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**DRAFT – NOT GOVERNMENT POLICY**

**Review of Funding Systems**

**Background paper for Advisory Group**

**Private school funding**

24 June 2016

**Private school funding**

Introduction

This paper considers future funding arrangements for private schools in the context of a funding model for state and state-integrated schools that is made up of a per-student funding amount and additional funding relating to students who meet criteria for being most at risk of educational under-achievement. The model also includes supplementary funding to maintain the educational viability of particular schools, where this is necessary to maintain an appropriate network of provision.

In this paper we outline the legislative framework and current funding arrangements for private schools, and consider insights from funding arrangements in other countries. We also outline issues that might inform policy on funding for private schools and suggest a possible approach to linking the per-student subsidy for private schools to the proposed funding model for state and state-integrated schools.

Current arrangements

In 2015, there were 86 fully registered private schools and 2 provisionally registered schools across New Zealand. These schools enrolled 26,871 domestic students (3.5% of total enrolments) and 1,558 international students. Further data on the private school sector is provided in the Annex.

*Legislative framework*

The requirements for the establishment of private schools are less than for other schools, and private schools have greater freedom around how they operate. These freedoms include the ability to charge fees, select students and choose the curriculum they teach.

In addition, private schools are subject to lower monitoring and accountability requirements than state and state-integrated schools. This reflects a judgement that parents have a reasonably strong incentive to hold private schools to account because they make a substantial contribution to the costs of operation of the school,[[1]](#footnote-1) and if dissatisfied they have the option of removing their child to a state school.

*Funding arrangements*

The majority of government funding for private schools is allocated through a capped funding pool of $45.7 million (GST exclusive) per annum, which has not increased since the beginning of the 2010 school year.[[2]](#footnote-2) The pool comprises funding for:

* a per-student subsidy, which is differentiated by year level and applies in a uniform way to students at all private schools – $41.575 million per annum.
* the Aspire Scholarship scheme, which contributes up to $16,500 per year towards fees and course related costs for up to 250 secondary level students from low income/net worth households – $4.125 million per annum.

The pool mechanism places a fiscal limit on the total value of funding provided to the private school sector. However, it means that private schools and families that choose to send their children to private schools do not have funding certainty, as the per-student subsidy varies with total sector enrolments. The value of the subsidy tends to fall in real terms over time and relative to the state sector, until concerns build around the overall financial viability of the sector and a specific decision is made to increase the value of the funding pool.

There is a risk that current funding arrangements for private schools will lead to a continued gradual decline in the share of total enrolments in the private school sector and ongoing pressure by a number of private schools for integration into the state sector. Should this occur, it would increase the overall fiscal cost of schooling.

Funding arrangements in other countries

Arrangements for funding private schools vary widely across countries. They can be affected by the constitutional relationship between church and state, given many private schools are faith-based. The arrangements also reflect differences in the regulatory frameworks that apply to these schools. For example, where private schools receive full government funding, as in Sweden, they are often restricted from charging fees or selecting students.

A 2011 review of the Australian funding system – the *Gonski Review* – proposed an integrated framework for funding government and non-government schools. In Australia, non-government schools (which include schools in the Catholic systems and other-faith based systems) comprise 34% of total enrolments.

The Gonski Review proposed a basic per-student school resourcing standard for primary and secondary education, with additional loadings to address needs related to socioeconomic background, disability, English language proficiency, the particular needs of indigenous students, and school size and location. It proposed that for non-government schools the cost of the basic per-student amount would be met jointly by governments and private contributions (parents), but the cost of the loadings would be fully funded by governments. The Government contribution would be based on a measure of the school community’s capacity to contribute financially, such as parental socioeconomic status.[[3]](#footnote-3)

Framework for thinking about funding of private schools

The extent of funding that might be provided to private schools is a policy choice. This choice is set in the context of an overall framework in which schooling is compulsory from age six to sixteen, and there is a legal commitment to provide children with a free education through a network of state schools.

*A subsidy is justified as parents pay taxes*

It is sometimes suggested that governments should contribute to the cost of private schooling because parents of students attending these schools pay taxes. This on its own does not provide a strong justification. The provision of specific services in return for paying taxes is not a principle that underpins the New Zealand tax system. Further, parents who choose to educate their children in private schools continue to have the option to enrol their child in a state school, and hence have access to government funded provision if they choose.

*Supporting the principle of parental choice*

Government funding of students attending private schools is consistent with the principle of parental choice. In exploring this issue it is useful to distinguish between choice as intrinsically desirable and as a lever to drive improved educational outcomes for children.

1. *Choice is desirable in its own right*

It can be argued that in a liberal society, where there is a compulsory requirement for children to attend school, parents should have an opportunity to exercise some choice around the schooling their child receives. For parents to have real choice, alternative provision needs to be affordable and available. In the absence of government funding, many families would not be able to afford to choose private schooling options.

At the same time, enabling choice can increase the overall cost of school provision, where it leads to the establishment of small schools or to a greater concentration of students from disadvantaged backgrounds in individual schools.

1. *Choice as a means to drive improved educational outcomes*

In general, private schools in New Zealand have sound educational outcomes. In light of this performance, it is sometimes suggested that private schools create useful competitive pressure or tension in the system that can support innovation and drive improved educational outcomes.

The evidence that private schooling leads to improved educational outcomes at a system level is ambiguous. The OECD reports that students who attend private schools tend to perform significantly better in PISA than students who attend public schools, but students in public schools in a similar socioeconomic context as private schools tend to do equally as well. As of 2014, the OECD concluded that there is no clear evidence about the relationship between the prevalence of private schools and academic performance of education systems.

The OECD has also noted that a risk associated with school choice policies, including funding for private schools, is greater segregation of students by ability and socioeconomic background, generating greater inequities.

Objectives

The following are possible objectives for the design of funding arrangements for private schools:

* the provision of reasonable certainty about government funding to schools and families
* to contribute to choice for parents through the maintenance of a viable private school sector while not exacerbating the socioeconomic segregation of schooling
* to mitigate the demand for integration of private schools into the state sector
* alignment with the regulatory framework for private schools
* administrative costs for the Crown and compliance costs for schools and families are reasonable.

Trade-offs are likely to be required between these objectives.

*Question for discussion*

*Are these appropriate objectives to inform the design of funding arrangements for private schools?*

A possible framework

The objective of providing greater certainty for private schools and families could be achieved by directly linking the funding model for private schools with that for state and state-integrated schools. Creating a direct link would mean that the value of the per-student subsidy for students attending private schools would be automatically maintained relative to the level of government funding for students in state and state-integrated schools. It would provide a more certain financial basis for private schools, and is therefore more likely to support the maintenance of a viable private school sector.

Establishing a direct link would, however, reduce flexibility for the Crown to manage expenditure priorities.

A coherent framework between funding arrangements for private schools and state and state-integrated schools could be achieved by directly linking the per-student subsidy to one or more of the components of the proposed funding model for state and state-integrated schools. The next section considers the case for establishing a link to the respective components of the proposed funding model for state and state-integrated schools.

*Supplementary funding*

We consider that the per-student subsidy for private schools should not take into account the supplementary funding provided to maintain the viability of particular small and/or isolated state schools. The Crown incurs these costs because of its obligation to provide an appropriate network of state schools. Excluding these costs would better ensure that the subsidy for students attending private schools is more directly related to the cost the Crown would incur if the student was educated in a state school.

*Question for discussion*

*Is it appropriate that the per-student subsidy for private schools not take the supplementary payment into account?*

*Funding relating to students who meet risk criteria*

We have also considered whether it would be desirable to adopt an approach similar to that recommended by the Australian Gonski Review – which proposed full government funding of the loading for students from disadvantaged communities.

On balance we consider that students attending private schools should not generate the additional funding relating to students who meet criteria for being at risk of educational under-achievement. In part this reflects that, compared to non-government schools in Australia, private schools in New Zealand largely serve higher socioeconomic communities. For example, of the 54 schools for which deciles were recalculated in 2014, 49 schools were decile 7 or above, and of these 30 were decile 10. The remaining five schools were decile 3 to 5 inclusive. Similarly, recent analysis showed that less than 3% of private school students had been in benefit dependent households for substantial periods.[[4]](#footnote-4)

It also reflects a judgement that there is a reasonable probability that a student is not at-risk notwithstanding that their family circumstances meet the risk criteria. These criteria are based on observed correlations between socioeconomic or other indicators and educational achievement.[[5]](#footnote-5) This can result in false positives – the identification of students as being at-risk when they are not.

Where private schools retain the capacity to select students, schools have the incentive to undertake more intensive information gathering to more accurately assess the risk of individual students, and hence identify students who are false positives. Were this to occur the Government would be providing the additional funding in relation to students who are not actually at risk.

Further, if the child’s parents are seeking alternative educational opportunities and can afford to make a financial contribution to the cost of private schooling, it would suggest that the child’s actual risk is less than that assessed by the observed correlation at a system level.

*Question for discussion*

*Is it appropriate that students in private schools who meet the risk criteria do not generate additional funding for those schools?*

*The per-student funding amount*

There is potential to establish a direct link between the per-student funding amount for state and state-integrated schools and the per-student subsidy for private schools.

The per-student subsidy for private schools could be set at either a fixed percentage of the per-student funding amount for state and state-integrated schools, or at a varying percentage depending on the assessed capacity of the school community to pay. Within the second option there is a choice between a finely granulated model, or a more streamlined approach involving a small number of rates.

A variable percentage would allow calibrated levels of support to be provided to individual schools. For any given amount of government expenditure, this approach is likely to be more effective in maintaining the financial viability of existing schools and mitigating the financial pressures for integration. It is also more aligned with the principle of choice. A variable rate structure may also lead to the emergence of more low to moderate fee schools, depending on the maximum level of government support provided.

A variable funding model would, however, be administratively more complex than a model which set the subsidy at a fixed percentage of the per-student funding amount for state and state-integrated schools. It would require the development of an administrative mechanism to assess the capacity of the school community to pay, which is not straight forward.[[6]](#footnote-6) While the measure might include traditional measures of socioeconomic status, an important element within this would need to be family income.[[7]](#footnote-7)

It could be expected that under a variable rate structure a number of private schools would be funded at a relatively high percentage of the per-student funding amount for state and state- integrated schools. This raises the question of whether the existing regulatory framework for private schools would continue to be appropriate for these schools. Areas where change might be appropriate would be around oversight of the level of fees that schools might be able to charge so that the higher level of government funding supports improved access, curriculum freedom and the level of accountability to government.

On balance, given the particular structure of the private school sector in New Zealand and the regulatory framework in which these schools operate, we consider a variable rate model would introduce unnecessary complexity into the funding system.

*Questions for discussion*

*Do you agree that the private school per-student subsidy should be directly linked to the per-student funding amount for state and state-integrated schools?*

*What needs to be considered when thinking about the value of the per-student subsidy for private schools?*

*What percentage of the per-student funding amount for state and state-integrated schools would it be appropriate for private schools to receive?*

*Should the percentage vary depending on the capacity of the school community to pay? If so, how could this be assessed?*

***Size of private school sector 2006-2015***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Number of schools (fully registered) | 104 | 102 | 94 | 93 | 92 | 85 | 86 | 84 | 86 | 86 |
| Number of schools (prov. registered) |  | 4 | 4 | 2 |  | 2 | 2 | 2 | 2 | 2 |
| Domestic students (1 July) | 28,594 | 29,377 | 29,546 | 28,982 | 27,693 | 27,557 | 27,300 | 26,601 | 26,834 | 26,871 |
| International students (1 July) | 1,285 | 1,337 | 1,451 | 1,392 | 1,251 | 1,371 | 1,338 | 1,351 | 1,442 | 1,558 |

***Private school deciles***

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | No data |
| Number of schools | 0 | 0 | 1 | 2 | 2 | 0 | 5 | 5 | 9 | 30 | 35 |

***Private school per-student subsidy rates (GST inclusive) 2011-2016***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Years 1-6 | $1,217.65 | $1,157.26 | $1,164.94 | $1,188.86 | $1,182.71 | $1,180.91 |
| Years 7-8 | $1,333.39 | $1,267.26 | $1,275.67 | $1,301.86 | $1,294.54 | $1,293.16 |
| Years 9-10 | $1,706.45 | $1,621.82 | $1,632.59 | $1,666.11 | $1,656.74 | $1,654.97 |
| Years 11-13 | $2,591.68 | $2,463.14 | $2,479.49 | $2,530.40 | $2,516.17 | $2,513.48 |

1. With the exception of Dilworth. [↑](#footnote-ref-1)
2. Private schools also receive funding for Kiwisport, the NCEA grant, as well as Māori Language Programme Funding for eligible students. High Special Needs students are also eligible for ORS resourcing. Private schools can also access Te Kura courses without charge. [↑](#footnote-ref-2)
3. Review of School Funding, Final Report (Gonski Report), Australian Commonwealth Government, December 2011. [↑](#footnote-ref-3)
4. For one or both of 75% of the first five years of their life or 75% of the most recent five years. [↑](#footnote-ref-4)
5. The situation is materially different for students with special needs, as this is based on a clinical assessment. [↑](#footnote-ref-5)
6. Proposed changes to the funding model for state and state-integrated schools means that the decile mechanism would not be available. Further the decile mechanism was not developed in order to assess capacity to pay. An option would be to develop an alternative mechanism using Census meshblock data as a proxy for the circumstance of individual students. However, the issue of how accurately Census meshblock data reflects the actual circumstances of individual students is likely to be more significant in the case of students attending private schools. [↑](#footnote-ref-6)
7. A crude option would be to use fee levels as an indicator of capacity to pay. However, fee levels reflect a combination of capacity to pay and family preferences about how they spend income. There is also an issue about the overlap between fees levels and donations; especially in the context where there is strong moral suasion for families to make donations. [↑](#footnote-ref-7)