Fact check: Is the Abbott Government cutting $30 billion from school funding?

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Photo: Kate Ellis is spouting rubbery figures about school 'cuts'. (AAP: Julian Smith)

Related Story: Fact check: Has public hospital funding been cut by $50 billion?

Map: Australia

The Federal Opposition has sought to emphasise the impact of the May 13 budget on ordinary people, in areas such as welfare, health and education. Where the Government says it is being economically responsible, Labor talks of unfairness and cuts.

On May 22, Opposition education spokeswoman Kate Ellis told the media that "Tony Abbott and Christopher Pyne, rather than improving Australian schools, have announced $30 billion in cuts to our schools".

Is school funding really being slashed? ABC Fact Check takes a look at Ms Ellis's claim.

- **The claim:** Kate Ellis says Tony Abbott and Christopher Pyne have announced $30 billion in cuts to Australian schools.

- **The verdict:** The Government did not cut $30 billion from schools in the May budget. The $30 billion figure is calculated over a 10 year period starting in 2017. It adds up the difference between the increase in funding that Labor says it would have delivered and the increase the Government may deliver. There is too much uncertainty for such a long-term estimate to be reliable measure of either cuts or savings.

What the budget says about school funding

The Government has not explicitly announced "cuts" to schools. Funding will be increasing in accordance with the existing Labor plan until 2018. Tony Cook of the Department of Education told Senate Estimates on June 4 that "Commonwealth school funding [for public and private schools] from 2013-14 to 2017-18 increases by 37.2 per cent".

Mr Cook said he calculated the percentage from a table in Budget Paper No. 3, which showed Commonwealth schools funding rising from $13.2 billion in 2013-14 to $18.1 billion in 2017-18, as follows:

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<tbody>
<tr>
<td>Government schools ($m)</td>
<td>4,488</td>
<td>5,114</td>
<td>5,690</td>
<td>6,348</td>
<td>6,872</td>
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<tr>
<td>Non-government schools ($m)</td>
<td>8,736</td>
<td>9,260</td>
<td>9,957</td>
<td>10,685</td>
<td>11,277</td>
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<tr>
<td>Total ($m)</td>
<td>13,224</td>
<td>14,374</td>
<td>15,646</td>
<td>17,032</td>
<td>18,149</td>
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Fact Check asked Ms Ellis's office how she came up with the $30 billion "cuts" figure. A spokeswoman pointed to a section of the Government's Budget Overview that refers to "more sustainable spending arrangements for schools and public hospitals" and includes a chart showing a slower rate of growth in spending between around 2018 and 2024-25. The overview refers to "sensible indexation arrangements for schools from 2018" and says that this change, added to measures relating to hospitals, "will achieve cumulative savings of over $80 billion by 2024-25".

Infographic: Charts on schools and hospitals spending contained in the 2014-15 federal budget, which show "cumulative savings of over $80 billion by 2024-25". (Budget 2014-15 Overview)

Although a breakdown of the "cumulative savings" is not provided in the budget documents, Labor estimates the amount attributable to education to be around $30 billion. This was confirmed in a June 4 Senate estimates hearing by Nigel Ray, executive director in the Treasury, who said that the $80 billion is made up of "a little bit under 30 [billion] for schools and a bit over 50 [billion] for hospitals".

According to Budget Paper No. 2, from 2018 Commonwealth school funding will increase at the rate of inflation - as reflected by the Consumer Price Index or CPI - "with an allowance for changes in enrolments". This is instead of the existing rates of increase set by Labor.

How schools are funded

There is a complex system behind the commonly used phrases "Gonski reforms" and "needs-based funding". It is officially known as the National Plan for School Improvement and was brought in by Labor in 2013 to replace the former model, under which Commonwealth funding followed variations in state funding.

Under the plan, the Commonwealth and the states and territories were to increase funding to public and private schools over time until a certain level of funding was reached. It was to be phased in over six years, although there was no guarantee the level of funding would be reached by then.

The original plan was for the Commonwealth to provide 65 per cent of the additional funding required to meet the target, with the states obliged to meet the remaining 35 per cent.

In simple terms, the target level of combined federal and state funding was based on adding together a per student figure known as the Schooling Resource Standard (SRS).

Labor undertook to increase federal funding to schools by 4.7 per cent (for schools that received less per student than the SRS) and 3 per cent (for schools that were already beyond the SRS), until the SRS target was met. Click here for more detail about the current school funding arrangements.

In comparison, the Government's plan is to increase school funding at the rate of CPI plus an allowance for enrolments. The Budget forecasts CPI to rise at around 2.5 per cent a year over the four-year forward estimates period, although the latest quarterly figures show that CPI rose 2.9 per cent between March 2013 and 2014 and it has recently been as high as 5 per cent between September 2007 and 2008 and as low as 1.2 per cent between September 2008 and 2009.
This means Commonwealth funding to schools is not actually going down, but the rate of increase may be less, depending on the level of the CPI. The $30 billion figure called a “saving” by the Government and a "cut" by the Opposition is calculated by adding the yearly difference between the increase that Labor said it would have provided and the increase that the Government says it will actually fund for the period between 2018 and 2025.

**The current state of affairs**

NSW, Victoria, South Australia, Tasmania and the ACT reached agreement with the Commonwealth before the 2013 election.

Labor took money out of the budget when it was clear that Western Australia, Queensland and the Northern Territory would not sign up before the Government went to the polls. According to Lisa Paul, the Secretary of the Commonwealth Department of Education, in the August 2013 Pre-Election Economic and Fiscal Outlook "$1.2 billion was taken out, which represented the money that, in effect, those states had not signed up to at that time". Ms Paul told a Senate estimates hearing on June 4 that the figure was over the four years of the forward estimates.

After the election, on December 2, 2013 Prime Minister Tony Abbott announced "in principle" agreements with Western Australia, Queensland and Northern Territory, providing them with broadly the amount of funding they would have received under the first four years of Labor's plan, but without putting any conditions on how they should spend or allocate the money. Education Minister Christopher Pyne called this a restoration of "the $1.2 billion funding cut by Labor" and said that the Government was delivering more funding over the next four years than promised by Labor.

Before the election, the Coalition promised only to fund the first four years of Labor's six-year plan, coinciding with the standard four-year forward estimates period in the budget. It has since confirmed that it will not continue with the last two years of Labor's plan, and will instead try to reach new arrangements with the states and territories. "Funding agreements in education have traditionally been four-year agreements," Mr Abbott said on December 2. "So we've now got a four-year funding agreement in principle in place and obviously there are reviews built in to the system. Those reviews will take place and we'll negotiate a new agreement at the appropriate time."

**Are these cuts or savings?**

There is no strict definition on whether something is a cut or a saving. Fact Check took a look at the terminology in a recent fact check on public hospital funding.

Professor John Wanna from the Australian National University told Fact Check that "cuts are to budget outlays or proposed funding which appear in the forward estimates, while savings are 'savings' to taxpayers in the future budgets".

Stephen Bartos from economic consultancy firm ACIL Allen suggested that where there is "growth year on year it's not a cut in the real sense".

Professor Judith Sloan of the University of Melbourne similarly takes the view that "a cut is an absolute reduction" from one period to the next, whereas "a saving is lower spending than forecast in forward estimates".

**Was the higher indexation funded?**

The Opposition's argument rests on the notion that had it been in power, it would have ensured that schools funding would have continued to grow by 4.7 per cent and 3 per cent (where applicable) for the next 10 years. But is this realistic?

The Government's position on this issue is somewhat muddled. The Government says that Labor could never have delivered on its policy. For instance, on June 4, Finance Minister Senator Mathias Cormann called Labor's indexation measure "a pie-in-the-sky, unfunded, unrealistic, never properly reflected in the budget forward estimates type promised trajectory", which he compared to the Government's "more realistic, more affordable trajectory that is a result of decisions that we have made in this budget". Yet at the same time, the Government is claiming in the budget papers that reducing the indexation level is a fiscally responsible "saving". If the spending would never have happened, then the saving must also be pie-in-the-sky.

The Opposition says it would have funded the higher level of indexation through structural savings it claims to have made in the 2013-14 budget. Labor included a chart in its school plan, which was said to reflect "enduring saves" in broad categories such as "business tax integrity" and "other long-term savings".
Infographic: 'Enduring saves and school funding reform' chart from the National Plan for School Improvement, May 2013 document. (National Plan for School Improvement, May 2013)

These changes included closing corporate tax "loopholes", redirection of existing schools funding, ending discounts for early HECS-HELP payments, obtaining around $300 million annually in additional efficiency dividends from Commonwealth departments, changing rules around family payments and eliminating the Baby Bonus.

Experts express doubt about making savings estimates over the long term. Circumstances and funding priorities change even from budget to budget. For example, in his 2012-13 budget speech, then Treasurer Wayne Swan claimed the budget "delivers a surplus this coming year, on time, as promised, and surpluses each year after that, strengthening over time". However, in the end there was a deficit of over $18 billion in 2012-13 and the budget is now forecast to stay in deficit beyond 2013-14.

Would the policy have lasted 10 years?
For there to have been a $30 billion "cut" - or a "saving" - in the decade to 2024-25, it needs to be accepted that:

- Labor's policy of a higher level of indexation would have continued beyond the four-year forward estimates period (and Labor's six year plan)
- The higher level of indexation would have applied to all of the states and territories even though not all had signed up to the National Plan for School Improvement
- No changes would be made to the funding or indexation formulae once a "transition period" provided for in Labor's legislation was over
- The base level of funding would have remained the same
- The CPI would remain below 3 per cent for the whole 10 years

There is no certainty about any of these points.

The view from the states is mixed. South Australia's Labor government, which recently announced a $1.2 billion deficit in a budget framed as a "response to Commonwealth cuts", says it expected continued indexation at 4.7 per cent over future budget periods. A spokeswoman for the SA Department of Premier and Cabinet told Fact Check that SA "would have factored the agreed increases... in the years as they became published in the forward estimates period". By contrast, a spokeswoman for the Minister for Education in the Queensland Liberal National Government told Fact Check that "Queensland never signed up to the Rudd government's Better Schools Plan so we expected to receive no federal funding for Queensland state schools under the Labor Federal Government".

Economic advisory panel

- A panel of four eminent economists advises ABC Fact Check on its work on economic issues.
- This fact check was reviewed by Dr Chris Caton and Chris Richardson.
- Meet the full panel here.
Experts suggest that forecasts beyond the forward estimates are inherently unreliable, given the changes in political and economic circumstances that can occur. Professor John Wanna, from the Australian National University, tells Fact Check that "Mostly funding envelopes running out 10 years are fiction," he said. "No-one knows what the circumstances will be so far ahead." Similarly, Professor Sinclair Davidson of RMIT University says "a 10-year forecast is very likely to be overtaken by events" given "Australian governments only have a life of three years and the budget must be reframed and recast each and every year".

In this case, the savings estimates will also undoubtedly be affected by any new agreement the Government reaches with the states after the current four-year funding period. It is conceivable that the Government could increase base level funding, making up any difference in indexation changes.

**The verdict**

The Government did not cut $30 billion from schools in the May budget. It says it will change the rate of increase from 2018, which is beyond the current budget period and term of Parliament.

The $30 billion figure used by Ms Ellis is based on adding up 10 years of difference between the increases that Labor says it would have funded (4.7 or 3 per cent per year) and an estimate of the rate of increase that the current Government says it will apply (the CPI). It is a component of the $80 billion in savings that the Government itself is trumpeting.

If nothing else changes in policy or economic terms over the next 10 years, the Government will end up spending $30 billion less on schools over 10 years than Labor says it would have spent. However, in reality there is just too much uncertainty for this long-term estimate to be used as a reliable measure for cuts or savings.

**Ms Ellis is spouting rubbery figures.**

*Funding under the National Plan for School Improvement: A detailed explanation*

In simple terms, the target level of combined federal and state funding was based on adding together a per student figure known as the Schooling Resource Standard (SRS). The base SRS amount was set based on:

- The cost of funding students at "high-achieving, efficient" schools;
- Adding loadings to take into account student disadvantage including socio-economic status (determined by the Howard-era socio-economic status formula, or SES); and
- Deducting a component from SRS amounts relating to private school students to take into account "the capacity of parents to pay" at a particular school.

The law provides that the SRS goes up, or in other words is indexed, by 3.6 per cent per year. This means the Commonwealth and the states are pursuing an ever-increasing target.

The actual funding that the governments provide as they work towards reaching the SRS is also indexed. The current indexation arrangements are for a "transition period" that will end "on a day determined by the Minister". Working out the indexation level that applies involves calculating a "per student amount" based on the funding per student that school received in 2013. That amount is then indexed as follows:

- During the "transition period", a school that received less per student than the SRS has the relevant Commonwealth funding indexed by 4.7 per cent a year until the per student amount reaches the SRS;
- Schools that are already beyond the SRS level have their existing per student Commonwealth funding indexed at 3 per cent; and
- State funding is indexed by 3 per cent.

In most cases, per-student funding from the Commonwealth does not go directly to that student's school. The SRS amounts determine the total funding given to the state or non-government system, such as the Catholic education system. It is then up to the state or school system to distribute the funding. In exchange for Commonwealth funding, the states had to agree to implement their own SRS-style funding allocation system for their public schools. For example, the New South Wales Government allocates funding to government schools under a "Resource Allocation Model", using similar criteria to the Commonwealth's SRS.
Sources

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- Prime Minister Abbott & Christopher Pyne, Press Conference, December 2, 2013
- Christopher Pyne, Media Release, 'The Coalition will provide funding certainty for schools', August 2, 2013
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- Hansard, Senate Economics Legislation Committee Estimates, June 4, 2014
- Budget 2014-15, Budget Paper No. 2
- Australian Bureau of Statistics, 6401.1 Consumer Price Index, Australia
- ABC Fact Check, 'Fact Check: Has public hospital funding been cut by $50 billion?', June 23, 2014
- Budget 2013-14, Budget Paper No. 1