



## 2020 – 2021 Pre-Budget

### Submission by

## Independent Schools Australia (ISA)

### Key Points

The Independent school sector comprises over 1,100 schools, enrolls over 631,700 students, and employs close to 97,000 staff, annually contributing:

- Salaries and wages of \$7.4 billion
- PAYG tax of \$1.6 billion
- Superannuation contributions of \$736 million.

The Independent school sector is increasingly concerned about the on-going impacts on Independent schools from the COVID-19 pandemic coupled with the introduction of the Direct Method of Income (DMI) methodology for funding non-government schools.

The pandemic comes at a time when the non-government sector is facing a significant change in Australian Government funding with the introduction of the DMI methodology and the financial future of some negatively affected schools already in doubt.

While some Independent schools have been able to access some government assistance measures, it is likely that from 2020, many Independent schools will be experiencing significant financial distress through no fault of their own.

The Australian Government should consider delaying aspects of the implementation of the DMI methodology and providing longer transition time frames as one means of assisting impacted schools.

## About ISA

ISA is the national peak body representing the Independent school sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISA represents a sector with 1,148 schools and over 631,700 students, accounting for approximately 16 per cent of Australian school enrolments. ISA's major role is to bring the unique needs of Independent schools to the attention of the Australian Government and to represent the sector on national issues.

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

Independent schools include:

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

Many Independent schools have been established by community groups seeking to meet particular needs. Examples include the Independent community schools for Indigenous students in remote areas, special schools for students with disabilities and boarding schools to educate children from rural and remote areas. There are also schools that seek to reflect the religious values of a particular community or that seek to practise an internationally recognised educational philosophy such as Rudolf Steiner or Montessori schools. Independent Catholic schools are a significant part of the sector, accounting for eight 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 20 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

## Impacts of COVID-19 on the Independent school sector

Independent schools are and will continue to experience significant financial stress due to COVID-19. Independent schools are currently reporting large numbers of parents requesting fee relief to keep their children enrolled in Independent schools for 2020 as the financial impact of the pandemic continues. The longer-term impacts on enrolments will not begin to become clear until 2021, however the most likely outcome will be a drop in enrolments in the Independent sector.

The Independent school sector has historically been significantly affected by economic downturns. In both downturns from the early 1990s and the Global Financial Crisis of 2007-2008, student growth in the Independent sector contracted by 2%, with an enrolment shift to the public sector and it took several years for the Independent sector growth to rebound. COVID-19 has resulted in the sharpest increases to both unemployment and underemployment rates on record, far eclipsing those seen in previous downturns. The unemployment rate is at a 22-year high and underemployment rate is also at its highest point on record. Following each previous downturn, it has taken the Independent sector several years to recover in terms of student numbers. Initial reports from schools indicate the downturn caused by COVID-19 will be severe and have a long-lasting impact.

The impacts of COVID-19 have affected different types of schools in various ways. Many boarding schools had to close their boarding facilities in the first half of this year due to state and territory health requirements. Some are not yet able to have all their students return, largely due to on-going border closures between states and territories and the lack of available transport. The financial situation of boarding schools has been further exacerbated by the loss of many of their overseas students. For boarding schools, the loss of boarding fees represents a significant loss of total income.

Among these boarding schools are Indigenous boarding schools which offer educational services to some of the most highly disadvantaged students in Australia. For many of these students, attending an Independent boarding schools is the only available educational option to them for continuing education and many of these schools are struggling to get their students back on campus. Some schools are missing up to half their enrolments due to the inability of students to return to schools.

Other areas of concern have been early childhood centres attached to Independent schools and schools which enrol overseas students. Many early childhood centres were adversely affected by COVID-19 with the viability of some centres threatened due to their ineligibility for JobKeeper support. Schools enrolling overseas students have a significant investment in the services they provide to these students. These schools have experienced a loss of income due to decreased enrolments and the inability of students to commence or return to studies in Australia. This also has significant flow on effects to the providers of other services such as intensive English language providers, homestay providers etc.

At the same time as fee income is decreasing, COVID-19 has brought with it a range of new costs for many schools including extra cleaning costs and the costs associated for many schools in moving whole cohorts of students to online learning in Semester 1. While most of Australia has returned to face to face learning, parts of Victoria have had to resume online learning. There has also been an increase in COVID-19 cases in NSW resulting in school closures and increased

restrictions on the types of activities students and schools are able to engage in. Until there is a vaccine for COVID-19, there is the on-going potential for community transmission to be present and for schools to continue to be impacted directly, in addition to the worsening economic climate.

### Government assistance to date

There has been limited Government assistance for Independent schools to date. The main source of government assistance has been the JobKeeper program which was not without issues for the sector. Initially it seemed highly unlikely that any school would be eligible due to the required methodology for demonstrating a 30% downturn in revenue. While JobKeeper has been extended to March 2021, it appears that from October 2020 schools will no longer be able to use the GST treatment that eligible schools are currently using. This will remove a significant support for many schools critical to keeping staff employed in the face of a worsening economic situation.

### Impacts of the DMI methodology on the Independent school sector

In 2018 the Australian Government announced changes to the funding arrangements for non-government schools, including the phase-in of the Direct Measure of Income (DMI) methodology to calculate Capacity to Contribute (CTC) scores. Under the current funding arrangements, Commonwealth per capita base funding for non-government schools is adjusted according to a measure of 'capacity to contribute', determined by a measure of the school community's socio-economic status (SES). This means that schools with a higher SES score will receive a lower level of per capita base funding and vice versa.

The changes mean that the CTC scores will move from being based on an area-based methodology based on the ABS Census of Population and Housing to an individual measure of the income of parents and / or guardians based on personal income tax data. The new methodology for calculating CTC scores links the names and addresses of students' parents and guardians to personal income tax records.

The difference in CTC methodology means that for most Independent schools, there will be a change in their CTC scores between the two methodologies. Some schools will see a resulting increase in funding, some schools will have the same CTC score and thus little or no change, and some schools will see a reduction in funding.

ISA estimates that the introduction of the DMI methodology will result in a reduction in funding to the Independent sector of \$212 million between 2020 and 2029, including a \$1.8 billion reduction for schools negatively impacted, compared to the funding the sector would have received under the current methodology.

**Table 1: Projected impact of DMI methodology on Independent schools 2020 -2029<sup>1</sup>**

	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
<b>Schools with decreased funding</b>	350	35%	309,963	50%	<b>-\$1,833,127,114</b>
<b>Schools with increased or unchanged funding</b>	652	65%	305,094	50%	\$1,621,002,823
<b>All Schools*</b>	1002	100%	615,057	100%	<b>-\$212,124,292</b>

The new CTC methodology is being phased in from 2020 with schools which have an increase in the CTC score going on to their new DMI score in 2022.

- Schools transitioning up to 80% Commonwealth share of their Schooling Resource Standard (SRS) will complete their transition in 2023.
- Schools transitioning down to 80% Commonwealth share of their SRS will complete their transition in 2029.

The key concern of the Independent school sector in relation to the DMI methodology is the impact on individual Independent schools, particularly regional schools, which will also be significantly negatively impacted by the COVID-19 pandemic.

The release of the DMI-based CTC scores has shown that there is a group of regional schools that stand to be highly disadvantaged under the new CTC methodology. There are also a significant number of boarding schools that also will see a reduction in funding under the new methodology. Boarding schools, both in regional areas and metropolitan areas serve a wide range of students, including those from regional and remote areas, who often have limited educational choice in their own communities.

The introduction of the DMI methodology for these schools is a serious concern for the sector. It will result in significant funding losses compared to the previous CTC methodology over a relatively short period of time, calling into question the ability of these schools to manage the transition and retain enrolments from lower income families. This will potentially drive up CTC scores higher over time and creating an increasingly worse situation for schools.

If CTC scores for these schools continue to increase as a result of the move to the DMI methodology, then this will only serve to make these schools even less accessible to those who need them.

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<sup>1</sup> This table does not include CTC exempt schools which are those serving highly disadvantaged communities and students such as special schools, Special Assistance Schools, remote sole providers and 'majority Aboriginal and Torres Strait Islander' schools.

## Choice and Affordability Fund

While the Independent and Catholic sectors have access to the Choice and Affordability Fund to assist schools to transition, it totals \$463.3 million from 2020 to 2029 for the Independent sector. This is compared to more than \$1.8 billion in losses to individual Independent schools from the introduction of the DMI methodology over the same period.

One third of the Choice and Affordability Fund has been set aside at the national level to provide transition assistance for regional and remote schools. However, this will not address the longer-term sustainability issues that will be faced by some schools which will be exacerbated by COVID-19.

## Recommendations

In March 2020 Minister Tehan announced that:

- A review process will be established by July 2020 to address unexpected or unique circumstances affecting the financial capacity of a school's community.
- The National School Resourcing Board will examine the Schooling Resourcing Standard (SRS) loadings as they impact students and schools in regional Australia. The review will commence by June.
- Further work will be undertaken in consultation with the ABS and the sector to investigate what additional data could be used to further refine how the capacity to contribute is calculated.<sup>2</sup>

While ISA welcomes these announcements, they do not address the significant transition issues facing many Independent schools particularly given the additional difficulties now faced by many Independent schools due to the COVID-19 pandemic.

ISA recommends:

1. **Delaying the implementation of DMI methodology for Capacity to Contribute for schools with an increase in their CTC score.** A two-year extension to the current two year 'best-of' arrangements (2020-21) would allow time for the immediate effects of the COVID-19 pandemic to be assessed and evaluated.
2. **Extending the length of the transition period for schools with an increase in their CTC score to allow schools with a large change in CTC score time to develop a sustainable transition plan relative to the change in CTC points.** This is more equitable than setting an arbitrary deadline for all schools to transition, regardless of the difference in CTC point change between schools.
3. **Use of the most recent year's data for calculating CTC scores.** Under the current DMI methodology there is an 18-month time lag in the availability of income data meaning that parental income data for 2020-2021 will not feed into schools' CTC scores until 2023. Recognition should be given to the sudden and devastating impact of the COVID-19

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<sup>2</sup> <https://ministers.education.gov.au/tehan/more-accurate-method-calculate-funding-schools>

pandemic on the economy and ways to use more recent income tax data should be explored.

4. **Use of single year data or weighting of recent year's data for calculating CTC scores.** Under the current DMI methodology, schools' CTC scores are based on a three- year rolling average to reduce volatility. However, with the COVID-19 pandemic there is a strong argument for either using only the most recent year's data, noting the point above that the data used should be recent parental income data.
5. **Examining a range of other supports for Independent schools affected by COVID-19.**

## Conclusion

The Independent sector educates a significant number of Australian children, many of them in regional and remote locations and in settings which are distinctive to the sector, such as boarding schools. These schools play a unique role in regional Australia, offering education and services that are not necessarily available from any other provider. Other Independent schools offer an equally diverse range of educational services to meet student and parent needs across a range of communities.

The Independent school sector is seeking support for its schools within the current funding model in the context of global pandemic which has already had significant impacts on the Australian economy. The COVID-19 pandemic has presented a unique set of challenges for all aspects of Australian life and it is imperative that providers of education are supported so that they can continue to provide quality education to all. This will ensure that Australia is well placed for the economic and social recovery, during and post-pandemic.

ISA  
24 August 2020