

Submission

to

Senate Employment, Workplace Relations and Education
References Committee

Inquiry into Commonwealth Funding for Schools

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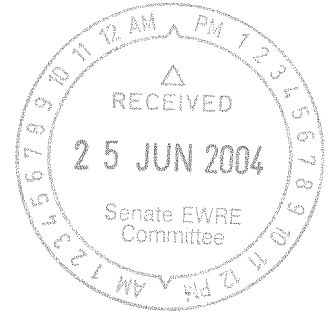
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LT113:304/1/11

25 June 2004

The Secretary
Senate Employment, Workplace Relations and Education References Committee
Suite SG 52
Parliament House
CANBERRA ACT 2600

Dear Secretary

ISCA Submission to Senate Inquiry into Schools Funding

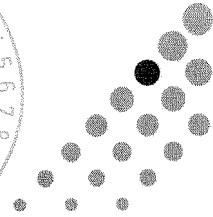
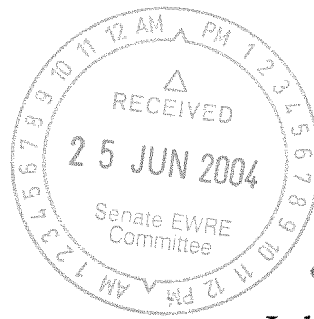
Attached is a submission to the Senate Inquiry into Schools Funding prepared by the Independent Schools Council of Australia. ISCA is the peak national body covering the independent schools sector. It comprises the eight State and Territory Associations of Independent Schools. The ISCA submission incorporates letters of support from each of these Associations. Some of the Associations also intend to lodge separate submissions.

ISCA will be available to provide further information to the Committee if required. We urge the Committee to have regard to the points made in our submission during the course of its Inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read "Daniels".

Bill Daniels
Executive Director



Independent Schools
Council of Australia

SUBMISSION TO THE SENATE EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION COMMITTEE

INQUIRY INTO SCHOOLS FUNDING

The Independent Schools Council of Australia (ISCA) is the peak national body covering the independent school sector. It comprises the State and Territory Associations of Independent Schools. Through these Associations it represents a sector with over 1,000 schools and almost 456,700 students accounting for some 14 per cent of Australian school enrolments.¹

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 Christian denominations, such as Anglican, Catholic, Greek Orthodox, Lutheran, Presbyterian, Seventh Day Adventist and Uniting Church 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.*

Independent schools are not-for-profit institutions founded by religious or other groups in the community and are registered with the relevant state or territory education authority. 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 the Lutheran system. Systemic schools account for nearly 20 per cent of schools in the independent sector.

¹ This data is inclusive of Catholic independent schools.

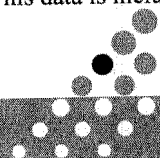


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Attachment A – Independent Schooling in Australia 2004 Snapshot

Attachment B – Letters of support from member Associations of Independent Schools

Where case studies have been used in the text, they are based on data provided by an independent school. The schools have not been identified for privacy reasons.

Executive summary

The following are the key points made in the submission.

- Parental demand for independent schooling for their children is continuing to grow and governments must recognise and support the legitimate role of non-government schools as public education providers if Australia is to meet the National Goals for Schooling for the Twenty-first Century.
- The independent schools sector is sustained by a funding partnership comprising parents, the Australian Government and state and territory governments. To ensure the continued quality of schooling in Australia, it is vital that this partnership is reliable, stable and sustainable.
- The independent sector supports a basic entitlement supplemented by a needs-based approach as the most equitable, efficient and effective mechanism for delivering government funding for independent schools.
- Government funding arrangements for independent schools must reflect the principles of equity, incentive, flexibility, transparency, simplicity and predictability. In particular, they must recognise the substantial financial contribution of families to the cost of educational provision in independent schools. ISCA believes as a key principle that the funding arrangements of all governments should not act as a disincentive to private contributions and investment in school education.
- The Australian Government's funding arrangements broadly meet these criteria. Their effectiveness has however been eroded by the decisions of some state and territory governments which seek to protect the financial and enrolment base of their own schools and which are having the effect of shifting their funding responsibilities for students in the non-government sector to the Commonwealth and to parents.
- Unless funding comparisons between the government and non-government school sectors are based on total government funding, not just from one source, such comparisons are misleading and mischievous.
- ISCA would support any reasonable and genuine moves by governments to bring about a more coherent and coordinated approach to the funding of all schools in Australia.
- ISCA believes that students with disabilities represent a special case in government funding arrangements for schooling, and that the cost of the school education of students with disabilities should be met by society through government expenditure, irrespective of the school sector in which the student is educated.
- Many indigenous students in the independent sector attend schools in remote locations. It is ISCA's view that neither Australian Government nor state and territory funding arrangements for non-government schools adequately address the very substantial cost differential in school provision for students in remote locations.
- Through fees and fundraising, parents pay for most of the capital development of independent schools. The assistance from governments, while very welcome, is

relatively minor. Capital funding by the Australian Government is based on historical sector allocations which have not taken appropriate account of the additional capital demands as a result of enrolment growth in the independent sector. Changes by state governments to interest subsidy schemes, together with inadequate levels of support from the Australian Government, are inhibiting the efforts of disadvantaged independent schools in addressing their capital deficiencies.

- Independent schools are highly accountable to stakeholders, governments and regulatory bodies. While the accountability environment of independent schools differs from that of schools in other sectors, it is no less stringent and in significant ways is far more extensive.

Scope of submission

1. This submission focuses primarily on the independent sector's views on the principles of Commonwealth funding for schools and how these principles apply in meeting the current and future needs of independent schools. Australian Government funding, in the form of general recurrent, capital and targeted funding, is crucial to the capacity of independent schools to meet the educational and pastoral needs of their students and for independent schools to contribute to ensuring all young Australians have access to quality schooling. This funding is vital in improving choice for families in the school education of their children and ensuring diversity in education provision.
2. In considering the issues of efficiency and effectiveness in the allocation of school funding the submission addresses the roles of the three partners in funding for independent schools: the families of independent school students, the Australian Government, and state and territory governments. Accountability arrangements are also considered in the light of the roles of the three partners in independent school funding.

Historical perspective

3. The funding reforms introduced by the Australian Government in 2001 provided real increases in funding for many independent schools. This increase needs, however, to be set in the context of the recent history of Australian Government funding of both government and non-government schools:
 - In 1984 there were effectively four funding categories for non-government schools based on the Education Resources Index (ERI): ERI category 1, ERI categories 2 and 3, ERI categories 4 to 7 and ERI categories 8 to 12.
 - From 1985 to 1990, 12 effective funding categories emerged as a result of differential rates of funding increases. Funding increases for former categories 1, 2 and 4 schools were sufficient only to maintain real levels of funding.
 - From 1990 to 1993 rates of increase for the government sector generally exceeded those applying to non-government schools. In the non-government sector the rate of increase tended to increase with the relative disadvantage of schools as measured by ERI category.
 - Between 1995 and 2000 there was a general alignment between rates of increase for former ERI category 1 to 4 schools and the government school sector. Other ERI category schools received progressively higher rates of increase.
 - In 1997 Catholic systemic schools, apart from those in the ACT and Western Australia, were re-categorised from ERI 10 to ERI 11. Catholic systemic schools in Western Australia were already at ERI 11.
4. Over the fifteen years before 2000, former ERI category 1 to 4 schools experienced a deterioration in their funding position relative to other non-government schools and to a lesser extent in relation to government schools. The 2001 reforms provided to some extent a catch up in funding for many of these schools. The 2001 reforms built on the previous policy to increase funding for the most disadvantaged non-government

schools, with maximum Australian Government general recurrent funding increasing from 60 to 70 per cent of the Average Government School Recurrent Costs (AGSRC).

School enrolment trends

- Since 1970 there has been steady growth in enrolments in the independent school sector. Full time enrolments have increased from some 114,000 in 1970 to more than 403,000 in 2003. In 2003 the independent schools sector accounted for over 12 per cent of full time school enrolments compared to 4 per cent in 1970.

Full Time School Enrolments 1970 to 2003

	1970		2003	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Independent	114,000	4.1	403,000	12.2
Catholic	493,000	17.8	661,000	19.9
Government	2,160,000	78.1	2,255,000	67.9
<i>Total</i>	<i>2,767,000</i>	<i>100.0</i>	<i>3,319,000</i>	<i>100.0</i>

- The independent sector enrolment figures in this table are taken from the ABS publication *Schools Australia*, and do not include enrolments in Catholic independent schools. These schools are a significant part of the independent sector and when included there were 1,057 schools with a total of nearly 456,700 students in 2003.
- Further analysis of enrolment growth patterns in the independent sector shows that enrolment growth has occurred predominantly in schools with relatively low fee structures rather than in schools with fees at the higher end of the spectrum. This pattern is reflected in new schools established over the period: the majority of new schools have been at the low fee end of the spectrum.

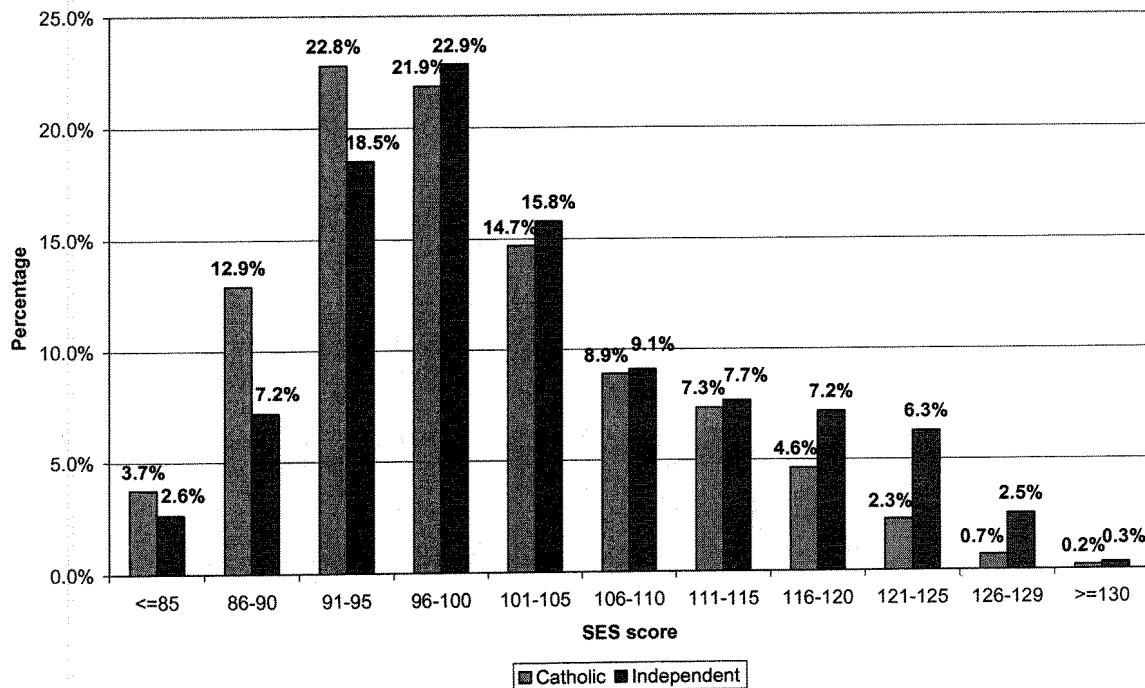
Choice and diversity: the role of the independent sector in school education

- As noted above, the proportion of students attending independent schools has increased from 4 per cent in 1970 to over 12 per cent in 2003. In the same period, there has been a drop in the proportion of enrolments at government schools from 78 per cent to 68 per cent, while Catholic school enrolments have remained fairly steady, rising two percentage points to 20 per cent. The steady growth over the past 33 years in enrolments in independent schools has been irrespective of the political persuasions of governments over the period and confirms that, for whatever reasons, growing numbers of Australian families want increased choice in schooling options.
- The independent sector is characterised by the individual ethos of each school and by its overall diversity. The enrolment growth trends show that the independent sector is making an increasing contribution to the education of Australian school students and is also providing school education to a greater range of students. The rise in enrolments clearly demonstrates the strong support of Australian parents for independent schools

and indicates the growing importance of the independent sector as a provider of education to the community as a whole.

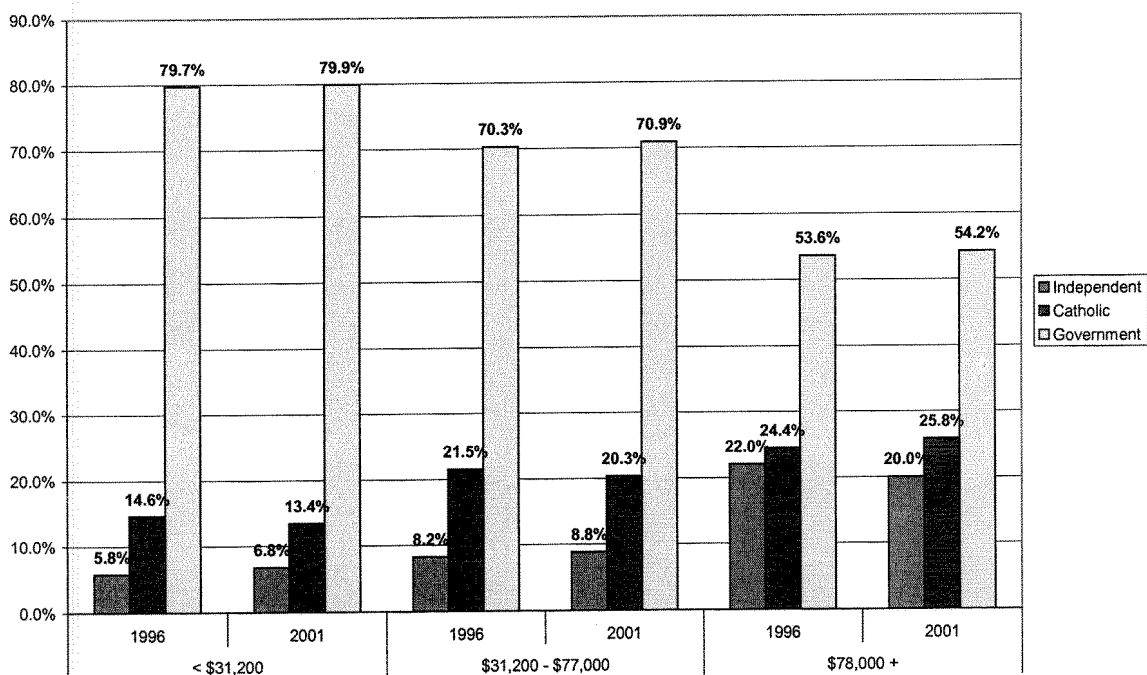
10. In recent years there has been a sizeable increase in enrolments in independent schools of special needs students, and the role of the independent school sector in providing for students with disabilities has increased dramatically in recent years. More than 6,700 students with disabilities attended independent schools in 2003, an enrolment increase of some 120 per cent since 1995 compared with a 36 per cent increase in the independent sector's total enrolments.
11. An analysis of the SES scores of the 172 new schools which opened during the last five years, that is, over the period 1999 to 2003, shows that the greater proportion of them (some sixty per cent) have SES scores below 100. The majority of new schools are Christian or Anglican schools, while a number of others have ethnic affiliations. Most of these new schools were set up with the aim of operating with low fees.
12. Independent schools increasingly serve communities of parents from a wide range of socio-economic backgrounds, and the majority of schools have SES scores in the middle to low range. As the following graph shows, schools in the independent sector serve families with a range of socio-economic backgrounds broadly comparable to the range served by Catholic systemic schools. The graph is based on data which has become publicly available following the agreement reached with the Australian Government for Catholic systemic schools to be included in the SES scheme from 2005 on the basis of their actual SES score. (Under the terms of the agreement a funding maintenance guarantee applies which means around sixty per cent of Catholic systemic schools will continue to be funded at 56.2 per cent of AGSRC and the remainder above it according to their actual SES score).

Distribution of non-government schools by SES score range, 2005



13. The graph shows that a relatively small number of independent schools serve a high socio-economic demographic, as do a small number of Catholic systemic schools (less than ten per cent of independent schools and about three per cent of Catholic systemic schools have SES scores of above 120). What the graph clearly shows is that in other respects the socio-economic backgrounds of families choosing independent schools are broadly similar to that of the families of students attending Catholic systemic schools. Like Catholic systemic schools, the majority of independent schools have SES scores in the low to middle range, and there is very little difference between the sectors at the lower end of the SES spectrum.
14. Data from the most recent Australian Government Census in 2001 confirms that the independent schools sector includes families from all socio-economic backgrounds:

Australian school students in all sectors by family income (% of income level), 1996 and 2001



15. The 2001 Census showed that about 52 per cent of students in independent schools were from families with a combined income of less than \$78,000, compared to about 64 per cent for the nation's total school student population. Of the total number of students from families with a combined income of more than \$78,000, about 20 per cent were enrolled in independent schools, 26 per cent in Catholic schools and 54 per cent in government schools.

Funding for independent schools: a partnership

16. Independent schools in Australia are funded from three sources: private (mainly from the parents and families of the students), the Australian Government, and state and territory governments. The private contribution made by parents and the school community represents on average by far the most significant source of funding for independent schools. Schools are reliant for their operation on stable and predictable

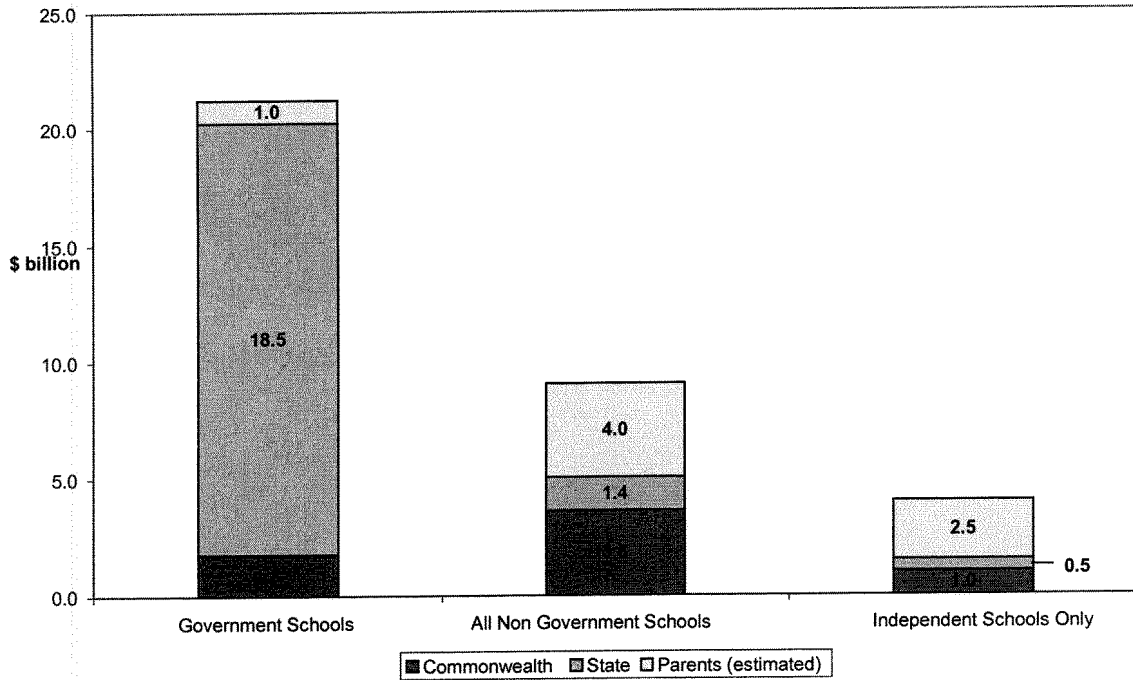
funding from the three sources. If funding from one of the partners is reduced for any reason the school must meet the shortfall by seeking a corresponding increase from another funding partner. A reduction in a school's funding from one or both government sources will require a greater contribution by parents and the school community.

Parents and the school community

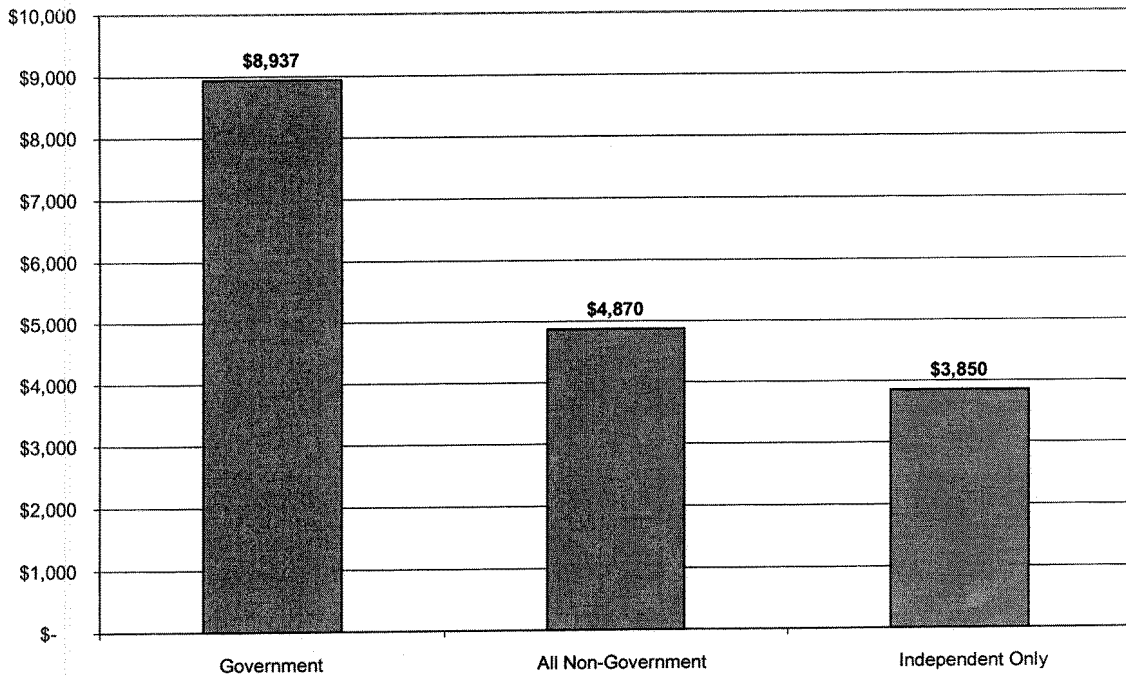
17. Taking the sector as a whole, independent schools rely substantially more on parents than governments to provide funding. On average, independent schools receive:
 - 61 per cent of income from private sources (mainly parents)
 - 39 per cent of income from governments
18. ISCA believes as a key principle that the *funding arrangements of all governments should not act as a disincentive to private contributions and investment in school education*. Some critics of independent school funding argue that it is somehow inequitable for schools to benefit from the contribution made by parents and that government funding to relatively high fee schools should be reduced in order to create a level playing field. It is important to recognise that the substantial contribution made by parents through fees to the schooling of their children is paid in after-tax dollars. It is the right of all taxpayers in Australia to spend their after tax dollars in accordance with their own priorities, and as the Australian tax system is based on principles of equity, it would be unreasonable for education funding to operate as an additional income equalisation system.
19. Through fees and fundraising, parents pay for most of the capital development of independent schools, such as the buildings and equipment. The Australian Government contributes in grants an estimated 4 per cent of total capital funding for independent schools, and the overall state and territory contribution is about 6 per cent. This assistance from governments, while welcome, is relatively minor.
20. On the basis of the latest available data, it is estimated that at least \$4 billion was contributed in 2001-02 from private sources towards the total recurrent costs of educating children in non-government schools (see following table). Without this contribution governments would have to provide an equivalent amount to maintain education provision for this substantial proportion of Australian young people.
21. The next table also shows the proportion of funding contributed by parents of students in government schools, which amounts to an estimated \$1 billion. This substantial contribution is often not recognised or acknowledged by critics of school funding arrangements.

Government funding of schools in Australia

Funding for school education, 2001-02



Average recurrent per student government funding, 2001-02



22. These graphs show that much more public funding goes to students in government schools. The major proportion of this funding comes from the state and territory governments. Critics of independent schools funding who compare their federal funding levels with the federal funding levels to government schools often conveniently ignore the fact that state and territory governments are the principal sources of funding

for government schools. *Unless funding comparisons between the government and non-government school sectors are based on total government funding, not just one part of it, such comparisons are misleading and mischievous.*

23. The independent sector believes that provision for stable and predictable funding arrangements that allow independent schools to manage their overall resources in a responsible way should be a key principle for all governments. ISCA believes that a coordinated approach by the Australian Government together with state and territory governments would be the most efficient and effective way of ensuring secure and predictable funding arrangements for independent schools. One way this might be pursued is through a funding agreement by all governments on school education provision. *ISCA would support any reasonable and genuine moves by governments to bring about a more coherent and coordinated approach to the funding of all schools in Australia.*

Australian Government funding of independent schools: key principles

24. *The independent sector supports a basic entitlement supplemented by a needs-based approach as the most equitable, efficient and effective mechanism for delivering government funding for independent schools.* ISCA recognises that developing a satisfactory process for assessing the relative need of schools for government funding is always going to be challenging. It considers that the essential criteria for a sound funding scheme for non-government schools are:
- **Equity** – schools serving similar communities should generally be funded at similar levels;
 - **Incentive** – the funding arrangement should not act as a disincentive to private contributions and investment in school education;
 - **Flexibility** – schools should not be locked into a particular funding level impeding them from responding to changes in their school community;
 - **Transparency** – assessment of need should be based on reliable and transparent data;
 - **Simplicity** – the funding arrangement should be simple to administer, with low administration costs for government and compliance costs for schools;
 - **Predictability** – schools should have a high degree of certainty about future funding to facilitate financial planning and management.
25. ISCA believes that the current SES funding scheme for independent schools substantially satisfies these criteria, while recognising the importance of phase-in and safety net arrangements. The sector believes that on balance the SES arrangements worked satisfactorily over the 2001-2004 quadrennium and are superior to the previous model, which allocated funding on the basis of an Education Resource Index.

Australian Government funding arrangements for 2005 - 2008

26. The Australian Government is the principal source of public funding for students attending non-government schools. Stability and predictability in its policies for independent schools is required to enable schools to undertake forward planning and is vital for their long-term viability and existence. In this context the sector has welcomed successive Australian Governments' continued commitment to quadrennial funding arrangements.
27. The sector supports needs-based funding and recognises that under these arrangements it will be necessary from time to time to make adjustments to the funding entitlement of individual schools. An essential element of stable and predictable funding policies is the inclusion of transition arrangements to enable schools to manage any adjustment in the level of funding provided by the government. Transition arrangements must be in place over a time period long enough for schools to adjust to lower levels of government support and meet the shortfall by raising funds from an alternative source (almost certainly by an increase in fees).
28. ISCA considers that the Australian Government's commitment to funding maintenance was an essential element of the SES funding scheme introduced for 2001-2004, and welcomes its continuation for the 2005-2008 quadrennium. Without funding maintenance the ongoing viability of schools adversely affected by the new arrangements would have been jeopardised. The continuation of funding maintenance for these schools for the 2005-2008 quadrennium will enable the adjustment process to continue over the longer term. It must be recognised that without this commitment a large number of schools, particularly those facing significant reductions in entitlement, would struggle to survive. The following case study illustrates the financial challenge facing a typical funding maintained school.

Case study: The effect of removal of funding maintenance

The College was founded in the 1980s in a rural area near a major city with the aim of providing low fee education to all who wished to come. The rapid expansion of housing in the area has changed its socio-economic demographic considerably. The constant need for improved facilities to meet changed requirements in terms of educational outcomes and curriculum has added to the financial pressures on the College.

Funding maintenance is a cornerstone to the orderly running of this College and has allowed the College to continue to provide education at an affordable level.

If funding maintenance was removed today, that is, in 2004, the College would, on present enrolment numbers, lose approximately \$1,700,000 per annum from Commonwealth general recurrent funding. On the College's present fee scale this would mean a fee increase of 48%.

If state recurrent funding was also reduced by the same proportion the College would lose approximately \$710,000 per annum. The total reduction in funding would amount to \$2,410,000 and would require a fee increase of 70%. This type of increase would devastate the enrolment of the College.

The College is not sitting idly by. It is seeking to cover any future reduction in funding by a number of methods, including increasing fees at a sustainable rate, seeking benefactors, seeking ideas to utilise the plant more efficiently such as use as a Community College after normal school hours.

29. Prior to the start of the 2005-2008 quadrennium schools had their SES score recalculated using latest available census data. In line with the Australian Government's commitment that no school would lose funding as a result of the SES funding scheme, arrangements for 2005-2008 include a funding guarantee for schools which on the basis of the SES recalculation would receive less funding. The funding guarantee provides schools with their 2004 per capita entitlements until AGSRC indexation brings the value of the lower score up to the same level. The guarantee, by allowing for a phased adjustment to reduced levels of funding, will provide financial stability for schools over the next quadrennium and allow time for them to implement fee increases and other measures which may be required to meet the funding shortfall. The funding guarantee continues a principle which has for decades been a feature of schools funding, recognising that funding adjustments need to be phased in over a period of time.

State and territory government funding of independent schools

30. State and territory governments provide around 30 per cent of total government recurrent funding for independent schools. While the amount of funding provided by each state and territory to the non-government school sector varies (ranging from 12.3 per cent to 27 per cent of the average cost per government school student), the contribution is of considerable significance to individual non-government schools, and in many cases is crucial to their overall financial viability.
31. State and territory governments determine both the quantum of funding to be provided to the non-government school sector, and the eligibility and level of funding of individual non-government schools. A number of states and territories which relied on the former ERI have changed their funding mechanisms and some have placed a greater emphasis on allocation according to need, measured in different ways and possibly seeking to offset the impact of the Commonwealth reforms. Considerable uncertainty now surrounds future funding arrangements for non-government schools in the majority of states and territories and a number of policy changes which impact on some schools have been announced or are pending.
32. A consequence of the different approaches being taken by state and territory governments is the variation in the amount of funding and support services available to non-government school students with similar backgrounds. For example, in South Australia independent schools must pay for the use of State-developed literacy and numeracy tests, while this is not the case in some other states. South Australian independent schools have no access to State-funded vocational education courses for students at risk of leaving school early. Other States do allow access to vocational education courses. In Tasmania the State Government uses a modified and less favourable definition of AGSRC as a basis for recurrent funding to non-government schools. The State government has no funding maintenance or funding guarantee provision, and no longer provides special purpose grants to non-government schools such as support for special needs students including those with disabilities, IT, languages or international education. New student bus services will not be approved for students to travel to and from non-government schools.

Basic entitlement

33. *ISCA believes that every child has a right to have their school education supported by a basic entitlement to Australian Government and state and territory funding. Additional funding beyond this basic entitlement should be allocated on a needs basis.*
34. ISCA believes that the combined basic entitlement should be equivalent to at least 25 per cent of the cost of educating students in government schools, this being a reasonable recognition of the contribution of parents as taxpayers as well as the community's obligation to all young people. Recognition of a basic entitlement to government funding is particularly important given the increasing cost of quality school provision, with parents having to contribute to school costs which are generally increasing faster than their incomes.
35. The Australian Government will in 2005-2008 continue to provide SES funding to schools ranging from a minimum entitlement of 13.7 per cent of the average cost of educating a student in a government school to a maximum of 70 per cent of this cost. ISCA supports the government's decision to provide minimum funding at this level while noting that this represents a decline from the minimum funding level of 20 per cent of the average cost of educating a student in a government school which applied 20 years ago.
36. ISCA is concerned about initiatives in a number of states to either freeze or reduce funding to those independent schools considered to be more advantaged, thereby reducing the basic entitlement to government funding for students in those states.
37. The following case study illustrates the impact on a relatively high fee school of withdrawing all or part of its current entitlement to Australian Government and state government funding.

Case study: The effect of a reduction in Australian Government and state funding on student fees.

The school was founded in the 1920s in a major city. It is a non-denominational day school, K-12, with an enrolment of over 800 students. The school has an SES level over 125 and is seen as a 'high fee' school. The school's categorisation for State funding is currently at level 3. The school was asked to estimate fee increases for the period 2005-2008 necessary to maintain current educational offerings based on the following assumptions.

- (i) Australian Government funding frozen at the 2004 level
- (ii) State funding based on 5% of AGSRC (current funding level is 14.8% of AGSRC), any decrease in funding phased in over a 4 year period as a result of the State government's current review of funding for non-government schools
- (iii) No change to current enrolment
- (iv) No increase in the number of staff employed
- (v) General expenses increased @ 3% pa
- (vi) Teachers salaries increased and projected in accordance with latest decision of the Industrial Relations Commission

The necessary school fee increases were estimated by the school to be in the order of 20% per year.

The school advised that in calculating these increases no allowance was made for costs due to teacher incremental steps, any new award conditions, adjustments to accrued sick leave and Long Service Leave Entitlements, additional superannuation and workers compensation payments based on increased salaries paid.

The school contends that fee increases would have a significant impact on its total enrolment. It estimates that over 40% of families have both parents working with one parent devoting their income solely to education expenses. Salary increases and family savings would not keep pace with the necessary increases. Students leaving the school would transfer either to a lower fee independent school or a government school.

As the school in question is one of the lowest funded in the state the transfer of students to lower fee (and higher funded) independent schools would significantly increase the cost of educating the students to both the Australian Government and State Governments.

Transfers to the government system would obviously add a significant increase in cost of education at the State Government level.

Targeted funding

38. It is essential that general recurrent funding continues to be complemented by targeted funding to enable independent schools to better meet the education needs of particular groups of students and to realise the Government's policy goals, such as competency in languages other than English, expanded provision of vocational education in schools and improved literacy outcomes for indigenous students. Targeted funding plays a crucial role in progress towards achieving the National Goals for Schooling.
39. This form of funding is crucial to the independent sector where some 80 percent of students attend schools that are governed and operated on an individual school basis. Unlike large systems, there is no mechanism to redistribute general recurrent funding between schools, for example to meet more effectively the needs of students with high support needs.
40. As a general principle, the level of funding provided under the various targeted programmes should be based on a realistic assessment of the resources and activities required to achieve the desired policy outcome. Schools in all sectors are facing increasing difficulties in meeting the needs of students within current resource levels, with the cost of schooling growing because of innovations in teaching and learning, increased curriculum requirements, the impact of state and territory and Australian Government regulation, growing parental expectations and student characteristics. This means there is little scope for schools to accommodate new government policy priorities within existing budgets.
41. The increase in funding announced in the 2004-05 Budget is welcomed as representing some progress to achieving a fairer arrangement in the 2005-2008 quadrennium by increasing the real funding levels for students with special learning needs under the new overarching Literacy, Numeracy and Special Learning Needs Programme.

Students with disabilities

42. In 2003 there were some 6,700 full time equivalent students with disabilities attending independent schools, compared to 2,500 in 1991, an increase of 160 percent². From 1991 to 2004 the Australian Government increased the special education component of the former SAISO funding pool only in line with supplementation, notwithstanding the significant increase over the period in the number of students with disabilities attending independent schools and the impact since 1992 of the Disability Discrimination Act.
43. The additional funding under the new Literacy, Numeracy and Special Learning Needs Programme for independent schools and Non-Government Centre Support announced by the Australian Government as part of the funding package for 2005-2008 will provide some extra assistance for students with disabilities in independent schools. *ISCA believes that students with disabilities represent a special case in government funding arrangements for schooling, and that the cost of the school education of students with disabilities should be met by society through government expenditure, irrespective of the school sector in which the student is educated.*
44. The Australian Government and state and territory governments must work co-operatively to achieve this outcome over the medium to long term. ISCA believes this will require the development of a new approach to general and other recurrent funding for these students, increased capital funding and improved access to services provided by state and territory governments.

Indigenous students

45. The independent sector provides schooling to some 5,600 indigenous students. As a group indigenous students tend to face greater barriers to educational achievement. A number of independent schools provide education to significant populations of indigenous students, while some independent schools are exclusively indigenous. In these schools private contributions, in terms of fee income and fundraising, are very limited or in some cases non-existent. Many of these schools face high costs due to their remoteness or distance from large population centres.
46. Indigenous students account for a quarter of independent sector enrolments in the Northern Territory, and in Western Australia many of the indigenous students in the independent sector attend schools in remote locations. *It is ISCA's view that neither Australian Government or state and territory funding arrangements for non-government schools adequately address the very substantial cost differential in school provision for students in remote locations.* There is also a pressing need for additional provision for teacher housing in remote schools which is also not being addressed under current arrangements.
47. ISCA has particular concerns about a number of indigenous schools in Western Australia and the Northern Territory whose SES scores have moved significantly since the last quadrennium, with potential funding implications. The SES scores of these

² This growth is slightly understated as until 1995 all students at special schools were counted as students with a disability.

schools have been affected by demographic changes in the non-indigenous community in the relevant census collection districts. ISCA has sought assurances from the Australian Government that these factors will be taken into account and that the funding entitlements of these schools will be reviewed.

48. The funding support to be provided by the Australian Government for indigenous school education over the next four years under the reshaped Indigenous Education Direct Assistance Programme (IEDA) and the Indigenous Education Strategic Initiative (IESIP) is welcome. It will be crucial to the capacity of independent schools to better meet the needs of indigenous students who are demonstrably disadvantaged and are achieving outcomes below those of the majority of Australian school students.

Capital funding

49. A continuing high level of investment in capital facilities for independent schools is required to support the enrolment growth that is occurring in the sector. It is estimated that in 2002 independent schools spent \$720 million on capital, of which parents and school communities contributed by far the major portion.
50. Public funding for capital is provided through capital grant programmes (Australian Government and the Queensland and Northern Territory governments), through interest subsidy arrangements operating in most States and through tax concessions to parents making voluntary contributions to building funds. In all the taxpayer contribution to capital funding in independent schools comprises around 16 per cent.
51. The capital grants programmes of the Australian Government and the states and territories contributed \$44 million in 2002. Allocations of funds from the Australian Government Capital Grants Program are directed to the more disadvantaged schools. Typically, these are smaller schools with limited capacity to obtain donations from parents to build facilities. The interest subsidy arrangements operating in most States assist independent schools to plan for the expansion of facilities to meet increasing enrolments through a program of borrowings. In 2002, the total amount of debt for the sector as a whole was \$1.8 billion. Debt servicing costs accounted for 3.2 per cent of recurrent expenditure.
52. The income tax legislation lists school building funds as 'Deductible Gift Recipients'. People who make voluntary contributions to such funds are entitled to claim a tax deduction provided that the contributions do not offset the payment of fees. The availability of such a tax concession provides an incentive for parents to make voluntary contributions to school building funds, which amounted to \$120 million in 2002.

Capital grants

53. *The current level of capital funding for independent schools by the Australian Government through its capital programme is based on historical sector allocations which have not taken appropriate account of the additional capital demands placed on the sector as a result of enrolment growth.*

54. The impact of these increased demands are reflected in the level of capital expenditure being incurred, which in the independent schools sector was \$650 million in 2001 compared with \$520 million for Catholic schools. Australian Government capital grants, on the other hand, totalled \$24 million for the independent schools sector in 2001 and \$59 million for the Catholic sector. The average per capita allocations from the 2002 Australian Government's capital grants programme were \$69 (independent schools), \$96 (Catholic schools) and \$102 (government schools).
55. For the 2005-2008 quadrennium the Australian Government will provide an additional amount of \$17 million over four years to provide specific capital grants funding for non-government schools in isolated areas and communities in the Northern Territory. The independent sector welcomes this funding as a contribution towards the very substantial additional costs faced by schools in the Territory, and expects that independent schools will receive an allocation which recognises their actual share of total non-government enrolments.
56. DEST projections are that enrolments in the independent sector will continue to grow over the coming quadrennium, with the result that the pressure to expand facilities to accommodate the growth will continue. The greatest impact will be on the smaller schools without the resource base to finance building programs from parental contributions. It is precisely these schools that have deficiencies in their infrastructure as identified in a recent stock-take of non-government school infrastructure commissioned by DEST. With no increase in real terms in capital funding for the coming quadrennium these deficiencies are likely to become more serious. The stock-take indicated that:
- Some 200 independent schools did not have facilities with sufficient overall global area (as defined by a composite benchmark based on state and territory government standards and adjusted for school size) and that some 70 of these schools had a global area at least 20 per cent below the benchmark.
 - Independent primary schools, especially small new independent schools, together with remote and special schools, had particular problems as to the condition of facilities in terms of their physical integrity and the capacity to meet their basic design function.
 - Some 30 per cent of independent primary schools did not have a library (100 schools). Some 30 per cent of secondary/combined schools did not have at least 6 specialist facilities (inclusive of a library), the minimum judged necessary in order to offer a sufficiently diverse curriculum.
 - Many schools in the independent schools sector did not have facilities that adequately met the needs of students with disabilities. Half of all primary schools and a quarter of secondary and combined schools had virtually no wheelchair access and where access was available it was generally limited. Sixty eight per cent of primary and 50 per cent of secondary/combined schools did not have disabled toilet facilities.
57. A significant proportion of state and territory government financial assistance to independent schools is given through interest subsidy schemes which provide interest rate relief for schools taking out loans for capital projects. The ACT Government closed its interest subsidy scheme to new projects in July 2003 and the NSW Government announced in April 2004 changes to its Interest Rate Subsidy Scheme.

The changes to the NSW scheme exclude all schools in the former ERI Categories 1 to 3 from eligibility for the programme and also reduce the interest subsidy cap from 10 per cent to 7.5 per cent. The changes immediately exclude 82 schools with more than 50,000 students from the scheme completely. With average interest rates on loans at approximately 8.5 per cent, all schools will be required to increase interest payments by about 13 per cent, an increased cost that will impinge particularly on the smaller, low-fee independent schools undertaking essential capital works projects. The following case study shows the impact on a school of changes to a state interest subsidy scheme.

Case study: The effect of changes to the interest subsidy scheme

The School opened in 1999 as a new low-fee Anglican School in a growing area, aiming to offer education at an affordable rate from Kindergarten to Year 12. Currently the School has over 550 students from Preschool to Year 8, and a substantial waiting list. By 2008 the School will reach Year 12 with a capacity of over 900 students.

The School has an open and accessible policy and its clientele closely reflects the make-up of the general community, with students coming from a variety of socio-economic and religious backgrounds.

When the School opened in 1999 it successfully applied for interest subsidy on each of its stages until 2002. The School, as a not-for-profit organisation, greatly valued the scheme. It meant that every dollar spent went towards the education of the students and capital repayments. As the School was within the guidelines of the scheme it was reasonable to assume that the Interest Subsidy Scheme would continue to support the establishment costs of the School. This meant that the School would be able to keep its fees as affordable as practical.

In 2002 the state government decided to cap the scheme at \$300,000 per financial year for new schools and in 2003 the decision was made to close the scheme to new applications although prior commitments would be honoured.

As a result of the closure of the Interest Subsidy scheme the School has lost \$531 per student in 2004. This will rise to approximately \$995 per student in 2009 as the School completes its basic infrastructure, assuming that interest rates remain around 8%. Should rates rise the School is open to an even greater impact.

This loss has been covered by reducing the scope of works at the School, altering the master plan, a reduced operating surplus and an increase in fees charged to the parents. The School does not want to become a school that is accessible only to families on relatively high incomes but in order to complete basic infrastructure, this loss will have to be covered by the parents.

Had the School built its capital infrastructure in its entirety during the first two years as the local government school has done, it would have received full interest subsidy under the guidelines of the scheme. The School could not afford to do this. It is noteworthy that its capital costs per student are approximately two-thirds of those of the newest government school. It could be argued that these lower costs in effect represent substantial savings to government.

58. *These changes together with the inadequate level of support through the Australian Government Capital Programme will inhibit the efforts of disadvantaged independent schools in addressing the deficiencies identified in the DEST survey.*

Accountability arrangements

59. *Independent schools are highly accountable to stakeholders, governments and regulatory bodies. While the accountability environment of independent schools differs from that of schools in other sectors, it is no less stringent and in significant ways is far more extensive.* In particular, the transparency of both public and private resourcing of independent schools is a distinguishing characteristic of their financial accountability. Independent schools are also highly accountable to their immediate stakeholders, both educationally and financially: their ongoing viability is inextricably linked to their ability to meet stakeholder expectations at a nominated cost.

Scope of accountability

60. For independent schools, accountability is a matter which extends significantly beyond Commonwealth and State funding arrangements. Independent schools are community institutions and this has a profound effect on the scope of school accountability, both internally and externally to the school.
61. The accountability environment of independent schools is multi-dimensional, meeting financial, educational and corporate accountabilities through legislative and regulatory mandates, as well as self-regulatory and market mechanisms. For independent schools, accountability extends:
- to parents (both as parents and as fee-paying clients)
 - to students
 - to founders (often a Church or other religious body) and to other financial supporters in the community
 - to state and territory government education authorities (as registering and credentialing authorities and as providers of funding)
 - to Australian Government educational authorities (principally as providers of funding)
 - to government authorities at all levels concerned with other than directly educational issues associated with school operation, such as corporate regulation, health, safety and town planning requirements, employment and occupational health and safety legislation including human rights and equal opportunities legislation, and tax regulation.

School governance and accountability

62. The governance structure of independent schools has particular impact on the manner in which these schools are held accountable.
- For most independent schools (unless they are part of a school system), decision-making takes place at school level through the school board or council and the role of the principal. This imposes far greater accountability to stakeholders at the school level than is the practice in systemic schools.

- The school board plays a key role in all forms of accountability. The board requires accountability for all the activities of the school, and is itself accountable to the school's immediate stakeholders, to the community at large, and to governments aiding or regulating the operation of the school.
- As corporate entities, independent schools must meet community standards of corporate accountability as regulated through the Australian Securities and Investment Commission or state/territory registrars of associations. This includes the annual provision of audited financial statements.
- Because they are discrete entities, the government funding available to independent schools is also a matter of public record. No other schools sector yet matches the same level of transparency in relation to public and private resourcing.

Financial accountability and Australian Government funding

63. In regard to Australian Government funding, some accountability and reporting requirements for schools are set out in the *States Grants (Primary and Secondary Education Assistance) Act 2000*. Others are set out in the document *Commonwealth Programmes for Schools, Quadrennial Administrative Guidelines 2001 to 2004* (especially Appendix F, 'Accountability Requirements'). ISCA understands that the legislation for the 2005-2008 quadrennium will contain similar and possibly more extensive accountability provisions.
64. In brief, schools and school systems receiving Australian Government funds are both financially and educationally accountable and must:
- each year provide extensive financial data to the Australian Government
 - demonstrate that the funds received under each funding program have been expended appropriately
 - participate in the Annual National Report on Schooling in Australia by providing extensive data
 - participate in evaluations of the outcomes of programs of financial assistance
 - commit to the National Goals for Schooling for the Twenty-first Century
 - commit to the achievement of performance measures, including testing for and reporting against literacy and numeracy benchmarks.
65. It should be noted that the same conditions and requirements apply to all independent schools irrespective of their level of government funding, and that government funding represents only a portion of the income of independent schools. It is ISCA's position that the conditions and accountability requirements for Australian Government funding, supported by the Department of Education, Science and Training's monitoring and enforcement strategies, are comprehensive and effective.
66. The independent schools sector would be cautious about proposals to introduce further accountability requirements for Australian Government funding that would:
- Increase the administrative burden and costs related to such requirements

- Compromise the ability of schools to respond to the communities they serve
 - Discourage innovation and excellence in educational programs and their delivery
 - Inhibit the ability of schools to be competitive both between and within sectors
67. Further, it is ISCA's position that:
- Accountability reporting should be designed, co-ordinated and rationalised so as to minimise the administrative burdens placed on schools. This is particularly relevant in a federal system of government with different layers of accountability requirements, and is especially important for non-systemic schools and small school systems which do not have the support of large bureaucracies.
 - The accountability processes should themselves be accountable and should not generate data for their own sake.
 - The accountability processes should not restrict or penalise community funding of school education or of other activities for children of school age.
 - Schools are primarily educational institutions, and any wider social role they may fill is a product of their educational role. Accountability requirements should not deflect them from their educational role.

Financial accountability and state and territory government funding

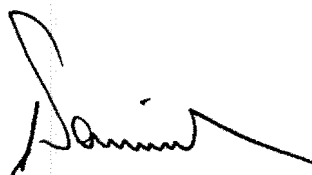
68. State and territory governments begin their regulation of independent schools through the school registration process, which in addition to stringent educational accountability requirements generally covers financial viability. In some instances the registration process requires the provision of audited financial statements or the provision of financial data irrespective of other reporting requirements that may be in place for state and territory government funding. Accountability arrangements for state and territory government funding differ from state to state.
69. While independent schools expect to be fully accountable for any public monies they receive, they are concerned by the dual role of state and territory governments as both regulators and competitors in schooling provision.
70. Independent schools, which are non-bureaucratic, entrepreneurial and customer focused, meet the intentions for which regulated markets are established by governments. However, they operate at a disadvantage when their competitors are also their regulators, and in some states and territories current administrative arrangements would be improved by a greater separation of government school system management functions from those related to the regulation and registration of all schools.
71. In Australia, a quasi-market operates in schooling provision. This serves to create what may be described as an informal accountability environment for schools, particularly in relation to educational accountability. It is ISCA's position that, particularly at the state and territory level, governments must resist the introduction of any formalised accountability measures that would weaken the current competitive environment or risk weakening the informal accountability that now operates.

MCEETYA Framework of Principles for school funding

72. ISCA notes that the MCEETYA Framework of Principles for Resourcing the National Goals does not prescribe a funding policy for governments but rather represents a 'direction' for complementary Commonwealth and State funding approaches.
73. It is unfortunate that in developing the Framework there was very little consultation with the non-government schools sector. While it was intended that the five principles should be read as a whole, it is inevitable that a narrower interpretation will be applied to parts of the framework to support funding policies by governments from time to time. In view of this, the independent sector has expressed particular concerns about the drafting of principles 2 and 4.
74. Principle 2 '*Public funding across different schools and sectors is distributed fairly and equitably through a consistent approach to assessing student needs and through having regard to the total level of resources available for students.*' This principle can be interpreted in various ways and in particular it leaves open to interpretation what is meant by '*the total level of resources available to students.*' This is not helpful given the diversity of strongly held views on resourcing of schools and in ISCA's view, more effort should have been put into developing a clearer statement.
75. Principle 4 '*Public funding for schooling supports the right of families to choose non-government schooling and supports non-government schools on the basis of need, within the context of promoting a socially and culturally cohesive society and the effective use of public funds.*' The second part of this principle can be and has been interpreted to suggest that some non-government schools do not promote a socially and culturally cohesive society. ISCA strongly rejects any notion that the non-government schools sector does not promote a socially and culturally cohesive society. These schools are an essential part of the fabric of Australian society and make a significant contribution to the community. As such, these school communities have a right to be well supported by governments.
76. The independent sector notes that the first of the principles requires Commonwealth and state governments to work cooperatively to ensure that '*the total level of resources available for schooling is adequate so that the achievement of the National Goals for Schooling is a realistic objective for all students*'. ISCA endorses this on the basis that it is inclusive of all Australian students regardless of which schools they attend.
77. ISCA strongly agrees with the principle that governments must ensure that the needs of all students are met, including those with particular educational needs whose parents have chosen an independent school. By their commitment to the Framework, all Ministers have accepted this obligation, and in line with this the independent sector expects that the funding policies of each level of government will provide for additional resources to be directed wherever needed to meet the goals. Independent schools which can be identified as in need of additional resources include recently established small to medium size schools which are in a planned growth phase, low fee schools which cater for students from relatively low SES backgrounds and schools which are educating students with particular high needs such as students with disabilities.

Conclusions

78. Parental demand for independent schooling for their children is continuing to grow and governments must recognise and support the legitimate role of non-government schools as public education providers if Australia is to meet the National Goals for Schooling for the Twenty-first Century.
79. The independent schools sector is sustained by a funding partnership comprising the Australian Government, state and territory governments, and parents.
80. To ensure the continued quality of schooling in Australia, it is vital that this partnership is reliable, stable and sustainable. Government funding arrangements for independent schools must reflect the principles of equity, incentive, flexibility, transparency, simplicity and predictability. In particular, they must recognise the substantial financial contribution of families to the cost of educational provision in independent schools.
81. The Australian Government's funding arrangements broadly meet these criteria. Their effectiveness has however been eroded by the decisions of some state and territory governments which seek to protect the financial and enrolment base of their own schools and which are having the effect of shifting their funding responsibilities for students in the non-government sector to the Commonwealth and to parents.
82. The independent sector would support firm agreements between the Australian Government and state and territory governments that would promote a stable and secure funding environment for all schools.



Mr Bill Daniels
Executive Director
Independent Schools Council of Australia
Canberra
25 June 2004

Attachment A – Independent Schooling in Australia 2004 Snapshot

Attachment B – Letters of support from member Associations of Independent Schools