Blueprint Institute

Ensuring choice

A mechanism to control non-government school fees

A Blueprint Institute short paper



This series

This piece of research is the first of our short papers. These papers are not as long, nor as in depth as our full blueprints. Blueprint short papers aim to spur public debate and introduce sometimes controversial but necessary concepts and reform ideas into the public policy decision making process. These concepts and reform ideas draw from our deep expertise and our networks across business, government, academia and politics.

About Blueprint Institute

Every great achievement starts with a blueprint.

Blueprint Institute is an independent public policy think tank established in the era of COVID-19, in which Australians have witnessed how tired ideologies have been eclipsed by a sense of urgency, pragmatism, and bipartisanship. The challenges our nation faces go beyond partisan politics. We have a once-in-a-generation opportunity to rethink and recast Australia to be more balanced, prosperous, resilient, and sustainable. We design blueprints for practical action to move in the right direction.

For more information on the institute please visit our website: blueprintinstitute.org.au

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Executive summary

Australia has one of the highest proportions of students enrolled in non-government schools in the OECD. More than one in three students are enrolled in either independent schools or systemic Catholic schools. In our major cities almost half of students attend a non-government school. This—unsurprisingly—has led to conflict between supporters of public education and supporters of 'educational choice.'

The reality is that the government and non-government school systems in Australia are symbiotic. Ideological viewpoints aside, the sheer amount of capital investment required to accommodate the majority of non-government school students in the government school sector makes a root-and-branch overhaul of the current ecosystem both unrealistic and undesirable.

Further, evidence is clear that pedagogical diversity within an education system is positively correlated with student outcomes. To impose monolithic pedagogical conformity on students in a country as diverse as Australia would at best be foolish, and at worst wilfully dismissive of individuality and student needs.

A diverse student cohort necessitates a diversity of school choice. This is why we agree with the assumption embedded within both the National School Reform Agreement (Gonski 2.0) and the preceding National Education Reform Agreement (Gonski 1.0) that public funding to schools in Australia should be needs based and sector blind.

Yet educational and moral justifications for publicly funding non-government schools—to the tune of $18 billion per year—have been undermined by the uncontrolled increases in non-government school fees witnessed over the past decade.

Blueprint Institute analysis reveals that:

- The average independent school has raised its fees by 50% over the decade ending in 2020—far outstripping wage growth (29%) and inflation (22%) over the same period.
- Some independent schools have increased fees in excess of 80% since the beginning of the 2010s.

This has had four consequences.

1. Families are indebting themselves to pay for non-government school fees. In 2018, a quarter of families used debt to pay for their childs' school fees, including 15% who used credit card debt.
2. Particularly at independent schools in capital cities, there has been a concentration of extreme wealth as middle-income families are priced out of contention for enrolment spots, and instead migrate to low-fee systemic schools run by religious denominations or government schools.
3. Flush with cash, these same schools are increasingly focused on spending money raised from school fees on projects with no educational purpose, such as superfluous capital works, sporting equipment, and overseas travel.
4. There has been a disproportionate increase in executive salaries at independent schools—with some principals at large, capital-city schools now earning well over $600,000.

There are two arguments put forth to defend non-government school fee increases. First, under some bilateral agreements between states and the Commonwealth, states are reducing their proportion of funding to 20% of the Schooling Resource Standard (the School Resourcing Standard is an estimate of how much total public funding a school requires to meet its students' educational needs). Second, non-government schools operate in a free market and should be able to charge whatever they wish. In other words, school fees should be based on supply and demand—and little more. Both arguments are erroneous.

Whilst some states are reducing their share of funding to non-government schools, the overall level of public funds is increasing due to an uplift in federal funding. Secondly, the non-government school sector is not a free market. Any sector that receives $18 billion in public funding should be regulated to prevent misuse of funds and ensure societal benefit.

There is a careful balancing act that governments must engage in when funding non-government schools. Providing educational choice and stimulating pedagogical competition between systems benefits everyone: parents can exert more autonomy over how their children are educated, and educational outcomes for all are improved as competition breeds systemic dynamism across sectors. However, benefits provided by offering 'choice' across school systems are undermined when schools become so expensive that only the most wealthy can afford them. Choice becomes exclusivity as a new aristocracy arises from a school system in which certain schools, based on current rates of fee increases, will be charging over $100,000 per year within 15 years.

The Australian identity has historically been that of an egalitarian nation where everyone is entitled to a 'fair go.' Failing to restrain spiralling non-government school fees undoubtedly eliminates equity of opportunity for families across the country. Justifying significant public investment in non-government schools under the guise of 'choice' becomes indefensible when that choice for families is removed unless they take on credit card debt or remortgage their homes to pay for school.

In the interests of preserving educational choice, this Blueprint short paper proposes a transparency mechanism to ensure that non-government schools are fiscally responsible, and justify their fee increases to the public (and to parents) in order to receive continued public funding.

Recommendation outline

With the escalating cost of education for the one in three families that send their children to non-government schools, taxpayers and school fee-paying parents deserve greater transparency from the non-government school sector when it comes to how their money is spent.

Our proposed solution is simple: if non-government schools accept public funding, they should have an obligation to remain affordable to a broad swath of the community in which they are situated. To ensure this, we suggest the creation of a Non-government School Transparency Advisory Committee by each state government. If schools wish to raise their fees beyond Blueprint's proposed 'affordability marker', they must apply to their relevant Committee and justify their proposed fee increases in order to continue to receive public funding.

The Non-government School Transparency Advisory Committees would put downward pressure on school fees by providing increased accountability around financial disclosures of non-government schools. By and large, the very existence of these Committees would result in extensive self regulation. Non-government schools will be more reluctant to spend money earned from fees on superfluous capital works, exorbitant executive salaries, travel, and luxury items if they know they have to publicly defend said expenses to the Committee and fee-paying parents.

The National School Reform Agreement and its associated bilateral agreements are due to be renegotiated in 2023. This would be an ideal moment to establish Non-government School Transparency Advisory Committees as part of the new arrangements between state and federal governments.

This policy is outlined in greater detail in the 'Policy recommendation' section of this report.

Symbiosis: the three sectors of the Australian school system

Table 1 Comparing government, Catholic and independent schools.
Source ABS, ACARA

	Government	Catholic	Independent
Percentage of students nationwide (2021)	65.10%	19.50%	15.40%
Annual public funding (2020)	~$41 billion	~$10.5 billion	~$7.5 billion
Percent of overall school income from public sources (2020)	96%	76%	50%
Percent of public funding from the federal government (2020)	21%	78%	77%
Percent of public funding from state and territory governments (2020)	79%	22%	23%

School systems around the world, due to quirks of culture, history, and economics, differ immensely.

Australia stands out amongst OECD nations for having a particularly high share of children educated in non-government schools. As of 2021, it was estimated that just 65.1% of Australian students attend a government school, while 15.4% are educated in the independent school sector, and 19.5% in a Catholic school. By comparison, in OECD countries, on average around 80% of students attend a government school.

So why does Australia rely so heavily on non-government schools? The landscape of Australia's modern school ecosystem has its roots in the post-World War II baby boom. The Catholic school sector, which had historically educated a substantial proportion of socio-economically disadvantaged students, was already buckling under the strain of the Great Depression and war. Without state aid, the viability of Catholic schools was in doubt as the cost of education continued its climb in the 1950s and 1960s. A collapse of the Catholic system, in turn, would cause an influx of students into government schools and place incredible strain on the public system.

The desire to maintain the Catholic sector's historical role in the Australian education firmament and not overload the public school system, motivated the federal government to begin directing significant financial resources toward private schools in the late 1960s. That basic arrangement, with government funding both non-government and government schools, has endured to this day.

How does government funding of schools work?

The particulars of how government funds schools are complex. Current school funding arrangements are dictated by the National School Funding Agreement—and the related bilateral agreements that each state has with the Commonwealth.

The National School Funding Agreement

In 2018 state and federal governments signed the National School Funding Agreement (Gonski

2.0). Under the agreement, funding remains needs based and sector blind in accordance with the recommendations of David Gonski's original report.

Both state and federal governments provide funding for government and non-government schools. States are the majority funder for government schools, while the federal government is the majority funder for non-government schools.

Funding is based on the Schooling Resource Standard (SRS). As the legislated national benchmark developed and controlled by the Commonwealth, this standard is an estimate of how much government funding a school needs to meet the educational needs of its students.

Each school has a unique SRS, made up of a base amount per student plus loadings based on student and school characteristics. Loadings are provided to help schools meet the needs of students experiencing educational disadvantage.

Non-government schools have a 'Capacity to Contribute' score allocated to them. The Capacity to Contribute is a measure of a non-government school's ability to fund the ongoing costs of running the school. A school's 'Capacity to Contribute' score affects the amount of base recurrent funding the school attracts.

Non-government school funding

Base funding amounts in 2022 are $12,462 for each primary school student, and $15,560 for each secondary school student. Government school funding is based on the above amounts.

Non-government school funding is based on the above amounts, less the school's Capacity to Contribute. 'Capacity to Contribute' scores determine each non-government school's private contributions to base funding—ranging from a 10% contribution for schools with 'Capacity to Contribute' scores of 93 and lower to 80% for schools with 'Capacity to Contribute' scores of 125 or higher. In 2022, 'Capacity to Contribute' scores ranged from a low of 73 to a high of 173.

In aggregate, about half of independent school funding and three-quarters of Catholic school funding comes from state and federal governments. It is the Commonwealth, rather than state governments, that provides the majority of government funding to non-government schools—providing around 78% of public funding for Catholic schools and 77% of public funding for independent schools.

Non-government school fees are spiralling out of reach for all but the wealthiest

Blueprint Institute analysis shows that independent school fees rose by 50% nationwide over the decade ending in 2020. The increase in fees exceeded both inflation (22%) and wage growth (29%) indicating that parents assumed a greater financial burden in order to continue sending their children to non-government schools.

The aforementioned nationwide data includes regional and rural schools, where fees have risen more slowly than in capital cities. In Sydney, independent school fees increased by 54% from 2010–2020. At first glance, the 42% increase in Melbourne over the same timeframe seems relatively restrained, but that result can be attributed to a temporary COVID-19 related shock. Melbourne independent schools raised their fees by 54% from 2010–2019.

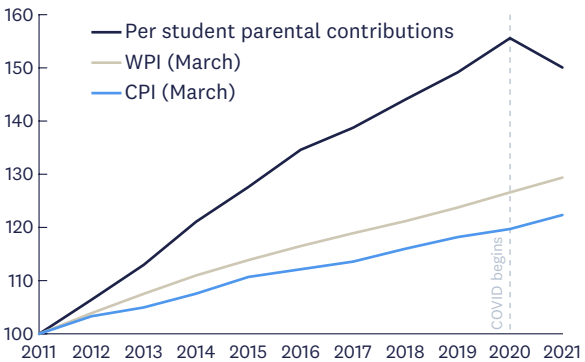


Figure 1 Nationwide secondary and combined independent school fees alongside inflation (CPI) and wages (WPI) (2011–2021)

Source ABS, ACARA, Blueprint Institute analysis

How are parents financing non-government school fees?

Given that fee rises have significantly outpaced wage gains, it seems paradoxical that over the past decade, non-government schools have slightly increased their share of enrolments compared with government schools. How are parents managing to afford this?

Analysis of 2018 EdStart data shows that one in three parents (32%) with children at non-government schools have resorted to taking on credit card debt, redrawing the mortgage on their home, turning to extended family for help, or seeking loans elsewhere in order to close the gap between stagnating wages and escalating fees (see Figure 2). This proportion has very likely increased in the ensuing years, as fees have only continued their rise while real wages have declined to levels last seen in 2011.

Concerningly, 15% of parents are taking on credit card debt. This trend is unsustainable. Schools cannot continue to raise fees without placing parents under significant financial stress, or causing them to withdraw from the non-government system entirely—something evidence clearly shows is disruptive to student learning, and has deleterious impacts on student outcomes.

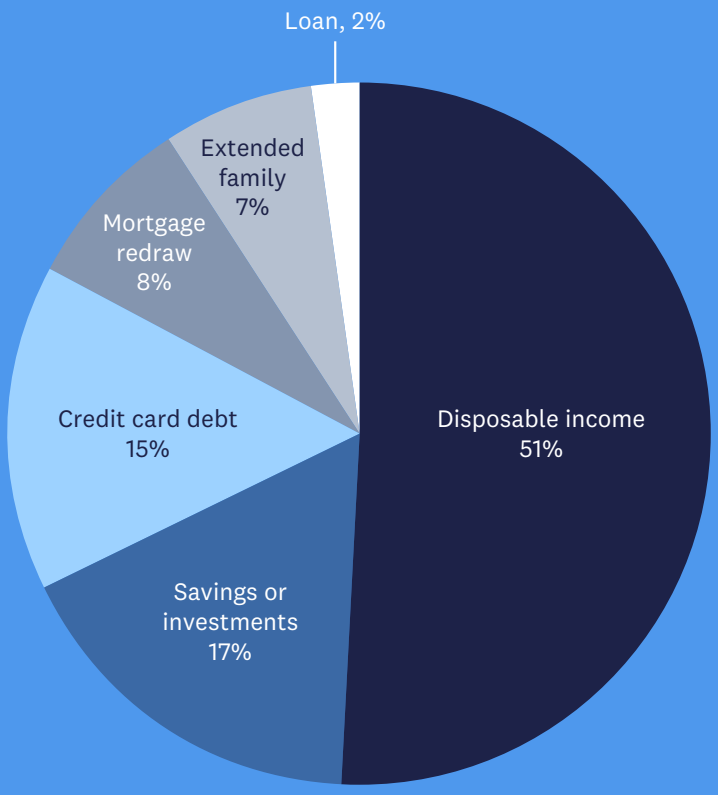


Figure 2 How parents pay for non-government school fees (2018)
Source EdStart

Where does all the money go?

The public money flowing to non-government schools does not just offset the cost of teacher wages and other recurring expenses directly related to educating students. It also enables non-government schools to spend more on capital works projects.

Non-government schools may object to this characterisation. They correctly argue that the vast majority of capital works are paid for by parents and that recurrent funding from government is an entirely separate pool of money. This may technically be true, but the reality is that the government funding they receive frees up funds from other revenue sources—like fees and donations—that would otherwise be spent on recurrent costs to be allocated toward capital works projects.

In and of itself this is not necessarily something to be criticised. Projects undertaken by non-government schools with the full consent of their fee-paying communities should be encouraged. But the scale of this spending, made possible only because taxpayers cover much of the recurrent costs of non-government schools, threatens the social fabric of our education system by entrenching inequality. The disparity in capital spending between non-government and government schools is staggering: just 10% of the wealthiest schools account for half of the entire amount of capital invested by all Australian schools.

These 10% of schools are now engaged in an escalating arms race when it comes to capital works, executive salaries, and other luxury facilities. In order to compete for the limited pool of parents willing to pay exorbitant fees, ambitious non-government schools must find some way to differentiate themselves. Since they have not been able to offer appreciably better academic results than their more modestly priced peers, or government schools with similar socio-economic demographics, many have turned to building expensive and exclusive facilities to attract parents.

Of course, exclusivity is relative. Once many schools boast an expensive indoor pool (for example), the bar for a truly elite school complex that can justify sky-high fees is raised. This leads to an ever-escalating cycle of spending—both to keep up with the new 'standard' for wealthy schools, and to scale new heights in the never-ending pursuit of opulence.

As we will see in the below case studies, Blueprint's proposed Non-government School Transparency Advisory Committees would not necessarily prohibit non-government schools from discretionary spending on infrastructure (or anything else for that matter). But they would force non-government schools to justify excessive fee increases and disclose the reasons for such increases—such as capital expenditure or works—to the communities in which they are situated.

The lack of transparency around non-government school expenditure presently means that funds raised from school fees are often used on significant expenses that neither parents nor government are aware of. This feeds into the uncontrolled year-on-year fee increases.

Below, we present three case studies that illustrate particularly egregious examples of opaque spending, made possible only through fee increases and tangentially through taxpayer funds.

Case Study 1: The King's School Parramatta

Most recently making headlines for questionable spending of money raised from fees is Sydney's The King's School, Parramatta. The school is the oldest independent school in Australia—and is an important part of the education firmament in NSW. In early 2022, the school's community were made aware of previously undisclosed expenses with little benefit to the student cohort. The headmaster, on a controversially large $700,000 salary, used school funds for business class flights to the UK to attend the Henley Regatta with his partner and the Deputy Headmaster. The use of school funds for overseas travel of executive staff prompted resignations from the school's council, and widespread discomfort with the justifications behind the school's fee increases amongst the parent community.

This discomfort was exacerbated by further school expenses that lacked transparency—in particular the construction of a private pool at the headmaster's residence.

The King's School's spending was in part enabled by $8.6 million in JobKeeper funding, received from the federal government during 2020. Along with $11 million in government recurrent funding, the school received a total of $19.6 million in taxpayer funds during that year alone.

As with other non-government schools, parents of students at King's have been faced with annual fee hikes that consistently outpace inflation and wage growth. Aside from a pandemic-induced hike freeze in 2021, parents saw a fee increase of between 3.75-4.8% each year over the past decade. A Year 12 student boarding at The King's School in 2022 would be subject to $68,895 in tuition and boarding fees, up 42% from 2013.

How would Blueprint's proposed Non-government School Transparency Advisory Committee approach King's Expenditure?

Under Blueprint's proposed Non-government School Transparency Advisory Committee (see below 'Policy Recommendation' section for in depth explanation), King's would need to apply to the committee to continue to receive public funds. Given that the committee is proposed to be a statutorily independent body it is impossible to speculate the outcome of such an application, but it is safe to conclude that King's proposed year-on-year fee increases (beyond Blueprint's proposed affordability marker) would likely be rejected on account of using fees to pay for both the plunge pool and the trip to the Henley Regatta—due to the fact that these are significant expenses that had no educational benefit and were not disclosed to the parent community.



Case Study 2: Knox Grammar

Since 2011 tuition fees at Knox Grammar, located in Sydney's north, have increased 50% over an already high base. A Year 12 student at Knox will accrue $35,130 in tuition expenses in 2022—up from $23,430 in 2011.

Knox Grammar has attracted media attention due to its penchant for infrastructure spending. A $47-million Performing Arts Centre—fitted with a contemporary rock lab, a state-of-the-art dance studio, and two auditorium theatres—headlines recent capital projects.

Although independent schools insist they do not spend recurrent government funding on capital projects, this recurrent government funding nevertheless frees up money from other sources to spend on capital projects. Case in point, during 2020, Knox's $7.3 million allocation toward capital projects matched almost dollar for dollar the $7.8 million it received in recurrent federal funding.

How would Blueprint's proposed Non-government School Transparency Advisory Committee approach Knox's expenditure?

Unlike the expenses of the King's School outlined in Case Study 1, Knox was transparent with the parent community regarding the use of school fees to pay for capital works. Further, these projects (particularly the performing arts centre) arguably have an educational purpose. Consequently, these investments alone would likely prove an insufficient basis for the committee to overrule the school's fee increase decision. Having said this, consideration should always be given by the committee to the extent to which the school remains affordable to a broad swathe of the community in which it is embedded.

Case Study 3: Lindisfarne Anglican Grammar School

Rising non-government school fees are not a phenomenon exclusive to wealthy capital cities. Schools in regional and rural New South Wales, although on average much less expensive than their Sydney counterparts, have also seen their fees increase significantly in real terms. For example, Heritage College Lake Macquarie has more than doubled its fees since 2012. Since 2013, St Mary of the Sea College has hit parents with a 57% fee increase.

Lindisfarne Anglican Grammar School in northern New South Wales has raised its fees by 30% since 2014. These fee hikes have fuelled an increase in infrastructure spending, as detailed in the school's recent prospectus. It is difficult to ascertain a pedagogical justification for many of the features of the proposed Middle School Centre, including (but not limited to) treehouse hammocks, cocoon nooks, and crushed-basalt-enclosed palm groves.

Preserving choice in education is a particularly pressing concern in the regional context, where parents already enjoy far fewer schooling options, given that mid-level independent schooling is not as readily available as in metropolitan areas. School choice should not be a privilege enjoyed only by those in capital cities.

How would Blueprint's proposed Non-government School Transparency Advisory Committee approach Lindisfarne's expenditure?

Whilst Lindisfarne disclosed most of the above expenditures to the parent community, their educational purpose is lacking. The committee would likely find that fee increases above Blueprint's affordability marker are unjustified if they are being predominantly used to pay for such projects.

Policy recommendation

Establish a Non-government School Transparency Advisory Committee in each state education department to review increases to school fees that exceed Blueprint's affordability marker

There are indications that federal and state governments are aware of the affordability crisis in the non-government sector, and are in the process of investigating particularly egregious cases of wasteful spending. However, a systemic solution is needed.

The solution most often called for by those ideologically opposed to the very existence of non-government schools is to simply withdraw all government funding from non-government schools. This is not only ill advised from an educational standpoint, but is also a practical impossibility.

Blueprint proposes defining an affordability review marker at 10% above the cumulative rise in WPI or CPI (whichever is greater), indexed to 2010 (see Table 2).

Table 2 Affordability review marker for proposed Non-government School Transparency Committee

Source ABS, Blueprint Institute analysis

	WPI (indexed)	CPI (indexed)	Affordability review marker
2010	100	100	110
2011	103.9	103.3	113.9
2012	107.5	104.9	117.5
...			
2020	129.4	122.4	139.4

Under our proposal, schools seeking to raise fees beyond the affordability review marker would be required to seek approval from the committee. For example, had our proposal been in effect during 2020, the review process would have applied to schools wishing to raise their fees more than 39.4% above 2010 levels.



How would the Non-government School Transparency Advisory Committees operate?

Established and appointed by state and territory governments, they would be modelled off the Non-Government School Not-for-Profit Advisory Committee in NSW. Currently, a non-government school that meets the NSW Educational Standards Authority's requirements for registration is eligible to apply for state and federal government funding. However, the criteria for funding is that the school does not operate 'for profit'. The Not-For-Profit Advisory Committee is statutorily independent and established under the Education Act 1990 (NSW). It is responsible for advising the Minister about non-government schools which may be in breach of funding requirements and operating for profit. If a school is declared to have been operating for profit, they must repay all taxpayer funds received during the period in which they were in breach of the not-for-profit requirements.

Blueprint's proposed Non-government School Transparency Committee would operate in a similar way. They would be established under the various state education acts and would be responsible for determining whether fee increases beyond the proposed affordability marker are justified. In determining this, three key criteria will be considered:

1. To what extent has the school disclosed major expenses and capital works projects to the fee-paying community?
2. To what extent do these major investments have educational purpose?
3. To what extent are the investments critical to the delivery of curriculum?

If major expenses fall short of this criteria, the committee has the ability to reject the proposed increase to school fees, meaning that the school in question can only raise fees at or beneath the affordability marker. If they wish to proceed with increases above said marker they must forfeit public funding.

This process would only apply to those non-government schools that accept government funding—if a school chooses to operate entirely with private funds, the government has no standing to intervene in its self-financed spending decisions.

The National School Reform Agreement and its associated bilateral agreements between federal, state, and territory governments expires in 2023. Negotiations for a new agreement are scheduled to begin in November 2022. These negotiations are an opportune time for such a policy mechanism to be introduced.



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