

An unnecessary act?

An analysis of the proposed cuts to the
Victorian Department of Education and Training
arising from the 2003/4 budget

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An unnecessary act?

1. Introduction

The state government is currently in the process of cutting approximately 300 positions from the Head Office of the Department of Education and Training (DE & T).

This paper addresses three questions:

- Why are these cuts being made?
- How soundly have they been justified?
- What are the policy implications for the CPSU?

We begin by examining the government's education objectives.

2. The government's education objectives

The government has repeatedly stated that education is a top priority, a point reiterated by the Premier in a recent opinion piece ('How my government has rebuilt education', *Age*, 19 September 2003).

What criteria does the government use to assess its performance in education? As set out in *Growing Victoria Together*, the government's strategic statement, they are to:

- Improve participation and achievement in education and training;
- Provide better links between schools, business and communities;
- Expand opportunities for training and learning all through life.

The performance targets are that:

- Victorian school children will be at or above national benchmark levels for reading, writing and numeracy by 2005;
- 90% of children will complete Year 12 or equivalent by 2010;
- The percentage of young people 15-19 in rural and regional Victoria engaged in education and training will rise by 6% by 2005;
- The proportion of Victorians learning new skills will increase.

It is noticeable that these are a limited range of targets, which are either too broad to be of much use (point 3), fail to relate to all the objectives or else are focused on schools. They tend to downplay the importance of research and development and curriculum renewal – Head Office functions – for the long-term success of the education system.

3. The government's financial commitment to education I: Expenses

Table 1 shows trends in education expenses for the period from 1999/2000-2003/4. The top row shows expenses in nominal terms, while the second row adjusts for inflation. Row three shows the annual percentage change in real terms, while row four also adjusts for population growth. The final row shows

education expenses as a proportion of the state's income, which is probably the best single measure of spending trends.

The table shows that, after significant real increases in expenses in its first year of government, Labor has been increasing education spending only modestly. Adjusted for inflation and population growth, education expenses have been growing at less than 1% over the last three years. As a share of the economy, they have been falling, and this year will return to levels not seen since 1999.

Table 1: Victorian expenses on education, 1999/2000-2003/4 in nominal and real terms (\$m)

	2000	2001	2002	2003	200/4 budget	Change 1999/2000- 2003/4	
						\$m	%
Nominal	\$5,629	\$6,274	\$6,541	\$6,825	\$7,153	\$1,524	27.1%
Real (deflated by the CPI)	\$5,629	\$6,091	\$6,181	\$6,276	\$6,433	\$804	14.3%
% change		8.2%	1.5%	1.5%	2.5%		
Real per capita % change		6.9%	0.3%	0.5%	1.5%		
% of Gross State Product	3.52%	3.67%	3.57%	3.52%	3.48%		

Source: education expenses and CPI and GSP projections from Victorian Government (2003), Budget Statement, Budget Paper no. 2; Gross State Product and CPI from ABS.

Given that Labor was elected to restore the services taken away by the Kennett government, this spending record is a modest one. As Table 2 shows, we spend a lower proportion of our income on education than most other states.

Table 2: Education expenses as a % of Gross State Product, Victoria, Queensland, South Australia and Tasmania, 2002/3 (estimate)

	\$m	% of GSP
Victoria	\$6,825	3.5%
Queensland	\$5,310	4.1%
South Australia	\$2,105	4.2%
Tasmania	\$761	5.9%

Source: Budget papers; GSP from ABS, updated using economic projections reported in the budget papers. NSW has yet to release its figures following a major restructure earlier this year.

The Premier has recently dismissed claims that his government has been anything other than generous in its treatment of education. In response to criticisms recently made by *Age* journalist Kenneth Davidson, he said that his government has investment \$3.7b into the education system since it won office in 1999, a large amount 'in the context of an annual education output budget of \$6.2 billion'.

It is difficult to work out how the Premier has derived the figure of \$3.7b:

- At the last election, the government claimed it had invested \$2.75b into education, yet there has only been one budget since then, which announced new output and investment initiatives worth only \$189m;

- The budget papers show that education expenses increased by only \$1.2b during the government's first period in office (and by half of that amount in constant prices), and by \$1.5b if we include the current financial year (roughly half this in real terms).

The most plausible explanation is that the Premier's numbers involves significant double counting, as well as the value of expenses that have yet to be incurred. The budget these days shows the cost of new initiatives over the next four years, and it is the total cost that the government seems to quote when it informs us of its generosity. Thus the latest budget injects \$2.4m into principals' professional development, but in reality this is an annual \$600,000 that has been multiplied by four, with the last three years yet to be spent. And while some initiatives take full effect immediately, others don't kick in for some time down the track. Thus, while \$82m was set aside in the most recent budget to hire 450 new secondary teachers, only \$4.5m is earmarked for the current financial year and the big dollars won't flow till 2005.

4. The government's financial commitment to education II: Departmental expenses less depreciation and the capital asset charge

The figures used in the previous section are derived from the Australian Bureau of Statistics functional classification framework. They do not correspond with Departmental boundaries. Also, they include not only the expenses authorised by the Victorian government but also Commonwealth grants, over which the state has no direct influence and which are not open to the Education Department to choose how to spend as part of its annual budget deliberations.

Trends in DE & T's budget are shown in Table 3. The table shows expenses authorised by the Victorian Parliament and which correspond with what the Secretary of the Department would recognise as his budget. They include a charge for depreciation and a fictional 'capital asset charge', in which Treasury gives each Department an amount of money equivalent to the annual cost of their non-current assets, which is then promptly returned to Treasury in full. The table shows trends in expenses with and without these 'fictional' non-cash items. Excluding these items, it confirms that the Department's budget has been cut in real terms for two successive years.

Table 3: Appropriation expenses, DE & T, 2001/2-2003/4 (budget) in constant 2000/1 prices (deflated by the CPI) (\$m)

	2000/1	2001/2	2002/3	2003/4 budget	Change 2000/1-2003/4	
					\$m	%
With Dep & CAC	\$4,931	\$5,184	\$5,148	\$5,213	\$282	6%
% change		5.1%	-0.7%	1.3%		
Excluding Dep & CAC	\$4,289	\$4,436	\$4,423	\$4,418	\$128	3%
% change		3.4%	-0.3%	-0.1%		

Source: Department of Employment and Training, 2003, Overview of the Resource Planning Project. CPI from ABS, updated budget paper projections.

Table 4 provides a detailed breakdown of DE & T's annual budget for the five years to 2004/5 adjusted for inflation. It shows that the government's austerity measures have been focused on Head Office, which is

not surprising given the targets discussed earlier. Schools and programs will see their budgets stay unchanged in real terms in 2003/4, while the Head Office budget will shrink by a massive 11% in 2003/4 and a possible further 9% the year after. **In real terms, the Head Office budget will return to levels not seen since the Kennett years in the late 1990s.**

Table 4: DE & T budget by program area, 2000/1-2004/5, constant 2000/1 prices (\$m)

Real	2000/1	2001/2	2002/3	2003/4 budget	2004/5 budget
Schools, regions & programs	\$3,317	\$3,426	\$3,427	\$3,431	\$3,384
		3.3%	0.0%	0.1%	-1.4%
TAFE	\$508	\$519	\$504	\$520	\$476
		2.1%	-2.8%	3.2%	-8.6%
Non govt Schools	\$270	\$271	\$273	\$272	\$267
		0.2%	1.0%	-0.4%	-2.0%
Head Office	\$195	\$220	\$218	\$194	\$177
		13.1%	-0.8%	-11.2%	-8.7%
Total	\$4,289	\$4,436	\$4,423	\$4,418	\$4,303
		3.4%	-0.3%	-0.1%	-2.6%

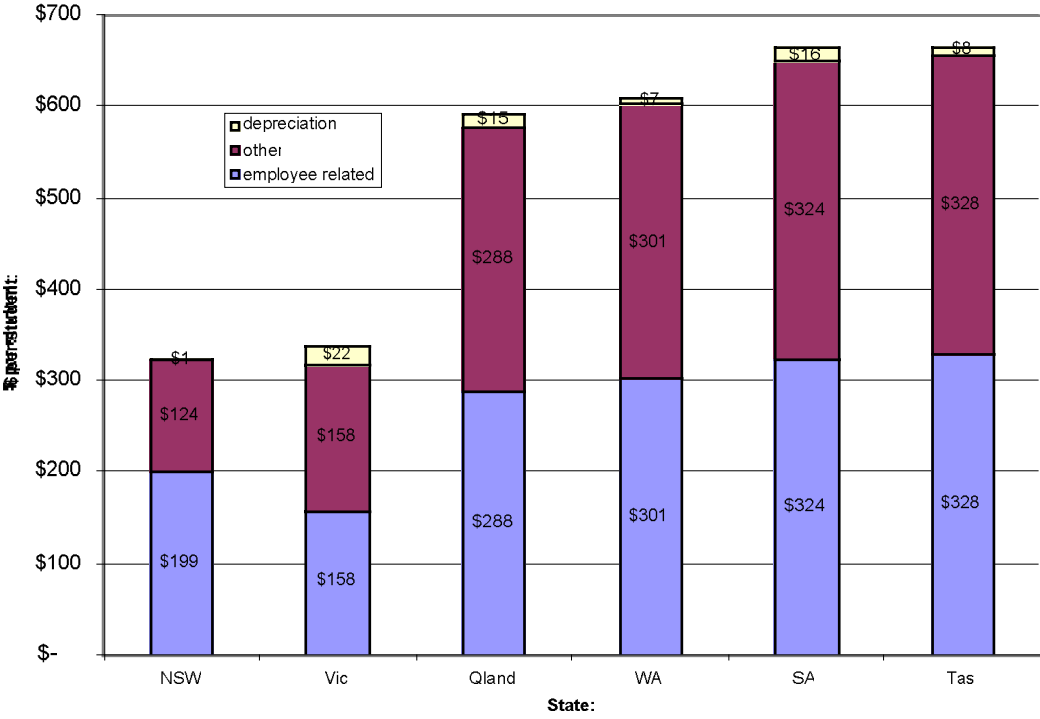
Source: Department of Employment and Training, 2003, Overview of the Resource Planning Project. CPI from ABS, updated using budget paper projections.

The Department's own analysis of these substantial cuts argues that they can be achieved because there is much duplication of function with Head Office: 'The previous assessment of staff activity across DE & T indicated that there is capacity within the DE & T to remove duplication, rationalise and better align activities without jeopardising the quality of services to students' (2003: 8).

It is also suggested that scope for rationalisation exists following years of significant staff increase. The implication of both these claims is that the money could be more wisely spent elsewhere. **No evidence is produced to show that this is true.** Indeed, the available evidence suggests this is not the case:

- **Victoria already spends much less on out of school services than the rest of the country** (see Figure 1), and it is a low level of salary expenditure that accounts for much of the difference.

Figure 1: Recurrent non-school expenditure per student, 2000/1 by state



Source: Steering Committee for the Review of Commonwealth State Service Provision, Report on Government Services, 2003, Productivity Commission, Canberra.

Table 5: School and non-school based employment, Victoria, 1992-2002 (EFT)

Schools	1992	1999	2002	Change 1992-1999		Change 1992-2002		Change 1999-2002	
				No	%	No	%	No	%
Teaching	41,265	35,966	38,211	-5,299	-13%	-3,054	-7%	2,245	6%
Support (teacher aids etc.)	5,280	7,267	9,108	1,987	38%	3,828	73%	1,841	25%
Total	46,545	43,233	47,319	-3,312	-7%	774	2%	4086	9%
Not in schools									
Teaching	907	124	103	-783	-86%	-804	-89%	-21	-17%
Non-teaching	1,408	1,414	1,637	6	0%	229	16%	223	16%
Total	2,315	1,538	1,740	-777	-34%	-575	-25%	202	13%
Total									
Teaching	42,172	36,090	38,314	-6,082	-14%	-3,858	-9%	2,224	6%
Non-teaching	6,688	8,681	10,745	1,993	30%	4,057	61%	2,064	24%
Total	48,860	44,771	49,059	-4,089	-8%	199	0%	4,288	10%
Public servants	1,326	1,753	1,966	427		640	48%	213	12%

Source: DE & T Annual Reports, various years.

- Workforce trends show that while Labor has increased Departmental staff by more than 4,000 or 10%, school based support staff have accounted for a disproportionate share, their numbers growing by 25% or over 1,800. While non-teaching support staff not in schools have also increased, this has been at a much slower rate. **The proposed job cuts will see non-school based staff numbers shrink to around 1,300, levels not seen since the early 1990s.** The Department's own analysis (DE & T, 2003) suggests that the decision to cut staff was a forced one arising from a prior decision made in the lead-up to the last budget, which the Department has subsequently had to adjust to. The Department's figures show that the bulk of the prospective job losses will not be in shared functions like Human Resources and Finance. The area that will bear the brunt of the job losses will be the core business area of programs. **In reality, the Department has little choice but to cut heavily in these core areas because they account for the lion's share of employment.**

5. Why cut at all?

No convincing educationally based rationale exists for the cuts. They are better understood as being driven by an imperative from the Treasury, which appears to be worried about the integrity of the budget surplus. Over the last three years, this has declined substantially to a point where there are concerns that the government may not be able to meet its key commitment to maintain an operating surplus of at least \$100m (see Table 6). It is likely that Treasury has required Departments to cut their expenditures in order to protect the budget bottom line, while simultaneously meeting the government's election commitments.

Table 6: Difference between budgeted and actual operating surplus, 1999/2000-2003/4 (\$m)

Year	Budget	Actual	Difference
1999/2000 actual	\$129	\$1,168	\$1,039

2000/1 actual	\$592	\$1,216	\$624
2001/2 actual	\$509	\$273	-\$236
2002/3 estimate	\$522	\$160	-\$362
2003/4 budget	\$245	na	

Source: Budget Papers, various years

Why has the surplus shrunk? The main reason is the way Victoria treats unfunded superannuation liabilities. When stock markets fall unexpectedly, 'defined benefit' superannuation funds within the public sector incur a paper loss. Actuarial estimates will show that, should the declines continue, the funds will not have enough money tucked away to pay the super payments as they fall due. Victoria records these paper losses on its operating statement as an expense. Three years of falling stockmarkets have resulted in significant increases in superannuation expenses, and the large operating surplus has all but disappeared.

In treating superannuation this way, Victoria has chosen to follow the Australian Accounting Standards Board advice (Australian Accounting Standard no. 31). It is not well understood that we are the only state to do so. The other states as well as the Commonwealth have chosen instead to follow the Australian Bureau of Statistics Government Finance Statistics standard, which disregards paper losses like these because they are not policy induced. It should also be borne in mind that the paper losses are likely to be followed by paper gains, as the stock markets will eventually recover.

Table 7: Different measures of the operating surplus, 2002/3

	ABS GFS (\$m)	Australian Accounting Standard no. 31 (\$m)
NSW	\$1,425	(\$647)
Vic	\$1,277	\$160
Qland	(\$350)	NA
SA	\$329	NA
WA	\$178	NA
Commonwealth	\$1,266	(\$1,468)

Source: Budget Papers

Both methods of accounting have their advantages and disadvantages. Either could be used as the basis for framing the budget. The difference is, however, substantial. This is shown in Table 7, which compares the 2002/3 operating result for the states and the Commonwealth using both measures. The table shows that, had New South Wales used Victoria's method, it would have recorded a deficit of \$647m instead of a \$1.4b surplus, while the Commonwealth would have recorded a \$1.5b deficit instead of a \$1.3b surplus. Had Victoria used the ABS method, its surplus for 2002/3 would have been \$1.3b instead of an estimated \$160m. To put all this slightly differently, the Victorian Treasury's concerns about the budget bottom line are the product of some very conservative accounting standards, which could legitimately be replaced by those used in all the other states and the Commonwealth.¹ In the event of this happening, the Victorian budget would be shown to be in an extremely strong financial position.

¹The ACT also uses the AAS method.

It could be argued that Table 7 refers to 2002/3 and that the situation in 2003/4 is different, for the budget projects that the gap between the two surplus measures (\$245m cf \$423m) will be substantially less this financial year. This is true. However, it is also true that the budget is based on a very conservative set of revenue assumptions, in which tax revenues remain basically unchanged from 2002/3. As Table 8 shows, Treasury has consistently underestimated revenues over the last five years by up to 8%. If we assume revenue growth of 4% instead of the 0.5% used in the budget papers, revenues in 2003/4 will be almost \$1b higher than the budget estimate.

Table 8: Difference between budget estimate of revenue growth and actual growth, 2000/1-2003/4 (\$m)

Year to June:	Budget estimate	Actual	Difference	%	Growth	
					Budget estimate	Actual
2001	\$22,180	\$23,367	\$1,187	5.4%		
2002	\$23,466	\$25,363	\$1,897	8.1%	0.4%	8.5%
2003	\$25,282	\$26,464	\$1,182	4.7%	-0.3%	4.3%
2004	\$26,598	\$27,523 <i>est.</i>	\$925	4%	0.5%	4.0% <i>est.</i>

Source: Budget papers

6. Conclusion

The round of cuts being imposed on DE & T's Head Office appear to lack a convincing educational or policy justification. They seem to have been generated by worries arising from a policy choice about accounting standards rather than from a genuine financial imperative. They seem both arbitrary and potentially quite damaging. Head Office numbers will be forced back to levels not seen since the Kennett government was in office, potentially undermining the long-term Departmental research and development and curriculum renewal capacity, not to mention staff morale and effectiveness. There would appear to be nothing to stop such arbitrary decision making from being repeated in the future.

This is particularly so given the narrow and incomplete set of goals the government has adopted to measure its performance in education, which focus almost exclusively on schools. Nowhere has the government provided a clear rationale and justification for a role for public servants in the provision of state education services, and it has largely ignored the crucially important role of research and development for the longer-term development of state education. Inevitably, the ripple of a small cut to education that could be spread evenly across the whole Department must become a tidal wave for the crucially important Head Office. A short-term problem is solved. But at what long-term cost?