



INDEPENDENT SCHOOLS
COUNCIL OF AUSTRALIA

Senate Education and Employment Legislation Committee

Inquiry into the Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions]

Submission by
the Independent Schools Council of
Australia (ISCA)

Contents

About ISCA	3
Introduction	4
Background	4
Development of the DMI methodology.....	5
How will the DMI methodology work?	6
Phase-in arrangements	6
Impact of the DMI methodology on schools and the Independent sector	7
Choice and Affordability Fund	8
Independent sector concerns	9
Matching rates and missing data	9
Use of the median.....	9
Regional and Boarding Schools.....	10
Transparency.....	10
Appeals.....	11
ABS Quality Framework and validation	11
Timelines for implementation and impact assessment	11
Confidentiality requirements.....	12
Recommendations	12
Conclusion.....	13
Appendix 1: Projected impact of DMI methodology on Independent schools by state and territory compared to the current legislated settings, 2020 -2029	15

About ISCA

ISCA is the national peak body representing the Independent school sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISCA represents a sector with 1,148 schools and almost 632,000 students, accounting for approximately 16 per cent of Australian school enrolments. ISCA's major role is to bring the unique needs of Independent schools to the attention of the Australian Government and to represent the sector on national issues.

Independent schools have been Australia's fastest growing school sector over the last decade, with the latest figure of a 2.5 per cent growth in full time equivalent enrolments being the sector's highest since 2008. In 2019, Independent school enrolment growth was recorded across all fee levels, with the strongest growth in low fee (below \$5,000 per annum) Independent schools.

Independent schools are a diverse group of non-government schools serving a range of different communities. Many Independent schools provide a religious or values-based education. Others promote a particular educational philosophy or interpretation of mainstream education.

Independent schools include:

- Schools affiliated with Christian denominations for example, Anglican, Catholic, Greek Orthodox, Lutheran, Uniting Church, Seventh Day Adventist and Presbyterian schools
- Non-denominational Christian schools
- Islamic schools
- Jewish schools
- Montessori schools
- Rudolf Steiner schools
- Schools constituted under specific Acts of Parliament, such as grammar schools in some states
- Community schools
- Indigenous community schools
- Schools that specialise in meeting the needs of students with disabilities
- Schools that cater for students at severe educational risk due to a range of social/emotional/behavioural and other risk factors.

Many Independent schools have been established by community groups seeking to meet particular needs. Examples include the Independent community schools for Indigenous students in remote areas, special schools for students with disability and boarding schools to educate children from regional and remote areas. There are also schools that seek to reflect the religious

values of a particular community or that seek to practise an internationally recognised educational philosophy such as Rudolf Steiner or Montessori schools. Independent Catholic schools are a significant part of the sector, accounting for eight per cent of the Independent sector's enrolments.

Most Independent schools are set up and governed independently on an individual school basis. However, some Independent schools with common aims and educational philosophies are governed and administered as systems, for example the Lutheran systems. Systemic schools account for 18 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

Introduction

The Independent Schools Council of Australia (ISCA) welcomes the opportunity to provide a submission to the Senate Education and Employment Legislation Committee's inquiry into the Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions].

Independent schools serve a broad range of students and communities, reflecting the diversity of Australian society, and have a long-standing commitment to supporting quality education for students across Australia.

Australian Government funding of non-government schools in Australia plays a vital role in ensuring a real choice in schooling for the parents and families of Australian children. Any significant change to the funding model for schools has significant potential flow on effects not just for schools, but for families and individual children.

Background

On 20 September 2018 the Prime Minister, the Hon Scott Morrison MP, and the Minister for Education, the Hon Dan Tehan MP, announced new school funding arrangements.

The main change announced by the Australian Government is the phase-in of the Direct Measure of Income (DMI) Capacity to Contribute (CTC) scores. The adoption of this new methodology for calculating CTC was based on the recommendations of the report on the Review of the socio-economic score methodology undertaken by the National School Resourcing Board (NSRB) in 2018.

Under the current funding arrangements, Commonwealth SRS base funding for non-government schools is adjusted according to a measure of 'capacity to contribute', determined by a measure of the school community's socio-economic status (SES). This means that schools with a higher SES score will receive a lower level of per capita base funding and vice versa.

The NSRB recommended moving away from the current area-based methodology based on the ABS Census of Population and Housing to an individual measure of the income of parents and /

or guardians based on personal income tax data.¹ The Australian Government accepted all the recommendations of the Board's report.

The *Australian Education Amendment (Direct Measure of Income) Bill 2020* includes the main provisions listed below.

- Enabling the Australian Education Regulation 2013 to prescribe a new methodology for calculating CTC scores by reference to a direct income measure.
- Enabling the Australian Education Regulation 2013 to alter the calculation of a non-government school's Commonwealth share and alter the period of transition.
- Broadening the definition of 'majority Aboriginal and Torres Strait Islander' school and enable the minister to make a determination that a school is likely to be a majority Aboriginal and Torres Strait Islander' school in a year.
- Amending the Act to provide clear authority and appropriation to make any GST inclusive payments, where necessary

The first two provisions which enable the introduction of the DMI methodology for the calculation of CTC are the focus of this submission.

ISCA supports broadening the definition of 'majority Aboriginal and Torres Strait Islander' school to ensure that these schools are not unintentionally adversely affected by the move the DMI methodology by moving in and out of a CTC exempt category of schools due to minor enrolment fluctuations.

Development of the DMI methodology

Work on the new methodology took place in 2019 through the Direct Measure of Capacity to Contribute Technical Working Group chaired by the Australian Government Department of Education. The Working Group included representatives of the non-government sector (Independent and Catholic), state governments, the Australian Bureau of Statistics, and the Australian Tax Office.

The Technical Working Group worked through a range of technical issues associated with the implementation of the new methodology however this work was on a theoretical basis only.

Due to the unavailability of data during 2019 and the constraints of using the Multi-Agency Data Integration Project (MADIP) to link the very large datasets involved, the Working Group never saw any modelling of CTC scores using different variables or settings or any potential funding impacts on schools.

¹https://docs.education.gov.au/system/files/doc/other/national_school_resourcing_board_ses_review_final_report.pdf

This is in significant contrast to the processes for the development of the current Socio-economic Status (SES) methodology currently used to calculate CTC. Work on the development, testing and validation of the SES methodology took over three years, not one.

How will the DMI methodology work?

The new methodology for calculating CTC scores requires the collection of the names and addresses of students' parents and guardians from non-government schools every year which are then provided to the Australian Government Department of Education as part of the student address collection.

These names and addresses are then linked to personal income tax records in the Multi-Agency Data Integration Project (MADIP), a secure ABS data environment which enables linkages between large government data sets.

There is an 18-month time lag in the availability of income data through MADIP. Parent and guardian names and addresses provided in 2018 were linked to 2015-16 MADIP data. Parent and guardian names and addresses provided in 2019 were linked to 2016-17 MADIP data.

Where Personal Income Tax records do not exist, a number of proxies are used, where available, to estimate the personal income of parents and / or guardians. The use of proxy data varies between schools but for some schools it is integral to the calculation of the DMI CTC score.

The median family income is translated into a DMI score by comparing the median family income of a school against the median family income of other schools. The data are standardised to a mean of 103 and a standard deviation of 13, weighted by enrolments.²

Phase-in arrangements

The new CTC methodology is to be phased in from 2020. These phased arrangements mean that schools will be funded based on 'best-of' 2011 SES scores, 2016 SES scores or DMI scores in 2020 and 2021 with all schools transitioning to DMI scores in 2022.

Under the current Schools Resourcing Standard funding model, all non-government schools are already in the process of transitioning from their current funding levels to an 80% Commonwealth share of the Schooling Resource Standard (SRS).

Some schools are already on their SRS, but most are still in the process of either transitioning up or down to an 80% Commonwealth share of SRS.

Amended transition pathways for schools which take into account the move to DMI scores were also announced.

- Schools transitioning up to 80% Commonwealth share of their Schooling Resource Standard (SRS) will complete their transition in 2023.

² <https://www.education.gov.au/what-methodology-direct-measure-income-dmi>

- Schools transitioning down to 80% Commonwealth share of their SRS will complete their transition in 2029.

This gives schools transitioning down to their entitlement an additional 2 years to complete their transition.

For systems, the transition arrangements will be applied at the school level rather than at the system level which is the current methodology. Systems will still be able to redistribute funding between schools. However, in the Independent sector most schools are stand-alone schools and thus redistribution is not possible. This means that each Independent school bears the full weight of managing transition.

Impact of the DMI methodology on schools and the Independent sector

The difference in CTC methodology means that for most Independent schools, there will be a change in their CTC scores between the two methodologies. Some schools will see a resulting increase in funding, some schools will have the same CTC score and thus no change, and some schools will see a reduction in funding.

While for most schools a decrease in the DMI CTC score will result in additional funding and an increase in the DMI CTC score will result in decreased funding, there is also an intersection with the SRS transition paths that schools are on. For example, a school could have a decrease in CTC score but still be losing funding overall as they transition down to 80% of SRS.

ISCA estimates that the introduction of the DMI methodology will result in a reduction in funding to the Independent sector of \$212 million between 2020 and 2029 compared to the funding the sector would have received under the current methodology.

Table 1: Projected impact of DMI methodology on Independent schools 2020 -2029

	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Schools with decreased funding	350	35%	309,963	50%	-\$1,833,127,114
Schools with increased or unchanged funding	652	65%	305,094	50%	\$1,621,002,823
All Schools*	1002	100%	615,057	100%	-\$212,124,292

*Excludes CTC exempt schools

Source: Department of Education, Skills and Employment Funding Estimator Tool Q1 2020

Approximately 420 schools (or 42% of the sector) are estimated to have an increase in per student funding between 2020 and 2029 as result of the DMI methodology. The additional funding is estimated to be worth \$1.6 billion between 2020 and 2029.

Approximately 230 schools (23% of the sector) will have no change in CTC score and thus no change in funding as a result of the introduction of the DMI methodology.

350 schools (35% of the sector) are estimated to have a decrease in per student funding between 2020 and 2029 as result of the DMI methodology. The decreases in funding mean that individual schools will lose an estimated \$1.8 billion between 2020 and 2029.

For some schools this means a reduction in per student funding between 2020 and 2029 but for most schools it results in a reduced rate of growth in per student funding. Approximately 130 schools with decreased funding will have a growth rate above 3% from 2020 - 2029, which is approximately the amount by which funding in the model will increase due to indexation over the same period. However, just over 200 schools will move to a growth rate which is less than 3%, and some schools will go into negative growth i.e. less than 0.0% growth.

A series of tables illustrating the impact on Independent schools by state and territory is available in Appendix 1.

These figures do not include CTC exempt schools which are those serving highly disadvantaged communities and students such as special schools, Special Assistance Schools, remote sole providers and 'majority Aboriginal and Torres Strait Islander' schools.

Choice and Affordability Fund

The Choice and Affordability Fund was also announced in September 2018. The Fund totals \$1.2 billion over 10 years, to be split between the Catholic and Independent sectors based on the sector share of schools and will provide approximately \$463.3 million for the Independent sector from 2020 to 2029.

The national priorities of the Choice and Affordability Fund as outlined in the Choice and Affordability Fund Guidelines³ are:

- Choice and affordability of schools
- Transition assistance
- Special circumstances funding
- Strengthening outcomes for schools and educationally disadvantaged schools and students
- Student wellbeing and support

³ <https://docs.education.gov.au/documents/choice-and-affordability-fund-guidelines>

- Other priorities identified by the Minister

As announced by Minister Tehan⁴, a portion of this funding will be used specifically to assist regional and remote schools requiring transition assistance. This amount is currently set at 9% of the Fund in the Guidelines however the Independent sector is working with government to increase this proportion. The Guidelines also require that funds be utilised to assist non-regional schools requiring transition assistance and also special circumstances funding.

While the Choice and Affordability Fund was initially set up to address a range of priorities, It is highly likely that a significant proportion of the Choice and Affordability Fund will go towards assisting schools to transition as a result of the introduction of the DMI CTC methodology.

Independent sector concerns

ISCA still has a range of concerns associated with the introduction of the DMI methodology, including a range of technical and implementation issues.

Matching rates and missing data

The current SES CTC methodology requires a data matching rate (student addresses) of 95% in order to produce an SES CTC score. The DMI methodology does not have a threshold in order to produce a DMI CTC score.

Where a school's community is fairly homogenous, a high matching rate is not necessarily required to calculate a valid score and missing data can be imputed. However, if the missing data is not random, then imputation is not a valid approach to replacing missing data.

ISCA is aware of a school with a large increase in DMI CTC score which has a relatively high matching rate of 83%. However, the school's population is 19% Indigenous students from remote and highly disadvantaged backgrounds. There is a high likelihood that the missing 17% of data is comprised mostly of the school's Indigenous population and the school's CTC score is overstated.

The continuing presence of missing data has the potential to highly disadvantaged some schools, such as small schools, rural schools, schools serving high numbers of disadvantaged students and boarding schools.

Use of the median

The NSRB recommended the use of the median for the calculation of a Direct Income Measure of Capacity to Contribute and the Australian Government accepted this recommendation.

Statistically, the use of the median mitigates the impact of outliers and generally provides a lower number than the use of the mean however using a single number as the reference point for the calculation of the CTC scores also fails to take other factors into account.

⁴ <https://ministers.education.gov.au/tehan/more-accurate-method-calculate-funding-schools>

The NSRB report found that under SES, ‘there is greater variability in household income between independent schools than Catholic schools’.⁵ The use of the median for schools with a very broad distribution of income will significantly disadvantage the large number of families below the median if the DMI CTC score is higher than the SES CTC score. That disadvantage increases the further below the median the family is placed.

For the Independent sector other issues raised included the use of the median for combined schools and schools with a bimodal distribution. However, given the time constraints for implementation, a number of issues remain unaddressed.

Regional and Boarding Schools

The CTC scores based on Median Household Income generated by the NSRB indicated that there may be a negative impact on regional schools and boarding schools arising from the proposed new methodology. At that time however, there was significant missing data for many of these schools so it was unclear if the addition of the missing data would change the outcomes of the new methodology.

Since the CTC scores have been released however it is clear that there are a group of regional schools that stand to be highly disadvantaged under the new CTC methodology. There are also a significant number of boarding schools that also will see a reduction in funding under the new methodology. As noted previously, the Technical Working Group was never shown any modelling of the impact on schools.

Boarding schools, both in regional areas and metropolitan areas also serve a wide range of students, including those from regional and remote areas, often with limited educational choice in their own communities. The Independent sector is also the largest provider of Indigenous boarding provision in Australia, providing valuable educational opportunities to highly disadvantaged students. More work is needed to examine these schools and their funding outcomes prior to transition taking place.

It is possible that the use of the median to calculate CTC for these schools driving increases in CTC scores, given that many of these schools serve widely diverse communities both in country and metropolitan areas. If this is the case then the use of the median to set CTC scores for these schools will result in significant funding losses compared to current model over a relatively short period of time, calling into question the ability of these schools to manage the transition and retain enrolments from families with incomes below the median, potentially driving CTC scores higher. If CTC scores for these schools continue to increase as a result of the move to the DMI methodology, then this will only serve to make these schools even less accessible to those who need them.

Transparency

The Multi-Agency Data Integration Project (MADIP) is a highly secure ABS environment. There is no capacity for schools to view or interrogate the data used to determine their DMI CTC score.

⁵https://docs.education.gov.au/system/files/doc/other/national_school_resourcing_board_ses_review_final_report.pdf, p21

There are associated questions around what information regarding a school's CTC score will be able to be provided to schools.

This lack of clarity makes it extremely difficult for schools to understand their DMI CTC score and to be able to judge whether or not it would be feasible to appeal their DMI CTC score if they felt it was unrepresentative of their school's community. For example, if a school has missing data, they are unable to ascertain which data is missing and if it is pertinent to their CTC score as that information cannot be retrieved from MADIP for privacy reasons.

Appeals

The NSRB report recommended that there be a robust appeals process. However, as noted above, it is not clear how a school might appeal an CTC score based on income tax data as they will not have access any data from the ABS data environment.

It may be that the appeals process will be a mechanism for schools in areas which have undergone a sudden economic change and where the delay in current income data will result in CTC scores which are not representative of the current circumstances of parents and / or guardians.

The development of the appeals process is one of two pieces of work which is being done by the ABS and it is not clear what consultation processes will take place with the non-government school sector to ensure their appropriateness for use.

ABS Quality Framework and validation

Since the new methodology was announced, ISCA has reinforced the need for the new methodology to undergo 'rigorous trialling and validation before it can be implemented.'⁶

There is a clear need for a comprehensive validation of the new methodology, as took place with the current SES methodology, to enable government, systems and schools to have confidence in the new measure. It is particularly important for the Independent sector where most schools are stand-alone schools.

The Department has commissioned work from the ABS to develop a Data Quality and Validation Framework. Details of this work is not available so ISCA is unable to state whether any data validation took place before the DMI methodology was finalised and scores sent to schools or whether this work is on-going.

Timelines for implementation and impact assessment

During the development process, the lack of available data made proper consideration of the possible elements of the new model impossible. There was insufficient time for the Technical Working Group to consider the impacts of any modelling undertaken by the Department as the Working Group concluded before modelling of different options was done.

⁶ [ISCA Media Release - Further work required to determine feasibility of SES changes](#) (6 July 2018)

This meant that no input or advice was able to be provided on possible issues or areas for concern with the CTC methodology. There was also a range of other factors that were unable to be looked at and / or modelled to be assessed for impact or relevance due to the extremely short timeline for development and implementation of the DMI CTC methodology. As noted previously, for the Independent sector these included issues such as the use of the median for combined schools and schools with a bimodal distribution.

It is also unclear how the volatility of the new methodology will impact on individual schools. SES has proven to be a stable method of adjusting base funding for CTC as it is only updated every five years when the Census occurs. Under the DMI methodology new data is available annually resulting in a new score every year. While 3-year rolling averages will be used to 'smooth out' volatility, schools will still potentially have a different CTC score every year leading to fluctuations in per capita base funding year-on-year.

Confidentiality requirements

Throughout the process of development of the DMI methodology, the non-government sector representatives involved in either the Technical Working Group or any consultations have been subject to a series of confidentiality arrangements which have prevented any broader discussion of the proposed methodology.

For the Independent sector, this has meant that ISCA and Association of Independent Schools representatives have not been able to communicate in any meaningful way with schools and the broader sector about the development of the DMI methodology and the possible impacts at either the school or sector level. These confidentiality arrangements are still in place, even though individual schools and systems have been advised of their DMI CTC scores and potential funding impacts.

Recommendations

In March 2020 Minister Tehan announced that:

- A review process will be established by July 2020 to address unexpected or unique circumstances affecting the financial capacity of a school's community.
- The National School Resourcing Board will examine the Schooling Resourcing Standard (SRS) loadings as they impact students and schools in regional Australia. The review will commence by June.
- Further work will be undertaken in consultation with the ABS and the sector to investigate what additional data could be used to further refine how the capacity to contribute is calculated.⁷

While ISCA welcomes these announcements and expects that these pieces of work will go some way towards continuing the necessary work required to ensure the validity and suitability of the

⁷ <https://ministers.education.gov.au/tehan/more-accurate-method-calculate-funding-schools>

DMI CTC methodology for school funding, they do not address the significant transition issues facing many Independent schools.

ISCA recommends:

1. A review of the current DMI methodology involving further detailed analysis and testing of the current methodology and examination of possible alternatives to calculate a school community's 'capacity to contribute'. Such a review should incorporate a both independent experts and statisticians as well as sectoral expertise.
2. The current transition period for schools undergoing a funding decrease should be extended beyond 2029.
3. A 2-year extension to the current 2-year 'best-of' arrangements (2020-21) to allow time for improved road testing of the model and development of suitable alternatives.

Conclusion

Over the last 40 years there have been three Australian Government funding models for non-government schools; the Education Resources Index (ERI) model, the Socio-economic Status (SES) model and the current Schooling Resources Standard (SRS) model.

The introduction of each model has come after years of development, modelling, trialling and consultation as well as appropriate transition arrangements to ensure stability in funding for schools, and also for the families who send their children to these schools. It is this stability that enables schools and families to plan for the future.

The SRS funding model is an inherently more volatile funding model than the previous SES funding model with schools receiving less base per capita funding and with more funding delivered to school via the loadings for disadvantage mostly based on demographics which are subject to change.

The SES CTC scores have however, proven to be a stable method of 'discounting' base funding, are transparent in that schools are able to calculate their own CTC scores, as well enabling a robust appeals process. And as noted above, SES took several years to develop and test with the non-government school sector.

Currently the DMI CTC methodology does not meet the same benchmarks in terms of what is desirable in a funding model; it was hastily developed due to impossible timeframes and seemingly without any consideration of impacts on individual schools and families in the worst affected schools.

There will be significant changes to school funding entitlements for many schools and the associated transitions will intersect with existing transitions under the SRS funding model creating on-going instability and funding uncertainty for a large number of Independent schools.

For schools with significant increases in CTC scores that affect their per capita base funding, it is unclear whether the changes required to transition by 2029 are either justified or sustainable. More work is required to ensure that the DMI methodology is suitable for all schools and can be

implemented in a way that will not adversely impact on significant numbers of Independent schools serving large numbers of Australian families.

ISCA

12 March 2020

Appendix 1: Projected impact of DMI methodology on Independent schools by state and territory compared to the current legislated settings, 2020 -2029

Source: Department of Education, Skills and Employment Funding Estimator Tool Q1 2020

NSW					
	Schools #	Schools %	Students #	Students %	Projected funding change 2020-2029 vs Current Legislation
Total Losing Schools	106	31%	87,556	43%	-\$553,488,047
Total Winning (or unchanged) Schools	234	69%	115,077	57%	\$561,793,640
All Schools*	340	100%	202,633	100%	\$8,305,593

*Excludes CTC exempt schools

VIC					
	Schools #	Schools %	Students #	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	67	35%	79,167	55%	-\$390,931,818
Total Winning (or unchanged) Schools	127	65%	63,704	45%	\$326,325,005
All Schools*	194	100%	142,870	100%	-\$64,606,813

*Excludes CTC exempt schools

QLD					
	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	76	42%	68,684	58%	-\$402,667,650
Total Winning (or unchanged) Schools	104	58%	50,434	42%	\$273,020,632
All Schools*	180	100%	119,119	100%	-\$129,647,018

*Excludes CTC exempt schools

SA

	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	30	29%	24,791	48%	-\$147,855,181
Total Winning (or unchanged) Schools	73	71%	27,377	52%	\$149,151,096
All Schools*	103	100%	52,168	100%	\$1,295,915

*Excludes CTC exempt schools

WA

	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	57	45%	41,859	60%	-\$280,479,166
Total Winning (or unchanged) Schools	69	55%	27,805	40%	\$132,129,687
All Schools*	126	100%	69,664	100%	-\$148,349,479

*Excludes CTC exempt schools

TAS

	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	7	24%	3,994	42%	-\$24,093,566
Total Winning (or unchanged) Schools	22	76%	5,533	58%	\$21,118,589
All Schools*	29	100%	9,526	100%	-\$2,974,977

*Excludes CTC exempt schools

NT					
	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	7	54%	3,913	76%	-\$33,611,686
Total Winning (or unchanged) Schools	6	46%	1,215	24%	\$9,349,643
All Schools*	13	100%	5,128	100%	-\$24,262,043

*Excludes CTC exempt schools

ACT					
	Schools	Schools %	Students	Students %	Projected funding change 2020-2029 vs current legislation
Total Losing Schools	0	0%	0	0%	\$0
Total Winning (or unchanged) Schools**	17	100%	13,950	100%	\$148,114,531
All Schools*	17	100%	13,950	100%	\$148,114,531

*Excludes CTC exempt schools

**Some ACT schools have increased funding under DMI but still will experience negative or low growth from 2020 - 2029 due to their SRS transitions.