

**COALITION OF REGIONAL
INDEPENDENT SCHOOLS
AUSTRALIA**

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Senate Education and Employment Legislation Committee

Inquiry into the

**Australian Education Amendment
(Direct Measure of Income) Bill 2020
[Provisions]**

Submission by the

Coalition of Regional Independent Schools Australia

12 March 2020

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Who Are We?

The Coalition of Regional Independent Schools Australia (CRISA) was formed to support the continued provision of quality education through independent day and boarding schools which serve communities across rural, regional and outer-metropolitan Australia.

Member schools share a concern that proposed Commonwealth 'DMI' funding will seriously undermine their operations.

Summary

- 1.1 CRISA advocates fair funding for all schools.
- 1.2 CRISA supports the general principle of measuring a school's need for funding by reference to its parents' incomes.
- 1.3 Regulations to accompany this legislation currently use a school's parents' median income to calculate "capacity to contribute". This means that funding is determined by the income of the wealthier half of the school community. This is not fair.
- 1.4 Regional parents have limited choice of independent schooling, so regional schools must cater for a broad spread of parental incomes and make schooling affordable for those with modest "capacity to contribute".
- 1.5 Because established regional and outer-metropolitan schools are mostly in the mid-range of SES, the largest burden of funds-shifting falls on them.
- 1.6 The median income funding model, if not varied, will result in many regional schools losing millions of dollars of funding. Schools which have served their communities, often for many decades and some for more than a century, will have their viability threatened.
- 1.7 The Minister has indicated that this funding formula will be reviewed. We welcome the review. However, **regional and outer-metropolitan schools need and deserve an immediate declaration that they will not (in real terms) lose funding under the new model.**

1 Background

The Coalition represents about fifty mostly regional and outer-metropolitan independent schools from across Australia (*listed in Appendix 1*), many of which are long-established bastions of their local communities. For families choosing independent education, the schools offer many young people the opportunity to remain in their local communities for schooling. The schools also enable communities to attract to the regions professionals and managers who require independent education for their families. And the school's facilities are regularly a hub for activity for the wider community. In these times when regional and rural Australia is seriously threatened by major economic and environmental crises, its schools should be supported as a foundation for future growth.

2 New Funding System

In supporting fair funding for all schools, CRISA accepts that the current SES funding model has limitations. It does, however, have a "funding guarantee" component which protects vulnerable schools.

The proposed Amendment removes from the Act the definition of the SES funding formula and leaves the determination of 'capacity to contribute' to the discretion of the Minister. While there is advantage to this flexibility, we believe that the Parliament should take an interest in the criteria used to allocate many billions of Education dollars. We therefore believe that the Committee should consider how this proposed amendment will be implemented.

CRISA supports the general principle of measuring a school's need for funding by reference to its parents' incomes. But the mechanism for this does not allow transparency, which the National Schools Resourcing Board saw as a fundamental requirement of any new system. There are also great complexities associated with the location and identification of the parents and guardians responsible for fee contributions. In this context, we do not accept that a simplistic measure, such as the unqualified median parental income, offers a fair means of determining a school's funding entitlement.

3 Median Income Direct Measure

The Explanatory Memorandum states (page 2) that "the capacity to contribute percentage estimates the anticipated capacity of the school community to financially contribute towards the school's operating costs". This contribution is made through school fees.

If schools could charge variable fees in proportion to each family's income, then the median income would reasonably give an indication of 'CTC'. But schools must charge a set fee, and pitch that fee at a level which most parents in their constituency can afford. In the metropolitan context, there are low-, medium- and high-fee schools, but many regional schools are the single option for parents wanting independent education. The regional schools are also drawing enrolments from communities of limited size, so they have a broad spread of parental incomes, and must charge fees well below what a median-income family can afford. This is why many regional schools have fees well below those of comparable metropolitan schools. (*See Appendix 2 for further explanation.*)

Any fair measure of CTC must look at measures of what the majority of families can afford. Hence the lower quartile would be a fairer measure of CTC than the median.

4 DMI Funding Burden

The current SES formula ranks all schools on a scale centred on 100, with most schools falling between 85 (low SES therefore high base funding) and 135. From 125 upwards, schools are on the minimum base funding (20% of SRS).

On the proposed new DMI scale based on median incomes, the scale now centres on 103. CRISA regional schools, which are generally between 95 and 105 SES, go up by an average of over 7 points. The worst increase we see is 18 points, with the school going from 97 to 115. As a rough guide, the school loses just over \$310 per student per year for each point of increase. So when fully implemented, not allowing for inflation, this school would be **losing about \$5,600 per student per annum**.

Contrast this with a large, very well-resourced metropolitan school, for example, where the DMI score is going up by 13 points. That school is currently on SES 123, so while it notionally goes up to DMI 136, it drops only to the minimum funding level of 125, so it is **only losing about \$600 per student per annum**.

The burden of funds-shifting in this proposed new system is falling disproportionately heavily on mid-SES schools, many of them regional and outer-metropolitan schools which can least afford this impost. There is not the population pressure in regional areas to shore up enrolments if a decline sets in.

5 Regressive Nature of Median Model

A significant loss of funding to a regional school may result in program reductions or fee increases, or both. Reducing fees and cutting programs is not an option for many of the schools, as they will not be able to achieve the economies of scale that are needed to make such schools financially and educationally viable. Fee rises will cause families with more modest incomes to withdraw from the school. This will force the median income of the school up, which will in turn result in further loss of funding, leading to more enrolment losses. Hence the school is placed in a downward spiral towards closure.

At a national level, this will ultimately push the mid-fee regional schools either to be small, high-fee schools, to cut programs and become low-fee schools, or to cease to exist as a choice for families in these areas.

6 Case Studies

6.1 Gippsland Grammar, VIC

Gippsland Grammar has 960 primary and secondary day and boarding students on campuses in Sale and Bairnsdale. It has served the community of East Gippsland since 1924. It recently received substantial drought assistance funding, and its community has also endured bushfire, as well as various industry losses over the years. The proposed funding arrangements will raise the school's funding score by 8 points, from 95 to 103. Assuming constant enrolments, this will mean a loss of approximately \$10.2M over eight years from 2022 – 2029. (Figures from Independent Schools Victoria calculator, verified by ISCA).

6.2 Hunter Valley Grammar School, NSW

Hunter Valley Grammar, with 1070 students, will see its funding score rise by 14 points. If this is implemented and dictates the School's funding, Hunter Valley Grammar School will experience a 21% drop in Commonwealth funding.

To offset such losses, fee increases from 2022 to 2029 will need to be at least 6% annually. The School's fee increases over the last ten years have been between 2.5% and 4%. The Year 12 Fee is currently \$18,600. By 2030 the School will need to charge \$32,000 per annum. If current levels of funding were maintained this school would only need to charge \$26,000.

6.3 State and National Outcomes

Ten regional member schools across Victoria have an average DMI score rise of 6.3 points, which means a loss between them of \$99.6M in eight years (assuming current enrolments). Three affiliated outer-metropolitan schools will have an average rise of 5.3 points, and a total loss over eight years of \$26M.

For our member schools across Australia, the average DMI rise is 7.3 points, placing many schools in peril. We are seeing rises of between 8 and 10 points in centres such as Geraldton, Albany and Mandurah in Western Australia, and Cairns, Townsville and Buderim in Queensland.

7 Review of the Flawed DMI Formula

A Technical Working Group, comprising experts from all sectors and different States, was commissioned to advise on a fair formula for DMI funding. This met seven times, addressing various complexities, and was expected to examine the effect of different funding formulae using matched individual tax data. Its operation was discontinued in August 2019, before having seen the results of the data matching. Our understanding is that no alternatives to the simple median model were ever trialled.

The hasty introduction of DMI funding contrasts with the years of trialling and consultation which preceded the introduction of the SES formula. In our opinion, the process does not meet the fiducial standards required of a program delivering billions of dollars of funding.

The Minister has indicated that this funding formula will be reviewed by the Australian Bureau of Statistics (which participated in the Technical Working Group) and independent experts, and that CRISA will be involved in that process. We welcome the review, and the automatic appeals which the Minister has offered for regional schools whose scores rise by more than three points. However, these measures offer no certainty and will not come soon enough to allay real alarm in regional communities.

Similarly, we appreciate the provisions being made in the Choice and Affordability Fund for regional schools, and the promised review of the Regional Loading. These, however, will at best return to schools a very small portion of what will be lost in base funding.

Regional and outer-metropolitan schools deserve an immediate declaration that they will not (in real terms) lose funding under the new model. The Explanatory Memorandum (page 2) declares an intent: “to ensure that schools are not adversely affected financially by these changes”. That will be achieved if schools are assured that funding will be maintained in real terms at current levels.

APPENDIX 1 – CRISA Members

School	Location	Principal
All Souls St Gabriels School	Charters Towers, Qld	Mr Darren Fleming
Bacchus Marsh Grammar	Bacchus Marsh, Vic	Mr Andrew Neal
Ballarat and Clarendon College	Ballarat, Vic	Mr David Shepherd
Ballarat Grammar	Wendouree, Vic	Mr Adam Heath
Bishop Druitt College	Coffs Harbour, NSW	Mr Nick Johnstone
Blackheath and Thornburgh College	Charters Towers, Qld	Mr Simon Murphy
Braemar College	Woodend, Vic	Mr Russell Deer
Bunbury Cathedral Grammar School	Bunbury, WA	Mr Matthew O'Brien
Calrossy Anglican School	Tamworth, NSW	Mr David Smith
Cathedral School of St Anne & St James	Townsville, Qld	Mr Ian Gamack
Court Grammar School	Outer Perth, WA	Ms Patricia Rodrigues
Essington International School	Darwin, NT	Mr Brian Kennelly
Geraldton Grammar School	Geraldton, WA	Mrs Neesha Flint
Gippsland Grammar School	Sale/Bairnsdale, Vic	Mr David Baker
Goulburn Valley Grammar School	Shepparton, Vic	Mr Mark Torriero
Great Southern Grammar School	Albany, WA	Mr Mark Sawle
Haileybury Rendall School	Darwin, NT	Mr Craig Glass
Hale School	Wembley Downs, WA	Mr Dean Dell'Oro
Highview College	Maryborough, Vic	Ms Melinda Scash
Hunter Valley Grammar School	Maitland, NSW	Mr Paul Teys
Kardinia International School	Geelong, Vic	Ms Catherine Lockhart
Kinross Wolaroi School	Orange, NSW	Mr Andrew Parry
Launceston Church Grammar School	Launceston, Tas	Mr Richard Ford
Lindisfarne Anglican Grammar	Tweed Heads/Terranora, NSW	Mr Stuart Marquardt
Mandurah Baptist College	Mandurah, WA	Mr Pieter Conradie
Matthew Flinders Anglican College	Buderim, Qld	Mr Stuart Meade
Moama Anglican Grammar	Moama, NSW	Mrs Carmel Spry
Newcastle Grammar School	Newcastle, NSW	Ms Erica Thomas
Newhaven College	Rhyll, Vic	Ms Gea Lovell
Oxford Falls Grammar School	Oxford Falls, NSW	Mr Peter Downey
Oxley College	Burradoo, NSW	Mrs Jenny Ethell
Scotch Oakburn College	Launceston, Tas	Mr Andrew Muller
Somerset College	Mudgeeraba, Qld	Mr Craig Bassingthwaighte
South Coast Baptist College	Waikiki, WA	Mr Joshua Beck
St Columba Anglican School	Port Macquarie, NSW	Mr Terry Muldoon
St Paul's Anglican Grammar School	Warragul/Traralgon, Vic	Mr Cameron Herbert
St Paul's Grammar School	Cranebrook, NSW	Mr Ian Wake

School	Location	Principal
St Philip's College	Alice Springs, NT	Mr Roger Herbert
The Armidale School	Armidale, NSW	Mr Alan Jones
The Geelong College	Geelong, Vic	Dr Peter Miller
The Hamilton and Alexandra College	Hamilton, Vic	Dr Andrew Hirst
The Scots School Albury	Albury, NSW	Mrs Peggy Mahy
Trinity Anglican School	Cairns, Qld	Mr Paul Sjogren
Wesley College	South Perth, WA	Mr Ross Barron
Westbourne Grammar School	Truganina, Vic	Ms Meg Hansen
Whitsunday Anglican School	Mackay, Qld	Mr Andrew Wheaton
Wollondilly Anglican College	Tahmoor, NSW	Dr Stuart Quarmby

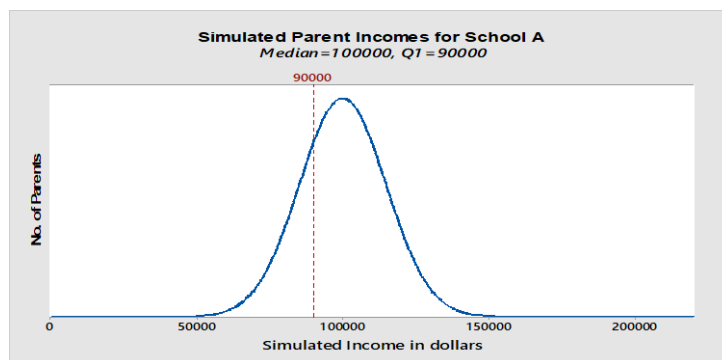
APPENDIX 2 –

Unfair “Median Income” Funding Formula Threatens Viability of Schools Serving Diverse Communities

The Federal Government plans to use Australian Taxation Office data to calculate the **median income** of parents and guardians for each non-government school and allocate funding on this basis, assuming it measures the school community’s “capacity to contribute” to the costs of schooling. Analysis of the statistics of this approach shows it will unfairly penalise certain schools.

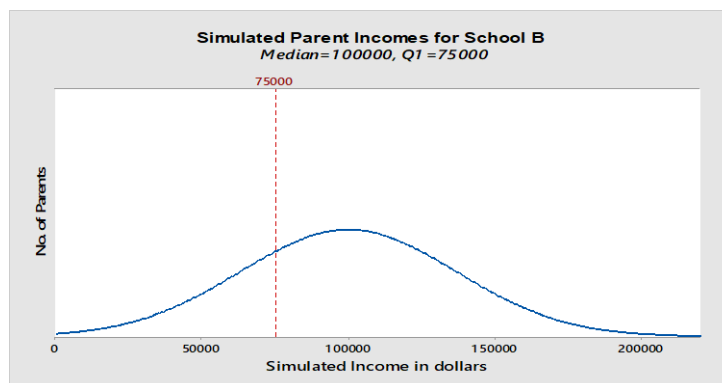
Consider “School A” which has a hypothetical parental income distribution as shown, with median \$100,000 and first quartile (“Q1”, below which there are 25% of parents) at \$90,000.

The proposed funding model asserts that the median is a fair measure of capacity to contribute, which it could be if school fees were paid on a sliding scale according to income. However, schools must set a fixed fee. The model assumes that all School A parents can pay fees commensurate with the \$100,000 income. Since the income distribution of parents in School A is narrow, this might be a tolerable, if imprecise, basis for funding. If all school communities were like this, the median might be fair as the sole funding criterion, because all schools would be treated equitably, which is an intended paradigm of the new model.



Now consider “School B”, which has a different hypothetical parental income distribution.

This school also has a median parental income of \$100,000, but the first quartile is \$75,000. Many parents’ incomes are well below the median. The assumption that the median indicates this community’s “capacity to contribute” is wrong. Strictly, only those above the median have that capacity. If School B gives fee remissions to parents with incomes below Q1, as some schools do, then Q1 would be a fair measure of the community’s “capacity to contribute”.



Measures like the first quartile or variance must be incorporated in the funding formula to make it fair to all schools, and a funding guarantee implemented for regional schools facing significant losses.

Why might Schools A and B be different?

School A is typically a metropolitan school. Families in its catchment area have a choice of low-fee, medium-fee and high-fee independent schools which they can access, and they choose a school with fees which are commensurate with their income level.

School B is typically a regional school. It is often the only independent school in its community and is therefore the only choice for those seeking independent education. Note that other schools, particularly in outer-metropolitan areas, have similar community access limitations, and there are metropolitan schools which support very diverse communities, some with particular religious affiliations. These are similar to School B.

A school like School B cannot afford to “price out” a large proportion of its constituency, so it must set fees commensurate not with the median, but significantly lower.

“Choice and Affordability Fund” inadequate

For regional schools in general and other schools with broad demographics, the median parental income approach is likely to lead to an unfair over-estimate of the DMI. Schools which charge lower fees to offer choice to marginalised families would suffer reduction in government funding. Given the fragility of regional economies, this would penalise a significant number of these schools to the point where they will not survive, even if a long phase-in period means a slow termination.

In our estimates, the proposed “Choice and Affordability” funding, while welcome, is inadequate to address the funding impairment unfairly imposed on schools with diverse communities.

Realities of impact

Example:

- *Existing metropolitan school of 880 primary and secondary students*
- *Current SES score 104 and Year 12 fee \$27,700*

In comparison:

- *Existing regional school of 700 primary and secondary students*
- *Current Year 12 fee around \$15,000*
- *If SES were to go from current 96 to DMI 106, as projected under the “median parental income” formula, the school would lose around \$1.2M per annum. It would have to substantially cut programs and/or raise fees out of reach of many families, setting in place a downward enrolment spiral, possibly leading to closure.*

There is very good reason to believe that this scenario is not far-fetched and would be played out right across regional and outer-metropolitan areas of Australia if the median is the sole income measure used for school funding calculation. Regional schools, often the lifeblood of local communities, are also subject to the vagaries of the rural economy, and in a downturn, could fall over before a “rolling average” catches up. Some, of course, will also be dealing for years with the exigencies of current climatic disasters.

The Coalition of Regional Independent Schools Australia, which comprises regional, rural and outer-metropolitan schools, is committed to funding fairness for all schools. We call for an overhaul of the median model to take account of variance and ensure funding equity for schools with diverse populations, and **a guarantee that no regional school will lose funding under the new model.**