



ISCA Submission

to the

Senate Select Committee on
School Funding Investment

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INTRODUCTION

The Independent Schools Council of Australia (ISCA) welcomes the opportunity to provide this submission to the Senate Select Committee on School Funding Investment.

Commonwealth funding is a critical element of the resourcing of Independent schools and as a consequence, any consideration of national school funding arrangements is a critical issue for the sector. This submission:

- provides background for the Committee by outlining the characteristics and contribution of Independent schools in Australia;
- provides information on school funding in Australia including current funding arrangements for Independent schools;
- highlights issues around proposed changes to Commonwealth funding post 2017; and
- identifies ways forward for school funding arrangements, for consideration by the Committee and the Australian Government.

BACKGROUND

ISCA is the peak national body for the Independent school sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISCA represents a sector with 1,091 schools and 587,000 students, accounting for approximately 16 per cent of Australian school enrolments. ISCA's major role is to bring the unique needs of Independent schools to the attention of the Australian Government and to represent the sector on national issues.

Independent schools are a diverse group of non-government schools serving a range of different communities. Many Independent schools provide a religious or values-based education. Others promote a particular educational philosophy or interpretation of mainstream education. Independent schools include:

- Schools affiliated with larger and smaller Christian denominations for example, Anglican, Catholic, Greek Orthodox, Lutheran, Uniting Church, Seventh Day Adventist and Presbyterian schools;
- Non-denominational Christian schools;
- Islamic schools;
- Jewish schools;
- Montessori schools;
- Rudolf Steiner schools;
- Schools constituted under specific Acts of Parliament, such as grammar schools in some states;
- Community schools;
- Indigenous community schools;
- Schools that specialise in meeting the needs of students with disabilities;
- Schools that cater for students at severe educational risk due to a range of social/emotional/behavioural and other risk factors.

Many Independent schools have been established by community groups seeking to meet particular needs. Examples include the Independent community schools for Indigenous students in remote areas, special schools for students with disabilities and boarding schools to educate children from rural and remote areas. There are also schools that seek to reflect the religious values of a particular community or that seek to practise an internationally recognised educational philosophy such as Rudolf Steiner or Montessori schools. Independent Catholic schools are a significant part of the sector, accounting for 10 per cent of the Independent sector's enrolments.

Most Independent schools are set up and governed independently on an individual school basis. However, some Independent schools with common aims and educational philosophies are governed and administered as systems, for example Lutheran systems. Systemic schools account for 18 per cent of schools in the Independent sector. However, four out of five schools in the sector are autonomous non-systemic schools.

ABOUT THE INDEPENDENT SCHOOL SECTOR

Independent schools are not-for-profit institutions that are set up and governed independently on an individual school basis. Independent schools are registered by the relevant state or territory education authority. Boards of governors or committees of management are the key decision-making bodies for most Independent schools and are responsible for issues such as a school's educational provision, current and future development and staffing. Unlike other sectors, the majority of Independent schools operate autonomously. These schools do not rely on central bureaucracies or bodies and are separately accountable to their parent and school communities.

There is a common perception, encouraged by media portrayal, that Independent schools are large, urban schools which only cater to high income families. In fact, ninety percent of Independent schools are low to medium fee establishments, and Independent schools cater to the full spectrum of Australian society. Independent schools also cater to specific groups of disadvantaged students including: high needs students with disability attending special schools; Indigenous students attending remote 100 per cent Indigenous schools in Western Australia and the Northern Territory; and highly disadvantaged urban youth who have been excluded from both government and non-government schools and who are now attending Independent special assistance schools.

The numbers of disadvantaged students in Independent schools, including students with disability, Indigenous and students with a language background other than English, have been increasing at a higher rate than overall enrolments for many years.

INDEPENDENT SCHOOL ENROLMENTS AND TRENDS

The Independent school sector is the third largest school education provider in Australia (after the New South Wales Government and the Catholic education systems) and at secondary level is the second largest provider of schooling services.

Enrolments in Independent schools have grown steadily since the 1970s. According to ABS data, in 2015 Independent schools accounted for 14.4 per cent of total student enrolments (18.3 per cent of secondary enrolments) compared to 4 per cent in 1970. Full time

enrolments have increased from around 124,000 in 1970 to nearly 540,000 in 2015.¹ With the inclusion of independent Catholic school enrolments, the sector enrolment is 587,000 students.

SOCIAL AND ECONOMIC CONTRIBUTION OF INDEPENDENT SCHOOLS

As noted above, the Independent sector educates a significant proportion of the Australian school-aged population and an increasing share of educationally disadvantaged students. This represents a major contribution to the overall economic and social wellbeing of Australia.

Independent schools are committed to providing their students with a high quality education experience that meets the needs of their students. The autonomous nature of the sector allows schools the opportunity to be innovative and flexible in their efforts to improve educational outcomes and meet the particular educational needs of all their students.

The efforts of Independent school communities in supporting their children's education results in significant savings to government. Overall, the Independent school sector relies primarily on parents to fund schools, with 58 per cent of recurrent income coming from private sources. This willingness and commitment of Independent school parents to pay school fees saves governments an estimated \$4.1 billion per annum in recurrent schooling costs. In addition, through fees and donations, parents and donors nationally provide 87 per cent of capital funding for Independent school buildings, grounds and equipment.²

This parental contribution frees up scarce government resources to be allocated to other priorities and reduces the need for government revenue-raising. Public funding allocated to Independent schooling represents a highly efficient and effective use of government resources because of the sector's capacity to leverage private contributions to education and its social and economic benefits.

SCHOOL FUNDING IN AUSTRALIA

Students in government schools receive the most public funding, and the main source of this funding is the state or territory government that owns and operates the school. Students in non-government schools receive a lower level of public funding, and the main source of this support is the Australian Government.

In 2013-14, total government operating recurrent expenditure on school education was \$50.4 billion. Total government recurrent expenditure on government schools was \$38.5 billion and \$11.9 billion on non-government schools. The non-government sector received 24 per cent of government recurrent expenditure on schooling while the government sector received 76 per cent.³

¹ Note: ABS Independent sector data excludes Independent Catholic enrolments.

² Department of Education and Training Non-Government Schools Financial Questionnaire

³ Productivity Commission Report on Government Service 2016

Nationally in 2013-14, state and territory governments provided 87.3 per cent of total government recurrent expenditure on government schools and the Australian Government provided 12.7 per cent. The Australian Government provided 74 per cent of total government recurrent expenditure on non-government schools, with state and territory governments providing 26 per cent.⁴

In 2013-14, combining both state and Commonwealth funding, public support for a student in a government school was on average \$16,177. On average, total government funding for a non-government school student was \$9,327, while for an Independent school student it was \$7,936 per year.⁵

Therefore, taking into account state and territory government and Australian Government contributions to Australian school education, students in Independent schools on average receive less than half the public support of students in government schools with many Independent school students receiving significantly less.

KEY FUNDING ISSUES FOR INDEPENDENT SCHOOLS

The current Schooling Resource Standard (SRS) funding model was originally envisaged to include a transition period of 6 years from 2014 to 2019 to enable the full implementation of the new model, with a large proportion of the additional funding being available to schools in the last two years of the transition.

Implementation of the SRS funding arrangements presupposes a full roll out of these arrangements to 2019. The current Australian Government has committed to funding only the first four years of the arrangements. The Australian Government's current policy setting for school funding, as initially articulated in the 2014-15 Budget papers, is that from 2018 onwards the phase-in arrangements will cease and school funding will only be adjusted for movements in the Consumer Price Index (CPI) and enrolment growth.

There are four significant issues for Independent schools with this policy setting.

1. CEASING TRANSITION POST 2017

The transition towards 'full implementation' of the SRS funding arrangements will be incomplete at the end of 2017, with the result that Independent schools will all be at a different point in their transition towards their full SRS funding entitlement.

In the Independent sector, the vast majority of Independent schools are in transition towards their full SRS entitlement. For some schools (known as schools 'below the SRS') this means an incremental increase in funding as the school moves towards the SRS, for others (known as schools 'above the SRS') the funding they receive each year is indexed at a lower rate so their funding decreases relative to the SRS until they reach their SRS entitlement. Schools which are 'on the SRS' are receiving funding according to the SRS funding model.

⁴ Productivity Commission Report on Government Service Provision 2016

⁵ Productivity Commission Report on Government Service Provision 2016 and Department of Education and Training Non-Government School Financial Questionnaire

Schools which are not yet 'on the SRS' are moving towards their own individual SRS entitlement from the historical funding they attracted under the previous funding model, and this means that each school will be at different point on its own transition path relative to their SRS entitlement at the end of 2017.

Those schools assessed as being the most 'underfunded' relative to the SRS generally serve the most disadvantaged communities in Australia. This group of schools includes Indigenous community schools in remote communities that attract a number of loadings under the SRS funding model.

By ceasing transition in 2017, it is these schools which will be most disadvantaged relative to other schools that are closer to their SRS entitlement, in terms of their ability to address the educational disadvantage that exists within their schools.

There has been some public discussion of the concept of 'equalisation' of the Commonwealth contribution to funding government school systems post 2017. 'Equalisation' would result in the Commonwealth proportion of total government funding for each state and territory being set at 16.8% of SRS.⁶ This would result in some states losing Commonwealth funding and others gaining Commonwealth funding as currently the proportion of Commonwealth funding to each state and territory varies.

Such a change is made possible by the fact that each government school is part of a system and each system is below the SRS. Such an approach is far more problematic in the Independent sector where the majority of schools are stand-alone entities and these some 900 non-systemic schools are all at very different points on different transition paths; some above, some below and some on the SRS.

In 2015, the majority of Independent schools are 'below the SRS'. This means that these schools are not yet receiving the full value of the loadings to address educational disadvantage that they are entitled to under the SRS funding model. If the final two years of the SRS funding model are not funded, these schools will not receive their full loadings to address disadvantage.

2. LIMITING FUNDING INCREASES TO CPI PLUS ENROLMENT CHANGE

Limiting funding increase to CPI plus enrolment changes makes it unclear how provision would be made for the additional costs to schools of educationally disadvantaged students, particularly students with disability, who enrol after 2017.

Under the current funding arrangements when a school that is 'on the SRS' enrolls a new student who is entitled to a loading to address educational disadvantage, the school receives base funding plus the full loading amount for each student.

⁶ Senate Committee on Education and Employment, Questions on Notice, Supplementary Budget Estimates 2015-2016, Department of Education and Training Question No. SQ15-000878

For example, a student with disability would attract base funding plus the SWD loading; an Indigenous student would attract base funding plus the Indigenous loading. Some students with complex needs might attract base funding plus multiple loadings to address the educational disadvantage experienced by that student.

Schools which are 'below the SRS' receive an amount for each new student which is a proportion of the base funding and loadings amount calculated for that student. They do not receive the full amount as the school has not yet fully transitioned on to the SRS funding model and does not yet receive their full SRS funding entitlement. However, schools 'below the SRS' are still receiving a percentage of the loadings to address educational disadvantage for each new student they enrol.

It is not clear how funding to address educational disadvantage would be included post-2017. It is possible that under the mechanism outlined in the 2014-15 Budget Papers, each new student would attract the average per student amount for all students at a school irrespective of their educational disadvantage. Over time this amount would be indexed at CPI only, a measure which does not adequately reflect the actual costs for schooling.

ISCA is concerned that future funding arrangements could lock schools into an historical per student funding amount based on the demographics and characteristics of the school in 2017, and that without appropriate indexation the value of that per student amount would diminish over time making it difficult for schools to provide an adequate education for students with high educational disadvantage.

As the funding available for students with disability (SWD) is already widely regarded as inadequate to meet the needs of these children, the impact on schools with additional SWD enrolments post-2017 would be fairly immediate as schools would struggle to find the funds within existing budgets to accommodate these additional students. For special schools which only enrol SWD, the inadequate indexation could severely limit these schools' ability to continue to operate at sufficient resourcing levels.

It is not clear how the currently proposed post-2017 arrangements could qualify as a needs-based funding model.

3. NEED FOR A SCHOOL SPECIFIC MEASURE OF INDEXATION FOR SCHOOLING

CPI does not accurately reflect movements in the costs of school education, particularly wage and salary costs.

From 1993 until 2014, Commonwealth recurrent grants to all schools were adjusted annually by a mechanism referred to as the Average Government School Recurrent Costs (AGSRC). Essentially, the AGSRC was a measure of the costs of schooling determined from states and territories' expenditure on schooling.

As a measure of the cost of provision of schooling AGSRC has historically run higher than CPI which is a price index for a number of goods and services, only one component of which is education. Between 2000 and 2013 average growth in primary AGSRC was 5.7% and average

growth in secondary AGSRC was 5.3%. Over the same period of time, the average increase in CPI was 3.0%.

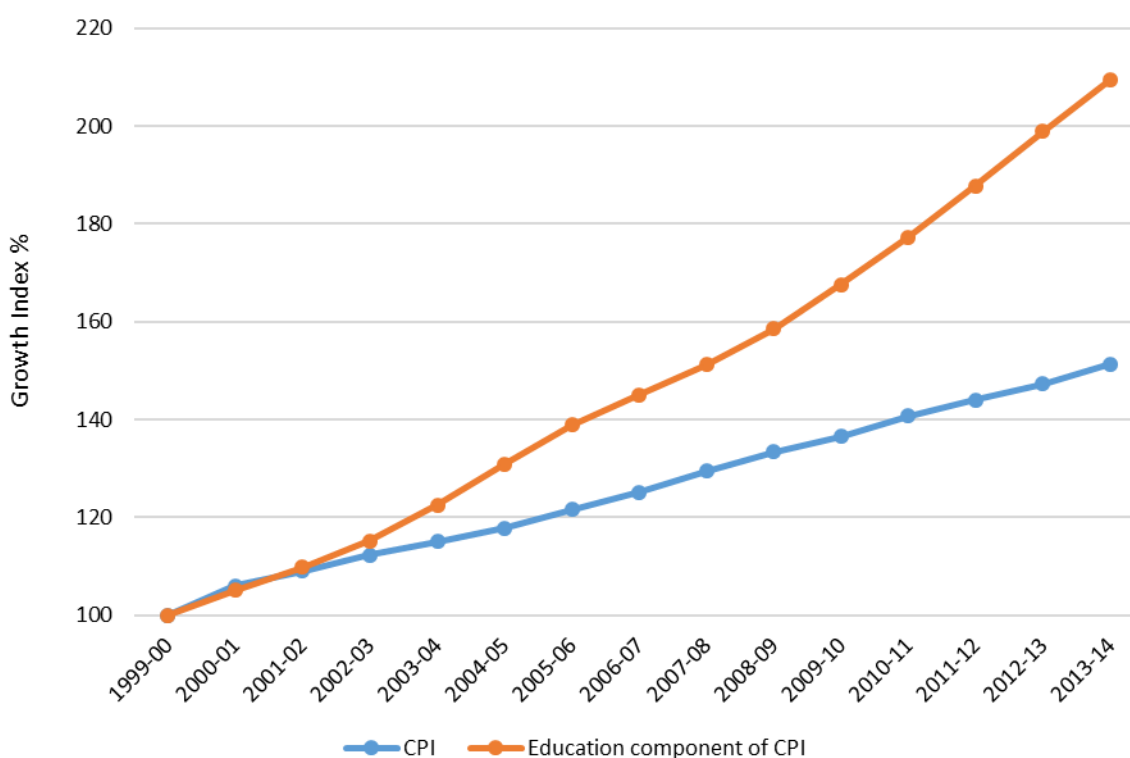
The use of AGSRC and estimates of schools costs have been a core component of the SRS funding model.

- In 2014 estimated AGSRC was used to index grants to schools 'below the SRS'.
- The legislated indexation rate of 4.7% for schools 'below the SRS' was based on estimated 10-year rolling averages of state and Commonwealth expenditure on all schools from all sources.
- The legislated indexation rate of 3.6% for schools 'on the SRS' was based on a 5-year forward estimate of increases in the costs of all schools from all sources⁷. While not the AGSRC, the inclusion of all costs is not unlike the methodology used to calculate AGSRC.

Moving to CPI as a measure of indexation for schooling means that indexation will no longer reflect the costs of schooling and result in a decrease in real value of government funding over time to schools.

A comparison between CPI and the Education component of the CPI shows the degree to which education costs are masked by other components included in the calculation of CPI.

Table 1: Growth in CPI vs Education component of CPI – 1999-00 to 2013-14



Coupled with the issues outlined above where there is a risk that Independent schools would not be receiving additional funding for any educationally disadvantaged students

⁷ Senate Standing Committee on Education Employment and Workplace Relations, Questions on Notice, Budget Estimates 2013-2014, DEEWR Question No. EW0002_14

they enrol, the use of a non-school specific index has significant implications for Independent schools in terms of fee levels and the quality of education provision.

4. SECTOR-WIDE SUPPORT FOR INDEPENDENT SCHOOLS

For two decades Commonwealth Targeted Programs (CTPs) provided the means for State and Territory Associations of Independent Schools (AISs) to support Independent schools in the delivery of improved educational outcomes. With the introduction of the SRS funding arrangements, AISs have required a separate appropriation from the Australian Government to continue this critical support. This funding currently ceases at the end of 2017.

Under the previous SES funding arrangements, individual Independent schools received both financial assistance and access to expert assistance and advice to help them to meet the needs of disadvantaged students and maximise educational outcomes through CTPs. State and territory Associations of Independent Schools (AISs) had been effectively and efficiently administering CTPs for two decades.

Under the new school funding arrangements, the function of CTPs to address educational disadvantage have been transferred to the loadings to address educational disadvantage. In providing funding directly to schools, AISs have lost their capacity to provide economies of scale for Independent schools both in terms of purchasing power and the breadth of expertise that can be sourced.

With the provision of small amounts of supplementary funding provided directly to individual schools, the capacity of many individual schools to purchase services for their educationally disadvantaged students is extremely limited. Most individual schools do not have the capacity to devote significant time and resources to researching and sourcing expertise. Directing targeted funding through AISs maximised the utility of targeted funding by increasing the purchasing power of available funding. AISs also employed specialist staff to assist schools with professional services that, individually, schools are now not in a position to purchase or access.

As the only non-systemic school sector, the new funding arrangements mean that the only sector to lose their capacity to access co-ordinated sector-wide support and economies of scale has been the Independent sector. This will significantly impact on the capacity of individual Independent schools to address educational disadvantage. It is further recognised that those schools most affected will be schools with the lowest resource capacity, which are often those schools which enrol students with the greatest levels of educational disadvantage.

As previously noted, under the current transition arrangements schools will not receive their full entitlement under the loadings until the model is fully implemented. It is not clear how funding for educational disadvantage will be addressed post-2017 and there is a significant concern that schools will not be provided with sufficient additional funding to enable them to respond to changes in their school community, particularly changes in the numbers of disadvantaged students.

AISs also play a critical role in supporting Independent schools in their implementation of Australian government school policy initiatives. For example, the support of AISs will be critical to the successful implementation of NAPLAN Online and the Nationally Consistent Collection of Data for Students with Disability (NCCD_SWD).

Both the current and previous Australian Governments recognised the important role that AISs played in supporting Independent schools to improve student learning outcomes. To allow AISs to continue to provide some level of support to Independent schools, AISs were recognised as non-government representative bodies under the *Australian Education Act 2013* and provided with some funding to assist them to support Independent school improvement initiatives and policy implementation via a separate appropriation. While the current Australian Government has committed to continuing provision of support to AISs, this funding ceases in 2017.

The funding provided to AISs has been used to provide over 120 programs across all states and territories in the areas of:

- Quality Teaching
- Quality Learning
- Empowered Schools Leadership
- Meeting Student Need
- Transparency and Accountability.

The loss of this funding to AISs will once again undermine the Independent sector's capacity to support individual Independent schools to improve student learning outcomes.

OTHER FUNDING ISSUES - CAPITAL FUNDING

For many years, the Independent sector has been the fastest growing schooling sector and the demand for capital support is high. Parents contribute more than 80 per cent of the cost of buildings and equipment in the Independent sector, mainly through school fees.

The Australian Government currently provides some support for capital infrastructure in Independent schools under the Government Capital Grants Program. Funding under this program is administered by non-government Block Grant Authorities on a needs basis, with priority given to disadvantaged school communities with the least capacity to raise funds.

Many long-established Independent schools receive no capital assistance in the form of capital grants from governments. The extent and quality of their facilities reflect instead many years of contributions from families, former students and other donors.

Most Independent schools borrow funds to finance capital development and spread the cost of these borrowings over the generations of students who will benefit from the investment. The level of borrowings per student in the Independent sector is on average \$6,500 per student. Servicing this level of debt is built into school fees.

Government investment in Independent school capital is a very efficient use of scarce government resources. For example, the Building the Education Revolution initiative

leveraged an additional \$370 million in private contributions from Independent school communities towards BER projects.

Examination of the growth in enrolments in Independent schools over several decades shows that these increased enrolments have been achieved for the most part by increasing the size of existing Independent schools rather than the costly undertaking of establishing new Independent schools. This is an indication of the very high costs associated with establishing a new Independent school and the often significant administrative and legislative barriers and expenses.

Table 2: Average size of Independent school 1980 – 2014

	No. schools	Full-Time enrolments	Average school size
1980	529	144,270	273
1990	803	252,611	315
2000	938	357,507	381
2014	1,016	528,970	521

(Source: ABS Schools Australia)

As the number of schools with extensive waiting lists would indicate, many schools have now reached their optimal operational size and have no further capacity for expansion. The current unmet demand for Independent school education, together with significant projected enrolment growth and need for unprecedented numbers of new schools, means that significant resources will need to be directed to new Independent schools.

Table 3: Projected enrolment change in all schools 2014-2025

	2014	2025**	Change (no.)	Equivalent number of new schools*
Government Schools				
Primary	1,493,279	1,637,834	144,555	403
Secondary	894,250	1,112,599	218,349	608
Total	2,387,529	2,750,433	362,904	1,011
Catholic Schools				
Primary	414,040	437,037	22,997	52
Secondary	343,226	404,810	61,584	140
Total	757,266	841,847	84,581	192
Independent Schools				
Primary	255,619	277,281	21,662	42
Secondary	273,351	360,020	86,669	166
Total	528,970	637,301	108,331	208
All Schools				
Primary	2,162,938	2,352,152	189,214	484
Secondary	1,510,827	1,877,429	366,602	937
Total	3,673,765	4,229,581	555,816	1,420

(Source: DET Projections and ABS Schools Australia)

*Based on average school size by sector for 2014 derived from ABS data

The future enrolment-driven capital needs of Independent schools, including the capacity of the sector to meet the need for additional new schools to meet projected demand, will not be able to be achieved without substantial government assistance.

Governments must acknowledge and support the role of Independent schools in establishing new schools by considering options to support the significant capital required to establish and expand new and existing schools.

Without the capacity of the Independent sector to leverage private capital investment, governments will struggle to be able to meet future demands for school enrolments.

RECOMMENDATIONS

To address these significant issues, the Independent sector recommends the following as vital considerations for post-2017 funding for schooling:

- A recognition of the importance of continuing the phase-in arrangements of the SRS funding model beyond the end of 2017, so schools can complete their transition to their full SRS funding entitlement.
- An assurance that funding arrangements beyond 2017 will continue to recognise and support the additional costs of enrolling students with educational disadvantage, particularly students with disability.
- A commitment that from 2017 the value of Australian Government school funding will be maintained in real terms by utilising a rate of indexation based on a measure of movement in the actual costs of schooling, including a measure of increases in wages and salaries (which comprise around 75 per cent of school operating costs).
- Recognise and financially support the key role that AISs play in supporting Independent schools to improve student learning outcomes and assist governments to implement government policies and initiatives.
- A commitment to a sustainable capital grants program and consideration of other options to support capital development which is capable of reflecting enrolment trends and the need to provide additional schooling in line with demographic forecasts

CONCLUSION

As has been highlighted in this submission, the Independent sector has a number of issues with the stated Australian Government approach to school funding post-2017. There is a risk that ceasing transition and basing funding increases on enrolment growth and CPI will result in an inequitable allocation of funding to schools that neither reflects educational need, nor will it be able to address future educational need.

CPI is not reflective of actual school costs and its use to index Australian Government school funding could result in a decrease in the real value of Commonwealth funding for schools. This outcome would have significant implications for all Independent schools in terms of fee increases and the quality of education provision.

As the only non-systemic schooling sector in Australia, the on-going ability of AISs to provide support for Independent schools in each state and territory is of significant concern to ISCA, AISs and to individual Independent schools. The programs and support currently being delivered by AISs to support Independent schools to deliver quality education to all students will be threatened if a level of support for AISs is not extended past 2017.

ISCA also views the issue of an adequate capital grants program as one of high importance. Demographic projections show a significant expected increase in the numbers of students who will need to be accommodated across all sectors. Independent schooling is a cost effective schooling option for governments. However without support, the Independent sector will not be able to maintain its enrolment share or continue expanding to meet anticipated sector growth.

ISCA appreciates the opportunity to raise these issues with the Committee as part of its Inquiry. ISCA will continue to work constructively with the Committee and the Australian Government to secure funding arrangements for schools which will ensure that all Australian students have access to a quality education.

This submission has been prepared by the Independent Schools Council of Australia on behalf of our member associations:

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The Association of Independent Schools of New South Wales Ltd.
Association of Independent Schools of the Northern Territory Inc.
Independent Schools Queensland
Association of Independent Schools of South Australia
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