

'Unhelpfully complex and exceedingly opaque':

Australia's school funding system

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Australia's system of school funding is notoriously complex and difficult to understand.

This article shines some light on this issue by describing clearly the processes of school funding that currently exist in Australia. It describes the steps taken by federal and state governments to provide over \$30 billion each year to government and non-government schools.

The article argues that more can be done by both levels of government to implement a consistent and transparent allocation process. Greater consistency and transparency in this area would improve efficiency (by understanding better the impact of school resources on student outcomes) and equity (by understanding better the level of real need in individual schools, and funding appropriately). As such, it is a worthwhile goal.

Introduction

Australian governments spend over \$30 billion on primary and secondary schools each year: \$30.8 billion in 2005. This amount does not include school fees paid by parents or capital expenditure by governments, which, if included, would raise the total to approximately \$37 billion. This article concerns itself with recurrent public funding of schools (the \$30 billion) and uses the latest publicly available figures, which at the end of 2007 was 2005 financial data (or 2004–05 financial data). Yet the process of school funding, including the way in which amounts are calculated, distributed and reported upon, is inaccessible not only to the wider public but to some extent even to those working in education. Although Australia's total spending on schools is small by international standards (given the size of its population), it is significant enough to warrant a more transparent process.

Accountability, comparability and transparency are challenging school systems in a wide range of areas. Collecting data on school attendance and making it comparable across states; establishing a national curriculum; creating a national testing regime; evaluating teachers against nationally agreed standards—all vary in their complexity but all are motivated by a single philosophy: namely, that

education should be made more transparent in order to hold those responsible for it accountable, thereby ultimately improving the service.

A belief that underpins each of these proposals is that the central planks of education can be measured and quantified in a clear and logical fashion. Despite this, those who push for these initiatives recognise, to a greater or lesser extent, that education is a complex process that cannot be reduced to a simple process of inputs and outputs. Regardless, there is a growing consensus that clarity and focus can be improved through careful measurement. The mantra of 'what gets measured gets done' is being increasingly applied to education by both administrators and politicians alike. Teachers as well as administrators agree that a statistical spotlight can and should be shone into the black hole of education: a recent study into the resourcing of Australia's primary schools found that primary principals and teachers believe the rise in external assessment required of schools has had a beneficial effect in focusing their efforts on areas of weak student performance (see Angus et al., 2007, p. 31).

In Australia, colonial railways were built to three different gauges. This became a problem in pre-Federation days once the lines of different systems met. The phrase 'rail-gauge debate' now refers to any policy area in Australia that needs national harmonisation but where sensible consistency is prevented for some reason. 'Rail-gauge' issues are particularly evident in school funding. School funding, which is the area of education that should be most amenable to quantification and measurement, is plagued by inconsistency. Arguably, the lack of consistency and transparency in this area has a broader impact, as all other aspects of education depend on the primary issue of funding. It is theoretically possible to measure and report school resourcing in a clear and logical fashion yet it remains resistant to greater comparability, transparency, and accountability.

Some commentators believe that financial reporting remains obscure because no political party has any motivation to fix it (Angus, 2007). Angus believes that maximum flexibility comes from maximum obscurity, which appeals to politicians seeking maximum freedom to do as they will. In commenting on the prospect of establishing a national system of school funding, Angus states that 'neither side feels compelled to reach an agreement since an agreement would impose some constraint over spending priorities' (2007, p. 115).

As Angus observes, not only is it impossible to know at the present time the actual funding that any individual school receives but there are also different processes for funding schools within sectors as well as between states (including the territories; subsequent references to states will also include the territories). There is even a lack of financial comparability between the Commonwealth and the states, to the extent that the same reporting year is not used, much less the same accounting system (states report on a financial year while the Commonwealth reports on a calendar year; states use accrual accounting while the Commonwealth uses a combination of cash and accrual accounting). To take just one example, 'user cost of capital' (UCC) is a concept used in state reporting of school funding as an aspect of accrual accounting but not in Commonwealth reporting.

Commonwealth funding does not rely on this concept. This may seem an arcane point except that UCC constitutes 13.6 per cent of total recurrent expenditure in government schools (MCEETYA, 2005, Statistical Appendix, Table 19). UCC is only one of many inconsistencies in school financial reporting and shows that—even without transparency—lack of comparability can make meaningless even the current, highly aggregated form of reporting that exists in school finances today (See Cobbold, (2003).

Angus notes the negative consequences of this confusion: the Commonwealth and the states ritualistically allocate blame to each other using different sets of data while the real knowledge needed for a new debate, one about the relationship between student performance and school resources, fails to materialise (2007, pp. 114, 116).

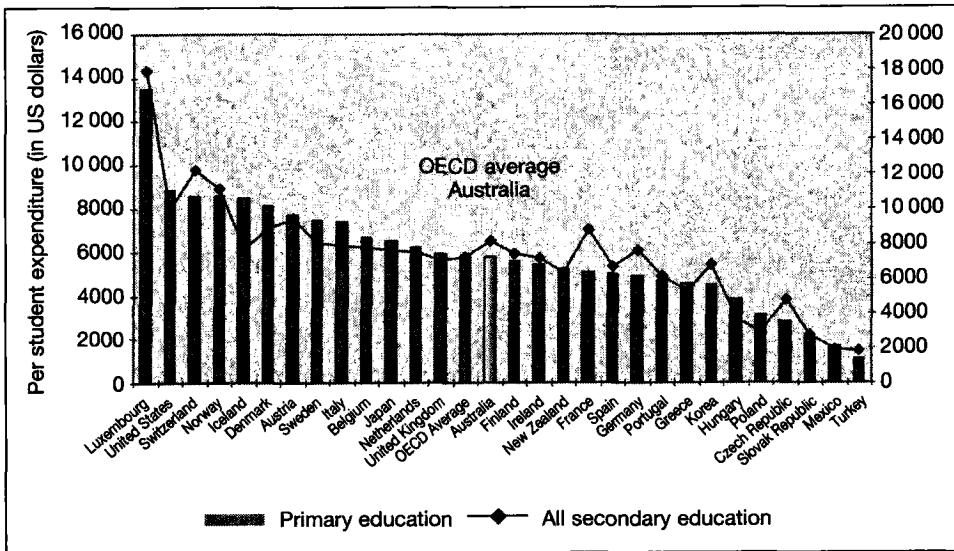
The appropriate allocation of resources is as important for Australia's schools as the need for increased resources (McGaw, 2007). The aim of this article is to describe the processes of school funding that currently exist in Australia to argue that more can be done to implement a consistent and transparent system.

How much is spent on schools

In 2004–05, the USA spent \$A518 billion to educate just under 50 million students and the UK spent \$A83 billion to educate approximately 10 million students (see US Department of Education, 2006; Department for Education and Skills, 2006; the exchange rates that applied on 31 December 2004 have been used). In 2004–05, Australian governments spent nearly \$31 billion to educate 3.3 million students in 10 000 schools across the country (Productivity Commission, 2007, Table 3A.9). There were 3 344 652 students in 2004–05 and 9623 schools in 2005 (see Productivity Commission, 2007, Table 3A.3). The amount of \$31 billion does not include the \$4.8 billion received by non-government schools through private income, or the \$1.2 billion spent on capital projects, which, if both were included, would bring the total to nearly \$37 billion in 2004–05 (see MCEETYA, 2005, Statistical Appendix, Table 23). Table 23 of the MCEETYA (2005) Statistical Appendix provides per capita amounts only but total amounts come from calculating the total number of non-government students in 2005 (1 103 346) to derive the \$4820 million received by non-government schools as private income. Capital costs for government schools totalled \$1112 million in 2004–05 (see Table 19 of MCEETYA, 2005), while additional capital from the Commonwealth to non-government schools was \$105 million (see Table 28 of MCEETYA, 2005).

While low in real international terms, Australian governments nevertheless spend a significant amount of money on school education and are comparable to the rest of the world in terms of per student spending. Figure 1 shows Australia's per-student spending as being just below the OECD average for primary education, and above the average for secondary education.

The Australian funding for schools derives in part from the Commonwealth and in part from state governments.



Note: Canada is excluded due to unavailability of the data.
 Source: OECD (2007). Education at a glance 2007. Table B1.1.

Figure 1 Per student expenditure on primary and secondary schooling in US dollars, 2004

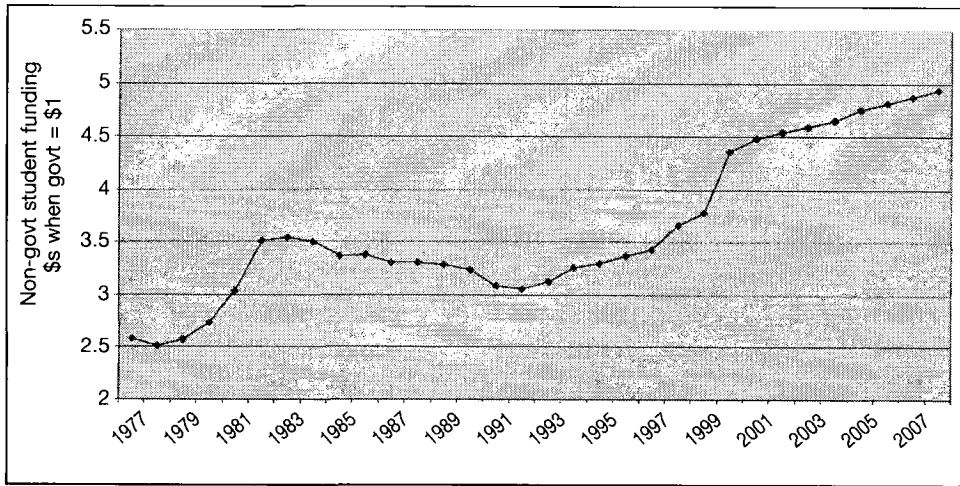
Source of funds

School sector and type of government are the two axes along which arguments about school funding occur. While most school funding comes from the Commonwealth through its wider tax base, the states' share of these taxes (in terms of untied general purpose funding or specific purpose payments) is generally recognised as state funding of education. The New South Wales government describes specific purpose payments (SPPs) as a means

to implement policies in areas which are the constitutional responsibilities of the States. An agreement between the Commonwealth and the State governs each SPP, and details the specific purposes. These agreements typically last three to five years, and are renegotiated after that time. (*New South Wales Budget Statement, 2003–04, Section 7.4*).

Taking this into account, most funding to schools comes from state governments (77.5 per cent), while the remainder comes from the Commonwealth (22.5 per cent). In 2004–05, states provided 91.3 per cent of the total funding available to government schools, while the Commonwealth provided 73.0 per cent of the total funding available to non-government schools. Of total state funding to schools, 93 per cent goes to government schools. Of total Commonwealth funding to schools, 70 per cent goes to non-government schools.

Although the Commonwealth has traditionally provided most of its funds to the non-government school sector, the extent of this contribution has waxed and waned over time. Figure 2 shows the extent to which Commonwealth



Note: This chart has not been constructed or confirmed by the author. But the per capita ratio is the non-government per capita amount divided by the government per capita amount. These per capita amounts are obtained by dividing total Commonwealth expenditure on government and non-government schools, as reported in the Commonwealth's 'green books', by enrolment data for government and non-government schools, as reported in ABS data (and also attributing expenditure on 'special education non government support centres' to non-government schools).

Source: Commonwealth final and estimated expenditure as reported in 'green books' and demographic data from ABS.

Figure 2 Commonwealth recurrent payments to non-government students, 1977–2007—Ratio of non-government dollars per student to each government school dollar

funding has fluctuated over the years between the two sectors, government and non-government.

This is per capita funding and not reflective of any enrolment shift between the sectors; it shows the proportion of Commonwealth funds given to each non-government student compared to those given to each government student. What becomes apparent is that the changing level of Commonwealth support for non-government students decreased or plateaued generally whenever a federal Labor government was in power (1983–96), and increased whenever a Liberal government was in power (1977–83 and 1996–2007)—with the exception of the Labor government of 1972–75, which increased funding to non-government schools. One possible conclusion to be drawn is that school funding, at least at the federal level, is a highly political exercise.

Commentators acknowledge that school funding has always, to a greater or lesser extent, been a political exercise: see Burke & Spaul (2002) and Connors (2007, pp. 37, 73). But the school funding debate might rise above a sterile ideological battle if Australia were to have a national and transparent model based on comprehensible measures of need applying equally across the sectors. One commentator has proposed the non-sectoral school funding model of the Netherlands as a model for Australia (McGaw, 2005).

The need for national transparency

Part of the problem with Australia's current school funding system is the lack of consistency between jurisdictions. This makes the system unnecessarily complicated and it is difficult to understand how money is allocated to any individual school. Differences exist at level of government (state or federal), type of school sector (government or non-government), location (state or territory), accounting approach used (cash or accrual), and time period (financial or calendar year). Income flows into schools from several sources, but not in unison and not in a way that permits reporting at an individual school level in a timely manner.

Even worse than the complexity of the system is the obscurity that surrounds it. For example, the Commonwealth allocates funding through a system known as the Average Government School Recurrent Costs (AGSRC) model (explained in more detail below). Although this system has been around since 1993, details of its operation are difficult to access.

Further, most states cannot report financial information on a school-by-school basis, much less a student-by-student basis, even notionally. Most states do not make public either their funding rationale or the actual funds provided to individual schools. This is because most states have never been asked or required to do so. They provide broad information across all schools (for example, teacher salaries, redundancies, capital) but not the funds made available to individual schools or student groups.

Although an argument can be made that the country's most needy students should receive the most funding, one of the main problems with the current system is that there is no agreed measure of school need in Australia. The Commonwealth has one measure while the states have their own measures, each of which is different from the others. So even if financial data from states were available, the debate about whether government schools are financially disadvantaged compared to non-government schools would still be hampered by a definition problem.

A question often asked in Australia is, 'Is the Commonwealth giving too much money to non-government schools?' This is the wrong question to ask. It is a misguided question because there is no nationally agreed measure of need upon which to assess fairness in the first place. The more fundamental question is, 'On what basis are both levels of government, Commonwealth and state, giving money to all schools, government and non-government?' The answer to this question is that there is no unified basis upon which governments fund schools and there is little public transparency in the reporting of these funds. Yet it is only when all sources of funding are compared against a national, agreed measure of need that the question can be asked, and disinterestedly answered, as to whether school funding is 'fair'.

Rhetorical questions of fairness slide easily into a discourse about school funding that has been stuck in ideological grooves forged decades ago, between government and non-government school advocates. The hallmark of this old debate can be seen in the dichotomous nature of its arguments:

Government school advocates

- The function of taxation is to redistribute money to the neediest sections of society.
- Non-government schools are costing the government money.
- If parents choose non-government schools they should pay for it, especially when they have foregone a free option.
- Government schools do most of society's heavy lifting.

Non-government school advocates

- Non-government schools are entitled to government support because of the taxes parents have paid.
- Non-government schools are saving the government money.
- Parents have a right to choose their child's education and to be supported in that right.
- Government schools get most of the government funding.

A new debate is needed in Australia that asks questions less inflected by ideological commitment and more informed by current data that is comparable across sectors. This would involve questions such as the following:

- what is the relationship between school resources and student outcomes?
- what inputs have the most impact on student outcomes?
- what level of resources needs to be made available now to reach a desired goal at a particular point in the future?
- what do individual schools, irrespective of sector, actually need?

These questions cannot even begin to be answered in Australia at the present time, even though such answers would improve the efficiency and equity of the system.

In terms of efficiency, many members of the education community believe that the uses to which resources are put are more important than the amount of resources themselves (see, for example, Hanushek & Wössmann, 2007). But it is difficult to confirm this hypothesis or to decide which resources have the most impact, if true. To answer this complex question, a necessary first step is having the data available to show the relationship between school resources and student outcomes. Such data does not exist in Australia at the present time.

In terms of equity, a common complaint is that government schools are being underfunded. Government schools tend to enrol students who cost more to teach. They are more likely to enrol students from lower socio-economic backgrounds, Indigenous students and students with disabilities. In recent years, it appears they have been losing students who tend to cost less to teach (for example, those from higher socio-economic backgrounds) to non-government schools. Yet it is not possible to establish precisely the extent of this phenomenon because most state governments cannot identify how much particular student groups cost to teach. If government schools are financially disadvantaged compared to non-government schools according to an agreed measure of need, then it is in the interests of everyone to let the data show it. What is required is transparent data on the finances that individual schools, both government and non-government, receive.

Let us assume, for an optimistic moment, that there is an agreed measure of need (such as the Commonwealth's socio-economic status—SES—model) applied equally across all schools and that all schools are funded according to this national,

agreed measure of need. For this system to operate, it would be necessary to know in detail the funding that each individual school, government and non-government, receives as well as its changing circumstances. A central repository of information based on comparable data, which identifies the actual funding individual schools receive from government and private sources, would not only lead to better understanding of the level of real need in individual schools, it would be a central requirement of any national school funding model.

It has been argued that a national school funding model based on comparable and transparent data is not foreseeable, at least in the short term. As Angus has noted, simply providing information on the actual quantum of resources acquired by individual schools from all sources is a radical proposal at the present time (2007, p. 112). Not only does this information not exist uniformly but some states are incapable of reporting at the school level. And as mentioned earlier, there is currently no national comparability in school funding between the states and the Commonwealth.

But the problems are not insurmountable. The introduction of similar funding methodologies at both State and Commonwealth levels and across school sectors would improve transparency and accountability as well as create a more sound footing for future funding debates.

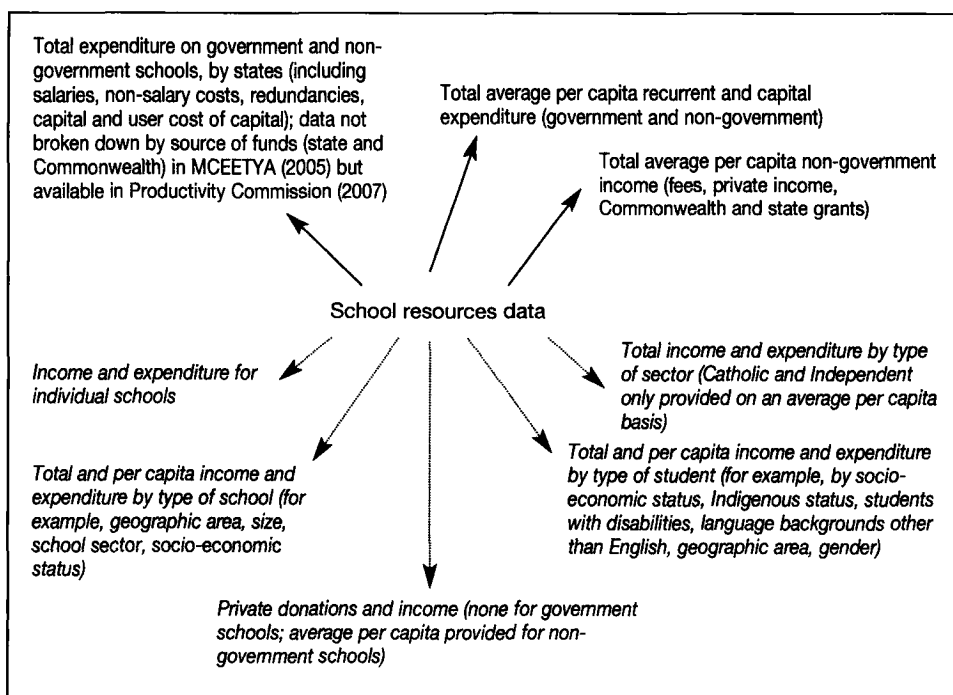
Dividing the school funding pie

To understand how the current system of school funding operates, it is necessary to examine the various mechanisms by which the \$31 billion recurrent funding provided by governments in Australia is distributed. Capital and private funding are not examined in the following summary. It is interesting to note that capital constitutes only a small fraction (less than 5 per cent) of total recurrent expenditure made on government schools by both state and Commonwealth governments. (Capital expenditure in 2004–05 was \$1.1 billion while total recurrent expenditure, including user cost of capital, was \$24.2 billion: MCEETYA, 2005, Statistical Appendix, Table 19). The inadequacy of capital funding has been raised by other writers in other forums. For example, Caldwell (2006) believes that hundreds of state schools in Victoria need to be bulldozed because of their dilapidated condition. Although capital funding is an important factor, restrictions of space prevent a full treatment in this article.

Similarly, the private funding received by schools is not examined in depth in this article. As mentioned earlier, non-government schools received \$4.8 billion in private income in 2004–05. Government schools also receive private income that is not reported anywhere. This serious lack of data is illustrated in Figure 3 (the normal text indicates what is available; the areas in italics indicate what is not).

The central sources of school funding information in Australia are the Ministerial Council's (MCEETYA's) *National report on schooling in Australia* and the annual Productivity Commission's *Report on government services*. There are other sources of information:

- the National Schools Statistics Collection (NSSC), an annual census conducted by the state and Commonwealth governments and the Australian Bureau of Statistics (ABS); and



Note: This figure is reproduced in Australian Council for Educational Research, *Australia's Schools 2007* (ACER, in press).

Figure 3 School resourcing data availability, 2008

- the Financial Questionnaire (FQ), an annual collection of income, expenditure and liabilities from all non-government schools that receive Commonwealth recurrent grants.

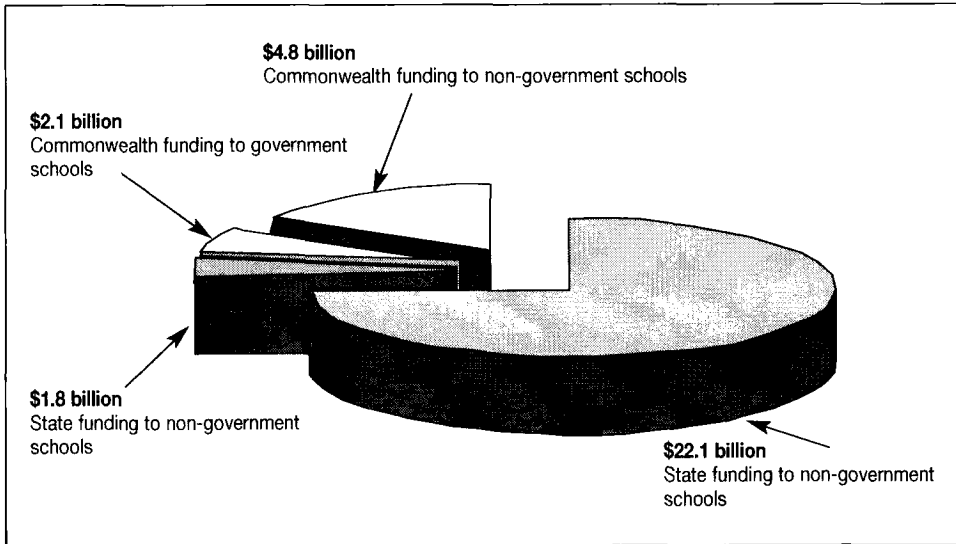
Although the NSSC provides comparable non-financial data (such as schools, sex, year, age and numbers of students) that is made available through the ABS publication, *Schools Australia*, its financial data is highly aggregated and has already been incorporated into the picture of restricted school finance data shown in Figure 3.

The FQ, on the other hand, offers a richer source of financial data at the individual school level but this data is not publicly available. Furthermore, non-government schools are now resisting filling out the FQ, noting that the Commonwealth's SES funding formula (explained in more detail below) no longer takes account of school income, making the FQ redundant: see Banks (2006, pp. 46–8). But the FQ, while not publicly available, does demonstrate the ability of at least the Commonwealth government to report school funding at the school level.

A final concern is that the Catholic school system's internal allocation of funds is not discussed in any detail in the following summary. The Commonwealth provides Catholic schools with a block grant and does not fund the schools directly even though it lists for public consideration the notional amounts allocated on the basis of the SES formula. This means that system authorities have to reallocate the funding and can vary the amount as they see necessary. The authorities are not accountable to the Commonwealth for the reallocation. Since the authorities do

not publicly disclose the extent to which they vary the amount there is an obvious lack of transparency in these cases, which is not discussed in the summary below.

Taking these caveats into account, we can begin to understand the main features of the \$31 billion school recurrent funding pie.



Note: Productivity Commission (2007) data has been used for this diagram rather than MCEETYA (2005) data because MCEETYA does not describe government school expenditure by source of funds, while the Productivity Commission does.

Figure 4 Australia's \$31 billion school funding pie

The mechanism by which Commonwealth funds are distributed

To non-government schools The process by which the Commonwealth funds non-government schools (remembering that the Commonwealth is the main funder of non-government schools) is transparent, to the extent that the system is relatively easy to understand and the per capita amounts (at least in general if not to individual schools) can be viewed on the website of the Commonwealth's Department of Education, Science and Training (DEST).

Commonwealth funding to all schools occur through a combination of mechanisms, such as recurrent grants (85.2 per cent), targeted programs (8.0 per cent), and capital programs (6.8 per cent) (Commonwealth, 2006b, Table 1). But two concepts drive Commonwealth funding to non-government schools:

- Average Government School Recurrent Costs (AGSRC, introduced in 1993)
- Socio-Economic Status (SES) funding formula (introduced in 2001)

The AGSRC establishes the per student amount to be spent for all students while the SES formula distributes it to non-government schools (not to government schools).

The AGSRC amounts for 2005 were as follows:

- primary school \$6787
- secondary school \$8994

States indicate how much is spent per student on average in government schools and the Commonwealth then adjusts this amount to derive the AGSRC. This adjustment occurs by stripping out accrual aspects, such as superannuation and depreciation, from the state figures (which explains why the Commonwealth AGSRC amount is less than the state amount on which it is based). The actual process by which the Commonwealth makes this adjustment is unclear but the broad methodology for converting state accrual amounts to Commonwealth cash amounts is described in Commonwealth of Australia (2006a, appendix G, paragraphs 12–16, p. 236).

States come together under the auspices of the MCEETYA to derive an aggregated national cost for educating a child in a government primary school and a government secondary school (there are two separate amounts). There are various protocols governing the calculation of these figures but, basically, the figures are driven by the total amount spent on schools and the total number of school enrolments. In 2003–04, these amounts were \$9015 per student in primary schools and \$11 552 per student in secondary schools which became, in 2005, the AGSRC amounts of \$6787 and \$8994 respectively. The reason for the 18-month delay (from state costs in 2003–04 to Commonwealth AGSRC in 2005) is the time involved in preparing the data. In summary, 18 months after the states have incurred costs for government school students, this figure becomes the basis of Commonwealth funding to non-government schools, through the mechanism of the AGSRC.

Separately, there is a socio-economic status (SES) funding model that applies a proportion of AGSRC to non-government schools for each student they enrol, depending on the school's SES status. The amount depends entirely on the school's SES score, which is based on the combined average SES of the communities in which each student's home is situated. In 2005, only half of non-government schools (1300) were actually funded according to their SES score. Just over half (1302) were in one of three categories ('funding guaranteed' or 'funding maintained,' the latter having two subcategories) that received an adjusted amount because a strict application of their SES score would have given these schools less funding.

Once allocated a SES score, the per student amount that non-government schools receive ranges from a low of 13.7 per cent of AGSRC for schools with a SES of 130 or higher (high SES schools), to 70.0 per cent of AGSRC for schools with a SES of 85 or lower (low SES schools). Non-government primary and secondary schools get the same proportion of their respective AGSRC amounts (remembering there are different AGSRC amounts for primary and secondary schools) if they have the same SES score. Non-government schools also receive additional income from State government grants, interest-free government loans in some cases, and private fees and donations.

There are significant problems with the SES grading process. The primary problem is that the SES model only funds non-government schools, even though it is based on the average cost of government schools. The AGSRC stands for 'average government school recurrent costs'. What this means is that non-government

schools are funded on the average costs of educating a child at a government school. Issues arise with linking government schools costs to non-government school funds. The first is that as more students drift to private schools, the average cost in government schools increases because of the following:

- there are fewer government students being taught in the same number of schools (loss of economies of scale)
- enrolments in the government school sector decrease while their share of equity group enrolments increases.

This last point, known as 'residualisation', is significant. The government school sector appears to be losing market share amongst those students who are least expensive to teach but is increasing its share of those students facing the greatest educational challenges and costing the most to teach (for example, Indigenous students, low SES students, students with disabilities). Although non-government schools educate around one-third of students, they enrol less than 10 per cent of Indigenous students as well as very low numbers of students with a disability. (See Productivity Commission, 2007, Table 3A.17, and Australian Senate Employment, Workplace Relations and Education References Committee, 2002, p. 124). Consequently, as average government school costs increase, it results, through the AGSRC nexus, in a rise in Commonwealth funding to non-government schools that are not necessarily facing the same cost pressures. This does not mean the Commonwealth is giving less money to government schools but rather that its funding to non-government schools may be disproportionate to that sector's needs. The independent sector's own analysis of the quadrennial funding arrangements for 2005–08 shows that independent schools would receive a 27 per cent increase over the four years, excluding increases due to enrolment growth (Independent Schools Council of Australia, 2004a, p. 4).

To summarise, 'average' school costs are increasingly problematic as a means of determining adequate funds to educate real students. Both government and non-government schools are receiving funding based on an 'average' student even though non-government schools may be recruiting a student body with below-average costs. On the other hand, government schools appear to have an increasingly expensive student body.

There are other issues to consider:

- The system does not actually measure a school's resources and in fact ignores a school's capacity to generate its own income through fees, investments, donations and fundraising in measuring need (the stated rationale from the Commonwealth is that to reduce funding for schools that exceed a limit on private income would act as a disincentive to private efforts to raise funds).
- The local community's SES may not reflect the individual student's SES in a particular non-government school. Some students may come from the wealthiest home in a disadvantaged area. McGaw (2007) recently described this phenomenon as 'relatively advantaged students from disadvantaged communities carry[ing] with them to a non-government school a government voucher based on the students they leave behind in their communities'.

- Although a formula, the SES system is not applied consistently with scope for compromise arrangements to alter the formula. As mentioned above, in 2005, more than half of non-government schools received an adjusted amount because the strict application of their SES score would have resulted in less funding.

To government schools The Commonwealth funds government schools according to a flat rate of AGSRC: 8.9 per cent for government primary schools and 10.0 per cent for government secondary schools. As mentioned above, this is different from the situation that applies in non-government primary and secondary schools, which get the same proportion of their respective AGSRC amounts if they have the same SES score. This different treatment results in lower funding for government primary schools from the Commonwealth, as illustrated in Table 1.

Table 1 Different treatment for government primary schools

\$6787 primary AGSRC amount for 2005	\$8993 secondary AGSRC amount for 2005
<i>Government schools:</i>	
flat rate of \$604 per primary school student (8.9 per cent of \$6787) and \$899 per secondary school student (10.0 per cent of \$8994)	
<i>Non-government schools:</i>	
rate varies depending on school's SES but no distinction made between primary and secondary. For example, a non-government school might have a SES that warrants 20 per cent of AGSRC but would translate into 20 per cent of \$6787 for primary students and 20 per cent of \$8994 for secondary students. Primary schools are funded at the same rate as secondary schools, not at a lower rate.	

In 2005, this distinction resulted in \$100 million less in funding for government primary schools than if they had been funded at the same rate as government secondary schools, remembering that no distinction between primary and secondary students is made for non-government schools. In other words, government primary schools get a smaller proportion of a smaller amount.

The final point to note about the AGSRC is that it is generous as an indexation method to both sectors. The AGSRC operates as an index as well as an amount. The AGSRC index is simply the rate at which the AGSRC amounts have changed from year to year. Funding for all school sectors increases because Commonwealth targeted funding is supplemented annually by the AGSRC index, which rose on average 6.6 per cent annually from 2000–03, rather than the consumer price index (CPI), which rose on average only 3.8 per cent annually over the same period (March 2000–March 2003). The AGSRC amounts supplement Commonwealth recurrent grants to schools, which constitute 85.2 per cent of Commonwealth funding, while the AGRSC index supplements Commonwealth targeted programs to schools, which constitute 8.0 per cent of total funding (Commonwealth capital grants, constituting 6.8 per cent of total funding, are supplemented by the Building Price Index). Commonwealth targeted programs supplemented by the AGSRC index include Literacy, Numeracy and Special Learning Needs Programme; English as a Second Language—New Arrivals,



Country Areas Programme; Languages, and Short Term Emergency Assistance (Commonwealth of Australia, 2006a, appendix G, pp. 235–6; 2006b, Table 1).

The mechanisms by which state funds are distributed

To non-government schools There is a wide variety of ways by which non-government schools are funded by states but about \$1.8 billion is provided to the non-government sector each year from this level of government.

Table 2 State recurrent payments to non-government schools, 2004–05

<i>Jurisdiction</i>	<i>Total amount (\$ million)</i>	<i>Per capita (FTE) amounts (\$)</i>
New South Wales	688	1829
Victoria	320	1112
Queensland	394	2039
Western Australia	202	1864
South Australia	104	1239
Tasmania	36	1657
ACT	36	1469
Northern Territory	29	3310
Total	1788	1636 (average)

Note: Totals may not add due to rounding.

Source: Productivity Commission, 2007, Table 3A.9.

The best way to conceptualise state funding to non-government schools is through two steps:

- the process by which a total pool of funds is calculated for non-government schools
- the process by which this pool of funds is distributed.

Although there is a rich history behind the actual share of public funding that each State has made available to non-government schools (for such a history in New South Wales, see Grimshaw (2004), pp. 6–15), the end result is that the nexus between the AGSRC and non-government school funding continues at both the state as well as the Commonwealth level. Like the Commonwealth, most states, including New South Wales, Queensland, Western Australia and Tasmania, use the average cost of educating a government school student in their state as the basis for payments to non-government schools. Although there is some variation, generally, approximately 25 per cent of this 'state-adjusted AGSRC' (as distinct from the national Commonwealth AGSRC) make up the pool of funds available for non-government schools in those states that use the AGSRC mechanism. Other states use different models but most are based on historical precedent, adjusted for inflation but using mechanisms such as the CPI rather than the AGSRC.

There is also a variety of means used to distribute these funds once the pool has been determined. The number of students a school enrolls is consistently employed as one aspect but, beyond this, there is no pattern amongst the states.

Some states (New South Wales, Western Australia and the ACT) use a version of the Education Resource Index (ERI), which was a funding model used by the



Commonwealth until 2001. The ERI takes account of all the resources available to non-government schools but most of the states using the ERI have been obliged to update it with their own data because the categories of need previously maintained by the Commonwealth are now obsolete, having been last updated in 2001. This is because the Commonwealth moved to the SES system in 2001, resulting in federal data previously used to track total resources to non-government schools not being updated.

Others use different formulas to distribute funds to non-government schools, usually informed by a core or base funding entitlement followed by a needs-based funding calculation (Queensland, Victoria, South Australia and Tasmania). The Northern Territory distributes funds to non-government schools largely based on enrolments only.

To government schools These funds constitute the largest slice of the school funding pie yet the mechanism for distributing funds to government schools differs from state to state and is in most cases not immediately accessible. Broadly there are two main processes for distributing state funds to government schools: centralised and decentralised modes of funding.

Table 3 State recurrent payments to government schools, 2004–05

<i>Jurisdiction</i>	<i>Total amount (\$ million)</i>	<i>Per capita (FTE) amounts (\$)</i>
New South Wales	7 541	10 021
Victoria	4 724	8 780
Queensland	4 289	9 497
Western Australia	2 565	11 160
South Australia	1 651	9 805
Tasmania	587	9 488
ACT	408	11 436
Northern Territory	403	13 933
Total	22 078	9 778 (average)

Note: Totals may not add due to rounding.

Source: Productivity Commission, 2007, Table 3A.9.

So-called decentralised funding is when a great proportion of funds is provided to an individual school to spend. Some jurisdictions, notably Victoria and South Australia and, to a lesser extent, ACT, do decentralise a significant proportion of their funding to government schools (Victoria nearly 100 per cent; South Australia 80 per cent). Yet the majority of states do not decentralise funding and, even of those states which do decentralise, only one—Victoria—gives schools the freedom as well as the funds to employ staff (the largest component of any school budget). South Australia allocates teacher salaries to individual schools but then takes that funding away by employing all teachers centrally. Most jurisdictions do not provide even a notional allocation of funds for teacher salaries to individual schools.

A characteristic of centralised systems, such as those employed in New South Wales, Western Australia and Queensland, is that funding cannot easily be disaggregated into its component parts. Information is readily available on what is being spent across all schools in terms of broad function (for example, teacher salaries, redundancies, or capital) but is not otherwise easily broken into component parts; for example, not easily by student type (students with disabilities or those from low socio-economic backgrounds) and not at all by individual schools.

Such systems cannot report financial information on a school-by-school basis, even notionally. States that centralise funding are not structured to report payments at an individual school level and do not have the capacity to do so. These jurisdictions would require major changes to their systems, processes and technology to be capable of reporting school funding at the school level.

The key distinction between the two modes is that decentralisation provides more autonomy to school principals over staffing and other budget items. The former federal government viewed this as a virtue, having held Victoria and South Australia up as models for other states to follow (Nelson, 2003). Yet there are numerous reasons that states centralise, rather than decentralise, school funding:

- *This mode is often favoured by principals.* Asking principals to manage funds and employ staff is often felt by principals to distract them from their primary task of school leadership (Vinson, 2002, chapter 12). It should be noted that surveys of principals in more decentralised systems have said they 'would not wish to see a return to a highly centralised approach to resource management' (ACT, 2004, p. 4).
- *It is cheaper.* States achieve significant economies of scale through system-wide provision (for example, state-wide processes for employing staff, state-wide cleaning contracts, and so on).

There are many arguments for decentralisation but it is beyond the scope of this article to consider them in detail. The main issue with centralised systems relevant to this article is their lack of transparency and their general inability to disaggregate school expenditure.

The fact remains that the largest slice of the school funding pie is the least transparent and the worst understood. Finance data is reported at a high level of aggregation across the education sector, not only in schools but also in higher education and vocational education and training (Burke, 2003, p. 6). Yet within schools, the highest level of aggregation, and the concomitant inability to disaggregate data, occurs in centralised state government funding to government schools. This situation needs to change. As Angus has observed, 'it is hard to carry any argument forward that some categories of schools need more funds than others while at the same time arguing that it is better not to know the facts' (2007, p. 113).

To summarise, there are numerous mechanisms for allocating funds in Australia based on need, ranging from the Commonwealth's SES system to its variants in state jurisdictions. Yet they do not operate in unison or calculate their combined effect. Moreover, there is no unified system for gauging the existing resource levels of schools. Consequently, there is no understanding of the real levels of need that exist at individual schools.

Options

Cross-sectoral funding

Education commentators in Australia who are otherwise opposed on most issues are united in their belief that Australian schools should be funded on the same basis regardless of sector. (See, for example, Buckingham, 2000; Caldwell, 2007; McGaw, 2005; Watson, 2007. Interestingly, the Netherlands are often suggested as a model for Australia to follow, where the Dutch constitution makes it illegal to differentially fund state and non-state schools: OECD, 2007, p. 17).

Caldwell (2007) notes that many have suggested pooling Commonwealth and state funds and then disbursing these funds equally across sectors through an agreed framework. In considering the fate of these suggestions, he notes that 'it is too soon to speculate on what may emerge in the years ahead, but an important determinant will be where constitutional powers for education will lie' (2007, p. 128). A High Court decision made at the end of 2006 may prove significant in this regard (see *New South Wales v Commonwealth* [2006] HCA 52; 81 ALJR 34; 231 ALR 1 (14 November 2006)). This legal decision (which was upheld by a 5–2 majority) related to section 51 of the Constitution (the corporations power) and the legality of the *Work Choices Act*. The dissenting judges (Kirby and Callinan) saw significant implications for wider federal–state relations. Kirby said the decision 'reveals the apogee of federal constitutional power' and that 'once a constitutional Rubicon such as this is crossed, there is rarely a going back', while Callinan observed that 'the consequences for the future integrity of the federation as a federation, and the existence and powers of the States will be far-reaching' (paras 614, 615, 619).

The growing power of Australia's federal government may have implications, unknown at the present time, for school funding structures. In any case, it is unnecessary to dissolve State power to rationalise the current system. Employing similar funding methodologies at both state and Commonwealth level and between school sectors would sufficiently improve transparency and accountability to affect student outcomes positively as well as create a more sound footing for future debates.

Transparency

In the UK, an Education Funding Strategy Group was given responsibility for overseeing the development of a new school funding system in the wake of a government Green Paper in 2000.

The principle of transparency governed this group's proceedings as well as its outcomes. Not only were technical papers and grant allocations from the new system placed on the department's web site, but also minutes of meetings. This example shows that a national, transparent school funding system can penetrate to a deep level. (We find, for example, there is a concern that a funding system based on students' prior performance could send a confusing message by appearing to reward failure and penalise success, even though it may be the case that low-performing students drive the greatest costs in schools. The formula eventually used measures of poverty and other indicators of social background rather than prior attainment.)

Greater transparency was an explicit objective of this UK initiative (see the Department for Education, Skills and National Statistics home page) as was greater

decentralisation of funding responsibility to schools (the aim was to reduce the amount of funding administered by local education authorities, LEAs, to approximately 10 per cent of the total, with the remainder being administered by schools). The initiative had been inspired by a 1996 report by the National Union of Teachers, which stated that the government should define for itself 'independently of historic spending patterns', how LEA spending should take account of equalisation of needs (Coopers & Lybrand, p. 3). The end result was a formula designed to equalise needs. But the notion that the total amount of school funding itself can be considered 'independently of historic spending patterns' has been an issue pursued more vigorously in the USA rather than the UK.

Adequacy

When talking about school funding, one should never lose sight of the central issue of how much money is adequate for successful outcomes. This central issue has been driven most strongly in the USA, thanks largely to its culture of litigation. In the USA, plaintiffs have sued state education systems for not providing a constitutionally 'adequate' education and they have been successful in 75 per cent of cases (Rebell, 2007). The litigation and the resulting court orders have driven new methodologies for determining 'adequate' school education in more than 30 states in America since 1990. The court orders have dramatically shifted the conceptualisation of school funding where the notion of adequacy, based on standards, now determines the quantum of funding for education, rather than the other way around. The rise of adequacy studies and the serious assessment of what constitutes adequacy have been significant features in US educational research although gaps have been identified in these US studies:

Little if any attention was given, however, to the critical, practical cost analysis question of what level of resources needs to be made available now in order to reach a desired outcome goal at a particular point in the future. To what extent do extra resources need to be provided to students currently in the second grade who are achieving at a 55 percent proficiency level to ensure that five years from now 75 percent will achieve proficiency, or that eight years from now 100 percent will? These are the types of difficult questions that must be posed and answered if the output measures used in adequacy cost study are to have any real credibility. (Rebell, 2007, p. 18)

This lacuna links to the liability that Angus (2007) sees in Australia's inadequate school funding system: that the knowledge needed for a new debate about the relationship between student performance and school resources remains hidden.

Conclusion

The current funding system is not held in particularly high regard by education commentators. Australia's system of school funding has been variously described as containing 'considerable deficiencies' (Burke, 2003, p. 6), 'quite remarkable difficulties' which makes it 'very frustrating' (Hayward & Esposto, 2004, pp. 5–6), 'unsatisfactory' and 'deficient' (Australian Senate, 2004, pp. 46–7), a 'failure' (Watson, 2007, p. 149), 'exceedingly complicated' (Bonnor & Caro, 2007, p. 121), 'inequitable

and inefficient' (Vickers, 2005, p. 274), 'irrational' (Connors, 2007, p. 7), and 'unhelpfully complex and exceedingly opaque' (Angus, 2007, p. 113).

Australia's \$30 billion system of funding schools is fragmented by level of government (state or federal), type of sector (government or non-government), location (state or territory), accounting approach (cash or accrual), and even time period (financial or calendar year). Several sources of income flow into schools, not operating in unison or reporting at an individual school level in a timely manner. The fact that this article, written in 2007, uses 2004–05 data as the latest publicly available is indicative. This delay gives a sense of the obfuscation that applies to the reporting of school financial data, even at a highly aggregated level.

One commentator has described the current situation as 'irrational and asymmetric' with 'no constitutional, educational or logical grounds' (Connors, 2007). The system encourages blame shifting between governments and high-level claims that the Commonwealth underfunds government schools and counter-claims that most public funding goes to government schools anyway, rather than informed debate. The result is that members of the education community, much less the general public, have no clear idea what individual schools actually receive from both levels of government, or if their income is appropriate to their needs.

Unlike some commentators, this author does not believe the complexity is due to public officers seeking to maintain a system that is comforting in its capacity to placate special interests while confounding critics. Rather, the lack of comparability and transparency in school funding is driven by the same forces that have created similar rail-gauge issues in Australia's past: namely, comfort with the status quo and uncertainty about change.

One area of broad concurrence is the need for change. Every side of the debate wants a more coordinated approach. For example, a report commissioned by the New South Wales Public Education Alliance asks for 'a credible mechanism for the collection, coordination and analysis of data' (Connors, 2007, p. 31) while the Independent Schools Council of Australia similarly states that it 'would support any reasonable and genuine moves by governments to bring about a more coherent and coordinated approach to the funding of all schools in Australia' (Independent Schools Council of Australia, 2004b, p. 1).

If any change is to occur in this area, it will occur through MCEETYA, the clearing-house for government coordination on education issues. This body should consider carefully a recommendation from a recently completed, long-term study into the future of Australia's primary schools. Recommendation 11 of this report suggests MCEETYA adopt a common financial reporting instrument for government and non-government schools based on principles of comparability and transparency (Angus, Olney & Ainley, 2007, p. 84).

This recommendation should be adopted because the current system is unnecessarily complex and fragmented. Funding reform is an essential plank for broader educational reform in Australia, dependent as all aspects of education are on the primary issue of funding. Improved consistency and transparency in this area would improve efficiency (by enabling a better understanding of the impact of school resources on student outcomes) and equity (by enabling a better

understanding of the level of real need in individual schools, and funding appropriately). This is a worthwhile goal.

Keywords

educational economics
politics of education

educational finance
private school aid

educational administration
school funds

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