



Independent Schools
Council of Australia

ISCA Submission

to the

Senate Select Committee on School Funding

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SUMMARY

It is ISCA's contention that the current school funding arrangements do not constitute a 'national funding model' but have in fact created a more complex funding environment nationally than previously existed under the former funding arrangements.

It is now clear that it is unlikely that the new funding arrangements will ever be fully implemented, thus undermining the entire premise of the model. Partial implementation means that no schools or systems will ever receive their full loadings to address disadvantage, nor will schools sitting above or below their SRS entitlement ever transition into the model.

The current funding arrangements are structurally unsuited for implementation in independent schools and do not provide the stability, transparency or predictability necessary for prudent financial and educational planning.

Ironically the only schools that the new funding arrangements actually apply to at the school level are the 900 non-systemic independent schools. Government and non-government systems retain their long-standing capacity to redistribute their schools' funding entitlements across schools within their systems according to their own methodologies.

The capacity of school systems to redistribute funding means that, despite the rhetoric, government schools can suffer (and have) suffered reductions in funding, even in states that are 'signatory' states.

The submission concludes by highlighting the key considerations for the Commonwealth Government in its deliberations around future school funding arrangements.

INTRODUCTION

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

Commonwealth Government funding is a critical element of the resourcing of independent schools and as a consequence, any consideration of national school funding arrangements and school reform is a high stakes 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;
- addresses the Committee's Terms of Reference through discussion of the development and implementation of the current school funding arrangements, including the impact on independent schools;
- highlights issues with national funding arrangements into the future; and
- identifies ways forward for school funding arrangements for consideration by the Committee and the Commonwealth Government.

BACKGROUND

ISCA is the peak national body covering the independent schools sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISCA represents a sector with 1,080 schools and 560,000 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 Commonwealth 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 practice 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. 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 which cater to the full spectrum of Australian society. Independent schools 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 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.

It is also important to remember that, while government schools continue to educate the majority of disadvantaged students, half of high income families choose to send their children to government schools.

Table 1: Family Income by School Sector

Sector	Top tier income \$130,000 +
Independent	24 %
Catholic	27%
Government	49%
Total	100%

(Source: ABS Census of Population and Housing 2011)

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 2013 independent schools accounted for 14.4 per cent of total student enrolments (18 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 520,000 in 2013.¹ With the inclusion of independent Catholic school enrolments, the sector enrolment is 560,000 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 57 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 80 per cent of capital funding for independent school buildings, grounds and equipment (this figure excludes one-off funding provided under the Building the Education Revolution).

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.

The wide range of family incomes for students attending independent schools indicates that it is not only capacity but also *willingness* to pay that influences families to choose an independent school. Regrettably, those families who elect to utilise their after-tax income to contribute to their children's education are sometimes accused of contributing to the "marginalisation" of the public school sector.

Many parents of children in government schools are also exercising choice. For a variety of reasons, many high socio-economic families exercise their right to choice and elect to send their children to government schools. Many parents of students in government schools have the capacity to pay for their children's education but choose to spend their after-tax income on other priorities. These parents clearly could afford a fee-paying school, but choose the government sector.

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

Unlike in the health sector, where high income earners without private health insurance are obliged to make an additional after tax contribution to support the health costs of all in the Australian community through the Medicare levy, high income earners who choose to spend their after tax income on expenditure other than on their children's education, make no additional contribution.

Australians across all income brackets who make the sacrifice to pay for private health insurance in order to avail themselves of choice in health providers and hospitals are not criticised for their contribution to the "marginalisation" of the public health sector. Instead, those utilising the private health sector are applauded for freeing up scarce resources in the public health sector. The situation for parents choosing to contribute to their children's education should be no different.

It is important to stress that ISCA is not advocating for high income parents in government schools to make a further contribution to their children's education. ISCA is merely seeking to highlight the contribution of independent school parents' after-tax dollars to reducing government outlays on education thus freeing up public funding for other public priorities.

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 Commonwealth Government.

In 2010-11, total government operating recurrent expenditure on school education was \$44.3 billion. Total government recurrent expenditure on government schools was \$34.5 billion and \$9.8 billion on non-government schools. The non-government sector received 22 per cent of government recurrent expenditure on schooling while the government sector received 78 per cent.

Nationally in 2010-11, state and territory governments provided 88.6 per cent of total government recurrent expenditure on government schools and the Commonwealth Government provided 11.4 per cent. The Commonwealth Government provided 72.6 per cent of total government recurrent expenditure on non-government schools, with state and territory governments providing 27.4 per cent.

In 2010-11, combining both state and Commonwealth Government funding, public support for a student in a government school was on average \$15,000. On average, total government funding for a non-government school student was \$8,090, while for an independent school student it was \$6,820 per year. (*Source: Productivity Commission report on Government Service Provision 2013 and Department of Education non-Government School Financial Questionnaire*)

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

Further information on funding arrangements for Australian schools is at Appendix A.

CURRENT SCHOOL FUNDING ARRANGEMENTS FROM 2014

THE MYTH OF NATIONAL FUNDING ARRANGEMENTS

ISCA considers that reference in the Committee's Terms of Reference to the development and implementation of 'national school funding arrangements' is a misnomer and not an accurate reflection of the current situation with regard to school funding.

The current situation with school funding in Australia is anything but 'national'. With each state and territory government and the Commonwealth Government operating different funding arrangements across all three schooling sectors, there are at least twenty seven different funding models in operation. This is a more complex situation than existed prior to the development and (partial) implementation of the current school funding arrangements.

While the recommendations from the Review of Funding for Schooling constituted a national school funding model, the funding arrangements being implemented from 2014 do not represent a national funding model. Statements to the effect that "all Australian schools are now funded on the same basis" are simply incorrect. Even more inaccurate is the frequently heard statement that "all Australian schools now receive the same funding". These statements are misleading and reflect the rhetoric that characterised the political 'spin' associated with what has become known as the 'Gonski funding model' but which in 2014 bears little resemblance to the Review recommendations.

There are five key factors driving the fact that there is no national funding model:

- the signatory states/territory all negotiated differing implementation agreements with the Commonwealth Government;
- not all jurisdictions signed agreements with the previous Commonwealth Government;
- government and non-government systems will continue to redistribute funds according to their own needs-based methodologies;
- a measure of capacity to contribute operates for non-government schools but not for government schools;
- the confidentiality conditions imposed on the parties inhibited sensible outcomes; and
- the new Commonwealth Government has only committed to the initial four years of the funding arrangements rendering it unlikely that the model will ever be fully implemented.

➤ **The signatory states/territory all negotiated differing implementation agreements with the Commonwealth Government**

Despite the rhetoric of the previous Commonwealth Government, there will not be a single national model for funding schools but rather twenty seven different state and sector based models.

In order to secure 'sign on' to the new funding arrangements from all states and territories, the previous Commonwealth Government, immediately prior to the last Federal election, negotiated a series of agreements for the implementation of new funding arrangements. The terms of these agreements are different for each jurisdiction and in the main reflect not only the differential capacity to raise revenue between the Commonwealth and state and territory governments, but also the tight fiscal environment of all levels of government in Australia.

The agreements negotiated with the five ‘signatory’ states and territories produced an extended transition period over six years. The final two years are beyond the period of the current forward estimates and the significant additional funding (both Commonwealth and state/territory) does not flow to schools until the final two years. Even after the six year transition period, only one jurisdiction achieves full implementation of the new funding arrangements.

State and territory government funding for non-government schools is dependent on the detail of their particular agreement with the Commonwealth (for schools in signatory states) or existing arrangements for non-government schools (in non-signatory states).

As noted above, the transition arrangements in each state and territory are different. The table below shows the differential indexation rates that will apply across the sectors and jurisdictions for signatory states/territories.

Table 2: State/sector state indexation rates (to grow funding into the year shown)

	2014 %	2015 %	2016 %	2017 %
NSW Government	1.22	2.62	3.00	3.00
VIC Government	1.35	1.35	3.00	3.00
SA Government	1.74	2.50	3.00	3.00
TAS Government	2.27	2.00	3.00	3.00
ACT Government	2.94	3.00	3.00	3.00
NSW Catholic	0.41	2.62	3.00	3.00
VIC Catholic	1.64	1.35	3.00	3.00
SA Catholic	1.56	2.50	3.00	3.00
TAS Catholic	1.09	2.00	3.00	3.00
ACT Catholic	2.93	3.00	3.00	3.00
NSW Independent	0.41	2.62	3.00	3.00
VIC Independent	1.64	1.35	3.00	3.00
SA Independent	1.56	2.50	3.00	3.00
TAS Independent	1.09	2.00	3.00	3.00
ACT Independent	2.93	3.00	3.00	3.00

(Source: Answers to Questions on Notice Budget Estimates 2013-14 DEEWR EW0002_14)

➤ **Not all jurisdictions signed agreements with the previous Commonwealth Government**

At the time of the 2013 Federal election, not all state and territory jurisdictions had signed a funding agreement with the Commonwealth Government. The new Commonwealth Government has now provided these states with the additional Commonwealth funding they would have received had they been signatory states. These jurisdictions have not committed to implementing the new funding arrangements, so cannot be described as being part of a national model.

➤ **Government and non-government systems will continue to redistribute funds according to their own needs-based methodologies**

Under the funding arrangements from 2014 onwards, school systems, both government and Catholic will receive funds based on the new funding model but will retain their existing and long-standing capacity to redistribute their schools' funding entitlements across schools within the system according to their own needs-based methodologies.

The *Australian Education Act 2013* prescribes that funding be allocated in accordance with a needs-based funding arrangement, but ultimately the funding allocation a systemic school receives will generally be different to its entitlement under the funding arrangements.

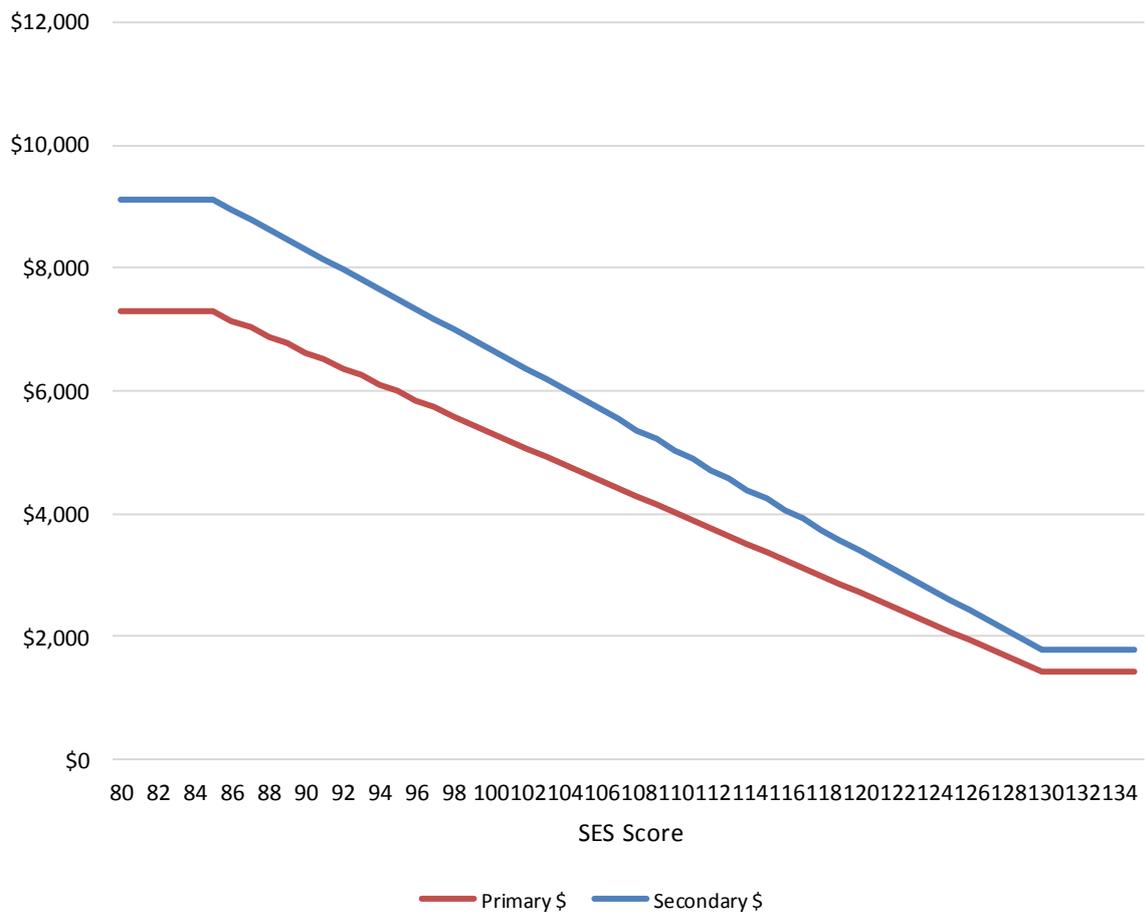
This means, ironically, that the 'national' model will only apply to the 900 non-systemic independent schools. Ninety per cent of schools will NOT be funded according to the model, but according to their own jurisdictional or system priorities as has always been the case. An example of this in operation is the highly publicised examples of where the NSW state government has reduced funding in 2014 to a number of NSW government schools. This is despite NSW being a signatory state.

➤ **A measure of capacity to contribute operates in non-government schools but not government schools**

Statements to the effect that 'all schools are funded on the same basis' ignore the application of the 'capacity to contribute' formula to non-government schools but not government schools. This measure anticipates the capacity of parents enrolling their child in a non-government school to contribute financially to the operation of the school. The application of capacity to contribute for non-government schools has a significant impact on the level of base funding for non-government schools provided by governments. The capacity to contribute for non-government schools is calculated utilising the socio-economic status (SES) of a school community which uses Australian Bureau of Statistics data and was the basis of the Commonwealth Government's previous non-government school funding model.

Table 3 below shows the slope of the SES lines for primary and secondary under the SES funding model.

Table 3: SES funding model rates for primary and secondary, 2013

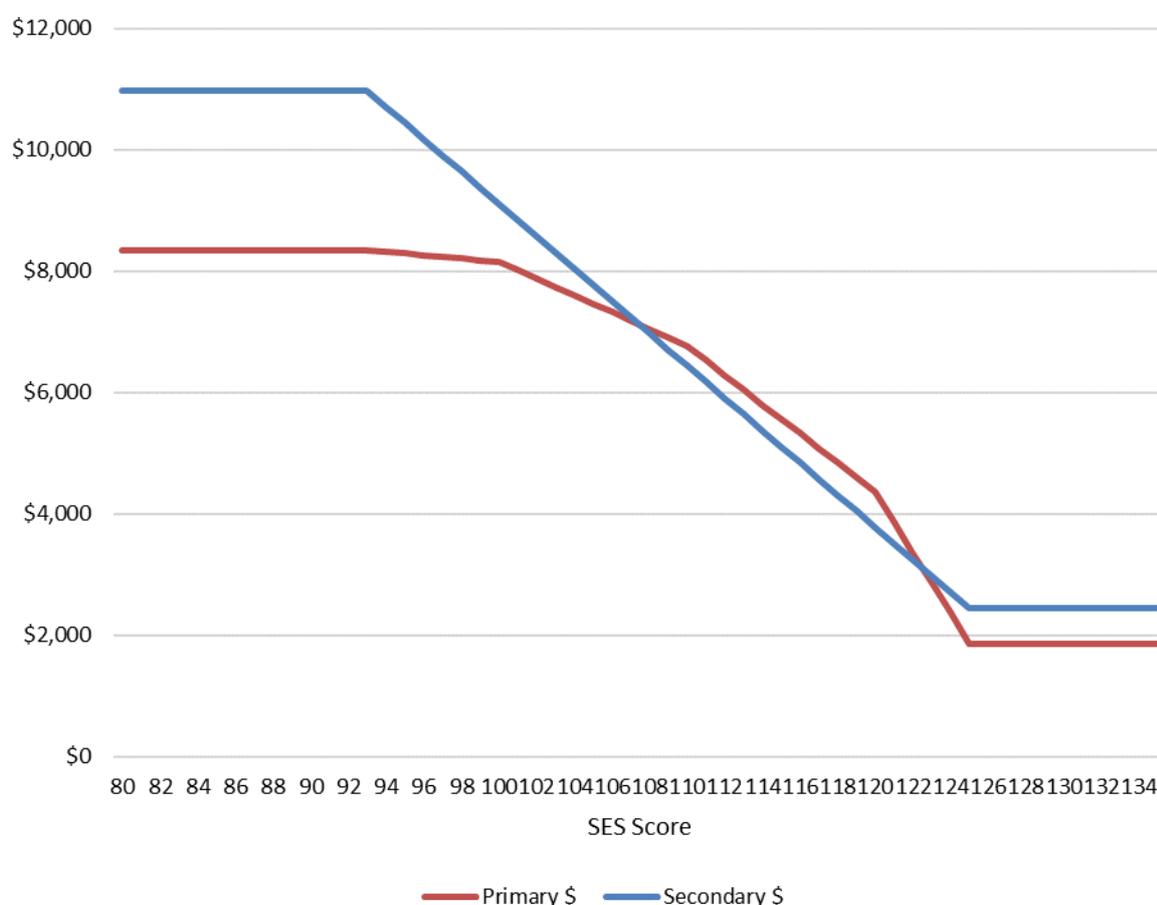


(Source: Department of Education Schools Service Point at www.ssp.deewr.gov.au)

However, during the development of the new funding arrangements, the parameters of the former SES model, including the primary/secondary relativities, were altered to create irrational distortions. These changes to the SES model for its application to the capacity to contribute formula add an unnecessary level of complexity to already complex funding arrangements.

As can be seen from Table 4 below, the primary capacity to contribute line now overlaps with the secondary line. This distortion of the line has no policy basis or justification. The only justification for this change is to provide additional funding to a particular group of non-government schools where the bulk of enrolments are in primary school.

Table 4: ‘Capacity to Contribute’ settings based on 2014 SRS



(Source: ‘SRS funding model’ settings provided by the Department of Education)

➤ **The confidentiality conditions imposed on the parties inhibited sensible outcomes**

Negotiations with the previous Government were required to be conducted under COAG confidentiality arrangements, with participants required to comply with confidentiality agreements. Negotiations were conducted bilaterally with states and territories, the National Catholic Education Commission and ISCA. There was no transparency around the direction of the negotiations or final outcomes. Even now that the new funding arrangements are being implemented, there is still no transparency around the negotiation processes or the key determinants driving the final negotiation outcomes.

The confidentiality provisions imposed by the previous Commonwealth Government also limited the capacity for broad consultation within the independent sector on the proposed new funding arrangements or their implications.

➤ **The new Commonwealth Government has only committed to the initial four years of the funding arrangements rendering it unlikely that the model will ever be fully implemented**

There is a long-standing precedent of quadrennial funding arrangements for Commonwealth Government funding for schools. This not only allows schools surety for planning purposes but aligns with the Government’s budget forward estimates timeline. The decision by the previous

Commonwealth Government to transition the implementation of the new funding arrangements over six years rather than four and beyond the scope of the forward estimates was a high risk strategy. This strategy was rendered more high risk by the back-loading of the substantial funding increases until years five and six of the implementation. Delaying the significant funding increases to beyond the scope of the forward estimates meant that there was never any certainty as to whether these funds would ever be delivered.

Any discussion of national funding arrangements presupposes full roll out of these arrangements. The new Commonwealth Government has committed to funding only four years of the arrangements. The Commonwealth Minister for Education, the Hon Christopher Pyne MP, stated in a recent interview that the Government proposes to return to the previous four year funding cycle for schools. Minister Pyne advised that in the final year of the current four year funding period, the Government will enter into new four year funding agreements with all states and territories, Catholic systems and independent schools. This statement provides a strong indication that the current funding arrangements will not be fully implemented.

The implication of not fully rolling out the funding arrangements undermines the entire premise of any model. Partial implementation will mean that the majority of schools and systems will not receive their full loadings to address disadvantage. Nor will schools sitting above and below the SRS continue to transition onto their SRS.

In reality, the nature of Commonwealth/state relations, the operation of the Australian Constitution and the vast differences in the governance of and funding arrangements for government and non-government schools has meant that the vision of a national funding model was always going to be a chimera, a commendable but unachievable vision.

As outlined in the next section of this submission, the funding arrangements currently implemented in independent schools do not represent the full allocation their entitlements, i.e. base + loadings, under the new funding model. The funding arrangements in 2014 represent a small, incremental step towards a model which it is now clear, will never come to fruition.

Whilst it is acknowledged that many independent schools will receive increased funding over time (see Table 5 later in this submission), the question remains as to whether or not the increased funding is being delivered in an efficient way through a funding model that is transparent, simple and stable. In the view of ISCA, the current funding model, with its complex transition arrangements, has not provided an efficient, transparent or consistent approach to the delivery of additional funding.

THE REALITY OF FUNDING ARRANGEMENTS FOR INDEPENDENT SCHOOLS IN 2014

Having dealt with the rhetoric of the new funding arrangements, this submission will now deal with how independent schools are actually receiving public funding in 2014.

Transition arrangements

The funding received by independent schools in 2014, is a product of the transition arrangements agreed between the Commonwealth and state/territory governments (for signatory states) or a combination of existing state government funding arrangements and a transition path determined by the Commonwealth (for non-signatory states).

The arrangements for the transition period are extremely complex. This complexity is supported by the fact that the transition arrangements are too complex to be enshrined in either the

Australian Education Act 2013 or the *Australian Education (Consequential and Transitional Provisions) Act 2013* and are instead dealt with by the Commonwealth Minister determining funding amounts through the transition period for schools that are entitled to additional funding under the model.

In order to calculate a school's 2014 Commonwealth entitlement, the Commonwealth and state/territory 'old' per student funding for a school needs to be estimated. The value of the Commonwealth and state/territory old per student funding is based on 2011 actual financial data indexed to 2013, or in some cases an agreed estimate of 2013 total public funding. Once actual 2013 financial data becomes available in the second half of 2014 these data will be used in place of these estimates.

Transitional arrangements for independent schools depend on where the school's estimated old per student funding sits relative to the schools new Schooling Resource Standard (SRS) per student amount for 2014. This is calculated by indexing the 2013 old per student amount to estimate a value for 2014 and comparing that with the school's 2014 SRS funding model entitlement, i.e. the 'new per student amount'.

This initial calculation utilises projected 2014 enrolments which are based on 2013 actual enrolments. Schools' entitlements will be adjusted once actual 2014 enrolments are available late in the second half of 2014.

If a school's old per student amount is less than their 'new' per student amount, schools are treated as "below SRS" with various transition arrangements to take them up, over time, towards their SRS. If a school's old per student amount is more than the new per student amount, schools are treated as "above SRS" whereby over time, through an approach of differential indexation they too will move towards their SRS.

For schools "below SRS", the current funding arrangements allocate additional transitional funding beyond the projected old per student amount for 2014 which is apportioned (in differing amounts depending on the state/territory) between the Commonwealth and the relevant state or territory (for schools in signatory states only). The level of additional funding will depend on the transition rate for that year for that jurisdiction, which is a percentage of the gap between the SRS funding amount and the old funding amount which is being provided as additional funding.

The transition rate is based on negotiated transition arrangements between the Commonwealth and state and territory governments, and as noted, may vary across jurisdictions and between the years of the agreement. The level of total public additional transition funding is also apportioned between the Commonwealth and states and territories. Therefore, the level of additional funding provided by the Commonwealth in each year will depend on the negotiated Commonwealth proportion of additional funding within that year. As a consequence, the end point after an assumed six years of transition varies across jurisdictions, with only schools in the Australian Capital Territory achieving one hundred per cent of their SRS.

It should be noted that for independent schools in non-signatory states, these arrangements will only apply to their Commonwealth funding. For schools in non-signatory states, there is no guarantee that they will receive a funding increase from their state governments. A further consequence of this is that schools that receive a larger proportion of their public funding from their state government are potentially worse off than those schools with a smaller state proportion of public funding.

Beyond 2014, the Commonwealth recurrent funding is indexed at 4.7 per cent for schools 'below' the SRS. Beyond 2014, the states were asked to grow their baseline funding by at least 3.0 per cent. The final rates of state indexation for States that have reached agreement for the new funding arrangements are provided in Table 2. As this table shows, 3.0 per cent will not be achieved in either 2014 or 2015 in most jurisdictions.

In reality, the levels of additional funding and indexation schools will receive are reliant on the particular circumstances of individual schools and the complex interplay between their levels of Commonwealth and state or territory funding and the relationship between their current entitlement and the schooling resource standard. For example, for schools operating below their SRS entitlement (most independent schools), understanding how their initial 2014 entitlement was calculated is virtually impossible. The figures provided to schools were presented as percentage weightings split between their SRS base and loadings but in actuality are based on the transition arrangements outlined previously, and are not in fact based on the formulas in the new funding model.

It should be noted that until very recently there was no publicly available source of information on how these transition arrangements apply, and schools did not have access to an explanation of how these transition arrangements are being implemented.

There is also potentially a significant issue with the treatment of special schools and special assistance schools in the *Australian Education Act 2013*, with a special transitional arrangement for special schools and special assistance schools. Section 62 of the Act indicates that these schools receiving public funding 'above' their SRS entitlement move immediately onto their SRS funding level from 2015. Were this to eventuate, this would mean that a number of special schools and special assistance schools would suffer an immediate and dramatic reduction in Commonwealth recurrent funding. ISCA has sought clarification on this issue from the Government.

In 2014, schools received payment advice accompanying their January 2014 payment. This payment advice provided detail on their SRS entitlement in terms of the split between base and loadings but did not provide any information on how these amounts were calculated. As noted, at the time there was no publicly available source of information on how the transition arrangements work and schools still have no means of knowing what their final 2014 entitlement will be. Their final 2014 entitlement will not be known until late 2014 or early 2015. In addition, schools do not have any means of estimating their public funding entitlements into the future.

Compounding this complexity and lack of transparency is the implication that the new Commonwealth Government no longer expects state governments in signatory states to meet their commitments under agreements.

Schools need to make long-term financial and educational plans and can only undertake this planning based on the best information available to them at the time. Schools also need to plan their finances well in advance based on an assumed level of resourcing. When governments make changes which impact on that long-term planning they need to be highly cognisant of their impact on school communities and accordingly work to ensure that schools are provided with sufficient notice of changed funding arrangements to facilitate the necessary school level changes. For example, independent schools are, on average, servicing debt levels of \$8,000 per student. Predictable, stable public funding is essential for prudent financial planning and successful educational outcomes.

The new funding arrangements for schools make prudent financial planning extremely difficult. In fact the impact at the individual independent school level of the new funding arrangements seems to be operating in direct contradiction to the requirements for financial viability in the *Australian Education Act 2013* and Regulation.

Significant data issues with the new funding arrangements

Further difficulties for schools in 2014 have emerged due to the problems with the quality and fitness-for-purpose of the data driving schools' funding entitlements under the new funding arrangements.

The new funding arrangements were implemented in haste before the data essential for its effective operation was available.

The haste of implementation is a significant issue. The legislation was passed in June 2013, yet implemented in January 2014. Schools did not receive their provisional funding entitlement advice for 2014 until late November 2013 (well after most schools had been required to set fees for 2014). It is not clear why the funding arrangements were implemented in such haste without proper trialling or the availability of sufficiently rigorous data. There is no doubt that many implementation issues might have been able to be better addressed had the implementation been from 2015. This would have allowed at least twelve months for trialling of the model, identification of implementation issues and the development of strategies and actions to address issues.

As a comparison, prior to the implementation of the previous SES funding model in 2001, at least two years of piloting and trialling was undertaken using actual school data.

The data for the majority of loadings is not sufficiently accurate, complete or fit-for-purpose, which has produced a reliance on 'proxy measures' and 'interim loadings' which do not target the correct students and miss out on identifying large numbers of eligible students who should be being included in schools' SRS calculations.

Both the low socio-economic status loading and the low English language proficiency loadings are derived from incomplete data which was provided for purposes other than funding, specifically the contextual reporting of NAPLAN results. In theory, these proxy loadings should be calculated utilising parental background data provided by parents at the time of enrolling their children at school. However, the quality and completeness of these data is seriously problematic.

The low SES loading is an interim loading utilising components of the Index of Community Socio-Educational Advantage (ICSEA) which measures socio-*educational* advantage rather than socio-economic status. Large amounts of the parental background data utilised for calculating the low SES proxy loading is missing. The Australian Curriculum, Assessment and Reporting Authority's strategies for dealing with missing data has resulted in significant volatility in the data set from year to year. This volatility provides an indication of the lack of robustness in the data driving SES loadings which has a material impact on the funding entitlement of numbers of independent schools. Many schools are also missing these data altogether.

The proxy measure for low English language proficiency has been demonstrated, through a study undertaken by a large government education authority, to be identifying the wrong cohort of students, as well as significantly under-identifying the low English language proficiency students most in need of support.

The loading for students with disability is also an interim loading and is a set amount for every student with a disability, regardless of the type of disability. The interim loading does not allow for the huge variation in the additional costs to address educational needs of students with disability. In fact, it could be argued that even a graduated loading is not adequate for this group of students.

In addition, the current funding arrangements do not cater for students with disability who enrol in an independent school at the beginning of the school year. The additional costs of these students are not factored into a school's funding entitlement until the end of the year, meaning that schools must carry the financial cost of these students for a full year. Even once factored in, schools 'below the model' will only receive a portion of the additional funding for a student with disability, rather than the entire loading, during the transition period.

There are also significant issues with the funding of students with disability in schools which are 'above' the SRS. Unless the funding entitlement for these schools is very close to their SRS entitlement, such schools will receive NO additional needs-based funding for any students with disability they enrol.

Funding for students with disability is not well suited to a loading directed to an individual school. These issues do not exist for government and Catholic systemic schools which, as noted earlier, can redistribute their funding allocations to overcome these issues. A similar block of funding to meet the needs of students with disability provided to the sector, as existed under previous funding arrangements, would similarly overcome these issues for independent schools.

Further discussion around the treatment of funding for students with disability is provided in the section below on Commonwealth Government Targeted Programs.

Despite these acknowledged deficiencies in the data, the inaccuracies of the students targeted and the structural problems with loadings to address disadvantage directed to individual schools, the calculation of school entitlements under the new funding arrangements utilise these unsuitable proxy and interim measures.

It should also be noted that the problems associated with inappropriate data sources for the loadings have a direct impact on the funding for individual independent schools, but are less of a problem for school systems. School systems re-distribute funding according to their own methodology, which provides the opportunity to even-out the impact of data inaccuracies at the individual school level.

Impact on independent schools from the disappearance of Commonwealth Government Targeted Programs

The loss of Commonwealth Government Targeted Programs (CTPs) will severely impact the ability of the independent sector to address educational disadvantage and maximise student learning outcomes.

Under the previous 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. The directing of loadings to individual independent schools will have a significant impact on the independent sector both at the individual school level and for state and territory AISs.

In providing funding directly to schools, AISs will lose 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 will be extremely limited. Most individual independent schools will 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 be 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 will be 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.

The independent sector has identified three groups of students who are particularly poorly served by loadings directed to the individual school level: students with disability; indigenous students and students with very low English language proficiency levels such as students newly arrived in Australia whose language is not English.

As has already been highlighted, under the transition arrangements schools would not receive their full entitlement under the loadings until the model was fully implemented. In the absence of full implementation, it is likely 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.

The circumstances of special schools and special assistance schools under the new funding arrangements should also be highlighted. Special schools and special assistance schools are an important and long-standing part of the independent sector, offering parents and students increased educational choice by providing an alternative to mainstream schooling. Special schools cater primarily for students with disability and provide special programs and innovations which meet the specific educational requirements of high-need students. Generally, special assistance schools provide an alternative and supportive school environment for students with particular social, emotional or behavioural difficulties. Many such students are unable to cope with or have been formally excluded from mainstream education in both the government and non-government sectors.

The Final Report of the Review of Funding for Schooling recommended that the recurrent costs of special schools and special assistance schools be fully publicly funded by governments. Despite the rhetoric of the previous government regarding support for students with disability, this recommendation was not implemented and the new funding arrangements from 2014 do

not provide adequate support to these schools which means they will continue to struggle to meet the ongoing educational needs of their students.

The previous Commonwealth Government 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. The new Commonwealth Government has committed to continuing provision of support to AISs for a four year period, with a total of \$100 million being provided to AISs for the period 2014 -17.

Significant structural and implementation issues with new funding arrangements

As the implementation of the new funding arrangements has progressed, it has become clear that the new funding arrangements do not meet the independent sector's understanding of some of the commitments made to the sector during funding negotiations and some design features of the model are particularly problematic for independent schools.

Despite well publicised commitments that all schools would receive a minimum funding increase in 2014 of 3 per cent, it is now apparent that not all independent schools will achieve this outcome (both in terms of their total public funding and in some circumstances, their Commonwealth funding).

In some states, the decision to use 2013 as the base year of funding, will mean that schools with high levels of educationally disadvantaged students will be receiving a reduced level of support once their funding under National Partnerships is taken into account.

Further to the point above, final 2014 funding for independent schools will in part be determined by their final 2013 public funding. As schools' 2013 public funding will not be able to be categorically determined until very late in the year, there is the possibility that significant funding adjustments will need to be made for individual independent schools. This is clearly an unsatisfactory situation, which will further compromise the funding security of independent schools and their capacity to undertake responsible financial planning.

DEVELOPMENT AND IMPLEMENTATION OF SCHOOL FUNDING ARRANGEMENTS

This submission now addresses the Committee's Terms of Reference to inquire into and report on the development and implementation of 'national' school funding arrangements and school reform. The Terms of Reference refers to 'the implementation of needs-based funding arrangements, from 1 January 2014'.

It is important to note that Commonwealth Government funding to non-government schools has always been based on a needs-based funding approach. The previous Commonwealth funding model for non-government schools, the socio-economic model (SES), is a good example of such a needs-based approach.

A problem with the SES funding model often cited by its critics was the issue of funding maintained schools. Under the former SES model more than eighty per cent of independent schools, the vast majority, were funded according to their SES score. Funding maintenance was primarily an issue for Catholic systemic schools, with 55 per cent of Catholic-systemic schools being funding maintained.

In fact the previous SES model is still used to determine a school's capacity to contribute under the new funding arrangements. A detailed explanation of the former needs-based SES funding model is provided at Appendix 2.

ISCA was engaged in consultations and negotiations throughout the Review of Funding for Schooling and the subsequent development of what came to be known under the previous Commonwealth Government as the Better Schools model. Throughout this process, ISCA highlighted that any changes to Commonwealth school funding arrangements were of critical importance to independent schools as the impact would be felt at the level of the individual school. There is no capacity for non-systemic independent schools to redistribute funding, as occurs in school systems, as funding is paid directly to the school.

It should be noted that the previous Commonwealth Government was focussed on state/territory government negotiations in order to secure their support and 'sign on' to the new funding arrangements. It is also critical to note that the provisions of the *Australian Education Act 2013* and the new funding arrangements were *always* going to apply to non-government schools. Unlike state and territory governments, it was never an option for Catholic systemic schools or independent schools to "sign up" if they wanted to continue to receive Commonwealth Government funding.

The negotiation process was a difficult environment for the independent sector, as the key focus of the previous Commonwealth Government's negotiations was securing the 'sign on' of the other major players, the state and territory governments. As a consequence, the structural outcomes of the funding review were geared at large government education systems, not individual, autonomous independent schools. Confidentiality provisions imposed by the previous Commonwealth Government also limited the capacity for broad consultation on the proposed new model.

This has meant that despite ISCA's efforts, the funding arrangements to apply from 2014 are not structurally suited to the independent sector.

Cognisant that the *Australian Education Act 2013* was always going to apply to independent schools, the key objective of ISCA during these negotiations was to secure public funding for independent schools (given the expiry of the *Schools Assistance Act 2008* on 31 December 2013) through the best possible outcomes in terms of the proposed funding model. In the end, the independent sector had no choice but to support the then government's new funding model on the basis that, when fully implemented, the model provided additional funding to the majority of independent schools. The table below shows the projected additional funding for independent schools under the former Better Schools funding arrangements as originally proposed.

Table 5: Independent Sector Additional Funding (2014 – 2019) \$M

	2014	2015	2016	2017	2018	2019	TOTAL
Commonwealth additional contribution (SRS)	31	51	67	94	126	162	530
State additional contribution*	19	37	55	79	108	138	434
Total additional contribution+	50	87	122	172	234	299	964

*assumes all states/territories would be signatory states (so includes additional funding for WA, QLD and NT)

*does not take into account bilaterally agreed state-specific transition arrangements

+does not include indexation, includes enrolment growth assumptions, assumes 95 per cent implementation by 2019

During the negotiations and consultations around the development and implementation of the new funding arrangements, ISCA sought to emphasize that any new funding arrangements should be consistent with the independent sector's criteria for effective school funding. ISCA's major submission to the Review of Funding for Schooling highlighted these criteria as the benchmarks against which any proposed changes to funding arrangements should be measured.

CRITERIA OF EFFECTIVE FUNDING MODELS AND THE CURRENT FUNDING ARRANGEMENTS

INDEPENDENT SECTOR CRITERIA FOR EFFECTIVE SCHOOL FUNDING

Within the independent school sector there are agreed and long-established criteria that effective school funding arrangements should meet. These criteria are:

Equity – Per student funding for schools serving communities with similar attributes should generally be comparable.

Incentive – The funding arrangement should support students in a way that encourages, not discourages, parental investment in schooling.

Flexibility – Schools should not be locked into a particular funding level that impedes them from responding to changes in their school community.

Transparency – Assessment of need should be based on reliable and transparent data.

Simplicity – The funding arrangements should be simple to administer, with low administration costs for government and low compliance costs for schools.

Predictability – Schools should have a high degree of certainty about future funding to facilitate financial planning and management.

Consistency – Funding arrangements should apply consistently to all schools across the non-government sector regardless of organisational arrangement.

Student-based – The independent sector supports a student-based approach to assessing need for the purposes of a school funding model. A student-based methodology which relies on robust data regarding student characteristics provides an effective and transparent means to determine the resourcing needs of individual schools.

Robust data – Any funding model must rely on reliable, robust, up-to-date data that cannot be subject to manipulation or interpretation. The previous socio-economic status (SES) funding model relied on ABS census collection data which is collected under controlled and consistent conditions, thereby meeting the criterion of being robust. In contrast, data collected by schools from parents at the time of enrolment is not considered to be robust.

It should be noted that these independent sector criteria are consistent with the criteria for effective funding models identified by Deloitte Access Economics for their project (commissioned for the Review of Funding for Schooling Review Panel) assessing existing funding models.

As already alluded to, the SES funding model which was utilised by various Commonwealth Governments for funding non-government schools and which was the model used to fund independent schools from 2001 to 2013, largely meets the independent sector criteria for an effective government funding model.

By way of contrast, the new funding arrangements, when assessed against both the independent sector's criteria and Deloitte Access Economics' criteria for effective funding models, meet very few of the criteria considered essential for an effective funding model.

Equity – Per student funding for schools serving communities with similar attributes should generally be comparable

The current poor quality of data driving the loadings under the funding arrangements means that funding entitlements are not accurately reflecting the needs of educationally disadvantaged students in school communities.

Incentive – The funding arrangement should support students in a way that encourages, not discourages, parental investment in schooling

ISCA supports the continued use of the current approach to estimating capacity to contribute for a school which utilises the socio-economic status (SES) of a school community using Australian Bureau of Statistics (ABS) data. The use of ABS data ensures that capacity to contribute is assessed using independent data which cannot be manipulated and is transparent and rigorous. However, as noted earlier, ISCA does not support the changes made by the previous Commonwealth Government to the SES parameters for their application to the capacity to contribute formula which benefits a particular group of schools to the detriment of others.

Flexibility – Schools should not be locked into a particular funding level that impedes them from responding to changes in their school community

Under the previous funding arrangements, individual independent schools received a contribution to assist them to meet the needs of disadvantaged students through CTPs. Under the new funding arrangements, the function of CTPs to address educational disadvantage will be transferred to the loadings to address educational disadvantage. However, schools will not receive their full entitlement under the loadings until the arrangements are fully implemented. As full implementation of the loadings is unlikely, 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.

In addition, the future of funding for schools transitioning into the model is unclear beyond the current four year funding period.

Transparency – Assessment of need should be based on reliable and transparent data

The model does not meet this criterion. It is widely acknowledged that the quality of data on which the new funding arrangements are based is not current, accurate or comprehensive and certainly not rigorous enough to provide the basis of a funding model. The new funding arrangements rely on data which has acknowledged problems with its reliability, quality and stability. For example, much of the data for the loadings is collected by schools from parents at the time of enrolment is not considered to be suitably robust to be the basis of a high stakes funding model.

Further the complexity of the transition arrangements, combined with the lack of transparency around the outcomes of negotiations with states and territories, means that there is insufficient

transparency around the model to allow schools to anticipate their public funding entitlements for 2014 onwards.

Simplicity – The funding arrangements should be simple to administer, with low administration costs for government and low compliance costs for schools

While in principle the new funding arrangements are simple, the transition arrangements to full implementation of the model are unquestionably complex. In fact, these arrangements are so complex that the Government was not able to detail the transition arrangements in either the *Australian Education Act 2013* or the *Australian Education (Consequential and Transitional Provisions) Act 2013*. Instead, in the *Australian Education Act 2013*, the Minister must determine funding amounts through the transition period for schools that are entitled to additional funding under the model.

Predictability – Schools should have a high degree of certainty about future funding to facilitate financial planning and management

Due to the complex nature of the transition arrangements towards full implementation of the new funding arrangements, it is impossible at the current time for schools to determine with any certainty their eventual funding levels for 2014 or into the future. This situation has been exacerbated by the commitment by the new Commonwealth Government to only the first four years of implementation and an indication that new funding agreements will be entered into after this time.

Consistency – Funding arrangements should apply consistently to all schools across the non-government sector regardless of organisational arrangement

This is an important criterion for the independent schooling sector which incorporates a very diverse range of schools based on many religions and educational philosophies. Aspects of the current funding arrangements do not treat all segments of the non-government sector consistently. In recognition of the lack of consistency in treatment across non-government sectors, the previous Commonwealth Government was obliged to commit additional funding to independent schools in the Australian Capital Territory. The new Commonwealth Government has also agreed to acknowledge this inequity of treatment and has committed to continue this funding for four years (a total of \$10 million).

Robust data - Any funding model must rely on reliable, robust, up-to-date data that cannot be subject to manipulation or interpretation

As already outlined, the new funding arrangements are based on inaccurate, inconsistent data which is not fit for purpose and certainly not sufficiently robust to be the basis of a funding model.

KEY ISSUES FOR CONSIDERATION FOR FUTURE SCHOOL FUNDING ARRANGEMENTS

This section of the submission will cover off:

- the school education environment to 2020 and implications for governments; and
- the key outcomes sought by the independent sector from school funding arrangements.

THE SCHOOL EDUCATION ENVIRONMENT TO 2020 AND IMPLICATIONS FOR GOVERNMENTS

The key influence on the school education environment for the foreseeable future will be projected enrolment growth. The impact of projected school enrolment growth is a crucial consideration for all levels of government and all school sectors. As well as having an impact on recurrent costs, the critical need for capital infrastructure will be a significant burden for governments which must be recognised and funded. Based on the former Department of Education, Employment and Workplace Relations (DEEWR) projections, by 2020 Australia will need to educate an additional 611,013 students. Based on DEEWR estimates of enrolment share and trends, this will translate to 1,552 additional schools; 943 government schools; 315 Catholic schools and 294 independent schools.

Table 6: Projected enrolment change in all schools 2012 - 2020

	2012	2020**	Change (no.)	Equivalent number of new schools*
Government Schools				
Primary	1,431,813	1,747,547	315,734	908
Secondary	898,102	910,518	12,416	36
Total	2,329,915	2,658,066	328,150	943
Catholic Schools				
Primary	402,909	496,585	93,677	218
Secondary	333,450	375,200	41,750	97
Total	736,358	871,786	135,427	315
Independent Schools				
Primary	244,242	313,630	69,388	138
Secondary	266,237	344,285	78,048	155
Total	510,479	657,914	147,436	294
All Schools				
Primary	2,078,963	2,557,762	478,799	1,264
Secondary	1,497,789	1,630,003	132,214	288
Total	3,576,753	4,187,766	611,013	1,552

(Source: DEEWR Projections and ABS Schools Australia)

*Based on average school size by sector for 2012 derived from ABS data

**Projections beyond 2015 are impacted by the shift of Yr7 from primary to Secondary in WA and QLD.

Recurrent costs

Governments at both national and state and territory level will need to find the billions of additional dollars required to accommodate these students. ISCA conservatively estimates this additional cost to government as being around \$9 billion in recurrent funding alone by 2020 (does not include any growth factor) and does not include any capital costs. Raising this level of funding for investment will be difficult for both Commonwealth and state/territory governments.

Based on 2010-11 figures, the *cost to governments* of educating a student in a government school is on average \$15,000, in a Catholic systemic school \$8,340 and in an independent school \$6,820. For governments facing limited revenue raising capacity into the future, the decision where to invest in to most efficiently educate the growth in school enrolments is clear.

Capital costs

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. (This figure reflects the long term funding trends in the sector and does not include the one-off effect of the Building the Education Revolution).

The Commonwealth 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 direct 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 \$8,000 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 7: Average size of independent school 1980 - 2012

	No. schools	Full-Time enrolments	Average school size
1980	529	144,270	273
1990	803	252,611	315
2000	938	357,507	381
2013	1,017	520,311	531

(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 education, together with the projected enrolment growth and need for unprecedented numbers of new schools, means that significant resources will need to be directed to new independent schools.

The future enrolment-driven capital needs of independent schools, including the capacity of the sector to meet the projected need for an additional 294 new schools 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 providing significant capital assistance to establish and expand new 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.

THE KEY OUTCOMES SOUGHT BY THE INDEPENDENT SECTOR FROM SCHOOL FUNDING ARRANGEMENTS

Outlined below are the key outcomes sought for independent schools for future school funding arrangements.

➤ Direct funding relationship with Commonwealth Government

The independent sector highly values its relationship with the Commonwealth Government. Commonwealth Government funding is critical to the ongoing affordability and viability of the vast majority of independent schools. The independent sector believes that there are clear economic and social imperatives for the Commonwealth Government to retain a direct and strong role in school education. There are significant benefits for the Commonwealth Government from its direct funding relationship with independent schools including that funds are used by schools for education purposes with little funding lost to administration or overheads (this contrasts with government and Catholic systems).

The stability provided by consistent and ongoing Commonwealth Government support for non-government schools is an important contributor to the financial viability of non-government schools.

➤ Adequate resourcing from public sources

ISCA considers that a key feature of an effective funding model is ensuring that all schools are adequately resourced including through the provision of appropriate levels of public funding. If

sufficient public funding is provided as part of school funding arrangements, the need for ‘safety nets’ or transition arrangements should be minimal. In the circumstance where a small number of schools cannot be accommodated within the model, then sufficient time must be provided to allow schools to adjust to the changed public funding arrangements without threatening their financial viability or necessitating changes to their enrolment profile.

➤ **Funding models must be appropriate to the particular circumstances of non-government schools including independent schools**

This submission has highlighted the criteria essential for an effective funding model. The current funding arrangements were very much geared to accommodate large government school systems. Future Commonwealth Government funding arrangements should be fit for purpose for non-government schools, including independent schools.

The current funding arrangements are particularly unsuitable for independent schools, which are the only schools to which it actually applies. Consideration should be given to a funding model which:

- continues the Commonwealth Government’s proven track record of ongoing funding security to independent schools;
- acknowledges that the funding needs of government schools (fully publicly funded) and non-government schools (part publicly funded with substantial parental contributions) are entirely different;
- adapts or replaces the current school funding arrangements to more closely align with desirable criteria for effective funding models;
- notes that the previous SES funding model met the independent sector’s (and the Deloitte Access Economics) criteria for effective funding models;
- provides a base level of funding for all students in independent schools with recurrent Commonwealth funding based on relative need utilising SES data from the ABS (the availability of more finely grained ABS area-based data through the use of Statistical Area 1 means that SES is now more accurate);
- ensures that schools are not disadvantaged because the base funding levels under the current funding arrangements are less than under previous funding models;
- notes that the areas of educational disadvantaged identified in the Review of Funding for Schooling addressed through loadings are valid but the delivery model is not an effective or efficient model to address all aspects of educational disadvantage in independent schools;
- acknowledges that partial loadings to individual schools are not a cost-effective or efficient way to meet student need. In particular, loadings directed to individual schools are particularly unsuitable for addressing the needs of students with disabilities, indigenous students and students with very low English language proficiency levels such as students newly arrived in Australia whose language is not English;
- addresses the current situation whereby schools above the SRS do not receive any additional loadings for SWD students regardless of the student’s level of need;
- in light of the above, considers a model to support school improvement and address educational disadvantage in independent schools which provides block grants to the sector to address educational need for those groups of educationally disadvantaged students identified as not well-served by loadings directed to individual schools;
- acknowledges the potential role that independent schools can play to defray the costs to governments of enrolment growth over the next decade. This could be achieved by providing additional government support to assist with the establishment of new

independent schools in the form of establishment grants and capital assistance. There are clear economic benefits in supporting the sector to assist with the 'heavy lifting' that will be required from governments over the next decade; and

- continues with a capital grants program to assist schools and communities with the least capacity to raise income.

CONCLUSION

ISCA welcomes the opportunity to make this submission to the Senate Select Committee on School Funding.

As has been highlighted in this submission, independent schools value their direct funding relationship with the Commonwealth Government. Independent schools represent an efficient use of public funding for school education, providing an incentive for parents to contribute their after-tax dollars to support their children's education, resulting in significant savings to government and maximising the utility of public funding to support school education.

These benefits of public funding for independent schools to both schools and governments are maximised when the funding is allocated in an effective and efficient way. It is ISCA's view that the current funding arrangements are not being applied in an effective and efficient way and the Commonwealth Government needs to urgently re-examine its current school funding arrangements. It is critical that Commonwealth Government funding be allocated consistently, transparently, according to need and based on rigorous, fit-for-purpose data, whilst being cognisant of the broader Commonwealth/state funding shares and responsibilities.

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 Commonwealth 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:

Association of Independent Schools of the ACT Inc.
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
Independent Schools Tasmania
Independent Schools Victoria
Association of Independent Schools of Western Australia Inc.

Bill Daniels
Executive Director
Independent Schools Council of Australia
Canberra

21 March 2014

APPENDIX A: HOW GOVERNMENTS FUND INDEPENDENT SCHOOLS

Sources of income for independent schools, 2010-11

Private sources of funding (mainly parents)	57%
All government sources	43%

Sources of recurrent income for independent schools, 2011

	\$M	%
Private sources of funding (mainly parents)	5,012	59%
State government grants	959	11%
Australian government grants	2,574	30%

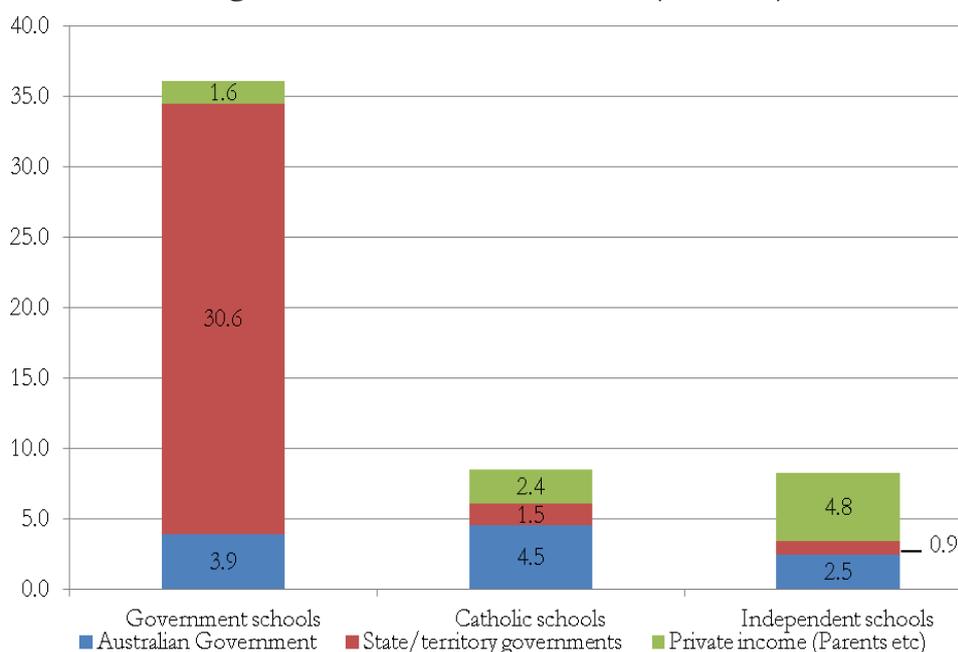
The proportions of private/government funding vary greatly from school to school.

Estimated savings to governments from the independent schools sector	\$4.1 billion p.a.
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Public funding of independent schools

All state and territory governments and the Commonwealth Government share responsibility for the public funding of schools in Australia. State and territory governments are the main public funding sources for government schools, while the Commonwealth Government is the main public funding source for non-government schools.

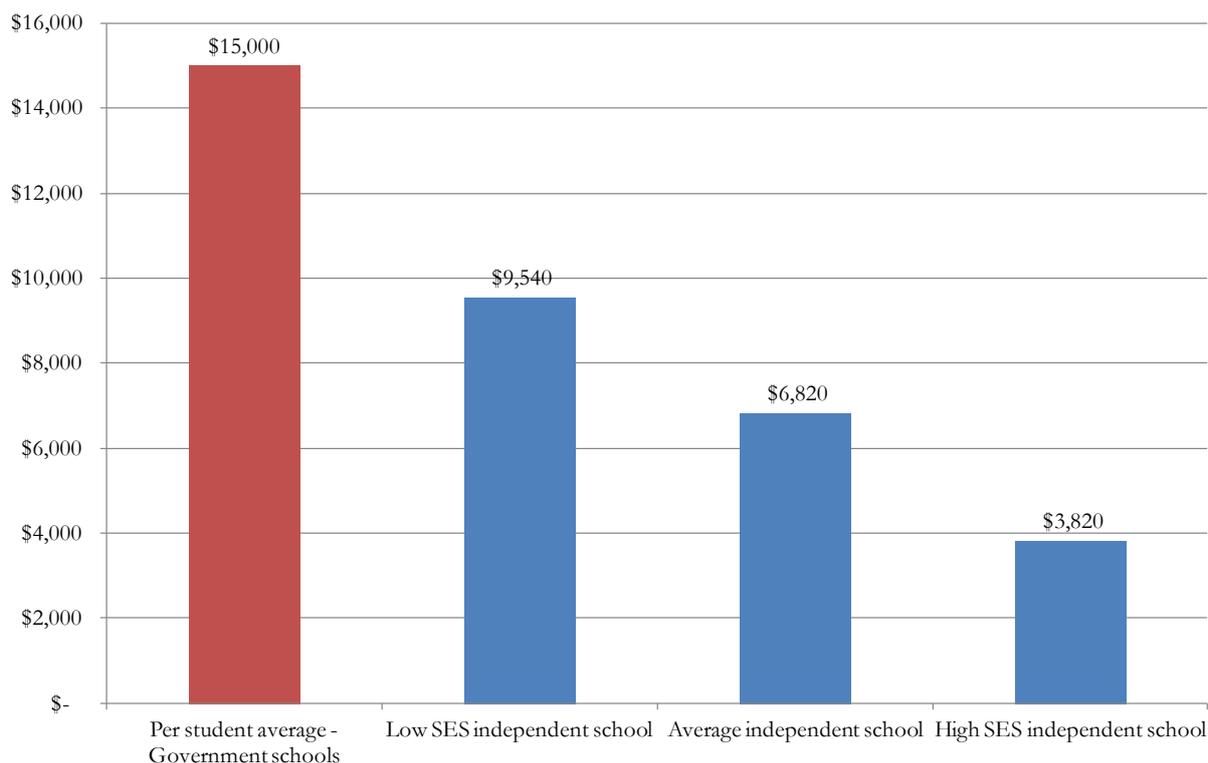
Recurrent funding for school education, 2010-11 (\$billions)



Average all government recurrent funding per student 2010-11

Government school	\$15,000
All non-government schools	\$8,340
Independent school	\$6,820

Total government recurrent funding per student in independent schools 2010-11 (All government sources)



The amount of funding received from all government sources varies significantly depending on the circumstances of the school.

State and territory government funding

Overall, state and territory governments provide 27% of total government recurrent funding for independent schools. However the levels of funding for schools and methods used to assess them varies among the states and territory.

Capital Funding

Parents and Donors

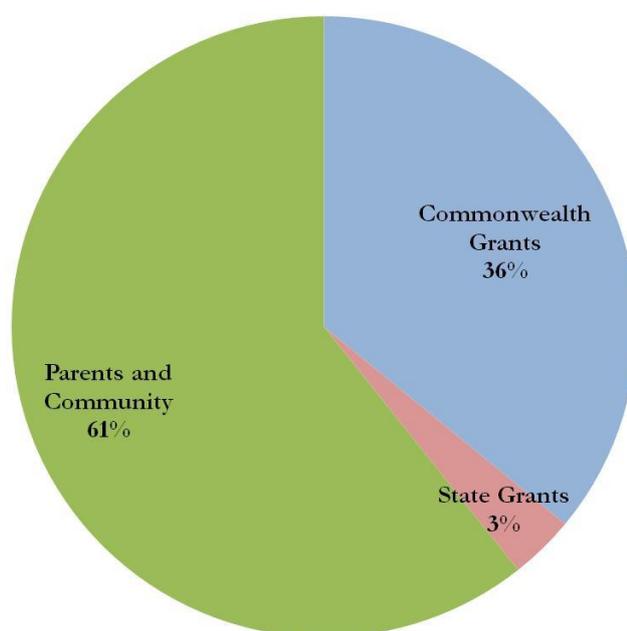
Normally, parents and donors in independent school communities contribute approximately 80% of funds for capital developments, such as school buildings, grounds and equipment. However, all schools in Australia are currently experiencing the one-off effect of the Building the

Education Revolution (BER) which provided \$16.2 billion over four years for school capital funding projects.

Capital Grants Program

Independent committees called Block Grant Authorities in each state and territory administer capital grants for non-government schools on behalf of the Commonwealth Government. In 2012 it is estimated that grants for the independent sector will total approximately \$49 million. In the independent sector Commonwealth Government capital grants are distributed on a needs basis, with priority given to disadvantaged school communities with the least capacity to raise funds. On average, 66 per cent of total capital funding available to independent schools goes to schools with an SES score less than 100, and 90 per cent of grants goes to schools with an SES score of less than 110.

Sources of funding for capital development, 2011



State and Territory government assistance

In Queensland some capital grants for independent schools are provided by the state government. Several state and territory governments also provide interest subsidy arrangements.

Note: These figures utilise the latest available data which is for the financial year 2010-11, or for the calendar year 2011.

APPENDIX B: SES NON-GOVERNMENT SCHOOL FUNDING ARRANGEMENTS - 2001-2013

The SES funding arrangements were the basis of Commonwealth Government recurrent funding for independent schools for the period 2001 to 2013. The SES methodology continues to be utilised under the current Commonwealth Government funding arrangements for non-government schools to determine schools' capacity to contribute. The Socio-Economic Status (SES) funding model for Commonwealth Government recurrent funding was based on relative need and measured the relative socio-economic status of independent school communities. A score was derived for each school which placed it on a sliding scale of funding entitlements.

- Schools with scores of 85 and below received 70 per cent of the Average Government School Recurrent Costs (AGSRC) amount.
- Schools with SES scores of 130 and above received 13.7 per cent of the AGSRC amount.
- Schools between 85 and 130 were funded on a continuum, with each score receiving a different amount.

Commonwealth Government general recurrent grants

The Average Government School Recurrent Costs (AGSRC) amount was used to determine the level of Commonwealth Government recurrent grants for non-government schools. The changes in the recurrent costs of educating a student in a government school, as measured by the AGSRC index, was the basis for annual increases in Commonwealth Government funding for both government and non-government schools.

AGSRC amounts for 2013

Primary	\$10,411 (3.5% increase from 2012)
Secondary	\$13,032 (4.7% increase from 2012)

Needs-based funding

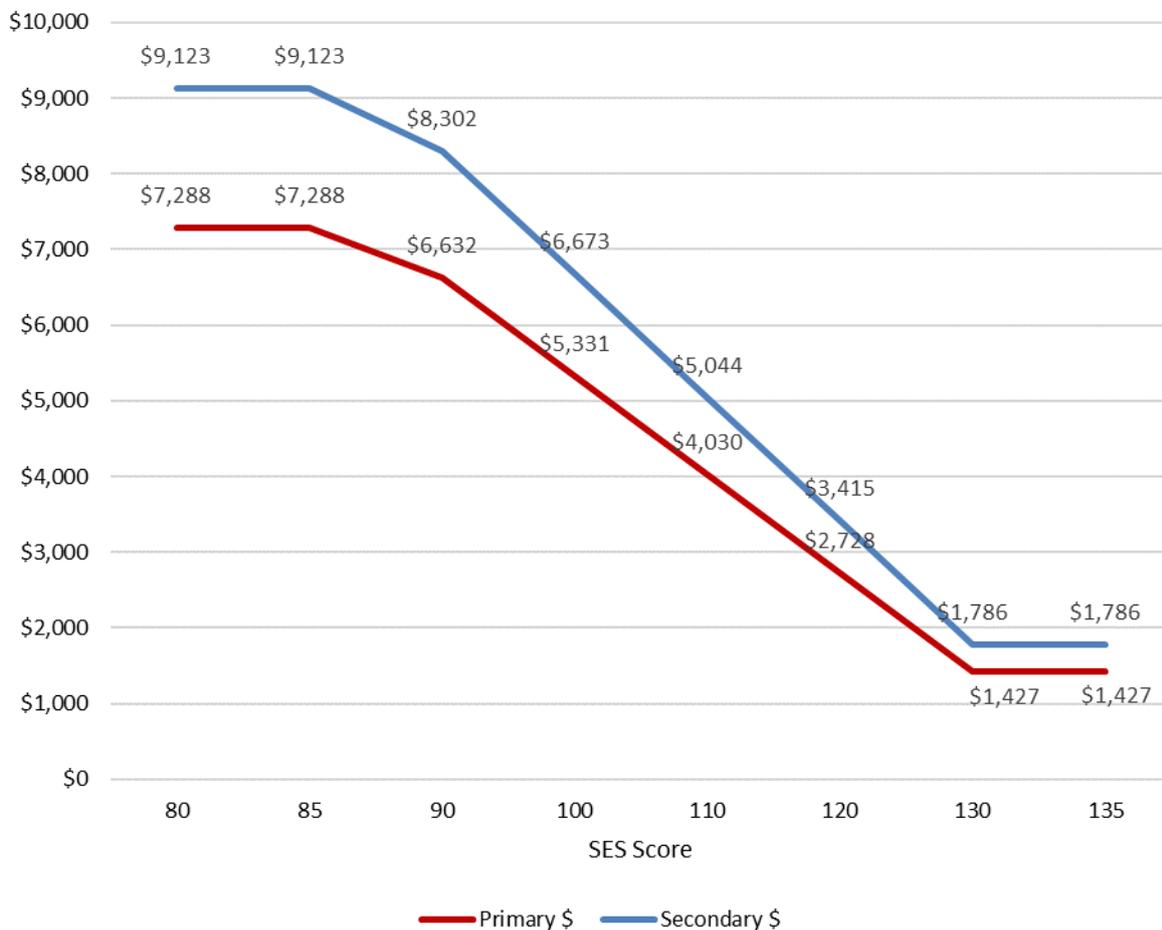
The Socio-Economic Status (SES) funding scheme for Commonwealth Government funding measured the relative socio-economic status of independent school communities. A score was derived for each school which placed it on a sliding scale of funding entitlement. SES scores ranged from 63 to over 130.

- schools with SES scores of 85 and below received 70% of the AGSRC amount
- schools with SES scores of 130 and above received 13.7% of the AGSRC amount.

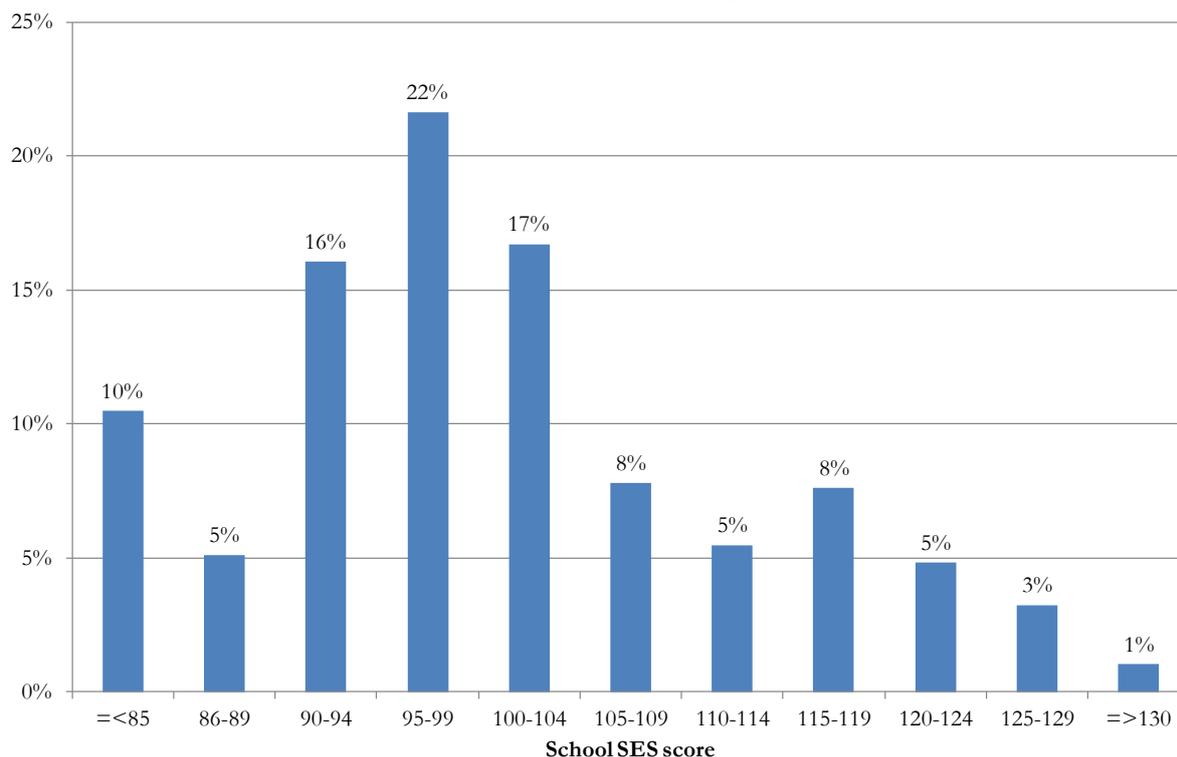
The table below provides a breakdown in the movement of AGSRC over the period 2000 to 2013.

	Primary AGSRC	Secondary AGSRC
2000	8.20%	5.20%
2001	6.40%	7.20%
2002	5.20%	5.20%
2003	7.10%	7.40%
2004	8.70%	7.20%
2005	3.10%	4.60%
2006	6.30%	3.60%
2007	5.50%	4.30%
2008	5.60%	3.50%
2009	4.20%	5.80%
2010	8.20%	7.00%
2011	6.90%	4.80%
2012	3.70%	4.20%
2013	3.50%	4.70%
Average	5.70%	5.30%

Sliding scale of funding entitlement according to SES status 2013 (\$ per student)



Distribution of independent schools by SES score range 2013



Note: <=85 includes Special schools, Special Assistance Schools and Majority Indigenous Student Schools

The data used for the calculation of a school's SES score comes from the ABS Census of Population and Housing and is based on three main areas; income, education and occupation. The measure is obtained by linking students' residential addresses to their Statistical Area 1 (SA1) which under the new ABS statistical geography is the smallest unit of data available from the 2011 ABS Census.

Schools' SES scores are recalculated every five years with the release of new data from the ABS Census of Population and Housing. Under the previous funding arrangements, schools that had a decrease in their SES score moved directly to their new funding level and schools which had an increase in their SES score were assisted in the transition to a lower funding level by being classified as Funding Guarantee. Schools which were Funding Guaranteed had their entitlements frozen at the dollar amount of their previous grant until, through annual indexation, their new funding level was equal to or greater than their previous grant.

When the SES funding model was introduced, there was also an undertaking provided by the then government that there would be 'no losers'. This led to the creation of a classification known as Funding Maintained. Independent schools which would have moved to a lower funding rate when the SES model was introduced in 2001 had their grants fixed at the year 2000 rate. These grants were indexed annually in the same way as other grants under the SES system. Only a minority of independent schools were classified as Funding Maintained. The vast majority of independent schools (83 per cent) were funded on their SES score.

The combination of the previous SES funding model and Commonwealth Targeted Programs worked well for independent schools. The SES model essentially met the sector's key criteria for effective and efficient school funding arrangements (see below) including providing stable and predictable funding based on rigorous and fit for purpose data.

A problem with the SES funding model often cited by its critics was the issue of Funding Maintained schools. It should be remembered that during the four decades that the Commonwealth Government has been supporting school education, the approach to determining the funding a school is “entitled” to has been reviewed and changed on numerous occasions. When the Commonwealth Government decides to change the way it funds schools or determines need, there will be varying impact on individual schools, including that some schools will be considered to be “overfunded” even though using a former funding model, they were not. On the ground, however, for the schools affected, nothing has changed. Schools still have the same student cohort and staffing arrangements. Funding Maintained was a way of acknowledging this issue.