

Re-imagining School Funding to Support a Better and Fairer Education System

Submission by Mary Clarke, DXP Consulting



*Imagine no barriers to learning
The foundations for kids to fly
No false sector dichotomies
Capacity to apply*

*Imagine all the children
Learning where they choose*

*Imagine public funds that follow students
Irrespective of schools they attend
Conditioned by fee payments
And needs-based reasons to spend*

*Imagine all the children's
Minds reaching for the sky*

*You may say I'm a dreamer
But I am not the only one
I hope today you will join me
Supporting the futures of all our young*

Maybe I am a dreamer. Dreaming is one of the joys of independence and working for myself. Freedom to self-servingly alter the lyrics of well-known songs! To let my imaginings run wild, unconstrained by perceived barriers or politics. Where school funding is concerned, this is vital as even the most revered contribution in recent history, the Gonski Review, was constrained by existing school ownership, funding, and other divides, which are largely the product of historical circumstance and political opportunism.

This is why I have been motivated to respond to the invitation to provide a submission as part of the consultation on a Better and Fairer Education System. Because I can dream where others may feel they cannot. But it is not the impossible dream.

And it is not a dream that has just come to me. I first shared my dream on [REDACTED] four years ago. This submission unashamedly follows closely and updates what is there.

This submission best fits with the discussion on funding and accountability arrangements. But it is bigger than that. It does not, as the Discussion Paper cautions against, touch on how the School Resource Standard (SRS) should be calculated. Indeed, it argues its value. What this submission does do, which is perhaps not anticipated as part of this consultation process, is urge a major but necessary re-imagining of Commonwealth-state relations.

But I am getting ahead of myself. Rather than leap too quickly to the negative, let me start on a positive note by acknowledging what is good about current funding arrangements. Then let me share with you why these arrangements should most charitably be viewed as a halfway house. And then finish with my re-imaginings of how future funding arrangements could, and I argue should, be.

What is good about current school funding arrangements?

In 2011 the Expert Panel headed by David Gonski released its final report, Review of School Funding. Two years later the Australian Education Act 2013 (the Act) passed through the Federal Parliament giving effect to its National Plan for School Improvement. At the time, and for several years after, the Act included contentious undertakings that preserved the 'overfunding' of some schools. In 2017, just when it looked as if the Commonwealth Government of the day was going to walk away from the reforms, it amended the Act to give effect to its Quality Schools package. The package, amongst other things, addressed the anomalies and injected more money into systems and schools. The Commonwealth Government claimed that the changes brought arrangements closer to God ... I mean, Gonski.

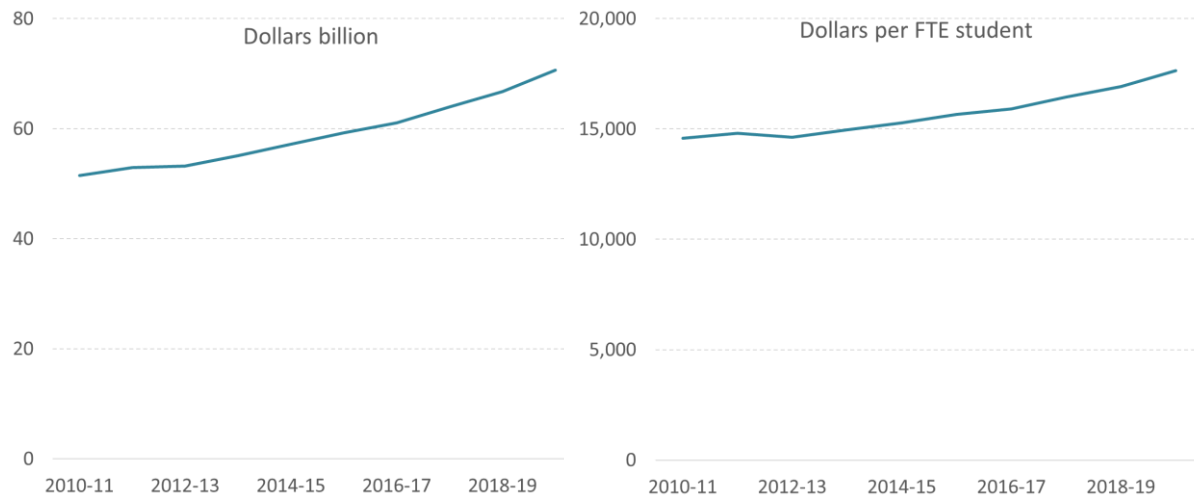
There are many reasons we should feel blessed. Public funding of schools has increased. The Commonwealth's funding contribution is calculated on the basis of needs and adjusts for parents' capacity to contribute. And parents now have a better idea about how the public funds their schools receive compare against a benchmark.

Public funding of schools has grown in real terms

Starting from the top: First, public funding for schools has grown in real terms year-on-year. In 2019-20 the sum of Commonwealth and state and territory governments' contributions to the recurrent costs of schooling was \$71 billion - the outcome of an annual average rate of real funding growth of 3.6 percent over the period shown in left hand chart shared in Figure 1 over the page. When expressed on a per student basis, the annual average rate of growth falls to 2.1 percent. But it is, nevertheless, up.

Figure 1 Real public sector recurrent expenditure on schools

2019-20 dollars



Note: Includes the user cost of capital for Government schools.

Sources: Real funding data from Productivity Commission (2022) [Report on Government Services](#). FTE student numbers used to determine per student funding rates is from ACARA [National Report on Schooling data portal](#).

Funding is determined based on need

Second, the Commonwealth Government's allocation of funding to Government and Catholic school systems and directly to Independent schools is determined on the basis of need. That is, added to a base per student rate are 'loadings' to provide for the greater learning needs of students from low socio-economic backgrounds, Indigenous students, students living in rural and remote areas, and students with disabilities.

Funding is adjusted for parents' capacity to contribute

Third, the base per student rate for Catholic and Independent schools is adjusted to take account of parents' capacity to contribute fee funding. This is now determined on the basis of family income, which is an improvement on previous location-based indicators. Capacity to pay adjustments both facilitate greater equity with Government schools and free up scarce public funds to support need.

Benchmarking aids transparency and accountability

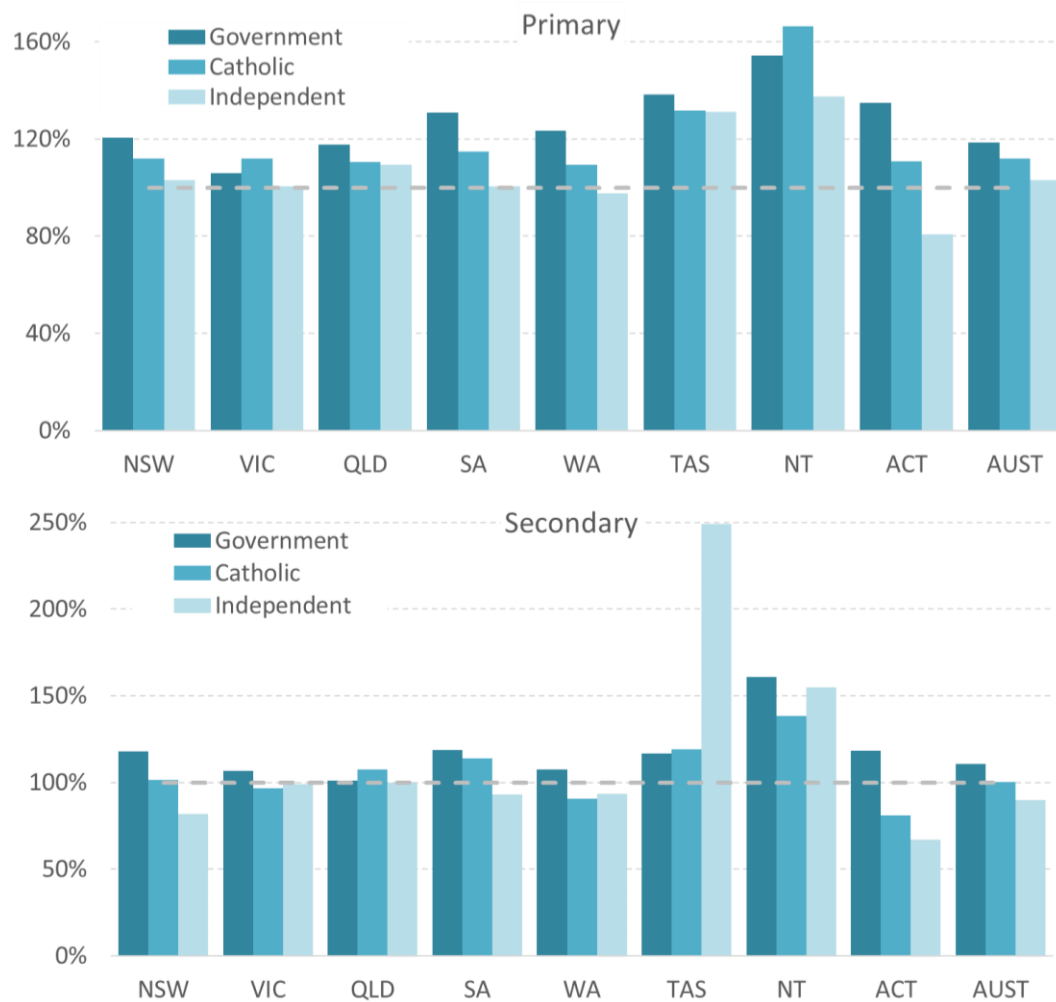
Fourth, the funding formula calculates the SRS – a benchmark rate of per student funding. Actual funding will differ from state-to-state and school-to-school due to differences in funding allocation models, student and school characteristics, and parents' capacities to contribute. Figure 2 over the page calculates and shares the situation in 2021 by school level – primary and secondary for each sector – Government, Catholic and Independent.

The good news is that, unlike when I shared comparative data for 2017 on my website, in 2021 on average most schools are receiving per student funding levels above the SRS. Where it is well above, it is easy to conceive that this is likely the effect of loadings for things like socio-economic circumstances or location. Where it is below, this is likely the impact of adjustments made for parents capacity to contribute.

If there are instances where these differences cannot easily be explained away, they provide a motivator to tackle them head on and get closer to Gonski. Big tick from a funding policy perspective.

Figure 2 Per student funding as a share of SRS reached

Percent estimated for 2021



Source: Derived based on per student Commonwealth and State and Territory recurrent funding for 2021 sourced from the ACARA [National Report on Schooling data portal](#) and the separate primary and secondary SRSs for the same year.

The other big tick earned is because it facilitates transparency and accountability. Let me explain. One of the reasons why differences may arise on a per school basis is that systems distribute public – Commonwealth and state and territory – funding received according to allocative models that reflect systemic priorities and challenges. That is, there may be good reasons for observed differences. The SRS shines a light on the differences, providing an impetus for parents, groups representing their interests and others to seek an explanation. If not satisfied, parents can either vote with their feet and/or interested parties may become more active in their advocacy. In other words, it facilitates civic engagement in school funding policies.

Why are current arrangements at best a halfway house?

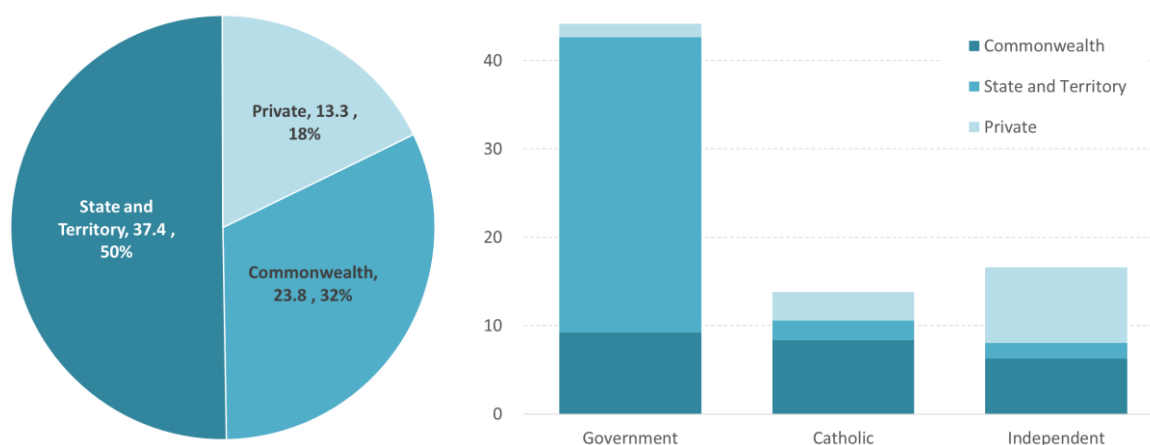
There are at least four reasons why current arrangements are at best a halfway house: state and territory governments, and not the Commonwealth, are the major funders of schools; Commonwealth and state and territory governments' funding shares vary by school sector; there is a multitude of models rather than a single basis for funding schools; and public and private funding is tied to school ownership ahead of student need or the capacity of all parents to pay.

State and territory governments, and not the Commonwealth, are the major funders of schools

Last year, of the four million students who attended 9,614 schools in Australia, close to two thirds went to Government schools, a fifth to Catholic schools, and the rest to Independent schools. The tuition cost of their schooling was met by state and territory governments, the Commonwealth Government, and private sources, in that order. Their respective funding shares were 50 percent, 32 percent, and 18 percent. If we calculated public funding shares only, state and territory governments contributed 61 percent; the Commonwealth Government, the remainder. In other words, contrary to what the discussion above may have (mis)led you to believe, it is not the Commonwealth Government who is the largest funder of schools. State and territory governments are, because they are the largest funder of Government schools which, as we have just established, cater for the most students.

Figure 3 Gross recurrent costs of schooling

Dollars billions, 2021



Notes: Private sources comprise predominantly but not exclusively of fees and parental contributions.

Source: Derived from ACARA, [National Report on Schooling data portal](#).

One of the sources of popular confusion is the reality that over time the Commonwealth's contributions to the public funding of all school sectors has increased, from 33 percent in 2012 to 39 percent in 2021 (refer Figure 4). Nonetheless, state and territory governments remain the largest contributors of funds overall. And this is not likely to change any time soon.

This reality calls into question the tendency of the Commonwealth to tie conditions to its funding increases. It also risks erosion of the Constitutional responsibility of state and territory governments to provide schooling for *all* school-aged children. Moreover, no matter how well meaning the Commonwealth's meddling, it risks increasing red tape and stifling the dynamic efficiency gains that would otherwise arise from unfettered

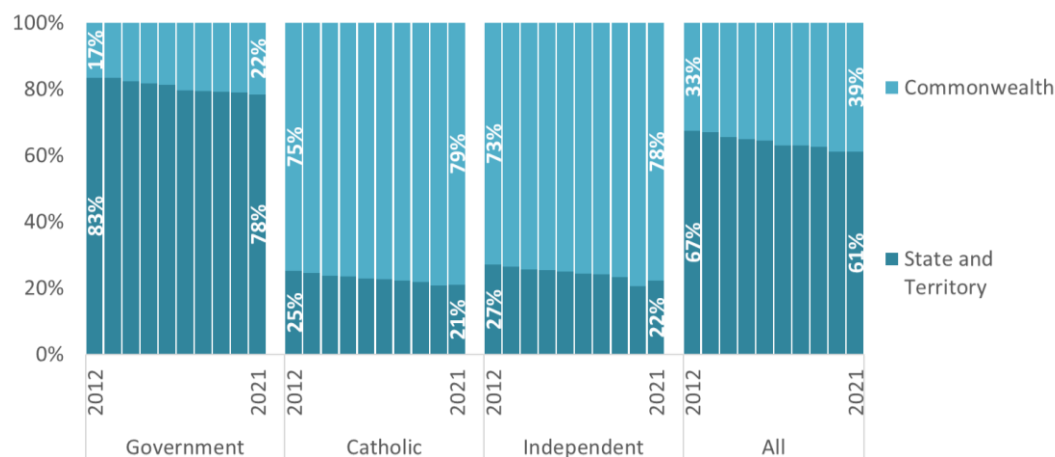
jurisdictional flexibility (which I will shortly elaborate on). The [Grattan Institute](#) has been vocal and articulate in cautioning the Commonwealth Government to not use the extra money it is making available as an excuse to intervene more broadly in schools. The Commonwealth should limit its efforts to where it can make a genuine and national contribution.

Commonwealth and state and territory governments' funding shares vary by school sector

State and territory governments' and the Commonwealth Government's public funding shares vary by sector. For Government schools its around 80:20; for Catholic and Independent schools it is pretty much the reverse. While the total per student public contributions are less for Non-Government schools, *on average* (a very important qualification that I will return to), private sources of funding more than make up any shortfall.

Figure 4 Public funding shares for schools

Percent



Source: Derived from ACARA, [National Report on Schooling data portal](#).

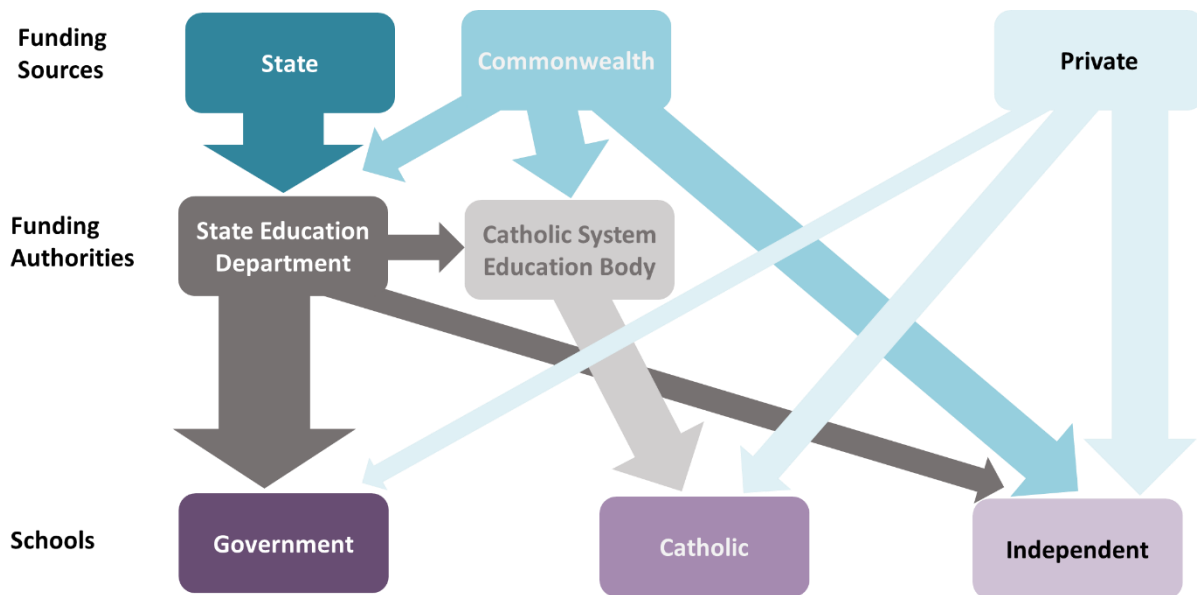
Why does this matter? This matters because Government, Catholic and Independent schools within a state will be differentially impacted by one level of government renegeing on its funding commitments. If the Commonwealth Government is feeling less largesse, Non-Government schools stand to lose more. Similarly, it is Government schools who bear the brunt of any state funding constraint.

Could this happen? Of course it could. And it very nearly did in recent history, when in 2017 the expectation was that the Commonwealth Government of the day would revert to pre-Gonski means of growing its funding contributions. As things eventuated, the Commonwealth Government surprised us all by getting closer to Gonski. This, nevertheless, illustrates a significant vulnerability and the need for safeguards.

There is a multitude of models rather than a single basis for funding schools

Public funds *do not* arrive on the doorsteps of schools via a single allocative model called the SRS. The reality is a whole lot more complex. To illustrate, consider the situation of a single state, with the aid of the schematic shared in Figure 5 over the page.

Figure 5 The complex web of school funding flows in a single state



Let us follow the money backwards starting with Government schools. Government schools receive the bulk of their funding through the state funding authority, typically its education department. For each school its allocation will have been calculated according to a state-specific funding formula. In most cases this is a base plus loadings model, where the loadings are adjusted to reflect student and school characteristics. That is, similar in some ways to the SRS, but with important differences to reflect funding formula innovations, the local situation and state priorities. The state education department will in turn have received its money via a Budget appropriation from the state government and an allocation from the Commonwealth. The Commonwealth's funding is determined as a share of calculated SRS funds for all Government schools in the state. As a small top up to public funding, Government schools receive voluntary parental contributions and funding from other private sources. They cannot and do not charge fees.

With me so far? Because it is about to get a whole lot more complicated! Catholic schools receive the bulk of their funding through the Catholic system education body, and the rest from school fees and other private sources. The Catholic system education body will allocate funds to schools according to its funding formula. Its primary source of funds is the Commonwealth Government, determined as a share of the SRS for schools within the system and adjusted for Catholic parents' capacities to contribute. State Government funding contributions into the system are a top up that comes via the state education department, according to its formula.

Still with me? The primary source of Independent schools' funding is fees and other private contributions. Commonwealth funding is the secondary source, which is calculated on the same basis as for Catholic schools, but with one important difference: the funds are received directly by schools. That is, there is no intermediary funding authority. State government funding is received directly by Independent schools via the state education department according to its funding formula.

Got it? Now multiply the situation I have just described for one state by the eight states and territories in Australia. There is no single funding formula. There are more than twenty.

Some may argue that this does not matter. They may even argue that different states and different systems should be able to cater as they judge best to address local needs and priorities within their systems and schools. This is the principal of subsidiarity. Alternatively, they may point to the gains in dynamic efficiencies arising. That

differences in funding approaches are healthy as they allow for live experiments and an ability to learn from each other, innovate and continuously improve their funding approaches. And they would be right. To a point.

Jurisdictional differences and flexibilities can be a good thing, for many of the reasons just argued. But what is the justification for the public funding entitlements of the same student within a state being different merely on the grounds of the school sector that his or her parents 'choose' for them?

Public and private funding is tied to ownership

The statement made in the opening paragraph to this section - that public and private funding is tied to school ownership ahead of student need or the capacity of all parents to pay - is *prima facie* at odds with the earlier discussion about needs-based funding approaches and public funding adjustments based on parental income. But hear me out.

Let us look at the two cases of Jack and Jill, conveniently contrived in order to illustrate my point. Jack's fifth birthday is fast approaching. He is a very clever little boy. His proud parents recognise Jack is well ahead of his peers and, like all good parents, they want to provide Jack with the best start in his school life. They have done their homework and identified a school that they judge will allow Jack to excel. However, it is a Non-Government school with fees beyond their means. Jack is the middle child of five. He has a stay at home father and a mother whose single income struggles to meet the needs of a household of seven. Both parents feel frustrated as they have no option but to send Jack to the local Government school.

Jill is also about to turn five. Her parents grew up in the area where they continue to live, and both went to the local Government school. That is how they met. For a mix of nostalgic and philosophical reasons they would love it for Jill to carry on the family tradition. However, they have also witnessed the relative demise of their old school, and noted that the children of friends they grew up with were attending the Catholic school around the corner. Jill's parents both work full time and have good jobs. They would willingly contribute towards the cost of Jill's education at their old school. But that is not an option. They are likely to follow in the footsteps of their friends and send Jill to the school around the corner.

Are Jack's and Jill's situations nonsensical? Yes, of course. Contrived? Yes - I already told you that. But without grounds? No. When private sources of funds are accounted for, the per student rate in each sector is *on average* (yes, there are those words again) greatest for Independent schools and least for Government schools. Figure 6 over the page shares these averages.

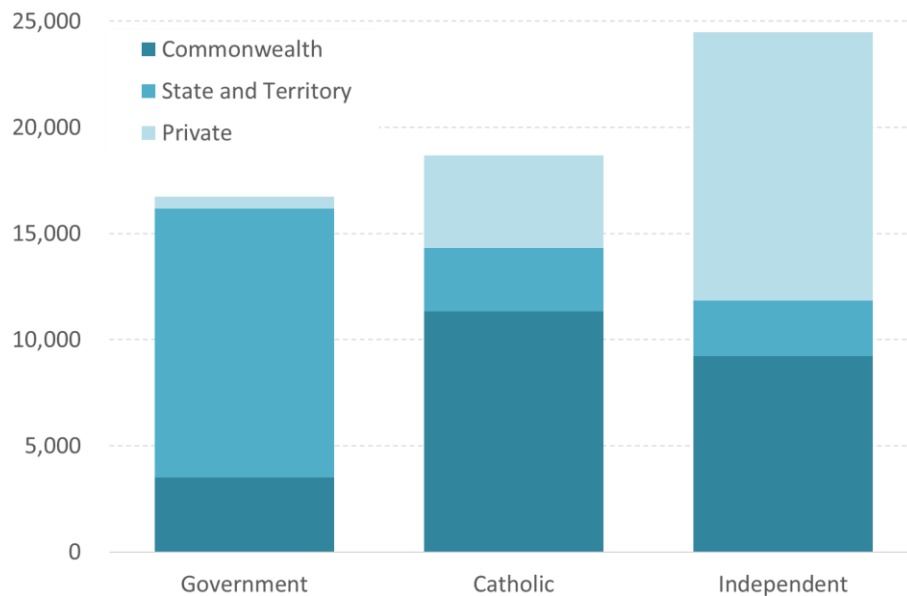
Averages, however, by their very nature, mask distributions. There are Non-Government schools who cater to students from very low socio-economic backgrounds who can realistically seek only very small or no contributions from parents. While funding formulas adjust for this, the funds those schools receive may not approach the levels in nearby Government schools. Yet parents may still elect to send their children to Non-Government alternatives on religious, cultural, and other grounds. And if they do not, those schools will be further funding deprived.

At the other end of the distribution are Non-Government schools who attract parents who willingly pay such high fees that any public funding received forms a small proportion of the total.

While there is similarly a distribution for Government schools, this matters only to loadings received, but not to base rates nor to schools' ability to command fees.

Figure 6 Funding per student

Dollars, 2021



Source: Derived from ACARA, [National Report on Schooling data portal](#).

Is there a better way?

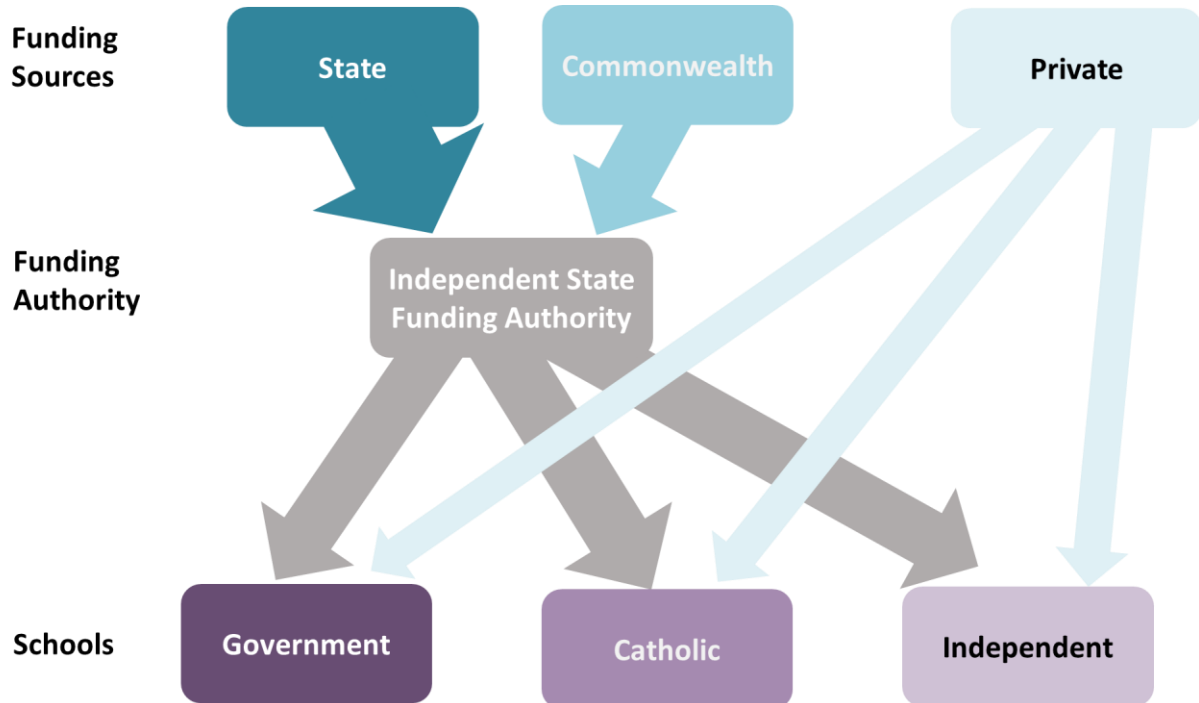
Is there a better way? Of course there is. I would not put you through all the above in the absence of any intention to share with you my dream of how it could be.

To warm us up, let me start first with the lessons implicit in the preceding discussion:

- State and territory governments are the major funders of schools. They also have Constitutional responsibility for schooling.
- The risk or benefit of one level of government providing less or more funds should be apportioned according to student population size and characteristics irrespective of who owns the schools they attend.
- Jurisdictional flexibility is a good thing. It is true to Australia's federalist system which is framed around the principal of subsidiarity. And it encourages dynamic efficiency gains through funding innovations.
- Differences in funding entitlements within jurisdictions are not a good thing. There is no justification for the same student being differently entitled due merely to the choices his or her parents make. There are no grounds for an uneven playing field that distorts the ability for schools to provide educational offerings that are attractive to students and their parents. Entitlements should be sector neutral within a jurisdiction.
- Funds should follow students to the schools of their parents' choice.
- All students should receive a base level entitlement plus additional funds if their learning needs are great.
- The opportunity for parents to contribute to the resourcing of schools should be conditioned only by their capacity to contribute, and not by school ownership.
- Where the capacity of parents to contribute is great, the call upon public funding support should be less.
- Transparency of actual and benchmark rates of public funding per student supports accountability and civic engagement in the funding approaches of jurisdictions.

To put these lessons into effect necessitates governance arrangements that pool public funds at the level of states and territories. This is not just a dream, but a prerequisite of optimal funding arrangements. Consider the schematic in Figure 7 below and compare it to the previous schematic (in Figure 5) depicting current arrangements.

Figure 7 How school funding could flow within each state



Under this arrangement, the Commonwealth and state and territory governments' funding contributions are received by an independent state funding authority. Its independence is important in order to avoid any conflict of interest, real or perceived, with the Government school ownership role of the state education department. The public funding pool is then allocated to Government, Catholic and Independent schools according to a single funding model. All schools, irrespective of sector, have the option to charge fees. It is up to them whether they exercise it.

One public funding approach multiplied by eight states and territories is eight. Simple. Good.

What does that one model in each jurisdiction look like? If I were to answer that question with any specificity, I would be arguing against myself, given the claimed benefits of jurisdictional flexibility.

The list of lessons learned above sets the parameters. But the devil is in the detail. How big should the base level of per student funding be? How much more funds should follow students whose learning needs are great? And how should they be calculated? How should parents' capacity to contribute be assessed? According to indicators of the socio-economic circumstances of families? Household incomes? Actual fees paid? What should be clawed back when the assessed capacity is great? The per student base? Base plus loadings? And at what rate?

I could keep going. But I think you get my point. There are lots of questions to address. And I am only just scraping the surface. They are best answered at the jurisdictional level. For example, in Victoria a large base level of funding may be best, whereas what is best in the Northern Territory may be to direct more funds towards needs. That is the whole point of jurisdictional flexibility.

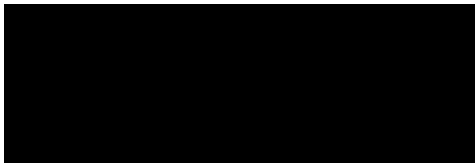
If a national benchmark is maintained, in the form of the SRS or like, it can shine a light on these differences and provide the discipline of an informed public to ensure they are defensible. It can also encourage successive governments at both levels to honour their funding commitments.

The impossible dream?

So, there you have it – my dream. It is not an original dream. Elements are shared with others – academics and commentators from both ends of the political spectrum. For instance, models of funding entitlements that follow students can be found in the writings of education economists, [Malcolm Anderson](#), [Brian Caldwell](#), [Peter Dawkins and Stephen King](#), and the [Centre of Independent Studies](#) (CIS). Indeed, they form the basis for allocating public funds to schools within most states and systems. Both aforementioned papers, together with the [conceptual model devised by education academic, the late Jack Keating](#), propose mechanisms for adjusting public contributions on the basis of either actual fees paid or the capacity of parents to pay. A [paper by the CIS](#) makes the case for pooling funding at the level of states and territories and argues the value of jurisdictional flexibility. As did many states and territories as the Gonski reforms were rigorously debated.

While not an original dream, it is no less significant. But is it the impossible dream? To end as I started, by messing with the lyrics of a well-known song: Am I picking a fight with an unbeatable foe? I certainly hope not. Not if there is a willingness to brave the run where others have dared not to go.

I am more than happy to discuss my dreams further. Please do not hesitate to be in touch.



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