The Funding of School Education: Connecting Resources
and Learning

Chapter 2

Governing school funding

This chapter describes the different actors involved in raising, managing and allocating school funds across countries and analyses how the relationships between these actors are organised. It looks at both the sources of school funding (who raises funds for school education?) and the responsibilities for spending these funds (who manages and allocates funds for school education?). As OECD school systems have become more complex and characterised by multi-level governance, a growing set of actors including different levels of the school administration, schools themselves and private providers are increasingly involved in financial decision making. The chapter analyses the opportunities and challenges for effective school funding in such multi-level governance contexts and explores a range of policy options to reap the potential benefits of fiscal decentralisation, school autonomy over budgetary matters and involvement of private school providers in the use of public funds.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Public governance refers to the formal and informal arrangements that determine how public decisions are made and how public actions are carried out (OECD, 2011a). In the context of school funding, governance questions are ultimately concerned with who makes, implements and monitors the decisions about how funding is spent. Where the decision-making power on school funding is located is closely related to where such funding is raised, i.e. in school systems where a large part of school funding originates from the local government, the local level is likely to have a greater say in steering its schools and making funding allocation decisions. This chapter describes the different actors involved in raising, allocating and managing school funding and it analyses how the relationships between these actors are organised in different OECD and partner countries. Following this short introduction, it looks at i) the sources of school funding (who raises funds for school education?) and ii) the responsibilities for spending these funds (who manages and allocates funds for school education?).

Sources of school funding

This section provides an overview of the main actors involved in providing funds for school education. It finds that while the majority of school funding originates at the central government level, other actors also increasingly contribute to raising funds for school services. Sub-central governments typically complement central school funding from their own revenues while also acting as an intermediary distributing central government funding to schools. In addition, private spending on schools – which may originate from households, employers or communities – has increased considerably in recent years. Finally, international funding also provides an important complement to national sources of school funding in a range of countries.

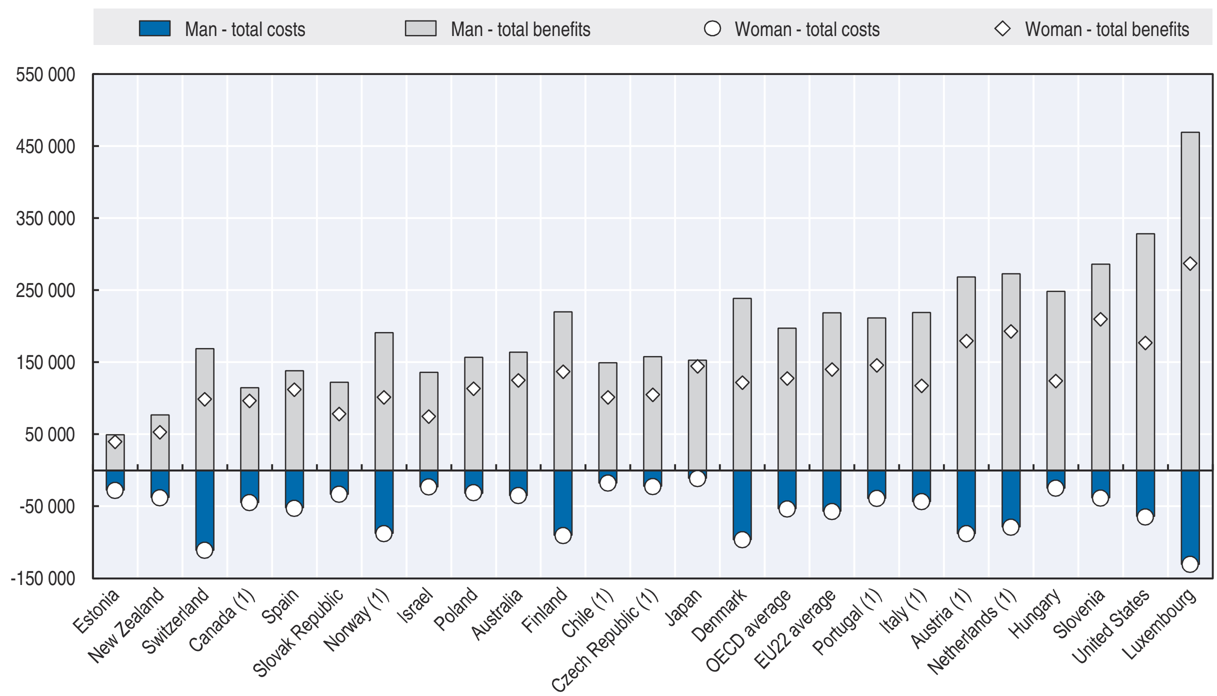
The vast majority of school funding comes from public sources

In most OECD countries, governments provide by far the largest proportion of education investment. Governments subsidise education mostly through tax revenues (e.g. taxation upon earnings, property, retail sales, general consumption) collected at the different administration levels. On average across the OECD, almost 91% of the funds for schooling come from public sources (OECD, 2016a). Chile is the only OECD country where the share of public funds in overall expenditure on schooling was below 80% in 2013 (OECD, 2016a). In providing public funding for schooling, governments guarantee universal access to basic education by ensuring free provision or reducing the financial contributions of parents to a minimum.

Investing in an accessible, high-quality education system is a crucial means to provide people with the knowledge and skills they need to succeed in the labour market and to foster individual wellbeing as well as social cohesion and mobility. There is also a clear economic rationale for the public funding of education. According to OECD analyses, the benefits of educational investments not only accrue to the individuals receiving it, but also to society at large, providing strong economic incentives for governments to engage in the public funding of education. More highly educated individuals require less public expenditure on social welfare programmes and generate higher public revenues through the taxes paid once they enter the labour market. Figure 2.1 shows the public costs and benefits associated with an average person attaining tertiary education across OECD countries (OECD, 2016a).

Figure 2.1. **Public costs and benefits of education on attaining tertiary education, by gender, 2012**

In equivalent USD converted using PPPs for GDP



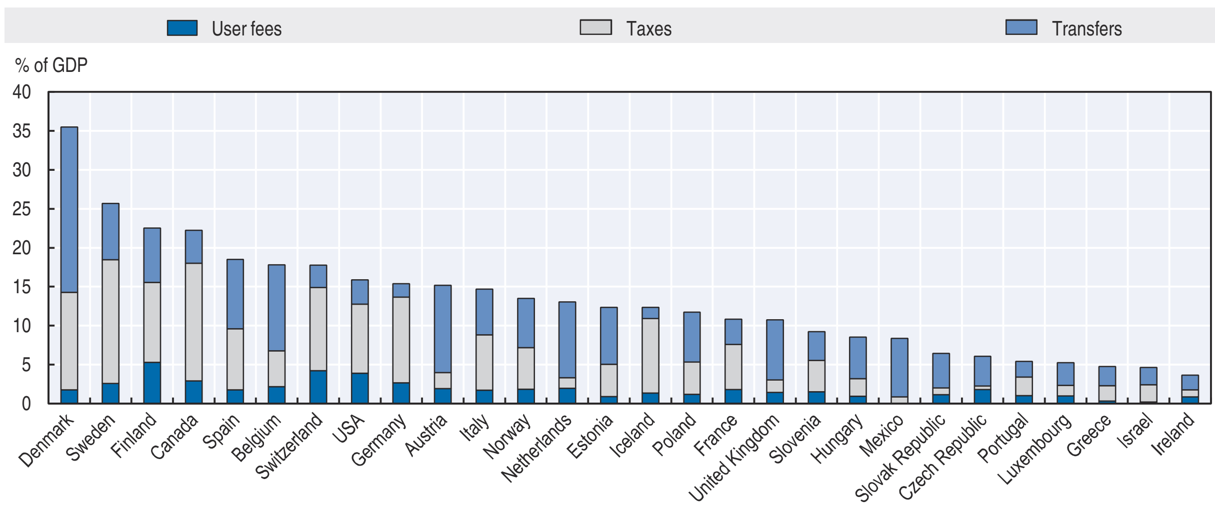
1. Year of reference differs from 2012, Please see OECD (2016a), Tables A7.4a and A7.4b for further details.
Note: Countries are ranked in ascending order of net financial public returns for a man.
Source: OECD (2016a), *Education at a Glance 2016: OECD Indicators*, *http://dx.doi.org/10.1787/eag-2016-en*, Tables A7.4a and A7.4b; see Annex 3 for notes (*www.oecd.org/education/education-at-a-glance-19991487.htm*).

Most systems rely on a mix of central and sub-central funding for schools

The governance of school funding varies between countries, with a few countries such as New Zealand (100%), the Netherlands (89%), Hungary (88%) and Slovenia (88%) funding schools mostly from central budgets, while most expect sub-central governments to contribute significantly to raising funds for school education. On average across the OECD, 55% of initial public funds for schooling originate at the central government level, while regional and local governments contribute about 22% of initial funds each (OECD, 2016a). Across the OECD review countries, the responsibilities for raising funds for schooling are typically distributed between two or three levels of governance, with the exceptions of Belgium (where four levels of governance are involved) and Uruguay (where the central level is the only source of school funding) (Table 2.A1.1).

Regarding the composition of final funds allocated to schools, central government funding of public services depends mainly on taxes, while the sub-central revenue mix includes both taxes (whether own taxes or those shared with other tiers of government) and transfers from higher levels of government. Sub-central governments may also rely on user fees, although these typically represent a small proportion of their revenue. Figure 2.2 shows the composition of sub-central government revenues across OECD countries. On average across the OECD, almost equal parts of overall sub-central government revenue came from taxes (42%) and from transfers (44%) in 2013. Fourteen percent came from user fees (OECD/KIPF, 2016).

Figure 2.2. **Revenue composition of sub-central governments, 2013**



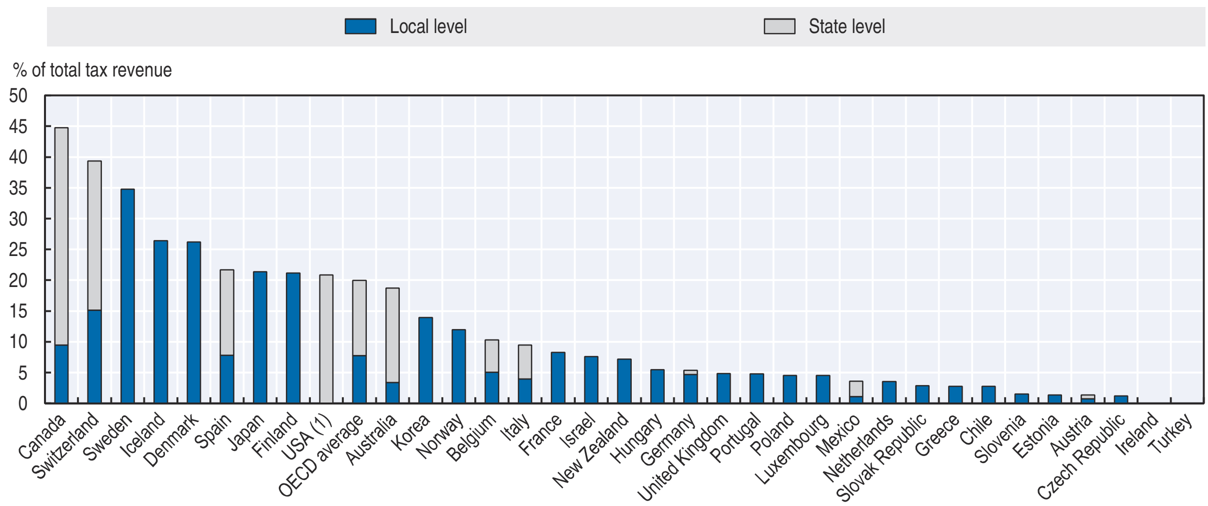
Source: OECD/KIPF (2016): *Fiscal Federalism 2016: Making Decentralisation Work*, *http://dx.doi.org/10.1787/9789264254053-en*.

Across OECD countries, sub-central entities have varying degrees of autonomy over their own tax collection, such as the right to introduce or abolish taxes, set tax rates, define the tax base and grant allowances or relief to individuals and firms. Often the collection of particular taxes is not assigned to one specific level of the administration but it is shared between different levels of government. In such cases, sub-central authorities often collectively negotiate the tax sharing formulas with the central government (OECD/KIPF, 2016). As can be seen in Figure 2.3, in several countries sub-central authorities have considerable taxing powers.

According to the OECD/KIPF (2016), a higher sub-central tax share is desirable for several reasons related to efficiency and accountability: reliance on own tax revenue brings jurisdictions autonomy in determining public service levels in line with local preferences; it makes sub-central governments accountable to their citizens who will be able to influence spending decisions through local elections; it may enhance overall resource mobilisation in a country as local/regional authorities may tap additional local resources; and it creates a hard budget constraint on sub-central entities which is likely to discourage overspending.

At the same time, strong reliance on sub-central tax shares may raise equity concerns. Where sub-central authorities generate their own revenue, wealthier jurisdictions will be in a better position to provide adequate funding per student in their local systems than others. In the United States, for example, prior to the 1970s the vast majority of resources spent on compulsory schooling was raised at the local level, primarily through local property taxes. Because the local property tax base is generally higher in areas with higher home values, the heavy reliance on local financing contributed to the ability of wealthier to spend more per student (Kirabo Jackson et al., 2014).

Figure 2.3. **Proportion of taxes over which sub-central governments have power to set rates and/or the base, 2011**



1. Tax autonomy of local governments in the United States varies across the states and is not assessed.
Source: OECD/KIPF (2016): *Fiscal Federalism 2016: Making Decentralisation Work*, *http://dx.doi.org/10.1787/9789264254053-en*.

In countries where school funding is heavily dependent on local tax bases, this may have adverse effects on matching resources to student needs, as areas with more disadvantaged students are likely to have fewer resources available to meet student needs. In such contexts, fiscal transfers or grants have an important role to play in equalising revenue levels across sub-central jurisdictions (more on this below).

Private funding plays an increasingly important role in the school sector

While the vast majority of school funding is provided from public sources, private sources of school funding have grown more quickly in recent years than public sources. Between 2008 and 2013, private sources increased by 16% on average across the OECD, while public sources increased by only 6%. Private sources typically play a more important role in secondary than in primary education. At the upper secondary level, there is a slightly stronger presence of private sources of funding in the vocational education and training (VET) sector than in the general sector (OECD, 2016a).

Schools may raise their own revenues through sales of services, rental of facilities and parental fees

While public schools are financed mainly through funding allocations coming from the different levels of the educational administration, individual schools may also have the ability to raise their own revenues from private (and/or public) sources. This typically involves the sale of services (particularly in the vocational sector), the rental of facilities and funds raised from parents and/or the community through obligatory fees or voluntary donations.

Among the OECD review countries, parental contributions are not uncommon in public pre-primary education with 9 of 17 systems charging tuition fees for pre-primary education that tended to be determined by either local or central authorities. While mandatory tuition fees are typically prohibited in public primary and secondary schools (Table 2.A1.2), the majority of education systems with available data permit public schools to benefit from voluntary monetary and non-monetary parental contributions as well as donations (Table 2.A1.3).

Most countries also permit public schools to raise additional revenue by renting out their materials and facilities (e.g. sports facilities), by providing extracurricular activities for a fee or – particularly in the vocational sector – by selling non-teaching services (e.g. catering, hairdressing). In Estonia, for example, public vocational schools are largely funded by the state but permitted to supplement their resources through the sale of goods and services (Santiago et al., 2016b). The sale of teaching services, on the other hand, is significantly more restricted among the OECD review countries (Table 2.A1.3).

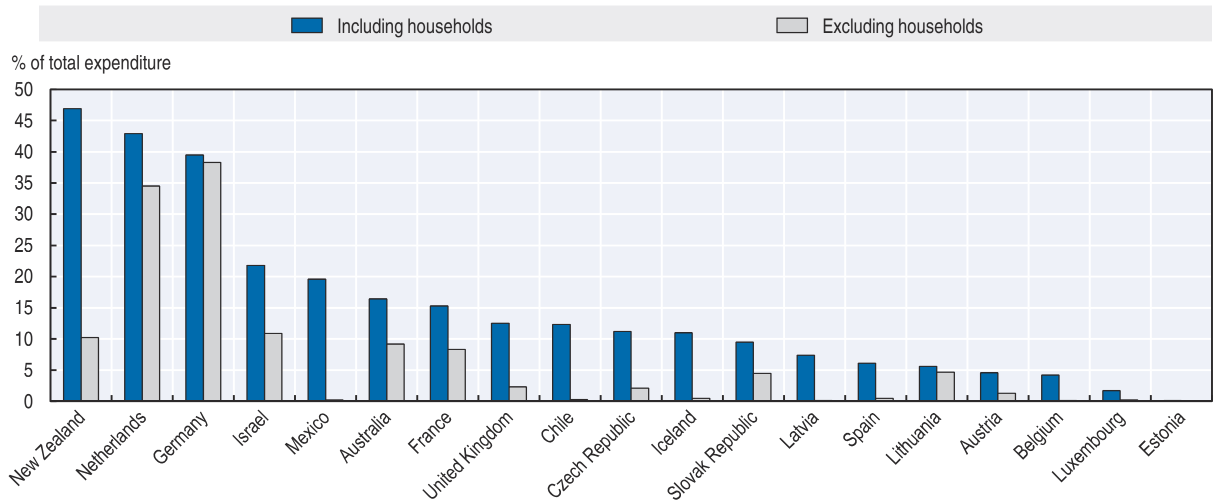
Employer contributions are significant in some countries' vocational education and training (VET) sectors

Across the OECD, the average annual expenditure per upper secondary VET student in 2013 was 10% higher than that for students in general education (OECD, 2016a). There are often higher costs for the specialised equipment required to teach many technical and practical subjects. Unlike general education programmes, the funding of the VET sector in many countries involves contributions from employers. Given the larger set of actors engaged in the funding of VET, it is frequently based on agreements between public and private stakeholders determining their respective contributions to VET funding as well as their role in the provision of services like work-based learning and school-based learning. Employers tend to contribute to VET in the form of financial transfers (directly to VET providers or indirectly via training levies)[1] as well as through the provision of equipment, staff and training places. Given the direct benefits that students' acquisition of occupation-specific skills brings to the industry, employers sometimes bear the cost of work-based learning and contribute to covering costs for materials, trainers or the remuneration of trainees (for more information on the costs and benefits of apprenticeships see Kuczera, 2017). The school-based component of VET is more commonly publicly funded (Papalia, forthcoming).[2]

However, cost-sharing arrangements with significant private contributions are relatively rare in upper secondary VET programmes (see Figure 2.4). Private sector contributions tend to be significant in countries with a large apprenticeship system in which employers cover most of the costs of work placements (e.g. apprentice pay, instruction costs, tools and equipment). Among the 19 OECD and partner countries with available data for 2012, funding from private sources other than households typically accounted for less than 10% of total expenditure, with the notable exceptions of Germany and the Netherlands. The German VET system, as described in Box 2.1, provides an example of cost sharing arrangements involving contributions from all of the system's major stakeholders. In several countries, however, students have very few opportunities to engage in work-based learning or apprenticeships and there is no legal requirement for firms or industries to make financial contributions to the state-run vocational system (Santiago et al., 2016b).

Ensuring adequate involvement of companies in both the provision and funding of initial VET is a challenge shared by several OECD review countries. Evidence from across OECD countries indicates that labour market outcomes of vocational graduates improve if their programmes include substantial work-based learning, such as apprenticeships offered by companies (OECD, 2014a). In countries where practical training is primarily provided by schools, a number of efficiency challenges may arise. For schools, continuously updating their practical training offer to ensure its relevance to the requirements of the labour market involves significant investments into training, equipment and physical

Figure 2.4. **Private expenditure on upper secondary VET, 2012**



Note: Expenditure that is not directly related to education (e.g. for culture, sports, youth activities, etc.) is not included unless it is for the provision of ancillary services. Private expenditure includes contributions from households (students and their families) and other private entities such as firms.

Source: OECD (2016a), *Education at a Glance 2016: OECD Indicators*, *http://dx.doi.org/10.1787/eag-2016-en*.

Box 2.1. **Cost sharing arrangements in the German VET system**

The German dual VET system is characterised by high levels of per student expenditure, a strong enrolment in apprenticeship schemes and a high level of involvement among employers, with more than 60% of firms taking part in the provision of initial vocational education and training. The funding of VET involves all stakeholders. Public resources are provided by federal ministries (Ministry of Education and Research, Ministry of Economic Affairs and Energy, and the Ministry of Labour and Social Affairs), central agencies, such as the federal employment agency, as well as the federal states (*Länder*). Private sector resources are contributed by companies, unions, chambers as well as students and their families.

The school-based learning component is provided by vocational schools and funded primarily out of the federal states' budgets. The states are responsible for funding teaching staff and cover, on average, 80% of the vocational schools' expenses. Municipalities are the second main contributor, covering the largest share of material costs and investments out of their own revenue. The work-based learning provided through the apprenticeship system is largely self-financing and public authorities only indirectly contribute to its funding by providing students and employers with financial incentives to engage in training activities. German employers are required to contribute to the funding of work-based learning for their apprentices on the basis of collective agreements. The resources made available by employers include the apprentices' wages as well as the material and human resources necessary to provide adequate training conditions. With the exception of the construction sector, employers do not contribute to training levies.

Source: Papalia, A. (forthcoming), "The Funding of Vocational Education and Training: A Literature Review", *OECD Education Working Papers*, OECD Publishing, Paris.

infrastructure, which may discourage innovation and experimentation. The failure to provide opportunities for work-based skills development can thereby reduce the efficiency of VET provision and diminish its labour market relevance (Shewbridge et al., 2016b).

Countries such as Switzerland, Germany and Denmark operate so called dual systems whose VET pathways combine periods of school-based learning with alternating periods of work-based training which companies support through the contribution of financial and human resources. Regardless of whether employers are directly involved in the provision of VET, training levies are the most common mechanism to collect earmarked VET resources from the private sector. While some levies primarily serve to raise revenue for the provision of VET, for example through a tax paid by every employer, other levy schemes provide employers with incentives to actively engage in work-based training. These types of training levies are typically linked to a disbursement or exemption mechanism that redistributes the funds raised by the levy to employers that engage in the training of apprentices (Dar et al., 2003).

International funding may complement national sources of school funding

Funding from international sources including the European Commission and international agencies like the World Bank or the Inter-American Development Bank represents a significant share of investment to schooling in some countries. Several OECD review countries have significantly benefited from international funding to support educational initiatives and infrastructural investments (Box 2.2). The European Union's two structural funds – the European Regional Development Fund (ERDF) and the European Social Fund (ESF) – are designed to promote economic and social development and address specific needs of disadvantaged regions across the European Union. EU funds are allocated subject to the European Commission's approval of the recipient states' operational programme, in which they outline the funding's strategic objectives and propose an auditing framework. The managing authorities at the national level are then responsible for administering the funds and allocating them to projects and sub-central beneficiaries. Member states are also required to co-finance their operational programmes to varying extent.

Box 2.2. **International funding to support school education: Examples from OECD review countries**

In several OECD review countries, European Structural Funds have played an important role in the implementation of reforms and developments of the educational infrastructure. These included significant capital investments to upgrade existing facilities, widen access to high-quality early education and care and support the rationalisation of the school network. The Lithuanian Ministry of Education, for example, allocated EU funding to expand school transportation services and assist the creation of multi-function centres that combine day care, pre-primary and primary education as well as a community facility under a single management structure in rural areas (Shewbridge et al., 2016a). EU structural funds were also used to improve the provision of vocational education and training and fund the creation of vocational training centres in countries like Lithuania and the Slovak Republic. In Estonia, funding from the ESF was used to support the developments of the VET curriculum, while the ERDF funded corresponding infrastructural improvements (Santiago et al., 2016a). Another area supported by EU investments is teacher professional development, for example through Estonia's ESF-co-financed science teacher training programme and the initiative "Raising the qualification of teachers in general education from 2008 to 2014" (Santiago et al., 2016a). Other EU-funded projects have also focused on quality assurance and supporting schools' use of self-assessment tools as well as promoting equity through the integration of Roma communities in the Czech Republic and the Slovak Republic.

Box 2.2. **International funding to support school education: Examples from OECD review countries** *(cont.)*

Funding from international agencies such as the Inter-American Development Bank (IDB) or the World Bank has also been used to finance educational projects, often focused on capital expenditure and the improvement of infrastructures to support the expansion of educational services. In Uruguay, for example, loans from the World Bank were used to finance the Support Programme for Public Primary Education (*Programa de Apoyo a la Enseñanza Primaria Pública*, PAEPU), which provides investments into the infrastructure and equipment of full-time schools. The project is implemented in co-ordination with the Pre-school and Primary Education Council (*Consejo de Educación Inicial Primaria*, CEIP) and the Central Directive Council on Education (*Consejo Directivo Central*, CODICEN) of the National Administration for Public Education (*Administración Nacional de Educación Pública*, ANEP). Uruguay also co-operates with the IDB, whose loans have funded the country's Support Programme for Secondary Education and Training in Education (*Programa de Apoyo a la Educación Media y Formación en Educación*, PAEMFE), which funds strategic investments into the infrastructure and equipment of secondary education and teacher training institutions (Santiago et al., 2016b; INEEd, 2015).

Source: Shewbridge, C. et al. (2016a), *OECD Reviews of School Resources: Lithuania 2016*, *http://dx.doi.org/10.1787/9789264252547-en*; Santiago, P. et al. (2016a), *OECD Reviews of School Resources: Estonia 2016*, *http://dx.doi.org/10.1787/9789264251731-en*; Santiago, P. et al. (2016b), *OECD Reviews of School Resources: Uruguay 2016*, *http://dx.doi.org/10.1787/9789264265530-en*; INEEd (2015), *OECD Review of Policies to Improve the Effectiveness of Resource Use in Schools: Country Background Report for Uruguay*, *www.oecd.org/education/schoolresourcesreview.htm*.

Making the most effective use of international funding requires effective procedures to evaluate the investments' impact, ensure their long-term sustainability and align them with strategic educational objectives (see also Chapters 4 and 5). In addition, a common challenge for countries benefiting from international funding is the need to develop adequate capacity to absorb and successfully use such funding for the implementation of agreed programmes at the local level. Particularly where individual schools need to apply for receiving project resources from international donors or the EU, limited management and implementation capacity and/or lack of experience in writing grant applications may prevent them from seizing the opportunities that such international funds provide. In some OECD review countries, such as the Czech Republic and the Slovak Republic, this has resulted in low absorption rates and underutilisation of internationally funded operational programmes (Shewbridge, 2016b; Santiago, 2016c). Variation across different schools' capability to attract funds can also exacerbate existing patterns of inequality, since large or urban schools may be better placed to make a successful bid for grants.

Responsibilities for school spending

This section looks at the different actors involved in making decisions on school spending. It discusses how common governance trends including fiscal decentralisation, school autonomy over budgetary matters and public funding of private schools have led to the emergence of a broad range of actors involved in the allocation, management and use of school funding in a number of countries. The section looks at each of these phenomena in turn. First, it analyses the degree of decentralised decision making on school funding across countries and explores opportunities and challenges related to the involvement of sub-central governments in making school funding decisions. Second, it describes the level of schools' budgetary autonomy across countries and the necessary conditions for more autonomous schools to be able to contribute to effective and equitable use of school funding. Third, it takes stock of countries' approaches to publicly funding private providers and reviews the potential benefits and risks of such approaches within overall school funding strategies.

Sub-central governments are the most important spenders in school education

Over the past two decades, sub-central jurisdictions have acquired increasing powers in the distribution of funding to education across OECD countries, with almost 60% of final funds allocated to schools by sub-central governments. This share is even higher in countries such as the United States (100%), Japan (98%), Canada (97%) and Germany (94%) where the funds are almost entirely coming from the sub-central levels (OECD, 2016a). However, while sub-central authorities are the most important spenders on schooling in many countries, there are wide variations across countries in the degree to which they actually have decision-making power over the distribution of funding between the individual schools in their jurisdiction (for a detailed analysis, see Chapter 3). In analysing the decision-making powers of sub-central authorities, it is important to note that the involvement of sub-central governments varies depending on the type of investment (e.g. capital versus current expenditure) and the levels and sectors of schooling (e.g. primary versus secondary schooling) that are being considered (for more detail see Chapter 3).

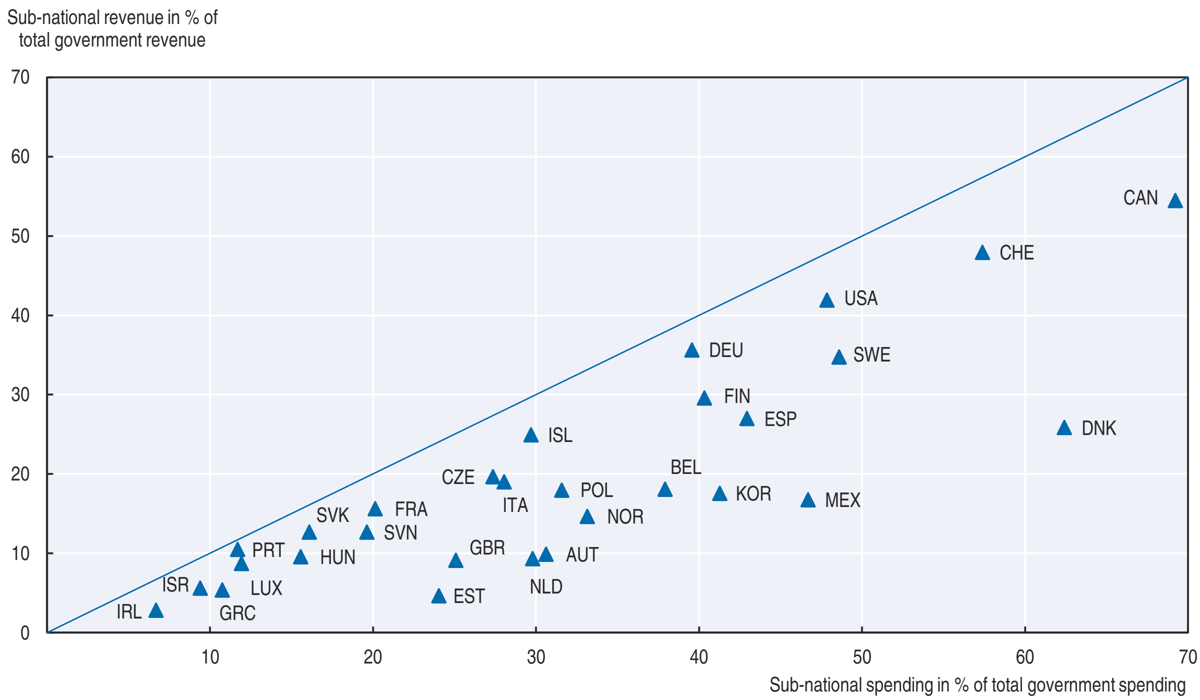
Sub-central spending responsibilities have grown faster than revenue raising capacities

As explained in the previous section, sub-central jurisdictions have acquired increasing powers for the collection of their own revenue. But at the same time, sub-central spending responsibilities have also grown, and they have done so much faster than tax collection responsibilities. Figure 2.5 illustrates the relative shares of sub-central revenue and spending in total government revenue and spending. The gaps between the revenue and the expenditure of sub-central jurisdictions are referred to as "vertical fiscal imbalances". Such imbalances are typically addressed through vertical fiscal transfers – or grants – from the central level to sub-central levels. They may also be addressed through horizontal transfers between sub-central entities. Fiscal transfers aim to offset gaps between revenue and expenditure, equalise fiscal disparities across regions and ensure similar ability to provide public services across all sub-central governments. Fiscal transfers represent an important share of overall central government spending and they have grown in recent years, from 6% to 7% of GDP between 2000 and 2010 (OECD/KIPF, 2016).

Fiscal transfers can also serve central governments in steering sub-central levels of the administration towards spending on certain purposes. Where central government grants are earmarked for a particular purpose, they allow the central level to exert considerable control over sub-central educational policy and spending (see Chapter 3 for more information on the design aspects of earmarked grants). OECD/KIPF (2016) report that across different public sectors, a slight trend from earmarked grants towards more non-earmarked grants could be observed in recent years. At the same time, they noted a parallel increase in regulatory frameworks and output control, which is another way for central governments to steer the use of resources at the sub-central level towards particular standards and expected performance levels (see Chapter 5 on the evaluation of school funding at sub-central levels).

Figure 2.5. **Sub-national revenue and spending across OECD countries**

Decentralisation ratios, 2014 or latest available year



Note: Sub-national expenditures include intergovernmental grants, while sub-national revenues do not. Latest available data for Korea are from 2012 and for Mexico from 2013.

Source: OECD/KIPF (2016): *Fiscal Federalism 2016: Making Decentralisation Work, http://dx.doi.org/10.1787/9789264254053-en*.

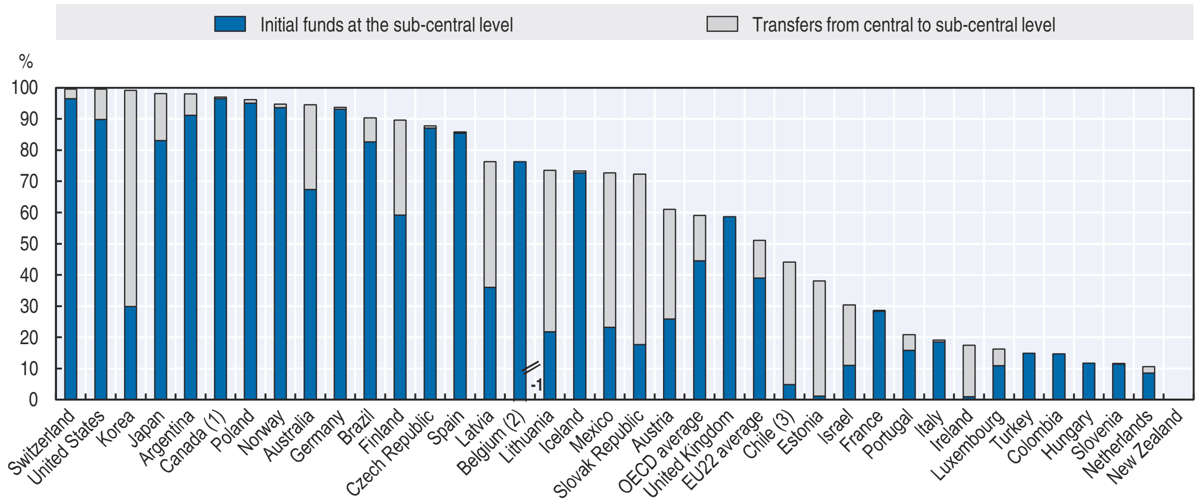
Fiscal transfers can equalise sub-central revenue levels but have a number of drawbacks

The extent of transfers of public funds from central to sub-central levels of government varies widely between countries. The length of the bars in Figure 2.6 indicates the share of sub-central (regional and local level) funding allocated to schools in each country. The different shadings indicate how this sub-central funding is composed of initial funds originating at the sub-central level (dark shading) and transfers from the central government (light shading). The difference of funding power before and after transfers from central to sub-central levels of government represents more than 30 percentage points in Austria, Chile, Estonia, Finland and Hungary, and more than 40 percentage points in Korea, Latvia, Mexico and the Slovak Republic (OECD, 2016a).

The operation of fiscal transfer systems can help provide sub-central governments with revenues to support similar levels of educational service provision at similar tax rates. Less advantaged sub-central authorities in terms of private income and with a challenging socio-economic composition of the population typically receive higher grants from the central government. Box 2.3 provides examples from different countries that introduced equalisation schemes alongside decentralisation reforms which shifted responsibilities for school funding to the local level.

While fiscal transfers play an important role in providing sub-central revenue for service provision and equalising sub-central revenue levels, OECD/KIPF (2016) outline a number of disadvantages of strong reliance on inter-jurisdictional grants and equalisation transfers. First, while one might expect that grants help to stabilise sub-central revenue,

Figure 2.6. **Share and composition of final public funds allocated to schools by sub-central government in primary, secondary and post-secondary non-tertiary education, 2013**



1. Year of reference: 2012
2. In Belgium, 76% of initial funds and 75% of final funds originate at the sub-central level
3. Year of reference: 2014

Note: Countries are ranked in descending order of the share of final funds allocated to schools by the sub-central level of government.
Source: OECD (2016a), *Education at a Glance 2016: OECD Indicators*, *http://dx.doi.org/10.1787/eag-2016-en*, Table B4.3. See Annex 3 for notes (*www.oecd.org/education/education-at-a-glance-19991487.htm*).

Box 2.3. **Introduction of equalisation funds in Brazil, Iceland and Poland**

When **Brazil** devolved authority from a highly centralised system to states and municipalities in the mid-1990s, it created a Fund for the Maintenance and Development of Basic Schools and the Valorisation of the Teaching Profession (*Fundo para Manutenção e Desenvolvimento do Ensino Fundamental e Valorização do Magistério*, FUNDEF) to reduce the large national inequalities in per-student spending. State and municipal governments were required to transfer a proportion of their tax revenue to FUNDEF, which redistributed it to state and municipal governments that could not meet specified minimum levels of per-student expenditure. FUNDEF has not prevented wealthier regions from increasing their overall spending more rapidly than poorer regions, but it has played a highly redistributive role and increased both the absolute level of spending and the predictability of transfers. There is evidence that FUNDEF has been instrumental in reducing class size, improving the supply and quality of teachers, and expanding enrolment. At the municipal level, data show that the 20% of municipalities receiving the most funds from FUNDEF were able to double per-student expenditure between 1996 and 2002 in real terms.

When **Iceland** moved responsibility for compulsory education to the municipalities in 1995, the cost of compulsory schooling was determined to be 2.84% of the total income tax received by the state. That percentage was decided by using the capital city, Reykjavík, as a zero point – calculating by how many percentage points the local income tax would have to go up for the city to cover the cost of operating the compulsory schools, which came to 2.07% of the states total income tax. In 1995, 2.07% of the national annual income tax was therefore permanently transferred to the local income tax which is collected centrally and transferred to the municipalities in order to even out salary costs in the compulsory schools and to cover other costs related to the transfer of responsibilities for schooling from the central to the local level. Following the calculations for the City of Reykjavík, the total cost of operating all the compulsory schools in the country was then determined, which came to a total of 2.84%

Box 2.3. **Introduction of equalisation funds in Brazil, Iceland and Poland** *(cont.)*

of the national income tax. The difference between the 2.84% and 2.07% – or 0.77% – was then allocated by the central government to The Local Governments' Equalizations Fund. The role of the fund is to even out the difference in expenditure and income of those local communities with a specific or a greater need, through allocations from the fund, based on the relevant legislation, regulation and internal procedures established for the operation of the fund. A part of the 0.77% is earmarked to cover proportionally the operational cost of the fund itself but the main part is reallocated to the local communities. 71% of this amount goes towards general support but the rest is earmarked for specific purposes.

In **Poland**, education decentralisation was part of the overall decentralisation process of the country initiated in 1990. The main transfer from the central to local budgets is called "general subvention" and is composed of a few separately calculated components. Two main ones are the education component and the equalisation component. The education component is calculated on the basis of student numbers (with numerous coefficients reflecting different costs of providing education to different groups of students), and thus reflects different costs of service provision. The equalisation component is based on a formula and equalises poorer jurisdictions up to 90% of average per capita revenues of similar local governments. It thus reflects revenue equalisation.

Source: OECD/The World Bank (2015), *OECD Reviews of School Resources: Kazakhstan 2015*, *http://dx.doi.org/10.1787/9789264245891-en*; Icelandic Ministry of Education, Science and Culture (2014), *OECD Review of Policies to Improve the Effectiveness of Resource Use in Schools: Country Background Report for Iceland*, *www.oecd.org/education/schoolresourcesreview.htm*.

empirical evidence indicates that the opposite is often the case. Indeed, central government grants may exacerbate fluctuations in the revenue of sub-central government tiers because such transfers are often pro-cyclical, i.e. in times of strong growth, they are likely to increase whereas the amount of central transfers often decreases in times of crisis. This can reinforce pre-existing resource challenges at sub-central levels of administration and make it difficult for them to engage in medium-term planning (Chapter 4).

Second, grants may reduce the sub-central tax effort. For example, if grants are adjusted on the basis of local revenue, sub-central authorities might be discouraged from raising their own tax revenue because otherwise they might see their central grants reduced. In Estonia, for example, local governments have very limited revenue raising powers. The OECD review of Estonia found that this appears to encourage both local officials and their citizens to see any local financial difficulties as the result of insufficient national government support. The resulting "fiscal illusion" may reduce the willingness of both local officials and citizens to use local taxes to improve local services (Santiago et al., 2016a). Disagreement about the adequacy of central resources to fulfil decentralised responsibilities sometimes decreases the level of effective accountability of sub-central governments (Sevilla, 2006; see also Chapter 5). This is related to the difficulties that school systems face in objectively assessing the adequacy of funding (see Chapter 3).

Third, research and experience from different countries indicates that a high reliance on central grants may encourage overspending and thereby increase deficits and debt. There is evidence that a central government's commitment to a certain grant level is not always credible and that sub-central authorities may overspend in the hope that this overspending will then be compensated via additional grants (OECD/KIPF, 2016). Busemeyer (2008) finds that giving sub-central levels of government the power to spend without forcing them to raise their own revenues (by granting them autonomy in setting tax rates) sets strong incentives for overspending. A large misalignment between financing and spending responsibilities may lead to mistrust, lack of transparency and inefficiencies, as one actor – the central government – is responsible for most of the financing, whereas other actors – sub-central governments – are in charge of expenditures. This often creates worries at the central level about the misuse and waste of resources while sub-central authorities may see overspending as evidence that the grant level is insufficient or the transfer system unfair.

In Austria, for example, the vast majority of tax revenue is generated at the federal level (87% in 2014) rather than by the provinces and municipalities who are responsible for funding provincial schools. Through the Fiscal Adjustment Act, central funds are then partially redistributed among the provinces and municipalities based on quotas which are renegotiated among the different tiers of government every four years. This system creates a split of financing and spending responsibilities, typical for Austrian federalism (which is sometimes described as "distributional federalism"). While the federal government and the provinces agree on annual staff plans, the provinces are free to hire more teachers than foreseen in these staff plans and the additional expenditures are partly covered by the federal level. This system tends to encourage overspending on teaching staff by the provinces compared to agreed staff plan. Between 2006 and 2010, the number of teaching positions at general compulsory schools that were not included in the initial budget almost doubled from 1 039 to 2 063, leading to considerable additional costs (Nusche et al., 2016a).

Finally, the determination of grant levels and calculation methods themselves may also be problematic. In Kazakhstan, for example, the OECD review team found that one of the main concerns related to school funding was the importance of negotiations for the calculation of central transfers and the definition of education budgets at the sub-central level. The budget negotiations were found to lead to suboptimal allocations as objective indicators on potential revenues and expenditure needs were given little importance (OECD/The World Bank, 2015). Given the potential disincentives and risks inherent in central grants, it is very important that such grants are skilfully designed so as to facilitate adequate spending across all jurisdictions while reducing the risk of fiscal slippage across levels of government.

Variations in sub-central funding approaches may mitigate equalisation effects

Even if well-designed fiscal equalisation mechanisms are in place, decentralised systems may still be characterised by considerable differences in educational spending across jurisdictions. This might indicate a potential for efficiency savings in some jurisdictions and/or potential inequities in the educational services provided to students in different jurisdictions. Little internationally comparable information is available on variations in school spending between sub-central entities. However, in an online supplement to the OECD *Education at a Glance 2016* sub-central data on annual expenditure per student is presented for three countries: Belgium, Canada and Germany.[3] This data shows that while spending per student does not differ much between jurisdictions in Belgium (between USD 11 221 and USD 11 856), it ranges between USD 7 900 and USD 11 400 across jurisdictions in Germany and between USD 8 732 and USD 19 730 across jurisdictions in Canada.

In several of the OECD review countries, there is evidence of discrepancies in the level of school funding across countries' different jurisdictions. In Israel, according to national data, more affluent local governments can provide up to 20 times higher funding per student for schools than less affluent local governments (OECD, 2016b). In Denmark, expenditure per student also varies strongly across municipalities despite existing equalisation mechanisms (Nusche et al., 2016b). Such differences might result from different levels of priority attributed by local authorities to education or different approaches to design local funding strategies. Where jurisdictions are autonomous in designing their own funding approaches, there may be only weak mechanisms to share and spread the related expertise and experience systematically across sub-central authorities so as to optimise funding mechanisms (for more information on the development of funding formulas at different levels of school systems, see Chapter 3).

In Denmark, more than half of the variation among municipalities can be explained by socio-economic conditions, with municipalities having more students from disadvantaged backgrounds spending higher amounts per student than other municipalities (Houlberg et al., 2016). However, there is still a large part of spending differences between municipalities that cannot be explained by socio-economic factors. This could indicate a situation where some municipalities prioritise spending on education more than others, but also a potential for efficiency savings in some municipalities. The spending differences across municipalities are also likely to result from differences in the approaches to school funding across jurisdictions. Each of the 98 municipalities designs its own formula to fund local schools. These formulas typically include parental background characteristics in addition to the number of students and the number of classes at the different year levels. However, the ways in which socio-economic differences are taken into account in the funding formulas vary greatly across municipalities. This suggests that the models vary not only as a result of deliberate decisions or different priorities (Nusche et al., 2016b).

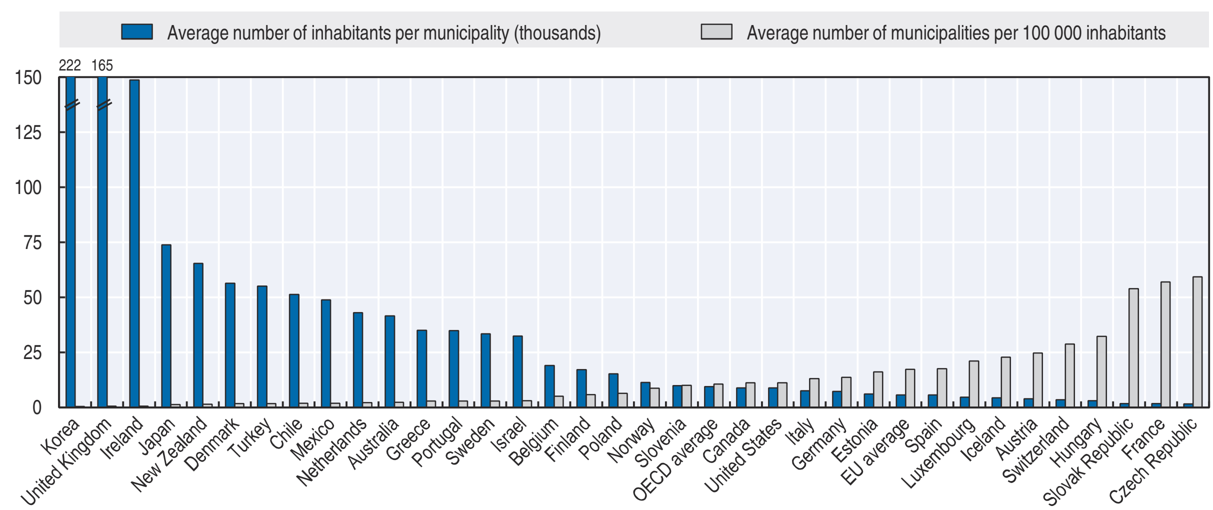
In Kazakhstan, there is also evidence that regional and local differences in spending per students are not just related to objective cost factors. Expenditure per student varies greatly across regions – from 39% below the national average in the capital city to 50% above the national average in North Kazakhstan and marked differences in per student spending are also observed across school districts. The Ministry of Education and Science commissioned a report to UNICEF (United Nations Children's Fund) on the financing of 175 schools across Kazakhstan. The final report revealed important differences in spending per student between districts of the same region and between schools of the same type and size within the same district (UNICEF, 2012). Some sub-central governments spend significantly more of their resources on education than others and the existing differences are not always associated with the variation in the costs of provision (OECD/The World Bank, 2015).

Fiscal decentralisation may raise capacity challenges, especially in small jurisdictions

While their knowledge of local conditions and needs may allow sub-central authorities to allocate resources more effectively in line with school contexts, smaller authorities are very likely to face capacity challenges. Decentralised governance arrangements place significant demands on local authorities for budget planning and financial management. For example, they may be required to develop a funding formula, administer financial transfers, make decisions about investments in school infrastructure and maintenance and/or apply for a pool of targeted funding. But not all local authorities have sufficient capacity to implement sound budget planning and to manage their resources well. Administering a funding scheme requires considerable technical skills and administrative capacity and many school systems find it challenging to ensure these are available at the level of each educational provider.

Capacity constraints at the local level can also exacerbate inequities between individual authorities, in particular in countries that have many municipalities with a small number of inhabitants, such as the Czech Republic, France, the Slovak Republic, Hungary, Switzerland and Austria (Figure 2.7). In some countries, school providers (sub-central authorities or other school owners) are very small and responsible for only one or a few schools, which does not allow them to achieve the same extent of economies of scale, management capacity and support that can be offered by larger providers. Small providers typically have a very limited number of staff managing school services, and these do not necessarily have expertise regarding the design of effective resource management strategies. Some of the OECD review countries, such as Austria, the Czech Republic and the Slovak Republic, literally have thousands of municipalities involved in managing and funding their own schools, many of them with weak administrative capacity, which makes it difficult for them to maintain efficient school services.

Figure 2.7. **Municipal fragmentation in international comparison, 2014/15**



Source: OECD (2015a), "Sub-National Governments in OECD Countries: Key Data" (brochure), OECD, Paris.

While school leaders are typically accountable to their providers, not all providers have the professional capacity to provide effective feedback and support to their leaders. It can, therefore, be difficult for local authorities to fulfil their responsibility for managing financial resources and to collaborate with their school leaders to make resource use decisions that improve learning. In contexts where responsibilities for resource management and the pedagogical organisation of schools are shared between local authorities and schools, education leaders and administrators must be able to establish good relationships and to align resource management decisions with pedagogical aspects and needs. One way for building the capacity of local authorities lies in the creation of networks and collaborative practices (Box 2.4 provides an example from Norway), but these are still underdeveloped in many contexts.

One of the specific challenges of educational decentralisation is that while key decisions (e.g. distribution of financial resources, quality assurance) are typically transferred to regional or local authorities, most of the information and knowledge management capacities are retained by the institutions of the national administration. Therefore, many of them might require active support from the relevant national institutions to take and implement decisions.

Box 2.4. **Addressing the challenges of small size and limited capacity at the sub-central level**

Municipal networks for efficiency and improvement in Norway

In Norway, policy making is characterised by a high level of respect for local ownership. In such a decentralised system, it is essential that different actors co-operate to share and spread good practice and thereby facilitate system learning and improvement. Networking is a common form of organisation among municipalities in Norway and there are a range of good examples where networks and partnerships have been established between different actors as a means to take collective responsibility for quality evaluation and improvement. In Norway, there are many examples of localised collaboration initiatives launched and developed by small clusters of municipalities. As an example, in 2002, in Norway, the Association of Local and Regional Authorities (*Kommunesektorens interesse- og arbeidsgiverorganisasjon*, KS), the Ministry of Labour and Government Administration, and the Ministry of Local Government and Regional Development set up "municipal networks for efficiency and improvement" that offer quality monitoring tools for municipal use and provide a platform for municipalities to share experience, compare data and evaluate different ways of service delivery in different sectors. For the education sector, an agreement was established between KS and the Directorate for Education and Training to allow the networks to use results from the user surveys that are part of the national quality assessment system.

Local government reform in Denmark

Denmark re-organised its public sector through a Local Government Reform in 2007. This reform reduced the number of municipalities from 271 to 98 and abolished the 14 counties replacing them with five regions. Except for some smaller islands, most of the 98 municipalities have a minimum size of 20 000 inhabitants. The reform also redistributed responsibilities from former counties to municipalities, leaving the municipalities responsible for most welfare tasks, and reduced the number of levels of taxation from three to two as regions were not granted the authority to levy taxes. Regional revenues consist of block grants and activity-based funding from the central government and the municipalities. In addition, to ensure that the local government reform would not result in a redistribution of the cost burden between municipalities, the grant and equalisation system was reformed to take into account the new distribution of tasks. The reform sought to primarily improve the quality of municipal services, but also to address efficiency concerns (e.g. by creating economies of scale). Many of the 271 municipalities that existed prior to 2007 were considered too small to provide effective local services, in particular in the health sector.

The creation of Local Education Services in Chile

In Chile, a 2015 reform proposal intends to remove management of public schools from the 347 municipalities and create a new system of public education. The draft law proposes the creation of a National Directorate for Public Education (within the Ministry) which will co-ordinate 67 new Local Education Services, each of which will oversee a group of schools with powers transferred from the 345 municipalities). Prior to this reform, a number of different options for reforming the municipal school system were envisaged and a central concern was to ensure adequate accountability mechanisms to monitor the effective, efficient and equitable use of resources at sub-central levels (Santiago et al., forthcoming).

Source: Nusche, D. et al. (2011), *OECD Reviews of Evaluation and Assessment in Education: Norway 2011*, *http://dx.doi.org/10.1787/9789264117006-en*; Nusche, D. et al. (2016b), *OECD Reviews of School Resources: Denmark 2016*, *http://dx.doi.org/10.1787/9789264262430-en*; Santiago, P. et al. (forthcoming), *OECD Reviews of School Resources: Chile*, OECD Publishing, Paris.

Some countries have responded to size and capacity challenges at sub-central government level by merging several small education providers and thereby consolidating capacity for effective resource management (Box 2.4 provides an example from Denmark). Others are considering to move responsibilities to higher levels of the administration or to create new bodies to administer a larger number of schools (Box 2.4 provides an example from Chile).

Complexities in the governance of school funding risk leading to inefficiencies

Co-ordination is a very important and challenging aspect of governance in every system where sub-sectors of schooling operate under different political and administrative jurisdictions. The decentralisation processes developed in some countries have led to the emergence of increasingly autonomous and powerful local actors (e.g. regions, municipalities, schools) and raise the question of how to assure co-ordination in this new context of multi-level and multi-actor governance. The complexity of education governance might create inefficiencies in the use of resources due to duplication of roles, overlapping responsibilities, competition between different tiers of government and a lack of transparency obfuscating the flow of resources in the system (Chapter 5).

Efficiency challenges in using school resources may be linked with the potential isolation of sub-systems managed by different levels of administration and the rather rigid boundaries between them. The relative isolation of sub-systems might also be accompanied by a low intensity of communication between the administrative authorities responsible for these sub-systems. In Estonia, for example, while different levels of the administration offer competing services at most levels of education, the municipalities are the main provider of general secondary education while the state is the main provider of vocational secondary education. As a result, the general and the vocational sub-systems are relatively isolated from each other. This makes it difficult for sub-systems to share resources (for example teachers, special educational services or facilities) and to allow students to move easily between school types in line with their interests, talents and needs (Box 2.5). Challenges of isolated or competing sub-sectors are also faced by the Austrian school system where there is a parallel offer of federal and provincial schools at the lower secondary level, and in the Flemish Community of Belgium, where the school offer is organised within three different educational "networks" which each have their own legal and administrative structures (Box 2.5).

Challenges may also arise when several sub-central tiers of government are involved in distributing central funding thus establishing a hierarchy between the different levels. In the Czech Republic, for example, regions act as intermediaries in the funding between the central level and municipalities, which complicates the flow of resources from the central level to the end users (schools) (Box 2.5). Intermediary actors and additional layers of decision making can cause frictions and complicate monitoring and evaluation of resource use to the detriment of equity and efficiency. Such complex arrangements can also make it difficult to manage information on the use of school funding and how it translates into outcomes (Chapter 5). In decentralised school systems, the development of effective school funding mechanisms requires governance models that establish a clear division of responsibilities across different levels of the administration, build capacity at each of these levels and develop clear lines of accountability, using data and evidence effectively for policy making and reform (Chapter 5).

Finally, it is important to keep in mind that complexities may also arise in centralised governance settings if multiple actors or agencies are involved in school funding. In Uruguay, while the governance of education is highly centralised, it is also highly fragmented. The

Box 2.5. **Challenges related to the distribution of responsibilities for school funding**

In **Estonia**, the municipal and the state owned schools offer competing services in general education, in special needs education and – to a lesser extent – in vocational education and training. This results in reduced clarity of the responsibilities for setting the funding rules. At the time of the OECD review visit in 2015, the government was aiming to transfer responsibilities among tiers of government so as to provide greater clarity of funding and management responsibilities for each sector. The central government had a medium-term intention of establishing a more streamlined division of labour within public education, whereby municipalities should provide funding for pre-primary, primary and lower secondary education while the state should take responsibility for the entire upper secondary sector (both general and vocational schools) and special education schools. This was expected to reduce unnecessary duplication; provide the potential for better co-ordination within education levels (or school types); establish closer linkages between funding, school management and accountability; facilitate the alignment between education strategic objectives and school level management; reduce ambiguities in defining who is responsible for what; and assist with school network planning. For example, having the state take responsibility for both vocational and general upper secondary education is likely to facilitate bridges between the two sectors and allow upper secondary education to be managed as a unified sub-system.

In **Austria**, at the time of the OECD review visit in 2016, lower secondary education was offered both by the federal level (academic secondary schools) and the provincial level (New Secondary Schools, which are jointly funded by the federal government [responsible for teacher salaries] and the municipalities [responsible for all other funding]). The two types of lower secondary education share a common curriculum and similar educational goals but the systematic management and coherent funding of lower secondary education remain challenging due to the fragmented distribution of responsibilities between the federal, provincial and municipal level. At the time of the OECD review visit in 2016, the government was seeking ways to streamline the governance and funding of its school system. Reform proposals included the creation of a more unitary governance structure, which should overcome the formal division between federal and provincial schools. Given the history of political struggles between the federal and the provincial governments, the whole-sale delegation of funding for teachers, operational costs and infrastructure to either the federal or the provincial government appeared politically difficult. The OECD review team recognised that any future arrangement would most likely have to be a political compromise in the sense that both levels would continue to be involved.

In the **Flemish Community of Belgium**, school education can be classified in three "networks" providing school education. Two of these networks can be classified as providers of public education (Flemish Community schools and municipal and provincial schools). Within each network, schools provide education at the different levels of schooling from pre-primary through to upper secondary, as well as adult education. The different educational networks have different central organisations (the Flemish Community Education – GO! and the so-called "umbrella organisations" with a legal personality) employing administrative staff and operating their own pedagogical advisory services and student guidance centres funded by the Flemish government. Collaboration between schools pertaining to the different networks remains relatively rare. The division of public education in two educational networks involves considerable overhead and administration costs and leaves considerable potential for efficiency savings. At the time of the OECD review visit in 2014, several of the groups consulted argued that there would be benefits creating a single network that would

Box 2.5. **Challenges related to the distribution of responsibilities for school funding** *(cont.)*

cover all public schools, both the Flemish Community schools and the schools managed the municipalities and provinces. The review team considered that the potential merger of the two public networks deserved review and serious consideration as it would help reduce overhead and administration costs across the two smaller networks. In the context of reforms to optimise the structure of school administration, the review team also recommended reviewing the size of school boards within the different networks, with a special focus on determining the potential for merging school boards.

In the **Czech Republic**, the regional level has two separate roles in the education financing system. The first is receiving an education grant from the central budget to finance the schools under its managerial control (secondary schools), and allocating these funds to individual schools. In this respect, the Czech regions are just like any local governments among the post-communist countries. The second role is receiving an education grant from the central budget for schools managed by the municipalities (basic schools), and then redistributing these funds among the municipalities according to an allocation formula set by each region. In this regard, the Czech regions act like extensions of the national government and have much power over the municipal budgeting process. This double role of regions in the financing of the Czech education system is quite unusual among the post-communist countries. It creates a dependency of municipalities on regions, thus making the first tier of local government (municipalities) partially subordinate to the second tier (regions). The OECD review team in the Czech Republic suggested that direct transfers between the ministry and the municipalities that manage the schools could help promote policy dialogue and enable the central level to improve the central understanding of the challenges of the Czech school system and to better plan its development. The main difficulty confronting this approach is the extremely small size of the Czech municipalities and the fact that most of them have one school, if any at all. The review team suggested that a solution could be to entrust funding only to municipalities with extended powers, as is already the case with a number of locally delivered public services in the Czech Republic. In this way not all municipalities would be recipients of the grant. The review team recognised that transfers to municipalities with extended powers, completely bypassing the regions, would have to use more complex and flexible formulas. Nevertheless, the team had no doubts that these formulas could be designed to be far more simple and comprehensible than the current formulas for basic education used by the regions.

Source: Nusche, D. et al. (2016a), *OECD Reviews of School Resources: Austria 2016, http://dx.doi.org/10.1787/9789264256729-en*; Shewbridge, C. et al. (2016b), *OECD Reviews of School Resources: Czech Republic 2016*, *http://dx.doi.org/10.1787/9789264262379-en*; Santiago, P. et al. (2016a), *OECD Reviews of School Resources: Estonia 2016*, *http://dx.doi.org/10.1787/9789264251731-en*; Nusche, D. et al. (2015), *OECD Reviews of School Resources: Flemish Community of Belgium 2015*, *http://dx.doi.org/10.1787/9789264247598-en.*

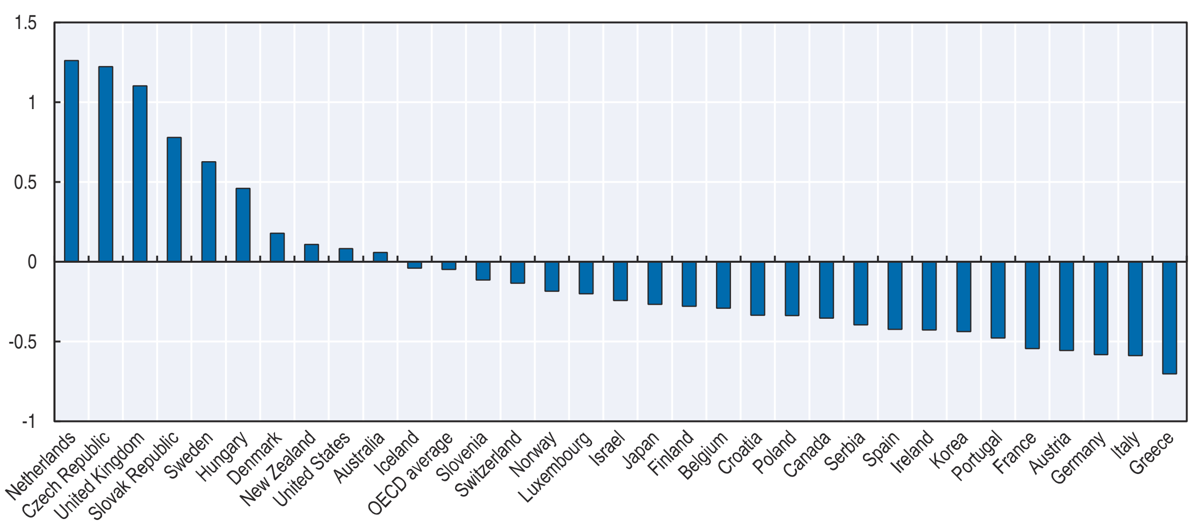
system operates with four education councils for distinct sub-systems (pre-primary and primary education; general secondary education; technical-professional secondary programmes; teacher training) that operate in a rather independent manner. As a result, school education is not governed as a system, but as a number of rather isolated sub-systems. Each area of policy (e.g. human resources, curriculum, budget, infrastructure, planning) is independently addressed within each education council – each council has independent units covering these policy areas while a central governing council replicates the same units but with no oversight upon the corresponding units of the councils. This institutional design does not ensure enough co-ordination across educational levels and types.

Schools hold considerable responsibility for managing and allocating their funds

Over the past three decades, many education systems, including those in Australia, Canada, Finland, Hong Kong (China), Israel, Singapore, Spain, Sweden and the United Kingdom, have granted their schools greater autonomy in both curricula and resource allocation decisions (Cheng et al., 2016; Fuchs and Wößmann, 2007; OECD, 2016b; Wang, 2013). A higher degree of school autonomy typically involves greater decision-making power and accountability for school principals, and in some cases also for groups of teachers or middle managers such as heads of departments in schools. However, the school systems in OECD and partner countries have different points of departure and differ in the degree of autonomy granted to schools and in the domains over which autonomy is awarded to schools.

Figure 2.8 presents comparative data on the autonomy of schools from the OECD 2012 Programme for International Student Assessment (PISA), which also surveyed school principals about their degree of autonomy regarding decisions about the local school environment. The figure presents an index based on principals' responses regarding their autonomy in selecting teachers for hire, dismissing teachers, establishing teachers' starting salaries, determining the teachers' salary increases, formulating the school budget and deciding on budget allocations within the school (OECD, 2013a). As the figure shows, school autonomy in resource allocation was lowest in countries such as Greece, Italy, Germany, Austria, France and Portugal. On the opposite end of the spectrum, schools in countries such as the Netherlands, the Czech Republic, the United Kingdom, the Slovak Republic and Sweden had high degrees of autonomy in resource allocation.

Figure 2.8. **Index of school autonomy in resource allocation in OECD countries, 2012**



Source: OECD (2013a), *PISA 2012 Results: What Makes Schools Successful (Volume IV)? Resources, Policies and Practices, http://dx.doi.org/10.1787/9789264201156-en*, p. 131.

In countries with a strong focus on school autonomy in resource allocation, most funding going to schools is typically not earmarked, which gives schools flexibility to use resources to fit their specific needs. As a result, these schools are responsible for resource policy issues such as setting up budgeting and accounting systems, communicating with relevant stakeholders about resource use, recruiting and dismissing school staff, making decisions about the use of teacher hours, maintaining the school infrastructure, buying materials and establishing relationships with contractors and vendors. Autonomy in resource management decisions provides the conditions for schools to use resources in line with local needs and priorities.

By contrast, in countries where funding arrangements are established in a context of little resource allocation autonomy, schools typically need to follow strict rules to execute their budgets or they manage a very limited budget. They might also not be allowed to select their own staff or organise teacher hours the way they see fit. In addition, they might not be able to save up and transfer funds from one year to the next, take out loans, or generate own revenues. Also, in contexts of limited school autonomy, schools tend not to have their own accounts and, therefore, may depend entirely on education authorities for support in maintenance and operating costs. In highly decentralised systems, such as Chile and Iceland, the level of autonomy of schools may vary from jurisdiction to jurisdiction, with schools in some municipalities having greater autonomy than in others (Icelandic Ministry of Education, Science and Culture, 2014; Santiago et al., forthcoming).

In Chile, for example, the operation of schools that receive public funding is the responsibility of school providers (municipalities or private providers) but school providers may delegate responsibilities to schools. The precise distribution of tasks and responsibilities between school providers and schools, and therefore the degree of school autonomy for the use and management of resources, depends on individual school providers. This arrangement allows school providers to take over administrative and managerial tasks and thus free school leaders to concentrate on their pedagogical role. But for schools that have fewer opportunities to influence their providers' management decision, this makes it difficult to align resource management decisions with particular school needs (Santiago et al., forthcoming).

In many countries, schools have inequitable access to resources

While sub-central discretion over the distribution of funding allows sub-central actors to develop resource strategies in line with identified needs, in some countries it also raises concerns regarding the equity of resource distribution between their schools. In Chile, for example, it was noted that local autonomy regarding the allocation of basic grants to schools creates the opportunity for sharp differences in per student spending within municipalities, as well as a lack of transparency that may benefit schools with well-connected principals (Santiago et al., forthcoming). Also, in the Flemish Community of Belgium, where funding for operational costs is attributed to school boards and then further distributed among the schools, there is evidence that school boards responsible for several schools use their own weightings and strategies to allocate financial means to schools. As a result, there is no guarantee that central funding (which is weighted for socio-economic disadvantage of each school's student body) will indeed benefit the schools with the most challenging socio-economic characteristics (Nusche et al., 2015).

Another source of inequity may arise from differences in schools' ability to generate and use their own revenues. While the generation of own income can help complement school-level resources, it raises a number of equity concerns. First, in some countries not all types of schools have the same revenue generating powers. In Austria, for example, schools that are run and funded directly by the federal level have a certain degree of budgetary autonomy as they are able to rent out their school facilities and have control over their own accounts, even if the extent of revenues generated through such activities appears to be minor. By contrast, schools that are run and funded by the provinces and municipalities do not have such autonomy in financial matters, thus presenting an inequity in the system. They cannot generate additional income and depend entirely on their municipality for support in maintenance and operating costs (Nusche et al., 2016a).

Second, the capacity of schools to generate additional revenue is generally influenced by the socio-economic composition of community that they serve. To highlight socio-economic gaps in the ability of schools to raise funds, it is helpful to look at patterns in school systems which routinely collect the relevant income data, as is done in some school systems. In Western Australia, for example, it was shown that among schools of similar size, parental contributions rise in line with socio-economic status (SES) and are 16 times higher among the largest and highest SES schools than they are among the smallest and lowest SES schools. It is often small schools and those located in socio-economically disadvantaged areas that experience the greatest pressure of need, due to the concentration of multiple disadvantages in them. But these schools typically also have the least opportunity to generate additional revenue and thus the least flexibility in budget terms (Teese, 2011).

Third, in many countries the relevant school income data is not collected, thus leading to a lack of transparency regarding the real resource levels of individual schools. In the Slovak Republic, for example, financial contributions from parents in state schools are not sufficiently transparent with respect to the items they fund and how they are recorded. According to a study published in 2007 and cited in Santiago et al. (2016c), between 70% and 90% of parents pay for various services, such as school events, extracurricular activities or teaching materials. There is also some anecdotal evidence that suggests that some schools place pressure on parents to pay such contributions, which is inequitable. Households in the Slovak Republic contribute 15% of pre-primary education expenditure and 10% of primary and secondary expenditure. While private contributions to public services can have benefits, they require increased attention to integrity and equity considerations (Santiago et al., 2016c).

Limited resource autonomy may constrain strategic development at the school level

The relationship between school autonomy in managing own resources and performance outcomes is not clear cut. Evidence from PISA indicates that while student performance is higher where school leaders hold more responsibility for managing resources, this is only significant in countries where the level of educational leadership is above the OECD average (OECD, 2016c). The effect of delegating more autonomy for resource management to schools depends on schools' ability to make use of this autonomy in a constructive way and thus requires a strengthening of school leadership and management structures (more on this below). Furthermore, autonomous schools need to be embedded in a comprehensive regulatory and institutional framework in order to prevent adverse effects of autonomy on equity across schools. The results from PISA suggest that when autonomy and accountability are intelligently combined, they tend to be associated with better student performance (OECD, 2016c).

Findings from the OECD country reviews indicate that an absence of resource autonomy at the school level risks constraining schools' room for manoeuvre in developing and shaping their own profiles and may create inefficiencies in resource management. In Uruguay, for example, schools have very limited autonomy over the management or allocation of their budget. Not only do central authorities manage school budgets, the recruitment of teachers and the allocation of infrastructure and equipment but they also retain decision-making power over less fundamental aspects of school operation such as the acquisition of instructional materials, ad hoc repairs at schools and the approval of schools' special activities. Little local and school autonomy hinders effectiveness in the use of resources as local authorities and schools are unable to match resources to their specific needs, and in consideration of their conditions and context. Also, responses from central educational authorities to an emerging school need can prove very slow. In addition, limited autonomy disempowers school and local actors and makes it more difficult to hold local players accountable, in particular school leaders, as they do not have the responsibility to take most of the decisions (Santiago et al., 2016b).

Devolution of resource management to schools requires adequate leadership capacity

As part of a general move towards greater school autonomy, many countries have attributed greater resource responsibilities to their school leadership teams. While offering potential for effective strategic management at the school level, such budgetary devolution creates new challenges for resource management in schools. School leaders in such contexts are increasingly asked to fulfil responsibilities that call for expertise they may not have through formal training. Where resource management responsibilities are sharply increasing without additional support for leadership teams, it will be difficult for schools to establish robust management processes where resources are directed to improvement priorities and support learning-centred leadership (Plecki et al., 2006; Pont et al., 2008).

Where schools have autonomy over their own budgets, they must be able to link the school's education priorities with its spending decisions, for example by making connections between school development planning and budget planning (Chapter 4). In particular where targeted funding is available to provide disadvantaged schools with additional funding (Chapter 3), this is often tied to the requirement to develop a school improvement plan deciding how funds are used for the benefit of disadvantaged students and with accountability requirements (Chapter 5). Administrating and allocating such additional funding effectively requires time, administrative capacity and strategic leadership within schools. Evaluations of targeted programmes show mixed results and indicate that the success of these programmes depends on whether conditions for effective allocation and use of funding are in place at the school level (Scheerens, 2000).

If targeted funding is distributed to schools without further guidance and support, school staff may not know how to fit these special initiatives into their school development plans or they may use the additional money for measures that have not demonstrated to be effective (Kirby et al., 2003; Karsten, 2006; Nusche, 2009). In Chile, for example, school leaders often make limited use of school improvement planning which is required in return for additional funding through the preferential school subsidy (*Subvención Escolar Preferencial*, SEP). Resources from this subsidy can be used to contract external pedagogical-technical support, but schools and school providers do not always have the capacity to make an informed choice to select a service of high quality that meets actual needs and to monitor the implementation and the effects of the intervention (Santiago et al., forthcoming).

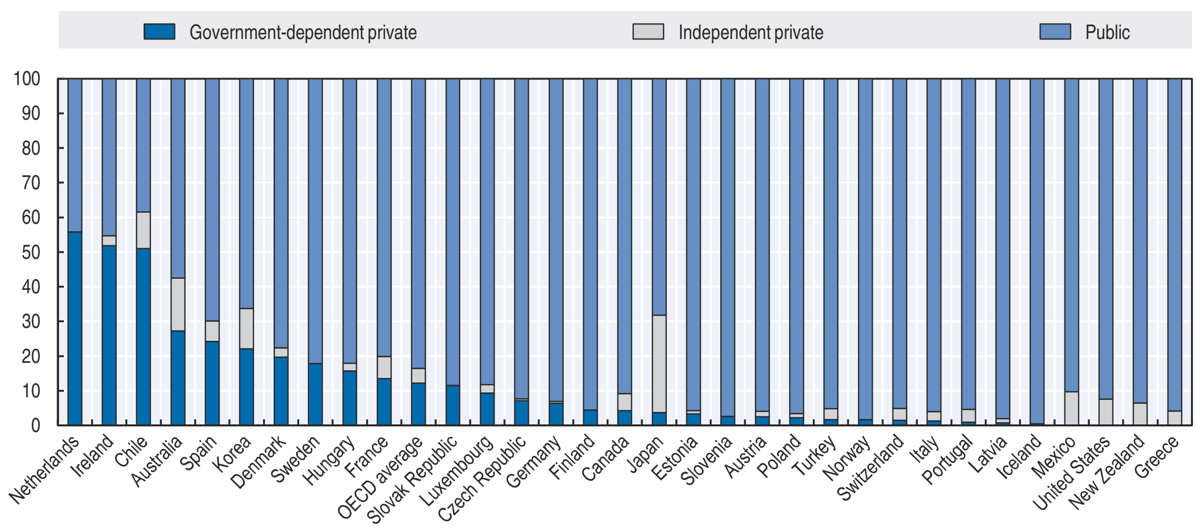
A further challenge concerns the potential tension between pedagogical and administrative/managerial leadership. On the one hand, school autonomy in resource management can be part of strategic learning-centred leadership as it allows aligning spending choices with the pedagogical necessities of schools. But on the other hand, school autonomy places an administrative, managerial and accounting burden on school leaders which may reduce their time available for pedagogical leadership (e.g. coaching of their teaching staff). This tension is also relevant for the training and evaluation of school leaders, which need to prepare school leaders for their financial and administrative responsibilities, but within a framework of pedagogical leadership (Pont et al., 2008; OECD, 2013b).

The public funding of private providers has strengthened private actors in schooling

Over the past 25 years, more than two-thirds of OECD countries have introduced measures to increase school choice (Musset, 2012), often by publicly funding private providers and letting students and families decide which schools to attend. Financial support for private providers is usually embedded in parental choice systems in which public funding may "follow the students" to whichever eligible school they choose to attend, or be used to compensate parents for their expenses on private school tuition fees through vouchers or tax credits. These measures have resulted in some countries developing a substantial publicly funded private sector (see Figure 2.9). For the year 2009, 9 out of 22 OECD countries with available data reported to have a voucher system in place for primary schools, five of which were targeted towards students from lower socio-economic backgrounds. At the lower and upper secondary level, vouchers were even more frequent, with 11 out of 24 countries operating such programmes. Of these, seven at the lower secondary level and five at the upper secondary level were targeted as disadvantaged students (OECD, 2011b).

Figure 2.9. **Percentage of students at age 15 by type of institution, 2015**

Results based on school principals' reports about the organisation managing the school and the sources of funding



Note: Countries are ranked in descending order of the percentage of students enrolled in government-dependent private education.
Source: Adapted from OECD (n.d.), *PISA 2015 Database*, *www.oecd.org/pisa/data/2015database/*, Table II.4.7.

The public funding of private schools may be motivated by a range of different arguments whose relative importance varies across national contexts (for a review, see Boeskens, 2016). In some countries the policy focus is primarily on guaranteeing the rights of families to send their children to the school of their preference (e.g. in terms of quality, pedagogical approaches, religious denomination or geographical location), free of legal restrictions or financial barriers. While socio-economically advantaged families can often choose between different schools by virtue of their residential mobility and ability to pay tuition fees, these options may not be available to students with fewer means. Subsidising private provision has therefore been suggested as a means to promote equity by giving all students access to private providers (Boeskens, 2016). In other countries, there is greater focus on macro-level arguments supporting that such subsidies can provide incentives for schools to improve quality, stimulate greater diversity in the educational offer or encourage innovative pedagogical and governance arrangements that will increase efficiency and improve learning outcomes in the long run (OECD, 2010).

However, experience in several OECD review countries points to the risks of increased social segregation and a deprived public system if high-ability students and socio-economically advantaged students disproportionately leave the public system for private providers. These threats to equity are explored further below. On average across OECD countries, students enrolled in public schools scored lower in science than students in private schools in the OECD 2015 Programme for International Student Assessment (PISA). However, after accounting for socio-economic status, the opposite is true with students in public schools scoring higher than students in private schools on average across the OECD and in the majority of school systems. This remarkable difference in results before and after accounting for socio-economic status reflects the larger proportions of disadvantaged students enrolled in public schools than in private schools (OECD, 2016c).

Regulatory frameworks for the public funding of private schools vary considerably across systems

Experience from different countries indicates that the impact on equity and educational quality of publicly funding private providers is influenced by the institutional arrangements in which they are embedded. Among the OECD review countries, these regulations vary considerably. In some countries, publicly funded private schools do not only enjoy greater pedagogical freedom than their publicly managed counterparts but also greater autonomy in their admission and tuition policies. Other systems impose strict eligibility criteria on private schools seeking to qualify for public funding, binding them to follow national curricula and assessment procedures, excluding for-profit providers, and restricting their ability to charge add-on fees or engage in selective admission (Boeskens, 2016). In the Flemish Community of Belgium, for example, subsidised private schools are not permitted to select students on the basis of their academic achievement as a means to guarantee parents the right to exercise free school choice (see Box 2.6). Other systems use targeted funding schemes designed to exclusively benefit or provide additional support for private school students from disadvantaged backgrounds (Musset, 2012).

While it is relatively common for oversubscribed public schools to take into account non-academic factors such as a student's geographic proximity or the presence of their siblings, in some countries publicly funded private schools are permitted to select students on the basis of academic achievement, aptitude tests and parental interviews. These differential selection practices can restrict the exercise of school choice and risk increasing student segregation across providers. To address this challenge, Chile introduced a reform of its private school system in 2016 (presented in Box 2.7). Although its full effect remains to be seen, the 2016 reform of Chile's private school system (presented in Box 2.7) serves as a good example to illustrate the implementation of a regulatory framework that seeks to harmonise the admission and tuition policies of public providers and subsidised private schools.

Since the early 1990s, Sweden has operated an extensive school choice system whereby funding follows the student and private providers are entitled to receive subsidies equivalent to the local municipality's average spending per public school student. Publicly funded private schools have increased their share of the enrolment among 15-year-old students by almost 10 percentage points between 2003 and 2012 (OECD, 2013a). To receive the same funding as public schools, private providers need to be approved by the Schools Inspectorate and teach the same curriculum as municipal schools, although they can follow a special

Box 2.6. **Parental choice in the Flemish Community of Belgium**

The Flemish Community of Belgium has a long tradition of parental choice and is home to a large number of publicly funded private schools. One of the related umbrella organisations (*Vrij gesubsidieerd onderwijs*, VGO) enrolled the majority of the student population in 2012/13 (62.4% of primary school students and 74.8% of mainstream secondary school students). The majority of these "grant-aided private schools" are run by private foundations of Catholic denomination, while the non-denominational private providers typically follow a particular educational method or philosophy.

To facilitate school choice, the Flemish Community provides full funding to both public and grant-aided private schools. In turn, publicly funded schools are not allowed to charge tuition fees. Although parents can be asked to pay some fees for specific educational materials or supplemental activities, scholarships are available for some students at the secondary level to assist with these expenses. In addition, Flemish primary and pre-primary school students from low-income families are eligible for means-tested study grants. Additional provisions to ensure that families have equal access to the school of their choice include the prohibition of selective admission, although factors such as the access to information or school transportation arrangements remain potential sources of inequity and segregation since they may constrain the choices of disadvantaged families.

As a means to ensure equal access to educational opportunities and address the issue of socio-economic segregation, the 2002 Decree of Equal Educational Opportunities (*Gelijke Onderwijskansen*, GOK) provided for the establishment of local consultation platforms (*Locale Overlegplatformen,* LOP) which play an important role in co-ordinating the co-operation between schools and stakeholders and managing the enrolment process. LOPs are responsible for ensuring students' right to enrolment, analysing the socio-economic characteristics of the student population in the local area, acting as an intermediary in case of conflicts and implementing a local policy to co-ordinate schools' enrolment procedures within the framework of the decree (Lambrechts and Geurts, 2008). Particularly in urban areas with pressing demographic developments, LOPs play an important role in facilitating the distribution of students across local schools and networks and guaranteeing their right to enrolment.

Source: Nusche, D. et al. (2015), *OECD Reviews of School Resources: Flemish Community of Belgium 2015*, *http://dx.doi.org/10.1787/9789264247598-en*.

Box 2.7. **Regulating publicly funded private schools in Chile: The 2016 Inclusion Law**

The Chilean school system is characterised by a large network of publicly-funded private schools, enrolling 53% of its students in mainstream basic education (Year 1 to Year 8) and 51% at the upper secondary level in 2014. Historically, Chile allowed publicly funded private schools to charge tuition fees, operate for profit and select students based on academic achievement, aptitude tests or parental interviews. This practice has contributed to the country's high level of socio-economic segregation as middle-class students increasingly left the public school system to enter subsidised private schools with admission requirements that excluded large parts of the population. In order to address these concerns and facilitate the exercise of free school choice, a new law (*Ley de Inclusion*, Inclusion Law) was adopted in 2016, which imposes new eligibility criteria for public funding in order to restrict selective admission, for-profit ownership and top-up fees among subsidised private schools.

Box 2.7. **Regulating publicly funded private schools in Chile: The 2016 Inclusion Law** *(cont.)*

The new regulations will be enforced by the Education Superintendence and gradually implemented over the coming years. In order to remain eligible for public subsidies, private schools will need to phase out their tuition fees and other obligatory parental contributions (e.g. for school materials) over the coming years and stop selecting students based on parental interviews or prior academic achievement. In order to facilitate this transition and compensate schools for the loss of revenues from parental "co-payment", the law provides a number of additional subsidies (*Aporte de Gratuidad*). Notably, the law provides for a 20% increase of the Preferential School Subsidy (*Subvención Escolar Preferencial*, SEP) which assigns additional resources to schools serving the most vulnerable 40% of students. In addition, schools that abolish co-payments will be eligible to receive a grant amounting to 50% of the SEP for students from the third and fourth quintile of the income distribution. The estimated fiscal cost of these transition arrangements are subject to debate, ranging from the official estimate of USD 914 million per year to about USD 1 170 million (Santiago et al., forthcoming).

Source: Santiago, P. et al. (forthcoming), *OECD Reviews of School Resources: Chile*, OECD Publishing, Paris.

orientation or profile like Montessori and Waldorf Schools. While subsidised private schools in Sweden have been prohibited from charging mandatory fees since 1997 and cannot select students in compulsory education based on their ability, they are allowed to operate for profit (Swedish Ministry of Education and Research, 2016). Similarly, in Estonia, publicly funded private schools can also make profits (Santiago et al., 2016a). While there is little robust and consistent evidence concerning the performance of for-profit schools in advanced economies, subsidising commercial providers without ensuring that profits are reinvested to improve the delivery of educational services raises concerns over the efficient use of public funding for education.

Inadequate private school regulations and school choice designs can generate inequities

One of the most commonly raised concerns with respect to school choice programmes is that they are disproportionately used by families with higher socio-economic status. Even in the absence of explicit admission criteria, students from disadvantaged backgrounds are less likely to make use of school choice and less frequently use academic quality as a criterion when deciding which school to attend. To address the socio-economic inequities that arise from differential participation rates, it has been recommended to raise awareness of school choice options, improve disadvantaged families' access to school information and to support them in making better-informed choices (Nusche, 2009; OECD, 2012). Progressive voucher schemes or weighted funding formulas have also been proposed as policy options to address the challenges of segregation along socio-economic and demographic lines (Musset, 2012). By channelling additional money to disadvantaged students, countries such as Chile and the Netherlands have used variants of these funding schemes to provide schools with the resources they need to adequately address their students' needs and diminish incentives that could exacerbate segregation.

The conditions which private schools must fulfil in order to qualify for public funding are central to the successful governance of school choice systems. Among these eligibility criteria, private schools' ability to select students and charge add-on tuition fees are particularly salient concerns for several OECD review countries. Allowing subsidised schools to select their students based on prior performance, aptitude tests or socio-economic background raises a number of concerns pertaining to both equity and educational quality. Selective admission permits private schools to "cream skim" high-ability students from the public sector, particularly where their public counterparts are required to operate on the basis of open enrolment or confine themselves to using non-academic criteria such as residential proximity to select students. Since parents often mistakenly evaluate a school's quality based on its student composition, engaging in selective admission can allow schools to attain a competitive advantage without actually improving their educational provision. Selectivity threatens to exacerbate student segregation between the public and private sectors and can widen existing achievement gaps. This process threatens to deprive the public school system of high-ability students, which is likely to harm those who are left behind and deplete public schools of vital resources since disadvantaged students may have greater resource needs (Boeskens, 2016).

School choice systems that permit private schools to demand significant parental contributions above and beyond the amount covered by the public subsidy risk exacerbating socio-economic segregation across schools. Most countries that subsidise private providers place restrictions on their ability to charge "add-on" tuition fees. In Sweden, for example, tuition fees among subsidised private are entirely prohibited, whereas countries such as Denmark provide fee-charging private schools with a proportionately lower amount of public funding (Houlberg et al., 2016). Regulations of add-on tuition fees usually aim to reduce financial barriers for low-income families seeking to make use of school choice and serve to ensure that private schools do not gain an unfair competitive advantage over free public schools. However, among the education systems participating in the review's qualitative survey, 9 of 17 reported not to have national regulations in place to restrict tuition fees among publicly funded private schools in general compulsory education (Table 2.A1.4). Evidence from Chile suggests that tuition fees among private schools were one of the reasons for the country's high level of student segregation (Elacqua, 2012) and empirical studies have also called into doubt whether private schools' revenue from parental contributions was effectively translated into higher educational quality. In the Chilean case, Mizala and Torche (2012) found no association between parental add-on fees and private schools' scores in national standardised tests (*Sistema de Medición de la Calidad de la Educación,* SIMCE) controlling for their student composition, which suggests that tuition fees may have primarily served as a means to cream-skim students from the public sector without raising their educational quality.

Monitoring the implementation of regulatory frameworks is important. In Chile, for example, publicly-funded private providers are subject to evaluations by the central education authorities through the Education Superintendence, which audits the use of public resources and monitors compliance with legislation, standards and regulations. It also enforces compliance with the recently introduced Inclusion Law, which prohibits publicly-funded private providers from making a profit, selecting students, and charging add-on student fees (Santiago et al., forthcoming). In addition, private school providers typically have to provide information on their use of the public financial resources they receive. In the Czech Republic, for example, private schools are required to report on the settlement of their public operating grants by a set deadline, provide analysis of the way the grant was used, and submit an annual report on the operation of the school. If the school has a school council in place, it must also provide information about the discussions that took place at their meetings (MŠMT, 2016).

There are concerns in some countries about inadequate monitoring of regulations for publicly funded private schools. In Germany, the basic law establishes central principles for the public funding of private schools that prohibit the selection of students to prevent social segregation in the education system. The introduction of precise regulations for the implementation of these principles and the monitoring and controlling of compliance with these regulations is the responsibility of the individual states. States should thus control aspects, such as the admission procedures and the social composition of private schools compared to public schools; however, according to Wrase and Helbig (2016), this is only rarely the case (Wrase and Helbig, 2016).

Policy options

This report does not aim to provide generic recommendations on effective governance arrangements that could be applied to all countries as such strategies need to be developed with an understanding of national (and sub-national) contexts, traditions and circumstances. However, there are a number of trends in the governance of school funding that can be observed across many countries, albeit in different combinations and to different degrees. These trends have been grouped in this chapter under the headings of fiscal decentralisation, school resource autonomy and involvement of publicly funded private actors. Depending on their different starting points, traditions and school system structures, countries have reacted to these trends in different ways and have developed unique responses to adapt their school funding systems to their own governance contexts. Their various responses to a set of similar challenges provide opportunities for peer learning across countries, keeping in mind that there is no one governance approach that would fit all systems. This section provides a set of options and examples of how the governance challenges most commonly observed in school funding systems might be addressed.

Align roles and responsibilities in decentralised funding systems

In the context of multi-level governance, school systems are increasingly involving sub-central governments in raising resources for schooling and making decisions on the allocation and management of school funds. However, for such decentralised funding approaches to work well, they need to be designed in ways that ensure sub-central jurisdictions have both adequate revenues to meet the needs of their students and relevant capacity to fulfil their funding responsibilities. In addition, it is key to ensure effective alignment between the roles and responsibilities of different levels of the educational administration. Creating such alignment involves reflection about both governance structures (e.g. the most efficient number of governance levels involved in school funding) and governance processes (e.g. stakeholder involvement, open dialogue and use of evidence and research).

Align sub-central revenue raising and spending powers

The distribution of responsibilities for spending on school education should be adequately aligned to the distribution of responsibilities for raising funds. In countries where sub-central authorities have large spending powers, consideration could be given to increasing, at the margin, their own revenue raising powers. As discussed above, reliance on own tax revenue brings jurisdictions autonomy in determining public service levels in line with local preferences; it makes sub-central governments accountable to their citizens who will be able to influence spending decisions through local elections; it may enhance overall resource mobilisation in a country as local/regional authorities may tap additional local resources; and it creates a hard budget constraint on sub-central entities which is likely to discourage overspending (OECD/KIPF, 2016).

In systems where sub-central decision making is a key principle of schooling, a case can be made for expanding the available choices for sub-central governments by increasing their fiscal autonomy. For example, the Nordic countries typically give local governments substantial control over personal income tax rates. Some Central and East European countries have also started to do this by giving local governments the right to impose a local surcharge – within limits set by law – on the national government's rate, while others are considering it. It should also be considered to accompany such an extension of revenue generating powers of local governments by a degree of jurisdictional consolidation to decrease the incentive such taxation might create for people to move from one jurisdiction to another – particularly from urban to suburban ones (Santiago et al., 2016a). However, it is important to recognise that such fiscal reforms require adjustments that go beyond the education system and need to be embedded in broader reflections on fiscal relationships across tiers of government.

Develop adequate equalisation mechanisms

Despite the advantages of raising the proportion of own revenue in sub-central education budgets, such an emphasis on using local tax bases for schooling also entails risks to create inequities in the availability of funding for schools across different localities. Typically, wealthier jurisdictions will be in a better position to raise their own revenues and to be able to provide adequate funding per student than others. In such contexts, the operation of fiscal transfer systems can help ensure that all jurisdictions have the necessary revenue to provide equal opportunities for their students. Such mechanisms aim to ensure that sub-central authorities are able to provide similar services at similar tax levels.

While the design of inter-jurisdictional relationships goes beyond the school sector (see above), getting the system right is particularly important for schooling as it often accounts for the largest share of the local budgets. Chapter 3 discusses key design principles to be considered when establishing effective fiscal transfer systems. In terms of governance, it is important to strike a balance between the need to reflect stakeholder views in the design of the transfer system and the risks of rent-seeking approaches and political distortions. A number of OECD countries have developed measures to limit the influence of special interests, for example through the establishment of independent agencies and bodies. Also, a two-stage budget procedure by setting the overall budget for equalisation and then negotiating the distribution formula may help reduce rent-seeking pressures (OECD, 2014b).

But even where well-designed equalisation schemes are in place, there may be marked differences among sub-central authorities in the level of funding they provide to schools and in the methods used for allocating these funds. To ensure a basic level of funding for all schools, one option is to introduce a funding approach whereby a part of central funding is earmarked for schools based on assessed needs while another part can be used at the discretion of sub-central authorities. In systems where each educational jurisdiction creates its own funding approach, the sharing of experiences among sub-central authorities should be encouraged and facilitated to create synergies and avoid duplication of efforts in designing optimal funding formulas (Chapter 3).

Build capacity for resource management at the sub-central level

In countries where sub-central authorities play a key role for providing education, the capacity building of sub-central actors should be a priority. Such capacity building should include a focus on resource management if this is a local responsibility. Competency frameworks for local leaders and administrators should reflect the related skills and be used to guide recruitment processes as well as training and professional development.

Part of the strategy involves professional development programmes to be made available to the staff employed by sub-central authorities and other school providers. These could emphasise, managing local school networks, engagement with community members, communication and consultation processes, school development, financial planning, human resources management and quality assurance in education (Chapter 5). But it is important to keep in mind that the professionalisation of local management does not depend only on the personal preparedness of local actors. In a wider professionalisation framework, the institutional settings within which local actors operate (e.g. co-ordination and co-operation among local authorities), the professional support provided, and the access of local actors to key information are important aspects to consider in improving capacity at the local level. For example, relevant training offers could be complemented by the establishment of a network of advisors to support the education work of local authorities. The central level and/or an association of local authorities could play a key role in this process.

Capacity for local education management can also be strengthened by encouraging local authorities to collaborate and share their administrative and managerial resources, e.g. jointly employing specialised staff for budgeting, financial control and the use of performance data, and working together to identify and disseminate effective practice. Associations of local authorities can take on a leading role in encouraging such collaborative practices and networks and in spreading good practices. Initiatives to develop and disseminate knowledge and tools for different levels of the school administration can support the implementation of effective processes for financial resource management. This could include support in areas such as planning resource use, budgeting and accounting, reporting on the use of financial resources, purchasing education materials and establishing contracts.

Finally, in countries where the high number and small size of providers limits their capacity for effective resource use, school funding could be rationalised by merging several small educational providers and thereby consolidating capacity for effective resource management. This would help ensure a more efficient and equitable administration of resources for a larger number of schools. Providers with adequate size and capacity will be better able to provide professional support for budgeting, accounting and other tasks to school leaders as well as offering regular leadership appraisal and feedback, thereby strengthening the strategic and pedagogical leadership at the school level.

Another option that has been considered by countries facing size and capacity challenges at sub-central levels is to re-centralise provision and funding of one or several sectors of schooling, either by moving responsibilities to higher levels of the administration or by creating new bodies to administer a larger number of schools. Re-centralisation of education services entails risks of weakening the links between education and local development planning. As a result, an important aspect to such re-centralisation processes is the establishment of mechanisms to ensure that local development objectives remain a relevant dimension in defining approaches to school funding. In countries where a decision for recentralisation has been made, it is important that schools remain responsive to local needs and that decision making involves consultation with the relevant local stakeholders. Systems that are re-centralising should also consider introducing flexible approaches to implementing such administration reform, which would recognise differences in capacity and performance between local providers. This could involve the possibility for willing municipalities or other providers to seek certification and continue to operate their local school system within a strengthened accountability framework.

Address the challenges of complexity in decentralised school funding approaches

Fragmented, overlapping and/or unclear governance and funding arrangements risk obfuscating resource flows, creating inefficiencies and reducing overall trust in the management of school systems. While governance arrangements have often been considered as a fixed feature of school systems, many countries are no longer willing or able to afford an inefficient distribution of responsibilities which may lead to costly duplication, overly complex funding formulas or waste of resources. Conclusions from the OECD country reviews clearly indicate that well-functioning governance arrangements are a key condition to allow for an effective and equitable distribution of resources across school systems.

One of the key ingredients of effective governance identified by OECD analysis on *Governing Complex Education Systems* is the need to align roles and responsibilities across the system as a way to address potential conflicts and overlap (Burns et al., 2016). In the context of school funding, this would require a clear division of labour between different levels of the school administration involved in the distribution of funding in order to increase the transparency and effectiveness of decentralised school funding. Where several tiers of government are funding schools at the same level of education and competing with each other for students, this may create conflicts of interests, barriers to collaboration and/or ineffective services for students who may not be able to transfer easily between sub-sectors run by different authorities. One option to address these challenges is to focus on developing a clear distribution of tasks, which assigns funding responsibilities for particular sub-sectors and/or particular types of resources to each tier of school administration.

Another option to address complexity challenges is to reduce the number of sub-tiers involved in channelling resources across a system. In countries where funding is channelled through several intermediary tiers of government before arriving at the school level, this might increase bureaucracy, reduce possibilities for central steering and dilute accountability for effective school funding. In such contexts, central governments could consider reducing the complexity of resource flows by introducing direct transfers for schooling to those levels of the administration which are directly responsible for managing and financing each education level. However, the precondition for such an approach is that the administrative units responsible for managing schools at have sufficient capacity to manage and distribute school funding.

While a whole-system approach that aligns roles and balances tensions is important for effective governance of school funding, Burns et al. (2016) caution against an excessive focus on governance structures rather than processes. For example, as systems seek to identify the most efficient number of governance levels, the focus on identifying an ideal structure may take a lot of time and energy without necessarily yielding lasting strategies to improve the effectiveness of the system. While an effective organisation of the different levels of the school administration is a crucial element of successful governance, thinking of structures in isolation without connecting them to supporting processes will not provide systemic and sustainable solutions to solve complexity challenges. Among the relevant processes that need to be considered alongside structural changes are: flexibility, adaptability, capacity building, open dialogue, stakeholder involvement and transparency (for more information, see Chapter 5). Changing governance structures without addressing the underlying processes may hinder effective implementation of the reforms (Burns et al., 2016).

Provide the necessary conditions for effective resource management at the school level

Some countries have taken steps to improve the conditions for schools to make decisions regarding the allocation of their operational budgets, for example by allowing them to have their own bank accounts and permitting a degree of carry-over of funds to the next financial year (for more information, see Chapter 4). Others are aiming to replace earmarked funding for schools by more general grants in order to allow school-level decision-making power in allocating such funding. To avoid that increased autonomy results in widening inequities across schools, it is important to develop framework conditions that ensure adequate levels of capacity, support and accountability for school leaders. If the right conditions are in place, being able to make budget decisions and recruit personnel can allow schools to more effectively shape their profiles and respond to local challenges.

First, increased school autonomy requires investment in school leadership and management capacity. The effects of school autonomy largely depend on the ability of schools to make use of this autonomy to manage their resources effectively. If schools hold considerable autonomy for resource management, education policies need to focus particularly on developing school leadership capacity and strengthening school management. This should be part of broader strategies to develop the school leadership profession such as the establishment of school leadership frameworks, the recruitment of qualified candidates, their preparation, induction, professional development, performance evaluation and career development over time (OECD, 2013b).

Second, depending on the tasks delegated to the school level, schools also require adequate administrative support staff, such as secretaries, accountants and/or financial managers who are based at the school or shared between several schools. Depending on the context, this does not necessarily mean an overall increase in staff numbers, but could involve a reflection on how human resources can be shifted to better meet schools' needs. It could also involve testing out innovative and cost-effective ways of organising schools and administrative support (e.g. through collaboration of schools or local authorities). In a number of countries, the responsibility for the maintenance of schools, including the provision of administrative staff, lies at the local level, which means that the availability of administrative support staff may depend on the willingness and resources of the responsible local authority. In such contexts, central authorities could consider the introduction of central guidelines regarding a minimum number of administrative staff for schools of a certain size, coupled with instruments to address resource inequities between local authorities (e.g. through an equalisation mechanism, see above). Adequate support structures with administrative staff and distributed leadership arrangements are important to reconcile administrative and managerial tasks with pedagogical leadership (Pont et al., 2008).

Third, schools may benefit from external support with budget management tasks. For example, local education providers can provide their school leaders with various degrees of help with the more technical aspects of school budgeting such as accounting and bookkeeping, allowing school leaders to focus more on strategic and pedagogical organisation of the school. They can also play an important role in the delivery of services and can help their schools achieve scale economies, for example by buying materials and services for several schools at the same time. In addition, several countries have created consulting and advisory services that work with schools and provide support if needed, for example in the development of strategies to use targeted funds to improve learning for disadvantaged students.

Fourth, increased responsibility of schools over their own budget further needs to be accompanied by effective school self-evaluation and accountability mechanisms (Chapter 5). Requiring schools to develop school improvement plans connected to medium-term resource strategies can help inform resource allocation, as discussed in Chapter 4. Performance agreements with principals can also help holding school leadership to account (OECD, 2013b). Information generated through school evaluation needs to be systematically connected with future resource decisions. Additional support should be provided to schools identified as struggling with increased autonomy. School boards representing parents and the local community can provide horizontal accountability by reviewing school budgets.

Finally, a critical school size is also necessary in order for schools to be able to effectively use their autonomy. If schools are too small, delegating more responsibility to the school level may overwhelm leaders with additional workload. Considerations about school autonomy in managing their resources should therefore go together with discussions about desired school size. Supporting schools to group together and share financial resources in a rational way can help achieve economies of scale and a more efficient use of resources.

Develop adequate regulatory frameworks for the public funding of private providers

The conditions under which private schools are eligible for public subsidies influence the ways in which school choice programmes will impact on accessibility, quality and equity of the school system. To mitigate risks to equity, it is important that all publicly funded providers are required to adhere to the same regulations regarding tuition and admission policies, and that compliance with these regulations is effectively monitored.

Tuition fees for publicly funded private schools that are not covered by vouchers constitute a barrier to the exercise of school choice and can contribute to the socio-economic segregation of students between the public and private sectors. In the absence of appropriate eligibility criteria, private schools may invest public contributions to improve their educational quality without reducing their tuition fees, which places them at a relative advantage and risks draining the public sector of socio-economically advantaged students and resources. In order to ensure that vouchers and other forms of public funding increase the accessibility of private schooling options, regulations should therefore prevent subsidised private schools from charging fees that could constitute a barrier to entry. In countries where parental contributions are charged to make up for discrepancies between the funding of public and private providers countries should carefully monitor their effect and, if necessary, make adjustments to the public subsidy.

In order to support that school choice can improve access to high-quality education rather than leading to selectivity and “cream-skimming”, governments should also regulate admission procedures and ensure that private providers adhere to the same standards of selection as public schools. If subsidised private schools are allowed to apply selective admission criteria based on factors such as academic achievement or parental interviews, they have a strong incentive to compete on the basis of selectivity, rather than their educational services. Favouring access of high-ability or socio-economically advantaged students that require fewer resources to teach and raise the school's average achievement threatens to exacerbate socio-economic segregation. Admission practices for oversubscribed schools should therefore be transparent and homogenous across school sectors. The use of lottery systems to assign places in oversubscribed schools or formula aimed to maintain a diverse student composition could be considered (Musset, 2012). Governments should also seek to reduce indirect forms of student selection through complicated application procedures or different expulsion practices across school sectors (Bellei, 2008). Finally, adequate accountability and transparency requirements are also important to ensure that subsidised private schools serve the public interest in providing high-quality education and to provide parents with the information they need to evaluate different schools' processes and outcomes (Chapter 5).

Notes

1. A training levy is a tax to be paid by companies to fund the government's training schemes.
2. Funding mechanisms sometimes allocate additional resources to school-based VET provision to compensate for the cost of specialised equipment and teaching, given the high degree of specialisation in some programmes as well as their higher share of students from disadvantaged backgrounds *vis-à-vis* general education pathways (see Chapter 3).
3. Data available at *https://nces.ed.gov/surveys/annualreports/oecd/index.asp*.

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ANNEX 2.A1

National approaches to governing school funding

Table 2.A1.1. **Sources of public funding for education (ISCED 0-3), 2016**

Country	Administrative levels raising public financial resources	Level of education
Austria	Central authority Local authorities	ISCED 0-3 ISCED 0, ISCED 1-3 (state schools)
Belgium (Fl. and Fr.)	Central authority State authorities Regional authorities Local authorities	ISCED 0-3
Chile	Central authority Local authorities	ISCED 0-3
Czech Republic	Central authority Regional authorities Local authorities	ISCED 0-3 ISCED 3 ISCED 0-2
Denmark	Central authority Local authorities	ISCED 0-3 ISCED 0-2
Estonia	Central authority Local authorities	ISCED 0-3
Iceland	Central authority Local authorities	ISCED 3 ISCED 0-2
Israel	Central authority Local authorities	ISCED 0-3
Kazakhstan	Central authority Regional authorities Local authorities	ISCED 0-3
Lithuania	Central authority Local authorities	ISCED 0-3
Portugal	Central authority Regional authorities Local authorities	ISCED 0-3 ISCED 0-2
Slovak Republic	Central authority Local authorities Regional authorities	ISCED 02-3 ISCED 02, ISCED 1-2 ISCED 3
Slovenia	Central authority Local authorities	ISCED 1-3 ISCED 0-2
Spain	Central authority Regional authorities Local authorities	ISCED 0-3
Sweden	Central authority Local authorities	ISCED 0-3
Uruguay	Central authority	ISCED 0-3

Notes: The review team made every effort to ensure, in collaboration with countries, that the information collected through the qualitative survey on school funding is valid and reliable and reflects specific country contexts while being comparable across countries. However, given the qualitative nature of the survey, information should be interpreted with care.

For terms and definitions of levels of education and levels of administration, see Annex B. For country-specific notes to this table, see the end of this annex.

Table 2.A1.2. **Right for public institutions to charge tuition fees (ISCED 0-3), 2016**

Country	Institutions have the right to charge tuition fees	Level of education concerned	Responsibility for determining the level of tuition fees
Austria	Yes	ISCED 0	State authority Local authority
Belgium (Fl.)	No	x	x
Belgium (Fr.)	No	x	x
Chile	No	x	x
Czech Republic	Yes	ISCED 02	Central authority Individual school
Denmark	Yes	ISCED 0	Local authority
Estonia	Yes	ISCED 0	Central authority Local authority
	Yes (vocational)	ISCED 2-3	Other
Iceland	No	x	x
Israel	Yes	ISCED 0-3	Central authority
Kazakhstan	No	ISCED 0-3	x
	Yes (pre-vocational and vocational)	ISCED 3	Individual school
Lithuania	Yes	ISCED 0	Local authority
Portugal	No		x
Slovak Republic	Yes	ISCED 02	Local authority Individual school
Slovenia	Yes	ISCED 0	Local authority
Spain	Yes	ISCED 01	Regional authority Local authority
Sweden	Yes	ISCED 0	Local authority
Uruguay	No	x	x

x: not applicable

Notes: The review team made every effort to ensure, in collaboration with countries, that the information collected through the qualitative survey on school funding is valid and reliable and reflects specific country contexts while being comparable across countries. However, given the qualitative nature of the survey, information should be interpreted with care.

For terms and definitions of levels of education and levels of administration, see Annex B. For country-specific notes to this table, see the end of this annex.

Table 2.A1.3. **Right for public institutions to collect other private contributions (ISCED 0-3), 2016**

Country	Parental voluntary monetary contributions	Parental voluntary non-monetary contributions	Sale of teaching services	Sale of non-teaching services	Rental of materials or facilities	Philanthropy/ Donations	In-kind donations	Other
Austria	✓	✓		✓	✓	✓	✓	✓
Belgium (Fl.)	✓	✓		✓	✓	✓	✓	
Belgium (Fr.)	✓	✓		✓	✓	✓	✓	
Chile	✓	✓		✓	✓	✓	✓	✓
Czech Republic	✓	✓	✓	✓	✓	✓	✓	
Denmark	✓	✓			✓	✓	✓	
Estonia	✓	✓	✓	✓	✓	✓	✓	
Iceland								✓
Israel								✓
Kazakhstan	✓	✓	✓	✓	✓	✓	✓	
Lithuania	✓	✓	✓	✓	✓	✓	✓	
Portugal	✓	✓		✓	✓	✓	✓	
Slovak Republic	✓	✓		✓	✓	✓	✓	
Slovenia	✓	✓		✓	✓	✓	✓	
Spain					✓			
Sweden	✓	✓				✓		

Notes: Private contributions to public pre-schools and schools presented in this table do not include contributions to schools by employers.

Teaching services by individual schools refer to activities outside the scope of formal education such as training for workers in given industries or adult learning more generally.

Non-teaching services by individual schools refer to activities such as catering, hairdressing, car repair or plumbing typically associated with the education offer of a given school.

Philanthropy/Donations refer to donations by firms and non-governmental organisations to individual schools that are measured in monetary terms.

In-kind donations refer to donations by firms and non-governmental organisations to individual schools that are not measured in monetary terms, e.g. goods or services such as school equipment or time given to a school by a firm's staff member.

The review team made every effort to ensure, in collaboration with countries, that the information collected through the qualitative survey on school funding is valid and reliable and reflects specific country contexts while being comparable across countries. However, given the qualitative nature of the survey, information should be interpreted with care.

For terms and definitions of levels of education and levels of administration, see Annex B. For country-specific notes to this table, see the end of this annex.

Table 2.A1.4. **Right for publicly-funded private institutions to charge tuition fees (ISCED 0-3), 2016**

Country	Level of education	Tuition fees	Restrictions
Austria	ISCED 0-3	Yes	None
Belgium (Fl. and Fr.)	ISCED 0-3	No	x
Chile	ISCED 0-3	No	x
Czech Republic	ISCED 0-3	Yes	None
Denmark	ISCED 0-3	Yes	None
Estonia	ISCED 0	Yes	Tuition fees cannot exceed 20% of the state minimum salary if there are not enough places in the pre-school owned by the municipality and the municipality offers a pre-school place through a private provider.
	ISCED 1-3 (general education)	Yes	By law, it is not allowed to increase tuition fees by more than 10% between school years; from 2017 onwards, the increase can be larger than 10%.
	ISCED 2-3 (vocational)	No	x
Iceland	ISCED 0-2	Yes	The local authorities can stipulate restrictions at their own discretion based on locally determined funding formulas.
	ISCED 3	Yes	None
Israel	ISCED 0-1, ISCED 3	Yes	The central education authority (Ministry of Education) specifies the maximum fees that school can collect from parents.
Kazakhstan	ISCED 0	Yes	Fees are set by the school and public grants are excluded from the calculation of the tuition fee.
	ISCED 1-3	Yes	There are 20 Nazarbayev Intellectual Schools that are financed from the central (republic) budget. There are tuition fees at specific years in these schools.
	ISCED 3 (pre-vocational and vocational)	Yes	Tuition fees are set autonomously by the school and should not be less than the fees of students with a public grant (such grants are allocated for students with high academic performance).
Lithuania	ISCED 0-3	Yes	None
Portugal	ISCED 0-3	No	x
Slovak Republic	ISCED 02-3	Yes	None
Slovenia	ISCED 0-3	Yes	Teaching staff salaries must be defined in the same way as in public schools. Tuition fees cannot be used for higher salaries. Otherwise, there are no central or local regulations regarding tuition fees.
Spain	ISCED 0, ISCED 3	Yes	None
Sweden	ISCED 0-3	No	x
Uruguay	ISCED 0-3	No	x

x: not applicable

Notes: Tuition fees refer to the amount of money that students (and their families) have to pay to enrol in educational institutions.

The review team made every effort to ensure, in collaboration with countries, that the information collected through the qualitative survey on school funding is valid and reliable and reflects specific country contexts while being comparable across countries. However, given the qualitative nature of the survey, information should be interpreted with care.

For definition of levels of education, see Annex B. For country-specific notes to this table, see the end of this annex.

Table notes

Table 2.A1.1. Sources of public funding for education

Austria:

Almost all public financial means are raised at the central level and are subsequently allocated by a transfer funding mechanism, the Fiscal Adjustment Act (*Finanzausgleich*), to state (provinces) and local (municipalities) levels. State and local authorities spend these resources according to their respective competences, including in the area of early childhood education and care and school education.

Local authorities contribute through their tax-raising to the financing of early childhood education and care and school education (for state schools only) in their role as school maintainers (*Schulerhalter*) which bear the costs for establishing and maintaining schools and their infrastructure.

Belgium (Fl. and Fr.):

Federal taxes are distributed to all federal entities, including to the Communities, according to a funding formula based, among others, on demographic criteria. Taxes are also levied at sub-central levels and constitute part of the education budget.

The state authorities refer to the three Community authorities in Belgium. This is the level which is politically and administratively responsible for the funding of education in Belgium. Funding goes directly from the Communities to the school providers (school boards).

Regional authorities (i.e. provinces) and local authorities (i.e. cities and municipalities) can contribute resources for school infrastructure or other (non-directly teaching-related) provisions. These provisions do not represent institutional flows between levels, but are rather internal transfers between regional and local authorities, in their role as school providers, and schools.

Chile:

Local authorities (municipalities) are the school providers (*sostenedores*) of public schools and have revenues which may be allocated to the administration of public schools for which they are responsible. In 2012, municipalities raised 11% of the annual budget per student in public school-based education.

Czech Republic:

Table 2.A1.1 provides information for the most common sources of funding. All administrative levels raise funds for all levels of education, depending on the school provider (school founder). Legislation generally does not prohibit the central government, regional or local authorities from founding a school at any level of the education system. However, municipalities are the most common founders of basic education schools (ISCED 0: 98%, ISCED 1: 92%, ISCED 2: 80%), while regions are the most common founders of upper secondary schools (ISCED 3: 94%).

Estonia:

Local authorities also raise revenues for funding vocational education and training if the vocational school is owned by the local authority. This is only the case for schools offering upper secondary education.

Israel:

The central authority (Ministry of Education) pays the teacher salaries at ISCED levels 0-2 directly and transfers funds for teacher salaries to the local authorities (municipalities) for ISCED level 3 and to publicly-funded private providers. For all ISCED levels, the ministry provides funding for special programmes and other services like school renovation and transfers the related funds to the local authorities. It also provides the local authorities with funding for parts of the current expenditures on education (e.g. truant officer, services like concierges, school psychologists, etc.). Local authorities are responsible for the daily maintenance of schools. They cover any additional expenditure from their own revenues and can contribute with their own resources.

Kazakhstan:

Authorities at each administrative level are responsible for the schools and pre-schools under their jurisdiction. Legislative norms play an important role in budget approval negotiations as they determine the education funding levels claimed by regional and local authorities. Funding from higher administrative authorities can be directed to the lower administrative authorities (i.e. from central to regional and from regional to local levels) as part of transfers of a general character (budgetary subventions and budgetary extractions intended to equalise the level of fiscal capacity of regions) and targeted transfers (for instance, as in accordance with the implementation of the State Program of Education and Science Development in the Republic of Kazakhstan for 2016-19).

Portugal:

The autonomous regions of Madeira and the Azores have their own government. It is the competence of each regional parliament to legislate on matters related to the education system of each of these two autonomous regions.

Slovenia:

Table 2.A1.1 illustrates the most common sources of funding. The central level is the predominant provider in the areas of basic schooling (ISCED 1-2: 82%) and upper secondary education (ISCED 3: 99%). The municipalities mainly finance pre-school education (ISCED 0: 92%). For basic and upper secondary schools (ISCED 1-3), the local authorities are free to provide additional funds to ensure higher standards of education and provide additional services.

Table 2.A1.2. Tuition fees in public pre-schools and schools

Austria:

For early childhood education and care (ISCED 0), funding is typically mixed. Funding consists of federal funds, local co-funding as well as parental contributions. The precise funding mechanisms differ strongly between the states (provinces). The fees charged for the attendance of kindergarten before the age of five vary considerably among the states and local authorities. In some states, no tuition fees have to be paid (e.g. in Vienna), in other states fees have to be paid only for full-day care or the amount depends on parental income. The last year of kindergarten before primary education (the children are usually between five and six years old) is free of charge in all states. It is funded by the federal level based on an agreement according to the Federal Constitution Act (article 15a).

Denmark:

There are limits to the tuition fees which early childhood education and care institutions (ISCED 0) can charge. Parents' payments cannot exceed 25% of gross operating expenditure per child.

Estonia:

In early childhood education and care (ISCED 0), the central government decides the upper limit for the tuition fees which can be charged. The local authority as the owner of the pre-school has the right to decide to charge less than the upper limit.

In vocational secondary education (ISCED 2-3), schools are only permitted to charge tuition fees from students as a reimbursement for the cost of study who are not studying at state commissioned study places. The maximum rate for the reimbursement of the costs of education shall be the cost of the student place formed on the basis of state-commissioned education in the relevant curriculum group or relevant curriculum in the same calendar year. In practice, very few students pay tuition fees in public vocational schools.

Israel:

The central education authority determines the possible level of tuition fees in public schools at ISCED levels 0-3 with the approval of the Education Commission in the parliament.

Lithuania:

Tuition fees in early childhood education and care (ISCED 0) can only be charged for catering and educational purposes.

Slovak Republic:

While public institutions at ISCED 02 are allowed to charge tuition fees, no fees can be charged for children aged five, for socially disadvantaged children, and for children placed by court's decision. There are also no tuition fees in schools in hospitals and there is a ceiling for fees in schools run by the central government (mainly special schools). The level of tuition is determined by the local authority. Individual institutions under the authority of the central government can determine the level of tuition fees at ISCED 02 within a ceiling determined by the central authority. This is mostly the case for special schools.

Spain:

Early childhood education and care institutions at ISCED 01 are able to charge tuition fees. The decision to charge tuition fees rests with the regional or local authority. The level of tuition fees is determined by the same authorities using social and economic indicators concerning the schools of which each authority is the provider. From the last year of lower secondary education (ISCED 2) until the end of upper secondary education (ISCED 3), schools charge minimum insurance fees.

Table 2.A1.3. Other private contributions for public pre-school and school education

Austria:

The possibility to receive some of the types of private contributions specified in Table 2.A1.3 requires legal capacity and can thus be given only to federal schools. Schools can also raise private contributions through other means, such as advertisement for non-schooling purposes, for example.

Belgium (Fl.):

In the case of early childhood education and care and primary education (ISCED 0 and 1), parental contributions for extra (non-study) costs are capped at a maximum level and secondary schools (ISCED 2-3) have to comply with an obligation to keep their charges reasonable. Other voluntary donations are only allowed for covering expenses that are not directly related to core education tasks.

Chile:

Philanthropy and donations are regulated by Law No. 19.247. In early childhood education and care (ISCED 01), private providers which operate with funds transferred (*via transferencia de fondos*, VTF) from a specialised pre-school education institution (*Junta Nacional de Jardines Infantiles, JUNJI)* under the supervision of the Ministry of Education, may provide other monetary contributions.

Czech Republic:

The approval of the school provider (municipality or region for public schools) is required for the rental of facilities, materials and other resources that are the property of the school provider.

Denmark:

Public schools are free and schools should provide students with books and other materials necessary for learning without any charges. For example, if the school's teaching requires the use of a computer, the computers should be available to the students for free. There are no regulations on other forms of school-level private contributions to public schools, but this is estimated to only occur to a limited extent. Public schools are, however, not permitted to sell teaching or non-teaching services. At upper secondary level (ISCED 3), vocational schools can provide training for adults for a fee as regulated in legislation, such as the Act on Adult Vocational Education.

Iceland:

Early childhood education and care institutions and schools at ISCED levels 0-2 are permitted to charge fees for learning materials other than textbooks. Schools at ISCED level 3 are permitted to charge registration fees.

Israel:

It is at the discretion of the local authority to make decisions about the possibility of private contributions for public pre-school and school education. For example, local authorities decide about the parents' payments for the child's participation in other educational programmes, tours, etc.

Kazakhstan:

Revenues from paid services are deposited in the cash account of the Treasury and can be distributed according to school interests after consulting the school board or the parents committee. In-kind donations should be reflected in the account balance of school. According to Chapter 9 Article 63 of the Law on Education of the Republic of Kazakhstan (with amendments and additions as of 09.04.2016) governmental educational organisations have a right to offer the following paid services beyond the governmental requirements for education by signing the agreements for provision of paid services: i) realisation of additional educational programmes (child and youth creative development, supporting interests in sport and art, career enhancement training of professionals); ii) organisation of extracurricular activities with dedicated trainees by subjects (disciplines and discipline cycles) during the time outside of classes; iii) organisation of enhanced studies of elements of science with trainees (disciplines and discipline cycles); iv) organisation and implementation of various events – sport competitions, seminars, meetings, conferences for students, teachers and adults, as well as conferences of development and implementation of academic literature; v) offering trainings to use musical instruments and additional network services; vi) organisation of summer breaks, provision of food to students and participants of various events in educational organisations; vii) delivery of heat from power supply plants and boiler-rooms; viii) organisation of vocational training (retraining and further training of qualified human resources and middle rank specialists); ix) organisation and realisation of production of workshops, instructional farms and educational-experimental plots. The sale of non-teaching services, such as health-related services, is only possible in early childhood education and care (ISCED 0).

Slovak Republic:

The sale of non-teaching services by individual schools corresponds to revenues from business activities such as the sale of products. This is mainly relevant for vocational schools.

Sweden:

The Education Act regulates that education is free of cost. Donations and parental voluntary contributions (monetary and non-monetary) are permitted if not attached to specific terms.

Table 2.A1.4. Tuition fees in private early childhood education and care institutions and schools receiving public funding for current expenditure

Austria:

For private pre-school (ISCED 0), there are no general national rules and regulations on tuition fees of private institutions. Also for private schools (ISCED 1-3), the level of tuition fees charged is not regulated.

Chile:

Chile has introduced legislation in 2015 (Law No. 20.845) which progressively introduces school education free of charge in schools that receive public funding. Since the school year 2016, all public schools have been free of charge. Also, all early childhood education and care with public funding is to be free of charge.

Denmark:

The amount of the tuition fees is decided by the schools themselves.

Estonia:

In vocational secondary education (ISCED 2-3), it is not permitted to private schools receiving public funding to charge tuition fees.

Israel:

There are few independent private schools. Private schools referred to in this table are government-dependent private schools.

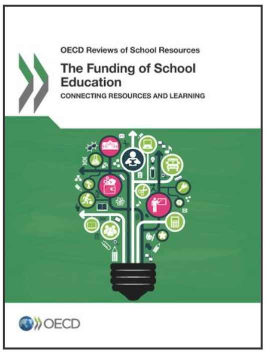
Kazakhstan:

Fees for early childhood education and care (ISCED 0) which operates within the framework of a public-private partnership are set by the public authority.

In pre-vocational and vocational upper secondary education (ISCED 3), fees for the education of a student with a public grant are defined by the central government or by a decree of the local authority.

Portugal:

Schools operating with "Association Contracts" (*Contratos de Associação*) receive public funds for their current expenditure. However, private schools cannot charge tuition fees to students covered by this type of contracts.



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