



How are public primary schools funded?

**EDUCATION
INDICATORS
IN FOCUS**

DECEMBER 2022

#82



- The frameworks for both allocating and distributing public funding to public primary educational institutions vary widely across OECD countries and other participants.
- Governments most commonly use objective formulas to allocate public funds to primary schools. However, more discretionary methods are also widely used, particularly for capital expenditure.
- Where past allocations play a role in present funding decisions, historic inequities in funding can persist over time. However, incremental cost methods are usually combined with other criteria for allocating funding, mitigating these effects to some extent.
- Schools are often restricted in how they spend the public resources they receive, with governments commonly earmarking funding for certain items of expenditure.

School systems have limited financial resources and school funding policies can play a key role in directing those resources to where they can make the most difference (OECD, 2017^[1]). For example, PISA 2018 showed that in many OECD countries, more shortages of educational materials (textbooks, library or laboratory material) were correlated with lower mean performance in reading, even after accounting for per capita GDP ((OECD, 2020^[2])). It is therefore important that funding frameworks set the right incentives and allocate money effectively.

For current expenditure, governments use formulas based on objective criteria more widely than administrative discretion

Governments typically fund public primary schools in OECD and partner countries through a combination of rule-based and discretionary criteria. Funding formulas that use objective criteria are the most frequently used basis for allocating current expenditure funding, used by governments in 24 out of 30 countries and other participants with available data. This compares to 22 using administrative discretion, 17 using incremental cost methods, and 13 using bidding and bargaining (see Box 1 for definitions). Countries do not tend to use just one basis exclusively to allocate all funding; in many cases, they use a combination of two or more. For example, Estonia uses a combination of incremental costs (using previous expenditure per student) and formula funding (using student enrolment) to allocate funds for the various categories of expenditure related to educational institutions.

Funding allocations based on administrative discretion or bidding and bargaining may involve the use of objective criteria but will, to a greater or lesser extent, come down to subjective considerations. Incremental cost methods use historic funding allocations as the basis for future allocations, meaning that the extent to which the decisions depend on subjective criteria will depend on the historic allocation of resources.

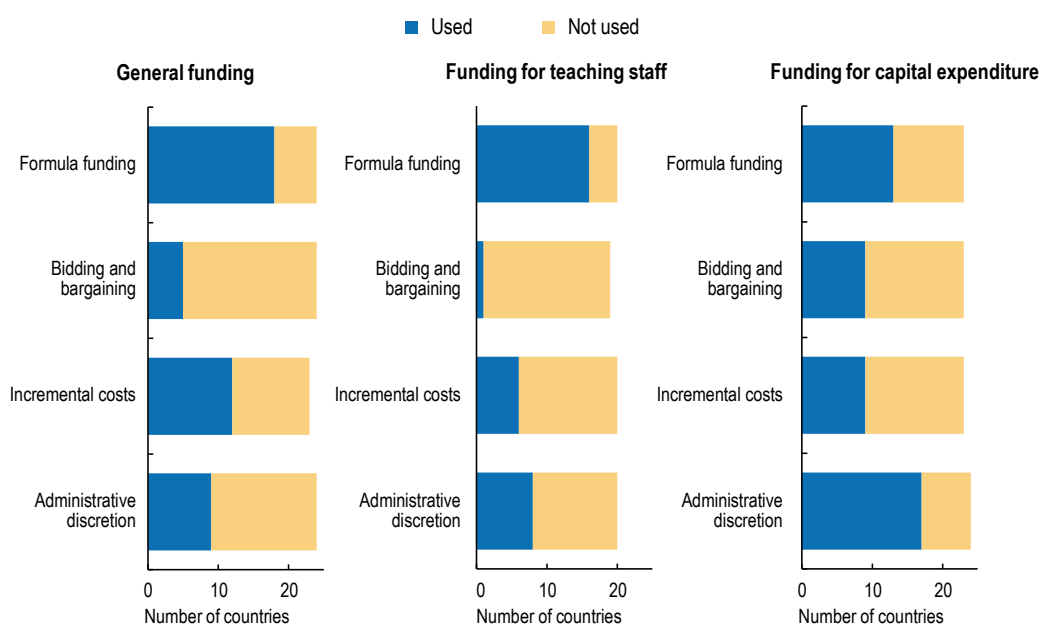
The basis for allocating funding can vary depending on the category of expenditure. Rule-based decision-making criteria are much more common when allocating resources for current expenditure (salaries of teaching and non-teaching staff, and operating costs). For instance, 16 out of 20 countries with available data use formulas to allocate funding for teaching staff (typically the biggest single item of current expenditure), compared to only 4 who do not (Figure 1).

Governments use much more discretion over public funding for capital expenditure

Decisions about capital expenditure (spending on assets that last longer than one year, including construction, renovation or major repair of buildings, and new or replacement equipment) are often very different to those about current expenditure. A school's current expenditure funding needs do not tend to vary greatly from year to year. However, expenditure on refurbishing, extending or rebuilding a school may be very different from one year to the next. Consequently, the criteria used to allocate capital expenditure funding are quite different from those for current expenditure.

Administrative discretion, and bidding and bargaining are much more common for capital expenditure allocations. Specifically, administrative discretion is used to allocate resources for capital programmes in 17 out of 24 countries and other participants with available data, while bidding and bargaining is used in 9 countries. In contrast, only nine countries and other participants use administrative discretion to allocate general funding, and five use bidding and bargaining (Figure 1).

Figure 1. Basis used to allocate funding to primary educational institutions (2019)



Note: Countries often use more than one basis to allocate funding for all categories of expenditure. General funding includes funds not allocated for particular kinds of expenditure or where it is not possible to disaggregate information by category of expenditure. Funding for non-teaching staff and funding for other current expenditure are not included in this figure. See Figure X3.D6.1 (OECD, 2021^[3]) for information on these categories of expenditure.

Source: OECD (2021^[3]), *Education at a Glance*, Table D6.1.

Box 1. Basis used to allocate funding

The basis for allocating funds to educational institutions refers to the way decisions are taken about the amount of funds to allocate to schools. It is distinct from the way funds are actually transferred (referred to as the funding mechanism, see Box 2). This analysis distinguishes four main decision-making bases:

- Administrative discretion is based on an individual assessment of the amount of resources that each school needs. While it might involve the use of indicators, the final allocation might not necessarily correspond to the calculations and these would not be universally applied to all schools.
- Incremental costs take into consideration the historical expenditure to calculate the amount of funds to allocate for the following year.
- Bidding and bargaining involves open competitions for additional funding offered via the participation of sub-central authorities or schools in a particular programme or making a case for additional resources.
- Formula funding involves the use of objective criteria with a universally applied rule to establish the amount of resources that each recipient is entitled to.

Formula funding uses rule-based decision-making criteria exclusively, the other three bases use a combination of rule-based and discretionary criteria. Administrative discretion is most likely to depend on discretionary rather than rule-based criteria.

Historical allocations of funding affect present funding settlements

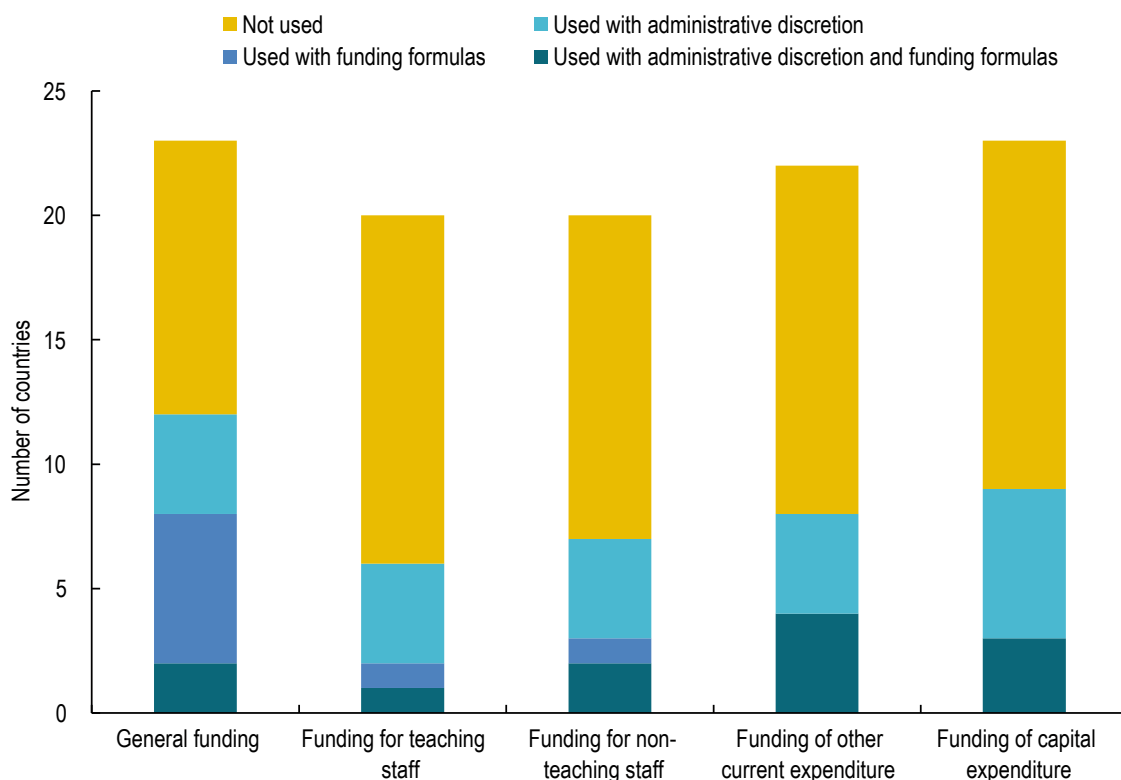
Incremental cost methods, using historical expenditure to calculate the amount of funds to allocate for the following year, are one moderately popular way to allocate resources to primary schools in OECD and partner countries. They are used to some extent in 17 out of 29 countries and other participants with available data. This is one example of the considerable differences that exist between countries' systems for funding schools.

Incremental cost methods mean that past allocations influence present funding. The attraction of this method is that it avoids large changes in allocations from year to year, therefore providing schools with predictable funding streams over time. It also avoids the need for major and potentially resource-intensive analysis to establish the funding requirements of each region, locality or school, perhaps through the creation of funding formulas.

However, these methods also allow past inequities in funding allocations to persist over time. If the previous year's funding settlement disadvantaged one group of schools over another, that disadvantage will carry over into the current year's settlement. Resource needs may also not change uniformly across different schools (or localities). The number of students enrolled is unlikely to change evenly across all schools, meaning that crude adjustments of past allocations may not be enough to take proper account of changes in the distribution of students between schools or localities. Similarly, experienced teachers are likely to be unevenly distributed among schools, meaning that national or regional pay bargaining will have different impacts on different schools.

This may well explain why incremental costs methods are not used in isolation, but are typically combined with either administrative discretion or funding formulas (Figure 2). For general funding, out

Figure 2. Use of incremental costs to allocate funding to primary educational institutions, by category of expenditure (2019)



Note: General funding includes funds not allocated for particular kinds of expenditure or where it is not possible to disaggregate information by category of expenditure. No countries use incremental costs alone.

Source: OECD (2021^[9]), Education at a Glance 2021, Table D6.1.

of the 23 countries and other participants with available data, 6 combine incremental costs with funding formulas, 4 combine them with administrative discretion and 2 use all three methods together. This pattern is fairly consistent across all categories of expenditure, although administrative discretion is more common for categories other than general funding. This means that it is often the case that some discretion is used when applying incremental cost methods.

Schools often have limited ability to decide how they spend their funding

In addition to deciding how to allocate resources to schools (or localities), governments must also decide how much autonomy to grant them over how they spend their funding (see Box 2 for definitions of funding mechanisms). These two dimensions are unrelated; there are many possible combinations of decision-making criteria for allocation and funding mechanisms. In many countries, schools and localities have little discretion over how they spend their funding. Governments often use conditional funding mechanisms (earmarked, school-specific and dedicated grants) meaning that the funding is restricted to particular categories of expenditure or to particular schools.

For example, only 4 out of 23 countries and other participants with available data use the unconditional mechanisms of lump sums and restricted block grants to distribute funding to schools. In 6 countries, all funding is conditional while a further 13 use a combination of conditional and unconditional funding. This pattern is replicated across all categories of expenditure, both current and capital (Figure 3). As a result, schools in many OECD and partner countries have little autonomy over how they can spend their funding. Funding is most often earmarked for expenditure on particular items and schools are not able to choose different spending priorities. However, they may have some flexibility in how they deploy their resources: for example they may be able to prioritise different tasks for teachers within a school even if they cannot choose how many teachers they employ.

Figure 3. Nature of funding mechanism used to distribute funding to primary educational institutions (2019)



Note: The figure shows the percentage difference between average salaries (including bonuses and allowances) of lower secondary teachers in public schools and average salaries of lower secondary teachers in private schools. Conditional funding mechanisms refer to lump sum transfers and restricted block grants. Unconditional funding mechanisms refer to earmarked grants, school-specific grants and dedicated grants (see Box 2 for definitions).

Source: OECD (2021[3]), Education at a Glance 2021, Table D6.5 (web only).

Box 2. Mechanisms used to distribute funding

The funding mechanism refers to the way funds are transferred from one level of government to another (or to schools). The funding mechanisms are unrelated to the allocation method; all the various combinations of allocation method and funding mechanism are possible.

- **Lump sum transfer:** Funds that recipients can use at their own discretion. They are completely free to spend the money as they wish.
- **Restricted block grant:** Funds that recipients can use at their own discretion, but within given areas of spending (e.g. operating costs).
- **Earmarked grant:** Funds that recipients are required to use for specific elements/items of current expenditure (e.g. teachers' professional development, extra funds for special needs education).
- **School-specific grant:** Funds that recipients are required to use for current expenditure in specific schools (or most local level of governance).
- **Dedicated grant:** Funds which are not administered by the recipients (e.g. teachers' salaries or operating costs which are directly paid by the relevant authority).

The bottom line

Governments vary greatly in the way they decide the level of funding for public primary schools, although typically it involves using a combination of rule-based and discretionary criteria. They also tend to place restrictions on how funding is used by earmarking it for particular categories of expenditure. This practice is not universal, however, and schools in some OECD countries have considerable autonomy in how they allocate their resources even if they have little influence over how much they receive.

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- [3] OECD (2021), *Education at a Glance 2021: OECD Indicators*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/b35a14e5-en>.
- [2] OECD (2020), *PISA 2018 Results (Volume V): Effective Policies, Successful Schools*, PISA, OECD Publishing, Paris, <https://doi.org/10.1787/ca768d40-en>.
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