

EDUCATION POLICY BRIEF

The Next Schools Agreement Must Embrace Key Principles for School Funding

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October 2023

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Introduction

Save Our Schools (SOS) has called on the Expert Panel reviewing the National Schools Reform Agreement to recommend some key principles to guide the future funding of schools. These principles should include fully funding public schools by 2028, no special deals for private schools, a greater role for the Commonwealths in funding public schools and an end to the defrauding of public schools by state governments. SOS has also recommended the Panel adopt a target of halving class sizes in disadvantaged schools.

These recommendations are outlined in the SOS submission to the Expert Panel. It says that the Panel must consider the funding principles to guide the next NSRA. There is no justification for the claim that school funding is outside the [terms of reference of the Panel](#). Future funding principles are well within its terms of reference because the terms require the Panel to consider how funding can be better linked to student outcomes. In part, the terms of reference ask the Panel to ensure public funding delivers on national agreements. This necessitates some basic principles to guide future funding. Developing such principles would not transgress the Minister's edict that the Panel should not review how the SRS is calculated.

The key principles recommended by SOS are:

1. Funding for public and private schools should be based strictly on a needs-basis in order to deliver increased outcomes for students in the priority equity cohorts;
2. The Commonwealth Government should play a greater role in funding for increased equity in education;
3. The Commonwealth-State funding agreements must ensure that both parties live up to their commitments and responsibilities to deliver equity in education;
4. Public schools should be fully funded at 100% of their SRS within the life of the next NSRA;
5. The integrity of the SRS must be maintained and not diluted;
6. There must be increased reporting on target outcomes and the use of taxpayer funding.

Funding for need

The Panel is asked how to ensure that funding is better linked to outcomes. The focus of the inquiry on school outcomes for the priority equity cohorts implies strictly funding according to need.

A key lesson from the history of the implementation of the Gonski funding model is that right from the outset it was only partially based on need and the principle of funding according to need was disregarded by successive Coalition governments in directing large increases in funding to private schools. This has contributed to the failure to improve outcomes for most of the priority equity cohorts and the failure to significantly reduce achievement gaps between rich and poor.

The Gonski funding model was compromised from the beginning. In announcing the Gonski funding inquiry, the Labor Government guaranteed that no school would lose a dollar under the new funding model. This ensured that private schools that were already over-funded under the old SES funding model got to keep that funding under the new model. The "no losers" guarantee was described by one member of the Gonski panel as an albatross around their neck. The "no school would lose a dollar" guarantee was later replaced by "every school would get an increase" and that is what happened - irrespective of need. As a result, many schools were funded above what was warranted by their SES score.

Prime Minister Gillard also made a secret deal with Catholic Church to guarantee Catholic schools would maintain their existing share of total school funding into the future. The deal was extended to Independent schools. It was all about maintaining market share.

At a time when some schools were clearly highly advantaged by special funding arrangements that had emerged over 50 years of lobbying and electoral blackmail, this deal undermined the principle of funding according to need. Funding should have been diverted from schools that had little need relative to achievement of national benchmarks (predominantly elite private schools and Catholic schools) to schools that were struggling to achieve good outcomes for large numbers of disadvantaged students (predominantly public schools and a small number of generally sectarian faith schools). But the funding was not re-allocated.

The failure to fund schools according to need was compounded by another special deal for private schools conjured up between the new Morrison Government and the Catholic Church after the Church's ruthless campaign against the decision of the Turnbull Government to terminate the lucrative system-weighted average funding for Catholic schools.

There were two components of the peace deal.

One was an additional \$3.4 billion over 10 years to implement a new direct income method of assessing parental capacity to contribute to private schools. It replaced the previous measure of capacity to contribute based on the socio-economic status of statistical areas. The key point here is the funding increase was announced well before the new measure of the financial need of schools was determined. It was a peace deal in search of a model to implement it and it took over a year to find it.

The model that eventuated was fundamentally flawed. Despite being based on the taxable income of families with children in private schools it ignored significant sources of family and school income. It ignored direct income support for families provided by grandparents and other relatives in the form of full or partial payment of school fees, deposits on house purchases, assistance with mortgage payments, childcare, household appliances, and car purchases etc. Other exclusions from the assessments include 50% of capital gains not subject to taxation, income held in overseas bank accounts and tax havens and family wealth. As a result, the capacity of private school parents to pay school fees is vastly under-estimated and the financial need of private schools is over-estimated. Consequently, private schools are systematically over-funded by taxpayers.

The current approach also ignores lucrative sources of income for private schools such as donations and investment income. For example, 50 of the richest private schools in Australia raked in \$611 million from these sources over five years from 2017 to 2021. Just 10 schools raked in nearly \$300 million. None of this income is included in the assessment of the financial need of these wealthy private schools.

The second component of the peace deal was a \$1.2 billion hand-out for private schools called the Schools Choice and Affordability Fund. It had no basis in need and was not available for public schools. Numerous other special deals followed that extended the resource advantage of private schools. They include Low Growth Funding for private schools and other transitional funding to the new funding method, drought assistance, COVID assistance and most notably JobKeeper funding worth \$769 million. None of this funding was based on need.

Much taxpayer funding has been wasted on over-funding private schools. On average, they are funded at over 100% of their SRS in every jurisdiction except the Northern Territory. Archbishop Anthony Fisher has said that the Catholic school system had "never had it so good" in terms of funding. It has had little positive effect as the biggest declines in PISA results in recent years have been in Catholic and Independent schools. It has allowed these schools to enhance their lavish educational and sporting facilities and to attract teachers and high-performing students.

These schools now have a significant resource advantage over public schools. It is money that could have been used to support the achievement of equity goals by increasing funding of public schools. Public schools enrol about 80% or more of the priority equity cohorts and over 90% of disadvantaged schools are public schools.

The sorry history of the sabotage of the Gonski vision for equity in education and its associated funding model, together with the continuing low achievement by the priority equity cohorts and the continuing large achievement gaps between them and high SES students, demands that future school funding be determined solely by need.

The Commonwealth should have a key role in increasing equity in education.

In another act of sabotage, the Turnbull Government arbitrarily restricted Commonwealth funding of public schools to 20% their SRS. By contrast, it also announced it would fund private schools to 80% of their SRS. It reverted to the historical approach whereby the Commonwealth has primary responsibility for funding private schools and the States have primary responsibility for funding public schools.

The Gonski Report was scathing about the structural incoherence of this arrangement. The Report criticised the imbalance between the funding responsibilities of the Commonwealth and the States and the lack of coordination in funding schools. It envisaged a much expanded role for the Commonwealth in funding disadvantaged schools and students.

This role was rejected by the Turnbull Government. It gave priority to funding the more privileged private sector over funding disadvantaged students, the large majority of whom were in public schools.

The Federal Government's role in public education stems from its responsibilities to improve equity in education, social cohesion and economic growth. It also has special responsibilities relating to Indigenous Australians and migrants, which implies a key role in funding public education. While the States have primary constitutional responsibility for education, the national government has a responsibility to ensure that the rights of all citizens to a quality education are upheld. It has a responsibility to ensure that all children, whatever their background and wherever they live, receive an education to prepare them for full participation in the community as citizens.

In upholding the democratic rights of all citizens, the national government has a special responsibility to ensure that children who endure hardship due to poverty, location or cultural background have access to the benefits and privileges enjoyed by the rest of society, especially in relation to access to a quality education.

The national government cannot allow a diversity of state government provision of public education to result in children in some regions being denied an adequate education. If a state government decides by reason of insufficient revenue, ideology, or other reasons that some children cannot be supported to achieve the minimum level of education expected by society, then the national government has a responsibility to intervene.

Similarly, children from different family backgrounds should be expected to achieve similar levels of education whatever the state or territory in which they live. For example, Indigenous children living in the Northern Territory should be expected to achieve the same level of education as Indigenous children living in the ACT or Victoria. If a state government is discriminating against Indigenous children by not providing an adequate education, the national government has a responsibility to

intervene. The same case applies to other disadvantaged students such as those from low socio-economic status (SES) families and those living in remote areas.

It is the responsibility of the national government to intervene in all circumstances where students are not achieving an adequate education and where there are large differences in the results of children from different social groups. In a federal system, the national government is the essential monitor and backstop to ensure that all Australian children receive a quality education to prepare them for adult life.

For these reasons, the Commonwealth Government should play a greater role in ensuring equity education across the nation. This implies a greater role in funding public schools because they enrol the vast majority of priority equity cohorts and include 90% or more of all disadvantaged schools. While the precise shares for the Commonwealth and states will be subject to negotiations Save Our Schools suggests that the Commonwealth take up an extra 5% share under the next NSRA, In this case the split in funding public schools would be 25% Commonwealth and 75% State.

Commonwealth-State funding agreements must clearly define roles and responsibilities.

Turnbull's justification for the arbitrary 20/80 government funding shares was to ensure that the State and Territory governments met their obligations. However, this was a problem of the Coalition's own making. Under the National Education Improvement Agreement negotiated by the Labor Government in 2013, the Commonwealth and the states agreed to maintain their current funding levels through indexation to ensure a consistent baseline for calculating their shares of the additional "Gonski" funding and to ensure that funding from one government level was not substituted for funding from another in the transition to the full funding levels by 2019. Immediately on taking office, the Abbott Government's education minister, Christopher Pyne, released the states from their obligations.

Pyne derided the conditions attached to Commonwealth funding under the plan as Canberra 'command and control' measures. He said that "it would be up to the states to decide whether they spend their money or not because they are sovereign Governments and should be treated like adults". The states took immediate advantage of the opportunity with several cutting funding in real terms in the following years.

Turnbull's complaint was disingenuous. As Prime Minister and an experienced cabinet minister, he would have been fully aware of the common practice of the states substituting increases in Commonwealth funding in a particular policy area for existing State funding.

The Gonski Report recognised these problems, and recommended strong Commonwealth-State funding agreements, to guarantee a shared commitment to equity goals. Turnbull could have revisited its recommendations and negotiated tight agreements with the states. Instead, his primary concern was to continue the Commonwealth's dominant role in funding private schools.

The lesson for the next NSRA is that the bilateral funding agreements must clearly specify the funding responsibilities of each level of government.

Public schools must be fully funded within the life of the next NSRA

An important lesson from the implementation of the Gonski funding plan was that the Labor Government decided on a six-year transition with about two-thirds of the funding increase delayed until the final two years which was beyond the Budget forward estimates. This made the plan vulnerable to a change of government. This proved to be the case as the incoming Abbott

Government refused to fund the increase planned for the last two years. This represented a huge loss of funding for public schools and the priority equity cohorts.

The lesson from this experience is that public schools should be fully funded at 100% of their SRS within the life of the next NSRA.

Despite the announcement by the Turnbull Government that the states would take responsibility for funding public schools to 80% of their SRS, the current funding agreements only require them to fund at 75% by 2027 for NSW, 2028 for Victoria, 2029 for South Australia, Western Australia and Tasmania, 2032 for Queensland and no target date for the Northern Territory.

Save Our Schools welcomes the statement by the Minister for Education to the National Press Club that the Government will give first priority to fully funding the most disadvantaged schools. We propose the following transition to full funding of all schools within the next four years:

Public schools with 50% or more of their students belonging to priority equity group should be funded at 100% of their SRS within two years. Schools with 25-49% of their students belonging to priority equity groups should be funded at 100% of their SRS within three years and all public schools should be funded at 100% within four years.

The integrity of the SRS must be maintained.

While private schools are being lavished with funding, public schools are being defrauded of billions in funding by the existing Commonwealth-State bilateral funding agreements which undermine the integrity of the measure of the SRS.

The terms of the current agreements allow all states except the ACT to claim up to four percentage points against their target share of 75% for expenditures, such as depreciation and school transport, that are explicitly excluded from the nationally agreed measure of the SRS. Several states can also claim expenditures on curriculum and standards authorities that are also excluded from the measure of the SRS. This means that the actual target SRS shares in the current bilateral funding agreements are only 71% or less. This skulduggery is defrauding public schools of over \$2 billion a year.

Reporting on equity outcomes and the use of funding must increase.

Reporting on progress towards education goals and how funding is used are fundamental to ensuring accountability. However, as the Productivity Commission report noted, reporting on the NSRA is inadequate and there are many gaps.

A key problem is that there is no single source of information on the use of funding and outcomes. For example, the annual reports on the implementation of the current NSRA and the progress reports by state/territory governments only report on the implementation of the policy initiatives. They do not provide any data on progress towards the outcomes targeted by the Agreement. Nor do they include any data on achievement against targets by equity groups identified in the Measurement Framework. The annual report and the state progress reports on the NSRA should include data to enable an assessment of the success of the national policy initiatives in meeting the objectives of the Agreement. They should provide data on how funding is allocated to schools and how schools have used funding to support the education of priority equity groups. In addition, the reports should provide sufficient data to assess progress in improving equity in education.

There are several data sources to draw upon in reporting on the target outcomes. For example, ACARA reports on NAPLAN results by sex, Indigenous status and location, Language Background Other Than English (LBOTE), parent education and occupation. The Australian Bureau of Statistics

reports retention rates to Years 9, 10, 11 and 12 by sex and Indigenous background in *Schools*. The *Report on Government Services* reports Year 12 attainment rates by socio-economic status and location.

However, there are significant gaps in reporting on outcomes by equity group at the end of schooling. Data collections need to be upgraded to adequately assess the effectiveness of policy initiatives and progress in improving equity in education.

As noted in numerous reports by national and state auditors-generals, there are continuing problems in ensuring accountability in the use of government funding. A key objective of the Education Act is the distribution of taxpayer funds according to need. Analysis of distribution by system authorities would provide assurance that funding is distributed in accordance with need. However, a report by the national auditor-general has found that the Department of Education has constantly failed to ensure this since 2013. This is despite criticism by the Gonski Report in 2012 that the distribution of funding by education systems was not transparent. Years later, the public is still not assured that private school systems distribute taxpayer funding according to need.

This is a particular issue in the Catholic school sector. Numerous reports have shown that Catholic education authorities have failed to distribute taxpayer funding according to need as required under the Education Act. Catholic authorities have systematically diverted funding intended for poorer urban and regional schools to schools in wealthy suburbs to keep fees low to maintain market share.

Catholic education authorities have long resisted being accountable for how they distribute taxpayer funding. In his memoirs, Prime Minister Malcolm Turnbull recounted a conversation with the Archbishop of Sydney, Anthony Fisher, about the Government's proposal to publish the amount of funding each school would receive under new funding arrangements. Fisher was concerned that this would reveal the Church's cross-subsidisation of its schools in wealthy suburbs:

...once you tell people how the government has assessed need and shown how much each school would get, we could never get away with it. People would say we were short-changing poor schools to benefit rich ones.

Fisher told Turnbull that the problem with the Government's needs-based model was that "more funding would go to schools in the poorer outer suburbs of Sydney and country New South Wales". Fisher's priority was to keep fees low for wealthy families. According to the Archbishop, the wealthy should be supported at the expense of the poor.

The Auditor-General's 2021 report said an annual report should be presented to Parliament that outlines the funding provided to a school authority and how this funding has been applied by the authority in order to meet the requirements of the Education Act. It noted that prior to 2013, the Department produced the annual Report on Financial Assistance to Schools (known as the Green Report) which provided a detailed breakdown of school level funding and enabled a comparison between schools, authorities, school sectors and jurisdictions. However, this was discontinued under the Abbott Government. It has enabled private school systems to escape scrutiny of their use of taxpayer funds ever since.

The Auditor-General's report said an annual report should be presented to Parliament that outlines the funding provided to a school authority and how this funding has been applied by the authority in order to meet the requirements of the Education Act. Save Our Schools recommends that the next NSRA include requirements for such detailed reports to the national and state parliaments.

It should be noted that the National Schools Resourcing Board is charged with reporting annually on State and territory compliance with section 22A of the Education Act which details the conditions of financial assistance to the states and territories. However, we note that the most recent published report is for 2020. This is not timely enough to ensure accountability.

Small class sizes for priority equity cohorts

Numerous OECD and academic studies have examined policies around the world to improve school outcomes for disadvantaged students. These studies are a valuable resource for the Panel to draw on in recommending reforms to lift student outcomes, particularly for priority equity cohorts. Here we focus on one particular policy – small class sizes in schools with high proportions of priority equity cohorts.

The issue of whether smaller class sizes contribute to better educational outcomes has been somewhat controversial, but the current evidence suggests that substantial improvements in outcomes can be achieved by reducing class sizes in schools serving disadvantaged students. Many studies over the past 20 years have demonstrated a positive and significant relationship between education expenditure and student achievement, especially for disadvantaged students. One of the mechanisms for this improvement is the employment of more teachers to allow reductions in student-teacher ratios.

Save Our Schools' proposal therefore is not for an overall decrease in class sizes. The evidence suggests that in schools that are already well-resourced, as is overwhelmingly the case in the Independent and even the Catholic sector, such a program would have little effect. However, in schools that enrol high proportions of students from the priority equity groups, this sort of program is likely to have substantial effects.

For significant changes, the evidence indicates that the decrease in class sizes needs to be substantial. Save Our Schools has suggested a 50% reduction in disadvantaged schools. It is likely that the costs of such a program would be high. However, eliminating the \$6-7 billion under-funding of public schools per year would provide a substantial funding pool. In addition, increasing the funding loadings for equity cohorts and schools with a high concentration of such students would provide a further source of funding without diverting funding from other public schools. International research studies show that the current loadings are far too small to be fully effective.

Conclusion

Closing the huge achievement gaps between priority equity cohorts and high SES student is the most fundamental challenge facing Australian education. Very high proportions of students in priority equity cohorts do not achieve national standards in literacy and numeracy and are three to five years behind their high SES peers by the time they reach upper secondary years. Over 80% of these students attend public schools and over 90% of disadvantaged schools are public schools. Yet, public schools remain massively under-funded and will remain so into the next decade unless the current arrangements are dramatically reformed.

The next NSRA must address the multi-million funding shortfall in public schools. It is incumbent on the Expert Panel to recommend key principle to guide future funding to better support the learning of priority equity cohorts. There is no justification for the claim that school funding is outside the terms of reference of the Panel. Future funding principles are well within its terms of reference.