SAVE OUR SCHOOLS
Education Policy Comment

Private School Funding Model is Increasingly Incoherent, Irrational and Wasteful

The private school funding model introduced by the Morrison Government is becoming more and more incoherent and irrational. It purports to assess the financial need of private schools by the income of families with children in private schools. However, it ignores a growing source of income and assets of better-off families – the Bank of Mum and Dad. As a result, the Commonwealth Government is increasingly over-estimating the financial need of schools and, consequently, increasing their over-funding.

The Bank of Mum and Dad provides a steady stream of income to more advantaged families. It includes full or partial payment of school fees by grandparents. It also includes money for home deposits or purchases and other expenditures such as cars, household assets, childcare, etc. that frees up income so it can be spent on school fees. None of this income is included in the assessment of the capacity of parents to pay school fees.

It was reported recently that many parents are giving their children an early inheritance to enter the housing market. It said financial gifts for house purchases usually range between $200,000 and $300,000. Some parents even purchase a house outright for children. It is virtually impossible to measure the extent of the Bank of Mum and Dad, but as one report nopted, it is "visible on auction floors every weekend as many buyers walk away with the keys thanks to family backing".

According to Finder's, a financial services company, more than 60% of first home buyers in Australia receive some form of financial assistance from their parents to buy their first home. Finder's estimates that the Bank of Mum and Dad for home purchases is worth about $35 billion. It ranks among the top 10 home lenders in Australia.

The Bank of Mum and Dad is also a source of inherited wealth in the form of financial and physical assets which can be sold to produce income. Only 50 % of the income from selling family capital assets is recorded as taxable income. As non-taxable income, the other 50% is not included in the assessment of the capacity of families to pay school fees. As a result, their actual income and capacity to contribute is further under-estimated.

The Bank of Mum and Dad is mainly set up by more advantaged families. Sydney University Professor of Economics, Stephen Whelan, said recently that children of wealthier parents are more likely to successfully enter the housing market with the support of the Bank of Mum and Dad. Very few low income families have access to a Bank of Mum and Dad, either for current income or inherited wealth. A Productivity Commission study of wealth transfers shows that wealthier people receive much larger inheritances and income gifts than poor people.

Students in private schools are mainly from more advantaged families and these families are likely to be beneficiaries of the Bank of Mum and Dad. Figures provided to Senate Estimates show that about 85% of Catholic students are from the top three socio-economic status quartiles and 60% are from the top two quartiles. About 90% of Independent school students are from the top three quartiles and 75% area from the top two quartiles.

Recent reports show that the Bank of Mum and Dad is a major source of income and wealth and that it is growing. The Productivity Commission estimated the total wealth transfer in 2018 was just over $120 billion compared to under $55 billion in 2002. The value of inheritances more than doubled from $48 billion to $107 billion while gift income nearly tripled, increasing from just over $5 billion to $14 billion. The number of people receiving gifts from parents increased from 750,000 to 1.5 million over the period.

Two new studies by the Australian Housing and Urban Research Institute (here and here) found that intra-family transfers appear to have become increasingly important, with the Bank of Mum and Dad providing an important source of housing finance. This trend was also noted in a research report published by the Institute last month.

The Australian Housing Monitor found that the Bank of Mum and Dad has become" increasingly important". The number of home buyers who have accessed informal financial assistance to purchase a home has increased significantly over time. Only 15.3% of those who purchased a house in the 1980s received a loan or a gift from family members. This has increased to 41% by 2020. During the 2000's it was about 30%.

In commenting on a recent survey by Australian Unity, the general manager of its super and wealth division said that an increasing number of well-off parents are helping their adult children with home deposits and other financial assistance. "This prevailing environment will lead to more intergenerational financing of Australia's young adults", he said. This trend verified by the Productivity Commission. Its research report on wealth transfers estimated that the total value of inheritances will increase nearly fourfold between 2020 and 2050.

All this foreshadows increasing failure of the current funding model for private schools to accurately assess the capacity of parents to pay school fees. The failure to account for inherited wealth and income gifts from the Bank of Mum and Dad results in under-estimating the capacity to pay fees. The Bank of Mum and Dad provides families with a greater capacity to pay fees. Therefore, the need for government funding of private schools is over-estimated and they are over-funded by the taxpayer.

The over-funding of private schools because of the failure to assess the income and wealth provided to families by the Bank of Mum and Dad is likely to be substantial. Advantaged families benefit the most from income and inherited wealth transfers and children of these families comprise the majority of enrolments in private schools.

This is not the only flaw in the private school funding model. The financial need of these schools is also over-estimated because the model ignores donations and investment income they receive. This amounts to hundreds of millions of dollars annually. For example, figures obtained from the Australian Charities and Not-for-profits Commission show that 50 private schools received $611 million in donations and investment income over five years from 2017 to 2021, or about $2.4 million per school per year.

A complete overhaul of this failed funding model is long overdue. It is a model specifically designed to over-fund private schools. The Albanese Government should acknowledge that the funding model is unfair, incoherent and wasteful. It should commission an independent inquiry to design a better approach. It is not a matter of tinkering with the model. Basing the funding of private schools on the concept of parent capacity to pay is fundamentally flawed. The problems associated with this approach are insuperable because it ignores other income and assets of families and schools.

A new model for funding private schools is necessary to ensure they are funded solely on a needs basis. 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. This funding should be conditional on private schools meeting the same social obligations and standards as public schools. 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.

30 October 2023

Trevor Cobbold
National Convenor

SOS - Fighting for Equity in Education
https://saveourschools.com.au
saveourschools690@gmail.com