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Expenditure on education and training in Australia 2017

Update and analysis

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About the Mitchell Institute

Mitchell Institute at Victoria University is an independent think tank that works to improve the connection between evidence and policy reform. 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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■ Overview

Mitchell Institute's *Education Expenditure* series provides a national picture of expenditure across each stage of learning – from the early years, through to school and tertiary education.

The report draws on analysis of data included in the Australian Bureau of Statistics (ABS) Government Finance Statistics 2015-16.¹ This data collection 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 private providers.

Figures are in 2015-16 dollars.

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

Overall, this series has shown a significant rise in expenditure on school and higher education over the last decade and a comparative decline in spending in the Vocational Education and Training (VET) sector.

This year, we see this trend continue, with VET expenditure in 2015-16 falling below expenditure levels over a decade ago, in real terms.

While we need to be mindful that expenditure on higher education accounts for much more than just teaching and learning, the divergence between VET and higher education is considerable.

In order to see the full picture of our collective investment in education we also need to take into account the income contingent loan programs in the tertiary sector. Although the amount loaned to VET students grew strongly after the introduction of VET FEE-HELP, this represents a significant cost shift onto students and access to this funding has since been tightened.

This paper also continues last year's inclusion of the preschool sector, where expenditure has grown rapidly, although coming from a much lower base.

The overall picture is complex, and continues to show the disjointed approach to expenditure on education and training in Australia.

¹ 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).

Key findings: (in real terms²)

- Preschool expenditure in 2015-16 has increased 150.2 per cent over this period, coming off a much lower base in 2005-06
- School education expenditure increased **30 per cent** between 2005-06 and 2015-16
- VET sector expenditure in 2015-16 was **4.7 per cent below** the level in 2005-06
- Higher education expenditure increased 52.6 per cent between 2005-06 and 2015-16



Preschool

2005-06 **\$600m**
2015-16 **\$1.5bn**



School

2005-06 **\$34.6bn**
2015-16 **\$45bn**



VET

2005-06 **\$5.9bn**
2015-16 **\$5.7bn**



Higher education

2005-06 **\$17bn**
2015-16 **\$25.9bn**

² Figures used throughout the report are in 2015-16 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 on 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.

1. Analysis

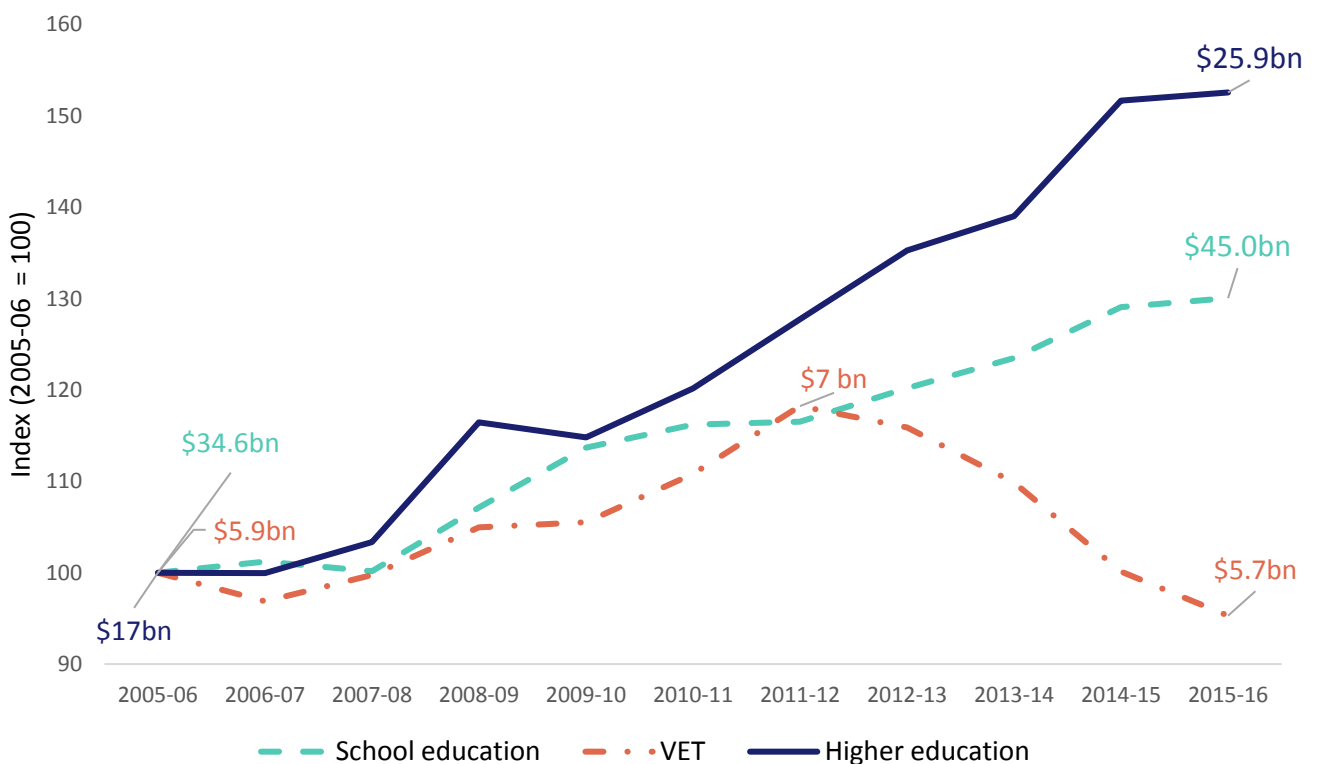
1.1 Comparing changes in expenditure across schools, VET and higher education

The graph below provides a comparison of trends in real expenditure across schools, VET and higher education. It shows changes in expenditure over an eleven year period using 2005-06 as the base index year.

Since last year’s report, there has been continued growth in higher education and school expenditure. The rapid growth in higher education expenditure seen from 2009-10 to 2014-15 has notably stabilised, growing only 1 per cent between 2014-15 and 2015-16. Growth in schools expenditure has also slowed.

However, VET expenditure continues to trend downwards – as the gap between the sectors continues to widen.

Figure 1: Expenditure on education by sector 2005-06 to 2015-16 (base year 2005-06 = 100)



Source: Mitchell Institute analysis of Australian Bureau of Statistics data (custom request)

Expenditure in the **VET sector** has declined dramatically, to below levels seen over 10 years earlier in real terms. From 2005-06 to 2015-16 national expenditure fell by 4.7 per cent, or \$280 million, when adjusted for inflation. In the most recent reporting year, between 2014-15 and 2015-16, VET expenditure fell by 5 per cent in real terms.³

Some of the decline in VET expenditure over this period has been offset by increasing Commonwealth Government outlays to training providers through VET FEE-HELP.

However, at the same time the National Partnership Agreement on Skills Reform expired on 30 June 2017. This has been replaced by the *Skilling Australians Fund*, which has been allocated between \$350 and \$390 million each year from 2017-18.⁴ It has yet to receive any funding through the proposed levy on firms employing skilled migrants (to be implemented from 1 January 2018).

In stark contrast, **higher education** expenditure from all sources has grown rapidly, with a 52.6 per cent increase over the eleven year period. Although the particularly sharp growth appears to have slowed in the last year.

While higher education expenditure also includes spending from universities' own resources, the shift to a demand-driven system in 2012, in which student numbers were uncapped, led to a strong increase in enrolments in the years that followed. A slower increase in higher education expenditure from 2014-15 to 2015-16 may indicate that the initial period of rapid growth associated with meeting unmet student demand may have come to an end. From 2015 to 2016 commencing Commonwealth supported students grew only 1.1 per cent (Commonwealth Department of Education and Training 2017).

Further, a recent report on the higher education sector's finances shows the largest growth in revenue from 2015 to 2016 was from international students (TEQSA 2017).

School education expenditure increased strongly over the last decade – increasing by \$10.4 billion in real terms from 2005-06 to 2015-16. This represents an increase of 30 per cent. However, it has stabilised in the last year, with only a 1 per cent (\$346 million) increase between 2014-15 and 2015-16.

This steady increase in school education expenditure is largely in line with the growth in the everyday operating 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).

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, 2015, O'Connell and Torii 2016).

³ The VET expenditure data reported, on a different basis, by NCVET also shows a substantial decline from 2012. See NCVET (2017) *Financial Information 2016*.

⁴ Commonwealth Government, Budget 2017-18, Portfolio Budget Statements, Treasury Portfolio.

1.2 Growth of income contingent loan payments

Figure 2 shows four different HELP (Higher Education Loan Program) schemes administered by the Commonwealth Government: HECS-HELP, FEE-HELP, SA-HELP, OS-HELP and VET FEE-HELP⁵ (replaced by VET Student Loans on 1 January 2017) (Commonwealth Department of Education and Training 2016).

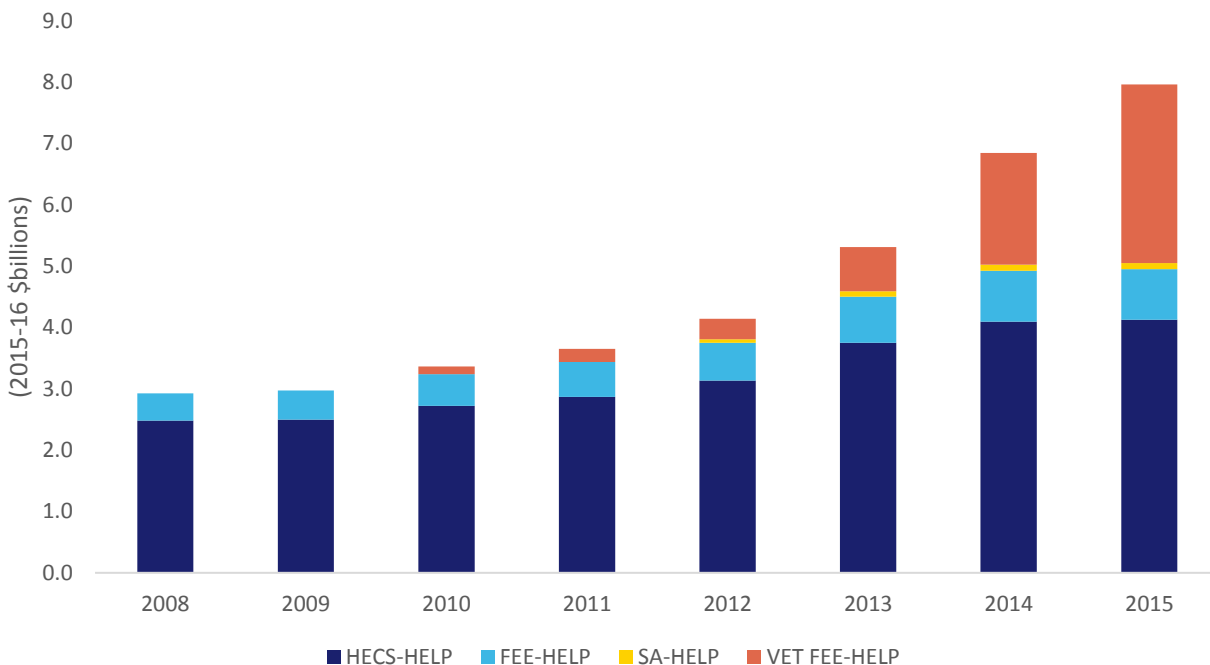
The value of HELP loans in Figure 2 represents payments from the Commonwealth Government to tertiary providers. HELP loan payments are not reported as government expenditure by the ABS, and therefore are not captured in the expenditure graph above (Figure 1).

Income contingent loans continue to be provided predominantly for higher education studies, but the VET FEE-HELP scheme grew sharply after its introduction in 2009.

Loans are currently available to all domestic higher education students but are limited in VET to higher level qualifications – diplomas, advanced diplomas, graduate certificates and graduate diplomas – and only for certain areas of study.

The graph below shows the value of income contingent loan assistance accessed in recent years, with the exception of OS-HELP for overseas study assistance. The Commonwealth reports HELP payments as ‘revenue’ given that a proportion will be repaid by students in subsequent years. However, in recent years there has been increasing concern about the rising amount of debt not expected to be repaid, given the proliferation of loans to students with a lower likelihood of reaching repayment income thresholds. Expectations of future non-repayment are addressed by expenditure provisions being made for bad and doubtful debts (Warburton 2016).⁶

Figure 2: Higher Education Loan Program (HELP) payments 2008-2015



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

⁵ HECS-HELP is for Commonwealth supported students, FEE-HELP is for fee paying students, SA-HELP is a loan that assists eligible students to pay for living costs, OS-HELP pays for costs associated with overseas study.

⁶ Norton and Cherastidham (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 loaned).

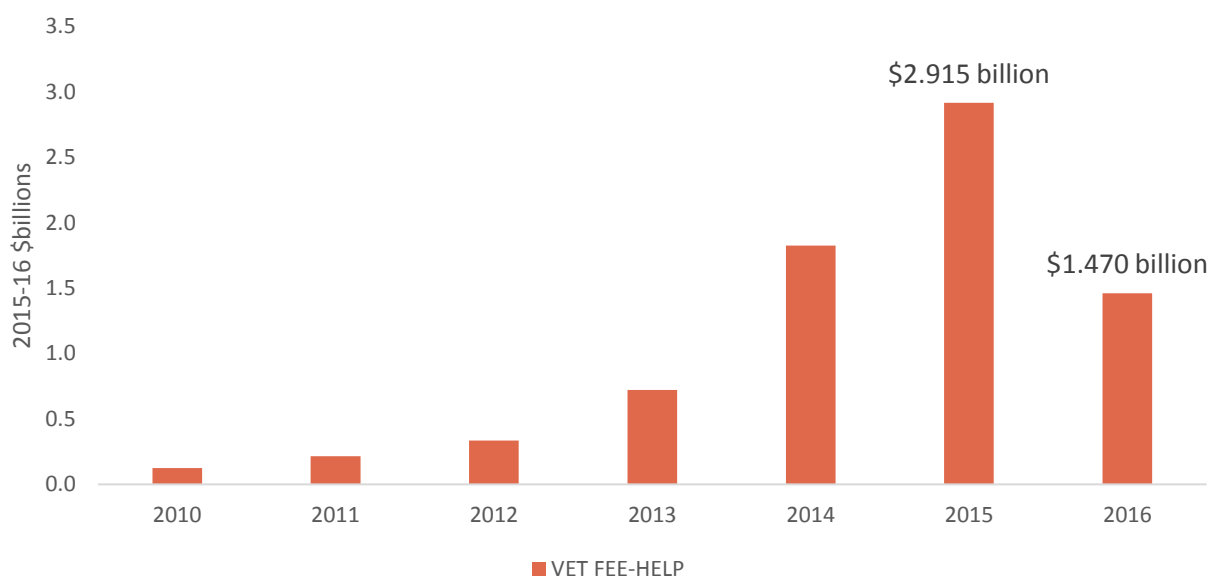
The increase in income contingent loans payments to VET providers in the five years to 2015 could be seen as offsetting the decline in VET expenditure seen at Figures 1 and 4 to some degree, particularly as loans received by private VET providers are not captured in the expenditure graphs.⁷

However income contingent loans are only available to higher level VET students and only 271 individual providers received revenue through VET FEE-HELP in 2015 – a fraction of the around 5,000 training providers nationwide.

Also, as indicated in the Commonwealth Government’s review of VET FEE-HELP, a substantial but not quantified proportion of VET FEE-HELP loans have been misused by providers and have not led to the delivery of real training (Commonwealth Department of Education and Training, 2016a). This led the Commonwealth to introduce a number of reforms to the VET FEE-HELP scheme in 2015 and 2016, and ultimately replace it with the more limited VET Student Loans in 2017 (Birmingham, 2016).

These changes, which significantly tightened eligibility and oversight, had immediate effect. As Figure 3 shows, in 2016, government payments for VET FEE-HELP loans totalled \$1.470 billion - an almost halving of the \$2.915 billion paid out in 2015.

Figure 3: VET FEE-HELP payments 2010-2016



Source: 'VET FEE-HELP Statistical Report' (multiple years)

Regardless, the replacement of direct provider or course funding with income contingent loans represents a significant shift in the way VET training is funded, with the Commonwealth playing a stronger role in setting funding priorities and eligibility criteria. It also represents a cost shift from government onto students, to the extent that loans are repaid, but a long term additional cost to government if they are not (Higgins and Chapman 2015).

⁷ See NCVET (2017), *VET Finance 2016*, *VET Finance Information Sheet*. VET FEE-HELP.

1.3 Comparing expenditure on preschool

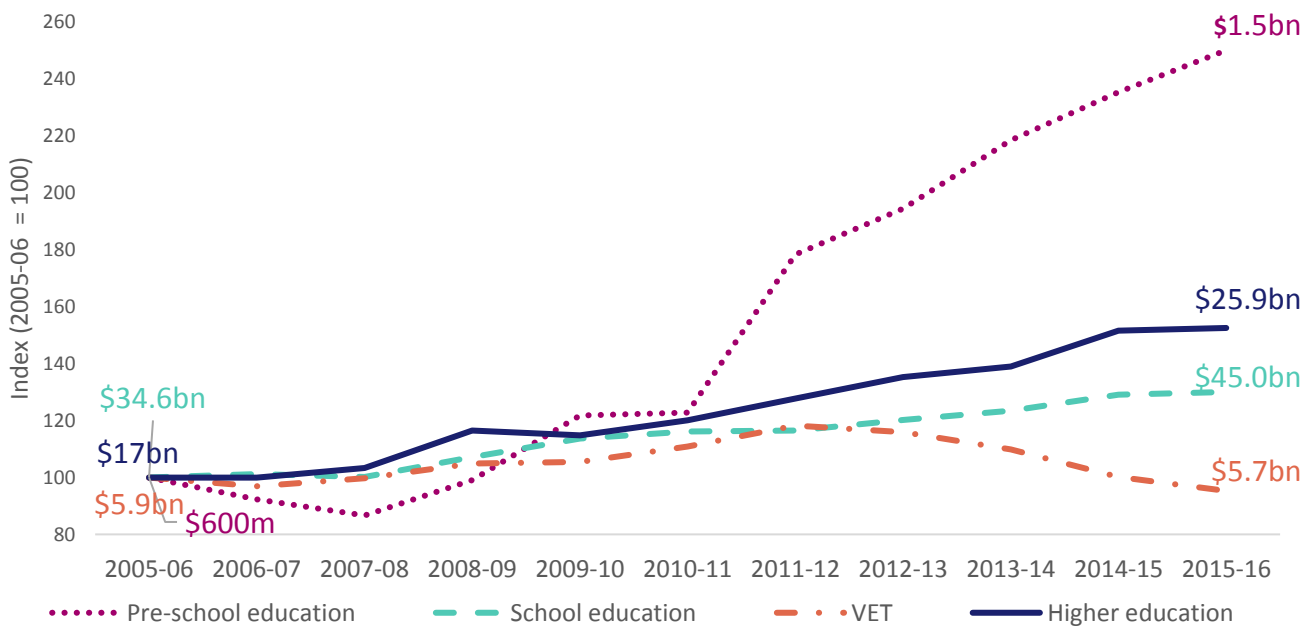
Preschool expenditure was added to this analysis last year, reflecting the important role early childhood education plays in the education continuum.

In this report, preschool expenditure includes Commonwealth expenditure under the National Partnership Agreement on Universal Access to Early Childhood Education, and State and Territory expenditure, but excludes Family Assistance benefits where children attend preschool within a childcare setting.

While this dataset does not provide the full picture of expenditure in the early years, the significant upward trend is worth noting.

As shown in Figure 4, preschool expenditure has grown rapidly, particularly since 2009 when the Universal Access to Preschool National Partnership Agreement was signed. As noted in O’Connell, Fox, Hinz, and Cole (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: Expenditure on education by sector including preschool (base year 2005-06 = 100)

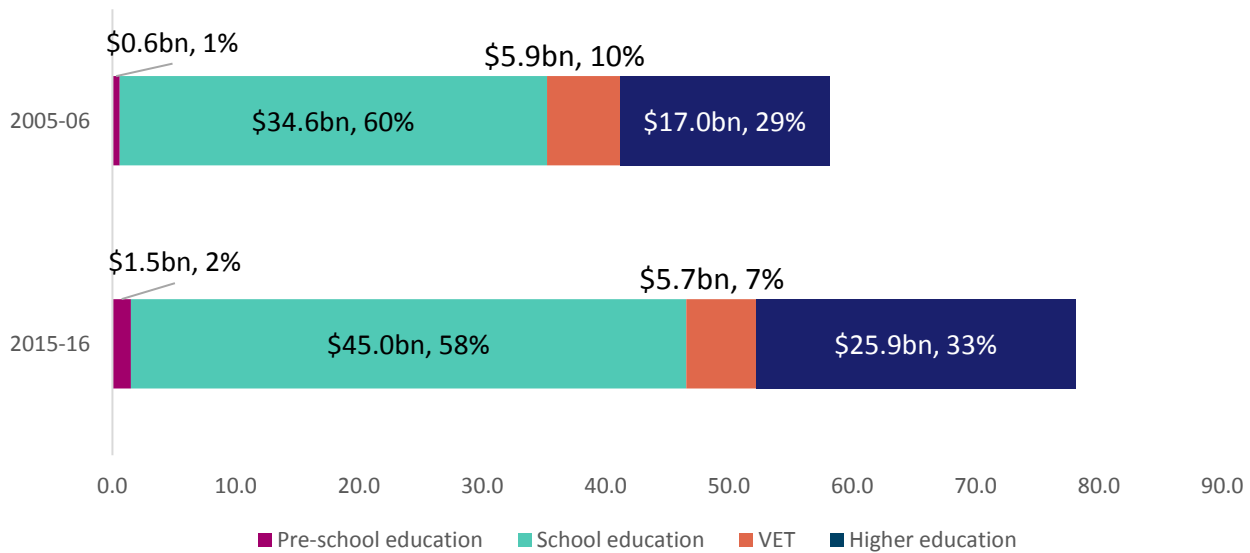


Source: Mitchell Institute analysis of Australian Bureau of Statistics data (custom request)

Although the growth in preschool expenditure has been rapid, it started from a much lower base than expenditure in other education sectors.

Figure 5 represents the relative share of (mainly) government expenditure in each sector between 2005-06 and 2015-16.

Figure 5: Expenditure by sector, 2005-06 and 2015-16 (billions 2015-16 dollars)



Source: Mitchell Institute analysis of Australian Bureau of Statistics data (custom request)

1.4 Conclusion

Imbalances in the patterns of expenditure across the education sectors are progressing with limited policy coherency, reflecting 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 already considerable gap between VET expenditure and higher education and school expenditure will continue to widen (Noonan, 2016). A substantial rethink of where to focus government investment is needed to ensure that public funds are allocated for maximum effect.

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

The obvious disjuncture between VET and higher education in particular, reflects an ongoing failure to conceptualise the two as part of a more coherent tertiary education system. This lack of policy coherence continues to act as a barrier to the creation of the responsive, integrated education and training system many have argued Australia needs.

■ Appendix A: Notes on data

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

Figures are in 2015-16 dollars.

Education expenditure (Figures 1, 4 & 5)

The ABS Government Finance Statistics 2015-16 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 series as it was found to be the best means of determining the overall picture of investment with comparable data, as the ABS applies the same method for the estimates for each sector.

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 childcare 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). VET expenditure also includes spending from government grants 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.

The report draws on operating expenditure in the ABS Government Finance Statistics, Education, Australia, 2015–16 (Cat. No. 5518.0.55.001), and custom data request. Analysis is in 2015-16 dollars (using a 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 (Figures 2 and 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).

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 are from the Commonwealth Department of Education and Training VET FEE-HELP Statistical Report (multiple years) and NCVER, *VET Finance 2016 Information Sheet: VET FEE HELP*.

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