

PRODUCTIVITY COMMISSION – REVIEW OF PHILANTHROPY

DATE MAY 2023

1. ABOUT ISA

Independent Schools Australia (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 more than 1,209 schools and 688,638 students, accounting for 17 per cent of Australian school enrolments.

ISA's major role is to bring the unique needs and contributions 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 specific educational philosophy or interpretation of mainstream education. A number of Independent schools have been established by community groups seeking to meet particular needs or to reflect the religious values of a community. Independent Catholic schools are a significant part of the sector, accounting for eight per cent of the Independent sector's enrolments.

Independent schools include:

- Schools affiliated with Christian denominations for example, Anglican, Catholic, Greek Orthodox, Lutheran, Uniting Church, Quaker and Seventh Day Adventist 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 factors.

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 schools. 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.

2. INTRODUCTION

All Independent schools that are eligible to receive Commonwealth funding are individual not-for-profit (NFP) institutions that are established and governed independently. All Independent schools are registered by the relevant state or territory education authority. Not-for-profit Independent schools are entitled to charitable status in accordance with the Charities Act, 2013.

Key decisions around education provision, school development and staffing are usually made by governing boards. Unlike other educational sectors, the majority of Independent schools operate autonomously, without reliance upon central bureaucracies which enable redistribution of funding and economies of scale. All are separately accountable to their parent and school communities.

The Independent sector encompasses considerable diversity in size, location, student cohorts and fees charged. With a greater percentage charging less than \$1,000 per year than those charging over \$20,000, it is clear that Independent schools cater to the full spectrum of Australian society. The median annual fee charged per student is just under \$5,300 per year (excluding full fee-paying international students), with more than 50% of recurrent income being derived from families and school communities.

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 nongovernment schools attending Independent special assistance schools.

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

3. TRENDS AND MOTIVATIONS FOR GIVING

Independent schools promote and foster an environment which encourages students and the broader school community to engage in philanthropy themselves. ISA recently undertook research in the area of Independent schools' social contribution which included a survey of 233 Independent schools. This research included questions in relation to schools' social contribution through community engagement. The survey found the following.

- Independent schools actively encourage their students (92%), staff members (85%) and parents (76%) to volunteer through programs and initiatives.
- Independent school students continue to serve their community after graduating, with two in five graduates (42%) having volunteered in the last 12 months.

PRODUCTIVITY COMMISSION – REVIEW OF PHILANTHROPY

- Four in five Independent school parents (80% strongly/somewhat) agree that their child's school encourages them to become better citizens and contributors to society.¹

It has been noted by Independent schools that there is a genuine desire within school communities to give to schools, usually from parents and other relatives of existing or past students or from alumni. However, donations are not limited only to the direct school community. Independent schools serving disadvantaged communities may also seek out additional sources of support and income to support particular programs or offerings. The importance of having a framework in place that encourages philanthropy towards key national endeavours, such as education, cannot be overstated.

4. OPPORTUNITIES AND OBSTACLES

DEDUCTIBLE GIFT RECIPIENT STATUS

Independent schools rely on the receipt of Deductible Gift Recipient (DGR) Funds to support the ongoing operations of the school for such activities as school building funds and scholarship/bursary funds.

The key DGR Funds which schools can operate in order to either raise funds include the following.

- Building Funds
- Scholarship Funds
- Libraries

School building funds are critical in enabling schools to undertake development of a capital building program. Through fees and donations, Independent school communities nationally provide 82 per cent of capital funding for school buildings, grounds and equipment. In many schools, capital funding is 100 per cent sourced from parents and school communities.

Independent schools fund the majority of their capital costs (building and equipment) through three sources – external (borrowed) finance, DGR gifts and any retained earnings. While there is access to small amounts of capital funding assistance provided by the Commonwealth and state/territory governments through the Block Grant Authorities, the majority of the capital funding burden falls directly upon the school to source.

As a broad principle, Independent schools should be able to access DGR status and therefore tax deductibility for voluntary donations to support specific activities in a school setting. The ability to offer tax deductibility for donations greatly assists schools in sourcing support that may not be otherwise available and enhances their capacity to offer additional educational resources.

It has been noted that in addition to broadening the DGR categories for schools, that schools would greatly benefit from more flexibility within the application of existing DGR categories that are applicable for schools. For example, the current requirements for scholarships include that they be

¹ ISA survey of 233 schools, unpublished.

PRODUCTIVITY COMMISSION – REVIEW OF PHILANTHROPY

“open to individuals or groups of individuals throughout a region of at least 200,000 people, or at least an entire state or territory”² which precludes targeting scholarships to particular cohorts of need.

There are other types of DGR funds that schools may be able to utilise for capital or recurrent income purposes such as Public Ancillary Funds and Necessitous Circumstances Funds however these are not education specific categories.

2022 ANNOUNCEMENT REGARDING DGR STATUS FOR PASTORAL CARE

In 2022, it was announced that a new deductible gift recipient (DGR) category would be added to the Income Tax Assessment Act 1997, allowing the establishment of a fund to collect tax deductible donations, for use in the provision of pastoral care services in Australian schools.

This proposal was broadly supported by the Independent school sector as a way to enhance the provision of services to students in this area. However, in the October 2022 Federal Budget, it was noted that this change would not go ahead.

The Independent sector would support exploration of the further ways in which schools could have DGR status for additional categories to supplement, not replace, existing funding for a range of areas within schools’ activities.

OBSTACLES

ISA agrees with the concern commonly raised by schools that philanthropic giving should not become a replacement for the fair and equitable funding of schools by governments. The funds received by schools through philanthropic avenues should not be seen as a means by which the obligations of government are reduced, rather they should be able to be used to supplement and enhance existing offerings.

5. CONCLUSION

Independent schools foster and encourage strong community links and encourage volunteering and contributing to society in both their students and the broader school community.

The current DGR Funds available to schools are vital to the ability of Independent schools to fund and provide a range of services and programs including bursaries and scholarships and to fund capital works in schools.

ISA would recommend that consideration be given to ways that the DGR framework could be expanded to enable other forms of philanthropy in the school sector.

² ATO website, <https://www.ato.gov.au/Non-profit/Getting-started/In-detail/Types-of-DGRs/DGR-table---Deductible-Gift-Recipient-Categories/?page=3#Education>, accessed 22 May 2023.