and complete picture of trends in public funding, it is necessary to take account of the contributions of both the Commonwealth and the States/Territories to both sectors of schooling. From this standpoint, however, there has been nothing in the continuing patterns of contributions of State and Territory governments to non-government schools to counteract the trends driven by the Commonwealth.

The chemistry produced by combining the asymmetrical split in Commonwealth and State/Territory responsibilities for government and non-government schools with the problem known as 'vertical fiscal imbalance' in Australia's federal system has proved damaging to public schooling. By 2004, for example, Commonwealth general recurrent funding to independent non-government schools alone had reached the point where it outstripped its funding to the whole of the government school sector. The Commonwealth Minister's Budget media release at the time (Nelson 2004) showed that the roughly 13 per cent of students in the nation's independent non-government schools, less than one-fifth of the enrolments in the government sector, would be allocated \$7.6 billion in general recurrent funding from Canberra for the new funding quadrennium, while \$7.2 billion was allocated to the 2.25 million students in government schools. Tensions arising from these circumstances were only exacerbated by political attempts to justify them through creating a perception of a separation of powers between the Commonwealth and the States/Territories for government and for non-government schools, when there is no such reality.

Over this period, total public funding for non-government schools had grown at three times the rate of spending on government schools (ABS 2006), which deepened the sense that Australia's government schools were being left behind.

A significant factor in the growth of public funding to non-government schools at the expense of government schools was the perverse use of AGSRC to index Commonwealth grants to schools, as discussed in Chapter 2. There may have been a rationale for such a mechanism when the policy goal was to raise under-resourced non-government schools towards the higher resource standards that were then current in government schools. But when this mechanism was applied to non-government schools operating well above the resources provided to government schools, any attempts by States or Territories to close the gap by investing more in their public schools was futile, since the result was to generate increases to all non-government schools. This perverse use of AGSRC has contributed to widely held concerns about the effect of schools funding policies on the health of government schooling in this country, and to the social stratification of schooling.

This has effects well beyond the problems created for those who bear the direct brunt. Wilkinson and Pickett (2009) provide evidence that students' performance at school is closely linked to social inequality which, in turn, has corrosive effects on society as a whole, and not simply on those who suffer its effects directly. A new study from the OECD Economics Department points to the negative educational effects of policies that have the effect of reducing the socio-economic mix in schools; and the flow-on effects to societies of such policies in the form of reduced social mobility (Browne 2009).

Recent decades have brought a general political shift towards reducing the roles and responsibilities of government and according greater authority to market forces. In Australia and in many comparable countries, this has led to debate about the respective roles of government, parents and school communities, in relation to schooling. Even in this general political climate, however, Australia has pursued a policy mix that is radical by international standards. When it comes to the balance between the public funding of schools and the obligations that attach to acceptance of that funding, few countries with as high a proportion of government-dependent private schools have opted for so light a set of regulatory conditions.

A declining proportion of better-off parents, in particular, is now choosing government schools for their own children. Many of these, however, judging by various opinion polling from time to time and from media commentary, continue to support the principle that the primary obligation of governments in relation to schooling is to ensure the maintenance of a strong and socially representative government school system, open to all without any discrimination on the grounds of students' circumstances, backgrounds or parents' beliefs or financial capacity. This is an obligation embedded in the legislation of all the Australian States and Territories.

It is also widely accepted that government has a particular responsibility to protect the educational interests of those whose parents and communities are not well placed to do so, and who are vulnerable in any competition for the benefits of schooling. Greater investment in government schools is now regularly identified as a high public policy priority in reputable opinion polls.

#### ISSUES RELATING TO THE MIX OF PUBLIC AND PRIVATE FUNDING

The experience of recent years has highlighted the significance of the mix of public and private funding of schools. As a policy issue, the implications of this mix are deserving of far greater understanding and analysis than what has been given to date.

It is generally accepted, in countries like Australia, that governments should not attempt to dictate to parents how they spend their own private income on their children's schooling (unless, of course, their spending decisions are damaging the education of others).

But what about the reverse? Should priorities for public spending on schooling be dictated by decisions taken by individual parents about their own personal investment in their children's schooling, in either the government or non-government sector? The metamorphosis in the role of the Commonwealth and its funding priorities over the past four decades raises the question of whether and to what extent the direction of parents' private funding on schools should drive the direction of public spending. This question is the more significant in circumstances where those who pay privately for their children to attend non-government schools are drawn disproportionately from the higher end of the socio-economic spectrum and from those best placed to use schooling as an avenue for buying positional advantage for their children.

There is a growing gap between those schools serving children from wealthy homes and those serving children from poor homes, with an over-representation of those from poorer homes and communities, along with at-risk students generally, in government schools. At the same time, some non-government schools draw their students from families who can barely afford to pay fees at all or who can pay only the most modest fees. Even when these fees are combined with the highest public subsidies, these schools may still be left with inadequate resources to meet the needs of the educational students they enrol. This situation is not in the interests of the students affected or of the wider society.

The responsibility of governments for their provision of public funding to schools entails a responsibility for the effects of the interaction of their public funding with the private funding available to schools. This is particularly significant when private funding governs access to those schools and, by this means, affects the student intake and related workload of other schools.

It is the total resources of schools that affect their capacity to provide for the educational needs of their students. In almost all schools in Australia this total consists of a mix of public and private funding. The balance between the two varies greatly, however, as do the practical effects of this mix for schools and the broader community.

### Government schools

As discussed in Chapter 2, within government schools, private funding from parents and other sources represents only a small proportion (about 5 per cent) of their total costs. Funds provided by governments are distributed among schools by State and Territory authorities largely according to staffing formulae that reflect student enrolments. Through variations to these formulae and through targeted support programs, public resources are differentially distributed among government schools to take account of the varying intensity of educational need among the students they enrol as well as schools' circumstances.

As a rule, individual government schools seek to raise private funds to supplement their public funding. The most common ways of raising private funds at the school level are through voluntary contributions and through fundraising activities by parent and citizen organisations. General and subject levies, also common in secondary schools, are used to contribute to the costs of materials. Some schools can also earn income through hire of school resources or property, for which system-wide guidelines are generally developed to distribute the benefits locally and system-wide. Private sponsorships and foundations at school and system level are a further source of private funding for government schools.

Students cannot be excluded from government schools or from instruction in key learning areas when parents are unable or unwilling to meet the private contributions, fees and charges that may be levied. But they can miss out on camps and excursions that are part of the curriculum and the general life of the school; their subject choices can be restricted by charges levied for materials; they can have poor attendance due to inability to pay transport costs; and can lack stationery, books, uniforms and access to extra-curricular programs. As stated in a recent report, students from disadvantaged backgrounds participate less, achieve less and enjoy school less than their more advantaged peers (Bond & Horn 2009). There can be little wonder that this translates into patterns of early school leaving and heightened risk of social exclusion in later life.

There is no doubt that disparities in the private income collected by government schools, particularly between those in affluent areas and those in poor areas, is a source of significant variation in the discretionary income available to these schools, and hence to the opportunities available to their students. Lamb (2007) attributes the gradual erosion in the size and efficiency of schools serving poorer communities in Melbourne to the past 25 years of market-driven reforms. In this context, he makes the point that the level of private income raised locally by many larger government schools in affluent areas is now higher than the additional, targeted funding provided by governments to redress educational disadvantage in schools serving poorer communities.

Such disparities are magnified when governments adopt strategies such as 'dollar-for-dollar' subsidies, which entail matching private, parental contributions to the school with additional public funding. Such strategies are adopted in the name of 'incentives' for private effort, but they have the effect of rewarding those students who already have the benefit of financial support from their parents and communities with dollars that might otherwise be directed to schools where students do not enjoy such support.

There is a strong case for ensuring that resource standards for schools be constructed with a view to ensuring that the total resources of schools are sufficient to cover students' access to the standard school curriculum, and to ensure that cost does not limit students' subject choice in schools.



### Non-government schools

For non-government schools overall, private funding from all sources represents about 43 per cent of their total income. The major source of this private income is the admission fees parents pay for their children to attend these schools. There is a wide variation in annual fees set by non-government school authorities (from less than \$1000 per year to more than \$25,000) and also in the proportion of the schools' total income contributed by fees.

Regardless of the ratio of private to public funding of non-government schools, and regardless of whether or not fees may be reduced or waived in some cases, access to these schools is primarily governed by the private fees paid by parents (along with any other non-financial admission criteria that may apply). The exclusionary effects of school fees and of variations in school fees is clearly visible in the pattern of enrolments across government, Catholic and independent schools (Catholic Education Commission of Victoria 2004; Ryan & Watson 2004; Preston 2008).

Having gained access to a non-government school, some students may still experience similar problems to those of their counterparts in government schools in accessing the full curriculum and the range of educational benefits provided by their school. This will depend upon the way fees and charges are structured in individual non-government schools.

Over four decades, governments in Australia have been progressively increasing public investment in an expanding non-government schools sector. Yet the price of access to the benefits of that public investment is set independently by non-government school authorities. From an international standpoint, this is a rare arrangement, since public assistance on the scale available to many non-government schools in Australia has been accompanied in most countries by a requirement that such schools forego the right to charge private fees. It does seem extraordinary that governments in Australia have not seen fit to conduct their own research into the exclusionary effects of fees, or to establish what proportions of families with school-age children are excluded by various levels of fees charged by the non-government schools they support through their taxes. This work has been left to academics and non-government school authorities.

Information and data about the affordability of their schools by non-government school authorities have come generally from within the Catholic systemic school community and been used as evidence of need for higher levels of public funding from governments. But without reciprocal action to lower fees in non-government schools, higher public investment will not affect students' access to these schools. There has been no concerted demand from non-government school authorities for public funding to be provided at a level sufficient to enable the abolition of fees. This is understandable. The right to charge fees provides a means by which non-government school authorities exercise control over their student intake, and protect the distinctive identities and purposes of their schools.

There is clearly strong support in the Australian community for a non-government school sector in which school authorities are able to exercise various forms of control over entry to schools. There are also clear indications that parents able to afford these fees are willing to pay them because they value the service provided by such schools and their specific community values and ethos. Proposals for future funding arrangements need to accommodate these realities.

Reform of schools funding arrangements needs to strike a balance between the freedom of non-government school authorities to charge private fees for admission to their schools, the standards that governments are prepared to support through public funding of all students, and the responsibility of governments for regulating access to the benefits of that public funding.

From time to time, the argument is advanced that one way to resolve inconsistencies arising from the mix of public and private funding of government and non-government schools would be to introduce a mandatory parental contribution to the costs of the former. This argument is sometimes put forward on the grounds that high-income parents who send their children to government schools could afford to make a greater financial



contribution. The same argument could, of course, be extended to well-off parents who send their children to lower-fee non-government schools – namely that they could afford to send them to non-government schools charging higher fees and attracting lower subsidies from government. Since students cannot be refused entry to a government school when parents fail to pay, attempts to impose mandatory parental fees and charges are not practical.

As for voluntary contributions, in most school communities, government and non-government, parents will continue to make such contributions, whether to enhance the extra-curricular services provided by the school for their own children or for all the students at the school, and they will be encouraged to do so by most school authorities. In general, parents making voluntary contributions are not doing so in ways that would negatively affect students from other families. It must be acknowledged that the great variation in parents' capacity to make direct financial contributions creates some inequalities in opportunities available to students. But it is difficult to see how any useful purpose would be served by attempting to discourage or to apply undue regulation to such additional voluntary contributions, as long as they are not affecting access to the school itself or to the curriculum it provides.

Schools funding policies should focus on ensuring that all students have access, especially through an adequate supply of effective teachers, to the agreed curriculum –rather than on rewarding or penalising students for any private funding their parents or communities contribute or fail to contribute.

#### Beyond competing values and ideologies

It is obvious that some of the tensions concerning the level and allocation of public funding to schools arise from competing values and world views. But what is less well recognised is the influence of the policy tools and mechanisms governments and administrators adopt in implementing their policies. Often introduced without a great deal of understanding or scrutiny by the general public, these tools and mechanisms can affect policy outcomes almost as powerfully as the underpinning values or ideology. It could, of course, be argued that administrative and technical mechanisms, in themselves, are not value-free (McMorrow 2008; Connors 2007), as their underpinning values may not be immediately obvious.

Cobbold (2003) has demonstrated, for example, the effects of the different methodologies used for estimates of trends in future schools funding and for comparing expenditure between the government and non-government school sectors. Factors that have produced significant effects in the general recurrent funding of government and non-government schools in this country in past years include the selection of per student grants rather than block grants to deliver funding, changes to indexation formulae and changes from cash to accrual accounting.

#### Need for new directions in schools funding arrangements

In order to deal with the reality of our hybrid school system and the differing traditions and aspirations it embodies, proposals for the reform of schools funding in Australia will continue to require inbuilt compromises. There is nothing unique to this country about these circumstances. But they need to be managed through policies that reconcile them to the point where there can be sufficient consensus to allow progress towards arrangements that build the capacity of schools to achieve, individually and collectively, an overall improvement in participation, achievement and outcomes.

While understanding the realities of our situation, we now need to ask ourselves questions that bring to the fore the key educational imperatives and priorities that should be driving our public investment in schools. Of all the resources that governments can provide for schools, none can be more important than an adequate supply of high-quality teachers for all our students. And when it comes to equality of educational opportunity, it is hard to think of a more significant way for a nation to express this ideal than through guaranteeing equality of access to that high-quality teaching.

### A NEW PLATFORM FOR REFORM

One highly significant outcome of past and current funding arrangements for schools in Australia is that responsibility for the supply and remuneration of qualified teachers for the whole school system in Australia now rests almost entirely with governments.

Political leaders have argued that teachers are the most precious educational resource. It is right and proper then, that governments accept their obligation to ensure that the teachers they fund are distributed among our schools according to rational and just principles, to enable the achievement of education goals.

Having adopted schools funding policies that have created this common reliance for their supply of teachers, governments must now reform funding arrangements to provide both government and non-government school sectors with clarity about their future public funding and a stronger alignment between the sectors in relation to the conditions that attach to that public funding.

We now need to formalise a new set of funding arrangements under which all schools whose capacity for teaching is funded publicly share the obligation to contribute to the overall quality of schooling through the ongoing renewal and enhancement of teaching.

New funding arrangements must be capable of sustaining a high-quality, secular and free public school system in Australia, as well as maintaining the public funding now necessary to sustain the same high quality in non-government schools. As well as preserving what are highly valued, distinctive education traditions in this country, new funding arrangements must deal in a rational, fair and open way with the inherent tensions between them.

In the absence of such reform, schools funding policies will combine with broader social and economic factors to feed the trend for higher income families to favour non-government schools for their children; and for the stratification of the Australian school system to become further entrenched. Regardless of what policies governments might put in place, schooling is and will remain an arena for social competition. But for governments to be allocating public funding for schools in ways that add to socio-economic stratification is unacceptable in a democracy. Current arrangements are leaving many schools with a severe mismatch between the share and complexity of their workloads and their level of resources, absolute and relative, for dealing with them in the best interests of their students.

There is now a strong case for making the provision of high-quality teachers (and teaching-related resources) the centrepiece of new national schools funding arrangements; basing the distribution of public funding on the principle that all students can access the teaching needed for them to have the opportunity to gain the maximum personal benefit from their schooling; and raising students' outcomes overall.

The convergence of government and non-government school sectors in their mutual reliance on publicly funded teachers, developed over the past four decades, now provides an important circuit breaker that could allow a fresh approach to sustainable national reform of schools funding.

Converting the dollars that are currently invested by governments into the teaching resources they buy for our schools is a valuable exercise in itself. It gives a logical standpoint from which to examine key aspects of funding policy in a rational way and with an educational purpose. Every citizen can understand the importance of providing enough high-quality teachers for our schools and of fairly sharing the pool of publicly funded teachers among our schools. Public understanding of just these two issues would be more conducive to building a basis for consensus or informed support than persisting with schools funding arrangements that possess anomalies and complexities that render them incomprehensible to all but a few experts.

Using the experience of past decades it is possible to set down building blocks for schools funding arrangements that make sense from an educational perspective and that meet high standards of public policy and public administration – arrangements that are ethical, rational, fair, readily understandable, transparent, practicable and sustainable.

## DEVELOPING EFFECTIVE SCHOOLS FUNDING POLICY

Governments' decisions about schools funding have a powerful influence on whether or not those working in our schools and classrooms enjoy the conditions that are most conducive to effective teaching and learning. Through their public policies on schools funding arrangements, governments exercise their responsibility to safeguard and advance the educational interests of individuals and of the society as a whole. This involves finding a balance among conflicting and contradictory interests and aspirations in order to establish policies that can attract sufficient consensus to enable schools to operate effectively within the framework of public policy goals and priorities.

The policy process should be rational and transparent. It is dependent upon understanding the kinds of question that need to be asked and to which answers need to be found if a policy is to be practicable. In recent years, we have seen examples of policy failures resulting from the neglect of this discipline, neglect of the questions that need to be asked about how policy intentions will be made to work in practice. The recent global financial crisis has been, in part at least, the product of a deliberate disregard for rules and procedures developed over years, which were seen as stifling entrepreneurialism. Sometimes the neglect of the questions that need to be asked about how policy intentions will be made to work in practice is less deliberate and more an outcome of political pressure for swift action.

Schools funding arrangements must be firmly based on an understanding of how schools work and what drives schools' costs. Without such an understanding, it would be difficult to identify the range of questions that need to be asked to inform policy development and to clarify policy intention.

The questions that then need to be asked about how policy intentions will be made to work in practice, commence with: What are the values underpinning the policy? What are the related moral, ethical, political, social and economic purposes governments are trying to achieve through their funding policies? What are the educational purposes for which particular financial allocations are being provided? How are the policy costs and benefits distributed – whose interests are being served?

Then follow questions about whether and how these intentions can be achieved in practice and how would we know if they were being achieved. How are the various authorities concerned to be held accountable for the proper uses of this money in relation to the defined purposes? How can schools funding contribute to the quality of schooling as well as to simply providing the number of schools and school places required for the school-age population? Who is responsible for taking the actions that flow from government funding policies – and how are funding roles and responsibilities shared among the relevant funding partners? How effectively are government funding policy intentions and actions embodied in formal legal or regulatory provisions?

The answers to these questions almost always involve human judgment, which should be informed at all stages by the best available evidence drawn from data and information, analysis of past experience, and research findings.

In developing the funding arrangements proposed in this paper, we argue for a policy approach based on the following characteristics of sound public policy and administration. Arrangements should make explicit the values and ideals on which the policy is based, the practical purposes the policy is designed to serve and the improvements we would expect to see if the policy is working. If policy is really a set of actions that need to be taken, then it should make explicit the resource standards (how the level of funds they provide is to be determined) and the roles and responsibilities of the funding partners (how the funds are to be allocated among schools, and the means of conveying it to schools). Effective policies have inbuilt provision for periodic evaluation and for the conduct of relevant research into policy issues.

In translating policy into action, a number of policy ‘virtues’ need to be held in balance, including considerations of quality, equity and equality of educational opportunity, and social inclusion; efficiency and effectiveness; stability, predictability and flexibility; sustainability and transparency.

There are also practical considerations regarding the best mechanisms for achieving the policy goals. What are the most appropriate policy ‘tools’ – the structures, processes and mechanisms for delivering finance from governments to schools in the way most likely to achieve the stated policy intentions and in the form most useful to schools? Inappropriate formulae for distributing funds among schools, based on invalid measures of absolute or relative need, or faulty cost-supplementation measures can undermine policy intentions.

#### CHARACTERISTICS OF SOUND PUBLIC POLICY AND ADMINISTRATION

##### Explicitly stated values

All schools funding policies and programs have a set of underpinning values, whether or not these are made explicit. All education ministers through the Ministerial Council for Education, Early Childhood Development and Youth Affairs (2008) endorsed the Melbourne Declaration on Education Goals for Young Australians. It set out the values that should drive a school system designed to serve Australia’s democratic ideals and values. The schools funding arrangements being proposed in this paper are consistent with such values and ideals. They emphasise the interconnection between excellence, equity and social inclusion. They are also consistent with the Commonwealth government’s ‘twin pillars’ of quality and equity, which have underpinned its decision to provide universal access to early childhood education and its response to the Bradley Review of higher education. They now need to underpin schools funding.

Broad statements such as the National Goals for Schooling are often framed in terms that are visionary, symbolic and hortatory; rather than being sufficiently concrete to provide the basis for policy action, for framing objectives and identifying priorities. The values or ideals that underpin schools funding arrangements should be able to be made explicit so that they can be open to reflection and debate, and also provide a useful guide to action.

The funding arrangements put forward in this paper are based on the belief that governments have a responsibility to treat the education of children and young people in schools as an investment in their well-being and their human capacity to learn while they are young, and not simply as an investment in their shared economic future, significant as that is. Governments also have a responsibility, through their public investment in schooling, to protect and advance the educational interests of those children and young people whose parents and communities are least able to do so. In this report, education is seen as a public as well as a private good, with governments needing to balance the legitimate aspirations of individuals with safeguarding the public interest in ensuring a well-educated society.

We also argue in this paper that, in all matters concerning children and young people, such as the funding of their schools, it is *their* best interests that are of paramount importance. Their ‘best interests’ in relation to schooling are expressed here, for example, in the greater weight given to the principle that all children and young people have an entitlement to high-quality teaching; and that this entitlement should be equally shared. There is sound evidence that public investment in high-quality teaching is also a wise measure from the standpoint of the society as a whole.

It is now almost impossible to distil the values that underpin the current arrangements for general recurrent funding of the nation’s schools. It is now time for an informed debate about how best to fund the kind of school system to which we aspire, for the kind of society we want to be.

### Explicitly stated purposes

Schools funding is not an end in itself, but a means of achieving specific purposes. Effective schools funding arrangements embody a clear specification of the funding to be provided and of the educational purposes that each funding program is designed to serve. Without integrity between the resources provided and the educational purposes they are intended to serve, governments have no proper basis for accounting to the public for the resources they provide for schools. In developing policies, it is sensible to spell out what changes we would expect to see over time if the policy were working as intended. This does not deny that all policies tend to produce unintended and unforeseen consequences, beneficial and otherwise.

The conditions attached to the receipt of public funding should be directly related to the purposes of that funding and be consistent with the principles, values and criteria set out above. Imposing funding conditions that have little relevance to the primary purposes for which the funding is provided has the potential to undermine the integrity of the funding program and to create unintended incentives and effects.

Funding conditions are essential to probity and to safeguarding the integrity and value of public investment. Schools funding in Australia entails funding partnerships – between the two levels of government; and, in the case of non-government schools, between those two levels of government and non-government school authorities. Funding conditions should reflect the rational distribution of responsibility and risk among the funding partners.

Governments have a responsibility to account to the public for their investment in schools. This includes accounting, in an educationally meaningful and responsible way, for the educational outcomes to which this investment has contributed. Conditions for receipt of public funding by schools should include the requirement for schools' co-operation in providing an agreed range of information and data for this purpose.

In this paper we also argue that the conditions for provision of public funding to non-government school authorities must include full disclosure of their financial operation. The claim that commercial-in-confidence provisions apply to protect against such disclosure is simply not tenable in relation to non-government schools in Australia, whose public funding is contingent upon their not-for-profit status.

The conditions that apply to schools in receipt of public funding should reflect the commonalities and differences in legal obligations across the public and private sectors. New funding arrangements for government and non-government schools and systems would need to accept both the unique legal obligations of government schools as well as the private status of non-government schools.

When it is accepted that non-government school authorities are not required to accept all comers and are largely free to set their own admission criteria, it is reasonable that, as a condition of public funding, they be required to provide a clear, up-to-date public statement on what these criteria are and how their selection criteria for admission are applied in practice. These criteria are, after all, the rules of access to significant amounts of public funding, whose value is generally well beyond that of the fees paid by individual parents and certainly well in excess of the contribution of the sponsoring authority itself, which sets these rules. There is also a strong argument for a public statement setting out staff selection criteria, particularly given that the vast majority of non-government schools are reliant on public funding to cover the costs of their teaching staff.

While there are broad legal obligations on public schools relating to their admissions policies there are almost certainly 'grey areas' where local practices vary. The same obligation to set down admissions policies, both systemic and local, in a clear and public way should also be enforced in relation to the government sector. When it comes to the suspension or expulsion of students from schools, there seems to be no reason why the same regulations should not apply to all school authorities.

The current funding arrangements clearly fall short of meeting these conditions regarding the purposes of funding. The Rudd government has yet to undertake its review of the general recurrent program it inherited from the Howard government; and there is currently a lack of public disclosure about schools' financial and other resources in both sectors.

#### Explicitly stated resource standards

Setting explicitly stated resource standards for schools provides a principled means for striking a balance between our educational aspirations and expectations as a society and what we can afford in practice.

Resource standards provide a benchmark against which public funding decisions and entitlements can be assessed in a transparent and impartial way. They provide a rational basis for planned public investment and for the setting of priorities. In the absence of resource standards, there is a tendency for public policy decisions about education to be taken in a resources vacuum, and for schools funding policies to be set in an educational vacuum. There is clearly little sense in setting curriculum standards or teaching standards in the absence of resource standards that make their achievement practicable. Much of the effort expended in developing curriculum will clearly be wasted if no steps are taken to ensure that there is a supply of high-quality teachers to implement it in schools.

Resource standards based on evidence of the actual costs of schooling have the benefit of providing a defensible basis for schools funding. Linked to the varying contexts in which schools operate and to the achievement of desired outcomes, such resource standards also provide a basis for research into the most efficient and effective use of resources.

Governments in this country have long accepted the principle that the learning needs of students must be reflected in determining the resources available to schools. Schools and the students they serve have both common and differing needs. Flexible resource standards are necessary to reflect these differences, and the different circumstances in which schools across the country are operating, if all students are to receive the support necessary to do their best. If all schools are expected to meet the highest standards, then there is a need to recognise that the teaching workload and challenge is greater, for example, in schools with a concentration of students growing up in difficult circumstances than it is in schools where most students are growing up in circumstances that are highly conducive to success at school. This is why the socio-economic status of the families or communities from which students come is a widely used indicator of relative need for schools' resources.

There are many other factors that affect the range, level and intensity of a school's workload. For example, the curriculum offerings at different stages of schooling affect school costs, and so does class size. The size of schools can produce economies of scale or the opposite. School location is an issue when distance affects a range of delivery costs. The costs of schooling are affected by the characteristics and needs of the students schools enrol, including their socio-economic status, their English language proficiency, specific forms of disability and a range of cultural factors. Length of teachers' experience affects the costs of staffing schools, as does the range of professional development requirements. Families and communities differ in terms of the investment they are able to make in their schools, both financial and in kind. The costs in some schools are also affected by their size, their location and by rates of student transience and turnover of teachers.

Many schools have students who require extra support for learning, for example, students for whom English is a second language, those who need intensive assistance with literacy and numeracy, and those who are dealing with the effects of cultural difference or poverty or the pressures of growing up in troubled homes or communities. Schools also need the resources necessary to provide for those students who require very intensive teaching and care.

There is a useful discussion of these issues and of approaches taken in Australia and overseas in the report *In the Balance: The Future of Australia's Primary Schools* (Angus, Olney & Ainley 2007). It refers, for example, to the funding framework known as the Student Resource Package, developed by the Victorian Department of Education and Training with a high level of transparency. It also acknowledges the approach taken by the MCEETYA Schools Resourcing Taskforce (MCEETYA 2005) in developing resource standards based on actual evidence of the costs of schooling. This approach provides a means of recognising the additional costs relating to those students who have various forms of learning difficulty or disadvantage. It also bases funding on the costs of achieving actual learning outcomes for these students rather than on categorising the causes of their learning deficits, on the grounds that it is the cost of those responses that needs to be recognised in the setting of resource standards and in assessment of funding needs. The same report also refers to research undertaken in the United States, which indicates that family poverty increases per student schooling costs by about 40 per cent.

It is clear that there are useful approaches already available to enable the development of resources standards for schools, as a basis for reforming schools funding in Australia. It is also clear that there is a need for ongoing research, to develop more finely nuanced measures of the workload of schools and the related costs. Resource standards also need to be reviewed periodically, and refined to take account of the effects of changes in curriculum, teaching and learning technologies, and pedagogy.

It is also to be hoped that, over time, the setting of resource standards might be better informed than is now the case by research into the relationship between how schools manage their resources and the educational outcomes they are able to achieve. This is the kind of work that was able to be undertaken in past decades by the former Commonwealth Schools Commission, to inform government decision-making. When work of this kind is carried out by an authoritative and independent authority, through a transparent and consultative process, it has the wider benefit of contributing to public understanding and informed debate of these important issues.

In setting resource standards for schools, there is a need to take account of legal realities, such as the obligation of State and Territory governments to provide local schools in circumstances in which geographic and demographic considerations might well be at odds with economic considerations.

Governments have been reluctant to define resource standards or targets for schools as the basis for their budget decisions, State and Territory governments in particular being aware of the large proportion of their budgets represented by schools funding and the consequent potential loss of fiscal flexibility, and the scope for interest groups to hold them accountable against explicit standards.

But leaving the public without any standards upon which to judge the quality of budget decisions runs the risk of eroding public confidence and trust. Parents and the broader public can be more confident about the capacity of a school system in which there is an explicit alignment between curriculum, teaching and resource standards. By linking resource standards to desired educational standards, governments can guard against the emergence of serious misalignments between, on the one hand, the objectives of programs and their accompanying political rhetoric and, on the other, the actual level of resources being invested in their achievement.

Instead of setting explicit resource standards, there is a tendency for governments to deal with what might be termed 'above average' needs in schools by creating targeted programs with earmarked funding amounts to deal with specific problems. This approach has the political attraction of providing media opportunities for program announcements (Angus, Olney & Ainley 2007). Such programs may also be seen as a means of providing 'special' resources for targeted schools and of holding those schools accountable for achieving the specific improvements for which the funds were provided.



We argue here that there is a need for schools funding arrangements to be grounded in an understanding of how schools work. The purpose of providing resources to schools is to enable them to do their work. It is therefore important that the means by which resources are provided to schools does not add to the workload of the school. The practice of earmarking 'needs-related' funding to schools and packaging it in 'categorical' programs targeted at different areas of need can result, at worst, in schools having to deal with multiple programs of short-term funding each with their own discrete accountability requirements. Annual applications or competitive submissions may be required to maintain funding to meet what are highly predictable, recurrent needs, diverting more of the time of the school's leader and teachers from their educational work than is justified by the amount of funding attracted.

In terms of equity, it is anomalous that our most hard-pressed schools have the additional workload of dealing with a multiplicity of programs to garner their resources, while schools facing less acute challenges get their resources from governments delivered to them through predictable staffing formulae or the equivalent in recurrent grants. The inequity is made worse when it is considered that, in many cases, the total funding delivered through these multiple sources is often a relatively small proportion of the schools' total resources. If schools do not have adequate and appropriate resources for their day-to-day work, then clip-on programs are unlikely to provide an effective substitute.

There is a need for a more holistic approach to schools funding, through the setting of resource standards and, in particular, teaching resource standards. These standards should be based on an assessment of the teaching workload generated by the student community served by the school and the circumstances in which the school is operating. This will give all schools the security they need for planning coherent, sustainable programs to meet the needs of their students, a basic condition of high-quality learning.

This approach to resource standards does not preclude the opportunities for governments to undertake significant, additional programs or initiatives in a range of areas, including research, evaluation and innovation in priority areas such as curriculum development and related assessment and reporting, fostering new teaching and learning technologies and developing innovative approaches to teaching and learning in schools. Such programs have the potential to inform future support and provision of high-quality teaching in schools.

As well as differential resource standards, the setting of minimum resource standards for all schools provides an important foundation for quality and equity within a school system. The setting of minimum standards is an acknowledgement that students have common needs and entitlements and that there is a basic level of teaching that all students need for engaging successfully with the prescribed curriculum. Minimum standards provide, in effect, a resource guarantee for all schools. The MCEETYA Schools Resourcing Taskforce, for example, had access to broad schools finance data provided by education authorities and was able to estimate the basic costs of schooling. This kind of approach would enable the setting of a decent minimum resource standard, derived from the costs of the workload in the kind of school which has low numbers of students with special needs and draws its students from a relatively homogeneous and educationally advantaged community.

As a basis for their own budgetary decisions, it is also reasonable for governments to decide the maximum levels of resources within which schools can reasonably be expected to operate, having regard to the varying intensity of their workloads. There are always limits to what a country can afford to spend publicly on its schools, and there is a clear point beyond which the educational benefits of further investment will start to peter out. Governments also need to provide the funds for dealing with the many circumstances and problems that affect children and young people and that, if neglected, get carried into schools.

If governments in Australia were to set resource standards for schools at the level that currently apply in the best-resourced schools, it would require a per student investment of some \$25,000 at the secondary level. That would require an increased investment of more than \$45 billion annually, or even more, given that schools that now operate with this level of resources are generally, because of their high fees, enrolling



students from families at the very high end of the socio-economic spectrum. If that resource level were to be considered the standard for high SES schools, then it follows that schools serving students at the other end of that spectrum would be entitled to a higher standard of resources in order to achieve comparable outcomes. It is ethically questionable for governments to contribute to higher resource standards for some schools than for others, when the more favourable resource standards cannot be justified on educational grounds.

Reformed funding arrangements should have a focus on teaching resource standards, designed to reflect the common needs of all schools as well as the varying intensity of their workloads arising from the needs of the students they enrol and the circumstances in which they are operating.

Current national funding arrangement for schools, particularly at the Commonwealth level, have no explicit criteria or benchmark against which funding levels and allocations are made. The current Commonwealth general recurrent funding program, for example, has an arbitrary link to AGSRC, which in the non-government sector ranges over 46 levels, from 13.7 per cent to 70 per cent of AGSRC. By setting minimum and maximum resource standards, governments would provide a rational and transparent framework for public investment in schools.

#### Explicitly stated roles and responsibilities of the funding partners

Responsibilities for the funding of schools need to be rationally assigned among the participating authorities to serve agreed goals. Both levels of government, State/Territory and Commonwealth, as well as private providers are well entrenched as the funding partners in schooling, and this is likely to remain so. Even those who argue for an increased reliance on market forces to drive schools funding still rely on their proposed schemes being underwritten by public funding. There are some who argue for a school system in which there would be a reduced role for governments in schools funding, with a greater reliance by local, self-managing schools on more diverse sources of funding. While there are many examples of schools receiving various forms of non-government sponsorship, recent decades have seen an even greater reliance than previously on governments for the funding of Australia's schools.

State/Territory and Commonwealth governments and private providers, the three funding partners, all have strong and legitimate interests in schooling and its funding, but their roles and responsibilities are poorly delineated. The split between the Commonwealth and States/Territories in relation to their roles as funders of government and non-government schools has been discussed in earlier chapters and is widely acknowledged to be dysfunctional.

There are, however, significant political barriers to taking up options for radical re-aligning of responsibilities for funding schools between the Commonwealth and the States and Territories. As has already been acknowledged, there would be predictable resistance from those representing the interests of the non-government sector to any proposals to remove these schools from the benefits of a primary reliance on the coffers of the Commonwealth rather than of the States and Territories. There would also be, if past experience is any guide, strong resistance to assigning entire responsibility for public funding of non-government schools to the Commonwealth, and to removing the filtering effect, from a political point of view, provided by the complexities of the current unevenly shared funding roles and responsibilities. It is hard to see what benefits there might be for government schools to being dropped completely by the Commonwealth in terms of funding, especially were non-government schools to remain directly attached to the Commonwealth as their major source of funds.

The costs and benefits of radical proposals for reform need to be carefully weighed. There would be huge costs in the structural changes that would be needed, for example, to realign federal financing, whether this was being done generally or specifically just for schools. Evidence would be needed that the costs of such efforts would be significantly outweighed by the benefits to students in schools.

The option of transferring all funding responsibilities for schools from States and Territories to the Commonwealth would also raise complex issues. There are risks in separating the responsibility for funding schools from the responsibility of operating schools. The Commonwealth is distant from the educational action. Concentrating all responsibility with the Commonwealth for funding may lead to potential for providers of schooling to be bound unduly by the priorities of the Commonwealth to the neglect of more local considerations.

While there is undoubtedly need for reform of aspects of our federal system, with action underway through the COAG agenda, it is also the case that parents and the wider community are demonstrably conservative about their children's education. There is likely to be little support for any proposals to use the school sector as the laboratory for innovation or experimentation in the name of reform of federalism.

Notwithstanding these difficulties, action is needed to define more clearly the funding roles and responsibilities of governments and of non-government school authorities. What is needed is a national schools funding policy that can be applied to systemic and non-systemic schools. It must be applicable to systems, regardless of differences in governance structure, or in the balance of devolved or centralised decision-making.

The way in which funding roles and responsibilities are now allocated among the funding partners is poorly delineated, irrational and conducive to cost shifting and substitution.

Serious reform of schools funding in Australia is now needed to deal with the current irrational and arbitrary division of funding responsibilities among the partners. Reform is needed, in particular, to overcome the dysfunctional split in responsibilities between the two levels of government for the public funding of all our schools. It is needed, too, in order to clarify the basis for the partnership between governments and private providers in the funding of non-government schools, so that the public interest in its investment is safeguarded through appropriate contractual arrangements that set out clearly the respective responsibilities of the partners.

### TRANSLATING POLICY INTO ACTION

Among their responsibilities for schools funding, governments (and, where appropriate, non-government funding partners) have an obligation to adhere to what might be characterised as policy and administrative values or 'virtues'. They are not stand-alone or discrete characteristics, but are inter-related and sometimes in tension with each other. For this reason, judgments have to be made about how to hold them in balance.

These policy 'virtues' include considerations of quality, equity and equality of educational opportunity and social inclusion; efficiency and effectiveness; stability, predictability and flexibility; sustainability and transparency.

#### Quality, equity and social inclusion

It is not difficult to establish funding arrangements for a school system that provides a high-quality schooling for the privileged few only. Not is it difficult to establish funding arrangements for a school system that treats students fairly by providing them all with the lowest quality of schooling for all. Future funding arrangements need to be designed to provide all students with the best possible conditions for learning that this society can afford and, in particular, with equal access to high-quality teaching.

#### Economic, efficient, effective and fair use of resources

The public funds available for schooling will always be finite and there is an obligation upon governments to allocate them in ways that are consistent with maintaining a high-quality system overall. In allocating resources among schools, issues of fairness, efficiency and effectiveness need to be held in balance, and so do issues concerned with the extent of freedom and flexibility to be exercised by individual schools in the use of resources and in pursuing the educational interests of students in general.

Spreading resources too thinly across schools can reduce their overall effectiveness. For example, in relation to improved school completion rates, there is an argument for targeting sufficient resources to 'normalise' school completion in locations that have the lowest completion rates, on a school-by-school basis, rather than spreading resources so widely that they fail to effect the scale and rate of change that is needed.

Regardless of school sector, it is not in the interests of students generally or of the broader community for individual parental choice of schooling or the demands of particular communities to be taken to the point where resources are so thinly spread among a proliferation of schools that the overall quality of the system as a whole is threatened, or that schooling consumes public resources that might be better spent on meeting the range of other services that children and young people need in addition to schooling, whether in health, transport, housing or cultural amenities.

#### Stability, predictability, flexibility and sustainability

To the greatest extent possible, schools funding arrangements should provide schools with the stability and predictability needed for the planning of effective education programs, as well as the flexibility to deal with changing conditions such as needed professional development programs for teachers. When programs are regularly disrupted by changes to funding levels and sources, the opportunities to learn from their strengths and weaknesses as a basis for progressive improvement and innovation are weakened.

Changes to funding criteria and entitlements create winners and losers, and political realities dictate that additional funding is often provided to appease the 'losers' – funding that may have been better used for higher priorities. As far as possible, governments should have regard to the long-term sustainability of their basic funding arrangements so as to avoid this problem and related disruption to education programs. This does not mean sacrificing all scope for flexibility to reflect changing circumstances.

#### Continuity

Reform of schools funding policy should preserve and build on the strengths of existing policies and respect valued traditions, while resolving flaws and removing weaknesses. Given the need to avoid or minimise disruption to the operation of schools and to recognise political and financial realities, there is a limited range of options for changes to schools funding arrangements if such changes are to be capable of attracting public confidence and support.

#### Simplicity, transparency, ease of administration

Schools funding policies should be readily open to informed public debate. They should be able to be set out in terms that relate directly to schooling itself as commonly understood by the general public: that is, in terms of the finite educational services they provide, such as the numbers and kinds of teachers to teach the agreed curriculum to actual students in varying circumstances; and the related buildings and equipment needed for this purpose. Schools funding policies should not need to be so confusing and complex in nature, and so difficult to describe, that the capacity for informed debate is confined to a small clique of experts.

Public policy for funding schools should also avoid unnecessary fragmentation into multiple funding sources and mechanisms. The compartmentalisation of education problems and issues into a multiplicity of programs can lead to a fragmentation of funding sources and a proliferation of administrative structures and processes, again eating up resources better invested in classroom teaching. Such fragmentation has the potential for creating confusion, overlap and waste in delivery and accountability, countervailing effects, instability over time, and temptation for political opportunism.

### Evaluation, research and innovation

Public funding arrangements for schools should have an inbuilt provision for research to inform policy review, evaluation and innovation. Valid and reliable data is essential to program sustainability and effectiveness. Sound, reliable and up-to-date information is a condition for rational debate and consideration of future directions, and for identification of policy, operational and administrative problems. Currently, national schools funding arrangements in Australia are characterised by significant gaps in key data and in strategically important data linkages.

### FUNDING MECHANISMS

Mechanisms for allocating public funding among schools need to be consistent with guiding policy principles and with the purposes for which the funding is provided. They should be as simple and as transparent as possible. Funding mechanisms should allocate resources in an open and impartial way, so that schools with comparable workloads operate at comparable resource standards.

Funding mechanisms can range, for example, across per student grants provided according to a formula, systemic staffing and other resource allocation formulae, and tax deductions for parents' expenditure on education. Funds can be provided to schools through submission-based programs or through giving individual families some form of transportable funding entitlements.

Funding mechanisms need to be developed so that simplicity and transparency are held in balance with the need for fairness. As well, the operation and application of the mechanism itself should be not so ornate that resources that would be better spent in schools have to be spent in administering their allocation. Programs that require overly elaborate individual submissions that, in turn, necessitate detailed administration and decision-making are an example of this.

Funding mechanisms should also be based on an understanding of how schools work in practice and of what drives their costs. There is a need to recognise, for example, that while the total number of students has an effect on the number of teachers needed, the cost of each individual teacher drives school budgets far more than the cost of each individual student. In that sense, funding arrangements should be driven on a 'per teacher' basis rather than a simple 'per student' system. It is also important to maintain the value over time of the resources bought by the funding provided for schools. In relation to schooling, the most significant source of inflation is movements in the price of teachers, through their salaries and related expenses.

In recent years in Australia, an inappropriate use of supplementation or indexation mechanisms, in both the school and university sectors, has acted as a covert means of delivering policy outcomes rather than adjustment for inflationary effects. In developing a high-quality funding model for the Australian context, there is a need to have regard to the links between policy goals and implementation. Unless these links are understood and respected, policy intentions can be blunted or lost.

## OPTIONS FOR FUTURE FUNDING ARRANGEMENTS

In this chapter we examine the broad options for dealing with the provision of public funding for government and non-government schools, taking into account the experience of other countries<sup>23</sup> and proposals that have emerged over time in Australia. These options are considered in terms of their capacity to deliver high-quality schooling and in the light of the criteria set out in Chapter 4.

### THE PUBLIC FINANCING CONTEXT

Government funding policies operate within the broader context of competing views about the role of government. In democratic societies, there are ongoing tensions about the appropriate balance between governments, communities and markets in maintaining the social order. Over recent decades, advocacy for a smaller role for governments and an increased reliance on markets has been influential. This has led to policy approaches frequently characterised as 'neo-liberal', the term recently by the current Prime Minister.

The objective of this neo-liberal kind of approach has been to enable market-based competition and individual choice to drive social and economic priorities and the delivery of services, freed as far as possible from the constraints of government regulation. Even in relation to the provision of essential public services, many have argued that governments should rely more heavily on private providers. In this climate, there is generally an emphasis on public spending restraint, with public service providers, in particular, being pressured to account for public investment in terms of outcomes achieved, efficiency and effectiveness, and greater responsiveness to the individual needs of those using their services. The priority granted to education, in this context, is grounded in arguments about the need to raise national performance and productivity in a competitive, knowledge-based global economy.

The application of this kind of policy thinking to education can be seen, for example, in the approaches taken by the Keating and then the Howard government to public funding for the early childhood sector. Under the Keating government, childcare subsidies were extended to privately run centres in addition to public and community-based, not-for-profit, childcare centres. The Howard government subsequently withdrew Commonwealth funding from extending the supply of public childcare centres, instead massively increasing the subsidies to individual parents, allowing for varying levels of benefit according to family income levels. The outcome of this incentive for private, for-profit providers to expand the supply of childcare places to meet growing demand was that one major company, ABC Learning, soon controlled a large share of the long-day-care market. Its subsequent collapse left the Rudd Government having to prop up the centres owned by ABC Learning while alternative operators were found.

Critics of this form of public financing and the outsourcing of childcare services point out that ABC Learning's profits came directly from government subsidies and were made at the expense of taxpayers. They point out that children's needs for high-quality care create a tension between costs and standards that makes profit questionable for private providers, and that this form of outsourcing cannot be relied upon to provide the broad service that is needed. This is not to deny that private providers, given sufficiently rigorous accreditation requirements, can and do provide a high-quality service for numbers of families.

This kind of policy thinking has also been applied in the vocational education and training (VET) sector. Beginning with the Keating government, but mounting in intensity during the Howard era, market disciplines were applied using the argument that there was a need to deregulate the delivery of VET to make it more efficient and more responsive to business and industry needs. Extending the market was also seen as a means of weakening the position of government-owned TAFE systems and of breaking their near-monopoly status. These reforms were also introduced to increase the influence of industry providers themselves to better meet their skill needs. As with the early childhood sector, it is clear that private providers can and do deliver high-quality VET services. However, the problems of market instability and failure, as seen in the early

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<sup>23</sup> The authors acknowledge the work by research assistants commissioned for this report, Victoria Rawlings and Tori Vu.

childhood and childcare sector, have also emerged in this sector. It has also become apparent that responding to short-term skill shortages led to an over-emphasis on meeting consumer demand in areas like retail and hospitality rather than on building the skills required for long-term economic development.

Neo-liberal approaches and the assortment of public–private partnerships that they produce have a mixed record. When it comes to education and training, there is clearly a tension between standards and profit and, in the end, governments cannot outsource their responsibility for essential services without having to step into the breach when private providers fail to deliver.

When it comes to schooling, governments have proven reluctant to experiment with applying neo-liberal public financing approaches. One reason may well be the compulsory and universal nature of schooling, so that governments are obliged to ensure that there is a place available for everyone of school age.

The delivery of public schooling in Australia can be described, in public financing argot, as a traditional ‘funder-provider’ model. Parents can meet their obligation to send their child to school for a specified period, by taking up their child’s legally backed entitlement to a place in a government school system. In Australia these are largely funded and directly provided by the States and Territories. The degree of parental choice of school varies among States and Territories according to their particular regulations and degree of zoning while, *within* States and Territories, choice varies with geographical and demographic realities.

The funding of individual schools is largely managed through formulae and is heavily influenced by student numbers. Schools receive the major portion of their resources through a staffing formula that recognises common and differential needs, as well as the circumstances in which the school is operating.

It is important to understand that the entitlement of children and young people to a place in a government school is not forfeited when parents opt to send their children to non-government schools. Parents can, at any time of their choosing, revert to taking up their entitlement to a place in a government school or system. This, in itself, has cost implications for government schooling that should be recognised in funding arrangements.

In recent years, there are examples of State governments developing public–private partnerships for the building and, in some cases, ongoing maintenance of new government school buildings, when and where they are needed to cope with population growth. This has no more significance, in terms of public financing policy, than a public transport authority, say, acquiring its bus fleet from private vehicle builders rather than building the buses itself. The model is still a funder-provider model and does not appear likely to change in the foreseeable future.

The right of parents to send their children to a range of non-government schools owned and operated by private authorities pre-dates the introduction of government schooling in Australia. Prior to the introduction of significant ‘state aid’ in the 1970s, these schools were financed through parental fees and donations, or the ‘in kind’ contribution of teaching services, generally by religious orders. Proponents of public funding of non-government schools have customarily used the argument that parents who send their children to these, rather than to government schools, were entitled to have their share of taxes go towards the support of these schools.

The introduction of significant public funding for non-government schools by the Whitlam government rested on a consensus that the rationale for such funding was educational and social, rather than one of entitlement of parents to have their share of taxes go towards support of the schools of their choice. As neo-liberal thinking rose to greater prominence in public policy, the claim for return of taxes as a rationale for public financing of non-government schools changed from a community-based into an individualised demand. During the years of the Fraser government, the per capita grant paid to non-government schools began to be characterised as similar to a parental voucher. Nevertheless, funding provided by governments continued to flow to the schools, with the largest parcels of funding paid to the large Catholic systems for distribution among their member schools.

To the extent that governments have attempted to apply neo-liberal financing policies to schooling in Australia, the most serious example has been the Howard government's changes to non-government schools funding and the accompanying rhetoric. The Howard government adopted neo-liberal policy rhetoric, according to which increased public funding was being provided to empower more individual parents to choose fee-paying schools. This was justified as a means of increasing private investment in schooling, of expanding choice among a greater number and range of private providers and, at the same time, of reducing the cost of schooling to government. In this policy rhetoric, public schooling was reduced to a safety net provision. With its abolition of the National Board of Employment, Education and Training, the Howard government swept away a proviso that had existed in Commonwealth legislation since the introduction of the Schools Commission Act by the Whitlam government, a reference to:

*... the primary obligation, in relation to education, for governments to provide and maintain government school systems that are of the highest standard and are open, without fees or religious tests, to all children.*

Ironically, a vestige of that thinking remained in the form of the use of the costs of government schools as a funding reference point for the public funding of non-government schools. It is an arbitrary link and it is applied to a large number of private schools that operate well above the resource levels of government schools.

There are many and varied forms of public–private partnership in Australia and overseas, but it is difficult to find a term in public financing literature to capture the nature of non-government schools funding in Australia. Substantial public funding is provided differentially across these schools through an array of Commonwealth and State/Territory programs described in Chapter 2. This is provided on a largely open-ended basis, with the conditions for charging private fees being left to market forces, and is largely unregulated in terms of demographic planning considerations.

Governments use no form of competitive tendering among private providers, based on their relative quality or efficiency. There are no formal contractual arrangements to deal with the fact that the risks of any failure in the services provided by private providers will almost certainly need to be borne partly or fully by governments. Internationally, Australia's arrangements for the public funding of non-government schools are at the 'high public subsidy' and 'low regulation' ends of the policy spectrum. Australia currently has a quite singular form of school funding that has evolved from decades of policy development and compromise. This has been further corrupted by the way in which Australia's federal system of government has allowed the development of an asymmetrical and irrational split in responsibilities for schools, in the government and non-government sectors, between the Commonwealth and the States/Territories.

The pressing policy reform needed today is to find ways to define the optimal level of total public national investment for schooling to meet the nation's policy imperatives, as outlined in previous chapters. Such reform must include the setting of resource standards for schools as a basis for the allocation of public funding among schools, the defining of the roles and responsibilities of the funding partners in schooling, a closer alignment between the conditions applying to public funding for both sectors of schooling and, in particular, a greater emphasis in funding arrangements on guaranteeing an adequate supply of high-quality teachers for all schools.

## POLICY OPTIONS

Policy proposals currently being advanced in various quarters in Australia for reform to national schools funding arrangements fall broadly into the following three approaches, each of which is discussed in turn, below.

- Strengthening the market-based approach to schools funding
- Restructuring government and non-government systems and schools to achieve one integrated system
- Overlaying the status quo with new funding programs.



### Strengthening the market-based approach to schools funding

Consistent with a market-oriented approach, governments could decide to let market forces apportion public funding among schools. They could do this by giving the funding to individual parents, so that schools would have to compete for their funding by providing services to attract sufficient parents. Under such a scenario, governments could still have responsibility for deciding the total level of investment, and for setting standards for curriculum, assessment and teaching.

The usual funding mechanism favoured by those advancing this policy setting is an individualised parent voucher. Under such a system, governments would provide each parent with an entitlement to public funding for some or all of the cost of their child's school place at the school of their choice, usually in the form of a paper voucher paid through the parent to the school authority. A similar, but less dramatic, approach is the system of governments providing 'paperless' per student grants, where public funding is provided directly to the school authority in response to evidence of student enrolments.

It is very important to understand that 'vouchers' are a funding mechanism, and are not themselves a funding policy or scheme. The key questions for determining the nature of particular funding criteria and arrangements relate to the extent of public funding, including whether full, partial or differential, and the conditions for that funding. Vouchers can operate in centralised, decentralised or devolved systems of schooling, and even in otherwise 'integrated' funding arrangements for government or non-government schooling.

The purest form of a voucher model is one that is equivalent to the full average cost of schooling. The theory is that this would equip all parents with market 'power' in their choice of schooling. If full-funding vouchers were applied to the Australian setting, it would require an additional investment by governments in non-government schools of up to \$5 billion annually, a 60 per cent increase in the current level of public funding to non-government schools. Most of this increase would go to those parents with students at schools with the greatest gap between the current rate of subsidy and the full average cost of schooling, namely the highest-fee non-government schools.

One of the main policy questions to answer under such a model would be whether there were any controls over the private fees that schools could charge over and above the value of the voucher. If the policy goal was to provide 'incentives for private effort', government would encourage schools to add to the resources funded by the public voucher through unregulated fees, charges, donations and the like. But such a policy would foster competition between schools based on resources available to students and teachers, rather than on the quality of schooling. It would also undoubtedly lead to immense political pressure from parents unable to afford to pay the gap between the value of the voucher and the private fees charged by the best-resourced schools for governments to provide higher public funding or compensation, in order to maximise their own choice of schooling.

Governments would still need to determine the degree to which schools in receipt of voucher funding were able to set the criteria, religious or other, for accepting or rejecting students' enrolments. For non-government authorities to accept full public funding for their students and at the same time expect to exercise full autonomy over which students they accepted or rejected would be a radical policy by international standards.

Voucher funding could also be constructed so as to pursue equity policy goals. Such goals could be realised through differential vouchers, where the value of the voucher varied according to a scale of relative student needs. The theory is that heavily weighting the voucher for students that are costly to educate would make these students more attractive to schools, and would counter the tendency for some schools to select those who have less intensive needs, are most academically able or have the most supportive families and communities. Such an approach would require a comprehensive review and categorisation of students' learning needs and the school resources needed to meet those needs.



A fundamental problem for any form of voucher funding for schooling, however, is reconciling the mathematics of costing the formula with the reality of the effects on resources when each student enrolls at a particular school. The use of average recurrent cost figures in government schools for calculating the value of a voucher obscures the varying resource needs of individual students in particular school settings. Average recurrent cost figures absorb the often contradictory cost pressures across Australia's 6,900 government schools, including selective and comprehensive schools, schools in isolated areas or with concentrations of students with special needs, and across schools of different enrolment sizes. Average costing also absorbs the effects of the unavoidable diseconomies arising from the obligation of the government sector to provide a school place within a government school to all comers.

These limitations of average cost data also apply to voucher models providing differential funding to groups of students with varying resource needs. In this case, it would be necessary for the overall average cost figures to be modified by measures of the average costs of schooling for particular students, including Indigenous students, those living in remote areas, non-English speaking students, and those with an intellectual and physical disability. Such modifications would also require decisions about the relative weightings of the overall and special group averages, some of which would be overlapping when individual students had multiple areas of disadvantage. But even then, the final adjusted average cost figures would be subject to the kinds of issues outlined in the previous paragraph.

In these circumstances, a voucher funding model based on marginal costs would be preferred. In the field of economics, marginal cost is the effect on total cost when quantity increases by one unit. When applied to school settings, the value of a marginally-costed voucher would depend on the effect on school resources when the individual student applies to enrol in a particular school. In cases where the student joins an existing class with some spare capacity, the marginal cost would be close to zero. On the other hand, if the extra enrolment causes the school to employ another teacher, the marginal cost of that extra student could be much higher than the average cost. But it is not possible to estimate the value of a marginal-costed voucher before the student enrolls at the school. It is, by definition, a cost that results from the additional unit when that occurs and not before.

What this means is that the application of a voucher model for schools funding is fatally flawed. It is rendered impractical, in this case, by long-standing principles of economics and financial accounting. Despite decades of public debate about it, voucher funding for schools has not been widely taken up internationally. Experience with voucher funding in parts of the United States and South America has produced patchy outcomes for students, and certainly not a groundswell of support more generally.

Debate in Australia on the voucher option has to some extent been diverted by the adoption of per student recurrent grants for Commonwealth and State/Territory funding of non-government schools. In a sense, per capita grants are a form of 'paperless' voucher, allowing public funding to follow the student when he or she enrolls in a non-government school. At the same time, as noted above, State or Territory funding of students in the government sector generally follows the application of staffing and other recurrent resource formulae, derived from real data on the costs of schooling.

As noted in previous chapters, the Commonwealth's 46-category general recurrent funding scheme provides differential grants direct to non-government schools. Each grant varies according to a measure of the socio-economic status of the school's community, drawn from parents' census districts. This kind of funding is consistent with policies that promote market power for parents in their choice of school. The grant is activated by that decision, whether the student moves from a government to a non-government school or between schools within the non-government sector.

Under current Commonwealth–State arrangements for the funding of schools, however, the per capita grants scheme does not work in favour of the government sector when a student transfers from a non-government to a government school. In this case, the Commonwealth saves money because its general recurrent grant for a student in a government school is set at 10 per cent of its measure of average government school recurrent

costs, whereas its per capita grants for a non-government school student ranges from 13.7 to 70 per cent of that measure. The relevant State or Territory government might also benefit financially, at least in the short term, as its funding for the student in a non-government school might be higher than the effect on its staffing formulae when that student moves to a government school. What this demonstrates, in the Australian context, are the distortions introduced into schools funding by a reliance on individualised funding entitlements, and the resulting temptation for cost shifting.

Per capita recurrent funding of non-government schools also suffers from the problems outlined above when average cost figures are used. The value of each grant is set, usually in legislation and related formulae, independently of the real effect on school resource levels of the individual student's enrolment at a school.

But public funding to schools through per student grants is not a formal 'voucher'. This funding is provided direct to schools, not to parents. From the perspective of non-government schools in Australia and the parents who support those schools, the benefits they have gained from per student funding of schools over four decades have minimised the political pressure on governments to move to the more cumbersome system of paper vouchers.

Funding government and non-government schools in Australia through vouchers for parents cannot resolve the underlying problems outlined above, particularly the difficulty of costing the value of an individual student's voucher in a way that would be compatible with that student's learning needs and with the rational distribution of recurrent resources, mainly teachers, among and within schools; and with the merging of Commonwealth and State/Territory funding arrangements around a single voucher. Governments seeking real reform in Australian schools funding policies need to look beyond simplistic voucher models.

Restructuring government and non-government systems and schools to achieve one integrated system

One approach to overcoming the costs of the inconsistencies and tensions of the current hybrid system of government and non-government schools is to bring all schools together into the one system and apply a consistent public funding model. Various forms of integrated schooling have been introduced in other countries, including New Zealand, England and Wales, Ontario (Canada), the Netherlands and France. In such systems, non-government schools with atypically high resource levels that largely reflect high fees or private endowments are left to operate as private schools outside an integrated system of schools fully or largely dependent on public funding. In OECD countries in which public funds are provided for schools that are the counterpart of the majority of Australia's non-government schools, such schools often receive all their recurrent funding from governments and may also receive funding to cover all or part of their capital costs. In some cases fees can be charged for admission, but these are generally regulated both to maintain reasonably comparable criteria for access and comparable resource levels among schools.

Some have argued that such an approach could be introduced in Australia, to achieve greater consistency in the governance and public funding of schools. Generally such proposals have envisaged some kind of public charter or framework within which schools that are now either government or non-government schools would operate alongside each other and be similarly funded and regulated.

But 'integration' is not a funding policy in itself. It is simply a structural framework for schools and one that can be used to deliver contrasting funding policies. Some have argued for achieving an integrated system through making the conditions for public funding of government schools more like those that apply to non-government schools, and others argue for one that does the reverse.

An integrated system could, for example, be designed to expose all schools to market forces, mainly by relaxing the regulations that currently apply to government schools. Schools could have greater freedom to charge parents fees on top of the public funding received from government and to use their resource advantage to compete with other schools to attract teachers. Where such proposals provide incentives for schools to raise their private income without prejudice to their entitlement to public funding, they would have the effect of extending resource inequalities.

An integrated system could equally be used as a means of bringing publicly funded non-government schools into a stronger regulatory framework such as applies to government schools, limiting or removing their capacity to charge private admission fees. This approach has been advanced as a means of reducing socio-economic stratification among schools and of reducing the scope for competition based around resource disparities that operates to the detriment of students from the least advantaged backgrounds.

Proposals for both of these very different forms of 'integration' can entail significantly greater public investment in what are currently non-government schools. The purpose of this can be either to replace private fees charged by the non-government schools, or to 'equalise' the levels of public funding paid to all schools by raising the public funding of non-government schools. A proposal put forward by the Allen Consulting Group (2004) would have required increased public investment of about \$2 billion to increase public funding to the non-government schools that chose to enter the proposed integrated system. These increases would have been partly offset by reductions of up to \$0.4 billion in the public funding of the best-resourced independent schools. Under this proposal, the management of the integrated school system would be the responsibility of States and Territories, with a joint Commonwealth, States and Territories body overseeing the system and reporting to a ministerial council.

Replacing the private income collected in fees by those non-government schools that currently operate at similar recurrent resource standards to government schools would add an estimated \$2 billion annually to public spending on schools. As set out in the discussion of vouchers above, bringing the public funding of all non-government schools up to average recurrent expenditure per student on government schools would cost up to \$5 billion. In both these scenarios, it would be those schools opting into the integrated model that currently charge the relatively highest fees that would benefit most from increased public funding, since these are most likely to have the greatest gap between the public funding they attract currently and the level of public spending on government schools.

The public costs of such forms of integration would severely limit the capacity of governments to direct public funding to where it is most needed: to those schools where there are significant proportions of under-achievers drawn from communities where they are growing up in hardship.

Proposals for moving the proposed 'integrated' system back to the control of States and Territories are likely to be resisted by non-government school authorities. In the later years of the Hawke Government, radical proposals were put forward to realign responsibilities for schooling. These were advanced in the context of a Commonwealth bid to gain control of vocational education and training, including TAFE systems, as part of overall policies for economic growth, skill development and productivity. Options developed for consideration by the then Australian Education Council included recommendations to transfer funding responsibilities for the general recurrent and capital programs to the States and Territories, and to limit Commonwealth funding to streamlined specific-purpose and targeted programs. These proposals drew a political backlash, including from the Catholic and independent school sectors, each objecting strongly to removal of the Commonwealth government as their principal source of funding.

Keating (2009) recommends the introduction of a new mix of public financing approaches that would be introduced through a set of major projects that would be overlaid on current Commonwealth and State/Territory funding arrangements, and that would consist in 'appropriate and strategic mixes of recurrent payments, grants and purchasing agreements'.

Keating (2009) proposes a single education system to ensure consistent quality and greater equality of opportunities. He also calls for a fundamental rethink of schools funding, arguing that the present system rewards schools for selecting students who are economically or scholastically endowed and that governments need to be more specific about what public funding can be used for. Keating stops short of recommending a model for what he describes as the 'base funding' of schools, arguing instead for steps to be taken over time towards developing inter-connected formulae for State/Territory and Commonwealth funding of schooling, along the lines set out in a previous paper by one of the authors of this report (Connors 2007b). In the meantime, Keating sees that the focus of national effort in relation to funding reform would be undertaken through strategic interventions in areas of perceived weakness in the current provision of schooling. Each project would encourage cross-sectoral partnerships and local community responsibility for students. These projects would be deliberately designed as building blocks towards a new set of relations that could serve, in turn and over time, as bases for dealing with the issues of federalism and the relationship between government and non-government schooling.

In the Australian social and political context, there are two highly valued, distinctive education traditions that it is difficult to imagine being readily combined into a single system. The first is the tradition of secular and free public schools open to all, which are, in a legal sense, the primary obligation of State and Territory governments.

They remain the cornerstone of our system of compulsory schooling. Many Australians would find it difficult to accept that their local government school was a school existing basically for the purposes of religious formation, even if it were available without charge to parents. It would be the same for a school following the teachings of a single luminary such as Montessori or Steiner.

The tradition of non-government schooling, largely faith-based, predates public schooling and is also highly valued by a significant proportion of Australians. It is doubtful that Catholic or independent non-government school authorities in Australia would see advantages to themselves in joining a single system, especially in the light of the high public funding levels they have been able to achieve under current arrangements, with little loss of autonomy.

The proposal for a single system of schools is commonly put forward as a means of reducing the variations among schools that reflect and perpetuate social inequalities and socio-economic stratification and thereby fix students in educational streams or hierarchies that limit their options for the full range of studies in schools and post-school destinations. Such stratification, in turn, can undermine the performance of the school system as a whole.

But, as discussed previously in this paper, socio-economic stratification among schools is not unique to Australia, nor can it be simply attributed to schools funding arrangements, flawed as they are. There are broader factors that drive choice and competition among individuals and there is no guarantee that these would not continue to operate just as strongly as they do now, even if the two sectors of schooling were fused into one. Changing the structure would not, of itself, ensure corrective policy action to reduce the effect of these factors. It is also the case that in some 'integrated' systems, such as in England, the integration is far from real in practice, with old patterns of operation and selection continuing not far beneath the surface. Moving to a single system would not, of itself, determine how much school choice parents could expect to have funded publicly.

In this paper we have provided evidence of the urgent need in Australia for schools funding reform. It is possible for governments to take prompt action to improve the alignment between the *public funding* provided to government and to non-government schools, the *responsibilities they accept* and the *intensity of their relative workloads*. If this alignment cannot be achieved, then it is unlikely that governments would be able to bring about a single, integrated system of schooling.

Rather than moving directly to overcome the widely agreed problems in our current funding arrangements, proposals for an integrated school system would almost certainly prove to be a costly diversion of time, effort and money, for unlikely return (see Bonnor 2006). Attempting to achieve funding reform through making the complex changes that would be necessary to achieve a single, unified school system either nationally or on a State-by-State basis is unrealistic.

#### Overlaying the status quo with new funding programs

One course of action open to governments in Australia and, in particular, the Commonwealth government would be to maintain the fundamentals of the current funding framework for schools and to undertake any further investment through discrete funding initiatives and programs.

This would be, in a very real sense, the path of least resistance. It would avoid the potential for political and educational instability arising from any major changes to the way the \$35 billion in public funding spent annually on schools is now packaged into programs and allocated among schools across both sectors.

There is a long tradition of governments' earmarking funds for targeted programs designed to achieve redistribution of funding among schools (for example, through increased funding to the neediest schools) without creating losers, and to deal with changing educational priorities.

The problem with this approach is that it would not deal with underlying flaws, anomalies and inequalities in current schools funding arrangements. The continuing effects of these anomalies and inequalities would continue to dominate the construction of government budgets, which in turn would limit the capacity to make a real investment in areas of educational priority. If the underlying arrangements are flawed, they are likely to exert a countervailing effect on the programs that are overlaid on them and so weaken their effectiveness.

Establishing accountabilities for the overlaid programs leads to artificial forms of evaluation and reporting or to counterproductive forms of segmentation in the educational programs run by schools and systems. A related problem is that it is very difficult to evaluate such programs, since it is near impossible to isolate the effects of the resources provided through each targeted program from the much larger volume of resources invested in the school.

There is a temptation for each incoming government to re-badge and reconfigure targeted programs and the related conditions. This leads to confusion, complexity and instability and adds to the workload of participating schools. These problems are exacerbated when the scale of funding being provided is insufficient to justify the workload involved. The requirements of such programs can also have the effect of limiting the capacity of schools and systems to manage their total resources to best educational effect.

There is no doubt that there have been some valuable targeted programs in the past and there is no suggestion here that there is no place for such programs. However, investment in such programs is no substitute for providing schools with the recurrent funding that they need to deal with their regular and predictable workload in a sustainable way.

### In conclusion

The three policy options outlined above fail to meet the criteria for effective schools funding reform described in Chapter 4. None of them provides a means of determining how to provide schools with adequate and appropriate resources to carry out the tasks expected of them in ways that enable the planning that is critical to high-quality results. None of them provides a means of getting those resources into schools in the most efficient manner from the point of view of the schools that need to use them. If anything, the first two options compound the complexities of the current situation. The third option seeks to draw a veil over widely acknowledged policy flaws and inequities in the interests of political expediency rather than the interests of schools and the students they serve.

What is needed now are funding arrangements that support schools to deal with major educational imperatives and key priorities; that provide a rational and transparent link between public funding for schools and the purposes for which that funding is provided; that improve public understanding of, confidence in and consensus about schools funding arrangements; that overcome the dysfunctional effects of federalism on schools funding in Australia; and that commit governments to a planned program of increased and sustained investment in high-quality teaching in schools.

## PROPOSED MODEL FOR FUNDING AUSTRALIAN SCHOOLS

The Funding Model proposed below recognises and builds on the historical legacy of schools funding policies, within the Australian political context. It provides a way to overcome the current dysfunctional arrangements that have been outlined in earlier chapters. Below is a discussion of a three-step process for achieving a sustainable and credible policy framework for future public funding of Australian schools.

### STEP 1: ESTABLISH AND REACH CONSENSUS ON A NEW CHARTER FOR SCHOOLS FUNDING ARRANGEMENTS

There is a compelling case for developing a new way to fund schools that would:

- Deal with major imperatives for our school system, in particular:
  - Raising school achievement and school completion rates overall
  - Countering persistent and unjustifiable patterns of underachievement
  - Contributing to social, economic and cultural development, through ensuring all schools have the resources they need for their students to meet agreed national goals and priorities for schooling
- Provide a rational and transparent link between the public funding of schools and the purposes for which it is provided, by:
  - Basing schools funding on the costs of providing the services needed to achieve these goals and purposes in actual school settings
  - Providing every family with the choice of a high-quality and well-resourced government school, and with confidence that all schools are resourced to meet quality standards, irrespective of sector.
- Improve public understanding of, confidence in and consensus about schools funding arrangements across the nation by:
  - Ensuring that that schools funding arrangements have educational integrity and that the best available evidence is used to inform decisions about the level and allocation of resources
  - Strengthening public confidence in governments' commitment to meeting their responsibilities for the education of all children and young people
- Overcome the effects of dysfunctional aspects of federalism on schools funding by:
  - Marshalling public resources for planned public investment through aligning Commonwealth, State and Territory funding policies
  - Formalising mutual and agreed roles and responsibilities of governments for providing public resources for schools
- Commit to a planned program of increased and sustained public investment in quality teaching, especially through:
  - Basing the distribution of teachers on all students having access to the teaching they need to gain the maximum personal benefit from their schooling
  - Formalising the responsibility of governments for an adequate supply of quality teachers and teaching-related resources at the centrepiece of schools funding.

### STEP 2: ACHIEVE A PROPER LEVEL AND ALLOCATION OF TEACHING RESOURCES IN THOSE SCHOOLS FOR WHICH GOVERNMENTS HAVE ALREADY TAKEN ON A FUNDING ROLE AND RESPONSIBILITY

Making equal access to quality teaching the centrepiece of schools funding reform would recognise the crucial link between high-quality teaching and student learning and that the largest expenditure item in schools' budgets is the provision of teaching staff. This measure would require an understanding of current funding responsibilities for teaching staff and teaching-related resources in all school settings.

Priority should be given to identifying those schools, or school systems, that are currently provided with their teachers by governments either directly or through recurrent grants from governments at a level sufficient to cover the cost of their current teaching resources (teacher salaries and salary-related costs such as superannuation and provisions for staff leave).

All government schools are dependent on government for covering the costs of teaching. It is now also the case that all Catholic systemic schools and more than half of independent schools are receiving recurrent public funding that more than covers their teaching costs, owing to the cumulative effects of Commonwealth and State funding policies over time. Taken together, these schools make up some 95 per cent of all schools across Australia.

It cannot, of course, be assumed that because a school's teaching resources are being provided by the public purse that these resources are necessarily adequate and appropriate, in either a relative or an absolute sense. But a common reliance on publicly funded teachers across the sectors creates both an opportunity and an imperative to establish a common framework for determining schools' entitlement to such teachers, as assessed against their relative workloads, in order to provide quality teaching and learning for the students they enrol.

National funding arrangements would formalise the responsibility of governments to provide the capacity for high-quality teaching for all students in all those schools for which they already have an obligation for providing teachers or have taken on the role of providing the funding equivalent. These arrangements would also provide a means for governments to achieve a more equitable distribution of teachers across schools, while bringing all schools up to agreed national teaching standards over time, as outlined below.

### STEP 3: USE FORMAL AGREEMENTS BETWEEN THE FUNDING PARTNERS TO GIVE EFFECT TO THE FUNDING MODEL

3.1 Define the funding responsibilities of government for quality teaching in schools for which they already have an obligation for providing teachers or have taken on the role of providing the funding equivalent (see 2 above), by:

- (a) Developing national standards for teaching resources
- (b) Coordinating current Commonwealth and State funding of teachers in government and non-government schools
- (c) Maintaining the real value over time through proper indexation
- (d) Making provision for research and evaluation.

(a) Developing national standards for teaching resources

As noted above, the highest priority in public policy for schooling is to ensure that all students in all schools are able to achieve the highest possible educational standards. The starting point for realising that objective is an agreed curriculum that provides, in the words of the Australian Curriculum Assessment and Reporting Authority, '... the essential skills, knowledge and capabilities that all young Australians are entitled to access, regardless of their social or economic background or the school they attend' (see <http://www.acara.edu.au/curriculum.html>).

But a curriculum entitlement, in the absence of the provision of the high-quality teaching that all students need for obtaining access to that curriculum, would be a sterile commitment indeed. We know from cumulative research that investment directed to providing all students with high-quality teaching is the most effective funding strategy for delivering high learning outcomes. Because about two-thirds of total recurrent expenditure on schools is currently directed to paying teachers' salaries and teacher-related costs, it is appropriate for governments to develop and apply a funding framework that directly links public moneys to the supply, nurturing and distribution of high-quality teaching.



The essence of the Funding Model proposed in this paper is to direct public funding to schools so that all schools have the capacity to operate at national teaching resource standards.

This requires, in the first instance, the development of a profile of the teaching resources needed by various types of schools in order to meet national educational goals for their students. Governments should take responsibility for developing these profiles of teaching resources, in collaboration with the teaching profession. The task would be carried out by drawing on a range of existing research and building on national and international precedents in order to develop a means of measuring the teaching workload of schools. The carriage of this task would also benefit from research directed to providing a rich and finely nuanced measure of the teaching workload of schools that serve various kinds of student communities and that operate in various kinds of settings. Ideally, ongoing research would further refine and update these profiles of teaching resources.

The workload of schools is, of course, influenced by a number of factors. As well as their classroom work, teachers do work in preparation for teaching, often invisible to outsiders, whether independently or collaboratively with their colleagues. Some of the teaching workload, such as the work of marking, assessment and reporting, is directly related to the number of students taught. The teaching workload will be more onerous and complex in schools that require more than the usual effort to engage students with the standard curriculum. The work of relating to the school's community may also require greater effort in such schools. The workload is more intensive in schools that enrol students who need a high level of learning support or who are from troubled families and communities whose difficult issues are brought into the school.

It is clearly the case that many aspects of teachers' work are common to all schools, regardless of the numbers and mix of students they enrol. It would be necessary, then, to have a basis for establishing the resources that would be needed for the kind of school that enrolls students who come from families and communities that are well placed to support their education, and who are highly motivated and academically able. This would provide minimum teaching resource standard.

A continuation of the principle of resourcing according to need, well accepted and practised in Australia, would see differential teaching resource standards applying to the complexity and intensity of the teaching workload of different schools. Although the application of the standards across different schools would vary, schools with comparable teaching workloads would receive a comparable teaching resource standard, regardless of sector.

There are useful precedents that would inform the development of such flexible resource standards for determining schools' staffing entitlement against such standards, for example, the Victorian Student Resource Package. The standards could also be informed by work undertaken in other school systems, in agencies such as the former Commonwealth Schools Commission and, more recently, the MCEETYA Schools Resources Task Force, as well as by work undertaken internationally. Flexible resource standards would take into account the costs of delivering curriculum and teaching in various contexts, such as the higher costs involved for schools in remote areas.

Governments are now far better placed than ever before to set national resource standards that recognise the quality as well as the number of teachers in the workforce. State teacher accreditation bodies are building an understanding of what defines quality teaching and, over a number of years, have developed explicit statements on the standards expected of teachers over the key stages of their careers, from graduation, through initial professional competence, to the higher levels of professional accomplishment and leadership. These standards, in turn, provide a guide for funding the provision of professional development. All governments, including the Commonwealth, have now entered into a National Partnership Agreement for improving teacher quality, which takes in the development of a National Teacher Professional Standards Framework.

Under the schools funding arrangements proposed in this paper, teaching resources for each school would be expressed as a set of *target standards*. This would allow increased public funding to be applied flexibly over time, taking into account changing levels of staffing and teaching resources in individual schools against their target standard. In developing the proposed National Target Teaching Resource Standards for the purpose of setting a funding benchmark, it would be necessary to define 'teaching'. This would need careful consideration, but should include at least the following elements:

- Classroom teachers' salaries and related on-costs (superannuation, leave, etc)
- Professional development programs and entitlements for teaching staff – which build the capacity of each school to provide high-quality teaching for all their students
- Teacher accreditation and reward programs
- Teaching materials
- Paraprofessional staff, including teachers' aides and related support.

Existing teacher accreditation authorities could assist in defining 'teaching and teaching-related staff' for this purpose. In defining 'teaching', there is a need to recognise that high-quality teaching arises from the ways in which teachers work together to create a positive learning environment, as well as from strategies to maximise their effectiveness as individual teachers (Connell 2009). The definition of 'teaching' in relation to these standards would need to be reviewed periodically, to recognise that changes occur over time in our understanding and experience of what constitutes 'quality teaching' across the full range of schools.

The definition of 'teaching resources' would need to be flexibly applied in cases in which school authorities believe that their students would benefit educationally from specialist professional support. Depending on the assessment of students' needs in particular schools, the proposed 'teaching' standards could include professional resources as such interpreters, counsellors, information technology support, behaviour management specialists and teacher–librarians. This definition would need to be re-evaluated over time, to reflect changes in curriculum, pedagogy and teaching and learning technologies, as well as the effects of broader social changes.

As discussed previously in this paper, there has been a trend in all schools, but especially in the non-government school sector, towards the employment of an increased number and proportion of paraprofessional staff, such as teachers' aides, technology support staff and staff providing assistance for students with intensive support needs. This reflects, in part, the changing educational significance of technology in schools, as well as changing needs for student support services. But it may also be a response to teacher shortage and cost pressures in schools. The intention of the proposed National Target Teaching Resource Standards is to protect students' access to qualified and high-quality teachers, complemented by paraprofessional support staff appropriate to the needs of students at each school. The intention is to avoid giving schools an incentive to employ lesser-qualified and less-expensive support staff as a substitute for high-quality teachers, on financial rather than on educational grounds.

The proposed National Target Teaching Resource Standards would exclude non-teaching staff (such as administrative and general maintenance staff), non-teaching recurrent costs, technology, building maintenance and capital infrastructure. But it would be necessary to develop and set separate, nationally agreed standards for those resources, so as to ensure that teaching and learning receives adequate support and takes place in an appropriate environment, and so as to provide a benchmark for national agreements as set out below.

These nationally agreed standards, taken together, would also reflect the total resource levels within which government expects all schools in receipt of publicly funded teachers to be able to educate the students they enrol.

(b) Coordinating current Commonwealth and State funding of teachers in government and non-government schools

For the schools identified in Step 2 above, government would provide planned increases in public funding to enable schools to progress towards their own target standard. In this way, governments would accept their responsibility for meeting students' entitlement to high-quality teaching.

This would require investment beyond the current level. Target standards would be set at a level designed to provide for an increase in both the supply and the quality of teaching as well as for the salary structure needed to make teaching an attractive and rewarding career for high-quality entrants, *including* those teaching in the most hard-pressed schools. The setting of a 'target' standard gives governments the scope to provide differential rates of increases in staffing resources to different schools according to their relative needs. The cost of this increased investment would be contingent upon the gap between schools' current levels of teaching resources and the target standards. For the purpose of determining annual Budget priorities, governments would need to decide on an affordable rate of progress towards the National Target Teaching Resource Standards.

For these targets to be achieved, it would be necessary to coordinate all moneys from both Commonwealth and State sources for the funding of teaching. This would require agreements between the Commonwealth and each State government for the pooling of all public funding related to the payment of teachers' salaries and other resources as defined by the National Target Teaching Resource Standards.

In particular, the Commonwealth would need to consolidate its recurrent funding of government and non-government schools, which is currently provided through general recurrent per capita grants and through targeted or special purpose programs, such as English as a Second Language grants, Indigenous education programs as appropriate (other than those directed to parents and Indigenous communities), and national partnership programs for quality teaching, disadvantaged schools and literacy and numeracy support.

State funding for non-government schools in the form of per capita grants and any specific-purpose programs for targeted schools and students, would also be pooled for the purpose of supporting progress towards the proposed National Target Teaching Resource Standards. This integration of Commonwealth and State funding of teaching resources from all sources is essential for the development of a coherent and strategic approach towards national teaching standards for all schools.

One model for integrating public moneys to achieve National Target Teaching Resource Standards in schools would be for one level of government to assume total responsibility for this purpose. Assuming it were the Commonwealth, this would require agreement between governments on the transfer to the Commonwealth of State moneys currently received by them through general revenue arrangements, essentially GST funds. Such a transfer would relieve the States of their funding of teaching resource standards in government schools and all of their grants to non-government schools. Of course, the Commonwealth would have the upper hand in negotiations about the transfer of funding responsibilities, given its central role in collecting all tax revenue, including GST, and in authorising the distribution of general revenue payments to the States through the Commonwealth Grants Commission.

A formal transfer of this kind would, however, raise questions about the legal, financial, administrative and educational responsibilities of each level of government. Comparable issues would have arisen during recent negotiations between the Commonwealth and the States over funding responsibilities for public hospitals, which could provide important information for the funding of teaching resources in government and non-government schools as put forward in this paper.

Alternatively, governments could enter into national agreements for the allocation of their separate funding for national teaching resources without proceeding to a formal transfer of moneys between the levels of government. This would be a simpler means of realising the benefits of a coordinated approach to the allocation of public moneys for higher teaching standards in schools.

Either way, the crucial ingredient for the policy reforms proposed in this paper is the coordination, through national agreement, of funding from both levels of government for a focus on high-quality teaching in schools, through progress towards National Target Teaching Resource Standards.

The proposed National Target Teaching Resource Standards would incorporate the additional resources required for the work entailed in meeting the educational needs of students with special needs, which are currently provided from a range of program sources. Students across the full range of intellectual and physical ability would be covered by the standards. Determining the teaching resources required by students with learning needs affected by various forms of disability and learning difficulty would follow an assessment of the teaching support needed by these students in their particular school settings, irrespective of sector.

The Funding Model would also recognise the level of teaching resources required for students with more intensive learning support needs, for example, schools serving concentrations of students from Indigenous and low socio-economic communities. Schools' staffing entitlement would be defined by teaching workload, based on needs arising from their actual student intake and community circumstances, so that schools with a comparable teaching workload would receive a comparable staffing entitlement regardless of sector. Clearly the gap between current staffing levels and the target standards to which schools were entitled would be greater for some schools than for others. The greater the gap between schools' current and target standards, the higher their level and rate of increase would be.

Public funding, from Commonwealth and State governments combined, should be paid to school and system authorities on a *per teacher* basis, where the school receives its allowance for classroom teachers based on the maximum salary rate. School authorities would then determine, and be held accountable for, the allocation of this funding within the school, across salaries, rewards and professional development, taking into account the age and experience of their teaching force. Schools with a higher proportion of younger teachers, and therefore lower salaries, would direct funding in excess of those salary costs to providing the professional learning their less-experienced teachers would need to meet accredited teaching standards for professional accomplishment and leadership, consistent with the quality teaching national partnership being developed through the Council of the Australian Governments (COAG).

Under this Funding Model, the balance of leadership positions and classroom teacher positions would vary among schools according to their different student characteristics. Adopting access to quality teaching as the key funding criterion for schools removes the need for artificial funding categories of non-government school, such as 'funding maintained', 'Catholic maintained' and 'funding guaranteed'. Those schools currently operating at the proposed target standards would have their public funding maintained in real terms while those that were operating below the proposed target standards would receive increased funding. All schools would operate within a common resources framework that provides differential staffing according to workload, consistent with considerations of quality, equity and social inclusion.

Current differences among the States in their funding of government and non-government schools would need to be gradually smoothed out over time, within the framework provided by the target resource standards. This is a responsibility that would best be taken up by the Commonwealth, in the context of the integration of Commonwealth and State funding as discussed above.

It is also possible that the adoption of public responsibility for funding and achieving National Target Teaching Resource Standards would encourage the development of a single national system for paying teachers' salaries and related conditions, such as providing professional development and rewarding quality teaching. Such a possibility should be explored by governments and school authorities.

Governments, including the Commonwealth, would continue to have the option, separately from this Funding Model, of funding programs of research, evaluation and innovation in priority areas, including curriculum development and related assessment and reporting, fostering new teaching and learning technologies and developing innovative approaches to teaching and learning in schools. Such programs have the potential to inform future support and provision of quality teaching in schools.

In relation to funding agreements, this Funding Model can be applied to systemic and non-systemic schools. It is applicable to systems, regardless of differences in governance structure, or in their having devolved or centralised decision-making.

(c) Maintaining real value over time through proper indexation

It would be essential for the real value of the resources provided for schools to be protected against the effects of inflation. This requires annual adjustments to funding so as to offset price changes. Government funding of the costs of teaching should be adjusted each year for movements in teachers' salaries and related costs. The current *education wage* index calculated by the Australian Bureau of Statistics could be applied, although it would be better if a separate teachers' salaries index were developed for this purpose.

Adoption of a teachers' salaries index for adjusting public recurrent grants to schools could raise questions about the role of both Commonwealth and State governments in salary negotiations and awards. The involvement of both levels of government in such negotiations would be a welcome development. Currently, only State governments have this responsibility even though the Commonwealth is the major source of funding for non-government schools, which benefit from the flow-on effects arising from the current index, the Average Government Schools Recurrent Cost (AGSRC) measure.

A related issue is whether to continue to use a national teachers' salaries index, or move to State-specific measures based on salary movements in each jurisdiction. A national index could add weight to arguments for a single or federated national teaching service for all publicly funded teachers, but this would take some time to work through the complex web of industrial, legal and political issues. State-specific indexes would result in some differences between the salaries paid to teachers in the various States, but such differences tend to even out over time. Within each State, however, it would be essential for publicly funded teachers and leaders in schools, whether in the government, Catholic or independent sector, to be paid and rewarded at comparable levels and conditions. Variations for differential provisions for schools in hard-to-staff locations would be built into the standards.

It would also be important to adjust the agreed standards of non-teaching recurrent resources against the effects of inflation. The value of these costs, to be met by government and non-government school authorities under the proposed national agreements, should be adjusted each year for changes in non-teaching staff salaries and wages and for other inflation effects. This could be achieved by the development of a composite and balanced index, possibly derived from current measures of average weekly earnings and consumer prices. Weighting for this kind of composite index would be informed by the balance of school expenditures as set out in national reports.

Application of a deflator that directly measures annual movements in actual recurrent expenditures avoids the artificiality of the current measure, the Average Government Schools Recurrent (AGSRC) index. The AGSRC is a contrived calculation, where year-on-year movement in accrual data provided for national reports is applied to a cash-based figure. The year-on-year movements in AGSRC include the effects of changes in teachers' salaries, non-teacher salaries and non-staff costs. But they also include the effects of State policy decisions, such as reductions in class size or new programs for students with special needs.

The AGSRC figure is also affected by the diseconomies experienced by State systems in meeting their legal obligations when a significant proportion of government schools become smaller and less efficient as a result of shifts in population across geographical regions and school sectors. These latter increases in AGSRC have nothing to do with maintaining the value of existing expenditures. Moreover, such increases are provided indiscriminately to all schools, rather than to the targeted schools and students for which some of the policy increases were intended.

The application of a direct measure of recurrent changes, as proposed here, protects schools funding against the effects of inflation. It would also have the important benefit of releasing the above-inflation funding that the current AGSRC index produces, and of allowing governments to target the real priorities of bringing all schools up to National Target Teaching Resource Standards.

(d) Making provision for research and evaluation

The proposed national agreements should be put in place for a sustained period of time, to provide funding security and predictability for all parties to those agreements. It should also allow for formal evaluation of the funding arrangements so as to assess their effectiveness in meeting agreed educational goals and priorities; and to enable any agreed adjustments and improvements to the funding processes to be made without disruption to each school's ongoing operation. Such evaluation would include the opportunity to redefine the standard of teaching resources required to achieve any revised goals and priorities.

In these circumstances, a funding period of about seven years would be appropriate. Annual reports would provide all parties with regular information on schools' compliance with the terms of the agreements. This information would feed into a more comprehensive evaluation of the funding arrangements in about the fifth year and to a formal review of the terms of the next funding agreement in the following year. This would provide all parties to the national funding agreements with more than 12 months notice of any major changes to their obligations.

It would be important for the outcome of this evaluation and review process to be undertaken professionally by those with insights into the teaching and learning process and into the ways in which schools and systems are able to support students and teachers to maximise their learning outcomes. This would best be achieved by establishing an independent, professional body with a remit to provide public advice to governments, through COAG, on schools funding policy trends and directions. To support this evaluation and review process, governments should provide funds to enable independent research into the implications for student progress and achievement of different patterns of resource use and, in particular, the organisation of teachers' work within schools.

3.2 Define the further funding responsibilities of school authorities (State government, Catholic and independent school authorities) for:

- (a) Non-teaching recurrent resources within agreed standards
- (b) Capital works and infrastructure

(a) Non-teaching recurrent resources within agreed standards

Responsibility for funding other recurrent resources, such as non-teaching staff, books, stationery and materials and administration would rest with the relevant school authorities in the government and non-government sectors. Formal agreements between governments and school authorities would ensure that these resources were provided at nationally agreed standards.

*Government schools:* For government schools, State and Territory governments would continue to constitute the formal authority for this purpose.

*Non-government schools and systems:* A parallel arrangement would apply in non-government schools, with the relevant non-government authorities having responsibility for the private funding of non-teaching recurrent resources, within agreed standards. Non-government school authorities and their communities would fund the agreed levels of non-teaching recurrent resources in non-government schools (about 15 per cent to 20 per cent of total recurrent costs). This level of private contribution is consistent with current levels for the bulk of non-government schools. Determining the precise level would follow detailed analysis of current recurrent resource levels, possible areas for improvement, and the sources of funding for these.

*Voluntary contribution and fund-raising in schools:* In many school communities, parents and others are able and willing to support schools, whether in the government or non-government sector, through voluntary donations and non-compulsory charges. This funding is estimated to be up to 5 per cent of total recurrent funding of government schools (Senate Employment, Workplace Relations, Small Business and Education Committee, 1997). The level of discretionary funding this provides varies greatly among individual school communities. A similar average level could be assumed in most non-government schools, again in the form of voluntary and optional contributions that are over and above and quite separate from the formal fees and charges that govern access to the school or to the curriculum it provides through publicly funded teachers.

Under the Funding Model, it is proposed that such funding would continue to be available to meet local needs and provide extra-curricular services and activities. For accountability purposes, schools would be required to include the nature and level of this form of voluntary, optional private funding in their public reporting.

An important principle here is that no student should be excluded from access to the agreed curriculum or to the services provided by publicly funded teachers on the grounds of parental inability or unwillingness to pay voluntary fees and charges. The Funding Model should remove the need for such discretionary, voluntary funding to be used in either sector to provide teaching resources above the proposed National Target Teaching Resource Standards.

There are currently some differences between the government, Catholic and independent school sectors in the balance of teaching staff, non-teaching staff and non-staff recurrent expenditures. These could be brought together over time, so that all the schools within the Funding Model were operating at comparable resource levels, within the specified standards.

Some might argue that individual schools should determine the balance of teaching and non-teaching resources, possibly within a 'basket of services' or 'global budget'. Under the Funding Model proposed here, it is argued that all schools should have equal access to high-quality teaching, defined and costed against agreed standards. The degree of flexibility at school level to apply those standards could, however, be further negotiated, but within the overall resource standards. The important principle is that the public funding provided to cover teacher salaries and related, agreed costs of teaching must be spent on these resources.

#### (b) Capital works and infrastructure

As well as high-quality teaching, students need a high-quality learning environment. All schools should provide for their students a safe and secure environment conducive to a high-quality education; and facilities fit for the educational services schools are required to provide. There is a need to resolve where responsibility lies for the ongoing funding of capital works for government and non-government schools under the Funding Model proposed in this paper.

The Commonwealth has been providing separate capital grants to augment funding by government and non-government school authorities for decades. In recent years, these general programs have been enhanced by major Commonwealth interventions: the Howard Government's *Investing in our Schools Program* and the



Rudd Government's *Building the Education Revolution* and *Trade Training Centres in Schools* programs. These interventions, totalling more than \$20 billion in expenditure, have the potential to redress the effects of years of neglect of capital infrastructure, especially in the government school sector. The scale of these interventions should achieve this potential, notwithstanding the missed opportunities for new capital works to benefit from strategic educational design, and the decision to spread this funding among all schools regardless of need. These programs are budgeted to terminate in the next few years. But the fillip they have given to the physical infrastructure in schools right across the country now provides an ideal opportunity to re-align public investment in schools to better recognise the role of governments in sustaining the supply and quality of teaching across all schools.

*Government schools.* Governments are spending about \$2 billion each year on general capital infrastructure in government schools. On a per student basis, expenditure on capital works in 2007 was \$860 for government schools (MCEETYA 2007, *Statistical Appendix Table 20*). The Commonwealth's ongoing contribution to general capital spending in government schools, outside its *Building the Education Revolution (BER)*, intervention, represents about \$350 million, or just under 20 per cent of that annual funding.

The Rudd Government has now rolled over this general capital funding for government schools within the overall amount paid to the States under the new national specific-purpose payments. This gives State and Territory authorities the flexibility to allocate these funds across their own priorities for recurrent or capital funding of schools as part of their National Agreements with the Commonwealth.

In these circumstances, it would now make more sense for the rolled-over funds from the Commonwealth capital program to be directed to improving teaching standards in government schools under the Funding Model proposed here. As stated in 3.1 above, this would be consistent with the Commonwealth's role and responsibility in supporting government schools to reach the proposed National Target Teaching Resource Standards. State authorities would then have an unambiguous responsibility for the capital infrastructure in the government schools for which they are the legal owners. It would also remove the anomalies arising from the Commonwealth investing public funds in assets for which it has no direct responsibility, including for ongoing maintenance. This rollover of capital funding would need to be done in such a way as to preserve the ongoing value of the Commonwealth's investment in government schools. This exchange of responsibilities would consist largely of intergovernmental accounting adjustments, rather than having any practical significance from the point of view of the operation of schools.

*Non-government schools.* Total annual spending on general capital infrastructure on non-government schools from all public and private sources currently exceeds \$2 billion. For Catholic schools, per student expenditure on capital works in 2007 was \$1,256 and for independent schools about \$2,497 (MCEETYA 2007, *Statistical Appendix Table 23*). These expenditure figures will change over the next few years as the BER projects take hold, but are likely to revert to previous sectoral comparisons revealed by the 2007 financial data when the BER program terminates in 2011–12.

Of total annual spending on non-government schools' general capital infrastructure, the Commonwealth provided over \$120 million. That is, government provided some 6 per cent of the ongoing total capital investment in non-government schools.<sup>24</sup> Given such relativities, it would also make sense, under the Funding Model proposed here, to transfer these funds to the pool of new moneys needed to bring all schools up to National Target Teaching Resource Standards. This would confirm the Commonwealth's core and ongoing responsibility, in formal partnership with States, for the quality of teaching; and would place the responsibility for the provision and maintenance of capital facilities with the owners of these private assets. In the same way as for government schools, this rollover of capital funding would need to be done in such a way as to preserve the value of the Commonwealth's investment in the non-government schools sector.

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<sup>24</sup> This estimate excludes funding of small-scale capital works and the provision of support for interest subsidies on loans for non-government schools by some State governments. But, under the proposed Funding Model, any such funding by States should also be rolled into the funding provided to reach the proposed National Target Teaching Resource Standards.



In the context of the Funding Model, for non-government schools this separation of responsibility for the funding of teaching and of capital facilities would also obviate the need to deal with issues arising from governments investing public funds in what are privately owned and controlled assets. These issues include the fact that, under current arrangements, there is inadequate recognition and protection of the public interest in its investment in these school buildings throughout their life; and that the financial and planning conventions observed in other areas of government in relation to such public–private partnerships do not apply here. Governments have little or no say in the use, development and disposal of these assets in which they have made a public investment for educational purposes.

In the same way as for government schools, this separation of responsibilities for recurrent and capital funding between the funding partners could also be achieved through reciprocal accounting adjustments on the part of the Commonwealth and non-government school authorities. It has to be said, however, that for the non-government sector there is more to this issue, and to the significance of recurrent and capital funding from government, than simple arithmetic.

The 6 per cent of funding for capital works from public sources has, for some non-government school authorities, significance that goes well beyond its scale. Public funding from governments is a highly valued source of start-up funding for some non-government school communities. Such funding enables schools to be established in a shorter time frame than may be necessary if a community were required to raise the start-up funding itself. Many families may be unable or unwilling to commit their own resources to providing the buildings for a school ahead of its being available to their own children. The availability of this public funding also assists school authorities to borrow further funding; and allows authorities to spread the costs of their capital investment over an extended period, rather than having to commit an upfront payment from their own funds.

It is also clear, however, that there would be significant benefits to the non-government school sector as a whole if the same amount of funding currently supplied by governments in the form of capital assistance to non-government schools were transferred, under this Funding Model, to support for teaching. The funding responsibilities of public and private partners in these schools would be able to be more clearly and cleanly defined. Governments would have the capacity to provide higher rates of assistance to schools towards reaching the National Teaching Resource Standards.

The value of the funding transferred would still be protected through the proposed supplementation arrangements for the public funding of teaching resources set out above, which is less likely to produce fluctuations than does the current index for adjusting Commonwealth capital grants, namely its Buildings Price Index. The benefits of this funding would also be spread more fairly among all non-government schools covered by the Funding Model than is currently the case.

It is clear that authorities within the non-government school sector are already bearing the overwhelming responsibility for capital investment in their schools, contributing more than 94 per cent compared with the public contribution of 6 per cent.<sup>25</sup> In all these circumstances, it would appear sensible to re-align this funding responsibility cleanly. Recent major injections of capital funding by the Howard and Rudd governments, as outlined above, have created a singular opportunity for such a realignment of public funding from capital to recurrent resources, without adverse effect.

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<sup>25</sup> Excluding short-term capital interventions, such as the Rudd Government's *Building the Education Revolution* program.

### 3.3 Aligning conditions for public funding among schools

National agreements between governments and school authorities would need to embrace a range of conditions and principles. These conditions are consistent with the principle that equity requires government to provide differential levels of support for schools to reflect the differing intensities of students' needs and schools' varying circumstances.

Where public funds are used to support differential standards of resources, these resource differences must be able to be justified on educational grounds. That is, public funding should not be used to drive a competition among schools, within or between the government and non-government sectors, based on resource differences with no educational rationale. This Funding Model is designed to improve the comparability in resources and conditions among those schools now commonly reliant on the public purse for the teaching they provide.

For government schools, these agreements would be negotiated within the COAG machinery that has been developed for this purpose. For non-government schools, these agreements would be negotiated with governments as a form of public-private partnership. Public funding for non-government schools would be contingent upon their demonstrated willingness and capacity to work within the resource standards set for all schools within the Funding Model.

Having the following funding conditions within national agreements would contribute towards the overall goal of providing quality teaching for all students:

- (a) Access
- (b) Quality of schooling
- (c) Planning and the economic use of resources
- (d) Accountability and reporting
- (e) Infrastructure: capital and technology

#### (a) Access

When schools are provided with teachers, or the funding equivalent, from the public purse, the means by which students can gain access to these teaching services is a matter of public interest. For government schools, this would be met by ensuring that all parents who rely on or who want to choose high-quality government schooling for their children were able to do so. Access to government schools should continue to be free of compulsory fees and charges. Voluntary financial contributions could continue to be provided as noted above, but should not be used in ways that restrict any student's access to the agreed curriculum or participation in the life of the school.

Non-government schools would continue to operate according to their religious or philosophical ethos, and to charge private fees. In financial terms, access to these schools would be governed by agreements with governments on fee levels, including policies for fee exemptions or remissions. Such agreements would include criteria for fee increases over time as demonstrated to be necessary, as part of the proposed partnership towards achievement of the National Target Teaching Resource Standards, and to cover the costs of inflation as noted above. As for government schools, all students admitted to these schools would have access to the agreed curriculum, as taught by publicly funded teachers.

Agreements with non-government school authorities would also incorporate the principle of transparency in school enrolment policies, admission criteria and practices. School authorities should be required to agree to common criteria and guidelines for the exclusion, suspension and separation of students.

**(b) Quality of schooling**

The proposed national agreements should require all school authorities to provide students with access to approved curriculum and assessment; and to guarantee high teaching standards, including through professional development programs for teachers and school leaders and planning for school improvement. This would be undertaken in the context of registration and accreditation arrangements for schools and teachers.

**(c) Planning the economic use of resources**

School authorities would provide public information on their planned response to demographic changes in their communities. Cooperation among schools authorities would be encouraged in areas of common interest, including agreed sharing of specialist staff, diagnostic services for students, services for students with disabilities and, where appropriate, community access to school facilities.

Consistent with prudential features of public–private partnerships, the formal agreements should also place an obligation on non-government authorities, in the event of closing a school within the agreed funding period, to make buildings available to public authorities on a reasonable financial basis, should this be necessary for a period of time, to accommodate displaced students and to protect the interests of all affected students.

New non-government schools in receipt of publicly funded teachers would be required to operate at minimum enrolment levels, to be determined, to ensure an economic use of publicly funded resources.

**(d) Accountability and reporting**

All schools covered by the proposed Funding Model would be required to operate within a common template for accountability to government and related reporting to the community, while allowing for local needs and the distinctive purposes of individual schools to be expressed. This would minimise duplication between Commonwealth and State governments in relation to accountability for the receipt of public funds.

Reporting would include the provision of public information on the full range of a school's operation, including curriculum offerings and outcomes and human resources. It should also include full financial transparency for all sources of funding, including all private income for schools in both sectors and the sources of that income.

**(e) Infrastructure: capital facilities and technology**

As noted above, the Funding Model proposed in this paper is concerned with the recurrent resources required to meet national educational standards. But it recognises that teachers and students operate in a physical environment and with increasingly complex technologies.

The schools being covered by the model would be required to provide capital facilities within agreed standards. School governing bodies – State and Territory governments and non-government school and system authorities – would need to accept responsibility for providing such facilities.

**CONCLUSION**

An important feature of the funding arrangements described above is that they require no fundamental change to the legal basis of government or non-government schools. The non-government schools contracting with government would do so as separate entities and would not be 'integrated' into the public sector. Integration involves full public funding and planning and the transfer of legal rights between the private and public partners. The Funding Model envisages ongoing private funding responsibilities and the meeting of agreed conditions as outlined above. Priority should be given to implementing this Funding Model for the schools for which governments already provide teachers or the funding equivalent, and that now rely on governments for this provision.

Current arrangements for the public funding of schools, from the standpoint of access to quality teaching, are inconsistent, irrational and inequitable. They leave many schools without adequate resources for engaging their enrolled students in the formal curriculum and for achieving optimal outcomes. There is a lack of alignment and consistency in the way governments exercise their responsibility and accountability for their investment of public funding in teachers across both government and non-government school sectors. For those schools in the non-government sector, in particular, the current funding arrangements are demonstrably flawed.

This paper sets out practicable arrangements for dealing with these problems. Through establishing National Target Teaching Resource Standards, governments can correct current deficiencies and inequities by providing funding increases at the level and rate needed to raise all schools to the appropriate standard, according to their relative workloads. There is a reasonable degree of convergence in relation to overall resource standards (including staffing) among all those schools for which governments provide the teaching staff or the funding equivalent (about 95 per cent of all Australian schools). It would therefore be practicable for this Funding Model to be established in its first funding period without undue disruption to these schools.

As set out above, the money spent annually by governments is more than enough to cover the salary costs of all teachers employed in all Australian schools. However, at the individual school level, about 5 per cent of all schools in Australia (all of them independent schools within the non-government sector) spend more on their teaching staff than the amount they receive in the form of public recurrent grants from both Commonwealth and State sources.

Two factors explain why the grants these schools receive from governments cover only a proportion of their expenditure on teachers, in contrast with the schools covered by the Funding Model. They may have comparatively more teachers, and lower pupil–teacher ratios, than most schools. Alternatively, they are receiving a lower rate of funding than most non-government schools because they are measured by the Commonwealth for funding purposes as having students drawn from the higher end of the socio-economic spectrum, or because they are continuing to have their Commonwealth funding maintained at the level generated by the former Education Resources Index (ERI) measure, based on their income from private sources. In many cases, both factors apply.

The total public recurrent grants currently received by this group of schools provide the equivalent of some 10,000 teachers, or about half of their total teaching staff. At the level of the individual school, however, the proportion of the costs of total teaching staff covered by public grants appears to vary greatly. As a matter of principle, students in these schools are as entitled as all other students to the quality of teaching they need to achieve their personal best. And governments are as accountable for their investment of public funds in teachers in these schools as in all other schools.

However, the priority for governments should be to implement the proposed Funding Model and set the National Target Teaching Resource Standards for *the vast majority* of schools, so as to begin the process of applying increased public funds to raise the standards of schools that are operating well below their target. These standards will then provide governments with the basis for a proper consideration and review of their public investment in the teachers in the remaining 5 per cent of schools. Financial and political issues related to public funding of this small group of schools have proved over the years to be far more vexed than for those schools already reliant on public funding for their full teaching staff; and significant benefits for the majority from the introduction of the Funding Model should not be delayed on this account.

Moreover, reviewing the current level of public investment in teaching within this small group of schools is less urgent on educational grounds. Teaching resources in these schools are at a level where there appears to be no pressing case for extra public funding on educational grounds. Giving priority to funding arrangements for the vast majority of schools would avoid the situation evident in the past, particularly in the context of national elections, where public debate centres on the interests of this small minority of schools, drawing attention away from the schools that serve the vast majority of students.

It is proposed here that current levels of combined public recurrent funding (including any special-purpose funding such as for students with special needs) from Commonwealth and States for these schools should be held constant in real terms, pending the implementation of the Funding Model and the establishment of National Target Teaching Resource Standards. This would enable maintenance of their current programs, in the interests of students. These funds would be consolidated, as set out above. Supplementation arrangements would also be those set out above. Maintenance of this public funding would be contingent upon the same transparency requirements as set out in Step 3.3 (d) above for the 95 per cent of schools that fall within the scope of the Funding Model.

Once the National Target Teaching Resource Standards are available, it would be appropriate for the proposed independent body referred to in Step 3.1 (d) to undertake a review of these schools, to report their current levels of funding in relation to the provisions of the Funding Model. It should provide an understanding of schools' operating patterns and their related use of resources from all sources; describe how the current level of public resources is apportioned among these schools; and advise on policy implications for the future use of these public resources, including the explicit rationale for this investment.

In summary, the directions proposed in this report would have these positive effects:

#### Putting education back into schools funding

Under current arrangements, decisions about educational goals and priorities, including curriculum, are being made in a resources vacuum; while decisions about schools funding are largely made without regard to how schools work and the differing scope, complexity and intensity of their work. The Funding Model provides a rational basis for the allocation of public funding to schools, based on each school's workload.

#### Providing a more educationally explicit, rational and ethical basis for schools funding

The proposed Funding Model would end the inequalities arising from the use of public funds to foster a resource-based competition among schools. Instead, governments would use public funding to widen the resource differences among schools only where this has an educational rationale and is designed to raise standards for all schools while reducing unjustifiable gaps in student achievement.

#### Establishing clear lines of responsibility

The proposed Funding Model provides clear lines of responsibility for each of the key funding partners, Commonwealth, State and non-government school authorities; and deals with the negative and dysfunctional aspects of federalism that characterise current arrangements.

#### Aligning government and non-government schools funding

The proposed Funding Model would draw the funding of government and non-government sectors into closer alignment through reforming the conditions for public funding and through the allocation of public funds according to relative workload.

#### Making high-quality teaching the centrepiece of schools funding

The proposed new directions in schools funding are based on clear evidence that investing in the quality of teaching in schools is the most significant way in which governments can improve students' participation in schooling, their achievement and their learning outcomes. A Funding Model for schools centred on the responsibility of governments for ensuring an adequate supply of high-quality teachers would strengthen public understanding of, and confidence in, the way our schools are funded.

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