Australian federalism and school funding arrangements:

An examination of competing models and recurrent critiques.

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Australian federalism and school funding arrangements have transformed significantly over the last 30 years. There is now an unprecedented level of federal activity in state policy domains, especially education, resulting in highly complex and contested intergovernmental relations. Yet, there has been no rigorous academic analysis of federalism in relation to school funding arrangements, either from a political science or education perspective, and consequently, the nature and influence of federalism on school funding and policymaking is not understood. This paper draws together these disparate debates and examines how federalism affects school funding policies, reform and processes at the subnational level. It is based on a detailed study of the Victorian government's 'Schools of the Future' reforms (1992-1999), which devolved 93 per cent of the state government's public education budget to individual schools, effectively allowing schools to govern themselves within a state accountability framework. These reforms are described by supporters and detractors alike as the most radical Australian education reform in the last century. This paper explores the policy making process with reference to Commonwealth and intergovernmental influences. It challenges recurrent critiques of Australian federalism, finding that SOTF best corresponds with the coordinate view of federalism, driven first and foremost by the Victorian government's immediate political objectives and ideological principles, with minimal attention to federal processes, other Australian governments or intergovernmental agreements; and that institutional and fiscal arrangements facilitated – rather than obstructed - policy innovation and transfer. It argues that federalism should be understood as a complex and dynamic system of processes and institutions, embedded in, and interacting with society. The study was based upon original data and documents from government and non-government bodies, complemented by interviews with key policy actors, triangulated against secondary literature, and analyzed qualitatively in conceptual frame drawing upon variants of institutionalism and Kingdon's policy streams framework.

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Introduction

Australian federalism and school funding arrangements have transformed significantly over the last 30 years. While education is constitutionally a state responsibility, Commonwealth government involvement in schooling has increased so greatly that it is now referred to as a 'shared' responsibility, (Productivity Commission 2010), where programs, spending, and intergovernmental relations are highly interrelated, complex and contested. To date, there has been no rigorous academic analysis of federalism in relation to school funding arrangements, either from a political science or education perspective. Consequently, the nature and influence of Australians federalism on school funding and policymaking is not understood, nor is the way the division of responsibilities might obstruct or enhance reform and educational outcomes.

This paper draws together these disparate debates and examines how federalism affects school funding policies and processes at the state level. It is based on a detailed study of the Victorian government's 'Schools of the Future' (SOTF) reforms (1992-1999), which devolved 93 per cent of the state government's public education budget to individual schools, and is described by supporters and detractors alike as the most radical Australian school reform of the last century (Hayward 1998; Spaul 1999). While this alone merits SOTF for analysis, the fact that the reforms occurred in the 1990s, a period of rapid and profound transformation of Australian federal processes and intergovernmental institutions, particularly in education, makes it of even greater interest to federalism and public policy scholars.

This paper is structured in three parts. The first section presents the political and academic context of the study, the second section presents the methodology and reforms. The third section discusses the policy-making processes and outcomes, and the degree to which they were influenced by the intergovernmental political and fiscal settlement, which is then contrasted against recurrent critiques of Australian federalism. The evidence suggests that SOTF best corresponds with the coordinate view of federalism. The reforms were driven by the Victorian government's immediate political objectives and ideological principles, and that other Australian governments or intergovernmental agreements and collaboration were of no influence. Contemporary Australian federalism in this case facilitated state policy innovation and horizontal policy transfer. Consequently, this paper argues that federalism should be understood as a complex and dynamic system of processes and institutions, embedded in, and interacting with society, and that its operation is heavily dependent on the configuration of fiscal settings, political actors and opportunities.

Political and academic context

<u>Australian federalism</u>

Formed in 1901 by the unification of six independent British colonies, the

Commonwealth of Australia has several features that distinguish it from other federations. Of these, the most prominent and relevant to this study are the high degree of concurrency (shared functions) between state and federal governments resulting in vertical competition; a high degree of vertical fiscal imbalance (VFI) and horizontal fiscal equalization (HFE); and a strong centralizing trend over time (Productivity Commission 2006). This vertical fiscal imbalance leaves the states dependent upon a complex system of funding transfers from the Commonwealth government to meet their expenditure responsibilities. These transfers take two main forms - general revenue assistance or untied grants, and specific purpose payments (SPPs) or tied grants. In the period under study, the Commonwealth government raised about 70 percent of total public sector revenue, yet was responsible for only half of all public expenditure (Craig 1997, 175). This complexity is heightened by hundreds of complex agreements between federal and state authorities made through intergovernmental forums that have no formal authority under the Australian constitution (Pincus, 2006, 35). These distinguishing characteristics have become more pronounced over time, particularly following the High Court's 1942 ruling that effectively resulted in the Commonwealth alone taking responsibility for the collection of income tax, and the introduction in 2001 of a goods and service tax collected by the Commonwealth, replacing comparable state taxes.

While all Commonwealth governments have recognized and exploited to varying degrees their fiscal and constitutional dominance over the states, the nature and degree of Commonwealth power over states and is considered to have increased sharply under the Hawke (1983-91) and Keating (1991-96) governments, who used it to influence state policies and pursue federal policy objectives (Bennett and Webb 2006; Mathews and Grewal 1997). Their 'New Federalism' agenda was driven in part by the desire to remove overlap and duplication which were perceived as obstacles to national economic reform and international competiveness (Painter 1998). It comprised of changes to fiscal relations - in the Commonwealth's favour - and dramatic renovations to intergovernmental institutions. The Advisory Council on Intergovernmental Relations was dismantled, and the annual Special Premiers Conferences (relatively informal meetings at which Commonwealth funding 'offers' were presented to states) were replaced by the Council of Australian Governments, which emphasized intergovernmental cooperation and agreements on policies and 'national issues'. (This was particularly prevalent in education, evidenced by Hawke's landmark policy 'Strengthening Australia's Schools' policy and Keating's 'Knowledge Nation' election platform.) Parallels can be drawn between this 'new federalism' and the so-called executive federalism in Canada, with formal - although not constitutionally derived - meetings between government leaders and ministers (Watts 2008).

The growing fiscal and administrative complexity resulting from increased Commonwealth role and intergovernmental agreements has contributed to a consensus among state and federal politicians, academics, business people, and the general community that Australia's federation requires reform and the Constitution is either ignored and (or) outmoded (E.g. Twomey and Withers 2007; Hollander 2010). The most common complaints concern unhelpful duplication, excessive bureaucracy and administration, inconsistent regulation, buck-passing and cost-shifting, which are said to limit productivity and lower service quality (Pincus 2006, 34). The most common suggestions for reform include the reallocation and

clarification of powers and functions between the Commonwealth and the states, the reform of Commonwealth-state financial relations and the improvement of intergovernmental processes and institutions. 'Fixing federalism' and 'ending the blame game' was a major plank of the Labor Party's successful 2007 federal election campaign (ALP Advisory Group 2007).

The nature, degree and extent reforms thought necessary varies widely among scholars and practitioners. On one side, Kenneth Wiltshire (2005), A. J. Brown (2006) and the Business Council of Australia (2006) argue for a major overhaul of what they consider a dysfunctional system. Lingard, O'Brien and Knight (1993) are typical of education scholars who regard Commonwealth intervention and policy uniformity as desirable and necessary to drive improvement and achieve broad goals such as equality of opportunity and social justice. On the other side, scholars such as Brian Galligan (2008), Cliff Walsh (2006), and Jonathan Pincus (2006) argue that, on the whole, the Australian federation is operating well, with intergovernmental competition and overlap a sign of dynamism and healthy a sorting of roles. Between these two extremes, are scholars such as Anne Twomey and Glen Withers (2007), Alan Fenna (2007) and Andrew Parkin (2003), who advocate for the maintenance of federal structures, but with a sharper delineation of state and commonwealth roles and responsibilities, and removal of concurrency. Hollander (2010) offers a rare perspective in the Australian debate. Her study of environmental protection in Australia finds that duplication, overlap and redundancy perform a useful function, and that efforts to reduce these factors by clarifying roles of state and Commonwealth have imposed artificial boundaries on a complex policy domain, and reduced the checks and balances that are the hallmark of a federal system of government. Interestingly, as Galligan (2008, p.620) has shown, the way in which Australian federalism is conceptualised is a strong predictor of what reforms are proposed, and their likely chances of success, which has limited and fragmented the debates and research in Australia.

Most scholars argue that Australia at federation was organized on the principle of coordination, with section 51 of the Constitution in particular stipulating the limits to Commonwealth power. Others, such as Galligan (1995, 2008) and Walsh (2006), argue that concurrency and competition were intentional features of Australia's constitution, pointing to section 96 which gives the Commonwealth power to make grants to the states on such terms and conditions as it sees fit (therefore providing constitutional legitimacy for involvement in state spheres of responsibility) and section 109, under which the Commonwealth laws are given precedence over state laws should the two conflict. Galligan (1995; 2008) goes so far as to say that concurrency is 'the defining feature of the Australian division of powers'.[i]

Ongoing debate surrounds the policy significance of the conditions attached to tied grants. Some legal and economic analysts argue that the conditions erode state power (e.g. Else-Mitchel 1983; Zines 1989), while some political scientists submit that the states retain a great deal of policy and program autonomy (e.g. Galligan 1988; Parkin 2007). The limited empirical research suggests that degree of state spending autonomy has shifted over time and between policy arenas. For example, seemingly detailed and restrictive conditions may reflect a consensual outcome of genuine intergovernmental negotiation. Likewise, seeming compliance to federal conditions may be bureaucratic illusion on the part of the states or simply distort pre-existing (or planned) state policies. The affect of tied grants or

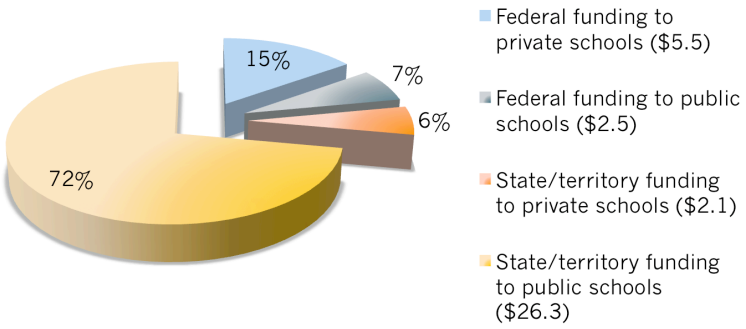
Commonwealth programs on state education policies has not previously been explored.

School funding in Australia

Under section 51 of the Australian Constitution, education - and by implication school funding and provision- is a residual power and rests with the state governments. This was largely the case until 1974, when the Commonwealth government began systematically funding both public (government) and private (non-government) schools. This involvement is largely, but not entirely, based on section 96 of the Constitution, which allows it to make payments to the states on such terms and conditions as it sees fit. This involvement has increased in relative and absolute terms under every successive Commonwealth government, backed by strong public support, to the extent that education policy and school funding have essentially become a shared responsibility between the Commonwealth and state governments. The degree to which it is shared is unique among federations (Warren 2006, 2).

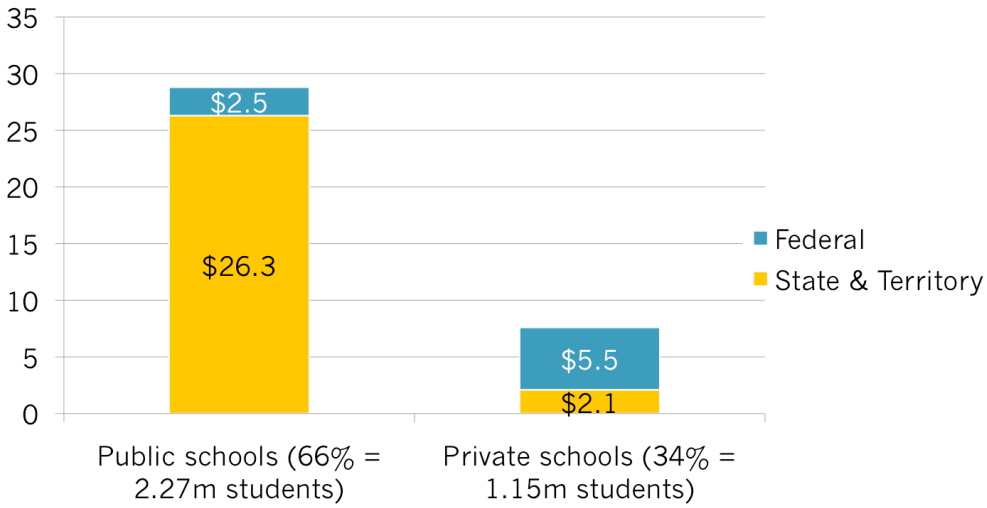
While the states have retained legislative and regulatory responsibility for education and training (effectively resulting in eight separate public school systems), and continue to provide 91 per cent of the total government funding for public schools, a range of national agreements and Commonwealth financial conditions overlap with or influence state legislation, regulation and funding (CPELL 2004, 13-14). Additionally, the Commonwealth is largely and increasingly responsible for the funding of private schools, leaving the states responsible for public schools (which cater to a disproportionate amount of disadvantaged students), as well as curriculum[ii] and teacher and school registrations. This settlement, particularly the Commonwealth government's expanding role, has been largely driven by a combination of political ideology and political pragmatism, rather than constitutional fidelity or federal principles such as subsidiarity, and has been aided by increasing Commonwealth fiscal and administrative power. This settlement has resulted in significant administrative overlap, inconsistency and complexity, particularly when combined with differing financial years, accounting systems, and the sectoral divisions: public and private (Catholic and independent). So great is this complexity, that governments and policymakers do not know how much each individual school receives from all government and private sources, and thus cannot reliably ascertain an individual school's relative needs (Dowling 2008).

Figure 1: Public funding for Australian schools by source



Source: Authors own chart, data from Productivity Commission 2010

Figure 2: Public funding for schools by sector



Source: Authors own chart, data from Productivity Commission 2010

This administrative complexity is widely attributed to the mediations of Australian federalism and overlapping State and Commonwealth responsibilities.[iii] Yet the degree to which federal activity in schooling overlaps, competes or complements with state activity, and degree to which it enhances, obstructs or otherwise influences state policy autonomy or intergovernmental relations has not been rigorously investigated. Research has instead focused on the relative funding and enrolment shares of the public and private sectors, the virtues or dangers of policies promoting choice and accountability, and the actions of Commonwealth government (who has smallest funding and policy role), at the expense of the broader (intergovernmental) political settlement in which school funding policies operate, or state governments who retain primary responsibility for the funding and management of school systems. There are inherent assumptions – particularly amongst education scholars - that the system needs reform and that changing the

funding rules and clarifying responsibilities will lead to improvement, when in fact, evidence is scant either way. There is also an unfounded preference for increased federal government involvement or assumption of state responsibilities. Federalism is either ignored, misunderstood as a static set of rules and institutions, or viewed obstacle that needs to be overcome. It is not clear which normative model of federalism – cooperative, collaborative, coercive, competitive – best corresponds to school policy arena, and the virtues or hindrances posed by the current and proposed model.

Schools of the Future

Institutional and political context

The Schools of the Future program was introduced by the Victorian government under Liberal-National Premier Jeff Kennett shortly after their October 1992 election amidst a state economic and policy crisis. It comprised of three core elements: it increased operating autonomy for government schools (devolving funding and hiring decisions), introduced curriculum and standards that would prevail across all schools and increased accountability by state-wide assessment and reporting. As a result of these reforms, 93 per cent of the Victoria government's public school education budget was devolved to individual schools (Hayward 1995), constituting the largest devolution of public education system of its size, and effectively creating a public system of self-managing schools. The reforms are said to have had profound repercussions beyond Victoria's borders, namely the adoption of elements of the reforms by other Australian governments and an evolution of the conceptual framework for school funding and accountability (Caldwell 2008). While full set of reforms are discussed, only funding elements are examined in detail – as these are the most contested and opaque locus of Commonwealth involvement and intergovernmental relations in schooling. The study was based upon extensive, original, qualitative research. Data and documents from state, federal and personal archives were complemented by interviews with key policy actors, including the Victorian minister, his staff, senior bureaucrats, consultants. This primary evidence was then triangulated against contemporary documentary evidence from non-government sources and secondary literature, and analyzed qualitatively in a conceptual frame drawing upon variants of institutionalism and Kingdon's policy streams framework.

Victoria, located in the southeast of the country, is Australia's most densely populated state, and very ethnically diverse. Almost half of the population either born overseas, or has one or more parents born overseas, from over 200 different countries (ABS 2008). Education is compulsory until 15 years of age, and free schooling is provided by public (government) schools, which are effectively administered in the equivalent of a single 'district' by the state department of education, with responsibility resting with the Victorian minister for education, a cabinet position in the government formed by parliamentary majority. In the early 1990s, approximately one third of the 780,000 Victorian school students were enrolled in private (non-government), fee-charging schools (Victoria Auditor General 1995). Total education outlays in Victoria averaged around 20 per cent of state budget expenditure (including A$3.2 billion in Commonwealth grants for public schools) of which over 90 percent of which was spent on public schools. Per-pupil expenditure was higher in Victoria than any other state - with no discernable educational gain for students relative to other states (Victorian Commission of Audit 1992).

The ten years preceding the SOTF reforms were a turbulent period in Victorian education, with the introduction of the Victorian Certificate of Education a high school graduate certificate); introduction of a curriculum framework and governing body, the establishment and extension of school councils; the closure of technical and many 'special' schools, and the integration of their students into comprehensive secondary colleges; and departmental restructuring, including shifting much of the management of the 2000 government schools from the central office to eight regional offices. Further devolution reforms had been proposed by Victorian education minister Ian Cathie in 1986 and 1987, and although these were ultimately blocked by teacher unions and their supporters in Labor cabinet, Victoria's school system remained the most 'devolved' of all states in the late 1980s. By 1992 there a deep crisis of confidence in the state's public education system and government management more generally, due in part to economic recession, a state budget deficit, higher parental and community expectations of schooling, and the power of teacher unions in driving and blocking policy.

The late 1980s and early 1990s saw and extension of the depth and breadth of Commonwealth interest in education. The Hawke and Keating governments identified education as a national priority, placing it high on their own agenda. While they conceded that Commonwealth involvement in schooling was restricted by constitutional and institutional factors, they saw a role for supplying national leadership and supplementary (conditional) funding. Two key reasons were given for this enhanced Commonwealth role. The first was the need for a skilled, inventive and adaptable workforce, requiring increased formal education. The second was record-high youth unemployment, which increased both the individual and public incentives for school completion and higher education and training. Both of these were deemed as being in the national interest, because they would potentially improve Australia's current economic condition and future prosperity. A third, related, motive was the pivotal role schooling played in the improvement of social outcomes of disadvantaged groups and individuals (Dawkins 1989).

Commonwealth involvement in schooling took the form of general recurrent tied grants delivered to state education departments for school education under 'resource agreements'; a capital grants program (public school component delivered via state education departments; and a growing number of directly and indirectly administered special programs targeting school students, including the National Equity Program for Schools (with access, equity, national priorities and incentives elements), the School Language Program, Education Centres Program, and National Priority Funding Programs (DEET 1993), many of which required matching funds from the states. The administrative guidelines accompanying these programs were updated annually, in a 'booklet' of approximately 250 pages. Most of these programs were then fully or partially delivered by state education departments in accordance with Commonwealth conditions, spending guidelines and reporting procedures. Annual written reports were submitted by the states and non-government school authorities to the commonwealth education department for assessment of their compliance in grant conditions.

The specific objectives of the General Recurrent Grants Program were 'to prepare the nation's young people to undertake post-school education and training, to participate successfully in the labour market, and to contribute to, and benefit from, Australian society (DEET 1993, 9). The grants were intended for the operating expenditure incurred school systems in implementing the strategies,

programs and objectives specified in the resource agreement. The grants (worth $307 per primary student and $455 secondary student in the public systems in 1993) were paid monthly and could be spent on staff salaries and training, curriculum development, maintenance and general operation provisions (DEET 1993, 10). The legislative basis for these grants was provided by the Commonwealth's States Grants (Schools Assistance) Act 1983, 1984, 1988 and States Grants (Primary and Secondary Education) Act.

Formal intergovernmental collaboration - horizontal and vertical - occurred under the auspices of the Australian Education Council (AEC) and it's successor the Ministerial Council of Education, Employment and Training and Youth Affairs (MCEETYA). These institutions gathered education ministers from the Commonwealth and each state and territory two or three times a year to deliberate contemporary education issues and work towards a more nationally coordinated approach to schooling, with senior bureaucrats from each state and a small secretariat working between meetings. The rationale behind this work echoes the rhetoric of those opposed to or ambivalent towards federalism: it would lift standards, reduce unnecessary differences between states, share resources and expertise, eliminate duplication and improve economies of scale. While nominally a forum of intergovernmental collaboration, the preeminent influence of the Commonwealth was universally acknowledged (Dudley and Vivovich 1995, 54-55).

Policy development and implementation

The SOTF reforms were conceived and developed by Don Hayward, the future Victorian education minister, while the Liberal party was still in opposition. Hayward fervently believed that view that quality outcomes of schooling could only be assured when decision-making occurred at the school level. He concluded that there was a crisis of education in Victoria, necessitating a 'landmark shift in attitudes and a new framework for school education'. He sought to dismantle 'the system' - the state education department and teachers unions – which he felt distorted educational accountability and obstructed principals from improving educational outcomes in their schools. Serving as inspiration for a devolved model were Victoria's non-government schools, and the Edmonton school district in Alberta, Canada. 'If one wished to give families and students the ability to access the education services that best met their individual needs, one had to enable schools in the government system to become autonomous, independent providers' (Hayward 1998, 31-34).

After setting on a framework – self-managing, publicly-funded schools – Hayward commenced extensive and ongoing consultations with academics, school principals, teachers, parents and business people. Devolution, Hayward emphasised, was not in question, but their advice was sought on the details and implementation strategy, in particular the budget aspects. Teacher unions were not formally consulted. Brian Caldwell, an Australian education economist who had worked on devolution reforms in Edmonton and other Australian states was appointed as an independent policy consultant. Regular meetings between Liberal ministers and shadow ministers for education were another – tangential - source of information and inspiration. It was through these 'unproductive' meetings that Hayward met Geoff Spring, Secretary of the Northern Territory's Department of Education, who he later hired as CEO of the Victorian department and head of the reform process (Hayward 1998, 36). Eight months after Hayward's appointment to shadow cabinet, and 18 months prior to the state election, the reform model and

objectives were adopted as Coalition policy. These included a substantial reduction of the size and functions of the education department, the transfer of funding and school management responsibilities to individual schools in accordance with charters developed by school councils and approved by the state government, and authority for principals to hire, fire and reward teaching staff (Hayward 1990).

While consultation with party colleagues was minimal and informal in nature, Hayward's school devolution policy was readily accepted as Coalition policy because it was consistent with the Coalition's desire to reduce expenditure and its belief in small government and market principles as both policy ends and means. Launching the policy in 1991, opposition leader Alan Brown spoke of 'an historic shift, in which Liberals will dismantle Labor's centralized education machine and return schools to the community, to whom they are accountable' (Brown 1991). These were accommodated within a broader shift towards devolution and new public management, both of which had been gaining acceptance among policymakers at the state, federal and international levels over the previous two decades, particularly in schooling.[iv]

The detail of the reforms and implementation strategy was developed both prior and during their implementation by a taskforce of school principals appointed by Hayward, and a departmental working groups, in consultation with the minister and academic consultant Brian Caldwell. Complementing these groups were state-wide consultations with teachers and parents, and public forums, both of which contributed refinement of the reforms and implementation process. Hayward, like other ministers in Victorian Kennett government, was given full discretion over his portfolio. There was minimal discussion, and no direction or constraint – other than government-wide budget cuts- imposed by the Premier or cabinet at any time of reform design and implementation.

Schools of the Future comprised of three core elements: it increased operating autonomy for government schools - essentially creating a state-system of charter schools -, introduced a state-wide 'core plus' curriculum and academic standards, and extended state-wide testing and reporting. Schools were required to write charters that set their curriculum, learning priorities and strategies, and their short and long-term objectives. Subject to ministerial approval, these charters served as a contract between the school, its students and the state, with schools required to produce annual written reports on their educational performance in terms of their charter. The new funding structure devolved 93 per cent of the new Directorate of School Education's budget to individual schools. Each received a one-line 'global budget', which comprised of a base component and equity components, derived from characteristics of the school's student population (such as the number of students with learning or physical impairments, of indigenous background, or from socio-economically disadvantaged homes), school rurality and school size. Schools had discretion in the way in which they taught the eight core subjects (including class sizes and text books), and in the choice of any additional subjects that formed their curriculum. Significant revisions were also made to industrial relations: school councils played greater role in selecting their principal, who then selected and promoted teaching and non-teaching staff. The size and responsibilities of the central and regional Victorian education bureaucracy was reduced by 60 per cent.

Implementation commenced soon after the Liberal-National Coalition's victory in October 1992 state election, albeit with refinements. The discovery of significant government debt and inadequate revenue resulted in cabinet-imposed

budget cuts in all departments. In the weeks following the election, Hayward established 249 taskforces across the state to decide on school closures, amalgamations and restructures, and created two high-level taskforces –the Quality Provision Framework taskforce to elaborate the details of the reforms and new statewide frameworks, and the Schools of the Future taskforce to develop implementation and system restructure strategies. This unexpected budget shortfall resulted in a reluctant reduction of envisaged support services and programs for schools and principals transitioning to school-based management; lower funding allocations; staff redundancies and the immediate closure of 50 schools with falling enrolments that had been previously identified as non-viable (Hayward 2009). These cuts increased distrust and opposition amongst the teacher unions and some segments of the population, who considered the reforms to be a 'cost-cutting racket' (Gibson 1993) and 'attack on state education entitlements' (Federation of Teachers Union of Victoria 1993). Hayward regretted the assumption of causation, rather than correlation, between the reforms and budget cuts he was forced to administer (Haywood 2010).

In January 1993, a preliminary paper outlining the reforms was distributed to all public schools in Victoria, inviting them to participate - subject to school council approval (DSE 1993). Almost half of Victoria's 1720 schools volunteered to join the first intake, of which 319 schools encompassing a variety of demographic, geographic and socio-economic situations were selected. These pilot schools were involved in the translation of the preliminary paper into government policy. A number of funding and management models were trialed and evaluated, which directly informed future policy. The results communicated to schools via regular forums and seminars, on which feedback was sought. Four intakes followed at six-month intervals, each comprising of between 380 and 510 schools, with the fifth intake becoming operational in July 1995. Each intake went through a six-month induction phase, with the government providing training, documentation and personnel support in their transition to become self-managing within the new standards and accountability framework.

Staggering the reforms' implementation had several benefits. It created a more manageable workload for the department and allowed the government to make adjustments to the budget formula, accountability framework, training and support services for each successive intake, based on unforeseen implementation difficulties faced by previous intakes. Consequently, only six per cent of schools went into overdraft due to inadequate cash-flow budgeting, despite 10 per cent of schools lacking a school council member with business or finance expertise (Auditor General of Victoria 1997). Requiring schools to volunteer to become self-managing weakened claims that the reforms were forced upon schools against their consent as a cost-cutting measure. Only two schools refused to participate, a major vindication for the government.

As a result of the reforms, the Directorate of School funding went from controlling over 90 per cent of the expenditure to just seven per cent. There was a 12 per cent reduction in Victorian government expenditure per student, due do the consolidation of head office and regional administrations, cuts in overhead expenses, and the contracting out of school cleaning and other services. Between July 1992 and June 1994 alone, the department's staff was cut by 11,000 (of which 6700 were teachers). Despite their radical nature, the reforms were accommodated within the existing legislative framework. Only one minor change was required to the 1958 Victorian Education Act - to minimize industrial relations disputes with

teachers -which passed without difficulty due to the Coalition's majorities in both houses of Victorian parliament.

SOTF reforms were later extended by Hayward's Liberal party colleague and successor as education minister Phil Gude, and by the Labor Party, who won the 1999 Victorian election. In 2009, Victoria had the highest average student performance, highest school retention rates and lowest per pupil expenditure of all states (Productivity Commission 2010).[v]

Intergovernmental collaboration and its influence on the Victorian reforms

The design and implementation of the SOTF reforms constituted a unilateral action by the Victorian government. The central policy actors were the Minister, Don Hayward, senior policy adviser John Roskam, department director Geoff Spring, senior bureaucrat Graeme Marshall, and academic consultant Brian Caldwell. In interviews, they have independently and repeatedly emphasized the non-existent role and influence of the Commonwealth. This is supported by the policy documents, government and media archives, and academic analysis to date. Beyond the AEC/MCEETYA meetings, there was no formal collaboration between the Victorian and Commonwealth education ministers, with the Victorian minister and his staff unable to recall a single letter or phone call exchange with his federal counterpart in relation to the radical state reforms, despite highly-conditional tied-grants for schooling, drive for greater uniformity, and a constant tension between Commonwealth and state governments concerning jurisdictional legitimacy in the education sphere, and differing attitudes between the two governments on national consistency, aggravated by their composition of opposing political parties (Hayward 2009, Roskam 2009, Marshall 2009).

There is no evidence to suggest that the Commonwealth or the conditions attached to its tied grants for schooling impacted on the SOTF reforms in any way. This is noteworthy, considering the reforms were fundamentally about school funding and how it was spent. But this finding is contrary to the bulk of academic, and public analyses, including reports by the Victorian (bipartisan) Parliamentary Committee on Intergovernmental Relations in the 1990s, which emphasize Commonwealth influence and interference in state spheres, and the restrictive and distortive effect of tied grants on which states are dependent. Nevertheless, this analysis is supported by Watson (1998) who found that the Commonwealth was unable to effectively ensure that the conditions and purposes of its recurrent grants for government schools were met by the states. Similar observations have been made in relation to federal grants for education purposes in the United States (Tsang and Levin 1983; Gordon 2007).

During the SOTF reforms, Commonwealth tied grants for schooling were simply pooled with the Victorian government's existing funding for schooling. While the resource agreements with the Commonwealth required state governments to spend tied grants for schooling on areas of 'national priority', these priorities – such as improving literacy, or improving educational outcomes of disadvantaged students - were broad enough to be supported by all governments of all levels and political parties, and the required reporting was flexible enough for Victoria's reforms to be pursued without amendment or Commonwealth interference. Indeed, the global budget's preeminent attention on improved educational outcomes, and the additional 'equity' funding provided to schools enrolling students with additional needs, from disadvantaged backgrounds or in rural and remote areas, were consistent with these national priorities and

accommodated within mandated spending guidelines and reporting requirements. From the Commonwealth's perspective, the conditions attached to the tied grant were satisfied, and they had neither the inclination nor institutional capacity to investigate or challenge Victoria's school program spending.

An argument can also be made that the Commonwealth government was supportive of the SOTF framework, with the Hawke-Keating government adopting principles of economic rationalism and new public management in trade policy, industrial relations, and the delivery of national social services. Hollander (2010) suggests that under the 'New Federalism' arrangements, the Hawke and Keating governments saw their role as setting broad national goals, with states free to pursue these as they saw fit. This study supports this argument in relation to school funding – despite it contrasting with Commonwealth government rhetoric.

The influence of the AEC and MCEETYA on the development and implementation of the Victorian reforms were described as likewise non-existent, with the bi- and triennial meetings described by Victorian policy actors as 'necessary distractions' 'irrelevant' and 'the greatest waste of time' – perspectives substantiated by the documentary evidence. These meeting agendas were dominated by the Commonwealth, and concentrated on issues tangential to the Victorian reforms, such as a national curriculum statement, school starting age, and higher education and training, and what Hayward called 'esoteric questions, far removed from the immediate questions of schooling' (Haywood 2009). Formal horizontal collaboration was limited and driven largely by partisanship. Education ministers from Liberal and National state governments would caucus before the formal intergovernmental meetings, and informal dinner discussions were a source of advice and morale, with the New South Wales minister having previously implemented limited devolution reforms. While this collaboration was facilitated by party allegiance (and shared political values and ideological frameworks), it was neither necessary for, nor a guarantee of, policy cooperation and creation. Ministers remained most concerned with maintaining state electoral support and pursuing their own state agendas.

This absence of effective collaboration is attributable to two factors. First, Victoria was fully pre-occupied with its own reforms and lacked the time and financial resources to devote to outside projects (including national projects) and building intergovernmental relations. Second, from a ministerial office perspective, there was no reason to seek closer relations with other states whose school systems were more centralized, and, who at the time, they demonstrated no interest in following in Victoria's footsteps (Hayward 2009, Roskam 2009).

However, by 1998 all states had devolved additional budget and management autonomy to schools in their systems. The new Commonwealth also demonstrated interest in the Victorian reforms, commissioning Brian Caldwell to write a report entitled Self-Managing Schools and Improved Learning Outcomes, to provide 'a state-of-the -art account of research and practice on cause-and-effect relationships between enhanced school autonomy and outcomes for students' (Caldwell 1998, 3). This suggests both horizontal and vertical policy learning and transfer, facilitated in part by key policy actors moving across jurisdictional boundaries.

Evidence from this case study suggests that the coordinate model - rather than collaborative or coercive models – best describe actual the division of responsibilities and operation of state and Commonwealth activities in schooling,

despite the concurrency that existed in the form of Commonwealth programs and funding for schools. It also argues, however, that this concurrency facilitated rather than obstructed the autonomous state-level reform. The tied grants delivered to the Victorian education department mediated against the budget cuts impelled by the state economic crisis. In short, in this study, Australian federalism was found to be broadly functioning in line with the constitution, allows state autonomy, policy innovation and Commonwealth financial assistance in areas deemed to be of national priority. This is incongruent with the majority of contemporary and subsequent analysis of Australian federalism – both public and academic- which argues that Australian federalism is broken, the constitution outmoded and ignored, and federal intrusion into state policy domains via tied grants and programs has a detrimental effect on state autonomy, policy effectiveness and government accountability. It also undermines the belief, prominent especially amongst education academics, media commentators and federal politicians, that a greater federal role and policy uniformity is necessary to improve outcomes and accountability in school education.

Examination of Canadian federalism and scholarship sheds light on this incongruence. Canada has one of the world's top-performing education systems and possesses close convergence among provincial school system organization and per-pupil expenditure, despite the absence of national government programs, directives, or tied grants for schooling (Wallner 2009). Wallner attributes this to contextual features of Canadian federalism, namely fiscal federalism, societal pressures, and the configuration of the policy sector, which combined to facilitate the flow of policy ideas and expectations across regional borders through formal and informal institutions. She argues that stakeholders (such as teachers and parents) possessed similar interests and policy preferences, and formed associations that transcended provincial borders. This encouraged the creation of policy communities that fostered policy experimentation and emulation in efforts to achieve or maintain high performing school systems relative to other provinces – aided by (largely untied) horizontal fiscal equalization payments that allowed them to spend comparable amounts (2009). Similar arguments have been made by Colemand and Skogstad (1990) who posit that in a federation, stakeholders simultaneously enhance the exchange of policy ideas among the regional governments, while exerting pressures for comparable policies from authoritative actions in each jurisdiction, by acting as policy communities and networks. This application of institutionalism and its variants clarify the importance of the institutional and political settlement in facilitating policy innovation and emulation at the state level.

Applying these arguments and analytical framework to this study, I suggest that that the fiscal arrangements that characterize Australian federalism – notably horizontal fiscal equalization via Commonwealth funding transfers, facilitated by vertical fiscal imbalance – has allowed states to develop school systems operating at similar resources levels, while institutional arrangements such as the intergovernmental ministerial councils, a national media, and comparable interest groups and pressures across states have created issue networks which spurred horizontal policy emulation. In this case, devolution as a framework for financing and managing state school systems emerged gradually from the 1970s without action from the federal government, with the Victorian reforms of the early 1990s acting as a trigger for relatively rapid punctuated convergence amongst states in the mid 1990s, before reaching in a new equilibrium in the school funding

settlement. The Commonwealth requirement from 1988 that states report annually on educational outcomes on a range of settings increased the capacity for 'yard-stick' comparisons between school systems, and possibly contributed to other states adopting components of Victoria's reforms in quick succession. Commonwealth funding for schools was a critical addition to the state education coffers in a period of state fiscal austerity and economic crisis. Hollander's findings for environmental policy -that overlap and duplication policy responsibilities is a strength, rather than a weakness appear equally valid for the school funding sphere. This suggests that reforms seeking to clarify responsibilities impose artificial divisions on a complex policy domain, limit opportunities for political engagement, and remove important failsafe mechanisms that protect against policy failure. In 1969 Landau argued that redundancy (concurrency) 'serves many vital functions… it provides safety factors, permits flexible responses to anomalous situations, and provides a kind of creative potential.' These three features appear present in the Schools of the Future case.

It is difficult to imagine this degree of policy innovation and emulation if Australia had been a unitary state, or had possessed a more interventionist and coercive Commonwealth government that discouraged state diversity in its efforts to achieve a 'national' schooling system. It is equally difficult to imagine the reforms and subsequent policy learning and transfer occurring under a different constellation of political actors and opportunities. This provides further support for an understanding of federalism as encompassing the dynamic relations and processes between levels of government, political institution and actors – rather than static institutions disconnected from their political and institutional context.

John Kingdon's model of agenda-setting complements institutional analysis, providing insight into policy-making processes at the state level, and how and why the Schools of the Future reforms were successfully implemented by the Coalition government, when earlier attempts by the Labor government to extend devolution had failed. It also provides an explanation of why the reforms succeeded in the early 1990s (when the school policy sphere was characterized by a coordinate model of federalism and loose Commonwealth conditions and oversight) and may not succeed today, given the extension of intergovernmental and national agreements on schooling, and increase in scope and complexity Commonwealth school policy and tied grants.

Kingdon posits that policy reforms occur when three separate and independent streams – problem, policy and politics – are aligned in a 'window of opportunity' which is then exploited by a 'policy entrepreneur'. Preceding the alignment of these streams is what Kingdon describes as 'initiation', unsettling conditions or series of events that provokes dissatisfaction with the status quo and disposition towards policy action – in the case of SOTF, the economic crisis and highly-publicized reform failures of the previous state government. The 'problem' stream refers to a political problem, such as failure of policy of set or policies – the perceived 'crisis of education' and limited accountability. The policy stream refers to a society's public policy preferences and the presence of alternative policies responding to the problem within those preferences – in this case public support for dramatic extension of previous devolution reforms. The political stream refers to favorable politics – in this case, a parliamentary majority in both houses, ineffectual opposition from an electorally weak opposition party and teacher unions, which were unable to keep up with the speed of successive reforms while undergoing their own internal reorganizations. Hayward can be viewed as the

policy entrepreneur, with contemporary and subsequent primary and secondary evidence identifying him as the reforms' initiator and driver.

Conclusion

This study of Victoria's Schools of the Future reforms suggests that state governments in the 1990s continued to possess autonomy in school policy, and that other governments, tied grants and intergovernmental institutions were of minimal influence on state-level education policy. SOTF reforms best correspond with the coordinate view of federalism – although the presence of concurrency suggests the limitations of static normative models. This study further suggests that contemporary federal arrangements - the division of fiscal and policy responsibilities - operated as intended by constitutional drafters. Primary state responsibility provided policy autonomy and opportunity for policy experimentation. While attempts at intergovernmental policymaking were ineffectual, the presence of intergovernmental institutions and processes, and horizontal fiscal equalisation, encouraged horizontal and vertical policy learning and transfer. Constitutional provisions for concurrency – in this case conditional Commonwealth tied-grants for schooling – did not obstruct the Victorian reforms, but rather facilitated innovation and acted as a safety feature by mediating against state-level budget cuts.

Kingdon's model of agenda-setting was found to be valid for this case of sub-national policy reform, and together with institutionalism helped explain the dynamism of federalism – as a set of institutions and processes embedded in, and interacting in society. It also underlines the degree to which reforms within a federal system of governance is sensitive to the configuration of political actors, institutions and opportunities.

Future research within this project examines the influence Australia's federal settlement at the Commonwealth level and intergovernmental (national) spheres, and the extent to which these institutions and processes of have changed over the last decade. Recognizing that the essence of federalism lies in the society itself (Wheare 1946) and that comparisons with other federations can help identify features and consequences of particular arrangements (Watts 2008), comparative analysis of school funding policies and fiscal arrangements in the United States and Canada are underway.

Finally, this study supports Hollander's thesis that an artificial division of responsibilities, policy uniformity, and the removal of concurrency, can undermine the virtues of a federal system, with potentially detrimental effects on schooling policy and outcomes. With a national review of school funding and intergovernmental arrangements in education currently underway, these findings on the dynamism and potential virtues of Australia's intergovernmental school funding settlement have never been more relevant.

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[i] It must be noted that this is not unusual among federations. As Godzines (1966) memorably put it, federalism was more like a marble than a layer cake, with a mixing and blending of federal and state government activities.

[ii] The roles of state and federal governments on school curriculum are currently under reform, as part of an (Commonwealth-driven) attempt to develop a national curriculum.

[iii] See for example: L. Connors (ed.) (2007) *Making Federalism Work for Schools: Due Process, Transparency, Informed Consent,* Sydney, New South Wales Public Education Alliance; B. Lingard (2000) 'Federalism in Schooling Since the Karmel Report: From Modernist Hope to Postmodernist Performativity', *Australian Educational Researcher,* 27(2) pp.25-61; J. McMorrow (2008) *Reviewing the Evidence: Issues in Commonwealth Funding of government and non-government schools in the Howard and Rudd years,* Melbourne, Australian Education Union; Productivity Commission (2008) *op. cit.;* Independent Schools Council of Australia (2006) *Policy Positions on the Funding of Independent Schools,* Canberra, ISCA, Available online at <http://www.isca.edu.au> [Last accessed 24 December 2007]; J. Keating (Forthcoming) *A New Federalism in Australian Education,* Melbourne, Foundation for Young Australians; Council for the Australian Federation (2007) *Federalist Paper 2: The Future of Schooling in Australia. A Report by the States and Territories*. Melbourne, Council for the Australian Federation; Centre for Postcompulsory Education and Lifelong Learning (2004) *A New National Agenda for Education and Training in Australia. Overview Report for the Department of the Premier and Cabinet,* Melbourne, Victorian Government, Available online at <<http://www.dpc.vic.gov.au/CA256D800027B102/Lookup/CommonwealthStateRelations_Nationalreport/$file/a%20new%20national%20agenda.pdf>> [Last accessed 17 January 2008]

[iv] Brian Caldwell and Jim Spinks described devolution of school management as a international 'megatrend', driven by five inter-related concerns: efficiency and effectiveness in the delivery of public services; 2) ideology that embraces a faith in the market mechanism in the public as well as in the private sector; 3) equity in the allocation of scarce resources; a broad societal valuing of empowerment in the community and 5) findings in research on school and classroom improvement. Caldwell 1998, 34-35. In the June 1994 brochure to school communities, the Victorian government drew explicit parallels between the Schools of the Future and New Public Management: 'dramatic changes in private enterprise and public service management restructure have replaced traditional hierarchies and moved resources and decisions closer to the point of delivery of goods and services.

Emphasis is now placed on teamwork, quality control, client service, flexibility…and accountability. These same principles apply to Schools of the Future.' (DSE 1994, 3)

[v] Higher average student performance in standardised tests may also be partially attributable to Victoria's relatively dense, non-rural population, and its lower proportion – relative to other states – of indigenous students and students from very disadvantaged socio-economic backgrounds. Dahle Suggett, 'NAPLAN and the states: an intriguing result', *Australian Policy Online*. http://www.apo.org.au/commentary/naplan-and-states-intriguing-result (Accessed 19 May 2010)