

MITCHELL REPORT NO. 04/2016

# Expenditure on education and training in Australia

Update and analysis

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## Acknowledgements

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## About the Mitchell Institute

The Mitchell Institute at Victoria University is an independent think tank that works to improve the connection between evidence and policy reform. The Mitchell Institute promotes the principle that high-quality education, from the early years through to early adulthood, is fundamental to individual wellbeing and to a prosperous and successful society. We believe in an education system that is oriented towards the future, creates pathways for individual success, and meets the needs of a globalised economy. The Mitchell Institute was established in 2013 by Victoria University, Melbourne with foundational investment from the Harold Mitchell Foundation.

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# ■ Table of contents

<b>Overview</b> .....	<b>iv</b>
Scope .....	1
2. Analysis.....	3
2.1 Comparing changes in expenditure across schools, VET and higher education .....	3
2.2 Growth of income contingent loan payments .....	4
2.3 Expenditure on preschool .....	6
2.4 Conclusion .....	8
Appendix A: Notes on data.....	9
<b>References</b> .....	<b>2</b>

# ■ Overview

This report is an annual update of Mitchell Institute's analysis of Australia's expenditure in education and training across the school, Vocational Education and Training (VET) and higher education sectors.

Last year's report highlighted the disparities in expenditure between the sectors, in particular the significant rise in school and university expenditure over the last decade and the comparatively lower rate of growth in spending in the VET sector (Noonan, Burke, Wade, & Pilcher, 2015).

This year, we see this imbalance continue to grow, to the extent that VET expenditure in 2014-15 fell below expenditure levels 10 years earlier, in real terms.

We also incorporate expenditure in the preschool sector into this year's report, as well as re-visiting the expanding income contingent loan program in the higher education and VET sectors.

## Key findings: (in real terms<sup>1</sup>)

- Higher education expenditure increased 45 per cent over a 10 year period to 2014-15
- School education expenditure increased 24 per cent between 2005-06 and 2014-15
- VET sector expenditure in 2014-15 was 4 per cent below the level in 2005-06
- Preschool expenditure in 2014-15 increased 125 per cent over the period, coming off a much lower base since 2005-06
- In 2014, income contingent loan programs continued to expand – largely coming from the growth of the VET FEE HELP scheme which is to be replaced in 2017 by more restricted VET Student Loans

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<sup>1</sup> Figures used throughout the report are in 2014-15 dollars. Nominal data has been converted to real terms using a GDP deflator. This is consistent with the approach used throughout Mitchell Institute's previous publications of Education Expenditure in Australia. While other reports, such as the Report on Government Services, apply different indexes to different sectors in education, this report uses a GDP deflator across all sectors for consistency. In some cases, the disparity in expenditure between sectors may be marginally overstated.

# Scope

This report draws on analysis undertaken by ACIL Allen Consulting of data included in the Australian Bureau of Statistics (ABS) Government Finance Statistics 2014-15 (Cat. No. 5518.0.55.001), and the Commonwealth Department of Education and Training's Financial Reports of Higher Education Providers and VET FEE-HELP Statistical Report (multiple years)<sup>2</sup>.

Important notes and caveats on the data are included in **Appendix A**.

The scope of the analysis for expenditure and income contingent loans is set out below.

## 1.1.1 Comparing education expenditure (Figures 1, 4 & 5)

The ABS Government Finance Statistics 2014-15 data collections provides the total **operating expenditure** on education and training by government (Commonwealth, State/Territory and local governments), as well as public entities such as government schools, TAFEs and public universities. Included in this analysis is government expenditure paid to, and ultimately spent by private providers.

More detailed data is available for each education sector – preschool, schools, VET and higher education – through the different national collections of administrative data for each sector. However, the ABS Government Finance Statistics is used in this report to allow timely comparison in expenditure between sectors (for example, otherwise the most recent release of data on schools through the ACARA National Report on Schooling in Australia was in 2013).

Expenditure differs between the sector-specific data collections and that included in the ABS Government Finance Statistics. However trends in expenditure patterns are consistent.

To elaborate, caveats concerning the ABS data reported include:

- Preschool expenditure includes Commonwealth expenditure under the National Partnership Agreement on Universal Access to Early Childhood Education, and State and Territory expenditure but excludes expenditure on Family Assistance benefits for the Child Care Benefit/Child Care Rebate where children attend preschool within a child care setting.
- School education expenditure includes spending by public schools from public funds and any private revenues they receive. It includes spending from government grants to non-government schools but does not include non-government school spending from sources such as fees.
- VET expenditure includes public provider spending from public revenues and from non-government sources (e.g. fees, some of which are covered by VET FEE-HELP). The VET expenditure includes spending from government grants

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<sup>2</sup> There are limitations to our analysis stemming from the inconsistencies between the various data collections – ranging from ABS Government Finance Statistics data to 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). As explored in Mitchell Institute's report, Education data: harnessing the potential, further work is required at the national level to ensure that consistent and high quality data underpins education policy (Fox, 2016).

to private providers but does not include private provider spending from non-government sources or their spending from VET FEE-HELP.

- Higher education expenditure includes expenditure on research, not just teaching and learning. Also included is public university expenditure financed by non-government sources (e.g. student fees). It includes the spending from government grants to private providers but not their spending from non-government sources such as fees.

Figures are in 2014-15 dollars.

### 1.1.2 Income contingent loans (Figures 2 & 3)

The income contingent loans analysis is based on data from the Commonwealth Department of Education and Training Financial Reports of Higher Education Providers (multiple years) and the VET FEE-HELP Statistical Report (multiple years) and NCVER, *VET Finance 2015 Information Sheet: VET FEE HELP*. Figures are in 2014-15 dollars.

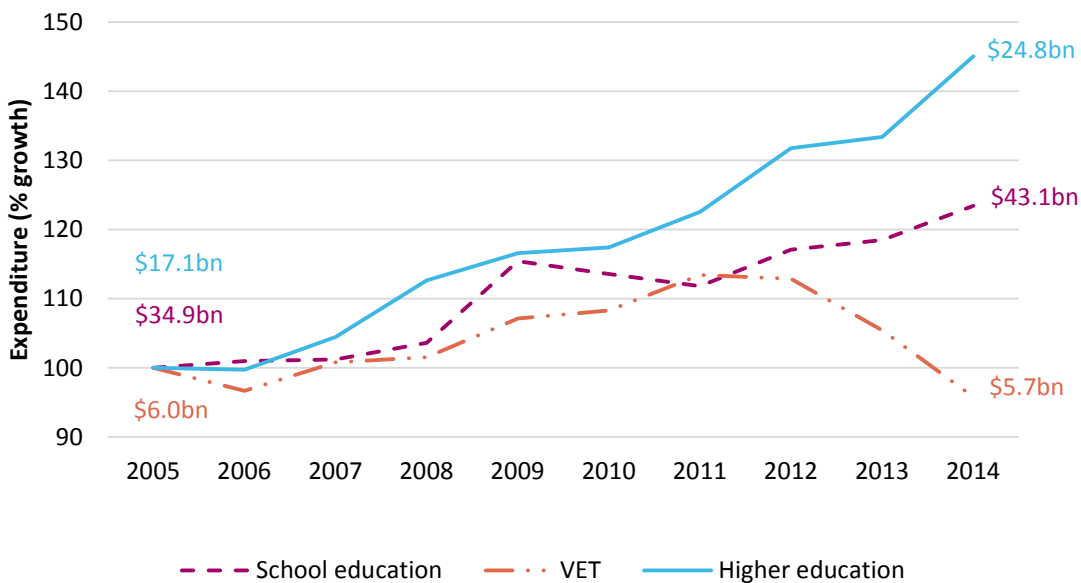
## 2. Analysis

### 2.1 Comparing changes in expenditure across schools, VET and higher education

The graph below provides a comparison of trends in real expenditure across schools, VET and higher education. Since the previous year's report, there has been continued rapid growth in higher education expenditure and stable growth in school expenditure, while the alarming drop off in VET expenditure has accelerated since the previous year.

It should be noted that the graph shows changes in expenditure over a ten year period using 2005-06 as the base index year.

**Figure 1: Change in expenditure on education by sector 2005-06 to 2014-15 (base year 2005-06 = 100)**



Source: ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

Expenditure in the VET sector has declined dramatically to below levels from 10 years earlier in real terms. From 2005-06 to 2014-15 national expenditure fell by 4.2 per cent or \$300 million when adjusted for inflation. In the most recent reporting year, between 2013-14 and 2014-15, VET expenditure fell by 9 per cent or \$600 million.

Some of the decline in VET expenditure is offset by increasing Commonwealth government outlays to training providers through VET FEE-HELP.

Yet, overall government-funded VET enrolments have fallen by almost 17 per cent since 2012 across all jurisdictions, broadly in line with the pattern of public expenditure shown above. In addition, Commonwealth funding to the states for VET delivery is expected to fall by nearly \$500 million in 2017-18 following the expiration of the National

Partnership Agreement on Skills Reform and so we can expect the expenditure pattern to continue without intervention. A detailed review of VET funding policy changes and implications is provided in Noonan (2016).

In stark contrast, higher education expenditure has grown rapidly, with a 45 per cent increase over this ten year period. There has been particularly sharp growth in the last reported year with an 8.7 per cent or \$2 billion increase in expenditure between 2013-14 and 2014-15.

While higher education expenditure also includes spending from universities' own resources, some of the expenditure growth captured in the graph above results from deliberate government policy to expand higher education participation.

In 2009, the Commonwealth government adopted an attainment target of 40 per cent of all 25 to 34 year olds to hold a bachelor level qualification or above by 2025 (Commonwealth Department of Education Employment and Workplace Relations, 2009). Higher education shifted to a demand-driven system in 2012 in which student numbers were uncapped, leading to a rapid increase in higher education enrolments. Expenditure has continued to grow in the last year which in part reflects the continued impact of uncapped demand-driven funding for Commonwealth supported places in higher education. However, there is an indication that this growth may have stabilised given the 0.7 per cent decline in undergraduate enrolment offers in 2016 from the previous year (Commonwealth Department of Education and Training, 2016c).

School education expenditure increased \$8.2 billion in real terms from 2005-06 to 2014-15. This represents an increase of 23.5 per cent. Between 2013-14 and 2014-15 there was a 4 per cent increase (\$1.7 billion) in expenditure in the school sector.

This recent increase in school education expenditure is largely in line with the growth in the everyday running costs associated with increasing student numbers and wage inflation in the school sector. This is consistent with analysis undertaken by the Grattan Institute which provides a breakdown of the \$10 billion increase in school funding between 2004-05 and 2013-14 reported by the Productivity Commission (Goss, 2016).

As Figure 1 illustrates, between 2013-14 and 2014-15, higher education expenditure increased at the same rate that VET expenditure decreased – a change of 9 per cent. Enrolment trends in the two sectors mirror this pattern. As both sectors are largely funded on the basis of demand, these enrolment trends will continue to affect the revenues received by each sector<sup>3</sup>.

Disparities in expenditure patterns between education sectors are concerning – particularly as it continues in the absence of coherent policy and long-term planning, as highlighted in previous years' publications (Noonan, Burke, Wade, & Pilcher, 2014; Noonan et al., 2015).

## 2.2 Growth of income contingent loan payments

Income contingent loans enable students to defer the cost of tertiary studies until their earnings have reached a certain level. The Higher Education Loan Programme (HELP) administered by the Commonwealth government covers four different income contingent loans schemes for higher education: HECS-HELP, FEE-HELP, SA-HELP, OS-HELP and VET Student Loans (which replaces VET FEE-HELP) (Australian Government, 2016).

Income contingent loans are currently available to all domestic higher education students but only to higher level VET students – advanced diploma, diploma and some certificate IV level students – and only for certain areas of study.

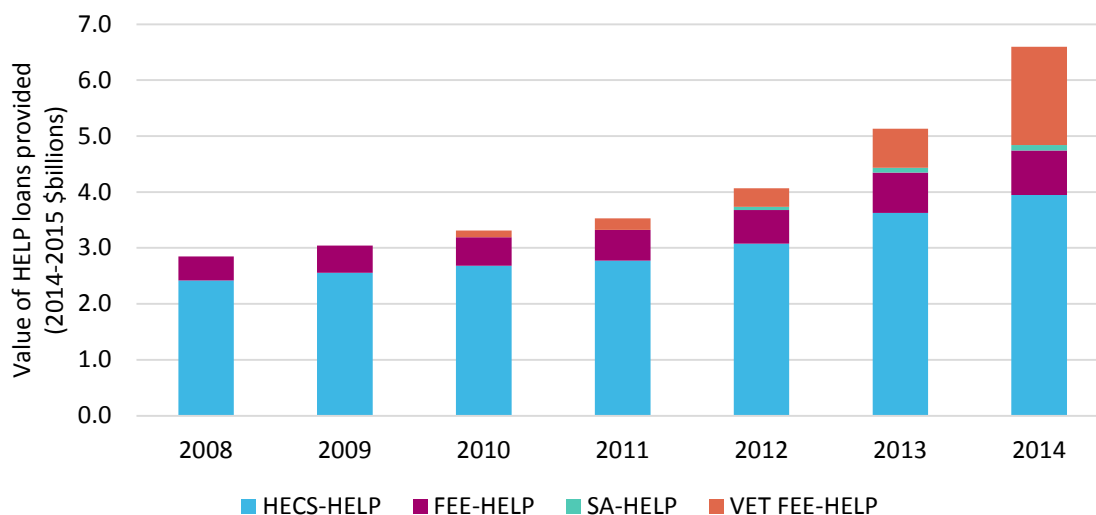
The graph below shows the value of HELP assistance accessed in recent years, with the exception of OS-HELP for overseas study assistance.

<sup>3</sup> While funding for both VET and higher education is demand driven, the VET budget is capped and there are many limitations on eligibility.



The value of HELP loans in Figure 2 represents payments from the Commonwealth government to tertiary providers. HELP payments are not reported as government expenditure by the ABS and therefore are not captured in the expenditure graph above (Figure 1), unless funding is spent by a public university or TAFE<sup>4 5</sup>.

**Figure 2: Higher Education Loan Programme (HELP) payments 2008-2014**



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

Income contingent loans continue to be provided predominantly for university studies, but the VET FEE-HELP scheme grew substantially since its introduction in 2009, and particularly in the last two years.

Government payments for VET FEE-HELP totalled around \$1.8 billion in 2014, compared with almost \$700 million in 2013.

Recently released data for 2015 (which is not captured in Figure 2) reports that the total value of VET FEE-HELP loans accessed in 2015 was \$2.9 billion of which nearly \$2.5 billion or 85 per cent was received by private providers<sup>6</sup>.

Figure 3 below shows declining (mainly) public VET expenditure against the increasing Commonwealth outlays under the VET FEE-HELP scheme.

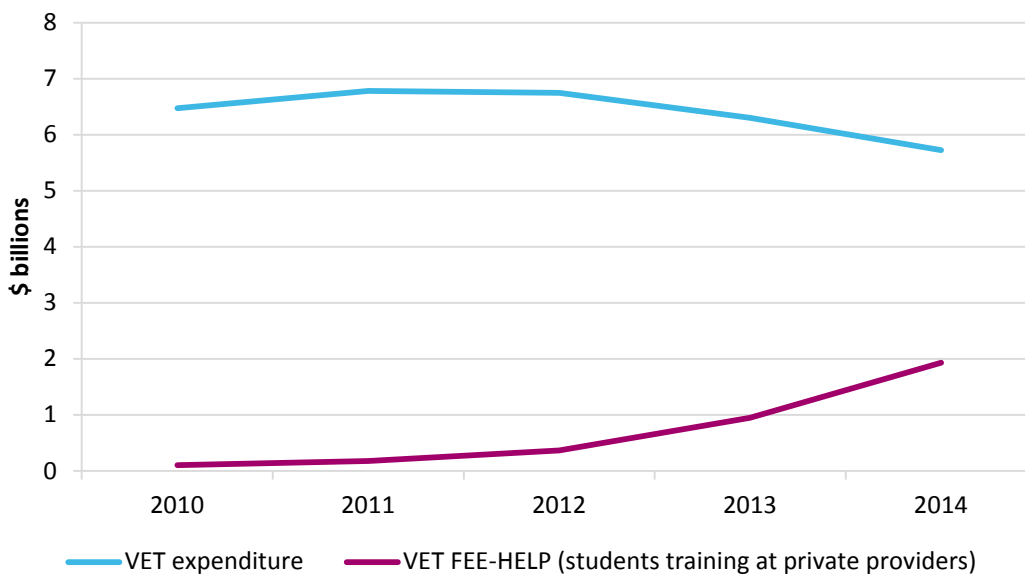
The expansion of the VET FEE-HELP scheme, to the extent that it financed an expanded and genuine provision of VET courses in the private sector could be considered to offset the decline in the largely public expenditures shown in Figures 1 and 3. As indicated in the government's review of VET FEE-HELP, a substantial but not quantified proportion of the VET FEE-HELP loans have been misused by providers and not led to the delivery of real training (Commonwealth Department of Education and Training, 2016b). This has led the government to replace VET FEE-HELP with VET Student Loans in 2017 (Birmingham, 2016).

<sup>4</sup> The Commonwealth government reports HELP payments as 'revenue' given that a proportion will be repaid by students in subsequent years. Although there is a risk that the amount of debt not expected to be repaid is increasing, given the proliferation of loans to students with a lower likelihood of reaching repayment income thresholds – see Warburton (2016).

<sup>5</sup> Norton and Cherastidtham (2016) estimate that of the \$7.8 billion lent to students through HELP in 2014-15, \$1.6 billion won't be repaid (20 per cent of the total amount lent).

<sup>6</sup> Note that the loans received by private providers are not included in VET expenditure shown in Figure 1 or Figure 3. See NCVET (2016), *VET Finance 2015*, NCVET (2016) *VET Finance Information Sheet. VET FEE-HELP*

**Figure 3: VET expenditure & VET FEE-HELP payments to non-government training providers**



Source: NCVET, VET Finance 2015 Information Sheet: VET FEE HELP and ACIL Allen Consulting analysis based on Australian Bureau of Statistics data.

Note: VET FEE-HELP payments by financial year are derived by averaging payments for the two associated calendar years. Values are in real terms.

VET FEE-HELP also represents a shift in cost from government on to students, to the extent that loans are repaid.

It is also worth noting that VET FEE-HELP was only available to higher level VET students and that only around 260 individual providers received revenue through VET FEE-HELP in 2015 – a fraction of the around 5000 training providers nation-wide.

Legislation has recently been passed to replace the VET FEE-HELP scheme with VET Student Loans following misuse of the loan scheme by some providers (Commonwealth Department of Education and Training, 2016d). The approved courses and providers for which income contingent loans can be accessed will be considerably scaled back from 2017, and government outlays for VET FEE-HELP are estimated to fall 45 per cent in 2017 (Birmingham, 2016).

### 2.3 Expenditure on preschool

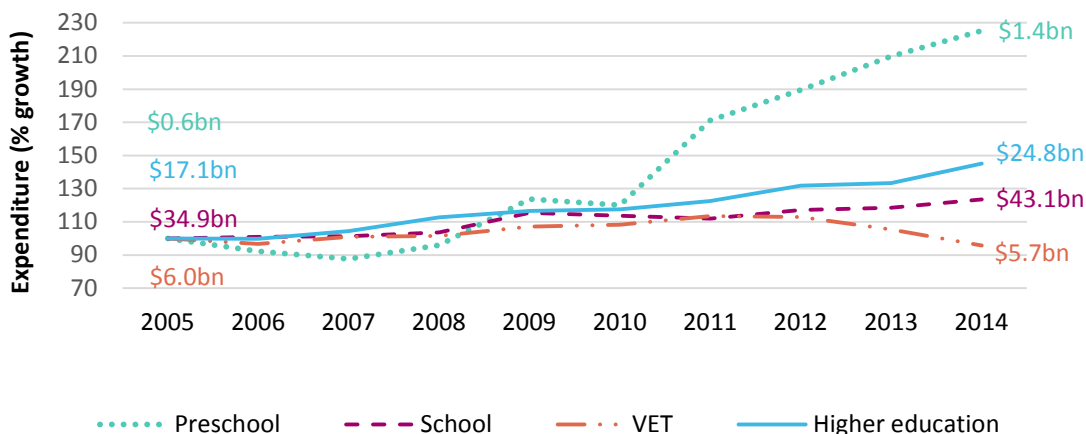
High quality early education has a significant impact on children’s development and is an essential education and productivity investment (O’Connell, Fox, Hinz, & Cole, 2016).

Preschool expenditure has been added to the analysis to reflect significant gains achieved in increasing enrolments in preschool. While the ABS Government Finance Statistics data collection doesn’t provide the full picture of expenditure in early years education, the promising upward trend is worth noting.

As shown in Figure 4, preschool expenditure has grown rapidly, particularly since 2009 when the National Partnership Agreement on Universal Access to Early Childhood Education was signed.

As noted in O'Connell et al. (2016), the National Partnership Agreement aims to ensure that “all children have access to a quality early childhood education program in the year before they go to full time school.”

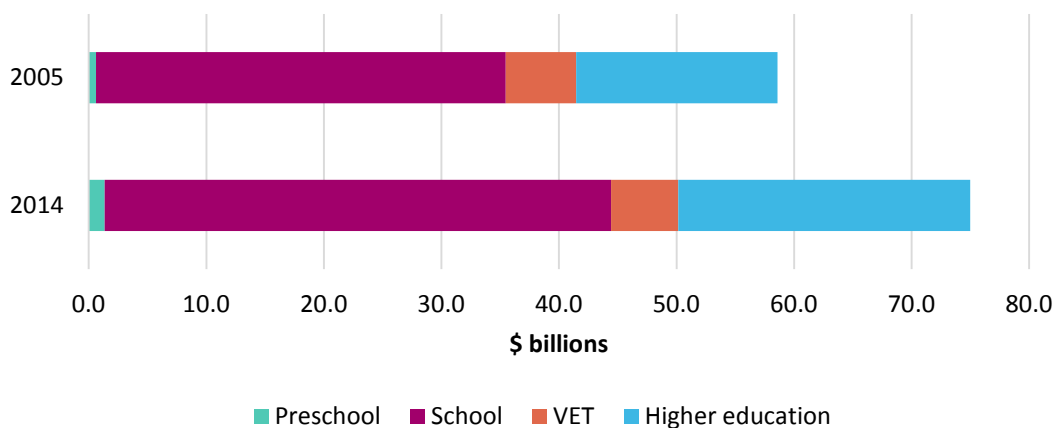
**Figure 4: Change in expenditure: preschool, schools, VET and HE (base year 2005-06 = 100)**



Source: ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

The rapid growth in expenditure in the preschool sector started from a much lower base than expenditure in other education sectors. Figure 5 represents the relative magnitude of (mainly) government expenditure in each sector between 2005-06 and 2014-15.

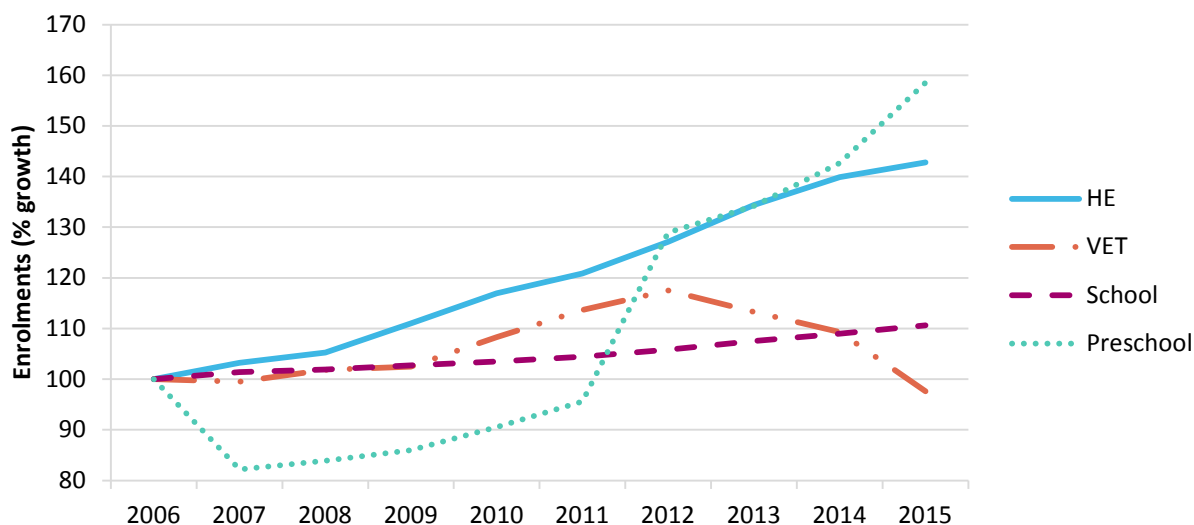
**Figure 5: Expenditure by sector, 2005-06 and 2014-15 (\$ billions)**



Source: ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

Patterns of participation are broadly in line with expenditure trends. School enrolments have risen in line with demographic growth, whilst higher education enrolments have risen by more than forty percent since 2006. VET enrolments have declined to pre-2006 levels. Preschool enrolments dropped significantly in 2007 as Queensland added an additional ‘prep’ year of school. From 2011 to 2014, preschool enrolments increased forty per cent, with growth driven by the expansion in access under the Preschool National Partnership.

**Figure 6: Enrolment patterns by sector: preschool, schools, VET and higher education (Base year 2006 = 100)**



Source: Early childhood education and care, Report on Government Services (multiple years); Preschool Education, Australia 2015, ABS; Full-time Equivalent Students, ABS Schools, Australia, 2015 (cat. no. 4221.0); Government-funded VET historical time series tables, NCVER; Domestic higher education enrolments, Higher Education Statistics Data Cube (uCube), Department of Education and Training.

Note: Preschool enrolments include children enrolled in three, four and five year old preschool.

## 2.4 Conclusion

Imbalances in the patterns of expenditure of public funds between the education sectors are progressing with limited policy coherency, and in an ad hoc and piecemeal approach.

*‘The primary concern for governments is not the prioritisation of one sector over another per se, but the fact that it is occurring, not as a result of a clear objective or policy direction, but rather by default.’ (Noonan et al., 2014)*

Under current policy settings, the gap between VET expenditure and higher education and school expenditure will continue to widen (Noonan, 2016). A substantial re-think of where to focus government investment is needed to ensure that public funds are allocated for maximum effect.

By bringing together the relative expenditure between education sectors, this report serves as an annual prompt for governments to consider a more planned and consistent approach to distributing resources across the education continuum.

# ■ Appendix A: Notes on data

## Education expenditure (Figures 1, 4 & 5)

Draws on operating expenditure in the ABS Government Finance Statistics, Education, Australia, 2014–15 (Cat. No. 5518.0.55.001), and custom data request. Analysis is in 2014-15 dollars (using GDP deflator).

The data used includes all the operating expenditures of public providers and spending from public funds by private providers.

### *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)
- government expenditure on public VET providers and universities
- other operating expenditure by public sector education providers (e.g. government schools, TAFE institutes and public universities). This includes expenditure by public providers from fee or other private revenues (which includes the fees covered by HELP loans).

### *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 schools;
- expenditure associated with non-subsidised students in private registered training organisations;
- private spending on non-government schools, private higher education providers or private registered training organisations. Hence it does not include the expenditure of private organisations from HELP loans.

## Income contingent loans (Figure 2 & 3)

HECS-HELP, FEE-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 is from the Commonwealth Department of Education and Training VET FEE-HELP Statistical Report (multiple years) and NCVER, *VET Finance 2015 Information Sheet: VET FEE HELP*.

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