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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

Association of Independent Schools of the Northern Territory

11th March 2020

Background

The Association of Independent Schools of the Northern Territory (AISNT) is the peak body representing Independent Schools in the Northern Territory. AISNT represents twenty Independent Schools that are widely spread across the Northern Territory.

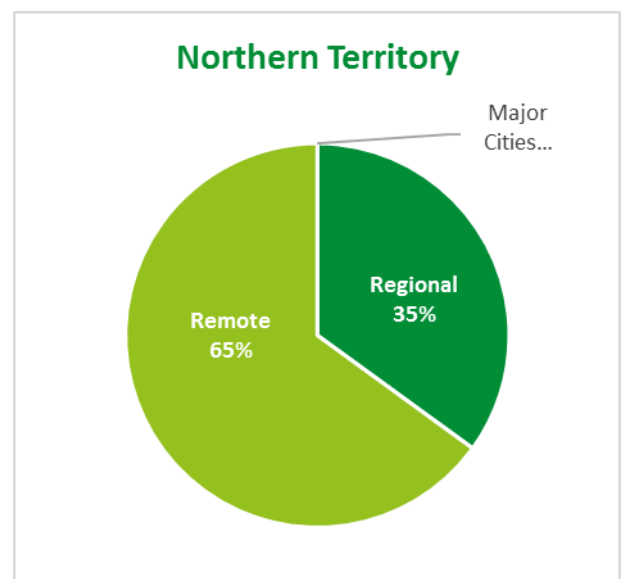
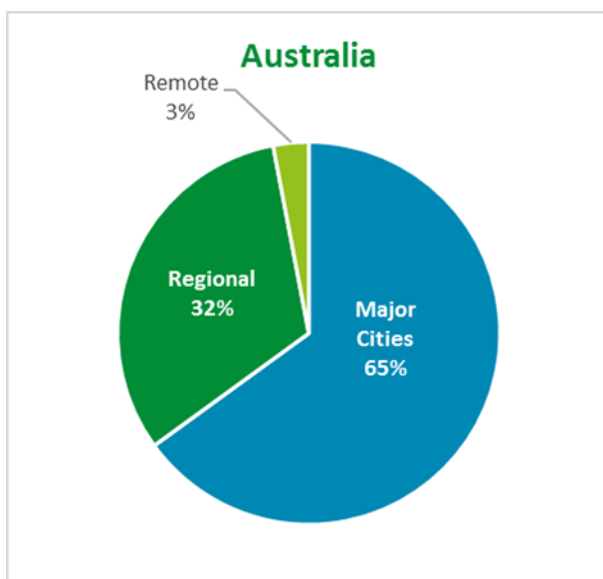
AISNT's membership includes schools belonging to the Northern Territory Christian Schools system and the Lutheran Education South Australia, Northern Territory and Western Australia system, as well as standalone Independent Schools.

The Independent Schools in the Northern Territory serve a range of different communities. Many of these schools provide religious or values-based education. Others promote a particular educational philosophy or interpretation of mainstream education. Independent Schools in the Northern Territory include:

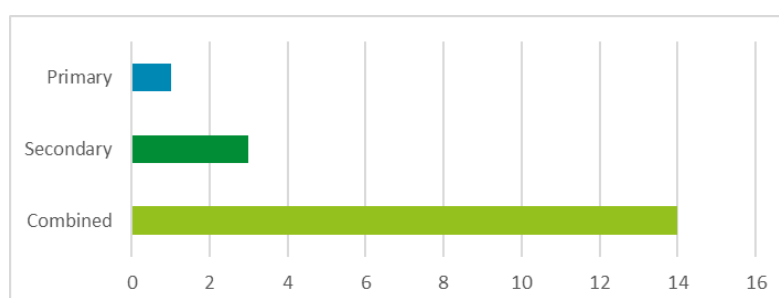
- Schools affiliated with Christian denominations, eg: Lutheran, Uniting Church;
- Non-denominational Christian schools;
- Indigenous Community Schools;
- Montessori Schools; and
- Rudolf Steiner Schools.

65% of these schools are located in remote and very remote areas of the Northern Territory. 35% of Independent Schools in the Northern Territory are Indigenous Community Schools.

Location of Independent schools:



Number of Independent Schools in the Northern Territory (By Type):



70% of Independent Schools in the Northern Territory are Combined schools, providing education for Transition to Year 12 students. Independent Schools in the Northern Territory provide choice and affordable education for around 6 000 students. These schools educate a broad range of students from all socio-economic and socio-educational backgrounds. 22% of these students are Indigenous.

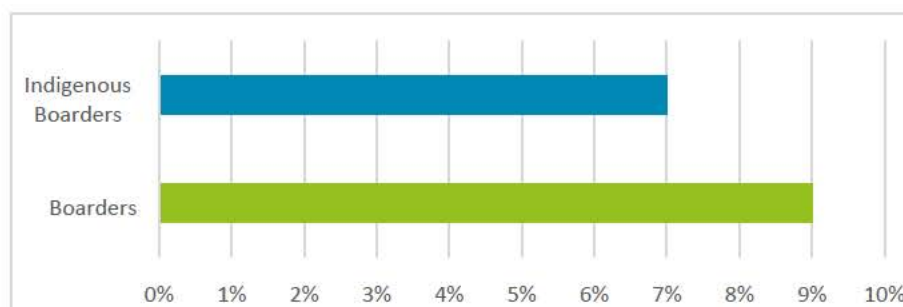
Many Independent Schools in the Northern Territory have been established by community groups to meet the specific needs of a community and/or student cohort. These include Indigenous Community Schools located in remote and very remote communities; boarding schools that cater for students from remote and very remote communities (including Indigenous students who have no or limited choice in schooling); schools that seek to reflect the religious values of a particular community; and those who seek to practice an internationally recognised educational philosophy, such as Rudolf Steiner and Montessori.

Most Independent Schools in the Northern Territory are set up and governed independently on an individual school basis. Some Independent Schools with common aims and educational philosophies are governed and administered as systems, ie: Lutheran and Christian systems.

Boarding Schools:

There are six boarding schools, two of which are Indigenous Community Schools located in remote and very remote communities. The other four boarding schools cater for Indigenous students from remote and very remote communities, who have limited or no schooling options in the communities they come from. Overall, 9% of students who are enrolled in Independent Schools in the Northern Territory are boarders; 97% of these are Indigenous students from remote and very remote communities, from highly disadvantaged backgrounds.

Table 1: Number of Boarders



The Association of Independent Schools of the Northern Territory (AISNT) appreciates the opportunity to provide a submission to the Senate Education and Employment Legislation Committees Inquiry into the Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions]. The Independent Schools in the Northern Territory serve a broad range of students and communities, reflecting the uniqueness and diversity of the Northern Territory. Australian Government funding of these schools ensures real choice in schooling for parents and families of children across the Northern Territory. Any significant changes to the funding model for schools has significant potential flow on effects not just for Independent Schools across the Northern Territory, but for families and individual children.

In September 2018, the Prime Minister, the Hon Scott Morrison MP, and the Minister for Education, the Hon Dan Tehan MP, announced changes to school funding. A significant change was the phase in of the Direct Measure of Income (DMI) Capacity to Contribute (CTC) Scores. During 2019, representatives from AISNT participated in a consultation process, including meetings, workshops and information sessions with both Australian Government and Australian Department of Education representatives to be informed of the development of the DMI and to feedback on the impact of the DMI on Independent Schools within the Northern Territory. Throughout this consultation process, AISNT representatives identified problems with matching rates and the accuracy of DMI CTC scores.

‘In brief, a school’s DMI score is based on the median family income for a year and is worked out by:

- calculating the family Income for each student at the school by adding the income of both parents or guardians;
- identifying the median (middle) family income from those individual students' family income within the school; and
- converting it into a score by comparing that median family income against the median family income of other schools'. (*Australian Department of Education website*)

Recent modelling of the DMI CTC scores for Independent Schools in the Northern Territory has resulted in significant changes in the scores for some schools, which had caused deep concern regarding the accuracy of the data used; elements of the methodology used to calculate the scores and future funding shortfall implications for Independent Schools in the Northern Territory.

Concerns that will be addressed in this submission include:

- Matching Rates and Missing Data;
- Lag time in Data Used to Calculate DMI CTC Scores;
- Use of the Median;
- Impact on Regional Schools;
- Northern Territory Economy;
- Bilateral Agreement with the Northern Territory Government.

Table 2: Comparison between SES (2011 and 2016) and DMI (2018-2019) scores

	Current SES score (2011)	2016 SES score (2017 address)	2018-2019 Preliminary CTC Score	Difference between current SES score and Preliminary CTC score
School 1	105	105	101	-4
School 2	105	105	108	3
School 3	99	97	115	16
School 4	110	111	117	7
School 5	98	100	101	3
School 6	101	104	106	5
School 7	105	105	99	-6
School 8	106	105	98	-8
School 9	101	102	110	9
School 10	107	105	106	-1
School 11	99	100	100	1
School 12	101	102	99	-2
School 13	105	106	97	-8

Table 2 above shows a comparison between the SES and DMI CTC scores. Seven schools are Indigenous Community Schools and are deemed, and will therefore continue to receive 100% of funding, as per the Australian Education Act and are not represented in the table.

Thirteen schools have had a change in their scores, resulting in funding changes. Six schools have had a decrease in their CTC scores, which will result in a funding increase. Seven schools have had an increase in their CTC scores, four

with a significant change of between 5 and 16 points, which will result in a funding decrease. Overall, the impact on Independent Schools in the Northern Territory moving to a DMI score which is higher than their 2011 SES Score, between 2022 and 2029, is a loss of \$42,682,807 in funding.

Table 3 below shows the % loss/growth in funding between 2022 and 2029. Two schools will experience negative annual growth over this period, and one school 1.3% annual growth in funding over this period, under the new DMI CTC methodology. This will have a significant impact on these schools, of which will be outlined further in this submission.

Table 3: Comparison of % Growth between SES and DMI CTC (2022-2029)

	Total change 2022-2029 (%)	Avg Annual Growth 2022-2029 Current (%)	Avg Annual Growth 2022-2029 Proposed (%)	Growth difference 2022-2029 (%)
School 1	5.5%	3.5%	3.7%	0.2%
School 2	-5.2%	3.7%	3.3%	-0.4%
School 3	-18.1%	3.6%	-0.9%	-4.5%
School 4	-12.4%	2.9%	-0.3%	-3.3%
School 5	-2.7%	3.8%	3.6%	-0.2%
School 6	-6.5%	3.8%	3.2%	-0.6%
School 7	7.8%	3.8%	4.0%	0.3%
School 8	9.8%	3.7%	4.0%	0.3%
School 9	-11.2%	3.5%	1.3%	-2.2%
School 10	1.0%	3.8%	3.8%	0.0%
School 11	-1.4%	3.8%	3.7%	-0.1%
School 12	2.8%	3.8%	3.9%	0.1%
School 13	9.0%	4.1%	4.4%	0.3%

Table 4 - \$ Loss for Schools with Increase in CTC scores (2022-2029):

-1% to 0%	SES CTC 2011	DMI CTC 2019	Difference/Loss
School 3	\$61,165,566	\$50,082,121	-\$11,083,445
School 4	\$74,786,879	\$65,496,343	-\$9,290,536
	\$135,952,445	\$115,578,464	-\$20,373,981
1% to 2%			
School 9	\$126,080,129	\$111,970,080	-\$14,110,049

Use of the Median

In its' final report to the Australian Government in June 2018, the National Schools Resourcing Board (NSRB) recommended the use of the median for the calculation of the DMI CTC. This was accepted by the Australian Government. The Independent Schools Council of Australia noted that *'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 score also fails to take other factors into account'*.

It is the view of AISNT that the median income does not accurately reflect the range of incomes represented in Independent Schools across the Northern Territory. These schools cater for families across a broad range of income. The use of the median for these schools 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. The Coalition of Regional Independent Schools states that ‘the use of the median alone would mean that a school’s funding is based only on the incomes of the wealthier half of a school community. No account is taken of those families in the other half, and whether their incomes are anywhere near the median’.

The use of the median is problematic for a number of Independent Schools within the Northern Territory where they cater for families across a broad range of income. There are schools who have an increase in their CTC score between 5 and 16 points. There are a number of families who have children who attend these schools who would not be able to afford the fee increases needed to compensate for the loss of funding. Following is a table that highlights the loss of per student funding per school based on the 2019 DIM CTC score. It is estimated that schools with scores increasing 6 points are looking at a decrease in per student funding of \$1,644 per primary student and \$2,065 per secondary student. Schools with scores increasing by over 10 points are looking at a decrease in per student funding of at least \$2,739 per primary student and \$3,442 per secondary student.

For example, 14% of the student cohort attending School 3 are Indigenous boarders from remote and very remote communities. Using the 2019 DMI CTC score, this school would lose \$3,868 per primary student and \$5,166 per secondary student. It is highly likely many families with children attending School 3, particularly the Indigenous boarders, would not be able to afford the fee increases needed to maintain its’ current level of schooling. Fee increases of this magnitude are highly likely to result in a drop in enrolments.

Table 5 – Comparison between 2011 SES CTC and 2019 DIM CTC

	Difference between current SES Score and Preliminary CTC Score	\$ Loss/Gain Primary	\$ Loss/Gain Secondary
School 2	3	\$670	\$968
School 3	16	\$3,869	\$5,166
School 4	7	\$2,151	\$2,260
School 5	3	\$424	\$968
School 6	5	\$1,116	\$1,762
School 9	9	\$2,009	\$2,906
School 11	1	\$101	\$322

SRS Amounts for 2020:

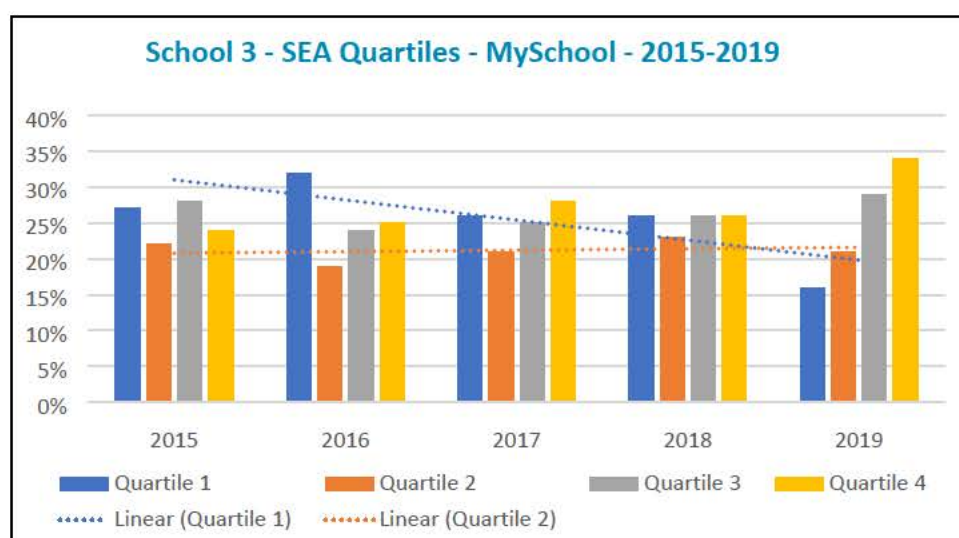
Primary	\$11,747
Secondary	\$14,761

Comparing the DMI CTC Scores with the Socio-Educational Advantage Quartiles

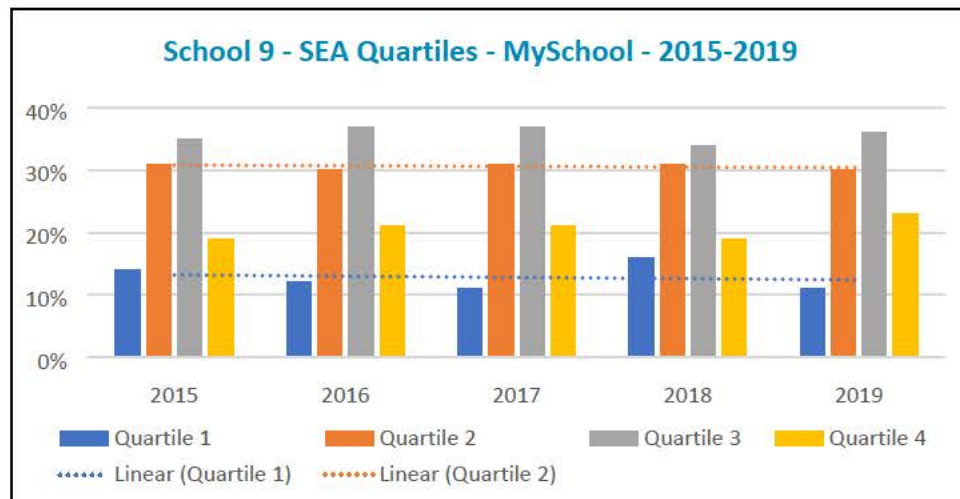
The Australian Curriculum, Assessment and Reporting Authority (ACARA) calculates the Socio-Educational Advantage (SEA) of individual schools which measures certain characteristics of their family and school that account for a range of factors that impact on a student’s educational advantage including both student factors (eg, parental occupation

and education) and school level factors (eg, percent of Indigenous students, geographic location). Whilst the SEA is not a direct measure of Socio-Economic Status, 'it takes into account socio-economic factors related to the student, including parental occupation and education and school level variables, including the geographical location and the proportion of Indigenous students the school caters for'. (*Discussion Paper – Review of the Low Socio-Economic Status Loading, 2014*). It should be noted that this data is used to calculate the 'Socio-Educational Disadvantage' loading for school funding, specifically Quartile 1 and Quartile 2.

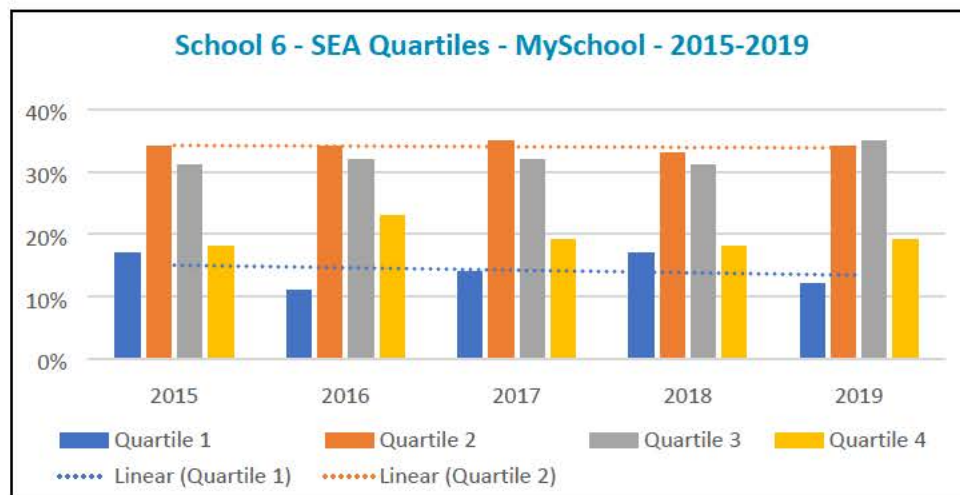
Analysis of Socio-Educational Advantage data from the MySchool data, for Independent Schools in the Northern Territory supports the diversity within each of the school communities, reflecting a broad range of socio-economic factors, including parental occupation and education. It is the view of AISNT that there should be a correlation between the SEA data and the DMI CTC. With significant increases forecast for some schools with their CTC scores, there is concern that the broad range of socio-economic factors are not captured in the methodology used to calculate the DMI CTC, failing to accurately assess the individual school community's capacity to contribute. Below are tables that show the SEA Quartiles for three Independent Schools in the Northern Territory. To reiterate, individual schools receive the 'Socio-Educational Disadvantage Loading' for students in Quartile 1 and Quartile 2. The change in methodology from the SES CTC to the DMI CTC has calculated significant increases in their CTC scores, resulting in a significant loss in funding.



School 3 (above) has had an increase in CTC score of 16 points from 99 to 115. The table below shows the ACARA Socio-Educational Advantage (SEA) Quartiles for this school from 2015 to 2019. 37% of their student cohort fall into Quartile 1 and 2 in 2019. From 2015 to 2018, the SEA Quartiles show that between 47% and 51% of their student cohort fall into Quartile 1 and 2. This school is a boarding school. 19% of the student cohort comprises of Indigenous students from remote and very remote communities, and highly disadvantaged backgrounds. For these Indigenous students, there are very limited or no schooling options them in the communities they come from.



School 9 (above) has had an increase in CTC score of 9 points from 101 to 110. The table below shows the ACARA Socio-Educational Advantage (SEA) Quartiles for this school from 2015 to 2019. 41% of their student cohort fall into Quartile 1 and 2 in 2019. From 2015 to 2018, the SEA Quartiles show that between 42% and 47% of their student cohort fall into Quartile 1 and 2.



School 6 has had an increase in CTC score of 5 points from 101 to 106. The table below shows the ACARA Socio-Educational Advantage (SEA) Quartiles for this school from 2015 to 2019. 46% of their student cohort fall into Quartile 1 and 2 in 2019. From 2015 to 2018, the SEA Quartiles show that between 45% and 51% of their student cohort fall into Quartile 1 and 2.

Matching Rates (Coverage Rates) and Missing Data

In his speech to the House of Representatives on the 26 February 2020, the Minister for Education, the Hon Dan Tehan MP, stated 'Through this bill, the new methodology will use the best available data to estimate the capacity of parents and guardians to contribute to the cost of schooling, which will ensure more funding flows to the schools that need it the most'. The accuracy of the DMI CTC score relies on the matching of parental/guardian personal income to student addresses. The current SES CTC methodology requires a data matching rate of 95% in order to produce a SES CTC Score. The DMI methodology does not have a threshold in order to produce a DMI CTC Score. AISNT is deeply concerned that the matching rates for several Independent Schools in the Northern Territory are not high enough to accurately calculate the individual school community's capacity to contribute. This is evident in the increases in CTC scores calculated for some schools with unique and diverse student cohorts.

Following is a table that contains the Matching Rates (Coverage Rates) for Independent Schools in the Northern Territory, as provided by the Australian Department of Education. Included in the table is data from each of these schools regarding enrolment, Indigenous student enrolment and % of Indigenous students enrolled. It is the view of AISNT that it is highly probable that a large proportion of Indigenous students account for the missing data, which would result in the inflated DMI CTC scores calculated for these schools.

Table 6 - Matching Rates (Coverage Rates) and Indigenous Students:

	2019 Coverage Rate	Enrolment	ATSI	ATSI %
School 1	79%	323	50	15%
School 2	86%	664	104	16%
School 3	83%	517	97	19%
School 4	89%	974	7	1%
School 5	92%	101	14	14%
School 6	93%	320	25	8%
School 7	88%	158	24	15%
School 8	90%	155	15	10%
School 9	95%	1168	85	7%
School 10	91%	151	5	3%
School 11	87%	169	43	25%
School 12	87%	340	72	21%
School 13	88%	88	9	10%

AISNT acknowledges the efforts made to capture accurate data to be used for the methodology, however, as the data is provided through the Multi-Agency Data Integration Project (MADIP), which is a highly secure ABS environment, there is no capacity to view or interrogate this data to determine accuracy, or what data is missing. Of particular concern is the high possibility that income data for our most disadvantaged students, especially the indigenous students from remote and very remote communities, is not matched and used in the calculation of the DMI CTC, resulting in schools with an inflated CTC score, therefore not getting the funding they are entitled to. Independent Schools in the Northern Territory have 22% Indigenous students enrolled, compared to 2% in Independent Schools across Australia.

An example of this from Table 6 above, is School 3, which has had a large increase in the DMI CTC Score, calculated using a matching rate of 83%. The student cohort comprises of 19% Indigenous students from remote and very remote communities and highly disadvantaged backgrounds. It is the view of AISNT that the missing 17% of data is comprised mostly of the school's Indigenous population and the school's CTC score is overstated.

Below is a table showing the Matching Rates (Coverage Rates) and data regarding Indigenous Boarding. It should be noted that these students are from remote and very remote Indigenous communities, who attend these schools because of limited or no schooling options within these communities. To reiterate, AISNT is concerned that these students may account for the missing data.

Table 7 – Matching Rates (Coverage Rates) and Indigenous Boarding Students:

	2019 Coverage Rate	Enrolment	ATSI Boarding	ATSI Boarding %
School 2	86%	664	26	4%
School 3	83%	517	71	14%
School 11	87%	169	33	20%
School 12	87%	340	50	15%

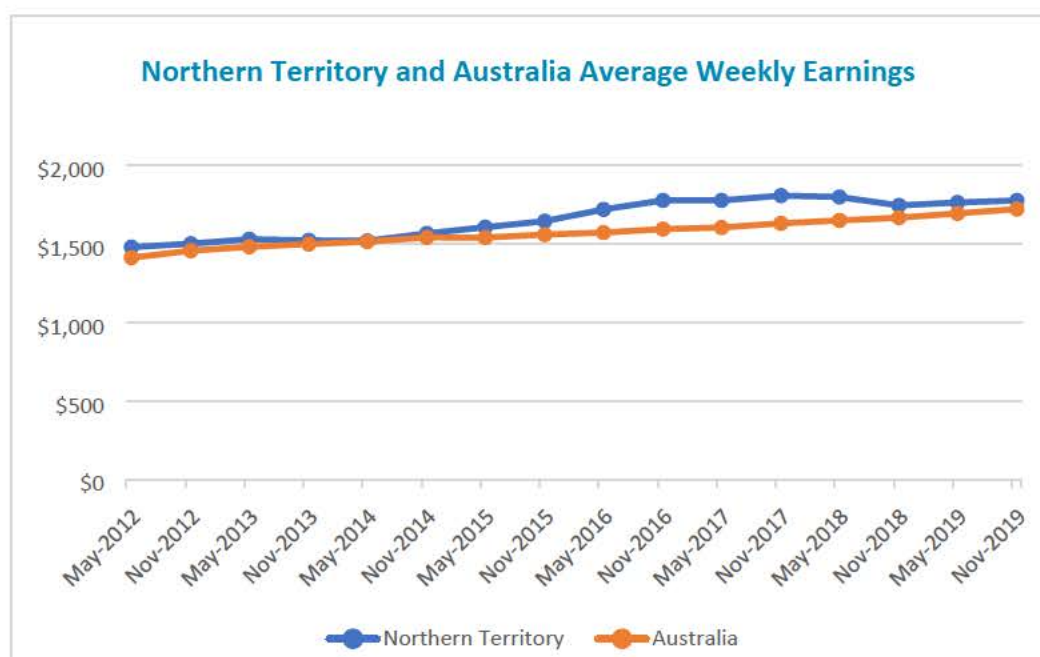
The data matching rates for schools are still highly variable. While AISNT understands the argument that for many schools the missing data is not meaningful to the school's DMI CTC score, for many of our schools it will be significant, particularly if the data pertaining to Indigenous students from remote and very remote communities, is not matched and used in the calculation.

Data Lag

The new methodology requires the collection of the names and addresses of students' parents and/or guardian from Non-Government schools every year which are then provided to the Australian 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 linkage between large government data sets. There is an 18 month time lag in the availability of income data through MADIP.

Parent/guardian names and addresses provided in 2018 were linked to 2015-16 MADIP data. Parent/guardian names and addresses provided in 2019 were linked to 2016-17 MADIP data.

As reflected in the following table below which compares Average Weekly Earnings (AWE) between the Northern Territory and Australia, the AWE in the Northern Territory grew well above the National Average between to May 2015 to May 2018, due to the INPEX Ichthys LNG construction project. As the table also shows, when the construction phase of the project finished around September 2018 and moved into production phase, the AWE dropped to be closer to the Australian average. It is the view of AISNT that the DMI CTC scores were calculated on inflated parental income data during the years 2015-17. Between May and September 2018, AWE in the Northern Territory dropped by \$54 per week.



(ABS Average Weekly Earnings, Australia, Nov 2019)

With the 18 month time lag in the availability of income data through MADIP, it is the view of AISNT that the current DMI CTC 2019 scores for Independent Schools in the Northern Territory are inflated, as the income data used through MADIP to determine the median income of families, would reflect higher earnings/income by families due to the INPEX Ichthys LNG Construction project. As the table above shows, Average Weekly Earnings in the Northern Territory have dropped and slowed since September 2018, returning to levels commensurate with Average Weekly Earnings across Australia. It is our view that the median income of families would reflect AWE.

Impact on Regional Schools

Since the release of the Direct Measure of Income (DMI) Capacity to Contribute (CTC) scores, it has become apparent that a group of regional schools across Australia stand to be highly disadvantaged under the new methodology. All of the Independent Schools in the Northern Territory are classified as either Outer Regional; Remote or Very Remote. The Coalition of Regional Independent Schools (CRISA) *'was formed in response to deep concerns relating to the proposed implementation of Derived Median Income (DMI) funding (replacing SES funding), and specifically the disastrous impact it will have on many regional schools across Australia'*. CRISA have expressed deep concern that the use of the median income of families to determine the DMI CTC would be disadvantageous for schools that cater for a widely diverse community with a broad range of incomes. The use of the median to determine the DMI CTC scores is resulting in large to significant increases in scores in these schools, which will result in significant losses in funding, when compared to the current SES methodology, calling into question the ability of these schools to manage transition and retain enrolments from families with incomes below the median, potentially driving the CTC score up further. This would inadvertently reduce choice and affordability for many families who could not afford the necessary increase in school fees.

Impact of Northern Territory Economy

Personal Income Tax (PIT) data that has been used to calculate the DMI CTC is linked to the 2015-16 and 2016-17 MADIP data. The following is from the Northern Territory Department of Treasury and Finance, 'the Ichthys LNG project has had a significant effect on the Territory economy with unprecedented levels of private business investment. Between 2011-12 and 2017-18, it is estimated there was an average of \$5 billion per annum of additional investment to the Territory that has been attributed to the Ichthys LNG project. This level of additional investment from one project is equivalent in quantum to around one fifth of the Territory's total economy. This scale of investment is unprecedented in the Territory's history and has had a substantial impact on the Territory's relatively small economy. With construction of the project now complete, private investment is contracting from these unparalleled highs'. (NT Treasury – 2019-20 Mid-Year Report).



‘Contracting labour market conditions have continued into 2019-20, mainly affected by a decline in full-time employment. The departure of a number of workers reflects the completion of the Ichthys LNG project and the limited job opportunities in the economy. Resident employment in the Territory decreased by 3.4 per cent in 2018-19,’. (NT Treasury – 2019-20 Mid-Year Report).

The PIT data used to calculate the DMI CTC scores for Independent Schools in the Northern Territory was taken during a strong economic growth period in the Northern Territory, due to the 18 month data lag. As stated above, the Northern Territory economy has been in decline since the completion of the construction phase of the Ichthys LNG project. This has seen a drop in earnings. It is the view of AISNT that the calculated DMI CTC scores for our schools are inflated do not reflect the true capacity to contribute of families of children enrolled in our schools, due to the data lag. With a decrease in population, earnings and employment opportunities, families are under financial pressure with cost of living expenses. Independent Schools in the Northern Territory with significant increases to the CTC scores, who are forecast to lose funding in the near future, are not able to increase school fees to the level required to compensate for funding losses. Even with the Choice and Affordability Fund support, some of these schools could be faced with a drop in enrolments as families are not able to afford rises in school fees.

Bilateral Agreement with the Northern Territory Government

The Non-Government Schools Sector is currently in negotiation with the Northern Territory Government, through the Department of Education of the Northern Territory negotiating a funding model to distribute the NTG share of funding as agree to by the Northern Territory Government (NTG) and the Australian Government (AG) in the Bilateral Agreement. According to this Agreement, the NTG is committed to funding only 15.09% of the SRS as calculated in the Australian Education Act up to 2023. As stated in this Agreement, ‘the Northern Territory’s funding commitments under this agreement should be considered in the context of the current subdued economic and fiscal conditions and the higher funding effort the Northern Territory makes on a funding per student basis relative to other jurisdictions’. In real terms, this will be another decrease in funding for Independent Schools in the Northern Territory who have a calculated DMI CTC score increase. This will add further financial stress for these schools.

In 2019, AISNT was informed that Back to School vouchers were included in the 15.09%. It should be noted that Back to School Vouchers are a Northern Territory Government ‘gift’ to parents to spend on school books, uniforms, excursions, camps, school bags, etc. Schools have no input into how these vouchers can be spent and the items listed above are items that parents would be charged for and not considered recurrent expenses for school operations. In real terms, Independent Schools in the Northern Territory will be receiving less than 15.09% of the SRS. This will add further financial stress for these schools.

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 Independent Schools in the Northern Territory 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 CTC methodology is suitable for all schools and can be implemented in a way that will not adversely impact Independent Schools in the Northern Territory.