

Stephen Palethorpe
Secretary, Senate Standing Committee on Education and Employment
By email: eec.sen@aph.gov.au

8 June 2017

Dear Stephen,

Re: Questions on Notice, Australian Education Amendment Bill

This document provides my responses to the written questions on notice from Senator Collins, following on from my appearance in front of the Legislation Committee of the Senate Standing Committee on Education and Employment on Friday 2 June.

This document also provides follow-up to two further questions that I took on notice during the discussion.

The document is structured into seven sections, in order to group similar questions:

- Section 1: Australia's relative expenditure on school education (Q1, 2)
- Section 2: Comparison of future funding (Q3, 4)
- Section 3: Analysis of the 80/20 model (Q5, 6, 9, 10, 11)
- Section 4: Hypothetical projections based on the 2017 Amendment (Q7, 8, 17)
- Section 5: Winners and losers among states (Q12, 13, 14, 15)
- Section 6: Major surgery or fine tuning (Q16)
- Section 7: Other questions on notice raised during my presentation

Please let me know if I can provide further assistance to the Committee.

Pete Goss

School Education Program Director
Grattan Institute

Section 1: Australia's relative expenditure on school education

Q1: In your November report you said the claim “that Australia is among the top of the pack in education spending is misleading”. Can you elaborate on that?

Education Minister Simon Birmingham has claimed on a number of occasions that Australia is amongst the top of the pack in education spending. For example, in a report on ABC News in September 2016, he was quoted as saying:¹

*“It [the OECD report ‘Education at a Glance 2016’] shows that we don't do as well as some other nations in terms of performance, yet **we are sitting amongst the top of the pack in terms of investment**”.* [Emphasis added]

My understanding is that the above claim refers to Australian government expenditure on school funding as a percentage of total government expenditure, where it would rank us 6th out of 33 OECD countries.

As I stated in a FactCheck in February 2017, such a comparison is misleading:

The data show 9.7% of government spending in Australia goes on schooling. This is higher than the OECD average of 8.0%. ...

Comparing education funding to total government expenditure makes Australia's relative spend on education look artificially high, since Australian government expenditure as a percentage of GDP is among the lowest in the OECD even if superannuation is included.²

In general, comparing education spending to total government spending is a poor measure, since both numerator and denominator vary by country. A better measure is to compare education spending as a percentage of GDP, as discussed in Question 2.

Q2: Is Australia above or below the OECD average of government funding on schooling?

Relative to GDP, Australia's government funding for schools is slightly less than the OECD average (3.2% for Australia versus an OECD average of 3.4%), while combined government and private funding is slightly higher (Australia 3.9% versus OECD 3.7%). This data was presented in Figure 1.2 in Grattan Institute's *Circuit Breaker* report.³

If population mix is incorporated, Australia's relative expenditure looks lower again, because Australia has relatively more young people than the OECD average.

¹ <http://www.abc.net.au/news/2016-09-16/government-to-reconsider-school-funding-global-education-report/7850746>

² <https://theconversation.com/factcheck-is-australia-below-the-international-average-when-it-comes-to-school-funding-72189>

³ <https://grattan.edu.au/report/circuit-breaker/>

Section 2: Comparison of future funding

Q3: Mr Goss on p. 2 of your submission you state that “most of the spending is promised beyond the budget forward estimates”. Can you elaborate on how much of the funding is beyond the forward estimates?

Our analysis estimates that total Commonwealth funding will be:

- \$79 billion over the budget forward estimates (FY2017/18 to FY2020/21)
- \$172 billion from FY2021/22 to December 2027.

Adding these together gives a total of \$251 billion. This is about \$9 billion higher than the more commonly seen figure of \$242 billion over the 10 calendar years 2018-2027, because our figure includes Commonwealth spending in Jul-Dec 2017.

However, most of this is not new spending. After taking account of enrolment growth and growing costs (using the SRS indexation as the measure of costs), our analysis suggests that the 2017 Budget increases the real level of funding to schools by about \$12.4 billion up to December 2027.⁴ Of this, about 89 per cent of the new spending (\$10.9 billion) lies beyond the forward estimates, with the remaining 11 per cent (\$1.4 billion) within the forward estimates.

By way of context, even if the needs-based funding gap were closed much more quickly – say in two years – most new spending would still be beyond the forward estimates because the early funding boost would raise funding levels across the whole ten years.

Q4: Your submission states that all schools get the Commonwealth share of their target funding by 2027, much faster than the current legislation. However, the agreements [s]truck under that legislation – particularly in NSW, SA and ACT – say that all underfunded schools would be at 95% of their SRS in 2019 and 2022 for Victoria. Do you accept that your statement is only true if you look at the legislation but not the agreements that were entered into in accordance with the legislation?

On p.10 of our submission, I state that

Under the 2027 Amendment, schools will get the Commonwealth share of their target funding within ten years – much sooner than under the 2013 Legislation.

I reject the proposition that my statement is true if I look at the legislation alone, but untrue if I also look at the agreements entered into in accordance with the legislation.

My statement is true, because – under the current legislation alone or in conjunction with the National Education Reform Agreement (NERA) and its associated agreements – there is no mechanism to bring over-funded schools to their SRS within ten years.

⁴ The remainder of the \$18.6 billion additional funding over 10 years compared to the 2016 Budget arises because SRS indexation will not revert to CPI from 2021. I do not view this as new spending, but setting a sensible baseline for funding growth.

That said, it is important to examine the assumptions that affect the validity of my statement in two ways: for schools that are currently under-funded, and for schools that are currently over-funded.

Under-funded schools

The validity of my statement for under-funded schools depends on what one assumes as the default position for Commonwealth funding if the 2017 Amendment is not passed.

My statement is correct if one assumes (as I do) that the default position is the 2013 Education Act, but not the NERA or its related agreements with states and territories.

My statement is not correct – for under-funded schools only – if one assumes that the default position includes the 2013 Education Act, NERA and related agreements.⁵

Over-funded schools

My statement is correct for over-funded schools regardless of whether the default position is the 2013 Education Act, or the Education Act plus NERA and related agreements. Under either of these default positions, the most over-funded schools will continue to be over-funded for more than a century.

⁵ I note that, even under the National Education Reform Agreement and related agreements, schools will not reach 100 per cent of their SRS for some years after the dates included in the question, because the mechanism to lift schools from 95 to 100 per cent of their targets is the boosted 4.7 per cent Commonwealth indexation rate for schools under SRS.

Section 3: Analysis of the 80/20 model

Q5: In your opinion, does the 80/20 model proposed meet the Gonski recommendation that “Australia needs effective arrangements for funding schools across all levels of government – arrangements that ensure resources are being provided where they are needed... and where the Australian Government and state and territory governments work in partnership to meet the schooling needs of all Australian children”. (p. xiv – second page of executive summary.

In my opinion, the 80/20 model partly meets the standard argued for in the Gonski report that “Australia needs effective arrangements for funding schools across all levels of government...”. The extent to which it does so depends on the responses of state and territory governments.

For completeness, it is important to note that neither of the alternative approaches (the 2013 Legislation alone or the 2013 Legislation in combination with NERA) fully meet the standard argued for in the Gonski report.

Detailed analysis

The best way to assess whether the 80/20 model meets the standard argued for in the Gonski report is not by reference to a broad statement in the executive summary, but by reference to the formal recommendations of the Gonski review.

The most relevant recommendations are numbers 4, 11, 12, 16-18, 22 and 39, all of which touch on the split of funding between the Commonwealth and states, or the responsibilities of the Commonwealth or the states.

Recommendation 4 states that:

*From 2014, non-government schools should be **funded by the Australian Government** on the basis of a common measure of need that is **applied fairly and consistently to all**. [Emphasis added]*

The 80/20 model meets Recommendation 4, with Australian government funding to non-government schools being consistent regardless of jurisdiction. I would note that the current Legislation and NERA does not meet this recommendation, because funding to non-government schools would depend on which state or territory they are in.

The main body of **Recommendation 11** states that:

*The Australian Government should negotiate with state and territory governments and consult with the non-government sector with a view to implementing a national schooling resource standard **that allows flexibility in how it is applied across jurisdictions**. [Emphasis added]*

The 80/20 model meets Recommendation 11, by giving states and territories flexibility in their application of the SRS.

Recommendation 12 states that:

*The schooling resource standard **should be used by the Australian Government as the basis for determining its total recurrent funding for government and non-government systems and schools** and for the allocation of that funding across systems and schools. **It should also be adopted by the states and territories to guide their total recurrent funding for government and non-government schools** and the allocation of that funding to individual non-government systems and schools.* [Emphasis added]

The 80/20 model meets Recommendation 12 from the perspective of the Commonwealth. Under this model, the SRS is used consistently by the Australian government as the basis for determining its total recurrent funding and how that funding is allocated.

The 80/20 model has the potential to meet Recommendation 12 from the perspective of the states and territories, by providing implicit guidance around their total recurrent funding and how that funding is allocated: they should adopt a 20/80 model if they wish to fully fund all schools, or vary this if they want to fund at a higher or lower level. However, it will be up to states and territories to decide how closely to adopt this guidance.

Recommendations 16 to 18

Recommendations 16 and 17 argue that Australian governments should fund all schools according to the SRS model, taking into account the base funding, needs-based loadings, and, for most non-government schools,⁶ their capacity to contribute.

The 80/20 model has the potential to meet these recommendations: the Commonwealth contributions meet them, and it will be up to states and territories to decide whether to adjust their contributions so that combined Australian government funding closes the needs-based funding gap.

Recommendation 22 states that:

*The Australian Government and the states and territories, in consultation with the non-government sector, should negotiate more balanced funding roles as part of the transition to a new funding model for all schools, with the **Australian Government assuming a greater role in the funding of government schools** and the **states in relation to non-government schools**. This should occur within a governance framework that gives certainty and stability around expected future funding levels for schools from all government sources and operational independence for non-government schools.* [Emphasis added]

⁶ Recommendation 18 highlights some cases where non-government schools should be fully funded by Australian governments.

The 80/20 model does not meet Recommendation 22:

- The 80/20 model has been developed by the Commonwealth, rather than in negotiations with states and territories and the non-government sector.
- Under the 80/20 model, the Australian government assumes a greater role in the funding of government schools than it has in 2017 – an increase from 17 per cent of SRS (on average) to 20 per cent of SRS by 2027.⁷
- Under the 80/20 model, state and territory funding is implicitly expected to tend towards a 20/80 balance, although states will have flexibility to set their funding levels. However, state funding to Catholic schools is currently higher than 20 per cent of SRS in 5 out of 8 jurisdictions, and state funding to independent schools is currently higher than 20 per cent in 6 out of 8 jurisdictions. Therefore, the 80/20 model does not meet the recommendation that states assume a greater role in the funding of non-government schools.
- There is not yet a clear governance framework around expected future funding levels for schools that covers all sources of government funding.

It is important to note that the 2013 Legislation also fails to meet the increased level of state funding to non-government schools that is part of Recommendation 22, as would the 2013 Legislation in combination with NERA. State funding to non-government schools would not markedly change under either of these two approaches.

Recommendation 39 states that:

*The Australian Government and state and territory governments should legislate the proposed funding framework to ensure certainty and transparency of public funding for all systems and schools. **Legislation at both levels of government should operate together** to ensure that the total level of public funding is guaranteed for all systems and schools over a 12-year cycle. [Emphasis added]*

The 80/20 model does not meet Recommendation 39. The Commonwealth funding levels would be legislated, providing certainty and transparency of Commonwealth funding. However, states and territories would be free to decide whether they wanted to adopt comparable legislation; and if they did, to what extent it would provide a guaranteed level of funding over a 12-year cycle.

It is important to note that it is unclear whether Recommendation 39 is met under the combination of the 2013 Legislation and NERA.

⁷ The Northern Territory is an exception, given it currently receives funding from the Australian government equal to 23 per cent of SRS.

Q6: Mr Goss you state that “The 2017 amendment further cements the notion that state governments are the majority funders of government schools, and the Commonwealth is the majority funder of non-government schools”. P. 3. Can you confirm that this model proposed is not sector-blind because of this very sector specific rates of funding?

I am not aware of a formal definition of the term “sector-blind” that could be used to unequivocally assess whether a given approach is sector-blind or not.

For the sake of answering the question, I interpret “sector-blind” to mean that

- students with comparable needs are *(a) entitled to* and *(b) receive in practice* consistent combined government funding,
- regardless of sector or state,
- after taking into account the capacity to contribute for students in non-government schools.

Under this definition, the 2017 Amendment is not sector-blind. However, in my opinion this is not because of the sector-specific rates of funding. It is because there is a substantial likelihood that government schools will in practice receive less combined government funding than non-government schools.⁸ However, the 2017 Amendment is sector-blind in terms of student entitlements.

By contrast, the alternatives (2013 Education Act, or 2013 Education Act plus NERA and associated agreements) are not sector-blind. This is because the system-weighted average means that students with comparable needs can have very different SRS entitlements depending on whether they are in a Catholic systemic school or an independent school.

Q9: How is the outcome you depict in Figure 8 an improvement on current legislation and agreements with states and territories?

Figure 8 of our submission does not purport to show where each public school system **will** be in 2027. Where each public school system will be in 2027 depends on how rapidly state government funding grows over the next decade.

The outcome depicted in Figure 8 is a hypothetical outcome: what **would** happen if states and territories keep their funding for government schools at the same level compared to SRS. The purpose of this figure is to highlight the poor outcome that would arise if states grow their funding purely in line with enrolments and SRS indexation.

In my opinion, it would be surprising and irresponsible for states and territories not to adjust their future funding levels if the 2017 Amendment is passed.

However, if states do not adjust their funding levels, the outcome would be greater Commonwealth consistency but a high level of inconsistency in overall government

⁸ This is discussed in some detail in my answers to Questions 7, 8 and 17.

funding. In particular, government schools in most states would receive combined government funded well below SRS in 2027 if states do not increase their funding.

Q10: How can this possibly be a needs based funding model? Hasn't the Commonwealth given up on ensuring that schools meet their SRS under this legislation? There is absolutely no requirement for the Commonwealth to hit any target other than their shares of SRS, which are arbitrary, made up numbers.

The 2017 Amendment is a needs-based funding model in the way that was described in the Gonski review because:

- There is a transparent and consistent mechanism, the SRS, that calculates the level of funding that each school or system needs;
- The Commonwealth has defined what it will contribute to that target in the long-term, and the approach it will use to transition all schools to its proportion of the target; and
- States and territories have a clear guide as to how to set their total recurrent funding and how to allocate it across schools and systems, while retaining the flexibility to fund at a higher or lower level.

I acknowledge that, under the Amendment, the Commonwealth would no longer require states and territories to deliver a level of funding that would ensure that schools meet at least 100 per cent of their SRS.

However, this is consistent with the Gonski review – if states and territories adopt the revised SRS standard – because Australian government funding would be determined by the SRS, while state and territory funding would be guided by the SRS. The relevant elements are captured in Recommendation 12 of the Gonski review, which states that:

*The schooling resource standard should be used by the Australian Government as the basis for **determining** its total recurrent funding for government and non-government systems and schools and for the allocation of that funding across systems and schools. It should also be adopted by the states and territories to **guide** their total recurrent funding for government and non-government schools and the allocation of that funding to individual non-government systems and schools. [Emphasis added]*

It is also important to note that the 2013 Legislation and NERA do not represent a pure needs-based model, given that it would take over a century for all schools to be at SRS. (See also my answer to Question 4.)

Q11: How is it consistent with needs based funding where the Commonwealth contributes 20% or 80% of funding and then says to the State or Territory, it is up to you now, irrespective of your starting point or your capacity to contribute. Doesn't that ensure ongoing conflict between States and the Commonwealth? Are these arrangements likely to return us to a situation of blame-shifting between states and the commonwealth?

As per my answer to Question 10, it is my opinion that the 80/20 model, where states and territories have clear guidance around their funding but retain flexibility, is consistent with needs-based funding.

Whether this model will increase or reduce conflict and blame-shifting between States and the Commonwealth is a matter for judgement, not analysis.

Certainly, (most) state governments are expected to contribute more to closing the needs-based funding gap for their government schools under the 2017 Amendment than under the 2013 Education Act plus NERA and associated agreements.

However, the 2013 Education Act plus NERA and associated agreements sow their own seeds of discord. In particular, the disparities in Commonwealth funding to government schools among states will grow increasingly wide over time. As I pointed out in an opinion piece last week,

Labor's model [in effect, NERA] has perverse impacts. Western Australia, which funds its government schools well, gets nothing extra from the Commonwealth. Victoria, which does not, gets rewarded.

By 2027, these differences are stark. Victoria would get a two-thirds boost in its Commonwealth funding (on top of enrolments and indexation), such that its students get 28% of their SRS target from Canberra. WA students are left languishing at a paltry 13%. These huge differences are not driven by student need, but by discrepancies in state funding.⁹

⁹ <https://theconversation.com/even-for-those-who-believe-in-the-full-gonski-labors-22-billion-figure-makes-no-sense-78669>

Section 4: Hypothetical projections based on the 2017 Amendment

Q7: In Figure 8 you summarise, under the proposed arrangements where each public school system will be in 2027. Can you share with the committee what percentage of the overall SRS in each state and territory is likely to be if states maintain their funding at 2017 per student levels?

The question asks “what [the] percentage of overall SRS ... is likely to be if states maintain their funding **at 2017 per student levels?**” [Emphasis added]

This answer to this question depends on whether 2017 per student funding is maintained at nominal levels, or adjusted for indexation. Regardless, the following analysis should be viewed as hypothetical scenarios: what **would** happen if state funding followed a certain pattern, not what **will** happen or what **is likely** to happen.

Scenario A: Funding maintained at nominal 2017 per student levels

If states maintain their funding at nominal 2017 per student levels (i.e. no indexation to adjust for cost increases), then all state government systems would be well below SRS. Catholic systems would be slightly below SRS, as would independent schools (on average).

In my opinion, this is hypothetical scenario is extremely unlikely, as well as undesirable. However Table 1 shows the projected combined government funding levels in 2027 under this scenario.

Table 1: Projected combined government funding in 2027 if states maintain their per student funding at the same nominal level as in 2017

Sector	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
G	71.3%	67.0%	71.6%	82.4%	71.8%	74.7%	88.7%	67.6%
C	97.1%	95.7%	97.8%	101.2%	94.2%	94.7%	106.0%	93.6%
I	100.1%	94.1%	97.2%	99.8%	93.6%	94.7%	108.4%	97.1%

Note: All three sectors are shown for the sake of completeness.

Source: Grattan school funding model, which in turn is based on analysis of data published by the Commonwealth Department of Education and Training, and Questions on Notice from the Senate Committee on Education and Employment

Scenario B: Funding maintained at 2017 per student levels as a percentage of SRS

Figure 8 in our submission shows what would happen if states maintain their funding at 2017 per student levels relative to SRS. For example, in 2017 Victoria funds its government schools at 65.5% of SRS, so this analysis shows what would happen if Victoria funded its government schools at 65.5% of SRS in 2027.¹⁰

¹⁰ In other words, states index funding in line with the indexation of the SRS target in this scenario.

Figure 8 of our submission does not purport to show where each public school system **will** be in 2027. Where each public school system will be in 2027 depends on how rapidly state government funding grows over the next decade.

Instead (and as discussed above in my response to Question 9), the outcome depicted in Figure 8 is a hypothetical outcome: what **would** happen if states and territories keep their funding for government schools at the same level compared to SRS. The purpose of this figure is to highlight the poor outcome that would eventuate if states grow their funding purely in line with enrolments and the SRS indexation rate.

In my opinion, it would be surprising and irresponsible for states and territories not to adjust their future funding levels if the 2017 Amendment is passed. This hypothetical scenario is thus both unlikely and undesirable.

However, under this hypothetical scenario, the following table shows my estimate of combined government funding in 2027 if states maintain their current per student funding as a percentage of SRS:

Table 2: Projected combined government funding in 2027 if states maintain their per student funding at the same percentage of SRS as in 2017

Sector	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
G	91.6%	85.5%	91.9%	107.0%	92.3%	96.2%	115.8%	86.3%
C	103.9%	101.9%	104.9%	109.6%	99.8%	101.5%	116.2%	98.9%
I	108.0%	99.7%	104.1%	107.6%	99.0%	100.5%	119.6%	103.8%

Note: All three sectors are shown for the sake of completeness. The figures in this table represent the height of the bars in Figures 8 and 9 in our submission.

Source: Grattan school funding model, which in turn is based on analysis of data published by the Commonwealth Department of Education and Training, and Questions on Notice from the Senate Committee on Education and Employment

Q8: So public schools everywhere except ACT and WA will be underfunded in 2027?

As per my answer to Question 7, I am not making a prediction about where overall government funding **will** be in 2027. That will depend on what states do.

Q17: In your appendix you say the “2017 Amendment has funded the potential to lead to many non-government schools being above funding targets”... Can you explain looking at FIGURE 9 how many you believe would be funded above the SRS? What proportion of Independent schools would be funded at or above their SRS in 2027 under the Government’s arrangements?

Note: the statement in the Appendix includes a typo. It should read:

The 2017 Amendment has ~~funded~~ the potential to lead to many non-government schools being above funding targets, if state governments do not adjust their contributions...

Figure 9 of our submission does not purport to show where each non-government school system **will** be in 2027. Where each non-government school system will be in 2027 depends on how rapidly state government funding grows over the next decade.

Instead, the outcome depicted in Figure 9 is a hypothetical outcome: what **would** happen if states and territories keep their funding for non-government schools at the same level compared to SRS. The purpose of this figure is to highlight the poor outcome that would eventuate if states grow their funding purely in line with enrolments and the SRS indexation rate, rather than taking into account the future Commonwealth contribution of 80% and reacting accordingly.

In my opinion, it would be surprising and irresponsible for states and territories not to adjust their future funding levels for non-government schools if the 2017 Amendment is passed. Therefore I have no reliable way to estimate what proportion of independent schools would be funded at or above their SRS in 2027 under the Government's arrangements.

The table provided in response to Question 7 shows what the average level of combined funding would be for independent schools under the hypothetical scenario that states and territories keep their funding for independent schools at the same level compared to SRS as in 2017. In doing this analysis, I did not estimate what proportion of independent schools would be at or above their SRS in 2027.

Section 5: Winners and losers among states

Q12: Please explain for example how lifting WA from 13% to 20% of the SRS is a good idea when you said in November they were already funded in total at 100% of the SRS and “additional Commonwealth funding would be more than is needed to provide a quality education”? (p. 23)

There are competing policy principles at stake in the current discussions about needs-based funding, including:

- Consistency of Commonwealth funding across states;
- Flexibility in how a national standard is applied across jurisdictions;
- Consistency of combined government funding across states and sectors;
- Directing new spend towards the most under-funded schools; and
- Avoiding major dislocations in funding levels from year to year.

In our November 2016 report *Circuit Breaker*, we recognised the potential for equalising funding to create perverse outcomes (p.23). Section 2.6 of our report also noted the concern that the Commonwealth might aim to fund government schools in all states at 16.8 per cent of SRS from 2018.¹¹

We also supported in broad terms the principle of Commonwealth consistency across states, while noting that in a complex funding system it is dangerous to change one part without considering the impact on the overall system (footnote 91 on p.46 of *Circuit Breaker*).

Why did we not support lifting WA from 13.0% to 16.8% of SRS in November?

In *Circuit Breaker*, we assumed that the Commonwealth had a fixed funding envelope, determined by the 2016 Budget, which grew in line with the SRS target from 2018-2021. Under this scenario, funding to government school systems is a zero-sum game: additional funds to Western Australia to lift its funding to 16.8 per cent would mean less money for government schools in other states.

We did not support this approach to equalisation because the benefits of Commonwealth consistency were out-weighed by two other policy principles:

- First, the new funding in 2016 Budget (compared to the 2014 Budget) would disproportionately go to already well-funded government schools in WA, while less-well funded government schools in the Northern Territory and other states would lose out.
- Second, a sudden move to equalisation in 2018 would lead to a major dislocation in funding for many states and territories.

We also had concerns about the political viability of an approach that reduced Commonwealth funding to currently under-funded school systems, especially when government schools in the most-affected states are funded less than the Catholic and independent sectors (p. 24 of *Circuit Breaker*).

¹¹ This concern was supported by figures in the 2015-16 Budget showing government school systems each receiving 16.8% of SRS from the Commonwealth in 2018 (footnote 40 on p.23 of *Circuit Breaker*).

What has changed?

The 2017 Budget introduced substantial new funding: enough, over time, to move Commonwealth funding to a consistent 20 per cent share of SRS for government school sectors in every state and territory. This represents an increase in the relative share of SRS funded by the Commonwealth for every jurisdiction except the Northern Territory, a situation that is discussed further in response to Questions 13 and 15.

This dramatically changed the policy implications of Commonwealth consistency:

- First, a much larger proportion of the new spend in the 2017 Budget goes to the most under-funded government school systems including Victoria, New South Wales and Queensland, with NT as the notable exception.
- Second, the 2017 Amendment avoids funding dislocations by outlining a clear transition pathway to reach 20 per cent, including transition funding for the NT.
- Third, the 2017 Amendment builds in state flexibility around funding levels without punishing states like WA that fund their government schools well, or rewarding states that fund their government schools poorly.

In this context, where Commonwealth consistency brings substantial policy benefits (see also p.10 of our Senate submission) and few downsides, we support it.

Is it a problem that government schools in WA would get more than 100% of SRS?

One practical implication of the 2017 Amendment is that, over time, Commonwealth support to government schools in WA will rise from 13 to 20 per cent. Assuming that WA maintains its current funding level of 87 per cent of SRS, this will mean that they will be funded at 107 per cent of SRS.

Is this a problem? No.

Western Australia should have the right to invest in school education above SRS, if it so chooses, so long as it does so equitably. And, according to our analysis, WA would be broadly equitable if it grows funding in line with indexation for all sectors: in 2027, government schools would be funded at 107.0% of SRS, Catholic schools at 109.5%, and independent schools at 107.6%.

Q13: Under the 20% system proposed NT and Tasmanian public schools receive the lowest increases of any state and territory and WA and the ACT the highest. Can you explain for us why you believe it is a good idea to give the biggest increases to the state and territory that are already at or very close to the overall SRS?

The reason that government schools in WA and the ACT would receive the biggest proportional increases under the 20 per cent system is because they currently have the lowest Commonwealth funding as a percentage of SRS. Yet they also have the highest levels of overall funding.

Meanwhile, government schools in the NT will see a proportional decrease in Commonwealth funding as a percentage of SRS, despite having low overall funding compared to SRS; while government schools in Tasmania will see slower Commonwealth funding growth than schools in other states.

This is no coincidence, but rather a feature of the 2013 Education Act and NERA, where Commonwealth funding increased most for the schools that are currently under-funded overall, and *vice versa*.

The 2013 Education Act emphasised the policy principle of consistent combined government funding; the 2017 Amendment emphasises the policy principles of Commonwealth consistency and state flexibility in how the national standard is applied.

I explained in my response to Question 12 why I support the principle of Commonwealth consistency under the 20 per cent system for government schools. A direct corollary of this support is that the biggest increases go to the state (WA) and territory (ACT) that are already at or very close to their overall SRS.

Q14: Is that an efficient use of Commonwealth dollars to give the biggest dollar and proportional increases to the two school systems already close or above their SRS funding level?

I interpret the phrase “efficient use of Commonwealth dollars” to mean the same as the policy principle described above as “directing new spend towards the most under-funded schools”.

As per my answer to Question 12, this is one of several competing policy principles. Under the 20 per cent model, my judgment is that this policy principle is out-weighted by the benefits of Commonwealth consistency.

Q15: Can you tell me which is the most disadvantaged school system in terms of both the concentration of disadvantage and outcomes of students?

My own analysis (in Grattan’s 2016 *Widening Gaps* report) and my read of the literature shows that the NT is the most disadvantaged jurisdiction. I have not analysed the relative disadvantage of different sectors in the NT, but the literature would strongly suggest that it is the government school sector. Thus, the most disadvantaged school system in Australia is highly likely to be the NT government sector.

a. Do you think that giving the lowest proportional increase – just 1.3% each year over 10 years – to NT Government schools, makes sense given they are the most disadvantaged school system?

The merits of a proportional increase in funding to a sector cannot be judged in isolation. Among other factors, the starting level of funding must be taken into account, both in terms of current Commonwealth funding and current territory funding.

As per my answers to Questions 12, 13, and 14, the current high level of Commonwealth funding for NT government schools is, in large part, a consequence of the design of the 2013 Education Act plus NERA. This is evident from the fact that Commonwealth funding as a percentage of SRS has risen from 19.1 per cent in 2014 to 23.1 per cent in 2017.¹² This is several percentage points higher than any other jurisdiction.

Under the shift in emphasis to Commonwealth consistency, discussed above, this inevitably means that the NT will receive a lower proportional increase in Commonwealth funding than any other jurisdiction.

b. Do you think it makes sense to give the lowest proportional increase to the NT school system makes sense given they are funded at only 87.18% of their SRS?

Under the shift in emphasis to Commonwealth consistency, the fact that the NT will receive the lowest proportional in Commonwealth funding is driven solely by its current level of Commonwealth funding, not its overall funding. Thus, your observation does make sense in this context.

In order to ensure NT government schools are funded at SRS in future, the territory will have to lift its effort. My analysis suggests that this is appropriate: Commonwealth per student funding for NT government students grew at a compound annual rate of 10.4 per cent from 2014 to 2017, while territory funding grew at just 3 per cent.¹³

¹² These figures are taken from the Grattan school funding model, which in turn is based on analysis of data published by the Commonwealth Department of Education and Training, and Questions on Notice from the Senate Committee on Education and Employment.

¹³ This is a low enough rate that NT funding to government schools as a percentage of SRS dropped from 67.5% in 2014 to about 66.3% in 2017, according to DET estimates. It also meant that per student funding from the Commonwealth increased by more in dollar terms (\$1,513 per student) than funding from the NT (\$1,430), despite the fact that the Commonwealth is the minority funder. The NT was the only jurisdiction for which this was the case.

Section 6: Major surgery or fine tuning

Q16: Your submission proposes six amendments to the Bill. They look more like major surgery rather than fine tuning would it be correct to say?

My submission proposed three amendments to the Bill, as well as three recommendations to build public confidence in the new approach.

In my opinion, these three amendments, and the accompanying recommendations, do not represent “major surgery”.

Instead, I see them as practical and achievable improvements to the Amendment that accept the core policy principles that underlie the Amendment. In my opinion, they would increase the chance of successfully implementing a sustainable needs-based funding system.

Section 7: Other questions on notice raised during my presentation

During the presentation, Senator Collins posed two other questions came up that I was not able to answer fully at the time, but that have not been included among the questions on notice submitted by the Senator. From my notes, I have captured these two questions and the substance of my answer below.

I: Would it be cost-neutral to bring forward the Gonski 2.0 timeframe at the same time as moving to a floating indexation rate in 2019?

The substance of my answer was that it would be broadly cost neutral to the Commonwealth, but I did not have full data to be able to confirm this. Senator Hanson-Young indicated that she had asked a similar question of the Department of Education during Senate Estimates earlier in the week.

I have nothing further to add to my response to this question.

II: What does previous Grattan Institute work show about the relative performance of low-fee Catholic schools versus government schools?

The substance of my answer was that I was not aware of any such work, which would have been done before I joined Grattan Institute. Further, that any analysis that was done would most likely have looked at relative achievement levels, rather than relative progress gains, which is a better measure but not practical until recently because of methodological limitations.

Finally, I indicated that we are currently starting on a new project to answer some of these important questions.

I have nothing further to add to my response to this question.