



**INDEPENDENT SCHOOLS
OF NEW ZEALAND**



Independent schools: What would a smart state do?

Putting it simply

June 2020

Key points

Dwindling funding for independent schools poses a long-run risk to the government's fiscal position

The boost to teacher salaries at state and independent schools has put further pressure on independent schools to continue providing a tailored service at the same fees. The impact of Coronavirus will only increase the financial challenges facing independent schools due to reduced enrolments and fundraising capability.

Although funding for the state school network is growing, funding for independent schools is capped. The widening gap between independent school funding and state or integrated-school funding means that independent schools are becoming less viable.

Further independent school closures will increase the pressure on the capacity of a state system that is already stretched. At a time when the national school roll is increasing, students attending independent schools eases the financial and capacity pressures of the state system.

Supporting independent schools builds equity, opportunity, and wellbeing

There are several arguments for increasing funding to independent schools:

- Optimising government expenditure of schooling in total. Increasing the number of students that attend independent schools, would reduce the cost of expanding the state system and deliver high levels of achievement at a lower cost to the public purse.
- Offering genuine educational choice – independent schools are better placed to provide for more diverse learning needs and preferences.
- Offering stability to the sector – the current pooled funding creates uncertainty for independent schools and families.
- Supporting innovation – which comes at a lower cost to the government because independent schools' parents and donors co-fund the innovation costs.
- Ensuring horizontal equity – parents who send their children to independent schools pay twice. Once through taxes, which largely go to state or state-integrated schools and again through independent school fees.

A smart state focused on maximising wellbeing would increase the Private School Subsidy Funding

If the state wants to minimise the risk of future long-run costs, it would ensure that funding of independent schools is adequate to keep the sector viable. Increasing the subsidy to independent schools would paradoxically save the government money.

A state concerned about promoting educational achievement and overall wellbeing would pay more than this fiscal breakeven value. Linking the subsidy to independent schools to that of the most efficient state and state-integrated secondary schools, would increase the funding from around \$2,400 per secondary student in 2017 to between \$8,600 per student (based on direct costs) and \$11,600 per student.



Independent schools in a nutshell



A smarter strategy would be to increase the subsidy for independent schools, so it is linked to the cost of the most efficient state system schools.



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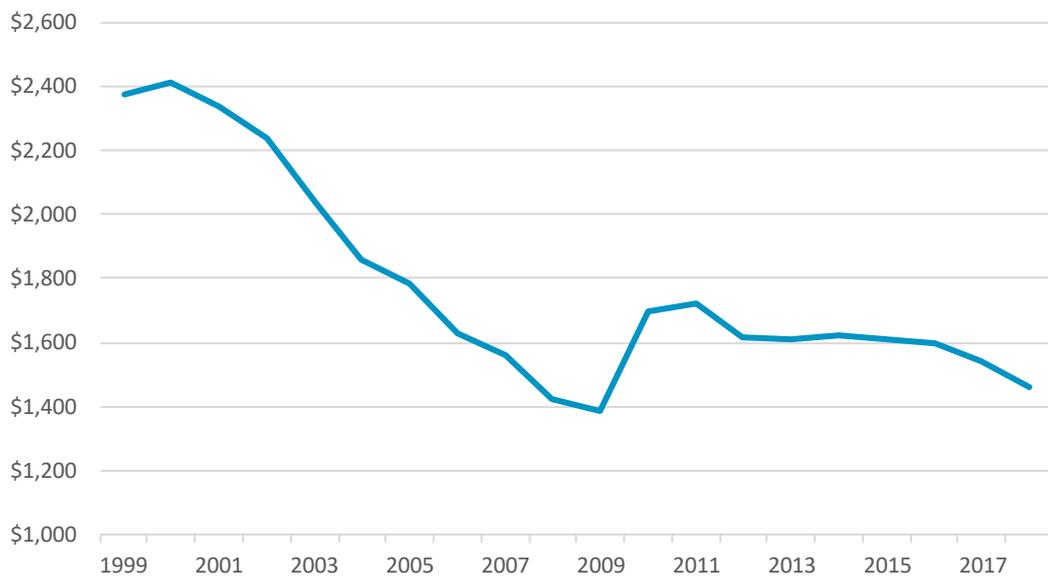
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1 We've got a problem

Last year, teachers from state and state-integrated schools welcomed a pay rise (Ministry of Education 2020). After almost ten years of shallow and below average wage inflation (Satherley 2018), the boost to teacher salaries was a welcome development in the education sector. But one group of schools missed out. Independent schools have not had any increase in their base funding from the government since 2010 (The Treasury 2009).

Figure 1 Per-student funding for independent schools

GST exclusive, inflation adjusted, June years



Notes

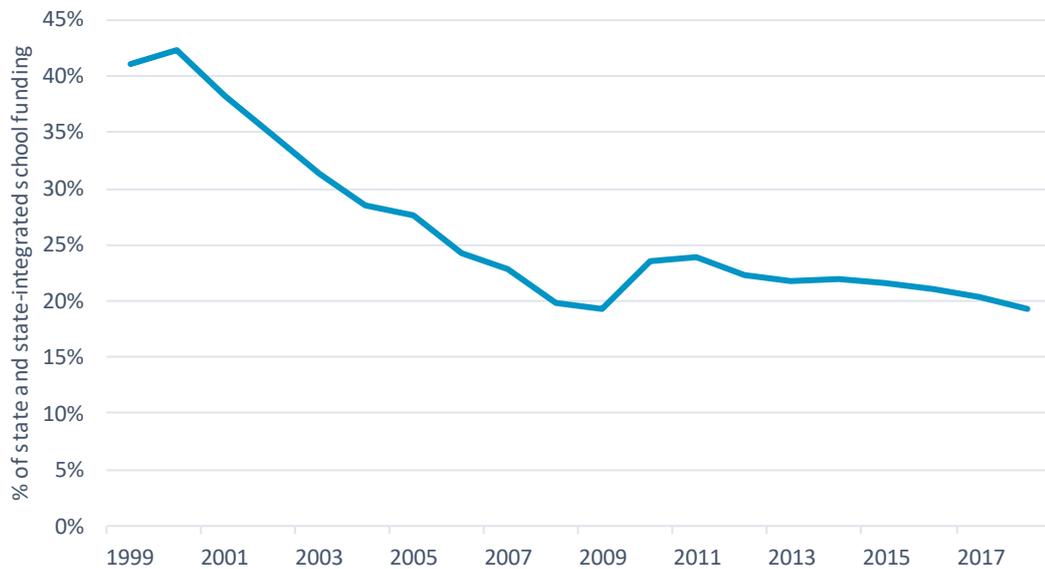
- 1 This is funding for operating costs and salary expenses – the government does not fund independent schools' capital costs.
- 2 In 2018 this funding was 19% of the salary and operating funding provided to state and state-integrated schools.
- 3 Base year for inflation adjustment = December 2018.

Source: Education Counts 2019, Ministry of Education 2019c

The 2010/11 increase in independent school funding provided some relief in the otherwise declining rate of independent schools' funding. Alongside increasing education costs, per student operation and salary funding for independent schools has fallen below 20% of the equivalent funding allocated to state and state-integrated schools (see Figure 2).

Figure 2 Funding for independent schools compared to state school funding

Per student funding, for operating and salary expenses



Note

1 Calculated using GST exclusive figures.

Source: Education Counts 2019, Ministry of Education 2019c, Ministry of Education data as used in NZIER (2010)

Higher teacher salaries in state schools threaten the viability of independent schools

With better salaries offered to teachers in state and state-integrated schools, independent schools will face increased cost pressures as they compete for teaching staff.

Parents paying for independent schooling do so for a reason – be it access to more flexible schooling, desire for education that aligns with their social, cultural or religious preferences, or to accommodate their child's special abilities or disabilities. To accommodate these preferences, independent schools often need to attract higher skilled teachers, and therefore pay a premium for their staff.

The pay rise for state and state-integrated schoolteachers undermines independent schools' ability to attract these staff and to therefore provide the unique services that families (and the state) rely on.

Under these circumstances independent schools have two options:

- Raise fees to maintain the specialised services that some parents want or need for their children.
- Allow their service level to drop – through reduced teacher numbers, less experienced teachers, or lower investment in school facilities or materials.

Both these actions will encourage parents to send their children to state schools instead of independent schools. Raising fees is particularly problematic as this increases the likelihood that only independent schools with students from wealthy backgrounds remain open, engendering elitism.



Short run risks are small for the government

In the short run, the gradual shift of students from independent schools to state and state-integrated schools makes very little difference to government's immediate fiscal costs (NZIER 2020).

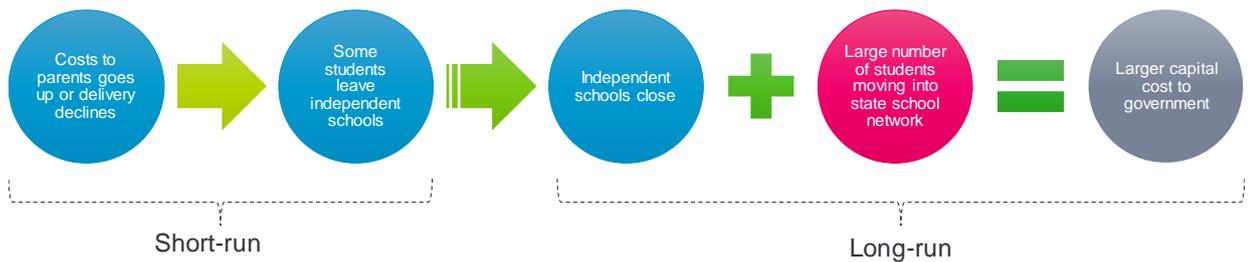
But long-run cost risks for the state school network are big

However, these declines all add up. Once a critical mass of students leaves an independent school, that school will be forced to close. This was the case for the Queen Victoria School for Girls in Parnell in 2001 whose roll dropped from 157 in 1998 to 58 in 2001 (Walsh 2001).

Although state schools are set up to absorb some students coming from independent schools, few state schools can absorb the hundreds of students that might come into the state system after an independent school closes in their area without significant capital investment and additional operational expense. This would increase the fiscal costs of operating the state school network.

The cumulative effect of students leaving, alongside the final burst of students transferring from a closed independent school, puts immense pressure on the state school network.

Figure 3 Short-run changes add up to large long run costs



Source: NZIER

Can the government afford it?

The state school network is already short for space. The state school network experienced rapid roll growth over the past five years (see Figure 4). National population projections suggest that the school age population will continue to grow until 2025.

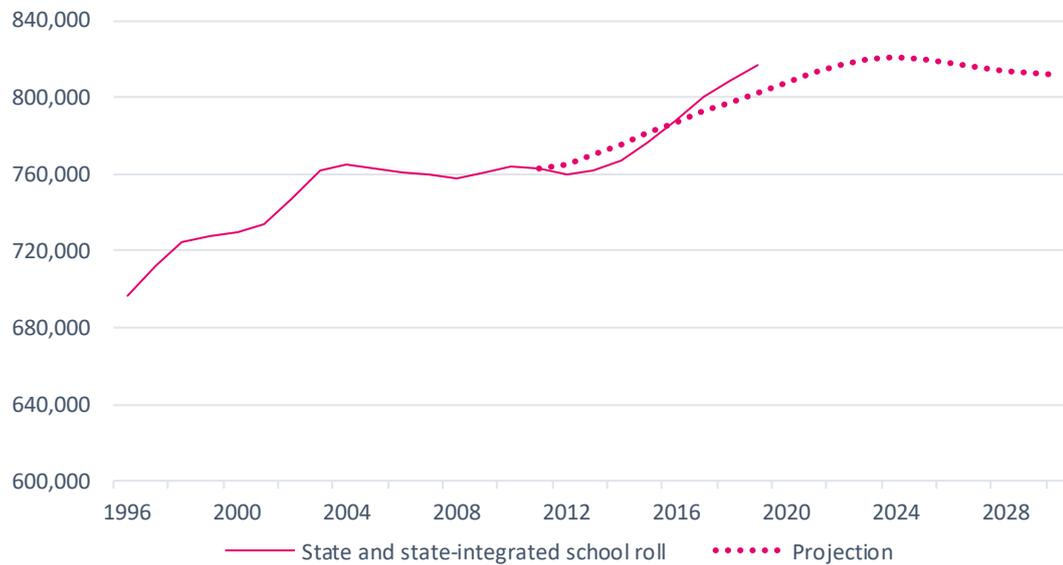
These projections predate the Coronavirus. Looking ahead, in the short run, New Zealand's Coronavirus free status could increase pressure on school rolls. In the medium term, the pressure of total school roll growth is likely to continue until the middle of the decade, even if population growth from net migration slows due to Coronavirus.

More than 30,000 students attended independent schools in 2019 (Education Counts 2019). Furthermore, independent schools are often in the more populated parts of the country (Education Counts 2019), meaning that their students are likely to want to go to state or state-integrated schools nearby.

Hiring more teachers may be easy with teachers transferring from independent schools. However, finding more space and building more school buildings is a huge cost risk to the government. The state and state-integrated schools most likely to receive independent school

students are also most likely to be already under capacity pressures and unlikely to be able to accommodate large numbers of additional students.

Figure 4 State and state-integrated school rolls are increasing faster than forecast



Source: Education Counts 2019, Ministry of Education 2011

2 Why do independent schools need funding anyway?

Independent schools run largely on funding from non-government sources. These include parents paying fees, grants, or donations. Very few schools can afford to run this way, with only 3.7% of students attending an independent school in New Zealand. However, the decision around the extent to which independent schools should get government funding might be because of any of the following reasons:

- How families pay for and receive education should be fair across households.
- Families deserve to have a choice in the type of education they get.
- The education sector should support innovation to deliver better education outcomes.
- Schools should have stability in their financial position to offer education so that families can also have stability in the education option they choose.
- The government should be prudent in its spending on education without compromising on outcomes.

We discuss these reasons further in this section.

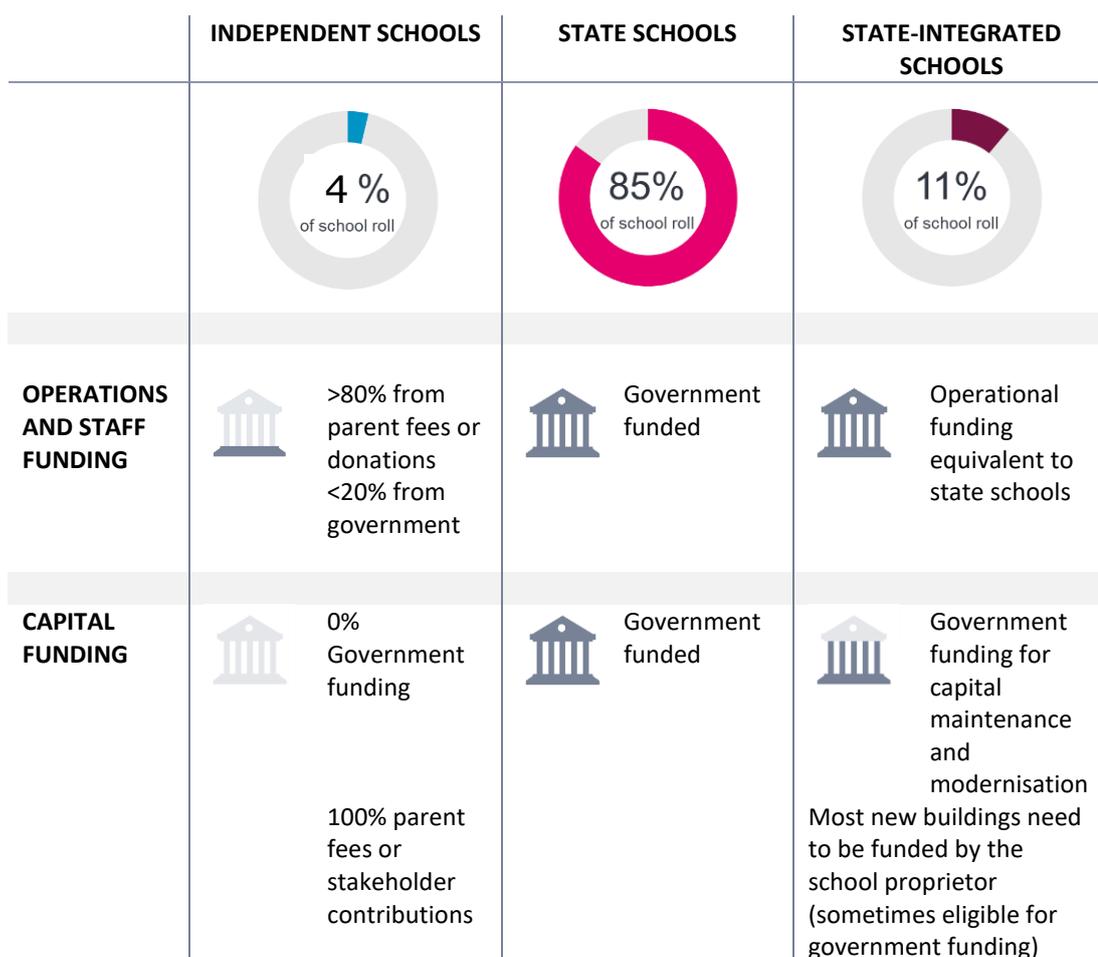
Households that are the same should be treated the same

Under the current system, you could have two households with the same number of children and the parents earning the same income. Both these households would pay the same tax and receive the same Working for Families payments.

However, if household A chooses to send its children to an independent school, they will receive less than 20% of the education funding that household B receives per child. This is because the government only provides independent schools with about 20% of the funding it gives to state and state-integrated schools for teacher salaries and school operational costs (materials, electricity, equipment, etc.). Furthermore, unlike the state school network, independent schools receive no funding for maintaining, replacing or building new buildings (see Figure 5).

Figure 5 The Government’s role in funding different school types in New Zealand

More of the building filled in (dark) indicates more government involvement



Source: NZIER, Education Counts 2019, Ministry of Education 2019b, Office of the Auditor-General 2014

It could be argued that in order to be fair on families who choose to send their children to independent schools, the government should fund all school types equally. Among others, the Netherlands and Denmark both have the philosophy that education is important, but parents should have a choice around what education they prefer for their child (this is a constitutional right). Both countries acknowledge that the delivery of education should meet a certain standard so that the population is sufficiently equipped to participate and contribute to society, however, do not prescribe how schools provide that education and therefore fund all education options meeting these standards equally.

“I don't care if the cat is black or white, so long as it catches mice.”

Deng Xiaoping

With a history of partial funding for independent schools over time (see Figure 6), the government is unlikely to equalise funding across school types in New Zealand. Nevertheless, given the continuous decline over the past eight years, the limited funding for independent schools is placing an increasing and unfair burden on families seeking independent schooling.

Families deserve to choose from a variety of options

Independent schools are very diverse in their offering and in the communities they serve. Some examples of independent schools in New Zealand are:

- Christian denominational and non-denominational schools, e.g. Samuel Marsden Collegiate School, Scots College, Rangi Ruru Girls' School, Hereworth School.
- Islamic schools, e.g. Iqra Elementary School.
- Montessori schools, e.g. Harbour Montessori College, Meraki Montessori School, Nova Montessori School, Waikato Montessori Education Centre, Peace Experiment.
- Steiner schools, e.g. Motueka Rudolf Steiner School, Titirangi Rudolf Steiner School, Waiheke Island Steiner School.
- Schools that specialise in accommodating students with special abilities or disabilities, e.g. Summit Point School, ADDI Enrichment Academy.
- Schools that cater for students who come from disadvantaged backgrounds, e.g. Dilworth, or are recovering from traumatic experiences or addictions, e.g. Odyssey House School Auckland.

Without independent schools, the range of choices that parents have for their children will shrink. State and even state-integrated schools do not have the flexibility to cater for the diverse needs of all students and communities. Independent schools fill these gaps.

Independent schools are inherently flexible. Independent schools choose their own curriculum (see Figure 7) which means that they are better able to tailor this curriculum to their students' needs.

In contrast, the government decides the curriculum for state and state-integrated schools. Although this curriculum is wide-reaching, it can't always meet all student and community needs.

With independent schools, the New Zealand schooling system has the flexibility of tailored learning for those that need or want it. In providing both options, more New Zealanders will have the ability to lead fulfilling lives, to participate, and to *share in the benefits of a strong and growing economy* (The Treasury 2019a).

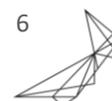
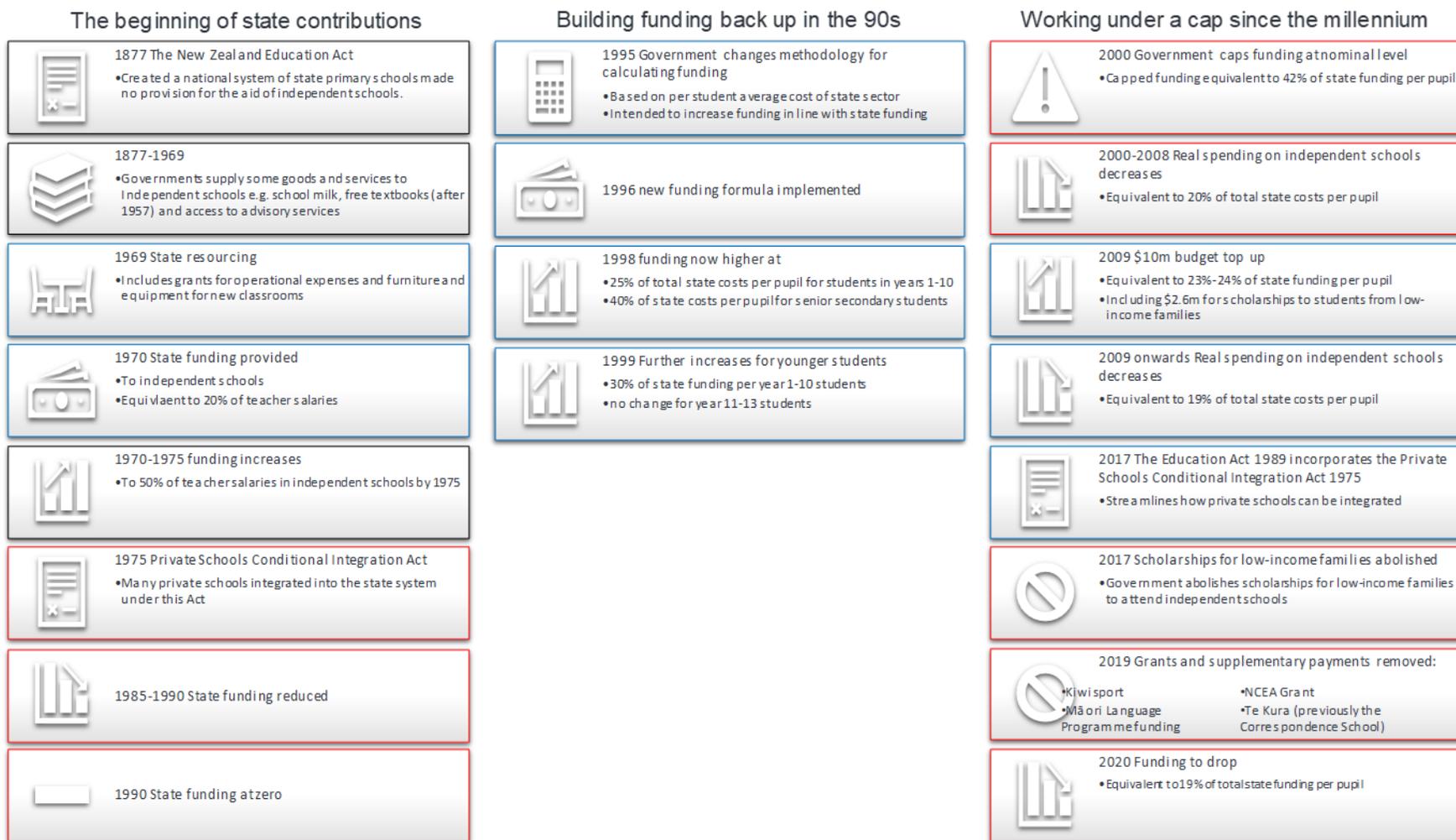


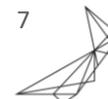
Figure 6 How did we get here?

A history of funding for independent schools on New Zealand, borders represent Labour (red), National (blue), or both (black) governments, respectively



Note

1 RE: 2019 Grants and supplementary payments removed. Te Kura funding continues for Ambury Park Centre, Odyssey House and Hohepa School.



Source: Cook 2012a, New Zealand Government 1975, Ministry of Education 2017, Ministry of Education 2019a, Board of Trustees of Te Aho o Te Kura Pounamu 2018, The Treasury 2009, The Treasury 2019b

Figure 7 The Government's role in education in New Zealand

More of the building filled in (dark) indicates more government involvement

	INDEPENDENT SCHOOLS	STATE SCHOOLS	STATE-INTEGRATED SCHOOLS
REGULATION	 <p>Government oversight of school and teaching</p>	 <p>Government oversight of school, teaching, and curriculum</p>	 <p>Government oversight of school, teaching, and curriculum But school provides additional schooling related to their "special character"</p>
PROVISION	 <p>Schooling provided privately</p>	 <p>Schooling provided by the state</p>	 <p>Schooling provided by the state</p>

Source: NZIER, Education Counts 2019, Ministry of Education 2019b, Office of the Auditor-General 2014

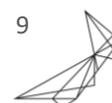
Supporting innovation and competition helps build a productive education sector

Providing families with educational choices promotes competition and innovation.

Independent schools must prove their value to their community – otherwise families wouldn't pay to send their children there. The benefits of a strong independent school sector include both direct effects (on the academic achievement of those attending independent schools) and instrumental effects (through the competitive effect on state schools) that both can work to improve outcomes.

Enabling independent schools to provide more tailored schooling is like a low-cost investment in R&D for the government. Independent schools have been at the forefront of adopting technology, but also in developing alternative learning techniques. Summit Point school has developed a curriculum tailored to dyslexic learners so that they can learn key numeric and literacy skills faster (Summit Point School 2017). Ambury Park Centre provides horse riding therapy for children with physical, emotional, psychological and intellectual disabilities (Ambury Park Centre n.d.). With very little government funding, independent schools develop different learning techniques, which the government can then adopt and roll out when independent schools have ironed out all the kinks.

Independent schools also provide competition for state and state-integrated schools. This competition adds impetus for the state school network to improve. A consistent finding across a wide range of countries, including New Zealand, is that students attending independent schools have higher achievement rates than students attending state schools (OECD 2011). However, the OECD's research reveals that differences in socio-economic background account for three-quarters of the private schools' advantage, with the balance due to choice, autonomy, and accountability. Some country studies suggest that the presence of independent schools raises outcomes for all schools (Hepburn and Robson 2002, Böhlmark and Lindahl 2015). However, other country studies found no positive impact on the overall performance of national education system (Hsieh and Urquiola 2006). Overall the empirical literature finds



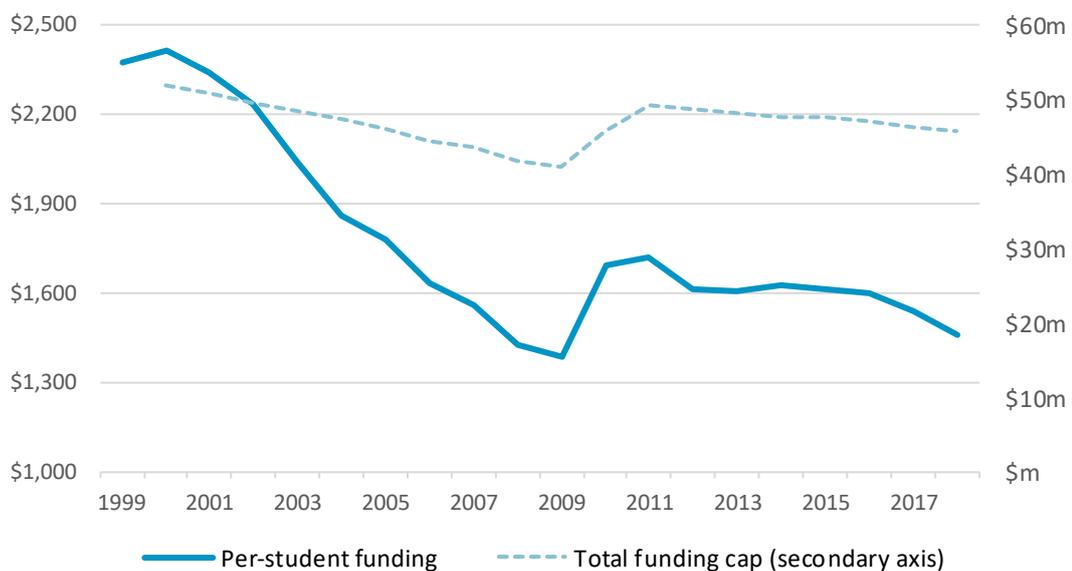
mixed results on overall system performance across countries. What the studies do clearly show is that private schools do appear to benefit the individual students who attend them, and these results are achieved at lower cost to the public purse.

Funding stability supports school stability

Funding for independent schools is erratic. Since 2000, funding for independent schools has been under a capped system – funding was set and then divided among the number of students attending independent schools. If more students attended independent schools one year, then the per student funding amount would change (illustrated in Figure 8).

Figure 8 Funding for independent schools varies under a cap

Per-student funding vs. funding cap, both GST exclusive and inflation adjusted



Source: Various, including Education Counts 2019, Ministry of Education 2019c, The Treasury 2009

This creates an expensive level of uncertainty for independent schools’ management teams who will need to alter fees to compensate for reduced funding. The resulting variance in fees creates uncertainty for parents who want to send their children to independent schools. Lower funding one year can mean that families have to pull their children out of an independent school and enrol in a state or state-integrated school – disrupting the child’s educational experience.

Despite this erratic funding, the independent schools sector helps the government save money on education.

A government should make the most out of taxpayer money

All education costs money, but education at independent schools costs the government much less than education at state schools. This is because independent schools divert those willing to pay away from the state school system, freeing up funds for those remaining, without compromising outcomes.

In 2018, government funding for independent schools was equivalent to 19% of the per pupil operating and salary costs of educating children in the state sector. Independent schools covered the remaining costs which includes the bulk of teacher salaries, operating expenses,

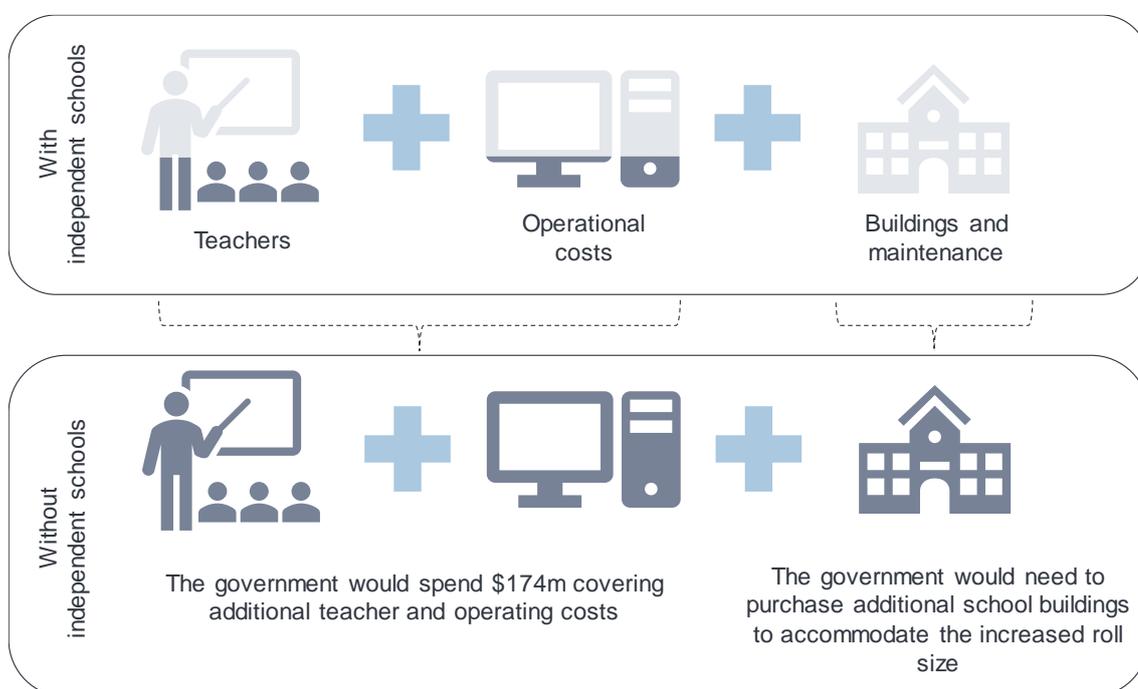


and 100% of the school building and maintenance costs. This provides considerable savings for the government.

If all the independent school students of 2018 went to state schools, this would cost the government \$174m in just teacher salary and operating expenses alone (Education Counts 2019 and Ministry of Education 2019c). This is because government funding for independent school students is about 19% of its per-student funding for state and state-integrated schoolteacher salary and operational costs. Independent schools also save the government in terms of buildings – which the government does not fund at all for independent schools (see Figure 9).

Figure 9 Government spending saved by independent schools

Government spending represented in dark grey



Source: NZIER using data from Education Counts 2019

Nevertheless, the funding the government does provide to independent schools helps to keep them financially viable. Without this funding, the number of independent schools that can keep their doors open will shrink, increasing the burden on the state school network and increasing education costs for the taxpayer.

3 What would a smart state do?

If the government wants to mitigate this long-run risk, it should re-assess its funding for independent schools considering their long-term viability and capacity to absorb student roll pressures in their local area.



Independent schools need more funding to remain viable. Although the government is unlikely to lift independent school funding to levels on par with state or state-integrated schools, some increase is necessary to keep independent schools in play. To ensure ongoing stability in the independent school sector, the government could benchmark its funding for independent schools against funding for efficient (cost effective) schools in the state schools network.

3.1 How could funding for independent schools be benchmarked?

One way the government could benchmark funding for independent schools is to base funding on how much efficient schools in the state school network need per student. Analysis by NZIER comparing how secondary schools perform to how much they spend on teachers, learning resources, and school administration indicates that the secondary schools which are efficient (i.e. get the most grades for dollars spent), spent \$8,600 per student in 2017 (NZIER 2020). If we include costs of maintaining classrooms and school buildings, this cost goes up to \$11,600 per secondary student (NZIER 2020).

4 Conclusion

Although state and state-integrated schools received a well-deserved pay increase for their teachers, this lift has increased the gap between spending on the state school network and spending on independent schools. Independent schools are heavily constrained by their funding options, and government support is crucial to many independent schools remaining open. However, the increase in funding for state and state-integrated schools makes the playing field even more skewed towards the state school network at a detriment to the independent school network, to families with more diverse needs, and to the government's wallet.

The independent school sector adds value to the wider education network and the New Zealand community. Not everyone wants or needs the same thing from education and many independent schools provide tailored education services that the state school network struggles to adequately provide. Although we understand that these tailored services come at an extra cost, it is unfair that parents should receive less government support for their child's education just because they want a different kind of education for their child.

The independent school sector also builds on New Zealand's wellbeing through innovating new ways of teaching and helps reduce the cost burden of education as parents pay the lion's share of the education costs for their children attending an independent school.

It is in the government's best interests – financially, and in terms of supporting wellbeing outcomes – to support a viable and thriving independent school sector. Given the recent changes in state sector teacher pay, the independent school sector urgently needs more government support to remain viable.

The government can keep independent schools' doors open by making its funding more consistent over time and relative to state and state-integrated schools funding. But in the interests of the government wanting to keep its funding commitments low, we recommend benchmarking funding against what an efficient state or state-integrated school spends on each student.



The lift in teacher salaries will drive this level of funding upwards from the levels calculated by NZIER. We hope that the government will consider increasing independent school funding in line with the increase in per-student spending by efficient state and state-integrated schools.



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