



Catholic Education
Commission NSW

IPART Review of Local Government Rating System

Catholic Education Commission NSW

Submission

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Introduction

Catholic Education Commission NSW (CECNSW) makes this submission on behalf of the state's 588 Catholic schools, which educate 255,397 students and employ more than 27,000 staff in 152 local government areas.

Based on current enrolment patterns and population projections, it is estimated that Catholic school enrolments will grow by 23% or more than 58,000 by 2031.

CECNSW supports the review by the Independent Pricing and Regulatory Tribunal (IPART) into the NSW local government land rating system. This timely review will help ensure that the processes by which council rates are set and levied will deliver ratepayers value as well as appropriate social and other benefits.

CECNSW's submission focuses on one aspect of the 'key issues' identified by the review - potential changes to the land uses that are currently exempt from paying rates.

Under Section 555 of the *NSW Local Government Act 1993*, schools are one of several land uses currently exempt from paying rates.

This submission argues that the rates exemption for all government and non-government schools should be retained in its current form.

CECNSW agrees with the points raised in Chapter 5 of IPART's Issues Paper in relation to the rates treatment of schools, churches and charitable bodies

1. Equity

Under "Equity", IPART says rate exemptions may be equitable when the exempt activity provides a large benefit to local ratepayers, or where the exempt organisation has limited ability to pay:

For example, some religious or charitable institutions may have limited ability to pay rates. Exemptions may allow them to spend more on social goods such as helping the disadvantaged in the local area, which results in more equitable outcomes for society.

Public schools and hospitals also can provide large social benefits and may have limited ability to pay rates without reducing service levels, or shifting additional costs onto state and federal budgets.

- 1.1 Catholic schools, as not-for-profit entities with charity status, meet both criteria by (i) providing valuable social benefits to a broad section of their local communities while (ii) efficiently allocating their recurrent and capital funding to their core objectives of educating students in their care
- 1.2 All Catholic schools provide a public benefit by helping to deliver a compulsory, government mandated activity to one in five NSW school students according to the standards and laws laid down by the NSW and Australian parliament and government education agencies such as the Board of Studies, Teaching and Educational Standards and the Australian Curriculum, Assessment and

Reporting Authority. Catholic schools must meet NSW Government registration requirements in relation to curriculum, teacher accreditation and credentialing, as well as more than 80 other State and Commonwealth legislative requirements

- 1.3 For these reasons alone, all Catholic schools are supported financially by State and Commonwealth governments. Local governments' contribution to this valuable endeavour has been to provide rate exemptions to local schools - an efficient, low cost arrangement that ensures councils and their ratepayers have local access to critical social and economic school infrastructure
- 1.4 Catholic schools have been part of the NSW education system since 1821. They are an essential education provider and valuable economic generator within their local communities, employing some 27,000 staff in metropolitan, regional and remote NSW. Local businesses benefit from the patronage of the school's staff, students and parents
- 1.5 Catholic schools are inclusive and produce future educated and empowered Australian adult citizens. They encourage all-round ability, social development and engagement in the community. They provide an affordable educational choice for all families and students who support the Catholic ethos, whether they are Catholic, non-Catholic, wealthy, poor, Aboriginal or have a disability. Catholic school students reflect Australia's cultural and socio-economic diversity and educate students with similar cultural and socio-economic attributes to their neighbouring public schools. Students with a disability and Aboriginal students are the fastest growing enrolment segments of NSW Catholic schools. In 2014, one in 20 Catholic school students (5.2%) had a disability - up from one in 500 in 1985. Indigenous enrolments have also grown strongly, increasing sixfold over the same period to more than 7,200 in 2014 (2.8%)

Considerations raised in the Issues Paper

- 1.6 Legally, Catholic schools are charities accountable to the Australian Charities and Not-for-profit Commission. They must therefore be treated similarly to other charitable bodies in relation to rate exemptions
- 1.7 As not-for-profit bodies, Catholic schools pre-allocate their funding each year to the core activities of teaching students and the requisite administrative support, leaving very limited spare funds:
 - The average NSW Catholic primary school educates 290 students on an annual budget of less than \$3.3 million
 - The average NSW Catholic secondary school educates 817 students on an annual budget of \$12 million
- 1.8 It would be a heavy and unreasonable burden for a Catholic school to find a six-figure sum annually to pay council rates from within such budgets without reducing staff and/or raising school fees
- 1.9 On average, NSW Catholic schools receive 71% of their recurrent funding from the Commonwealth and State governments through legal agreements with strict conditions on its use. The remaining 29% is from parents through school fees and other fund-raising. Parents also contribute more than two-thirds of funding for capital works

2. Efficiency

Under “Efficiency”, IPART says rate exemptions provided to some education institutions and hospitals can result in larger spending on goods and services that produce large net social benefits and may increase economic efficiency.

Exemptions may also prevent extra costs being imposed on state and federal governments when they provide public goods such as national parks, protected forests, and public places.

- 2.1 CECNSW argues that rate exemptions allow more funding to be directed to educating more students. All Catholic schools authorities provide a degree of fee exemptions, reductions and/or bursaries to disadvantaged families, a benefit that would be curtailed or discontinued if rates were to be levied
- 2.2 The average cost of educating a student in a NSW Catholic school in 2014 was approximately \$14,000 per year. If schools were charged rates of some \$140,000 per year (as one media report estimated), it would be equivalent to the cost of educating 10 students
- 2.3 Catholic schools provide efficiency by being only part-funded by Commonwealth and State governments. Government meet the full cost of educating students in the government schools sector, but only 71% of the cost in the Catholic sector. Catholic school parents contribute the remaining 29%, saving Federal and State taxpayers more than \$2,000 per student per year in recurrent funding
- 2.4 In the context of a land use rating system, it is significant to again note that Catholic school parents also contribute some two-thirds of the funding for capital works in NSW Catholic schools each year

3. Simplicity

Under “Simplicity”, IPART argues for reduced complexity to minimise administrative and monitoring costs associated with exemptions.

Exemptions should be kept to a minimum to promote simplicity, and only granted, or retained, where there are clear net benefits from doing so. NSW legislation has progressively provided for a larger number of exemptions.

There may be scope for these to be rationalised. Conditions that apply

to exemptions should be objective, transparent and targeted to minimise the extra burden on local rate payers and the scope for disputes on eligibility.

3.1 CECNSW believes that in the interests of simplicity, all Catholic and government schools should retain their rates exemptions because their benefits are equally clear and their purposes identical:

- 3.1.1 Government and Catholic schools are not-for-profit
- 3.1.2 Government and Catholic schools have identical land use characteristics and environmental impacts
- 3.1.3 Neighbouring government and Catholic schools educate students from similar cultural and socio-economic backgrounds (25% of Catholic school students are not Catholic)
- 3.1.4 Government and Catholic schools face similar growth challenges into the future and need to target scarce capital funds to expanding their capacity by 23% by 2031.

4. Sustainability

Under “Sustainability”, IPART argues that exemptions reduce the size and diversity of the rate base and therefore may compromise sustainability.

Rate exemptions may especially compromise sustainability if:

- *the existing rate base is small (eg, in rural and remote local government areas) and*
- *the exempt institutions impose substantial additional costs in the local government area (eg, forest logging causing road degradation).*

4.1 CECNSW argues that rate exemptions should remain for all government and Catholic schools because each school adds value to a community, thereby contributing to the local council's rate base, particularly in rural and regional areas, without imposing significant additional costs:

- 4.1.1 All schools have identical land use characteristics and impose similar demands on council services within their local government areas
- 4.1.2 Residential properties in close proximity to schools are more attractive to families and therefore more valuable in terms of land ratings - generating more rate revenue
- 4.1.3 Many long-established Catholic schools are located in suburbs and towns that have, over time, become more highly sought-after by families due to the presence of those schools
- 4.1.4 Schools often make their facilities, such as halls and playing fields, available for other community uses at nights, on weekends and during school holidays

5. Competitive neutrality

Under “Competitive Neutrality”, IPART states that businesses competing with each other are required to be treated equally in relation to rates exemptions.

If rate exemptions are provided to government enterprises or charitable institutions that compete with the private sector, such as retirement villages or child care centres, this may result in the private sector incurring higher costs than the institutions receiving exemptions. Efficiency losses can occur if this cost disadvantage causes more efficient private providers to reduce, or to withdraw, the supply of services.

Considerations raised in the Issues Paper

5.1 NSW has no ‘private sector’ (ie, for profit) schools and Catholic schools do not regard themselves as ‘competing’ with government schools. However, the Catholic sector is the largest non-government schools sector and, under this principle, must retain a similar exemption to government schools.

5.1.1 Government and Catholic schools are all non-profit entities

5.1.2 Government and Catholic schools are similar in terms of their core purpose and curriculum

5.1.3 Catholic schools are an efficient alternative provider of education, teaching students from similar cultural and socio-economic backgrounds as government schools in the same locality

5.1.4 Without Catholic schools, NSW government schools would have to increase their enrolment capacity by one-third to absorb more than a quarter of million additional students from the Catholic sector. Taxpayers would also need to fund 100% of their recurrent and capital costs, instead of 71% and 30% (respectively) currently

6. Commercial activities

IPART’s Issues Paper suggests exemptions could be removed or narrowed if ‘commercial activities’ take place on the exempt land.

6.1 Some Catholic schools may occasionally hire out school facilities, as do many government schools, out of session. However, any income generated from facilities hire is typically modest and used to help fund the school’s core activities and associated running costs

6.2 Some government schools market their school’s facilities to the community for hire under a policy encouraged by the Department of Education in which “private profit-making organisations pay

a fee which is used to augment the school’s educational programs”.¹ Total income from hiring NSW government school facilities in 2015 was \$24.5 million, or some \$11,000 per school (as reported in the 2015 Annual Financial Statements compiled by government schools)

7. Other considerations

7.1 All schools, including Catholic schools, should retain the rates exemption because:

7.1.1 It would be unreasonable to ask schools to pay rates while exemptions remained for commercial enterprises on government land that charge for their services, lease out their facilities at commercial rates and make profits each year, such as the Opera House, Sydney Cricket Ground and Taronga Zoo

7.1.2 School parents who are property owners already pay rates to their local councils. If the exemption was removed, the cost would almost certainly be passed onto parents who would then effectively be paying rates twice

7.1.3 Rating school land would create a major disincentive for parishes and dioceses that currently purchase land for the future development of schools in growth areas. If rates were to be paid on land awaiting development, it would seriously inhibit and distort the prudent forward planning of Catholic school authorities for the delivery of new schools in designated growth areas

1 2015 Annual Financial Statements <https://www.det.nsw.edu.au/media/downloads/about-us/plans-reports-and-statistics/key-statistics-and-report/hire-of-facilities-2015.pdf>

This submission argues that the rates exemption for all schools provided under Section 555 of the *NSW Local Government Act 1993* should be retained in its current form because of the valuable social and economic benefits schools provide to their local communities.

School education is a compulsory, government mandated activity that serves fundamental family, local, state and national interests. For this reason alone, all schools are supported financially by State and Commonwealth governments. Local governments' contribution to this valuable endeavour has been to provide rate exemptions to schools – an efficient, low cost arrangement that helps provide ratepayers with critical, local social and economic education infrastructure.

Rather than deprive councils of rate income, schools actually contribute to the rate base by adding value to neighbourhoods and making residential properties in their vicinity more attractive and therefore more valuable.

It would also be unreasonable to require schools to pay rates while exemptions remained for profit-generating sporting, tourist and entertainment enterprises on government land such as the Sydney Opera House, Sydney Cricket Ground and Taronga Zoo.

The principle of competitive neutrality applies in school education; Catholic schools have been part of the NSW education system since 1821. They are now an essential education provider and valuable economic generator within their local communities, educating more than 255,000 students and employing some 27,000 staff in 152 local government areas across NSW. It would therefore be both unfair and dysfunctional to remove the exemption for Catholic schools but retain it for government schools.

Also, any change to the exemption would inhibit prudent forward planning by Catholic school authorities who currently purchase land in advance for the future development of schools in designated growth areas. Their capacity to pay rates is very limited, as their not-for-profit nature means all funds are fully expended on their core activity of teaching students and associated running costs.

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