AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT SCHOOLS
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PRIVATE SCHOOL BUSINESS PLANS SUFFER FROM PANDEMIC WOBBLIES

As the full economic effects of the pandemic hit the incomes of the insecure middle class, but not the wealthy; as jobkeeper and the mortgage holiday comes to an end; and as the private school hype gets rustier and rustier, many private schools have decided to - freeze their fees. They need students! And their major method of keeping the lower orders out is no longer good for business.

The Channel Nine (ex-Fairfax) Press tells us that in Victoria, where 36% of children attend private schools, the highest rate of any state in Australia and well above the OECD average, 47 per cent of these schools have frozen fees and a further 6 per cent are actually cutting them.

These figures come from Edstart, an organisation which is modelled on AFTERPAY. They pay the lump sum fees at the beginning of term, and parents pay them back on a weekly basis. So their business model depends upon **very** insecure middle class parents.

Edstart based their analysis on 400 schools.

Edstart chief executive Jack Stevens told *The Age* : "Across Australia many schools kept their fees steady to assist families economically impacted by the pandemic.

"We found that nearly 40 per cent of schools did not increase their 2021 fees, which is a massive jump from 7 per cent of schools in 2020."

Schools that charge at least $30,000 a year for year 12 local students were more likely to freeze their fees, with more than half holding fees steady this year.

"This is a stark contrast to previous years where these schools had maintained a relatively consistent trend of fee increases of between 3 per cent to 4 per cent," Mr Stevens said.

While some parents may express relief and appreciation for the questionable financial lifeline offered their children by private schools, their teachers are not so sanguine. The Independent Education Union has complained frozen fees have been subsidised by freezes in teacher pay.

Meanwhile, Edstart should not be too worried. Although the bank balances of many parents in insecure employment have been affected by the pandemic, they can always fall back on the bank accounts and assets of their own parents.

And it is this enormous slush fund held by Australian grandparents, the baby boomers of the Post War generation, which is ignored, not by entrepreneurial organisations like Edstart, but by the Commonwealth Government - when they assess the 'neediness' of private schools.

Trevor Cobbold has been busy with his data analysis on this very interesting front and we reproduce his findings below:

Morrison's Private School Funding Model Ignores the Bank of Mum and Dad

Trevor Cobbold / January 20, 2021 / Funding

Private schools will receive $130 billion in funding by the Commonwealth Government over the next 8 years – $73 billion for Catholic schools and $57 billion for Independent schools. It constitutes massive over-funding by the taxpayer because the Morrison Government's funding model ignores a major source of family income used to assess the financial need of private schools.

Commonwealth funding of private schools is determined by family income, but it ignores income received from the Bank of Mum and Dad which pays school fees directly and indirectly through a myriad of supplements to family income. As a result, the capacity of private school parents to pay school fees is vastly under-estimated and private schools are massively over-funded by taxpayers.

The Bank of Mum and Dad is the 5th largest bank in Australia. Its home loans were worth $92 billion in 2017 with an average loan of $73,522. Actually, it is a much bigger bank because it also funds school fees, house renovations, household assets such as whitegoods, furniture and IT equipment, cars, holidays, medical expenses, etc. Unlike other banks the Bank of Mum and Dad largely issues non-repayable loans.

A 2020 survey by the finance company Mozo found that 39% of parents helped their children to meet educational costs. While this figure includes the cost of their own children studying, it also includes payment of school fees for grandchildren. Other surveys show that many grandparents pay at least part of school fees. The industry superannuation fund, REST, found that almost one-third of grandparents use their superannuation to pay school fees for grandchildren. A survey by the education finance company Edstart found that only half of families with children in private schools can afford the fees from their income, so it is hardly surprising that grandparents are helping. Another financial services company reported that 60% of private school students have their fees at least partly paid by their grandparents.

The Bank of Mum and Dad also helps indirectly by funding other purchases by families which frees up income to pay school fees. A 2020 survey by the finance company Mozo found that 32% of parents provided money for a home deposit, 14% acted as a guarantor and

10% assisted with home loan repayments. Nine per cent purchased a property outright for their child. Almost half (46%) of parents had contributed toward purchasing a vehicle for their children, 33% helped with ongoing bills and 27% paid for household items such as furniture.

All this income provided by grandparents to their children as gifts is not included in the assessment of families' capacity to contribute to school fees. Money is fungible, so gift income frees up family income to be used for other purchases such as school fees. For example, families supported by the Bank of Mum and Dad do not have to choose between buying a home or educating their children in private schools – they can do both.

The average non-repayable home loan from the Bank of Mum and Dad frees up income that covers a substantial proportion of school fees. The average fees and other charges in Independent schools in 2017 was $11,303 per student which amounts to $135,636 over 12 years of schooling. The income from the average parental home loan provides 54% of the total fees for one child or 27% of the fees for two children. The average fee in Catholic schools was $3,693 per student which amounts to $44,316 for one child over 12 years. In this case, the income freed up by the non-repayable home loan is more than sufficient to fund school fees for one child or to provide 83% of the fees for two children over 12 years.

These estimates are based only on the average home loan from the Bank of Mum and Dad. The actual indirect contribution of grandparents to private school fees will be much higher because of all the other income provided by grandparents

Income provided by grandparents is essentially non-declared income or early inheritance income. It is not included in the measure of family income used to determine the level of government funding for private schools. Given the extent to which grandparents provide such income, the family income measure vastly under-estimates the capacity to contribute of parents of children in private schools.

But this is not the only source of family income ignored by Morrison's private school funding model. As Save Our Schools has previously shown, there are other flaws in the model that cause the capacity to pay of families to be severely under-estimated. For example, the model under-estimates the income of families because it excludes the non-taxed component of capital gains as only 50% of the gain is taxable. Many high income families with children in private schools are likely to be recipients of this non-taxed income because 80% of the tax concession goes to the top 20% of income earners.

Therefore, the financial need of private schools is over-estimated, and they receive much more government funding than warranted. The over-funding runs into billions annually, billions that would be better used in supporting disadvantaged schools and students.

The new method of funding private schools is just as flawed as previous methods of assessing the capacity to pay of parents. The problems associated with assessing the capacity to pay of families are insuperable. They all ignore several sources of family and school income as well as family and school wealth and therefore lead to over-funding of private schools. These problems mean that the concept of capacity to pay should be abandoned in determining government funding of private schools. A new funding model is needed.

The basic principle behind government funding of private schools should be that no school operates with less total resources than a community standard necessary to provide an adequate education for all students. Governments have the responsibility to ensure that children should not be deprived of an adequate education because their parents enrol them in under-resourced schools.

Government funding for private schools should only fill the gap between the community standard and income from fees and other sources of income. Schools with private income above the community standard should not be entitled to baseline government funding because it would extend their resource advantage over public schools.