



Submission to Senate Education and Employment Legislation Committee

Australian Education (Direct Measure of Income) Bill 2020



March 2020

About Queensland Independent Schools

Community confidence in the independent schooling sector remains strong with more than 124,000 students enrolled in 211 independent schools across Queensland. These schools educate approximately 15 percent of the state’s total school-age population and about 20 percent of all secondary students.

The strength of the independent schooling sector lies in the rich mix of education choices and opportunities Queensland independent schools provide families. Independent schools are as diverse as the students and parents who make up their close-knit communities. Of Queensland’s 211 independent schools: 198 educate students with disability; 105 cater for students for whom English is a second language or dialect; 197 enrol Indigenous students; 76 offer international education programs; 33 provide boarding services; and 19 cater specifically for students who have disengaged from mainstream education.

Common to all independent schools is their commitment to strong student outcomes, high standards of behaviour, and the welfare and wellbeing of students.

Over the past 10 years enrolments at Queensland independent schools have increased by 18 percent. This growth is a clear indication that parents value an independent education and are prepared to invest their after-tax incomes in their child’s schooling.

Independent Schools Queensland (ISQ) is the peak body representing Queensland's independent schooling sector. Independent Schools Queensland represents the interests of its member schools, fosters choice in education and protects the autonomy of independent schools. ISQ is a not-for-profit organisation and membership to ISQ is voluntary.

Independent Schools Queensland is a member of the Independent Schools Council of Australia (ISCA). ISQ supports the submission by ISCA to the Senate Education and Employment Legislation Committee in relation to this Inquiry into the *Australian Education (Direct Measure of Income) Bill 2020*.

Australian Education (Direct Measure of Income) Bill 2020

Independent Schools Queensland (ISQ) welcomes the opportunity to make a submission to the Senate Education and Employment Legislation Committee's inquiry into *The Australian Education (Direct Measure of Income) Bill 2020*.

The Bill gives legislative effect to a new Direct Measure of Income (DMI) methodology for determining a non-government school community's Capacity to Contribute (CTC) to the costs of schooling. The new DMI methodology represents a major change to the needs-based school funding model in that it replaces the current SES methodology to determine CTC. SES has been used in Australian Government recurrent funding models for independent schools since 2001. SES was generally accepted by independent schools as an appropriate measure.

The change from SES to DMI will have a significant impact on the allocation of Australian Government funding to not only the non-government sector but to individual independent schools. Given that the vast majority of independent schools are non-systemic, any change in the funding model will have a direct impact on schools, unlike systemic schools where system allocation of funding can be used to mitigate any impact at the individual school level.

ISQ has been engaging with the Australian Government and the Department of Education Skills and Training on the proposed changes since they were first announced on 20 September 2018.

Over this period, ISQ has consistently raised a range of concerns regarding the new methodology, particularly its impact on regional and remote schools, and it being applied from 2020 without rigorous testing or validation.

ISQ acknowledges the 2 March 2020 announcement by Minister for Education, The Hon Dan Tehan, of the upcoming review by the National School Resourcing Board (NSRB) into the funding impact of Schooling Resourcing Standard (SRS) loadings on students and schools in regional and remote Australia.

ISQ also welcomes the announcement by the Minister of a robust process to allow schools to apply to have their DMI assessment reviewed to address unexpected or unique circumstances affecting their community's financial capacity.

However, the sector continues to have a range of concerns about the DMI including:

- the use of the median parental income in the methodology without the testing of alternative measures;
- its disproportionate impact on regional and remote schools and boarding schools;
- its application to P-12 schools; and
- the integrity and accuracy of the data used in the new model.

Impact on Queensland independent schools

ISQ acknowledges approximately 34 percent of independent schools in Queensland will receive additional Australian Government funding under the new DMI methodology as compared to current model projections, however 42 percent of independent schools will have reductions in Australian Government funding. Also, it should be noted that 58 percent of students attending independent schools are in schools which will have reductions in funding.

The very serious impact on Queensland independent schools is illustrated in the Table below.

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

*Excludes CTC exempt schools

Nationally it is understood the independent sector will see a reduction of funding of over \$200million.

Such an outcome is of serious concern given the Australian Government committed \$3.4 billion in additional funding for non-government schools under the new model.

There is a high level of concern and uncertainty at the individual independent school level for those schools facing a reduction in Australian Government funding. It makes it difficult for schools to plan with any certainty. Schools require stability in funding arrangements to ensure that appropriate financial decisions can be made in respect of programs and capital works.

Parents are also facing uncertainty. Parents make decisions about the right school for their child considering school fee levels and their capacity to meet the costs. For many parents that have decided to enrol in an independent school, there is the prospect that they will face fee increases not previously considered. These will result from a change in Government policy and more protection should be given to schools to avoid the need for fee increases beyond normal expectations.

Areas of Concern

The use of median income

There are concerns that use of the median does not adequately reflect the distribution of incomes represented in independent schools, particularly in regional areas. The work of the National Schools Resourcing Board showed that the spread of incomes in independent schools is far greater than that of Catholic systemic schools. Therefore, there is the distinct likelihood that the median is only representative for a small cohort in a school with a wide spread of incomes.

If alternatives statistical measures other than the median were modelled prior to the decision to base the DMI on median income, no information or data has been available on such modelling.

There is an urgent need to undertake modelling of alternative measures to determine the DMI which account for the diverse range of parental incomes across independent schools. These might include measures such as the mean, mode, tri-mean and data based on quartiles.

The use of the median is potentially flawed, as by definition 50% of parents with children enrolled at a school will be below the median. The DMI has a substantial influence on the level of school fees.

Fifty percent (50%) of parents (those below the median income) are likely to have difficulty in meeting the school fees.

This alone would appear to negate the use of median income as the DMI as a rigorous and fair measure of CTC.

Independent Schools Queensland research would indicate that many independent schools and particularly those in regional areas will have a bimodal distribution of parental income. Their spread of parental incomes around the median will not be a “normal distribution”.

Many independent schools in regional areas are likely to have a concentration of high-income parents (particularly where there is a limited range of non-government schools in the area) which impacts on their median. However, these schools are inclusive of the broad range of parents in their communities.

A real danger under the DMI methodology is that schools with a bimodal distribution will be required to increase their fees with a resultant reduction in the number of families below their median income being able to continue at the school. This would ultimately drive their median income to an even higher level.

Regional and Remote Schools

ISQ currently has 59 schools considered regional or remote. These schools educate around 17,500 students from Queensland’s regional and remote areas.

While many Queensland independent schools will receive funding growth over the next 10 years, ISQ is concerned that:

a significant proportion of independent schools, particularly in regional and remote areas, will experience funding reductions.

As previously outlined, ISQ is not convinced the use of the median income to determine CTC is the most appropriate methodology given the widely diverse communities in regional areas.

The Australian Government funding model should be designed to give maximum support for regional schools. Such schools already face significant challenges such as attracting and retaining staff and the significant losses of funding resulting from the DMI will be a further challenge for these schools.

ISQ strongly recommends that measures other than median income must be considered to determine the DMI for regional schools. Other alternative measures should be evaluated in the context of ensuring that the range and spread of parental incomes are accounted for in regional schools.

Boarding schools appear to have been extremely negatively affected by the changes to the CTC settings. The average CTC score for a boarding school goes up eight (8) points. Nearly 70% of boarding schools will have an increase in their CTC score which will result in a funding reduction. Independent schools are the main provider of boarding for rural and remote students in Queensland.

Costs for the parents of boarding students include accommodation costs and schooling costs. The latter are no different from day students at the school. Parents’ capacity to contribute to the education costs of their child are depleted by the cost of accommodation, including pastoral care

and “parenting” responsibilities, such as monitoring homework, by the school. They pay separately for this.

P-12 Schools

More than ninety percent (90%) of Queensland independent schools are P-12 combined schools. Fee structures can be different across year levels. One can assume that parents of primary students are on average six years younger than parents of secondary students. It is also likely that more mothers will have gone back to work once their children are older and the youngest is in full-time education. These factors will impact on income levels between parents of primary and secondary students. It is also likely that they would impact the distribution of incomes within a school. The median of the combined school will not necessarily be the average of the two medians of the parents of primary and secondary.

If median incomes for primary students’ parents are less than for secondary students’ parents, the enrolment of a greater percentage of primary students in a combined school would increase the school’s percentage of the Schooling Resource Standard (%SRS).

However, changes in the distribution of parental incomes at a school may impact on its fee structure, with lower income families less able to pay current fees and fees set below a school’s marginal per student cost having a negative effect on its budget.

ISQ strongly recommends that additional modelling of the DMI methodology be undertaken in respect to primary and secondary students and consideration be given to the potential to strike a primary DMI and secondary DMI for P – 12 schools.

Data Integrity

Data Validation is a concern. ISQ sought and was given assurances on several occasions that the methodology would be fully validated prior to implementation. It is ISQ’s view that the validation process has not been sufficient.

The **Technical Working Group** which ceased operations in August last year has not given enough attention to the impacts on regional schools and boarding schools. Confidentiality meant that there was little transparency regarding the technical data.

The development, trialling and validation processes for the adoption of the SES measure was undertaken over a three to four-year period which allowed sufficient time for rigorous consideration of the impact of the SES.

The DMI has been developed and adopted in a short period of time characterised by a lack of available data.

Impact of linkage rates on DMI

Adjusted Taxable Income (ATI) is the data used for parental income. The ATI data is found by linking the parental information collected at the school to the Australian Taxation Office’s data set. Linkage rates of family details to taxation records have been reported for Queensland independent schools to be between 67% and 97%. It is possible that failure to link may be correlated with income levels. There is the potential for bias if those parents for whom ATI cannot be collected are different from those for whom it can.

The linkage process involves seven steps. Calculating median incomes of the data collected at each step would indicate whether the most difficult to obtain data would give a different result.

Currently, there is no way to check whether the missing data would have an impact on the DMI. However, if the reasons for non-linkage were known, some hypothesis may be tendered.

The data matching rates for schools are still highly variable. The ability to match the parent name and address data to Australian Taxation Office (ATO) records is important in as much as we expect the ATO data to be the best estimate of parental incomes. However, the real questions are:

- “What percentage of parents do not have an acceptable estimate of income?” and
- “What is the maximum impact those poor estimates can have on the 3-year rolling average of the median?”

For schools which have low linkage rates, there needs to be further research and evaluation as the cohort of students whose parents cannot be linked.

From discussions with the Department, it seems that the current ABS work on the Quality Framework will be material with the inclusion of ‘quality gates’ which are intended to be quality checkpoints to indicate that further investigation is required. However, there was insufficient time for this work to take place before the release of DMI scores to schools.

There are also concerns regarding a lack of clarity for the appeals process. ISQ understands the Department intends to have the relevant details about appeals processes in place by mid-2020.

Support for transitioning schools

ISQ supports the **Choice and Affordability Fund** to assist schools which will be negatively impacted by the new measure. While the Choice and Affordability Fund is often mentioned as the main source of transition assistance for schools that will need assistance as a result of the new DIM CTC scores, given that actual losses to individual independent schools in Australia will total \$1.845 billion over the transition period, it is unlikely that the Choice and Affordability Fund will be sufficient for this purpose.

Conclusion

The independent sector is concerned the new Direct Measure of Income (DMI) model, which is still being refined, has been introduced before being rigorously quality assured and validated.

Independent Schools Queensland (ISQ) is not convinced the DMI is an accurate reflection of the capacity of independent school families to contribute to their child’s schooling costs and recommends alternative models be tested.

While many Queensland independent schools will receive funding growth over the next 10 years, ISQ is concerned that a significant proportion of independent schools, particularly in regional and remote areas, will experience funding reductions.

The impacts will be different for individual schools as will how they respond to the funding changes. ISQ supports transition assistance through the Choice and Affordability Fund as this will be needed.

ISQ continues to engage with the Federal Minister for Education, Dan Tehan, on the DMI and its impacts and has strongly requested the Minister consider delaying its implementation for 12 months whilst further testing and validation occurs.

We also urge the Government to consider extending the currently proposed transition period for those schools which will have reductions in funding under the new model.

Recommendations

- A rigorous trialling and validation process before implementation.
- A review of methodology and examination of possible alternatives to calculate Capacity to Contribute.
- Extension of the transition period for negatively impacted schools beyond 2029.
- A 2-year extension to the current “best of” arrangements (2020-21) to allow for validation and examination of alternatives.
- A review of the location loading in the Gonski model.

ISQ has and will continue to advocate for fair, accurate, certain and transparent funding arrangements for independent schools to ensure an independent education remains affordable and in reach of Queensland families and their children.

12 March 2020