Funding school choice and diversity

CECV submission to the review of SES scores

Summary

This submission to the National Schools Resource Board (NSRB), by the Catholic Education Commission of Victoria Ltd (CECV), complements a national submission by the National Catholic Education Commission (NCEC). It is intended to further explain and justify positions put forward by the NCEC. It also illustrates how alternative funding arrangements for non-government schools proposed by the NCEC in its submission might work in practice.

This submission builds on three previous research reports on school funding arrangements that were released by the CECV during 2017 and 2018.

Catholic education aspires to provide a low-fee, modest, faith-based, inclusive schooling option for all families who seek one. While Catholic schools are strongly committed to supporting disadvantaged and vulnerable families, they also want a mix of families from across the socio-economic spectrum. Diverse school communities foster a collective sense of belonging and responsibility, of working together for the common good.

The CECV believes that the Turnbull Government supports this endeavour. While the specific objectives of the Government urgently need clarification, the CECV believes that the Government also wants low-fee, inclusive non-government schools to be available to all families, and that student diversity within schools should be encouraged.

Yet there is a fundamental disconnect between the aspirations of Catholic schools, the apparent support of the Government for these aspirations, and the school funding model that has been legislated by the Government. This funding model simply does not allow low-fee, inclusive non-government schools to be available for all families, and it undermines student diversity in non-government schools.

In middle income areas, the funding model expects many schools to charge of fees of least $4,000 per student (excluding capital levies). In upper income areas, the funding model expects schools to charge over $8,000 per student (excluding capital levies). These fee expectations preclude provision of low-fee, inclusive non-government schools in those areas.

Part of the problem is school SES scores. All of available evidence shows that school SES scores are unfair to low-fee, inclusive schools in middle income and upper income areas. Most of the low-fee, inclusive schools in these areas, which are being short-changed, are Catholic schools. There is a pressing need to improve how families are means tested, to make this fairer for all schools, and this submission contains some suggestions for this.

But the problems with the funding model extend beyond SES scores. There is a fundamental problem with making the funding that non-government schools attract mostly determined by a means test of families.

Catholic education does not oppose means testing of families in the calculation of school funding. Families that can afford to pay more should be expected to do so. Government funding should be skewed toward lower-income families. Catholic systems emphasise this belief in how they allocate government grants to schools.

But the current reliance on a means test of families is excessive – and leads to outcomes that run counter to good policy, as well as the aspirations of Catholic education. Current arrangements undermine school choice and diversity. They make low-fee, inclusive non-government schools unviable in many communities. They imply that middle income and high income families should not be able to attend low-fee, inclusive non-government schools. They seem intended, in particular, to drive students from high-income families into elite and exclusive non-government schools. This is highly undesirable given these students and families can have a number of positive impacts on other students.

In this submission, the CECV proposes two different options to improve on current arrangements. In different ways, both of these options better support school choice and diversity, by enabling all families to be able to choose a low-fee, inclusive non-government school. Both options would be combined with improvements to SES scores.

The first option would be to restore system-average SES scores for systems. This is a crude but pragmatic way of enabling systems to ensure all families have the choice of a low-fee, inclusive non-government school, within a funding model that otherwise precludes this. It is acknowledged that this option may not be palatable to the Government, as system-average SES scores have repeatedly been labelled a 'special deal' (even though the Gonski Review panel advocated for this approach).

The second option is to significantly change the school funding model, to enable more families to have the choice of attending a low-fee, inclusive non-government school, while also treating all non-government schools consistently. This can be done by introducing a means test of schools into the Schooling Resource Standard (SRS) model. This would operate in conjunction with a means test of families. Specific details on how this might be done are provided in section 4 of this submission. There are compelling arguments in favour of a means test of schools: it would provide more funding support for schools to remain inclusive; it would offer families a greater diversity of school choices; it can correct for inaccuracies in a means test of families; and it would make funding better targeted to improving outcomes. While it is recognised that a means test of schools may weaken incentives to raise private income, the drawbacks of this can be managed to minimise the impact on key policy outcomes. This can be done, for example, by ensuring that any disincentives to raise private income only arise after a school can operate a comfortable margin above its resource standard.

Recommendations

Contrary to the government's own policy objectives, as clearly stated in the Terms of Reference of the SES review, current funding arrangements do not support parental choice and diversity in the schooling system. They do not support the full breadth of the non-government sector through needs-based funding arrangements. Therefore, in addition to improving SES scores, the Government should <u>either</u>:

- *Restore system-average SES scores for non-government school systems <u>or</u>*

- *Introduce a means test of schools into the calculation of base funding in the SRS model. Section 4 of this document provides further details on how the Government might do this.*

In addition, the CECV considers there are a number of matters that need to be covered in the final NSRB report that would improve the rigor, integrity and transparency of its analysis and recommendations. These matters are listed below.

- The NSRB should report all of the evidence it has gathered on the extent that the current SES scoring methodology advantages some schools relative to others. In particular, the NSRB should detail the evidence it has gathered to test the claims made by the CECV that SES scores are unfair to Catholic schools in middle income and upper income areas.

- The NSRB should base its assessment of current funding arrangements, and any future arrangements it may recommend, on the general assumption that Catholic systems do not reallocate grants. Any specific Government policy objectives in relation to school choice and diversity should be reflected in the Government's funding model. The NSRB should not assume or conclude that these policy objectives will be met by system reallocations of grants.

- The NSRB should provide a detailed explanation of the shortcomings of any future methodology it may recommend to calculate 'capacity to contribute', and an assessment of how these shortcomings are likely to distort measurement. For example, if the methodology recommended by the NSRB does not include a measure of family wealth, then the NSRB should specify that this omission would be of most benefit to wealthy families. The NSRB should further identify the types of schools that would benefit any such omissions.

Contents

1.   Introduction

The Catholic Education Commission of Victoria Ltd (CECV) welcomes this opportunity to make a submission to the National Schools Resourcing Board (NSRB) on matters that the CECV considers are critical for the future of non-government schools in Australia – especially Catholic schools.

This submission complements a national submission by the National Catholic Education Commission (NCEC). It is intended to further explain and justify positions put forward by the NCEC in its submission. It also illustrates how alternative funding arrangements for non-government schools proposed by the NCEC in its submission and described at a high-level might work in practice.

This submission builds on three research reports that have been released by the CECV during 2017 and 2018. The CECV reports are:

- Capacity to Contribute and School SES Scores (March 2017)

- The Special Deal of a Lifetime: SES scores, school fees and school funding (November 2017)

- The need to rethink need (February 2018).

These reports are available from the CECV website. In the interests of brevity, where relevant, this submission cross-references rather than reproduces content from these reports.

The body of the submission proceeds as follows:

- Section 2 identifies the principles Catholic education believes should guide government funding arrangements for non-government schools

- Section 3 explains shortcoming in current arrangements, focussing on how these arrangements fail the Government's policy objectives in funding non-government schools.

- Section 4 specifies alternative funding arrangements that would better meet the Government's policy objectives in funding non-government schools.

2.   What should the Government be trying to do?

2.1   Our aspirations

Catholic education aspires to provide a low-fee, modest, faith-based, inclusive schooling option for all families who seek one. While Catholic schools are strongly committed to supporting disadvantaged and vulnerable families, they also want a mix of families from across the socio-economic spectrum. Diverse school communities foster a collective sense of belonging and responsibility, of working together for the common good.

2.2   Government policy objectives

The Government's funding policies for non-government schools need to be underpinned by clarity and transparency over their specific policy objectives. Clarity and transparency are essential because they provide the foundation to develop and assess current arrangements, and different options for the future. They are also helpful for the community in understanding what the government is specifically trying to achieve when it funds non-government schools.

The Turnbull Government does not appear to have provided a clear and transparent set of policy objectives to drive funding arrangements. From various statements, however, it seems that the Government aims to:

- Direct more funding to the non-government schools where it is more likely to improve educational outcomes[1]. Consistent with the Schooling Resource Standard (SRS) methodology, this means directing more funding to the schools that need it to reach their resource standard (based on all sources of income).

- Preserve reasonable incentives for non-government schools to raise private income.[2]

- 'Support parental choice and diversity in the schooling system. This means supporting the full breadth of the non-government sector'.[3] As part of this objective, Catholic education believes families should have the choice of attending a low-fee, inclusive non-government school. Catholic education also believes that these schools are included among 'the full breadth of the non-government sector'. Funding arrangements should also support student diversity *within* schools.

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[1] The Minister for Education and Training recently stated that the most important objective of government funding for schools is to lift student outcomes. Senator the Hon Simon Birmingham, Minister for Education and Training, Senator for South Australia, Transcript, Interview on 2GB Money News with Ross Greenwood, 30 October 2017. (available at <https://ministers.education.gov.au/birmingham>)

[2] See the final report of the Gonski Review (Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December.)

[3] As stated in the Terms of Reference for the review of the SES score methodology, available at <https://www.education.gov.au/review-socio-economic-status-ses-score-methodology>.

- Provide more support to the families that can least afford fees, and provide less to those that can most afford it.[4]

The CECV agrees that these objectives have merit.

A major challenge in developing appropriate arrangements for funding non-government schools is that there is inherent conflict in these objectives. For example, if funding is to be directed where it is most likely to improve educational outcomes, then some consideration must be given to the private resources that are at the disposal of a school. Yet if schools receive less government funding as they raise more private income, this would undermine their incentives to raise private income.

Similarly, if parental choice is prioritised then funding arrangements would presumably enable families to access a wide range of non-government schools. However, if minimal government funding is provided to families that have high incomes, then in reality these families would not be able to choose to attend a low-fee, inclusive non-government school (because that school would not be able to accept these families while retaining low-fees).

These conflicts in policy objectives make it difficult to accommodate all objectives within a funding model that can be applied consistently across non-government schools. This is a challenge that has bedevilled Australian Government funding arrangements for non-government schools for four decades.

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[4] As stated by the Minster for Education and Training. Senator the Hon Simon Birmingham, Minister for Education and Training, Senator for South Australia, Speech to the Association of School Business Administrators Annual Conference, 30 October 2017. (available at <https://www.senatorbirmingham.com.au/speech-to-the-association-of-school-business-administrators-annual-conference/>)

3. Shortcomings of current funding arrangements

3.1 Assessment of current arrangements

Current funding arrangements – whereby non-government schools would be predominantly funded based on the 'capacity to contribute' of school communities, as measured by SES scores – contain many shortcomings. These undermine the extent that they achieve the full suite of policy objectives that should underpin funding arrangements for non-government schools.

Table 1 briefly summarises shortcomings in current arrangements against the policy objectives outlined earlier. This summary draws on significant research that has been previously undertaken by the CECV.

Table 1: Assessment of current arrangements

Policy objective	Assessment of current arrangements
Direct more government funding to the non-government schools where it is more likely to improve educational outcomes	• Funding is not well-targeted to the non-government schools where it is more likely to improve outcomes. • This is because funding arrangements do not take into account the extent a school needs government funding to reach its resource standard (i.e. funding arrangements do not take into account the private resources raised by a school). • In general, this means that high-fee schools can receive more government funding than they need to reach their resource standard (many high-fee schools do not need any government funding to do this) while low-fee, inclusive schools can receive insufficient funding to reach their resource standard. • The CECV has estimated that, under current arrangements, almost $750 million is provided each year by the Australian Government to schools that do not need any government funding to reach their resource standard. (Refer to the CECV publication – The need to rethink need)
Preserve reasonable incentives for non-government schools to raise private income	• Current funding arrangements strongly achieve this objective, because the amount of funding that a non-government school attracts from the government does not take into account the private income raised by a school. • This creates funding incentives for schools to maximise the amount of private income they raise for a given student cohort, even if this means that they raise significantly more funding in private income than they are estimated to need in total.
Support parental choice and diversity in the schooling system. This means supporting the full breadth of the non-government sector	• Current arrangements have a number of shortcomings in achieving this objective. • First, current arrangements do not enable all families to choose a low-fee, inclusive non-government school. Families assessed to be affluent (e.g. SES score of 125 and above) are expected to pay at least $8,762 per student (excluding capital levies) to attend a non-government school. Middle income families (e.g. SES score of

Policy objective	Assessment of current arrangements
through needs-based funding arrangements	111) are expected to pay at least $4,121 per student. Ultimately this makes low-fee non-government schools unviable in areas that contain many middle income and high income families. This means low income families in these areas (which are unable to afford high fees) will be unable to access *any* non-government school. This is epitomised by current funding arrangements for non-government schools in the ACT, where the lowest SES score of a non-government school is 111. This means the lowest expected fee in a non-government school in the ACT is $4,121 per student (excluding capital levies). No low-fee schools would be viable in the ACT under these arrangements.
	• Second, current arrangements encourage student segregation within non-government schools by family income. They imply that middle income and high income families should not be able to attend low-fee, inclusive non-government schools. They seem intended, in particular, to drive students from high-income families into elite and exclusive non-government schools. This is highly undesirable given these students and families can have a number of positive impacts on other students.
	(Refer to the CECV publication – The need to rethink need)
Provide more support to the families that can least afford fees, and provide less to those that can most afford it	• Funding is not well-targeted to the families based on their financial means because of the crude method used to calculate 'capacity to contribute'.
	• School SES scores contain many flaws, but the most significant flaw is the use of area-based data to assess families. This means that families are only assessed accurately when they live in an area that matches their socio-economic status.
	• Overall, the use of area-based data to assess family financial means benefits affluent families who live in low-SES and mid-SES areas. Conversely, it greatly disadvantages low income families who live in mid-SES and high-SES areas.
	• Because affluent families mostly attend high-fee schools, these schools are over-funded from this approach. Because low income families tend to attend low-fee schools, these schools are under-funded from this approach.
	(Refer to the CECV publications – Capacity to Contribute and School SES scores, and The Special Deal of a Lifetime)

3.2   Problems with school SES scores

School SES scores contain several major shortcomings, in terms of their design, accuracy and timeliness. These are briefly highlighted below. The material below draws on extensive research previously undertaken by the CECV. The CECV is aware that Victoria University and NSRB has already reviewed this research so to avoid repetition the commentary provided below is kept brief.

Design

SES scores have a number of shortcomings in their design.

Even though they are supposed to be a financial means test, they mostly measure high-level education and occupation characteristics. These are not strongly correlated to income. Data collected in the Longitudinal Study of Australian Children shows, for example, the correlations at the individual-level between income and education, and between income and occupation, are between 0.3 and 0.4.[5] The inclusion of the education and occupation dimensions reduces the influence of income on SES scores, despite income being more relevant to the measure. This most benefits high-income families.

Critically, SES scores exclude any measure of family wealth. This is of major concern for at least two reasons.

1. Although SES scores do partly measure incomes (alongside education and occupation characteristics), the correlation across the population between wealth and income is not as high as might be expected. About 30% of the wealthiest households in Australia have below-median gross household incomes.[6] This means, in practice, many wealthy families are hidden in the way SES scores are estimated.

2. Family wealth is important in capacity to contribute because it is often used to pay school fees. It has been reported, for example, that 15-20% of school fees in private schools are paid for by grandparents.[7] Research conducted by industry super fund REST further indicates that 29% of grandparents plan to draw down on their superannuation to pay school fees for their grandchildren, and that one of the most common ways that older Australians provide financial assistance to their children is by paying education expenses.[8] These transfers of family wealth would ideally be measured in capacity to contribute.

The exclusion of family wealth from SES scores also benefits wealthy families, which have their capacity to pay school fees underestimated. This, in turn, benefits high-fee non-government schools as these attract the majority of wealthy families.

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[5] Marks, G.N. (2016) "Is SES really that important for education outcomes in Australia? A review and some recent evidence", *The Australian Education Researcher*, December 2016

[6] In 2015-16, 30% of households in the top 2 deciles in Australia for net worth are in the bottom 5 deciles for gross household income. See ABS, *Household Income and Wealth, Australia: Summary of Results, 2015-16*, Cat no. 6523.0

[7] For example, see <http://www.news.com.au/finance/money/investing/grandparents-are-spreading-their-wealth-to-their-grandchildren/news-story/fd2e4fd3e3ea709a91c46380445a05d3 and http://www.smh.com.au/national/education/grandparents-stumping-up-for-private-school-fees-20160225-gn3hst.html>

[8] REST, *The Journey Begins*, May 2017 and as reported in The Sydney Morning Herald, 26 February 2016 (<http://www.smh.com.au/national/education/grandparents-stumping-up-for-private-school-fees-20160225-gn3hst.html>)

A further shortcoming is that there is no consideration of family size in calculating SES scores.

Accuracy

SES scores are inaccurate, for several reasons.

The main source of inaccuracy comes from the use of SA1 data to classify families. This is the biggest single problem with SES scores. The SES scoring methodology assumes all families within the same SA1 have the same financial means, irrespective of the school they attend. In reality, the fees in different types of non-government schools sort families by their incomes. Lower income families in each SA1 are more likely to attend low-fee non-government schools, while higher-income families in each SA1 are more likely to attend high-fee schools.

Other inaccuracies also arise from the way the use of Census data. For example, the data on incomes collected in the Census is crude and often incomplete. This makes it difficult to measure families with very low incomes and families with very high incomes in small-scale geographic areas, given that the ABS edits data when there is a low number of observations. This is reflected in the use of two simple income thresholds to calculate the income dimensions for SA1s. Under this approach, in the 2011 Census, all families and households with incomes above $156,000 per annum were treated the same. The failure to better differentiate incomes benefits the highest-income families.

The collection of data in household units can also lead to inaccuracies. While capacity to contribute should be based on the characteristics of all members of a student's family, this is only measured when all family members live in the same household. The capacity to contribute in separated families is underestimated. This issue is not trivial, as there are many one-parent families in Australia (about one-third of the number of couple families with children).

Timeliness

Given Census data is collected every 5 years, the data underpinning SES scores can become inaccurate in areas that experience rapid economic, demographic or social change. This can occur, for example, where:

- Local economies rely on industries that are highly sensitive to global economic activity (e.g. agriculture and mining)

- Communities are impacted by changes in planning and population growth (e.g. where peri-urban communities have new areas opened up for residential housing)

- Major industries close or move away from regions (e.g. the closure of the car industry in Melbourne and Adelaide).

Overall bias in SES scores

The shortcomings in the way capacity to contribute is measured, using school SES scores, make them biased. They are biased in areas where low-fee schools and high-fee schools draw students from the same catchments. They disadvantage low-fee, inclusive schools in favour of high-fee, wealthy schools. These schools mostly co-exist in middle income and upper income areas (i.e. areas where SES scores are above 105).

There is a clear sectoral pattern in these schools. In middle income and upper income areas, most low-fee schools are Catholic schools and most high-fee schools are independent schools. Thus Catholic schools are especially disadvantaged. Various evidence of this bias is contained in a CECV report (*The Special Deal of A Lifetime*).

Further evidence of this disadvantage is evident in analysis commissioned by the NCEC from ACIL Allen Consulting. ACIL Allen Consulting conducted regression analysis to compare the incomes of families with at least one child in a Catholic school against the incomes of families with at least one child in an independent school, within SA1s, using data from the 2016 Census of Population and Housing. Specifically, ACIL Allen tested whether Catholic school families and independent school families tend to have incomes that are statistically different from the average incomes of all families who attend non-government schools. The results are summarised in Figure 1.

Figure 1: Comparison of family incomes by school sector, within SA1s (2016)*
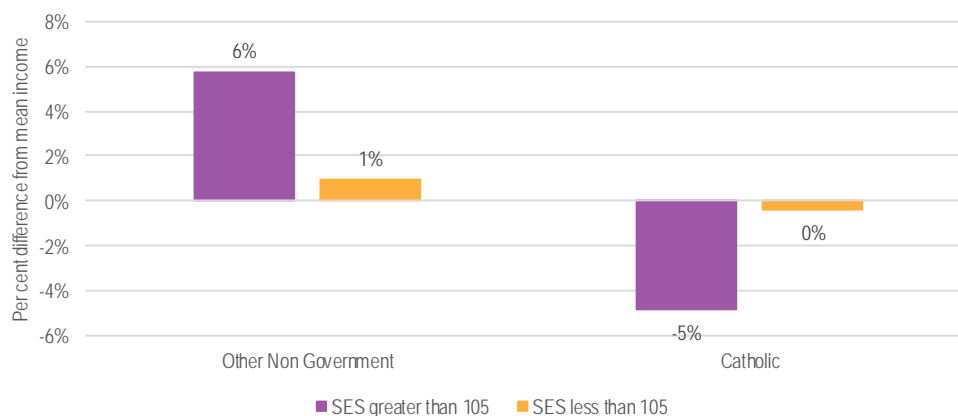
*Note: "Other Non-Government" refers to schools that are neither Catholic nor government schools
Source: NCEC and ACIL Allen Consulting

This analysis shows that:

- In areas with SES scores greater than 105, on average, families in independent schools have incomes that are 6% higher than the average within their SA1 for all families who attend non-government schools. Meanwhile, families in Catholic schools have incomes that are 5% lower.

- There is little difference between family incomes by school sector in SA1s with SES scores below 105.

There is compelling evidence that SES scores are especially inaccurate from Catholic schools in the ACT. In the ACT, the current SES methodology results in very high rates of misclassification of families. This is primarily because high-income families are widely dispersed throughout the ACT, resulting in many areas receiving high scores. As a result, many low income and middle income families are falsely assumed to have high incomes. SES scores for Catholic schools in the ACT are over-estimated. This issue is explored in a complementary submission by ACT Catholic schools.

3.3 Future viability of low-fee, inclusive non-government schools

Current funding arrangements fail the government's own policy objective to 'support parental choice and diversity in the schooling system' – to support 'the full breadth of the non-government sector through needs based funding arrangements.' They fail this objective because of the emphasis placed on the concept of 'capacity to contribute', whereby government funding for non-government schools is mostly calculated by using a means test of families. This makes low-fee, inclusive non-government schools unviable in many communities. It implies that middle-income and high-income families should not be able to attend low-fee, inclusive non-government schools. It seems intended, in particular, to drive students from high-income families into elite and exclusive non-government schools.

In the past, the Government has supported its objectives for school choice and diversity within the current funding model architecture by enabling non-government school systems to access different funding arrangements. Since capacity to contribute and school SES scores began to apply for independent schools, non-government school systems have:

- Been excluded from the SES model (2001 to 2004)

- Had Funding Maintained schools (2005 to 2012)

- Had system average SES scores with a 'bowed' capacity to contribute function for primary students (2013 and 2017)

These arrangements (combined with block funding of systems) have permitted non-government systems to provide, for most families, the option of a low-fee, inclusive non-government school. By limiting eligibility to these arrangements to non-government school systems, the government has largely ensured that the associated financial benefit would be used for this implicit purpose (given that almost every low-fee, inclusive non-government school in middle income and upper income areas in Australia is part of a school system).

In essence, the Government has applied different funding arrangements for school systems so that systems can overcome shortcomings in the funding model that would otherwise make low-fee non-government schools unviable in many communities. The

Government enabled and entrusted non-government school systems 'to support parental choice and diversity in the schooling system'.

Because these different arrangements have only been accessible to school systems, they have been viewed with resentment by independent school associations. Independent school associations have viewed them as 'special deals' that have allowed non-government school systems to keep their fees 'artificially low'. In making these claims, independent school associations misunderstand that systems had different arrangements precisely so they could ensure all families had the choice of attending a low-fee, inclusive non-government school.

The problem was not that non-government systems have been able to provide low-fee schools. This was exactly what they were funded to do. The real issue was that independent schools have been excluded from the mechanisms that enable low-fee schools in middle income and upper income areas. This complaint is valid.

Recent changes to school funding – along with several related actions by the Australian Government – have dismantled the mechanisms which enable non-government systems to enable all families to have the choice of attending a low-fee, inclusive non-government school. The Australian Government has:

- Established explicit fee expectations for every non-government school, through the removal of system average SES scores. In turn, this has created a funding model that only makes low-fee inclusive non-government schools viable in middle income and upper income areas with large reallocations of funding away from low-SES schools. There would be major governance, legal and social justice issues in systems making these reallocations. They would be largely untenable. In some cases (the ACT), there are no low-SES schools, hence there would be no low-fee, inclusive schools.

- Written to every school that is part of a non-government school system (both school principals and school boards), advising them of the funding they will receive from the Australian Government over the next decade.

- Established the National School Resourcing Board to regulate how non-government school systems allocate government funding to systemic schools.

Furthermore, the CECV is aware that some government MPs have invited Catholic schools in Victoria that oppose the Turnbull Government's funding changes, but which individually attract more funding to the CECV due to the changes, to demand their individual funding entitlement from their school authority.

These actions have made untenable the previous settlement in the funding of non-government schools. By dismantling the enabling mechanisms, the Government can no longer rely on non-government systems to enable all families to have the choice of attending a low-fee, inclusive non-government school. Non-government systems will not be able to deliver 'parental choice and diversity in the schooling system'. The new

funding arrangements will inevitably lead to the gradual closure of many low-fee, inclusive non-government schools in middle income and upper income areas.

This would profoundly change schooling in Australia. There are, at present, over 130,000 students in almost 400 low-fee, inclusive non-government schools in middle income and upper income areas.[9]

This outcome would seem to be highly incongruent with Government policy objectives for school choice and diversity.

3.4 System-average SES scores

System-average SES scores were a crude but pragmatic and effective way of responding to the issue noted above – that the provision of low-fee, inclusive non-government schools is incompatible with a funding model based on capacity to contribute and SES scores.

They set average expected fees in non-government systems at a sufficient level to enable all families the choice of attending a low-fee inclusive school. Some have misrepresented the true nature of these arrangements. It is disingenuous to claim, for example, that those arrangements enabled non-government systems to set low school fees irrespective of parental financial means. The data clearly shows that the 22 systems that accessed system-average SES scores did require better-off families to contribute more – while also maintaining affordability and inclusiveness in their schools (especially in primary schools) (see Figure 2). System-average SES scores provided systems the flexibility to balance these objectives.

Figure 2: Fees in non-government primary and secondary/combined schools 2015*
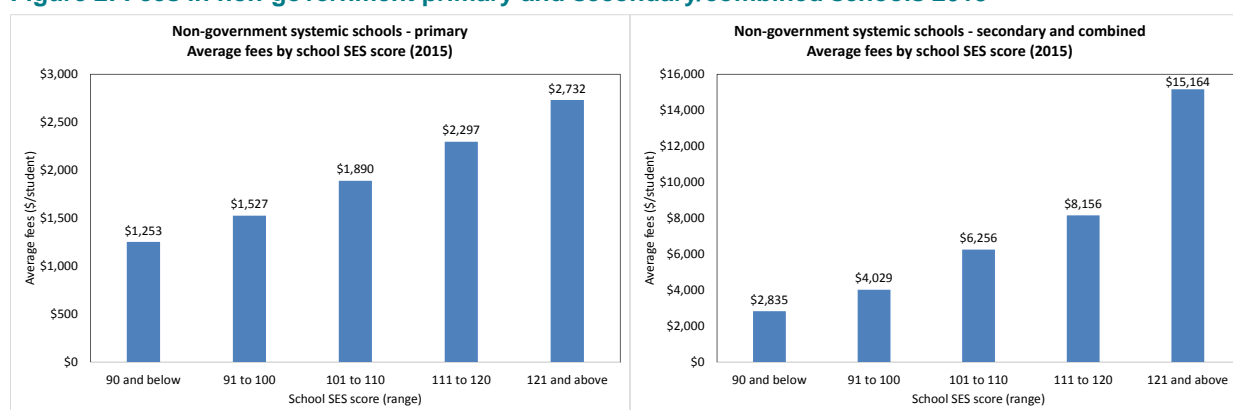
* This includes data for 2015 for the 22 non-government systems that had their funding calculated using student average SES scores. There are 1,276 primary schools and 506 secondary/combined schools in the sample. Schools that are not subject to capacity to contribute, or where financial data was not available, are excluded. Source: ACARA MySchool website

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[9] In 2016, there were 133,394 students in 385 non-government schools with SES scores of 105 and above and where fees, charges and parental contributions were less than $4,000 per student.

What was missing, however, was policy clarity over why systems were able to receive system-average SES scores. Without this clarity, system-average SES scores became an obvious target for those who wanted to bring greater consistency to funding arrangements, without realising that they enabled systems to provide school choice and diversity.

3.5   The way forward

Looking forward, there appear to be two general approaches for better achieving the government's policy objectives for school choice and diversity.

The first option is to restore previous funding arrangements, whereby school systems have access to different funding arrangements – such as system-average SES scores. This would restore the ability of systems to enable all families to have the choice of attending a low-fee, inclusive non-government school. However, this option does not appear to be palatable to the Government, despite the benefit it provides, and it also being supported by the Gonski Review panel, since the Minister for Education and Training has repeatedly called this arrangement a 'special deal'. As it would be limited to school systems, it might also be considered unfair because independent schools are unable to access it (although this should only occur on the condition that schools commit to operating on a low-fee, inclusive basis).

If system-average SES scores are to be restored, then this should be for the purpose of enabling systems to ensure all families have the choice of attending a low-fee, non-government school, within a funding model that otherwise precludes this. Therefore the SRS model could not be used to assess the integrity or merit of the funding models of systems that provide low-fee, inclusive non-government schools. Significant differences between system allocations, and the funding schools are estimated to need in the SRS model, would not only be permitted: they would be <u>expected</u>.

The second option is to significantly change the current funding model, in a way that makes low-fee, inclusive non-government schools a viable choice for all families, while treating all schools consistently. The challenge here is to develop a funding model that better balances the multiple, competing policy objectives. The starting point must be a recognition that the current model does not strike the right balance. The SRS model:

- Strongly emphasises the objective of preserving incentives for schools to raise private income, at the expense of targeting government funding to the schools that need it. The emphasis on the raising of private income is odd given that Australia does not appear to have a policy problem whereby non-government schools tend to raise insufficient private income.

- Strongly emphasises means testing of families, at the expense of supporting a diverse range of non-government schools and diverse student populations within non-government schools. The emphasis on means testing families is odd given that there are very few instances where this is done overseas, and it will inevitably lead to more segregation in schooling, which is a major policy problem.

Section 4 explains in detail how the SRS model could be changed to better balance policy objectives.

Recommendation

Contrary to the government's own policy objectives, as clearly stated in the Terms of Reference of the SES review, current funding arrangements do not support parental choice and diversity in the schooling system. They do not support the full breadth of the non-government sector through needs-based funding arrangements. Therefore, in addition to improving SES scores, the Government should <u>either</u>:

- *Restore system-average SES scores for non-government school systems <u>or</u>*

- *Introduce a means test of schools into the calculation of base funding in the SRS model. Section 4 of this document provides further details on how the Government might do this.*

If system-average SES scores are to be restored, this would be for the purpose of enabling non-government systems to provide low-fee schools in all communities, providing this choice to all families, within a funding model that otherwise precludes this. On that basis, future NSRB assessments of system funding models would recognise that the SRS model as it currently stands is incompatible with the objectives of school choice and diversity. Significant differences would therefore be expected between system allocations and the funding that schools are estimated to need in the SRS model.

4.   A consistent funding model for all non-government schools

This section presents a new calculation that could replace capacity to contribute in the SRS model. That is, the new calculation could be used to determine base funding for non-government schools instead of capacity to contribute.

This model would better achieve all government policy objectives in funding non-government schools, within a funding model that could be applied consistently to all non-government schools.

Section 4.1 provides an overview of the proposed calculation. There would be two components. These are discussed separately in section 4.2 and 4.3. Section 4.4 outlines the advantages of the proposed approach in meeting government policy objectives.

The proposed calculation is based on the existing architecture of the SRS model. Within this model, it would only relate to how base funding for non-government schools is calculated. It would not change any of the six loadings, which would continue to be fully funded by government.

4.1   Overview of the new approach

The proposed approach seeks to better balance all of the policy objectives involved in funding non-government schools, within a funding model that could be applied consistently to all non-government schools. It explicitly recognises that there are inevitable trade-offs between objectives. The proposed approach is designed to substantially achieve all government policy objectives, while limiting adverse outcomes.

CECV believes that the right balance can be struck by using a new blended index to modify base funding for non-government schools. The blended index would comprises two complementary measures:

- A means test of families. This is discussed in section 4.2.

- A means test of schools. This is discussed in section 4.3.

Each index would be weighted at 50% to construct the new blended index. The high-level approach is illustrated in Figure 3.

Figure 3: Schematic of an improved approach – to replace capacity to contribute
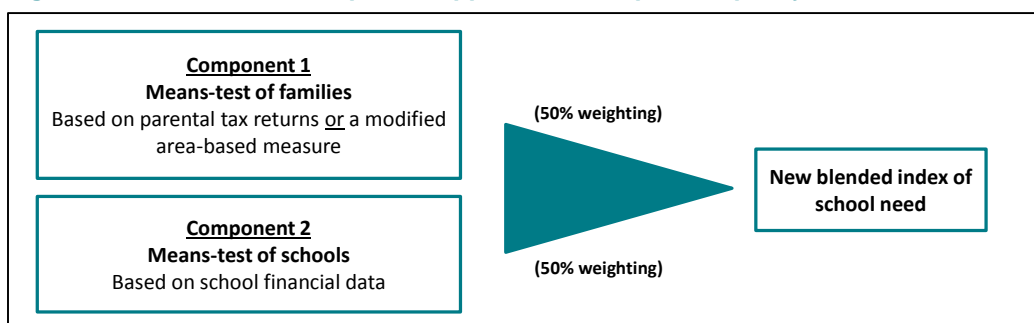
A major change relative to current arrangements is that part of the calculation would be based on a means test of schools (i.e. school private income). As explained in section 4.3, there are compelling reasons to do this.

There are also many precedents overseas where government funding for non-government schools takes into consideration, or places explicit constraints on, their school fees (see Appendix A). In such places, governments place a very high priority on non-government schools remaining inclusive – even if this undermines their incentives to raise private income. In contrast, it is very hard to find examples overseas where families in non-government schools are subject to a means test to determine school funding.

Government selective entry schools

There is a strong policy case for government selective entry schools to be subject to the exact same discount to base funding as applies to non-government schools. The rationale provided by the Gonski Review panel[10] for excluding government schools from any capacity to contribute does not apply to selective entry schools. It is inconsistent with the principles of sector-blind, needs-based funding for students from advantaged, wealthy families who attend an elite, exclusive school to have their education fully funded by taxpayers, simply because that school is in the government sector.

4.2   Component 1: Means test of families

The first component of the blended index would involve a means test of families. In concept this would be similar to the current approach to capacity to contribute, with school scores combined with functions that link scores to expected amounts of school private income.

Ideally, the means test of families would be as accurate as possible in measuring the financial means of families to fund the education of each of their children. It should include both family income and family wealth, and take into account family size. However, CECV recognises that there are a number of challenges in implementing the

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[10] The Gonski Review panel argued that government schools should not be subject to capacity to contribute because they have 'less scope to deny entry or exclude some students than non-government schools'. However, government selective entry schools are highly exclusive.

ideal measure. For example, the CECV acknowledges it is difficult to measure family wealth and that the use of tax return data (the best measure of family income) may raise privacy issues and add significant administration costs.

Without having further information about the likely costs of collecting different data (e.g. whether the ATO could match tax return data to parental addresses for most families in non-government schools) it is not possible for the CECV to form a specific position on any individual method. However, as part of any new arrangements:

- Any data collection requirements for students in non-government schools should not be significantly more intrusive or demanding on families, than data collection requirements for students in government schools.

- Personal financial data for student families should not be shared with schools, except with consent of families. As a minimum, any personal financial data that is shared with schools should be de-identified. If this is inadequate to maintain privacy, then any data that is shared with schools may need to be aggregated for schools.

- Government grants to fund non-government schools should continue to be paid to school authorities, rather than families

- There should be consistency across non-government schools in the data used to calculate capacity to contribute. If input data is not available for the vast majority of non-government schools then it should not be used.

- For the selected measure of capacity to contribute, there should be clarity and transparency over the limitations of the measure and how it is likely to impact different types of schools. For example, if there is no measure of family wealth in the selected measure, then the NSRB should recognise that this omission benefits wealthy families, and that wealthy families tend to attend high-fee schools.

Further views on two specific options – tax return data, and improved estimates from address-based data, are provided below.

Maximum and minimum levels of government funding

CECV supports retention of the existing, maximum level of base funding (90%) in determining their capacity to contribute in a non-government school (excluding schools that are fully funded). This would mean that (most) non-government schools are not funded to the same level as government schools.

However, the minimum funding rate (currently 20% of base funding) might be re-considered. The rate of 20% was only recommended by the Gonski Review panel to ensure 'no school would lose a dollar' at the onset of the SRS model. This could be reduced if necessary. Catholic education does not consider this rate should be zero. One reason is that Government requirements for schools to participate in national testing and data collections (e.g. NAPLAN and the ACARA MySchool data collections) impose compliance costs on schools – so they should be compensated for this.

Exemptions

There would be exemptions from the means test for families of students with disability in mainstream schools, if those students are eligible to enrol in a special school or special assistance school. Currently, these students are fully funded if they attend a special school or special assistance non-government school, but not if they attend a mainstream non-government school. This discrepancy should not occur. It creates funding incentives for these students to enrol in special schools and special assistance schools, but research shows there can be significant benefits if they enrol in a mainstream school.[11]

Shortcomings of any measure to means test of families

Finally, CECV reiterates that it does not support the use of a means test of families in school funding, unless this is included alongside a means test of schools (see section 4.3) or systems receive a system-average score.

As outlined earlier, exclusive use of a means test of families would mean that:

• Funding is not well-targeted to the non-government schools where it is more likely to improve outcomes.

• Many families will no longer have the choice of attending a low-fee, inclusive non-government school.

• There would be greater segregation of students, with many middle-income and high-income families driven into elite and exclusive non-government schools.

4.2.1   Parental tax returns

A key issue under consideration by the NSRB is whether families can be means tested using parental tax returns. Family income could be estimated, and then used to determine an expected contribution to a school – similar to the way that the childcare rebate will soon be calculated.

The feasibility of this approach will depend on the methods through which tax return data might be gathered and shared, and the associated costs and privacy issues. It would also depend on how frequently parents submit their tax returns, and therefore, how recent and complete is tax return data. If tax data is recent and can be easily linked to parental addresses then this could greatly reduce the cost of this option. The CECV does not have full visibility over these matters at this time – so is unable to determine whether it can support this option.

Omissions and inaccuracies

If tax returns are used, it is important to stress that this data still has major limitations as a means test of parents. In particular, tax returns are not a complete measure of financial means. They do not measure family wealth, and can be subject to inaccuracies because of tax minimisation strategies (e.g. use of family trusts) and tax avoidance activities (e.g.

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[11] Cologon, Kathy 2013, *Inclusion in Education: Towards Equality for Students with Disability*, Issues Paper, Children With Disability Australia, September.

hidden income). The omission of family wealth is especially problematic. Many wealthy families are hidden when family income is only used to assess the financial means of families.

These shortcomings mean that this method would remain advantageous to families who can most easily avoid/minimise tax, and wealthy families (since their wealth would not be measured). If the NSRB recommends this method, it should be clear and transparent about these shortcomings. Use of a school means test to accompany this measure can assist in addressing these shortcomings and make measurement more accurate (because families often reveal their true financial means by the type of school they attend).

4.3.2   *Improved estimates from parental address data*

As an alternative to tax returns, parental address data might continue to be used as the basis for means testing families, when linked with various other datasets.

While this currently occurs as part of the SES scoring methodology, that approach has several limitations due to its exclusive reliance on SA1 data from the Census to provide information about addresses.

It may be possible to link to parental addresses to other datasets held by the Government, that provide further information about families relevant to the financial means. This data could include, for example, Health Care Card status[12] (which contains information on family income, but only for low income families) or Medicare status (which contains information on family size) or family tax benefit status (which contains information on both family size and family income). This data could be used alongside Census data when classifying families from their address. If the Government is unable to link this data then, in some instances, it could be collected by schools from parents. For example, in Victoria, schools already collect data on the Health Card Care status of families from parents and submit this to the Victorian Government.

When using Census data to classify families from their addresses, one option for improvement would be to use smaller geographic units than SA1s. This could reduce the extent that households are misclassified (although in some instances it may have the opposite affect). If smaller units than SA1s are to be used, however, the input data for these units should be available to stakeholders. If the Australian Bureau of Statistics is unwilling to make this input data transparent (due to confidentiality concerns) then the CECV would have major concerns over this approach.

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[12] It would be straightforward to integrate Health Care Card data into the existing methodology. Health Care Card students could be separately identified in school datasets and have a low-fee expectation applied to them instead of their area-score. Taking the current methodology as an example, Health Care Card students could receive a score of 70 (two standard deviations below the mean).

There could also be improvements in the way that SES scores are constructed from Census data and student address data – to make them better estimate the financial means of school communities. For example:

- There could be greater emphasis on financial characteristics (household/family income and wealth) of SA1s than education and occupation characteristics, provided that the input data for this is sufficiently accurate and reliable.

- For Census data on incomes, households/families could be better stratified. The ways that the household and family income dimensions are currently measured are too crude and do not adequately identify the lowest-income and highest-income households/families

- There could be greater emphasis on equivalised family/household measures.

- Observations where family/household income is nil or negative could be excluded from the calculation of area scores.

- For high-fee schools only, 'cherry picked' students (or households) could be excluded from the calculation of a school score. Research by the CECV indicates that these students lower the SES scores received by high-fee schools, and that this is probably occurring due to these students being misclassified.[13]

- For all schools, boarding students could be excluded from the calculation of a school score. Research by the CECV indicates that these students tend to lower the SES scores received by non-government schools, and that this is probably occurring due to these students being misclassified.[14]

If the exclusion of cherry-picked students (for high-fee schools only) and boarding students (for all schools) results in a school having insufficient SA1 observations to generate a reliable score, then another process may be needed to collect the relevant data for these schools.

Within this framework, there may need to be separate arrangements for non-government schools in the ACT. A different index altogether might be required for the ACT. The current SES scoring process results in high rates of misclassification of families in the ACT. This is primarily because high-income families are widely dispersed throughout the ACT, resulting in many areas receiving high scores. As a result, many low income and middle-income families are falsely assumed to have high incomes. This issue is explored in a complementary submission by ACT Catholic schools.

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[13] 'Cherry picked' students are students whose SA1 is only observed once or twice in the geocoded address dataset for a school. These students have been shown by the CECV to artificially reduce SES scores in schools with annual fees and charges above $10,000 per student.
[14] These students have been shown by the CECV to artificially reduce school SES scores.

Omissions and inaccuracies

Improved estimates from parental address data, as discussed above, would not address all of the current problems with SES scores. Under this approach:

- The measures of family/household income and wealth based on Census data would remain quite crude – meaning they are likely to benefit the most affluent households and families (because their financial means are not accurately measured)

- There would remain a systematic bias in favour of high-fee schools from area-level averaging. The measures proposed above would only eliminate the most obvious and easily-isolated cause of bias.

If the NSRB recommends this method, it should be clear and transparent about these shortcomings. Use of a school means test to accompany this measure can assist in addressing these shortcomings and make measurement more accurate (because families often reveal their true financial means by the type of school they attend).

4.3   Component 2: Means test of schools

The second component of the new blended index would involve a means test of schools. It would calculate a funding rate for non-government schools based on their level of private income (which mostly comprises school fees).

This component adapts the recommendations of Dr Ken Boston[15] and Geoff Masters[16] and uses government funding arrangements to create incentives for Catholic and independent schools to limit their fees. It also adopts the recommendation of the Gonski Review panel to preserve <u>reasonable</u> incentives for schools to raise private income.[17]

This section begin by explaining why government funding for schools might factor in their private income (section 4.3.1). It then provides details on the proposed calculation (section 4.3.2).

4.3.1   Why should government funding factor in school private income?

There are compelling reasons why the SRS model might take into account the private incomes of non-government schools.

Government funding would be better targeted to improve educational outcomes

The SRS provides a valid, independent benchmark of the funding that schools need to be successful. If school private incomes, relative to their SRS, were taken into account in calculating government funding then this would ensure funding is better targeted to the

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[15] http://www.abc.net.au/news/2017-04-13/our-school-funding-system-is-unfair-and-holding-australia-back/8435300
[16] Geoff N Masters, Five Challenges in Australian School Education, Australian Council for Educational Research, Policy Insights, Issue 5, May 2016, p13
[17] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December.

schools that need it to reach their SRS, thereby providing the opportunity for these schools to be successful. Conversely, there would be less government funding allocated to schools whose private income already exceeds their SRS. In these schools, by definition, government funding makes little difference to whether they can deliver strong education outcomes.

Accordingly, school private income should be supported as a funding factor by all those who seek better value-for-money from government investment in terms of improving educational outcomes in schools.

Government funding would enable more families to have the choice of a low-fee, inclusive non-government school

Current arrangements – which exclusively apply a means test of families to discount base funding – deem that middle income and upper income families can either attend a public school or an elite and exclusive non-government school. It would be unviable for low-fee non-government schools to enrol these families, because they carry such a low rate of funding into the school that this would mean the school could not maintain low-fees.[18]

This constraint of school choice is a concern in its own right. However, it also undermines school choice for low income families that might live in middle- and upper-income areas. In these areas, it would be difficult for low-fee non-government schools to attract a critical mass of low income students to be able continue to operate with low-fees. The upshot is that, under current policy settings, low-fee non-government schools would disappear altogether from many parts of Australia.

Means testing of schools changes this dynamic. This would explicitly support the provision of schools that remain inclusive. With funding partly calculated on this basis, many more families would have the choice of attending a low-fee, inclusive non-government schools.

Excessive school fees and charges can have negative externalities

School fees can have negative externalities if they are excessive. They do this by promoting the concentration of advantaged, high-achieving students in highly-resourced non-government schools. Due to 'peer effects' this undermines the educational outcomes able to be achieved by students that do not have the financial means to access those schools. Using school fees to partly determine government funding for schools provides financial incentives for schools to set more affordable fees and charges and remain inclusive and accessible. It also creates incentives for these schools to operate more efficiently and not gold-plate facilities.

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[18] For example, in 2018, a primary student from an area with a SES score of 125 attracts only $2,191 in base funding to their school (before loadings).

Reasonable incentives for schools to raise private income can be preserved

The Gonski Review panel recommended that funding arrangements for non-government arrangements should preserve reasonable incentives for an adequate private contribution towards the SRS across non-government schools.[19]

It is possible to vary government funding for non-government schools with their private income, while also preserving reasonable incentives for schools to raise adequate private income. The SRS – an independent estimate of the funding that schools are estimated to need to be successful – provides a definitive benchmark against which the reasonableness and adequacy of school private income (and total school resources) can be assessed.

Funding arrangements for schools can be designed in a way that allows non-government schools to raise a reasonable level of private income – one that would enable them to operate a comfortable margin above their SRS – without any disincentive. However, as a non-government school chooses to operate significantly above its SRS – that is, with significantly more resources than it is estimated to need – then government funding could taper. Schools can also retain reasonable incentives to raise private income if government funding decreases at a low rate as school private income increases.

It is not unusual for government policy to withdraw government funding support as private resources increase. It is an inevitable side-effect of a progressive, needs-based system of taxes and transfers. Thus individuals are taxed at up to 47% (including the Medicare levy), and companies taxed at up to 30%, when they increase their taxable income. Individuals and families which receive social welfare payments (e.g. pensions, family tax benefits) lose these as their income increases. In all of these instances it is deemed acceptable for government policies to create a deterrent to private effort. It is accepted because it enables 'need' to be better targeted. This begs the question of why schooling should be any different.

It should also be recognised that any means test – for example, use of personal tax returns to determine school funding – creates disincentives (see below).

School private income has many advantages over personal tax returns

The CECV is aware that the tax returns of school parents are being considered by the NSRB as an alternative way of calculating capacity to contribute. That approach would penalise families that earned higher incomes (by providing less government funding to their school). The simple reality is that any financial means test (including use of school private income in government funding) creates a disincentive for private effort.

When the options of using school private income and parental tax returns to assess school 'need' are directly compared, there is considerable merit in the former option. This is because:

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[19] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December

- Families already face significant financial disincentives to earn additional income through the existing tax and transfer system. These arise in high marginal tax rates. Also, many family payments or subsidies taper as family incomes increase. In contrast there are, at present, no financial disincentives for schools that increase their private income.

- Parental tax returns lack accuracy in testing financial means. The main reason is that they do not include family wealth. There are also various ways in which families minimise or avoid their incomes in tax returns.

- The SRS provides an instrument through which school private income can be used to determine government funding, but in a way that means any resulting disincentives on schools do not undermine the ability of schools to reach their SRS (i.e. the level of resources the government estimates that schools need to be strong performers).

- School private income data is already collected each year through the Financial Questionnaire process and the MySchool data collection. The cost of data collection for school private income would therefore be very low. In contrast, the use of parental tax returns in school funding would require new, costly and potentially intrusive ways of collecting data about families.

- There are negative externalities if schools have excessive fees and charges.

Use of school private income in the funding model can offset inaccuracies and bias in a means test of families

As outlined earlier, there are likely to be major shortcomings in *any* practical measure for means testing families. Tax return data, for example, excludes family wealth. Families can also minimise and/or avoid paying tax. Area-based data is even less accurate. These shortcomings mostly benefit affluent families, which usually attend high-fee schools.

A means test of schools can correct for this bias. This is because school fees and charges are a good guide to the financial means of school families.

The payment of school fees implicitly reveals much information about the financial means of student families. This information can be very difficult to capture from other data sources. Unlike area-based data, it is information about the financial means of individual student families, not the area in which they reside. As part of this, the payment of school fees reflects family wealth, family size and also any hidden wealth or income. In fact, parental payments of school fees is such a good guide to parental financial means that the ATO uses this information to identify families who may be hiding income.[20]

School fees are a particularly strong guide to the most affluent households. This is a key weakness of area-based data. Research has found that the propensity to attend low-fee

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[20] See https://www.ato.gov.au/Media-centre/Media-releases/Tax-Office-chasing-up-advisers-who-facilitate-offshore-tax-evasion/

schools increases only weakly with household income, while the propensity to attend high-fee schools is negligible over much of the income distribution but increases strongly at the top of the distribution. Those who attend high-fee schools are overwhelmingly from the top of the income distribution.[21]

ABS data shows that household expenditures on schooling rise with both income and wealth.[22] Expenditures on education also rise strongly with equivalised household disposable income.[23] Households in the top quintiles for income and wealth tend to spend five-to-ten times more on schooling and education than those at the bottom.

In addition, if families are means tested using Census data, then a complementary means test of schools can help overcome other shortcomings. For example, school private income is collected annually while Census data is only collected every five years. Using annual school private income alongside Census data could reduce the inaccuracies in Census data between Census years.

School private income data is available, reliable and recent

Extensive data on school private incomes, including their fees and charges, is already collected annually each year through the Financial Questionnaire. There would be no additional cost from collecting the data required to use school private incomes in the SRS model. In addition, data on school private incomes is collected annually (albeit there is a modest lag before the data is finalised and submitted).

The school financial data reported in the FQ has become much more robust and reliable than it has been in the past – in particular, since the Education Resources Index (ERI) model applied to determine school funding during the 1980s and 1990s. The core problem with the ERI model was that school financial reporting did not have the rigor or transparency necessary to enable the use of school financial data for school funding. This gave rise to concerns that schools were manipulating their financial data, which ultimately led the Government to apply convoluted rules and requirements that undermined the premise and objectives of the model.[24] The input data was the problem with the ERI, not the concept itself.

Yet the days when schools could manipulate their financial data in the ways that undermined the ERI model have long passed. School financial data and reporting has improved immeasurably since 1999. Financial reporting in the Financial Questionnaire (FQ) has become much more rigorous. Schools will soon be required to submit financial reports consistent with Australian Accounting Standards to comply with the Australian Charities and Not-for-profit Commission (ACNC) regulations. In addition, the federal

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[21] C. Ryan and L. Sibieta, *Private schooling in the UK and Australia*, Institute for Fiscal Studies – Briefing Note, 17 June 2010.

[22] ABS 2011, *Household Expenditure Survey, Australia: Detailed Expenditure Items, 2009-10*, Cat no. 6530.0

[23] ABS 2011, *Household Expenditure Survey, Australia: Summary of Results, 2009-10*, Cat no. 6530.0

[24] As described Louise Watson in *Don't throw out the baby with the bathwater: The case for a reformed SES funding scheme*, Australian Journal of Education, Vol. 48, No. 3, 2004, 227-238

education department now has a long time-series of school financial data that could be used to monitor the integrity of future data.

These developments allay any concerns about the use of school financial data for school funding. It might further be observed that school financial data from the FQ has much more integrity than the datasets that will inform the two largest loadings in the SRS funding model from 2018, especially the loading for students with disability.

4.3.2 Concept illustration

Intent and design

The means test of schools would be underpinned by the principle that non-government schools should be able to raise a reasonable amount of private income, but as school fees become excessive then government funding should taper. The benchmark used to assess the reasonableness of the private income of a school would be its base funding requirement in the SRS model. (Loadings would continue to be fully funded.) The SRS is a benchmark of the adequacy of school resources to meet core government policy objectives.

The means test of schools would calculate the base funding a school would receive from government in a way that enables all non-government schools to reach their SRS using income from all sources. This would better target government funding to schools where it can improve outcomes, and also enable more families to have the choice of attending a low-fee, inclusive non-government school.

Figure 4 illustrates how the means test could operate. As school private income increases, relative to a school's base funding requirement in the SRS model, then government funding would vary so that:

- Every non-government school would be permitted to raise a level of private income that would enable them to operate a modest margin above of their SRS, without incurring any loss of government funding (the suggested figure is 20-30% of their base funding requirement)

- Government funding progressively decreases for schools that choose to operate significantly above their SRS

- Government funding reduces to a minimum rate of base funding for non-government schools that choose to operate at very high levels above their SRS (the suggested figure is 180% to 200% of their base funding requirement).

Figure 4: Means test of schools – concept illustration
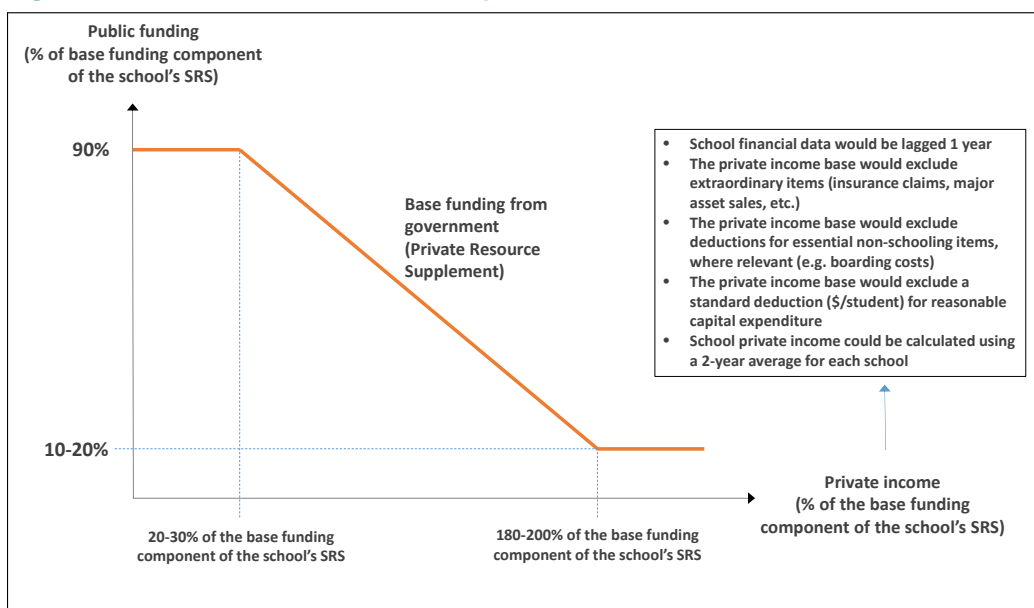
Assessable private income base used for the Private Resource Supplement

The school private income base used for the means test would include all of its private income but there would be an agreed process through which this is adjusted. All private income would need to be included in the starting calculation to preserve the integrity of the measure. Three types of adjustments would be permissible:

- Exclusions – extraordinary revenue items, such as major asset sales and insurance claims, would be excluded because they do not reflect the usual operating resources available to non-government schools (or their general level of fees and charges). Revenues to cover expenditures that are required by the schools but which are not directly related to schooling (e.g. boarding costs) could also be excluded. There are already agreed and rigorous processes for identifying and excluding these costs, to produce the financial data that is reported on the ACARA MySchool website.

- Amortisations – schools could apply to have one-off revenue raisings, such as major fundraising drives for new facilities, amortised over several years so that this does not unfairly decrease their funding in a single year

- Deductions – there would be deductions from school private income for reasonable capital expenditures. This deduction should be a standard dollar per student amount based on capital expenditures in government schools.[25] Wealthy schools would not be permitted to deduct the full amount of income they spend on gold plated facilities.

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[25] This would make the deduction similar to 'attendance dues' in New Zealand. In New Zealand, state integrated schools are only permitted to charge a fee to parents (known as 'attendance dues') to keep the land and buildings at their school up to the standard of an equivalent state school.

The link to government school capital expenditures would allow non-government schools to spend a comparable amount on capital to keep pace with government schools. A bespoke process may be required for capital expenditures on new schools and campuses.

Maximum and minimum levels of government funding

The maximum level of SRS base funding that would be available from government for non-government schools (other than those eligible for full public funding) would be the same as current (90%). Non-government schools would be eligible to receive this amount up to the point where their private income allows them to operate at a comfortable margin above their SRS. This point could be set at 20-30% of their SRS base funding requirement (which would enable a school to have 110%-120% of their overall SRS base funding requirement, with loadings to be fully funded by the Government).

Government funding could decrease to a minimum of 10-20% of SRS base funding. Catholic education does not consider this rate should be zero. One reason is that Government requirements for schools to participate in national testing and data collections (e.g. NAPLAN and the ACARA MySchool data collections) impose compliance costs on schools – so they should be compensated for this.

The point where the minimum level of government funding would start to apply could be when school private income reaches 180-200% of the base SRS.

In setting these rates, it is important to consider the slope of the function. This sets the marginal rate at which government funding decreases as private income increases. A slope of -0.5 would generally seem appropriate. This would mean that, in this part of the calculation, government funding would reduce at a rate of $0.50 for each additional $1 of private income raised. However, with the PRS only receiving a 50% weighting in the blended index, the overall marginal rate of decline would be $0.25 for each $1 of private income raised. This disincentive is very modest and would hardly encourage schools to stop raising private income in order to receive more government funding.

4.4   Advantages of the proposed approach

The funding approach proposed by the CECV would have a number of advantages over current arrangements in terms of meeting government policy objectives.

Table 2: Advantages of the proposed approach

Policy objective	Advantages of the proposed approach
Direct more government funding to the non-government schools where it is more likely to improve educational outcomes	• Funding would be better targeted to non-government schools, providing more funding to schools that require it to reach their resource standard, and less to those that don't. This is because funding arrangements would begin to take into account the extent a school needs government funding to reach its resource standard. • Consistent with the SRS methodology, this would provide more schools the opportunity to excel in developing the core literacy and numeracy skills that the Government is seeking through funding arrangements.
Preserve reasonable incentives for non-government schools to raise private income	• Funding arrangements would preserve <u>reasonable</u> incentives for schools to raise private income. • There would be no disincentive for schools to raise private income, up to a point where they can operate at a comfortable margin above their resource standard – while maintaining comparable facilities to government schools. • When private income is raised beyond that point, the marginal decrease in government funding would be relatively low. • For schools that raise very large amounts of private income there would be no disincentive in raising additional income (since a school would remain on the minimum level of funding). • This creates modest funding incentives for schools to operate efficiently and remain more inclusive for all families.
Support parental choice and diversity in the schooling system. This means supporting the full breadth of the non-government sector through needs-based funding arrangements	• Funding arrangements would better support parental choice and diversity in schooling. • This is because funding arrangements would enable more families to have the choice of attending a low-fee, inclusive non-government school. Non-government schools in middle income and upper income areas would receive higher rates of funding if they maintain low-fees (but with funding also taking into account the financial means of school communities). • There would be greater diversity within non-government schools, because middle-income and high-income families would still be able to attend low-fee schools (alongside low income families). In contrast, current funding arrangements would propel the sorting of families by income in different types of non-government schools.

Policy objective	Advantages of the proposed approach
Provide more support to the families that can least afford fees, and provide less to those that can most afford it	• Funding would be better targeted to families that can least afford fees. • School SES scores would be improved in several ways. This will result in a more accurate assessment of each family's capacity to contribute – although an improved measured is still likely to have shortcomings (e.g. it would be difficult to measure family wealth in any feasible way). • The use of a means test of schools in funding can address inaccuracies and bias in the means test of families. For example, as stated above, it is unlikely that family wealth can be accurately measured. This would benefit wealthy families, which are most likely to attend high-fee, elite schools. Use of a school means test in funding would reduce funding for these schools, thereby correcting for inaccuracies in the means test of families.

Appendix A   Examples from other jurisdictions

There are many countries in which government funding support for non-government schools varies – either directly or indirectly – with school fees. In these countries, governments have prioritised the policy objective of making non-government schools accessible above the objective of raising private income.

In addition, it is very difficult to locate examples overseas where a government overseas means test families in determining the funding to be allocated to a non-government school. Funding arrangements relate to school fees, not parental capacity to contribute.

These examples raise serious questions about the current policy priorities and settings of the SRS model. Through the use of capacity to contribute, the SRS model encourages non-government schools to maximise their private income. The SRS also conducts a means test of school communities, rather than schools. Unlike other countries, there is no funding incentive in the SRS model for schools to remain accessible to broad cross-sections of the community.

In **New Zealand**, a 'state integrated school' receives higher funding than a 'private school'.[26] A key condition related to these classifications is school fees. A state integrated school can only charge a fee known as 'attendance dues'. These enable the school proprietor to keep its land and buildings up to the standard of an equivalent state school. There are no restrictions over fees in private schools, which receive a lower subsidy. Yet even for private schools, government funding arrangements are intended to promote accessibility. About 10% of government funding for private schools is explicitly targeted toward enabling attendance by low income families (i.e. Aspire Scholarships).

In **British Columbia** in **Canada**, government funding for non-government schools is linked directly to their operating costs.[27] Schools whose per-student operating costs are less than or equal to the per-student operating grant provided to public schools in their local district (Group 1 schools) receive more funding than schools whose per-student operating costs are higher (Group 2 schools). This basically means funding varies with fee levels. Low-fee non-government schools are categorised as Group 1 schools, while high-fee non-government schools are classified as Group 2 schools.

In **England**, state-funded non-government schools are prohibited from charging tuition fees except for voluntary, extra-curricular activities.

In **Ireland**, non-government secondary schools that charge fees become ineligible for government funding for operating costs (but are still eligible for other types of government funding support).

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[26] New Zealand Ministry of Education, *Stock take of funding system for school-age children in New Zealand*, July, 2015

[27] See https://www2.gov.bc.ca/gov/content/education-training/administration/legislation-policy/independent-schools/grants-to-independent-schools

In **Germany**, private schools (Ersatzschulen) are prohibited from segregating students according to the financial means of families – in other words, schools are prohibited from rejecting students because of family income.

In **Finland**, private schools receive comparable grant funding to public schools, but the tuition fees – as well as selection admission practices – are prohibited.

In the **Netherlands**, non-government schools generally fall into two categories – particular schools (or special schools) and private schools. Particular schools receive the same government funding as public schools, and cannot charge tuition fees about a statutory rate. In contrast, private schools receive no subsidies and have no restrictions on tuition fees.