NATIONAL CATHOLIC EDUCATION COMMISSION

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National Catholic Education Commission
Australian Education Amendment (Direct Measure of Income) Bill 2020

The National Catholic Education Commission (NCEC) is pleased to present this submission regarding the *Australian Education Amendment (Direct Measure of Income) Bill* 2020 (the Bill) to the Committee.

The NCEC is the representative body of Australia's Catholic schools. Working closely with the state and territory Catholic education commissions, the NCEC advocates for and influences policy at the national level on behalf of Australia's Catholic schools.

The NCEC believes the public good is best served by an educational funding model that is needs-based, sector blind and supports diverse non-government schools in all communities where they are desired. Ensuring choice and access for all families, irrespective of where they live, is a principle that is best achieved through such a funding model.

The NCEC supports this Bill and congratulates the Government on its introduction. As a proposed amendment to the *Australian Education Act* 2013 (the Act), the Bill represents a step towards ensuring a fairer and more transparent funding model for non-government schools. Through the innovative use of data matching, the Bill will deliver funding which is fair and transparent and supports choice and access. Catholic education is particularly pleased that the Bill (in part) supports and implements mechanisms which align with the NCEC principles for sustainable and equitable funding. These include:

1. **Parental choice** – Parents and carers, regardless of their socio-economic status and their place of residence, are entitled to choose the education that best meets the needs of their children.
2. **Educational partnership** - Catholic schools, with state and territory governments and independent schools and systems, should work together with families for the benefit of all students.

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3. **A fair allocative mechanism** – Funding allocations to Catholic schools must be based on reliable and objective data and a transparent mechanism that reflects the needs of students, families and school communities.
4. **Funding equity** – Funding models must enable equitable access to Commonwealth and state funding for Catholic schools and recognise that school systems are best placed to assess local need.
5. **Funding certainty** – Must be enshrined in legislation**.**
6. **Accountability and transparency** – Catholic schools must account publicly for their use of government funding to achieve educational outcomes.[1]

To understand the impact of this Bill, the NCEC believes it is useful for the Committee to understand the legislated funding mechanism, the flaws in that process and the proposed aspects of the Bill which we believe will address these flaws.

The funding model legislated under the Act

The cornerstone of the funding model in the Act is the schooling resource standard (SRS). The SRS is an estimate of the total public funding a school needs to meet the educational needs of its students. The SRS is calculated by reference to a base amount of funding for every primary and secondary student, along with an additional six loadings that provide extra funding for disadvantaged students and schools. The SRS funding model recognises that schools with similar student populations require the same level of resources regardless of whether these schools are government, Catholic or independent schools.

Currently the base amount (excluding loadings) for all students in Australia is:

a. $11,744 for primary
b. $14,761 for secondary.

In recognition of the role that government schools and some specialised non-government schools play in the education sector, the Act, in accepting the recommendations of the *Review of Funding for Schooling: Final report* 2011 (the Gonski review), fully funds these schools to 100% of the SRS (see section 54(1) of the Act).

The funding of the remaining schools in the non-government sector, including most Catholic low-fee schools, is seen as a shared responsibility between governments (federal and state/territory), parents and school communities. Accordingly, rather than funding these schools at 100% of the SRS, the Act legislates that SRS funding is reduced by a percentage which represents a school's legislated private contribution. This is known as the 'capacity to contribute' (CTC) (see section 54(2) and 54(3) of the Act) and it is meant to represent the capacity of a school community to contribute to the recurrent cost of the school.

[1] Further information: Funding Principles for Catholic Schools December 2015.

The outcome of this model is that the public funding that a non-government school student receives is reduced by the CTC score (percentage) and is always less than the legislated funding that a government school (or specialised non-government schools) attracts.

Accordingly, with the exception of the capacity to contribute requirement for non-government schools, the model for determining school funding set out in the Act is sector blind. The Act recognises that funding for non-government schools is a shared responsibility between the Commonwealth, state and territory governments and school communities and families. All governments share responsibility for ensuring that government schools are not funded below their SRS entitlement.

The current process for measuring a school's capacity to contribute

The current method for calculating a school's CTC utilises a school's socio-economic status (SES) score. SES scores are calculated by the Australian Bureau of Statistics using data provided in the Census of Population and Housing. SES scores are calculated by reference to area units (statistical area 1s). These comprise around 400 people in a metropolitan area. Students attending non-government schools are attributed the SES of the SA1 in which they live. Student SES scores are combined into a school SES score and the school SES score is used to allocate the CTC percentage (see section 54 of the Act).

Flaws with the SES score

Catholic education has consistently submitted that the use of the SES score to determine a school community's CTC is flawed and does not ensure fair funding. The SES score is a blunt instrument which has the impact of treating schools with different school communities as having the same capacity to contribute. SES scores for many Catholic schools over-estimate the true CTC of their school communities.

The funding implications that result from the CTC percentage are inequitable and inconsistent with a model which is supposed to be fair and equitable. The perverse consequences of the SES score are demonstrated by the following comparison between two very different schools.

> **St John's Catholic Primary School** in Clifton Hill, Victoria enrols students from a variety of backgrounds. In 2019, 32% of students at St John's were from families that held Heath Care cards, 36% of students were assessed to be educationally disadvantaged and 20% of students were included on the NCCD collection which meant they were students with disabilities. Because of the area surrounding St John's, it is allocated an SES score of **115** which is the same SES score allocated to **Geelong Grammar (primary campus)**.
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> Under the current model, the families at St John's are assessed to have the same CTC (that is ability to privately contribute to their school fees) as the families who choose to enrol their children at Geelong Grammar. Currently St John's charge an annual fee per family of $2,480 and Geelong Grammar charge an annual tuition fee for years three to six of $30,620.

Attempts to correct the flaws with the SES scores

The limitations of the SES score have been acknowledged for some time. The Gonski review recognised the limitations of the SES score measure and recommended that school SES scores only be used in the short term to determine a CTC percentage. The Government was advised to *"commence work as a priority to develop, trial and implement a better measure of the capacity of parents to contribute in consultation with the non-government sectors".*

To deal with the flaws of the SES scores and their unfair impact at the school level, particularly for low fee Catholic systemic schools, an averaging process was applied in the years 2014 to 2017. This meant that an SES score was allocated to a school based on the average SES score for all schools in that system. This avoided large reductions in funding to almost one third of Catholic systemic low fee schools.

In 2017, the Act was amended. One of the amendments removed the averaging process and another increased the CTC percentages. The removal of the averaging process has meant that each school is allocated funding according to their actual SES score. While Catholic systemic schools retain the right to redistribute funds between schools within their systems, the loss of the averaging process results in large reductions in funding to almost one third of Catholic schools. The direct impact is demonstrated below.

> **St Michael's Catholic Primary School** in Lane Cove Sydney is allocated a SES score of 129 which equates to a CTC of 80%. This means that families with children attending St Michael's are expected to contribute 80% of the base SRS cost of educating each of their children.
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> In 2020 the reduction in government funding associated with the required 80% capacity to contribute would mean that this school would need to raise $9,395 for every student to cover the shortfall.

The current CTC and SES settings impose these high fee expectations irrespective of school context and are insensitive to individual circumstances. For many non-government schools, high fee expectations can limit choice and access for some families.

While the NCEC maintains that there are still flaws with the education funding model, this Bill will correct some flaws and enable a more precise measure of the capacity to contribute to the recurrent costs of schooling of a school community. Catholic education believe that the CTC percentages are still too high.

The Direct Measure of Income

In 2018, the National School Resourcing Board ("the NSRB") undertook an independent review of the SES score methodology. The review sought to:

1. Evaluate the methodology used to calculate the SES scores as a measure of non-government school parents' CTC to the cost of schooling.
2. Provide recommendations including in relation to the strengths and weaknesses of the current SES measure and possible alternative methodologies or refinements for the calculation of the CTC or SES measures.

The *Review of the socio-economic status score methodology: Final report* was published in 2018. It found that the use of SES scores is an imperfect means of assessing CTC. The NSRB made six recommendations, including that the CTC for a school be determined by a direct measure of income of the parents and/or guardians of the students at a school.

The Government accepted the Board's recommendations and established a Technical Working Group to develop a direct income measure of CTC to apply from 2020 based on income tax data. The Technical Working Group consisted of representatives from the Australian Government, state and territory governments and the non-government school sectors.

The Direct Measure of Income (DMI) of the CTC is the outcome of the deliberations and recommendations of the Technical Working Group, informed by advice from independent experts.

The DMI will replace the SES score and it provides a more accurate and meaningful measure by innovatively using the median income of parents and legal guardians at a particular school to determine the level of the private contribution the school must contribute toward its students' education. Using the example of **St John's Catholic Primary School.**, By reference to the actual measure (DMI) of parental/guardian income, St John's has a DMI score of 97 (compared to its SES score of 115) which means this relatively disadvantaged school's base funding entitlement will increase by 67% or over $400,000 per year.

A fairer and innovative mechanism ensuring the most funding for students with the greatest need

The NCEC supports the introduction of a direct income measure of CTC as a fairer measure of determining school funding. It also represents an effective innovation which should be welcomed.

Collaboration across multiple government agencies has meant that, for the first time, it has been possible to combine data from the Australian Taxation Office with PAYE information and, for those without an income record, it has been possible to attribute low income to Concession Card holders.

As a result, the DMI is a targeted and more accurate measure that will ensure funding flows to the schools that need it the most.

The limitations of the DMI measure

Notwithstanding the supportive comments above, the NCEC notes that despite DMI scores providing a fairer measure of CTC, it does not address Catholic education's concerns about the level of private contributions that parents of non-government school children are expected to contribute to their schools under the SRS model.

The Bill will have no impact on the actual CTC percentages associated with each DMI score. These percentages will remain the same as the percentages associated with SES scores. These range from a 10% private contribution for low SES/DMI schools to 80% for high SES/DMI schools.

The Australian Government has recognised that the persistence of high fee expectations will continue to place a limitation on the ability of the non-government school sector to provide diverse alternatives to government schooling. The NCEC welcomes the Choice and Affordability package to ensure that low and medium fee non-government school alternatives are accessible to all families at least until 2029.

In the longer term, the sustainability of non-government primary schools will depend on the Government's commitment to review the primary CTC percentages and the high fee expectations they impose on Australian parents. In this regard, the NSRB has acknowledged that wealth is an important component of a family's ability to contribute to the cost of their child's schooling.

The NCEC believes that the accuracy of the CTC measure could be enhanced by the inclusion of wealth, should a reliable measure of wealth become available. The use of the median family income as the sole measure of a school's capacity to contribute may also require further refinement through changes to the methodology set out in the Regulations made under the Act. This is because the median ignores the distribution of incomes within a school, even though this can affect the ability of a school to raise private income from families.

Correction to inconsistent transition arrangements

Finally, the NCEC welcomes another important aspect of this Bill.

In addition to the introduction of a DMI of CTC, the Bill amends section 35 of the Act to correct for unfair and inconsistent transition arrangements. These transition arrangements were applied to Catholic systemic schools in 2017 when the Act was amended. Under these arrangements, Catholic schools that were assessed to be 'over funded' were given significantly less time to transition to their lower funding entitlement than independent schools assessed to be 'over funded'. The estimated cost to Catholic education because of this differential treatment was $1.1 billion from 2018 to 2027.

The NCEC supports the amendment to section 35 of the Act in this Bill.

Please contact us on the details below if you require any further information or clarification of the matters raised in this submission.

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Should you have any further queries in relation to this submission, please contact:

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