

Aide Memoir – Briefing for your meeting with the Minister of Education 8 February 2011

Date:	8 February 2011	Priority:	High
Security Level:	In confidence	METIS No:	542859

Purpose

1. This Aide Memoir provides you with an overview of the Ministry's work on protecting and enhancing the private school sector ahead of your meeting with Minister Tolley this evening.

Background

2. Since 23 December 2010, you have requested briefings and information from the Ministry of Education relating to protecting and enhancing private schools in New Zealand.
3. These requests consisted of seven items detailed in the following table:

Date	Request
23 December 2010	Request for Briefing Notes – Indicative funding and regulatory options for Private schools, and a draft Cabinet paper by 7 February 2011 covering options for funding reform, identification of regulatory barriers, timelines and pressing issues, and savings options
26 January 2011	For further information following advice provided on 25 January 2011, including the expansion of numerical data and tables, clarification of governance arrangements and government subsidies, scenarios of fiscal impact and international comparisons
27 January 2011	For further analysis of a number of additional issues, as discussed in a meeting with your office. These include additional options for how Private school funding could be increased (including tax incentives), an international comparison extended to the Nordic countries, options to increase access to integrated schools, and a higher level discussion about the role of private education in the NZ education system
28 January 2011	A summary paper noting options and costs associated with changes to funding and regulatory settings for private schools that will enhance school choice for parents
1 February 2011	The spreadsheet of calculations (noting any simplifying assumptions made) behind the estimates made in the Protecting and Enhancing Private Schools paper, and fact checking of estimates compiled by staff in your office
2 February 2011	Redraft of Protecting and Enhancing Private Schools paper in line with your comments
3 February 2011	A draft Cabinet paper (also referred to at 23 December 2010). This request included a guide to the sort of structure and information you require.

4. To date, the Ministry has provided you with:

- A 25 January 2011 Education Report, 'Protecting and Enhancing Private Schools (METIS 535747), providing you with information on the issues that need to be considered if we are to protect and enhance the private school sector
 - a 1 February 2011 rapid response containing information on scenarios of the fiscal impact given shifts between student numbers in State and Private schools, and options for a funding model for Private schools that incentivises enrolment of students from lower socio-economic areas
 - a 2 February 2011 rapid response providing Ministry comment on estimates conducted by staff in your office and a spreadsheet detailing the estimated costs associated with modifying the funding of Private schools.
5. The latest request we received from your office (3 February 2011) directed us to focus on the proposed Cabinet paper and to disregard previous requests for information arising from the 25 January Education Report and meeting on 27 January except where those analysts where necessary for the proposed Cabinet paper. Specifically your office signalled that information on Australia's PISA results and information on tax incentives were no longer required.
6. We understand that the process for progressing the proposed Cabinet paper is under discussion between your office and Minister Tolley's office.

Comment

Status of requested Cabinet paper

7. On 3 February your office provided the Ministry with an overview of the content you are seeking in the proposed Cabinet paper. Work is underway on the material requested in this overview. Appendix two provides, for your information, material that could contribute to the content of a Cabinet paper on funding Private schools, should such a Cabinet paper be confirmed. Considerable further work is required to complete the paper and as work progresses it is clear that further analysis and consultation will be required before robust options can be provided to Ministers for consideration.

Issues for further analysis

8. Your policy proposal to protect and enhance the Private¹ school sector by increasing funding to this sector, potentially to the same level as the Government funds State-integrated schools has the potential to fundamentally shift the roles of State, State-integrated and Private schools in respect of education and raises questions about the Government's obligation to provide secular, free, accessible education.
9. In progressing work on this request the key issue that needs detailed analysis and discussion by Ministers is the respective roles that are played by the

¹ It is useful to note that the Education Act 1989 describes three categories of school: State, State-integrated, and Private. The term 'independent' is sometimes also used to describe the private sector.

State schooling system (including State-integrated schools) and by Private schools. The State schooling system gives effect to the Government's constitutional and legislative responsibilities to provide secular, free, and accessible education for all children and young people aged 6-16 (the ages between which schooling is compulsory). These responsibilities are set out in New Zealand's constitutional structure, the Education Act 1964, the Education Act 1989, the Private Schools Conditional Integration Act 1975, the New Zealand Bill of Rights Act 1990, the Human Rights Act 1993 and under the United Nations Convention on the Rights of the Child.

10. Based on our analysis to date, there are significant issues to be resolved in order for the policy proposal to be consistent with these fundamental responsibilities and we would need to work with the Ministry of Justice's constitutional team to resolve them. The following are examples of the types of issues that arise from a government explicitly putting in place a policy that sought to incentivise enrolment in the Private sector:

- secularity – many Private schools have a religious character of some type
- cost – the vast majority of Private schools currently charge fees for attendance. Controls on fees may be justified, raising further questions about the autonomy of Private schools
- accessibility – Private schools currently have freedom over which students they enrol and where schools are located. Analysis is needed on whether and how controls should be applied to ensure Private schools are accessible. Again, this raises questions about the autonomy of Private schools.

11. The proposed policy also raises questions about the distinction between State, State-integrated and Private schools. If all these schools are funded at essentially the same level it is difficult to see why they would be subject to different legislation, accountability requirements, property requirements and workforce arrangements.

12. In addition to analysis on the fundamental issues outlined above, analysis is needed on the points in the table below. The Ministry is also aware of the need to engage other departments in this work. As noted above the Ministry of Justice will need to be involved in constitutional matters, central agencies (Specifically Treasury) have an interest across the spectrum of issues, and social sector agencies would normally be involved in a policy change of this nature.

Identification of the underlying problem and options to address it

13. The objectives of the proposed policy are mixed between promoting choice and protecting the private sector. Analysing the core problem and options to address may result in recommendations for the State, State-integrated and/or Private sectors.

14. No work has been done to thoroughly assess the extent to which choice, or the perceived lack of it, is a problem nor, if it is a problem, the range of options that could address it. Despite an increase in applications for Private

schools to become State-integrated schools, it is also not clear that the viability of the Private school sector is under significant threat. If the fundamental policy settings relating to the private sector are to change, then undertaking this work would be essential and would include examining whether changes were needed in the State, State-integrated and/or Private systems.

15. Increasing choice needs to be assessed alongside other desired outcomes from the education system, including value for money. Parental choice in New Zealand is high compared to many other countries.

International evidence

16. An analysis of private schooling internationally would provide a useful comparison for the significant policy changes proposed in New Zealand. This analysis, as part of the initial scoping work, would help to define the policy problems and provide useful evidence on the need for change.

17. You have requested international comparisons of private schooling in Australia and Nordic countries. A review of the approach of other jurisdictions would also be valuable to inform analysis of the issues (ideally as part of initial work on scoping the problem). Such a review should include the countries that New Zealand usually compares itself to such as the UK, Canada and the US.

18. Initial information on the Australian system has been provided. Further analysis is required on this data to ensure that valid comparisons are being made between the two different systems. Information is being gathered currently on Nordic countries.

The wider implications of policy changes

19. Although initial advice has been provided, the Ministry considers that further analysis of the wider implications of significantly changing private school funding is required. This includes analysis of network, accountability, quality and equity impacts.

20. Substantially increasing the level of funding provided to private schools has implications for core policy settings. Building on initial advice, work is now needed on the following issues, their implications and options to address them:

- network impacts. In particular, how a greater number of private schools would impact the school network and Crown costs. For example, building additional private schools in areas of New Zealand where the local population is shrinking, and replicating school services where it is not necessary represent poor value for money to the Crown (which will always need to maintain access for students to a free and secular school). The key underlying principles which guide decision-making on the network are value for money, ensuring access, viability, and supporting under-performing schools. You have requested this analysis.

- accountability dimensions. The policy impacts on the accountability arrangements between the Government and Private schools. Private schools are currently autonomous in how they use the Government funding they receive. With greater State support the Government could

expect a greater say over how funding is used, curriculum requirements and methods of teaching in order that its interests in access, secularity, quality, cost-free education, and equity are met.

- equity of provision. If Private schools are funded at a higher rate, the Government can expect to have a greater say in ensuring equity of access and equity of provision for all students. Government may wish to place restrictions or requirements on the ability of Private schools to choose which students they enrol.
- quality of provision. Private schools are currently subject to minimal quality controls. They are reviewed for registration purposes (and) at regular intervals by the Education Review Office against their registration criteria only (reviews of State and State-integrated schools are considerably more comprehensive). With a greater investment in Private schools, the Government may wish to have greater assurance about the quality of provision across the Private sector.
- State-integrated schools. The closer funding levels are between State-integrated and Private schools the more questions arise about the role of State-integrated schools and whether there should be differences between these types of schools in respect of accountability, equity and quality provisions.

Legislative implications

21. Some work on potential legislative changes has been provided. Anything other than simple changes to funding policy will require further analysis of legislative implications.
22. We have provided an analysis of the barriers preventing State-integrated schools becoming Private schools in the Private Schools Conditional Integration Act (1975), and concluded that legislation does not currently prevent State-integrated schools from becoming Private schools.
23. Further work will be required on the legislative implications of any policy change. The legislative implications of any major policy change are potentially significant, depending on which type of approach was pursued:
 - straightforward changes to increase private school funding (for example a modest increase to the Private school subsidy) will require little, if any, legislative change
 - a simple but significant change (for example increasing private school funding to 100% of State-integrated levels) may have considerable legislative implications flowing from changes to accountability arrangements, for example
 - complex changes to private school funding (for example providing tax incentives for parents) may have considerable legislative implications not just for education legislation, but for tax legislation also.

Options for increasing funding

24. You have proposed options to increase funding to Private schools. The Ministry considers that further refinement of these options, scoping of other potential approaches and consultation is required to ensure effective and workable options are proposed for Ministers' consideration.

25. There are two issues to be considered:

- If funding changes are the best way to achieve the desired change; and
- assuming that funding change is the preferred approach, what are the options for making change to funding policy.

26. The Ministry understands that increasing funding to Private schools is your preferred approach to protect and enhance the viability of the Private sector. You have also sought advice has also been sought on the options below. This involves examining the incentives each creates, and what other factors would need to be included for each option to be successful (e.g. accountability arrangements, quality controls etc):

- a fourth 'type' of school with higher funding levels than private schools get currently and increased Government control (but not to the levels of integrated schools)
- targeting increased funding on the basis of socio-economic status or other indicator of educational need (Initial advice has been provided on ways this could be done. Options include using decile weightings to fund schools or to fund individual students.)
- incentivising the expansion of the State-integrated sector.

27. With regard to mechanisms for delivering increased funding, preliminary advice in respect of students from lower socio-economic areas) has been provided. Work was requested (but withdrawn by your office on 3 February) on the option of tax relief for parents. This work has not yet begun and could still be a viable avenue to explore. The work would require consultation with the Treasury and the Inland Revenue Department.

Accurate assessment of costs and savings

28. Early assessment of the costs and savings associated with an increase in funding to Private schools has been completed. Assumptions in that early assessment now need to be robustly tested and work done on costs and savings of student movement between the State and Private sectors. The Ministry considers that work is still needed to investigate whether increased government funding would significantly increase the proportion of students attending Private schools as if this assumption is not valid the costs to the Government are very high.

29. You have requested information on the costs and savings of different funding levels and the Ministry has provided indicative costs of funding Private schools at 100% or 50% of the State-integrated school subsidy level and an indication of the cost of funding Private schools at the same rate as they were funded in 2000 (when funding varied according to year level). These costings make a number of, as yet untested, assumptions.

30. Modelling of costs and savings based on different levels of student movement between State and private sectors have also been requested. Modelling is sought on the impact of 5%, 10%, 15% and 20% shifts to the Private sector from the State sector.
31. This work is underway and involves modelling:
- different assumptions of the types of State schools affected by movement as these will impact on costs, savings, and network implications (for example, primary schools, secondary schools, area, or composite schools)
 - the likely workforce-related costs of movements between sectors (for example the costs of surplus staffing)
 - the property implications of movement between sectors, both in operating and capital expenditure
 - as noted in the Ministry's advice of 2 February, the Ministry has reservations about the assumptions that underpin the modelling work on the movement of students from the State to the Private sector. Assumptions that need robust testing are whether:
 - shifts to the private sector of the magnitudes indicated (e.g. 20% or 140,000 students, almost five times the number of students currently attending Private schools) would occur. In the past, private school rolls have not fluctuated greatly in response to funding levels
 - the private sector has the desire and the physical capacity for a large influx of new students
 - the private sector would lower fees in response to government subsidisation. Because of the uncertainty historically associated with government funding, many Private schools may be hesitant to change their business practice and lower fees.
32. Testing of these assumptions would preferably include consultation with the private sector.
33. Completing this analysis will enable the Ministry to provide an assessment of the balance sheet implications you have requested.

Appendix one – Material that could contribute to a Cabinet paper [draft only]

Background description of State, State-integrated and Private schools

The make up of schools in New Zealand is as follows:

Type of school	Number of students (July 2010)	Percent of total school population	Percent of per-student Government funding received
State	648,558	85%	100%
State-integrated	86,184	11%	97%
Private	29,432	4%	24%
Total	764,174	100%	

State schools

New Zealand State schools are self-governing - they have a locally elected board of trustees that manage the day-to-day running of the school, including the hiring of all employees at the school. Decisions regarding the operation of State schools are made at the local level rather than centrally.

School boards of trustees are Crown entities. These entities control the management of their local school within a national accountability framework. State schools must follow *The New Zealand Curriculum* and the centrally prescribed National Educational Guidelines and National Administration Guidelines (NEGs and NAGs). State schools are also bound by sections of the Education Act 1989 that prescribe, among other things, when they must be open, the composition of their boards, and what students they must enrol.

The Government provides State schools with operational funding, property funding and pays all teacher salaries. Funding varies between students and schools depending on the year level of the student, location of the school and socio-economic composition of the school.

[Comment to come on section 155 and 156 schools].

State-integrated schools

A State-integrated school is a school with a special (usually religious) character, which has been 'integrated' into the State system. A State-integrated school is essentially a State school but the proprietor, rather than the Crown, owns the land and buildings.

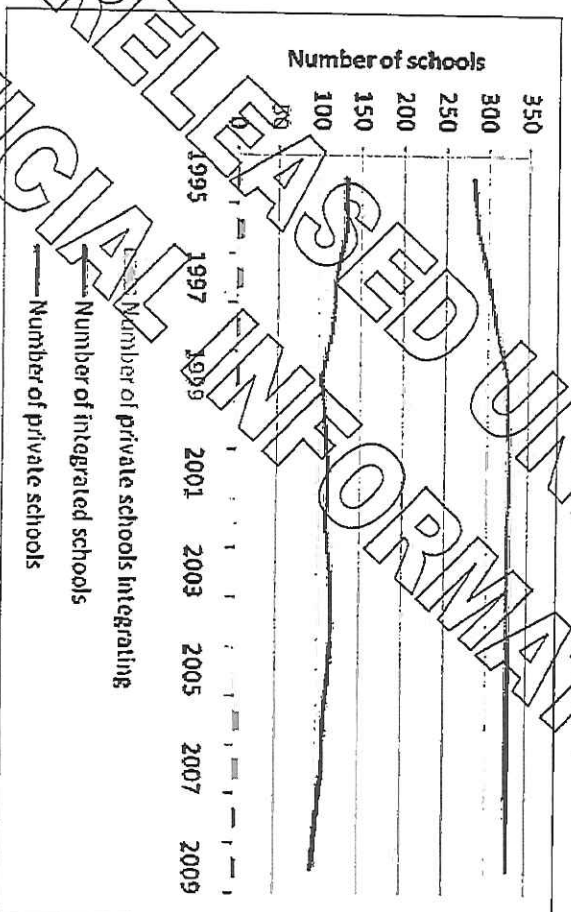
The proprietor is responsible for setting and maintaining a school's special character. The proprietor may charge attendance dues to meet capital costs of improvements and to meet loans. The attendance dues charged currently range from \$400 to \$3,000 per year. In addition to attendance dues, integrated schools can also request a donation from parents, in some cases this is as much as \$6,000 per year.

State-integrated schools receive the same operational funding and staffing entitlements as State schools. Staff in State-integrated schools are also employed under the same collective agreements as those in State schools. Property funding differs from State schools, with the proprietor responsible for the land and buildings. Since 2010, State-integrated schools have received some property funding; currently approximately \$500 per student per year for major maintenance and modernisation of buildings.

In all other respects, State-integrated schools are treated as State schools. They must meet all the curriculum, assessment and other requirements as State schools, and do not enjoy the additional freedom that Private schools do.

A number of Private schools have recently applied to the Ministry of Education for integration due to their fiscal situation. The graph below shows the number of State-integrated and Private schools since 1995. The number of State-integrated schools has increased from approximately 280 to 330 in 2009, and the number of private schools has declined from about 140 to 96.

Figure 1 – Private and State-integrated schools 1995-2009



Private schools

Private schools are private businesses that operate with very little State control. All Private schools must be registered and can only employ registered teachers. They must also comply with a limited number of statutory requirements, such as police vetting of employees and keeping enrolment records. In most other respects, Private schools enjoy considerable freedom. They may choose their own curriculum, qualifications framework, and assessment methods, and they may offer education within an educational environment of their own design. The Education Review Office reviews Private schools against their registration criteria only. The Education Review Office conducts much more comprehensive reviews of State and State-integrated schools.

Overall, the private school sector is strong with the number of private schools remaining relatively static over the last ten years. Based on Education Review Office Reviews and the Law Commissioner's 2009 report, *Private schools and the Law*, it appears that Private schools continue to operate with few problems and few regulatory controls.

Private schools receive a per-pupil subsidy from the Government. This funding recognises the contribution that Private schools make in educating New Zealand students. The subsidy increases choice for families so they have more freedom to select schooling options that best meet their children's needs. Supporting the viability of the Private school sector saves the Government money. If all private school students were in the State system, the total extra cost to government would be approximately \$150 million per year.

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Data

Figure 2 - Students attending Private schools, by Territorial Authority, 2010

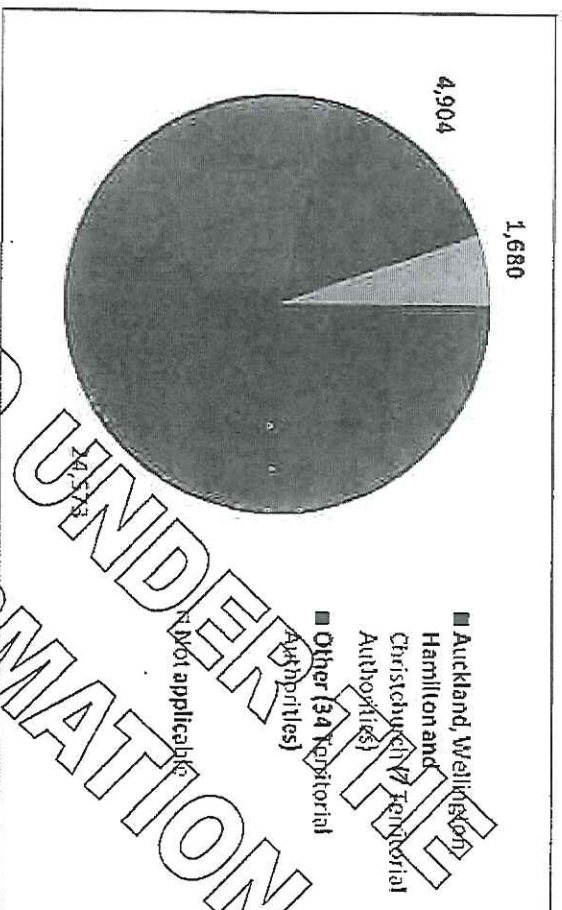
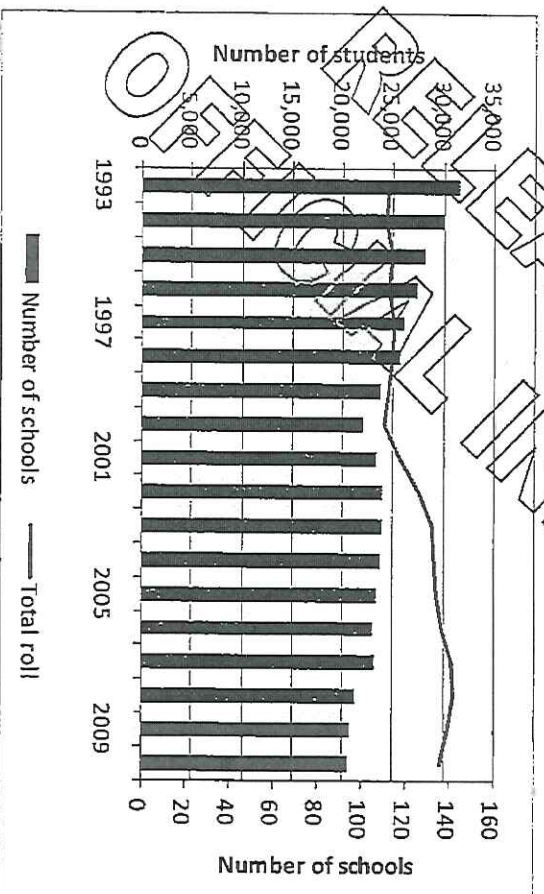


Figure 3 - Number of Private schools and students 1993 - 2010



Proposed funding increase to private schools

Illustrative funding levels	Estimated new funding required (per year, ongoing) (\$m)
100% of average cost of integrated school student.	150.00
50% of average cost of State school student.	55.00
Years 11-13 funded at 40% and Years 1-10 funded at 30% of average cost of State school student.	30.00

[Commentary to come depending on preferred approach].

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Implications and considerations

One of the key issues raised by the proposed policy change is the respective roles that are played by the State schooling system (including State-integrated schools) and by Private schools. The State schooling system gives effect to the Government's constitutional and legislative responsibilities to provide secular, free, and accessible education for all children and young people aged 6-16 (the ages between which schooling is compulsory). These responsibilities are set out in New Zealand's constitutional structure, the Education Act 1964, the Education Act 1989, the Private Schools Conditional Integration Act 1975, the New Zealand Bill of Rights Act 1990, the Human Rights Act 1993 and under the United Nations Convention on the Rights of the Child.

The proposal to shift the balance of the system from an emphasis on State provision under the *New Zealand Curriculum* and in State-owned facilities, to an emphasis of parental choice of education setting, curriculum and mode of teaching, represents a significant shift in the education system. A shift of this magnitude has implications that will need to be managed. There are implications for:

- the Government's responsibility to provide a secular, free, and accessible education
- Private school accountability arrangements
- ensuring that all students receive a quality education
- the management of the State school network
- State-integrated schools
- teacher employment and workforce issues.

The proposal also raises significant questions about the distinction between State, State-integrated and Private schools.

[Discussion to come depending on options chosen and further analysis].

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Property considerations

School property across New Zealand involves a large volume of capital investment. 650,000 students attend state schools, spread across 18,500 hectares of land and 6.5 million square metres of buildings. This property is valued at \$10.1 billion – an average of approximately \$16,000 per student. Based on this average, 20% of students currently in state schools represent over \$2 billion on the Crown balance sheet. If these students shifted to Private schools, a proportion of this investment could be recovered. Such a gain would be spread over the time needed to sell land and buildings.

[Further analysis to come depending on the modelling of impacts]

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International comparisons

The table below outlines an international comparison of private schooling.

Country	Government funding levels - % of State-student funding	Accountability/Requirements	Proportion of students in private schooling
New Zealand	24%	Must meet minimum registration requirements such as registered teachers and 'fit and proper managers'.	4%
Australia	Socio-economic status of students determines funding. Ranges between 70% for private schools in the poorest communities, to 14% for schools in the wealthiest communities.	Private schools must sign an agreement with the Government agreeing to comply with conditions such as educational and financial performance and accountability requirements.	34%
The Netherlands	100%	Schools operate from either a religious or pedagogical point of view.	66%
Sweden	100%	Education provided by private schools must fulfil the general goals of compulsory schooling. Private schools follow the same curricular as municipal schools. Not permitted to charge fees.	10 % in compulsory schooling 20 % in upper secondary school
Finland	100%	Private schools follow the same legislation and national core curricula as public schools. Tuition must be free.	3%
Denmark	85%	Teaching measures must equal those of municipal schools.	18%
Norway	85%	Either private schools must constitute a religious alternative, a pedagogical alternative that is generally recognised, or follow internationally certified curriculum.	3% in primary and lower secondary 7% in upper secondary

[Comparisons with the UK, the USA and Canada to come].

Situation in Australia

The following figures for Australia are based on 2009 statistics:

- Out of 9529 schools in Australia 2727, or approximately 29%, are private.
- There are 1,187,420 private school students, making up approximately 34% of the total student population in Australia.

Situation in New Zealand (based on 2010 statistics):

- Out of 2577 schools in New Zealand (2153 State schools, 328 State-integrated schools and 96 Private schools), approximately 4% are private
- There are 29,432 Private school students, making up approximately 4% of the total student population in New Zealand.

Since 2001, the Australian Government has used the socio-economic status of school communities as the basis for funding private schools. Each private school receives a score based on the socio-economic status of its community relative to other private schools. The score then determines the amount of per-student funding the school receives.

Private schools in Australia receive per-student funding based on a percentage of the average cost of educating a child in a government school. A school's socio-economic score determines their funding percentage. The funding rates range from 70% of the average cost of educating a child in a government school for private schools serving the poorest communities, to 13.7% of the average cost of educating a child in a government school for schools serving the wealthiest communities.

Some private schools automatically receive the maximum rate of funding, regardless of their socio-economic status score. These schools include:

- private special schools - schools that cater for students with disabilities
- Special Assistance Schools - schools that mainly cater for students with social, emotional or behavioural difficulties
- Majority Indigenous Student Schools - schools with a roll comprising 80% or more Indigenous students or, for very remote schools, a roll comprising 50% or more Indigenous students.

Payments to private schools cannot be made until the school has signed an agreement with the Australian Government. The agreements detail the conditions with which the school must comply in order to receive funding. The conditions include educational and financial performance and accountability requirements.

Private schools in New Zealand, while not being funded to the same level as Australian private schools, enjoy considerably more freedom. They receive unconditional funding from the Government in the form of a direct subsidy and have no accountability requirements except meeting regulated registration criteria.

Incentivising Private schools to enrol students from lower socio-economic areas

We have identified an option that would incentivise Private schools to enrol students from lower socio-economic areas. This would increase choice for those families for which the price of private schooling is a barrier to access. Government could base private school funding on the current decile system used to fund State and State-integrated schools.

The decile rating is the indicator used to measure the extent to which schools draw pupils from low socio-economic communities. A decile is a 10% grouping. Decile 1 schools are the 10% of schools with the highest proportion of students from low socio-economic areas. The Ministry calculates deciles following the five-yearly Census. The calculations are based on Census data for households where the school's students live – not the general area around the school.

Private schools do not have a decile rating. However, the Ministry calculates a decile for those private schools that request one. Currently, Private schools generally request a decile to use as a marketing tool; it does not influence their funding. Private schools are not included in the 10% decile groupings of State and State-integrated schools and do not influence their funding.

The Ministry could calculate a decile for each Private school, and then weight a funding allocation according to a school's decile. Private schools with a higher proportion of students from lower socio-economic areas (lower decile schools) would receive funding at a higher rate than schools with a lower proportion of these students (higher decile schools).

This would be relatively straightforward to implement; private school management, parents and communities are generally aware of how the existing decile system works and it imposes little administrative burden on Private schools. There would be some additional overhead costs for the Ministry of Education.

Funding schools based on the average socio-economic status of their students would be similar to the Australian Government's funding of private schools. Each private school in Australia receives a score based on the combined average socio-economic status of the communities in which each student lives, relative to other private schools. The score then determines the amount of per-student funding the school receives.

Appendix 2 - Requirements of the proposed Cabinet paper

Key elements of a schools funding paper

Provide a simple table summarising the mix of attendance at state, integrated and independent schools

Eg

The current numbers in primary and secondary schools is as follows:

State	655,000	85%
Integrated	87,000	11%
Independent	29,000	4%
Total	771,000	100%

Background: Since 1993 seventy schools have integrated (accounting for 14,500 enrolments). Thirteen integrated schools have closed since 1994. There are now 328 integrated schools in total, with 87,000 enrolments.

Describe the current funding arrangements for integrated and independent schools, and the funding level relative to state schools

Eg (check data)

Under current arrangements, schools receive different funding levels, based on their ownership. Explain the funding arrangements and how they differ between different categories of schools:

- State-owned schools are funded for their operations, teacher salaries and property
- Integrated schools are funded for operations and salaries and to some degree property (specify/explain and note any savings to the state in respect of operational and capital expenditure)
- Independent schools receive a per-student financial grant-in-aid (about 24% of full State funding)

Note the difference in funding arrangements internationally.

Eg

Independent school funding in New Zealand of less than 20% of state funding compares unfavourably with Australia which averages about 52% (with a range from 14-78%). Because of this, non-government schools account for around 35% of total enrolments (compared with only 4% in New Zealand), saving the Australian government around A\$7 billion per annum.

The Netherlands has funded state and private schools equally since 1917, and 65% of students attend privately run schools. In Denmark funding is at about 80% of state levels, while in Sweden recent reforms have provided for equal funding between state and private schools.

New Zealand is very much an outlier in terms of funding portability.

Describe the Decile funding model as it applies – if at all – to funding of state, integrated and independent schools.

Summarise some options to protect and enhance the role of the independent school sector, including fiscal costs

Eg, along the lines of the table in para 27 of the *Protecting and Enhancing private schools* paper of 26 January 2011.

Explore some scenarios of offsetting fiscal savings that might occur over time if the integrated/independent schools were to expand under these alternative arrangements

Eg

If independent schools were funded at integrated school rates we might expect independent schools to expand, and integrated schools to return to independent status. If over time a further 20% of enrolments shifted from the state to the independent (or integrated) sector, that would provide offsetting annual savings of around \$x million (offsetting the initial \$150 million annual cost).

Provide a table showing illustrative savings for a 5, 10, 15 and 20% shift, noting the uncertainty of timing or magnitude of any such shift.

Note that a 20% shift in enrolments (ie in addition to the 4% independent and 11% integrated) would lift the non-state proportion to the Australian level where 35% of enrolments are non-government, and this has occurred in a situation where funding of independent schools is at only 52% of the government level.

Explore the balance sheet implications of any such shift from state to integrated/independent schools if funding arrangements were made less punitive for parents choosing to educate their children outside the state sector.

eg

The balance sheet implications are, over the medium term, even more significant. There are 2,335 state schools, representing an annual capital spend of over \$700 million. The property portfolio includes 18,000 hectares of land and 17,000 buildings (of which 16% are surplus stock), with a total value of \$11.4 billion.

The state's 655,000 students use \$11.4 billion in school assets, or about \$17,400 per enrolment. If the 116,000 independent and integrated school pupils were in the state sector, that would require a further \$2 billion of school assets on the government balance sheet.

The potential savings on the balance sheet would be large. If over time a further 20% (131,000 enrolments) moved from the state sector, that would allow the state to scale back its investment in school infrastructure by \$2.3 billion.

Examine the option of applying a decile funding model to the integrated/independent school funding model under the funding options considered earlier (eg with on average funding at 100% of integrated level, or 50%, etc)

Is there a case for an overlay subsidy – to help pay any fees – which was based on individual/household income levels?

Is there a case for a new category of school, with higher funding levels, but with some cap on the level of fees that could be charged.

Describe the network, surplus capacity issues that might arise if the integrated/independent school sector was to expand, and consider options for dealing with that consequence of parental choice.

Consider the likelihood that the expansion of the independent school sector would be in the urban areas which are the location of future growth in pupil numbers, and thus such expansion of the independent sector is likely to be helpful.

Identify any regulatory barriers or issues that need to be resolved (eg the Integration Act). Are network considerations being used to justify blocking the expansion of integrated schools. Evidence?

Timelines and phasing issues.

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