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Expenditure on education and training in Australia

Update and analysis

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About the authors

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Mitchell Professorial Fellow, Peter Noonan has played a major role in shaping tertiary education policy in Australia through 25 years' experience working as a policy adviser, senior executive and consultant to federal and state governments, universities, higher education providers and TAFE institutes. He was a member of the Expert Panel for the Review of Australian Higher Education (Bradley Review) in 2008, and in 2010 undertook a Review of Post-Secondary Education in Queensland for the State Government. Peter's work as a Mitchell Institute Fellow is focused on the future of tertiary education in Australia including its interface with secondary education and the labour market. He is Professor of Tertiary Education Policy at Victoria University and an Honorary Senior Fellow at the Graduate School of Education at the University of Melbourne.

Professor Gerald Burke

Gerald Burke was formerly executive director of the Centre for the Economics of Education and Training (CEET) and now holds honorary appointments in education at Monash University and at the L.H. Martin Institute. From 2008 to 2013 he was a board member of Skills Australia and of the Australian Workforce and Productivity Agency, which advised Australian Ministers on skills and workforce development. He has undertaken research on financing of education and training over a long period.

Andrew Wade

Andrew Wade is a Principal with ACIL Allen Consulting. He has provided advice for over 15 years on issues such as school and vocational education policy and funding. Andrew managed the ACIL Allen team that examined the feasibility of, and subsequently estimated, the Schooling Resource Standard for the Review of Funding for Schooling.

In his previous role at the Victorian Department of Treasury and Finance, Andrew provided health policy advice. He has also researched social security policy at the Cato Institute, and lectured in education economics at the University of Melbourne. Early in his career, Andrew provided budget policy advice at the New South Wales Treasury.

Sarah Pilcher

Sarah Pilcher is a Policy Analyst in the Education Program at the Mitchell Institute. She has worked across education, training and economic policy for the Victorian, New South Wales and Commonwealth Governments, most recently at the Australian Workforce and Productivity Agency.

About the Mitchell Institute

The Mitchell Institute is an independent think tank that works to improve the connection between evidence and policy reform. We actively promote the principle that education is fundamental to individual wellbeing and to a prosperous and successful society. The Mitchell Institute was established in 2013 by Victoria University, Melbourne with foundational investment from the Harold Mitchell Foundation.

Citation:

P. Noonan, G. Burke, A. Wade and S. Pilcher (2015) *Expenditure on Education and Training*, Mitchell Institute, Melbourne. Available from: www.mitchellinstitute.org.au

■ Overview

Previous analysis by the Mitchell Institute has shown a clear disjuncture in Australia's expenditure on education and training, with spending on schooling and higher education far outstripping spending on vocational education and training.

One year on, this trend has intensified.

Analysis conducted by the Mitchell Institute in 2014 examined Australia's expenditure on education and training over the last decade. The paper¹ found that Australian governments had been clearly prioritising their investment in some aspects of education over others - with schools and universities the beneficiaries and vocational education and training (VET) in relative decline.

This divergence also highlighted the absence of an explicit, or even apparent, policy logic or rationale to investment across the education continuum, and across the nation. It appears that, despite our best efforts, our public policy and funding settings across education continue to reflect a piecemeal approach.

This update revisits the data one year on to see what, if anything, has changed.

What we found was that the national disinvestment in VET has only intensified, with expenditure dropping significantly in the most recent year. We also found that growth in expenditure on schools and higher education has flattened, although off a much higher base.

To get a more complete picture of spending, this year we have taken a closer look at two other important aspects of the education financing landscape in Australia; in tertiary education - income contingent loans, and in schooling - private contributions to non-government schools.

Our analysis shows that government payments to tertiary education and training providers for income contingent loans have grown rapidly in recent years, rising from \$3.3 billion in 2008 to nearly \$6 billion in 2013.

We also found considerable growth in private contributions to school education, with non-government school income from private sources increasing by over 20 per cent from 2005 to 2011 to reach \$7.9 billion in 2011.

Taken together, these analyses contribute to a more holistic picture of our collective investment in education and training.

In a time when key reforms - such as deregulation of higher education and responsibilities for VET in the federation - are being considered, it's useful to stop and look at just where our finite resources are being directed, and to consider whether our current investment is well targeted across the three sectors of Australian education.

¹ P. Noonan, G. Burke, A. Wade and S. Pilcher (2014) *Expenditure on Education and Training in Australia*, Mitchell Institute for Health and Education Policy.

Summary of key findings

- Comparative analysis of expenditure on education across the three sectors shows a continuation of the existing trend – while spending on schools and universities has risen significantly over the last decade, **there has been a much lower rate of growth in VET spending, and now even a decline**, as the other sectors continue to grow.
- **Expenditure on higher education has grown the fastest** over the eleven years to 2013-14 – growing over 40 per cent.
- **Expenditure on schooling has grown approximately 25 per cent** over the same period.
- **Expenditure on VET has grown much more slowly**, by around 15 per cent until 2012-13, before experiencing a sharp decline in the most recent year. This has left total VET expenditure in 2013-14 only around **5 per cent higher than 2003-4 levels**.
- In tertiary education new analysis shows the significant growth in HELP payments to VET and higher education providers over the period 2008-2013 – from \$3.3 billion to nearly \$6 billion over this period. It also shows the extent to which VET FEE-HELP has grown since its introduction in 2009, rising to 12 per cent of all income contingent loan payments to providers in 2013.
- There has been a **significant increase in private contributions to the non-government school sector** in recent years. Total income from private sources **increased by over 20 per cent in both the Catholic and independent sectors from 2005 to 2011**, to approximately \$2.7 billion (Catholic schools) and \$5.2 billion (independent schools).

■ Analysis

A recent OECD report stated that Australia spends slightly less on education as a percentage of GDP (5.8 per cent) than the OECD average of 6.1 per cent. Although it also found that Australia's total spend has increased relative to GDP over recent years, up from 5.2 per cent in 2000.²

However these headline figures tell us little about just where and how we are investing this money, and how that investment lines up against policy objectives.

This paper, which again draws on analysis undertaken by ACIL Allen Consulting, updates the Mitchell Institute's 2014 analysis of expenditure across schools, VET and higher education in Australia, including how this may be changing over time.

Where last year's paper took a closer look at VET expenditure, and the disparity between the states and territories, this year we shift focus to tertiary education and schooling. We examine the growth in payments for income contingent loan

Scope

Operating expenditures - the first analysis (Figure 1) utilises Australian Bureau of Statistics (ABS) Government Finance Statistics data,³ which provides total expenditure on education and training by public entities.

This data includes expenditure by government, as well as public entities such as government schools, TAFEs and public universities. This was found to be the best means of determining the overall picture of investment with available comparable data, as the ABS applies the same method for the estimates for each sector. By contrast, the national administrative data for each sector, compiled by the Commonwealth Department of Education and Training, the Australian Curriculum and Reporting Authority (ACARA) and the National Centre for Vocational Education Research (NCVER) are not strictly comparable to each other, although they are available at a lower level of aggregation than the ABS data.

Some caveats:

- Reported expenditure on VET by the NCVER is different to the ABS figures used here, however the trend in VET expenditure between the data collections is consistent.⁴
- Schools expenditure does not include parental spending on non-government schools but we have now reported this separately.
- Expenditure on higher education includes expenditure on research, not just teaching and learning.

² OECD, *Education at a Glance* (2014) tables B2.1 and B2.2.

³ ABS Government Finance Statistics, Education 2013-14 (Cat. No. 5518.0.55.001) and custom data request of the same ABS release. Analysis in 2013-14 dollars using the Gross Domestic Product chain price deflator (index).

⁴ The NCVER reports total operating revenues in the VET sector as approximately \$8 billion in 2013 (latest published data, NCVER (2014) 2013 – *Financial Information*) compared to \$6.3 billion in expenditure in 2013-14 (ABS).

Income contingent loans - this analysis (Figure 2) is based on data from the Commonwealth Department of Education and Training *Financial Reports of Higher Education Providers (multiple years)*. VET FEE-HELP data are from the Commonwealth Department of Education and Training *VET FEE-HELP Statistical Report (multiple years)*. FEE-HELP data are from the Commonwealth Department of Education and Training (unpublished). Estimates in 2013-14 prices.

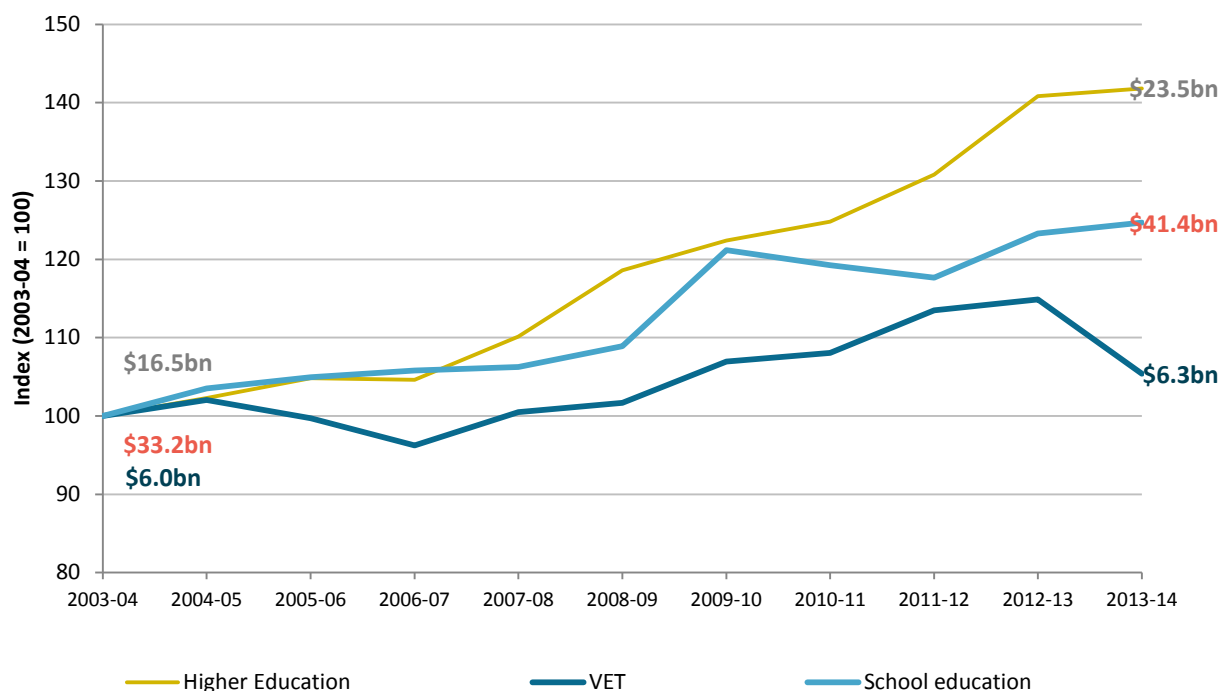
Private income in schooling - data on private contributions to non-government schools (Figure 3) are sourced from the ACARA *National Report on Schooling in Australia (multiple years)*. Estimates in 2013-14 prices.

Comparing total expenditure across schools, VET and higher education

Comparative analysis of real expenditure across the three education sectors shows some stark disparities. While expenditure on schools and universities has risen significantly over the last decade, there has been a much lower rate of growth in VET, with a sharp downturn from 2012-13 to 2013-14.

As Figure 1 below shows, expenditure on higher education has grown markedly over the eleven years to 2013-14, increasing by over 40 per cent over this period in real terms. Funding started to grow steeply in 2010-11 and 2011-12 as universities began to increase enrolments in preparation for the introduction of the demand driven system, and even more sharply from 2011-12 to 2012-13 when caps were formally removed. Interestingly, growth has dropped off somewhat in the most recent year – this may indicate that student demand has now largely been met.

Figure 1: Expenditure on education by sector – 2003-04 to 2013-14



ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

Note: School expenditure includes all expenditure on government schools (including private contributions) and

In schools, while debate continues regarding exactly where additional funding should be directed, it is clear that overall investment has grown significantly over the same period. Collective government expenditure in the Australian school sector has grown by around 25 per cent over the eleven years to 2013-14, and will grow until 2016-17 under the agreements between the Commonwealth and the States post the Gonski Review. After that, growth in Commonwealth funding will be in line with enrolments under current policies.

By contrast, expenditure on VET remained largely unchanged from 2003-04 to 2008-9, with modest increases to 2012 - 13, before a sharp decline in 2013-14. Overall, while expenditure on VET grew modestly, by around 15 per cent over the decade to 2012-13, the decline in the most recent year has left total VET expenditure in 2013-14 only around 5 per cent higher than 2003-4 levels.

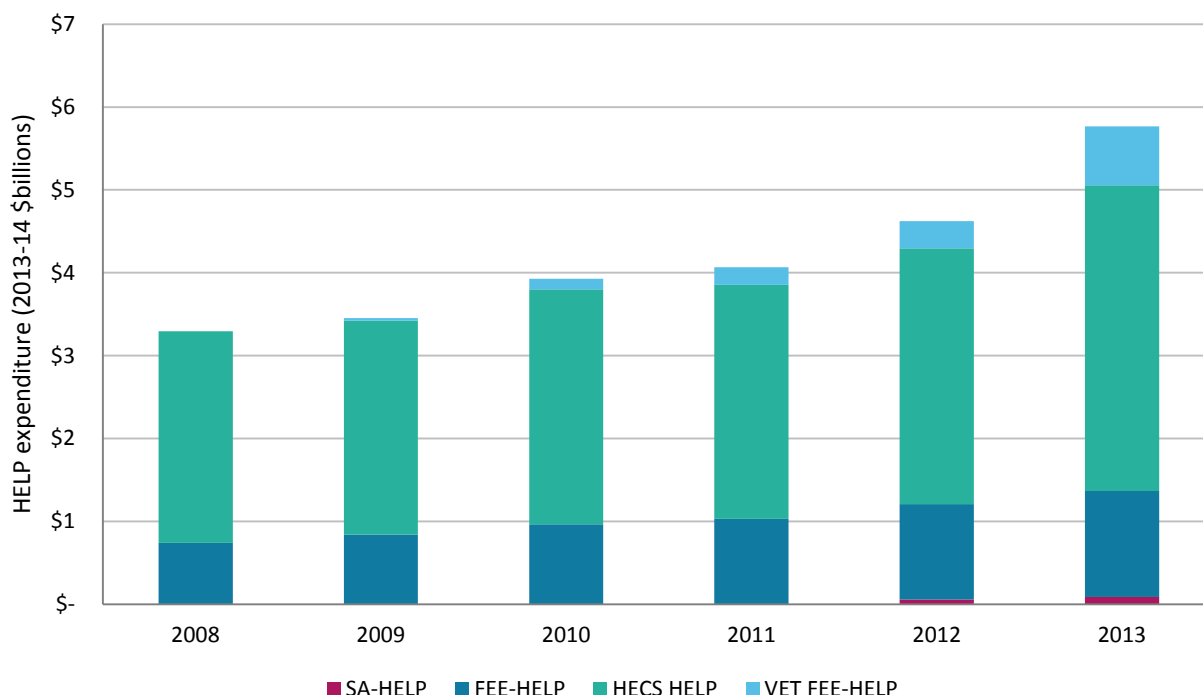
The implications of these trends are clear. The gap in spending between VET and the other education sectors is growing despite national agreements to improve workforce skills levels. As the Mitchell Institute has argued, a new and coherent funding framework across both sectors of tertiary education is required through decisions by the Council of Australian Governments.

Growth in income contingent loans

Income contingent loans have been a key element of higher education in Australia since the introduction of the Higher Education Contribution Scheme (HECS) in the late 1980s. However since the introduction of the demand driven system in higher education and the VET FEE-HELP scheme for higher level VET qualifications, Commonwealth outlays on income contingent loans have grown significantly, in real terms.

As Figure 2 shows, although payments remain dominated by HECS-HELP, VET FEE-HELP has grown dramatically since its introduction in 2009, accounting for 12 per cent of all payments to providers for income contingent loans in 2013.

Figure 2: Growth in income contingent loans 2008-2013



Source: Commonwealth Department of Education and Training *Financial Reports of Higher Education Providers (multiple years)* and *VET FEE-HELP Statistical Report (multiple years)*.

Doubtful debt is also growing. It was estimated to be around 17 per cent of new lending in 2013-14 - or around \$1.1 billion - and it has been predicted that this figure could reach around \$13 billion out of an estimated \$55 billion total HELP debt by 2017.⁵ The non-repayment of some debt is expected, as the income contingency arrangements require payments to be made only when annual income exceeds a certain level, set at \$54,126 for 2015-16.

While access to income contingent loans is growing, many VET students are facing increasing levels of upfront fees but cannot access income contingent loans. Governments should consider the benefits of establishing a single and consistent income contingent loan scheme as part of a new tertiary funding model. However, as modelling undertaken for the Mitchell Institute by Tim Higgins and Bruce Chapman⁶ shows, settings such as repayment thresholds or loan fees may need to be revised to make such a scheme sustainable.

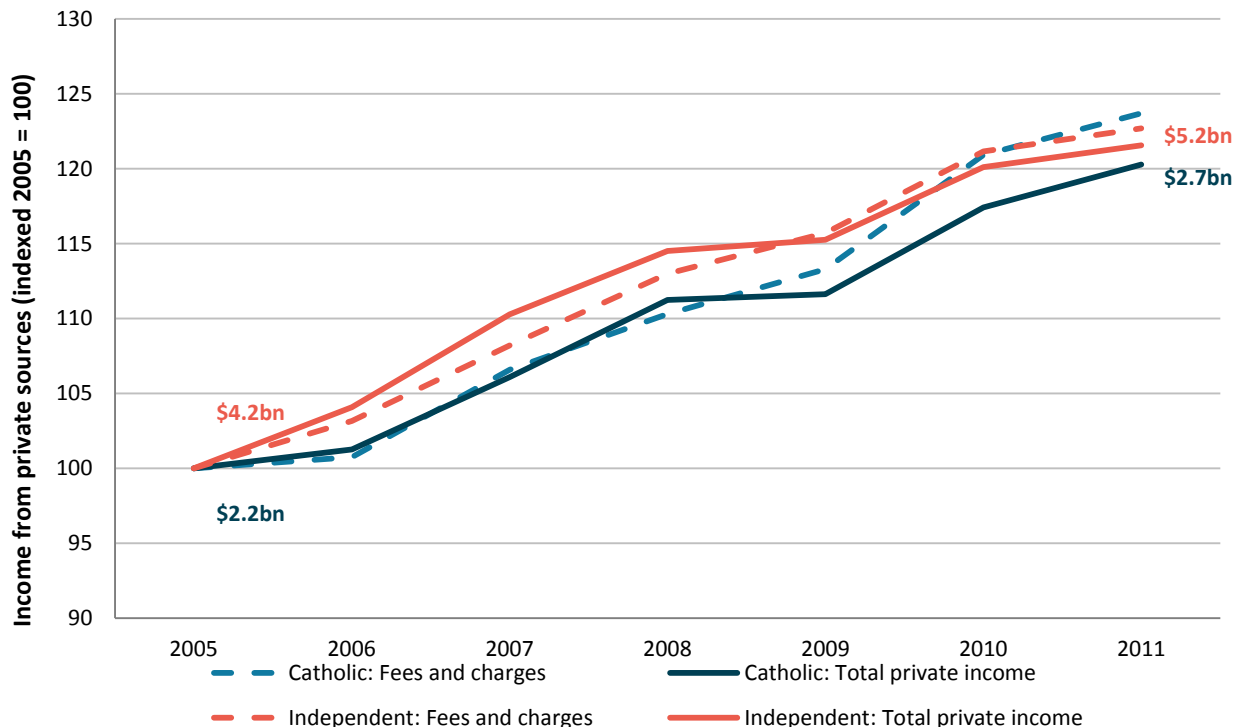
Growth in private income in schooling

Another significant aspect of education financing in Australia is the considerable private contribution made to schooling. While government schools also receive some funds from private sources, this is of course most evident in the Catholic and independent school sectors.

As Figure 3 below shows, the growth in non-government schools' real income from private sources has been significant, and shows no signs of slowing.

Total private expenditure on schooling in the Catholic sector increased over 20 per cent from \$2.2 billion in 2005 to \$2.7 billion in 2011 (the most recent available data), growing on average 3.1 per cent a year.

Figure 3: Total income from private sources - schooling 2005-2011



Source: ACARA National Report on Schooling in Australia (multiple years).

⁵ A. Norton (2014) *Doubtful Debt: The Rising Cost of Student Loans*, Grattan Institute, 9. These figures are based on estimates from the Australian Taxation Office and the Australian Government Actuary.

⁶ T. Higgins and B. Chapman (2015) *Feasibility and design of a tertiary education entitlement in Australia: Modelling and costing a universal income contingent loan*, commissioned report to the Mitchell Institute.

The private revenue of independent schools grew even more strongly, from \$4.2 billion in 2005 to \$5.2 billion in 2011, growing on average 3.3 per cent per year.

Fees and charges, the main element of private revenue, grew even more sharply than the total, and so rose as a proportion of total private income.

This growth in private income to non-government schools adds to the significant growth in government spending on schooling in recent years (as set out in Figure 1), and must be more clearly taken into account in how governments fund schools in Australia.

Conclusion

There are currently major debates about funding in each of the sectors of Australian education and training, but there is little consideration of the pattern of expenditure between the sectors and how collectively they can best meet our future population requirements and workforce needs. Education funding in Australia needs to be coherent and integrated, rather than the current ad hoc and piecemeal approach.

■ Notes on data

Figure 1

Makes use of ABS Government Finance Statistics, Education, Australia, 2013–14 (Cat. No. 5518.0.55.001), and custom data request. Analysis in 2013-14 dollars (using GDP deflator).

In the analysis of ABS data, the term ‘expenditure’ includes: government expenditure in each sector by Commonwealth, state/territory and local government; government subsidies to the private sector (for example government subsidies to non-government schools or private registered training organisations); and government expenditure on public VET providers and universities. It also includes other operating expenditure by public sector education providers (e.g. government schools, TAFE institutes and public universities) including from fee or other private revenues.

It does not include: expenditure identified as being for capital (including capital transfers); expenditure of fees paid by parents (and other non-government revenue) for non-government schools; expenditure of fee revenues paid by subsidised students to private education providers; and expenditure associated with non-subsidised students in private education providers.⁷ It also does not take into account the significant private spending on non-government schools, private higher education providers or private registered training organisations. In other words, it includes all the operating expenditures of public providers but only the spending from public funds by private providers.

While the National Centre for Vocational Education Research (NCVER) compiles comprehensive data on expenditure in the VET sector, the ABS data source was chosen as it provided a nationally consistent dataset across all three education sectors. We note there is variance between the VET expenditure figures in this analysis and NCVER data, but the overall trends are similar.

Figure 2

HECS-HELP and SA-HELP data are from the Commonwealth Department of Education and Training *Financial Reports of Higher Education Providers (multiple years)*.

VET FEE-HELP data are from the Commonwealth Department of Education and Training *VET FEE-HELP Statistical Report (multiple years)*.

FEE-HELP data are from the Commonwealth Department of Education and Training (unpublished).

Analysis in 2013-14 dollars (using GDP deflator).

Figure 3

Data on private contributions to non-government schools are sourced from the ACARA *National Report on Schooling in Australia (multiple years)*.

Analysis in 2013-14 dollars (using GDP deflator).

⁷ It also excludes provision for bad and doubtful debt associated with income contingent loans under the HECS-HELP, FEE-HELP or VET-FEE-HELP systems.



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