



Dear Secretary

This is a submission to your Committee's Inquiry into Commonwealth Schools Funding.

The essential proposition I wish to put to the Committee relates to the present Socio-Economic Status (SES) funding model used by the Commonwealth for the calculation of assistance to non-government schools.

It is my submission that the SES model is irretrievably flawed insofar as it relies on personal income information derived from the Census. There are two reasons for this.

First, Census information about incomes is based on respondents' statements as to their incomes. There is no opportunity for such responses to be independently verified or queried. Particularly for people who engage in tax minimisation or avoidance, it is clear that Census responses are likely to be understated.

Second, even if Census responses accurately state reported taxable income, the responses take no account of tax minimisation measures (such as trusts) which can reduce individual or household incomes to negligible levels on a nominal basis while leaving actual standards of living at a high level. Obviously, it is people with high potential incomes who are most likely to engage in tax minimisation.

Both of these factors distort the data comprised in the income component of the SES funding model. The result is to skew funding in favour of schools whose students live in census districts where there are high levels of household wealth but low, artificially reduced nominal incomes as shown in the Census data.

A good example of this situation was provided in a report in the Canberra Times of 7 July 2001 about a personal injuries claim by a café owner:

[Supreme Court Master] Mr Connolly said working out how much to award [the plaintiff] for lost income was made difficult by the fact that [the café] was owned by a family trust and that she and her husband were being paid a salary which bore no relationship to their effort.

Each had received an amount just below that threshold on which income tax was payable, thereby entitling them to family benefits. Before the accident, [the plaintiff] had had a taxable income of \$6150. In the year following, it had been almost \$24,000.

Mr Connolly said that while their incomes had been limited, the family trust had provided them with rented accommodation, a BMW and a Jaguar, had paid various credit-card accounts and had paid for their son's exclusive private-school education.

For this household, a Census response declaring the taxable income would have shown a household below the poverty line, even though it had a BMW lifestyle. Their response would have been incorporated in the calculation of income levels in their Census district. This in turn would have been a determinant of the funding provided to the schools whose students lived in that district.

In my view, the significant understatement of real income levels in Census responses is an explanation of the unexpected, even bizarre, assessments of Commonwealth funding levels for non-government schools under the SES formula.

Clearly, the application of the formula works against families which live in Census districts comprised predominantly of wage and salary earners and in favour of those families living in high wealth districts where tax minimisation is the norm.

I submit that it would be impossible to rectify the deficiencies in the SES funding model so that it is based on the real financial situation of families rather than declared income. As long as this model is retained, there will continue to be a distortion in favour of wealthy households. No doubt it is invidious to particularise, but it is surely incongruous that one of the most significant beneficiaries of the SES funding model was Geelong Grammar School, the alma mater of Kerry Packer and Rupert Murdoch.

I submit very strongly that the SES funding model should be abandoned because of the drastic flaws in the process for calculating the income data on which it is based.

In my view, the SES formula should be replaced with one that is focussed around the actual needs and resources of individual schools. A system based on this principle would be far more likely to produce fair results for all students and for households of all income levels. This in turn would produce the best outcome for our nation and our communities.

In conclusion, I should say that this submission is directed only at the funding model for Commonwealth support of non-government schools. I have assumed that such support would continue. I do not seek to address the issue of relative levels of State and Commonwealth funding for government and non-government schools, though I would deplore the intellectual dishonesty of the debate on both sides of that issue.

Yours sincerely



(Stephen Brown)