SAVE OUR SCHOOLS

Submission to the Productivity Commission Inquiry on Philanthropy

Save Our Schools (SOS) welcomes the Commission's draft recommendation to end the Deductible Gift Recipient (DGR) status of school building funds. The Draft Report makes a compelling case to end the tax concession for school building funds based on four clear reasons.

- There is no clear rationale for the concession that was provided when private schools did not receive government funding. Any rationale that existed in the 1950s has been overcome by huge increases in government funding. The concession has outlived its usefulness. Private schools received a huge range of funding programs by the Commonwealth and state/territory governments;
- The benefits of DGR status accrue to individuals connected with the schools such as students, parents and alumni rather than providing community wide benefits;
- DGR status is not an effective or efficient way to deliver government capital funding to schools. There is no prioritisation of or systematic assessment of government funding for capital works according to need. Funding capital works through DGR status does not align with current funding principles which purport to be based on need;
- The DGR status of school building funds depletes the revenue base of the Commonwealth Government unnecessarily.

SOS agrees with the Commission's finding that the DGR system is not fit for purpose in relation to school building funds.

Tax deductible donations to school building funds are heavily concentrated in high fee exclusive private schools. They are a lucrative source of income. For example, data extracted from school financial reports to the Australian Charities and Not-for-profits Commission show that 50 of the most exclusive private schools in Australia raked in $461 million in donations over the period 2 017 to 2021, an average of $92 million a year. The Scotch College (Vic) raised $32.5 million over the period, Scot's College (NSW) $31.8 million, Melbourne Grammar $26.7 million, SHORE (NSW) $25.4 million and Christ Church Grammar (WA) $25.1 million. The large part of this was through school building funds. In 2021, these schools also received $539 million in government (Commonwealth and state/territory) recurrent funding.

DGR status serves as a taxpayer subsidy for an arms race in ornate school facilities. The luxurious facilities of elite private schools supported by taxpayers through DGR status are in a league of their own – ultra modern science centres, libraries, auditoriums, theatres with orchestra pits, multiple sporting ovals, indoor Olympic size swimming and diving pools, gymnasiums, tennis courts, wellness centres, equestrian centres, rowing tanks and boat sheds and underground car parks. The library designed as a Scottish baronial castle at the Scots College in Sydney is a classic example. As the Draft Report states these subsidies are not assessed according to need.

These donations also reduce the tax burden of the donors, so even more money goes to private, not public benefit. They serve to perpetuate inequalities over generations.

DGR status has supported exclusive high fee private school foundations to accumulate multi-million dollar assets. For example, SHORE raises funds through its SHORE Foundation which has assets of $42 million (2021). The King's School Foundation has building, scholarship and bursaries funds and has assets of $50 million. Melbourne Grammar raises funds from its Foundation Endowment Fund with assets of $56 million and a building fund. Geelong Grammar raises funds from its Endowment Trust, with assets of $31 million, a Scholarship Foundation with assets of $40 million, a building fund and a foundation.

Scotch College (Vic) has numerous trusts and beneficial funds that provide funding for the school. Indeed, it has so many that it had a special Act of the Victorian Parliament passed in 2001 to enable it to pool the investment of those trust funds in one or more common funds to minimise administrative costs of operating each fund and increase its investment income. The Scotch College Foundation has assets of $100 million.

As usual in defending their subsidies, wealthy private schools refer to less advantaged private schools that do not raise as much money to spend on infrastructure. This defence ignores capital funding programs operated by the Commonwealth and state/territory governments. These programs are more likely to be subject to some assessment of need, although not always.

The Draft Report recommended a clear framework of principles to govern the future operation of the DGR system. It proposed that eligibility for DGR status should be based on the following principles:

- The activity is expected to generate net community-wide benefits that would otherwise likely be undersupplied by the market. The activity improves access to goods and services, including for people on lower incomes, in line with general government objectives for a more equitable society.
- Providing government support for the activity through tax deductible donations generates broader net community benefits than provided by other government funding mechanisms, such as grants.
- The activity is unlikely to create a material risk that tax-deductible donations can be converted to private benefits for donors. Any private benefits need to be sufficiently low or incidental to the act of donating, relative to the benefits available to non-donors. These risks may be heightened for activities for which there is likely to be a close nexus between donors and intended beneficiaries.

SOS welcomes these principles and recommends that they be retained in the Commission's final report. The Commission should not be swayed by the political campaign being orchestrated by private schools to protect their privileges but which has failed to substantiate any net community benefit for continuing their DGR status. The Commission has a long tradition of independent evidence-based policy advice grounded on rigorous analysis rather than political expediency. It is hoped that the Commission maintains its analytical independence and integrity.

While school building funds are the main source of donations to private schools, these schools also operate a variety of other funds that are eligible for tax-deductible donations. They include broad-function foundations, library, scholarship and arts funds. These funds play a similar role to building funds in private schools in that the benefits go to those associated with the school rather than provide wider community benefits. For example, scholarship funds are used to poach high-achieving students from public schools to improve school rankings and to enrol students with talented sporting abilities to achieve greater success in the intense sporting rivalries between exclusive private schools.

It is surprising that the Commission did not assess the role of these funds according to its principles for determining whether they provide a community benefit. It should be a task for its final report.

The Commission's findings apply just as much to other tax-deductible funds operated by private schools. SOS recommends that the Commission should assess these funds against is principles framework in its final report.

Another feature of tax deductible donations for private schools is that they are a lucrative source of income that is not included in the assessment of their financial need for government funding. This is a major flaw in the current funding model. This exclusion means that private schools, especially the high fee exclusive schools that draw the large part of donations are even more overfunded than official figures reveal because their financial need is over-estimated. This is an egregious over-sight that benefits private schools and their families and is a huge mis-direction of taxpayer funds.

SOS acknowledges that exclusion from DGR would apply to public schools as well but few public schools have DGR status and their income from building funds is relatively small. However, the DGR system presents similar equity failures in the public system as with private schools, albeit on a smaller scale. It means that funding is not prioritised according to assessment of need. It is likely that public schools in more advantaged areas attract more donations for building funds than schools in disadvantaged areas. Direct government funding is likely to be a much more equitable and effective mechanism for upgrading infrastructure facilities in public schools than relying on supplementary 'ad hoc' funding through the DGR system.

In summary, SOS recommends that the Commission retain its recommendation to terminate DGR status for school building funds in its final report and that it also recommends ending DGR status for school foundations, library, arts and other funds.