

## **Leaving Money on the Table: Foregone Economic Gains from Continued SRS Underfunding**

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### **Summary**

Current negotiations between the Commonwealth and state governments risk cementing long-standing underfunding of public schools according to the accepted Schooling Resource Standard (SRS). Commonwealth offers to fund public schools in most jurisdictions<sup>1</sup> to 22.5% of SRS benchmarks would leave public schools short of required resources to meet that standard. This will likely exacerbate recent declines in Australian school achievement and completion.

International and Australian research has confirmed the substantial economic and fiscal benefits of well-funded and accessible public schools. Extrapolating international evidence, previous research from the Centre for Future Work (Littleton et al., 2023) estimated cumulating Australian GDP gains reaching \$18-\$25 billion per year after two decades, as a result of fully meeting SRS funding standards for public schools. Those gains are experienced via increased employment and value-added in the school sector; improved productivity and wage outcomes for school graduates; and reduced income support and social expenditures as a result of better overall education. Higher GDP would in turn generate revenue gains for government that exceed the expense of meeting SRS funding benchmarks in the first place—driving a net fiscal gain of \$2.9 to \$7.4 billion per year after 20 years.

The Commonwealth's 22.5% SRS funding plan, even if it leverages enhanced state funding commitments, would leave much of the current funding shortfall unrepaired, and hence squander many of the economic benefits that would otherwise result from full public school funding. Based on disaggregation of our previous estimates, we expect that the failure to fulfil the 25% Commonwealth contribution required for full SRS funding would ultimately forego GDP gains of \$3.5 to \$5 billion per year, and impose net fiscal costs on government (all levels) of \$0.6 to \$1.5 billion per year.

The failure to fully fund public schools is clearly a case of false economy. The relatively small amounts of money 'saved' in the near term, are more than offset by long-run

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<sup>1</sup> The Commonwealth has agreed to fund public schools in the Northern Territory to 40% of SRS benchmarks.

underperformance according to numerous indicators: school attainment and completion, productivity, GDP, and fiscal balances. The Commonwealth government is leaving money on the table, with its failure to fully meet SRS funding requirements.

### **The Economic Importance of Public Schools**

Top-quality and accessible public schools are a vital precondition for successful economic, social and democratic development. A large and growing catalogue of international research confirms the economic benefits of well-funded public schools, underpinning improvements in educational attainment and equality.<sup>2</sup> Our previous research (Littleton et al., 2023) applied these findings to the Australian case, and forecast considerable economic gains from improved public school funding. Those gains are experienced across three main categories:

1. An expanded economic and employment footprint for schools, generating jobs, incomes, and demand for private businesses in both the education system's supply chain and downstream consumer industries.
2. Improved school completion rates, leading to improved productivity and wages for successive cohorts of graduates.
3. Reduced costs for a wide range of public and ameliorative services, including income supports, health care expenses, and policing and justice costs (all of which are negatively correlated with school completion rates).

Our previous research, drawing on findings from international studies, indicated those economic benefits would be substantial and cumulating (Littleton et al., 2023). By repairing the \$6.6 billion in underfunding of public schools relative to the SRS, federal and state governments could generate over 50,000 new jobs, and expand GDP by \$6.7 billion (in 2022 dollar terms) through an expanded economic footprint for schools. Better school resourcing would support improved completion rates, expected to rebound by between 3.8 and 6.2 percentage points. That in turn would support better productivity and wage outcomes for school graduates—estimated at generating \$2.6 to \$4.2 billion in additional wage income after 20 years of successive graduation cohorts, and \$5.7 to \$9.3 billion in incremental GDP gains. Savings on income support, health costs, and police and justice expenses from improved school completion would eventually save governments another \$5.1 to \$8.6 billion per year.

Put together, these channels of economic and fiscal benefit generate total additional GDP estimated at \$18 to \$25 billion per year after 20 years. That increased economic activity automatically generates additional government revenues, estimated at \$9.5 to \$14 billion (in 2022 dollar terms, for the federal and state levels combined). That is more than enough to cover the cost of eliminating the current \$6.6 billion public school funding shortfall, leaving governments with a net fiscal benefit of \$2.9 to \$7.4 billion per year. In short, government effectively 'profits' from fully funding public schools. More important, fully funding schools would enhance the prospects for Australia's future

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<sup>2</sup> See, for example, Hanushek and Woessmann (2015) and OECD (2021).

economic, social and democratic progress, by ensuring that all Australian children have access to high-quality, well-funded public education.

### **A Moving Target**

In 2011 the Gonski Review found an “imbalance between the funding responsibilities of the Australian Government and state and territory governments across the schooling sectors,”<sup>3</sup> and recommended that “Australian governments should fully publicly fund the recurrent costs of schooling for government schools as measured by the resource standard per student amounts and loadings.”<sup>4</sup> In its initial response to the Review, the then-Gillard Government accepted the Review’s recommendations of an SRS as the basis for funding all students.<sup>5</sup>

Later, however, the Commonwealth acceptance of the full SRS was reduced to a target of 95% of the SRS – with state and territory governments providing 75% of the SRS, and the Commonwealth the remaining 20% (instead of 25% required for full SRS funding), by 2019. In 2017, the Morrison Government then legislated this 20% contribution as a *cap* on Commonwealth funding, in five year bilateral funding agreements with the states and territories.

In 2022 and since, the ALP promised to put all public schools on a pathway to full funding,<sup>6</sup> but is now offering to provide 22.5% of the SRS—half the amount needed to match the full SRS.

### **Continuing Commonwealth Underfunding**

The Commonwealth and state governments are now engaged in negotiation over improved funding for public schools in future years. Unfortunately, so far those negotiations are not meeting the accepted benchmark of full funding according to the Schooling Resource Standard (SRS). The Commonwealth government’s current offer to the states would see federal funding rise from 20% of the SRS benchmark to 22.5% in most jurisdictions. A special commitment to fund NT schools to 40% of the SRS benchmark would ensure full school funding in that territory. The government has rebuffed calls from education advocates and crossbench parliamentarians (Cassidy 2024a) to commit to full SRS funding (with a 25% Commonwealth contribution, alongside a required 75% share for state and territory governments; see Rorris, 2023). Instead, the government is moving ahead to sign agreements with states based on that 22.5% funding offer (Cassidy 2024b).<sup>7</sup>

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<sup>3</sup> Gonski et al. (2011), p. xiv

<sup>4</sup> Gonski et al. (2011), p. xxiv.

<sup>5</sup> Harrington (2013), p.37.

<sup>6</sup> See, for example, Prime Minister of Australia (2023).

<sup>7</sup> While the Western Australian and Tasmanian Governments have agreed to the Commonwealth offer of 22.5% of SRS, the analysis below assumes that any expansion of federal funding to the 25% rate would be offered them as well as other states.

	Cmwth Funding (\$m)	Share of SRS	Est. Total SRS Funding (\$m)	SRS Funding Ratio	Est. Actual Funding (\$m)	Est. Shortfall	Cmwth Share (\$m)	Cmwth Share (%)
NSW	\$3,204	20.0%	\$16,018	88.2%	\$14,127	\$1,890	\$801	42.4%
VIC	\$2,544	20.0%	\$12,721	86.4%	\$10,991	\$1,730	\$636	36.8%
QLD	\$2,340	20.0%	\$11,702	85.3%	\$9,981	\$1,720	\$585	34.0%
SA	\$723	20.0%	\$3,614	91.0%	\$3,288	\$325	\$181	55.6%
WA	\$1,168	20.0%	\$5,841	91.0%	\$5,315	\$526	\$292	55.6%
TAS	\$237	20.0%	\$1,187	90.1%	\$1,069	\$117	\$59	50.5%
ACT	\$162	20.0%	\$811	100.0%	\$811	\$0	\$41	Nm
NT	\$221	21.5%	\$1,028	76.2%	\$783	\$245	\$36	14.7%
<b>TOTAL</b>	<b>\$10,599</b>	<b>20.0%</b>	<b>\$52,920</b>	<b>87.6%</b>	<b>\$46,367</b>	<b>\$6,553</b>	<b>\$2,631</b>	<b>40.1%</b>
Source: Calculations from Rorris (2023) and Standing Committee on Education and Employment (2022).								

Table 1 summarises the current degree of underfunding of public schools in Australia, based on data presented in Rorris (2023) and provided in responses to questions on notice provided by the Department of Education to the Senate’s Standing Committees on Education and Employment (2022). The overall funding shortfall for 2023 is estimated at \$6.6 billion. This includes over \$2 billion in resources siphoned away from actual cash funding for schools through the prevailing system of “capital depreciation and additional allowance charges”. This system allows states to forego cash contributions to public schools to reflect purported charges such as building depreciation, transport costs and regulatory costs (many accounted on a non-cash basis). This system only applies to public schools, not private schools, and results in additional funding shortfalls in actual current resources for public schools (Rorris, 2023).

Of the \$6.6 billion total funding shortfall for public schools relative to the SRS benchmark, the Commonwealth government’s underfunding (relative to its 25% share) represents some 40% of the total, or \$2.6 billion. State underfunding (including through the mis-use of capital depreciation and allowance charges, accounts for 60%. The federal government’s plan to provide 22.5% of SRS funding for most jurisdictions (and 40% in the Northern Territory) would provide over \$1.3 billion per year in additional funding and close the Commonwealth’s share of the gap by just over half. But that would still leave a shortfall of almost \$1.3 billion, relative to Commonwealth funding if the 25% contribution was applied across the board (except 40% in the NT).

### **Leaving Money on the Table**

The failure of the federal government’s current proposal to fully meet SRS funding thresholds means that the potential economic and fiscal gains of full school funding will not be fully captured. On the reasonable assumption that the achievement of those

benefits (including via economic activity in the education sector, productivity and wage premia for school completers, and social and fiscal savings) are broadly proportionate to the extent to which underfunding is alleviated, then the foregone spin-off benefits from the government’s continued underfunding can be apportioned accordingly. This exercise is described in Table 2.

<b>Table2</b>						
<b>Foregone Economic Gains From Continuing SRS Underfunding</b>						
	<b>Estimated Gains from Full SRS Funding</b>		<b>Commonwealth Share</b>		<b>‘Left on the Table’: Foregone Gains from 22.5% Policy<sup>1</sup></b>	
<b>Direct Economic Footprint of Public Schools</b>						
Employment	42,539		17,076		8,421	
Direct GDP (\$b)	\$5.3		\$2.1		\$1.0	
Indirect & Induced GDP (\$b)	\$1.4		\$0.6		\$0.3	
<b>Labour Market and Productivity Gains</b>						
	Low Case	High Case	Low Case	High Case	Low Case	High Case
Increased School Completion	3.8 %pts	6.2 %pts	1.5 %pts	2.5 %pts	0.8 %pts	1.2 %pts
Cumulating Wage Increase (20 yrs, \$b)	\$2.6	\$4.2	\$1.0	\$1.7	\$0.5	\$0.8
Cumulating GDP Increase (20 yrs, \$b)	\$5.7	\$9.3	\$2.3	\$3.7	\$1.1	\$1.8
<b>Broader Social and Fiscal Savings</b>						
Savings on Income Supports, Health, Policing & Justice (\$b)	\$5.1	\$8.6	\$2.0	\$3.5	\$1.0	\$1.7
<b>Combined Savings</b>						
Cumulative GDP Impact (\$b)	\$17.8	\$24.7	\$7.1	\$9.9	\$3.5	\$4.9
Net Fiscal Impact (\$b)	\$2.9	\$7.4	\$1.2	\$3.0	\$0.6	\$1.5
Source: Calculations from Table 1 and Littleton et al. (2023) and references therein.						
1. Includes 40% Commonwealth funding of SRS in NT.						

The first column of Table 2 reports the estimated economic and fiscal gains projected in our previous research to arise from full funding of public schools according to the SRS, as reported in Tables 7 through 11 of Littleton et al. (2023). Those gains are organised into the three broad categories noted above:

- Economic activity spurred by the expanded footprint of public schools— including new employment, direct expansion of GDP, and indirect and induced expansions in GDP (via supply chain and downstream consumer spending effects).

- Improved productivity and wage gains expected to arise from an improvement in school completion supported by better school resourcing (with low case and high case scenarios separately specified).
- Fiscal savings resulting from reduced income support needs, health care costs, and expenses for policing and justice programs, based on international correlations between school completion and those outcomes (again, with low and high cases separately specified).

As noted above, the combined GDP gains from these three channels of benefit are expected to cumulate to \$18-\$25 billion per year after 20 years, supporting additional government sector revenues of \$9.5-\$14 billion per year, and generating a net fiscal gain for the government sector.

Commonwealth underfunding accounts for just over 40% of the current total funding shortfall of \$6.6 billion. Lifting the federal share of funding to 25% of the SRS would thus eliminate 40% of the funding gap, and progress Australia's public school system toward the multi-dimensional benefits outlined above. (Ideally, of course, that 25% funding commitment would be arranged as part of a joint package with state governments committing to 75% without the use of the "capital depreciation and additional allowance", to attain full SRS funding from both levels of government.) The second column of Table 2 summarizes the proportionate economic and fiscal benefits that would be achieved in each of those three broad benefit categories from a commitment by the Commonwealth level to 25% SRS funding.

A full 25% commitment by the federal government would support a wide range of benefits, including:

- Over 17,000 direct and indirect jobs.
- \$2.7 billion in GDP gains from expanded public school activity.
- An ultimate improvement in completion rates of between 1.5 and 2.5 percentage points.
- Cumulating improvements in wage income of \$1.0 to \$1.7 billion after 20 years, and cumulating improvements in GDP from higher labour productivity of \$2.3 to \$3.7 billion over the same time.
- Ultimate social and fiscal savings of \$2.0 to \$3.5 billion annually.
- Combined GDP gains of \$7.1 to \$9.9 billion annually.
- A net fiscal gain for the overall government sector (federal and state) of \$1.2 to \$3.0 billion.

Assuming that the federal commitment to 25% SRS funding was partnered with a similarly fulsome commitment by state governments (meeting their own 75% share, including elimination of the disingenuous "capital depreciation and additional allowance charges"), then those benefits would be magnified accordingly.

However, if the government's stated intention to fund only 22.5% of SRS benchmarks in most jurisdictions (other than the NT) is maintained, then a sizeable portion of those economic and fiscal gains will not be realized. The final column of Table 2 lists the estimated benefits that would be foregone by continued Commonwealth underfunding (at the 22.5% level). This is 'money left on the table' by the Commonwealth's refusal to commit to full SRS funding of public schools: foregone jobs, GDP, social improvements, and tax revenue.

By going only halfway toward closing the SRS funding gap, the Commonwealth government would deprive the economy of:

- Some 8400 direct and indirect jobs.
- \$1.3 billion in lost GDP gains from expanded public school activity.
- School completion rates that remain 0.8-1.2 percentage points lower.
- Foregone wage incomes of \$500 to \$800 million after 20 years, and foregone GDP improvements worth \$1.1 to \$1.8 billion over the same time.
- \$1.0 to \$1.7 billion in foregone social and fiscal savings annually.
- Squandered total GDP gains of \$3.5 to \$4.9 billion.
- Lost net fiscal benefits for the overall government sector (federal and state) of \$0.6 to \$1.5 billion. This is money the federal government is quite literally leaving on the table, through its continued underfunding: governments' own revenue position will ultimately be weakened, not strengthened, by refusal to fully fund public schools.

## **Conclusion**

It is clear from this analysis that the Commonwealth is not 'saving' money by refusing to fund public schools to the full SRS. To the contrary, by entrenching continued underfunding, the government would set the stage for continued underperformance in scholastic achievement and completion, deprive potential school graduates of the improved labour market outcomes that would be possible with more schooling, and sustain avoidable public costs for income supports, health care, and justice system expenses that are preventable with a better-educated population. The biggest victims of this short-sighted approach are students, especially those from lower-income, remote and regional, and Indigenous backgrounds, or those with special needs which cannot be met without adequate funding. But ultimately, underfunding public schools – a vital component of a successful economy and society – hurts all Australians. It even hurts government itself, through the long-run fiscal costs resulting from scholastic and economic underperformance.

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