

## ACT Legislative Assembly Select Committee on Estimates 2008-09

### Analysis of Out-years Education Funding

As noted in the Health paper, general government expenses by function are provided at Appendix F of the ACT Budget Paper No. 3. This presents the estimated outcome and the budget and projected expenses using accrual-based data. Data from 2008-09 and 2009-10 budget papers is below. The first line for each function and the four major sub-functions presents the figures included in the 2008-09 Budget. The second line portrays the figures from the 2009-10 budget papers.

Again, the first figure in each line is the outcome for the relevant year (estimated at the time the following year's budget papers were prepared). The second figure is the budgeted provision. Remaining figures are estimates or projections.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
\$ Millions						
Education						
08-09	631.5	687.2	706.0	731.8	748.4	
09-10		718.7	777.4	777.8	787.1	809.4
<hr/>						
Primary						
08-09	241.2	262.7	271.0	281.7	288.5	
09-10		278.4	307.6	306.3	308.4	317.0
Secondary						
08-09	265.3	291.2	300.5	312.4	319.8	
09-10		298.1	329.2	328.2	330.4	340.0
TAFE						
08-09	76.3	79.0	79.2	80.6	81.3	
09-10		85.3	80.6	81.8	83.9	85.3
Other School						
08-09	33.5	36.3	37.1	38.3	39.2	
09-10		37.1	39.2	40.1	41.2	42.4

You would expect budget provisions for education to be more accurate – that is the outcome should be closer to the budget figure – than it is for the health function. This is because the future demands for most education costs are easier to model, based as they are on demographics of school-aged children.

2.

Yet we still see important differences between the budget for a particular year and the outcome. Thus the original budget for 2008-09 was \$687.2 million, an 8.8 per cent increase. The outcome now estimated for that year involves an increase of 13.8 per cent on 2007-08 spending, a material variation. One of the important expenses is the wages cost for teachers. The budgeted increase for wages for 2008-08 was less than one per cent; the actual increase was over four per cent.

The annual increases for the out years for the education function in the budget for 2008-09 ranged between 2.3 per cent and 3.7 per cent. The increases in the 2009-10 Budget now range between 1.2 per cent and 5.1 per cent. The latter increase partly reflects the jump in spending for reduced class sizes in 2010-11.

These modest out-year increases now budgeted would only be achievable if wage rises were closely controlled or were budgeted for elsewhere. Wages comprise about two-thirds of the ordinary annual expenses of the Department of Education and Training. During a wage setting period, there can be significant movements from the expected to the actual wages settlement. And as one might expect, the new and higher bench-mark in spending for year one becomes the foundation for the increases over the rest of the forward estimates.

Although budgeted spending on education for 2009-10 is a generous 8.2 per cent, the total wage increase budgeted for the Department for 2009-10 is four per cent. The Department also plans to increase staff by 2.2 per cent on a fulltime equivalent basis, presumably including for reduced class sizes. (This advice avoids commenting on particular initiatives, however, there are reservations about decisions to decrease class sizes. Although welcomed by class teachers and parents, the evidence is not clear that investing in a marginal reduction in class sizes improves performance. Moreover, it seems other investments, eg in teacher training, might offer better value for money, if improved student outcomes were the objective. But these matters are for education experts.)

In general, it seems that the budget for the education function is tight - like that for health, but less so. Even with wages restraint as expected by the government, the out-year increases indicate that the forward estimates for the out-years will be a difficult to live within.

#### Sub-functional Analysis

The increases for 2009-10 for primary and secondary education – 10.5 per cent and 10.4 per cent respectively – appear generous. The non-wage increases although not disclosed must be materially larger. On the other hand, the provision for TAFE is below the outcome expected for 2007-08. The amount budgeted for 2009-10 for other school education (pre-school and special education) is nearly eight per cent.

The out-year estimates for all sub-functions are modest indeed. Small cuts are estimated for primary and secondary education and only small increases are allowed for TAFE and other education. It would be surprising if the outcome could be held within these estimates. A better prognosis is that the actual

outcomes will be materially larger than is estimated for these out-years. Any additional spending not matched by savings or revenue increases would make it harder for the government to achieve its goal of balancing the operating statement by 2015-16.

Tony Harris

24 May 2009