



**Independent
Schools** Victoria

Submission to the Productivity Commission

July 2016

Response to the *Human Services:
Identifying sectors for reform* Issues
Paper

The Independent Schools Victoria Vision:

'A strong Independent education sector demonstrating best practice, providing excellent outcomes for students and choice for families'.

The Independent Schools Victoria Vision:

'A strong Independent education sector demonstrating best practice, providing excellent outcomes for students and choice for families'.

To realise this, we:

- advocate for excellence in education
- champion Member Schools
- support quality education
- protect the right of parents to choose where and how their children are educated.

Independent Schools Victoria will assist our 210 diverse Member Schools to continue providing the best possible education outcomes for the citizens of tomorrow.

40 Rosslyn Street West Melbourne VIC 3000; PO Box 119 North Melbourne VIC 3051
T: (03) 9825 7200 F: (03) 9826 6066 E: enquiries@is.vic.edu.au W: www.is.vic.edu.au
ABN 44 711 074 857
A0009210H

© Independent Schools Victoria

Introduction

Independent Schools Victoria (ISV) welcomes the invitation to respond to the Productivity Commission's issues paper, *Human Services: Identifying Sectors for Reform (June 2016)*, and we look forward to taking an active part in these debates.

The Productivity Commission's aim is to identify which services within the human services sector are best suited to the application of competition, contestability and informed user choice principles. ISV believes that the size and reach of the school education sector makes it a key part of these considerations.

This submission is made on behalf of our Member Schools, as well as in the light of the potential impact that changes to the roles and responsibilities of each level of government in providing funding for government and non-government schools may have on ISV in its role as a peak body and member service organisation. It should be read in conjunction with the Submission made to this inquiry by the Independent Schools Council of Australia (ISCA), of which ISV is a member body.

Background

ISV was established in 1949 and today represents, promotes the interests of, and provides services to 210 Member Schools. In 2015, our Member Schools educated more than 142,000 school-aged students on more than 300 campuses across metropolitan Melbourne and in regional and rural Victoria, and employed more than 18,000 teachers and other staff to support these students. Many schools provide vocational education and training, as well as substantial services beyond school education, including long day care, out of school hours care, kindergarten programs and pre-Prep programs.

This submission is shaped by the educational, social and philosophical diversity of the Victorian Independent sector. Our membership reflects a variety of religious faiths and ethos with schools affiliated to Anglican, Assemblies of God, Baptist, Brethren, Catholic, Christian, Coptic Orthodox, Greek Orthodox, Jewish, Lutheran, Islamic, Pentecostal, Presbyterian, Seventh-day Adventist and Uniting churches. There are inter, multi and non-denominational schools, as well as schools for students with learning difficulties and individual needs and schools adhering to the Montessori and Steiner education philosophies.

The Issues

Should school services be part of the review?

Figure 1 on page 5 of the Issues Paper demonstrates that education is the second largest human services sector behind health, in terms of both private expenditure and government expenditure. It is also larger than the other six human service sectors that are listed in the report combined.

Schools are the largest sub-sector within education. ISV believes this makes a strong *a priori* case for why school education services ought to be a candidate sector for reform. We would welcome a more contestable, competitive schools sector, with a flatter playing field and more informed users.

Following the 'Gonski' Review [Review of Funding for Schooling Panel, 2011] and associated reports, there is undoubtedly a degree of 'schooling review fatigue'. Nonetheless, we would welcome the Productivity Commission reviewing the microeconomics of schooling. In our view, a number of the recent 'reforms' have lacked an appropriate economic framework.

Our position on funding is:

- Public funding of schools should 'follow the student'. Public funding should comprise two parts. First, a core (per student) amount representing basic funding costs (differentiated by primary/secondary student status) should be provided for all Australian students. In addition, there needs to be a series of loadings for evidence-based measures of disadvantage, such as disability, remoteness, Indigeneity and low socioeconomics. (We agreed with the Gonski Review panel on this broad direction.)

However, we do not agree that the core funding and loadings should vary – often radically – when a student changes school. Several of the loadings in the Australian Government funding model currently include an additional weighting for concentration of disadvantage.

This design feature might make sense if the evidence demonstrated that there were diseconomies of scale in catering for disadvantage. But, as ISV has previously highlighted, the evidence provided in Gonski suggests constant returns to disadvantage [Independent Schools Victoria, 2014]. In addition, parents are unable to make an informed choice about where to school their child because funding does not follow their child.

- Private funding of schools that is paid for out of parents' after-tax dollars, or is based on any indirect measure of parents' capacity to pay, ought to be irrelevant for public policy. (This is the case for *any* spending by parents that has no negative spillovers.) However, if capacity to pay is to be taken into account in allocating public funds to non-government schools, then the same principle should be applied to parents choosing government schools.

Figure 2

Figure 2 on page 10 of the Issues Paper provides a helpful conceptual framework for analysing the issues. We draw attention to some unusual aspects of the schooling 'market' which may or may not be captured in Figure 2.

User characteristics

Good schools – including both government and non-government schools – often find there is more demand for student places than there are places. In order that the number of students matches the number of places, a rationing mechanism must be found.

In practice, rationing can be exercised through a combination of various factors, including:

- charging private fees,
- applying waiting lists (often associated in non-government schools with a non-refundable deposit)
- competitive entry (for instance in selective government schools)
- giving preference to families who share particular values (eg a religious faith)
- privileging family continuity by giving preference to the children of former students at the school
- declaring a local catchment zone which limits or prevents any children outside the immediate neighbourhood from enrolling.

Of these mechanisms, Independent schools typically ration student places by charging fees to parents and guardians. Fees supplement the financial resources of schools. Fees also enable parents to demonstrate their 'willingness to pay'. Many parents who pay fees are not wealthy, but they are willing to make sacrifices so as to exercise their choice of school. It is all about priorities. (Incidentally, it is not beyond the scope of some Government schools to levy relatively high 'voluntary' school fees.)

In Victoria, government schools typically ration student places by declaring a local catchment zone (whereas many government schools in Sydney, for instance, use competitive entry as a rationing mechanism). As a result, parents' preferences for particular government schools result in real estate prices being bid up within those schools' catchment zones. Ian Davidoff and Andrew Leigh [1997] co-authored a paper which investigated the relationship between housing prices and the quality of public schools in the Australian Capital Territory. To disentangle the effects of schools and other neighbourhood characteristics on the value of residential properties, they compared sale prices of homes on either side of secondary school attendance boundaries. They found that 'a 5 percent increase in test scores...is associated with a 3.5 percent increase in house prices.' [Davidoff & Leigh, 1997] More recently, the Herald-Sun noted research by the Real Estate Institute of Victoria that 'homes zoned for Melbourne's most sought-after public schools are fetching up to \$600,000 more than those just outside catchment areas' [Landy, 2017].

Given these two major school rationing mechanisms (fees and restricted catchment zones), we would be interested in an economic assessment of their relative merits with regards to the assessment criteria of 'quality, equity, efficiency, accountability and responsiveness', as suggested in Figure 2.

Costs to users

In assessing costs to users of schooling, we suggest that all public funding costs be identified in any benchmarking of costs and cost effectiveness.

In schooling choices, an extra government school enrolment imposes (on average) a significantly larger burden on taxpayers than an equivalent enrolment in a non-government school. This is one aspect of the fact that public funding does not usually follow the student.

We note the selective use of public funding data whereby some advocates claim that public policy should focus only on Australian Government funding of schooling, to the exclusion of (the more significant) State and Territory funding of schooling. Others believe that the user cost of capital (UCC) employed in government schools, as calculated for the annual *Report on Government Services*, should be discounted to zero. The UCC in government schools represents a real cost to taxpayers because government is required to fund its capital stock, nonetheless this concept is often misunderstood.

Finally, a comprehensive view of public funding costs should explicitly account for the deadweight losses resulting from the increased taxation burden required to fund a preference for government schools.

Subsidiarity

Independent schools traditionally undertake many decisions that in other school governance frameworks are made at a higher institutional level. We believe that there are strong net benefits in delegating decision-making to the most effective institutional unit of governance – not just for Independent schools, but for the nation as a whole.

Notably, Australia already has numerous feedback loops reinforcing competition in the delivery of school services:

- between state and territory education systems (which is Federalism at work)
- between government and non-government school systems (which gives parents broad options)
- between schools (which gives parents specific choices)
- between teachers to succeed at their careers (which drives innovations in the classroom)

Because of the opportunities provided by our high degree of subsidiarity, innovations in Australian schooling from below are low-risk – if they don't work, they are not applied more broadly. By contrast, teacher-based and school or sector-based innovations can be throttled by centralised decision makers with a determination to impose uniformity under the rubric of 'national consistency'.

In addition to clarifying the decision-making powers appropriate to each level, conflicts at each level should be avoided. It is the case in Victoria (and elsewhere around Australia) for the state Minister of Education to be both the 'owner' of government schools and the funder and regulator of all schools. Inevitably this arrangement results on occasion in a clash between the interests of children and their parents on the one hand, and the interests of government-owned and operated schools on the other; that is, between the purchase and delivery functions of government.

If the Commission was to clarify likely 'best practice' roles and responsibilities in the schooling (and other human) services that would be a valuable contribution towards improving outcomes for the Australian community.

A Role for Charter Schools?

The charter school concept ‘...like a chameleon...takes on the tone, colour and fabric of each state and local community. Part of the appeal of charter schools to such a broad cross section of society is the looseness of its meaning – its ability to serve multiple aims and to be defined quite differently in different venues.’ [Murhpy & Shiffman, 2002: 26]

Perhaps the defining feature of charter schools is that they have a high degree of autonomy. The charter school movement is global in scope, with both the United Kingdom and the United States enabling charter schools within the last 30 years.

Australian Independent schools already act essentially as charter schools. They have a high degree of autonomy, receive some public funding and are highly accountable, to both taxpayers and parents. However, unlike US and UK charter schools, some Australian schools have over a century of experience. For instance, Australia’s oldest Independent school, The King’s School in Sydney, was founded in 1831, while Victoria’s oldest Independent school, Scotch College, was founded in 1853. Given the mixed experience of other countries with charter schools, relative to Australia these other countries are just starting on their learning curve.

The ‘charters’ for Australian Independent schools vary widely in scope. Some are founded on particular education approaches (eg Montessori and Steiner schools), addressing students with particular behaviours or disabilities, or supporting families from specific cultural backgrounds (eg Indigenous, Islamic schools).

There are a variety of funding models for charter schools. Unlike some foreign charter schools, Australian Independent schools are permitted to charge fees. However, the price for this ability to charge fees is reduced public funding. As identified in ISCA’s submission to this consultation process [ISCA, 2016: 11], in 2013-14, government funding support for a student in a government school was \$16,177. For an Independent school student, it was \$7,940.

References

- Davidoff, Ian and Leigh, Andrew, 2007. *How Much Do Public Schools Really Cost? Estimating the Relationship Between House Prices and School Quality*, ANU Discussion Paper No. 558, July 2007
- Independent Schools Council of Australia, 2016. *ISCA Submission to the Productivity Commission Inquiry into Introducing Competition and Informed User Choice into Human Services*, 25 July 2016
- Independent Schools Victoria, 2014. *Submission to the Senate Select Committee on School Funding*
- Landy, Samantha, 'Paying More to Get in the Zone', *Herald Sun*, 27 June 2016, pg 7.
- Murphy, Joseph and Shiffman, Catherine Dunn, 2002. *Understanding and Assessing the Charter School Movement*, Teachers College Press: New York.
- Review of Funding for Schooling Panel, 2011. *Review of Funding for Schooling – Final Report*, Australian Government: Canberra.