# CECV comments on the Final report of the Review of the SES score methodology

## Overview

The Catholic Education Commission of Victoria (CECV) welcomes the finding of the National School Resourcing Board (NSRB) that the Socio-Economic Status (SES) scoring methodology disadvantages Catholic schools.

In particular, the CECV recognises that the NSRB has developed novel ways to link datasets to clearly show the bias in SES scores, and has undertaken a very significant amount of work in a short timeframe. It is noteworthy that the findings of the NSRB on SES scores confirm the CECV's own analyses that were publicly released in March 2017 and November 2017.

While these particular findings are compelling, upon detailed review of the *Final report on the Review of the socio-economic status score methodology* ('the Final report'), the CECV has identified a number of concerns with the analysis and commentary of the NSRB.

This document provides detailed comments on the NSRB report and highlights the areas where the CECV has found deficiencies in the Final report.

It is unfortunate that the NSRB finalised their report without providing an opportunity for stakeholder review. This is a major departure from the standard process in major government reviews. The NSRB might have addressed the deficiencies identified by the CECV has this step been included.

The concerns of the CECV are material and the CECV considers that they warrant amendments to the Final report by the NSRB. The amendments suggested by the CECV would improve the rigor, consistency and transparency of the Final report and strengthen stakeholder perceptions about the independence of the NSRB. As the inaugural report of the NSRB, it is especially important that the Final report meets stakeholder expectations in this regard.

# Suggested amendments to the Final report

The NSRB should state there is a lack of clarity on the policy objective of ‘school choice’, including whether it is a policy objective of the Turnbull Government to give families the choice of a low-fee faith-based education alongside a free-of-charge secular public education.

The NSRB should provide further details on the limitations of its recommended approach and state that these are likely to result in the capacity to contribute of families in higher-fee schools being underestimated.

The NSRB should explain why it did not cite its own research that suggested the omission of household wealth would cause a bias in measurement against Catholic school families.

The NSRB should amend its discussion on household wealth to accurately and transparently report the findings of its own research (and other research) and state that the omission of household wealth from its recommended measure is likely to mean it is biased against Catholic school families.

The NSRB should specify the number of ‘very high fee’ schools that would be funded above the minimum funding rate, under current policy settings, under its recommended approach.

The NSRB should state that the reason its recommended approach would not fund all ‘very high fee’ schools at the minimum rate may be because its approach has important limitations which are likely to underestimate the true capacity to contribute of families in higher-fee schools.

The NSRB should explain why it did not recommend that its ‘refined area-based method’ apply in 2019 while its ‘direct income-based’ method was being further developed.

The NSRB should amend exhibits 16 and 21 to better reflect changes in school scores and the scope of the review. Changes in school scores should be shown before the impact of ‘capping’ or school appeals of scores.

The NSRB should release exhibits on changes in scores for schools based on fee levels, to provide greater transparency on how different types of schools are currently impacted by the bias in school SES scores.

The NSRB should state that there is widespread support for consideration of school private resources in the funding model, by public schooling advocates, by Catholic education, and by some independent schools.

The NSRB should state that the Gonski review panel supported system-average SES scores for school systems, recommended that need be assessed at the system level for systemic schools, and urged caution in how capacity to contribute is implemented, ‘to take into account the considerable diversity in the existing private contribution among non-government schools’.

In discussing funding outcomes for ‘very high fee’ schools, the NSRB should apply a much lower fee threshold than $25,000 per student, to better reflect the views and incomes of the vast majority of Australian families.

The NSRB should clarify its statement that funding arrangements that ‘maintain low-fee options in all areas… would not be consistent with the fundamental Commonwealth principle of distributing funds to schools and school systems on a needs basis’ in the context of Catholic and government school system funding models.

The NSRB should state the use of a minimum funding rate in capacity to contribute is not consistent with ‘the fundamental Commonwealth principle of distributing funds to schools or school systems on a needs basis.’

The NSRB should state that inclusion of school resources in funding arrangements would be an effective way of providing all families the choice of a low-fee faith-based education, and of reducing socio-economic segregation in non-government schools.

The NSRB should highlight that the way capacity to contribute is applied to Catholic primary schools will require large fee increases in Catholic primary schools in middle-income and high-income areas, or large funding transfers to these schools from schools in lower-income areas.

The NSRB should accurately present the views of the CECV on the lack of clarity in government policy objectives, and on the omission of household wealth.

The NSRB should state that it has long been possible to definitively assess concerns about SES scores using Census data, but this was not done by governments, and that its analysis of Census data and tax return data confirms what was previously concluded by the CECV in its analyses released in 2017.

# Detailed commentary

## The Terms of Reference for the review were too narrow and do not address the core issue for Catholic education

The CECV retains the view that the key issue in the funding of non-government schools that this review should have addressed is the notion of 'school choice'. The changes to school funding made by the Turnbull Government in 2017 overturned decades of settled bipartisan policy on school choice.

Previous school funding policies gave three general choices for families: a free-of-charge government school, a low-fee faith-based (non-government) school, or a higher-fee, more-exclusive non-government school. The policy changes introduced by the Turnbull Government in 2017 reduced that suite of options to two choices: a free government school; and a non-government school option in which families are segregated based on their income. Families would no longer be able to choose a low-fee faith-based education, unless those families also had a low income. This policy change has major ramifications for schooling in Australia as there are over 130,000 students in schools that would largely become unviable under this new Turnbull Government funding policy[1].

The only way that low-fee non-government schools located in high-income areas can remain viable under the Turnbull Government's policy is if school systems transfer significant funding to them from schools in low-income areas. Schools in lower-income areas will be required to fund the ability of families elsewhere to be able to choose a low-fee faith-based education. The Final report appears to endorse this outcome, stating that block funding of school systems 'would allow them to satisfy their objective of providing a low-fee non-government school option across the community' (page 46).

It needs to be clarified whether it an objective <u>of the Turnbull Government</u> to enable all families to choose a low-fee faith-based education. If so, its funding policies should provide funding to support this choice – not demand that schools in lower-income areas within school systems fund it.

It should be recognised that the advice of the (original) Gonski Review panel[2] in regard to the funding of non-government schools – as cited by the NSRB – is ambivalent on this issue. On the one hand, the panel recommended that school systems have their need assessed and calculated at the system level (recommendation 23). It also advocated that the resource standard for non-government school systems be calculated using the enrolment weighted average SES score of all the schools in the system (page 177). On the other hand, it called for the resource standard to be calculated at the school level (page 181) and for non-government schools to be funded based on the 'capacity to contribute' of parents at a school (recommendation 2). This ambivalence is also reflected in advice that the notion of 'capacity to contribute' be implemented carefully to adequately take account of the considerable diversity in school fees among non-government schools (page 79). It appears the panel simultaneously supported capacity to contribute and low-fee faith-based schools despite the contradictions between them. Subsequent comments made by members of the panel highlight ongoing dissent about system-average SES scores[3]. In any event, as the CECV has previously argued[4], the panel's arguments in favour of capacity to contribute lack rigor and consistency.

Despite the NSRB report, and the Gonski Review, there remains major disagreement over how non-government schools should be funded. The Australian Education Union and other public

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[1] In 2017, there were 130,797 students in 382 non-government schools with a SES score of 105 or above, that also had average fees of $4,000 per student or less (in 2016).

[2] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p79.

[3] For example, Ken Boston has written that systemic schools should not receive system-average SES scores. Peter Tannock, meanwhile, has written that systemic schools should receive system-average SES scores.

[4] See Appendix A in the CECV report *The need to rethink need* (at www.cecv.catholic.edu.au/Publications).

schooling advocates, like the CECV and NCEC, believe that school resources should enter calculations of funding for non-government schools. Some low-fee independent schools also made the same suggestion. That means stakeholders who advocate on behalf of about 85% of students in Australian schools support reference to school resources in the funding of non-government schools. The Australian Labor Party has also stated 'we will implement changes to the role of capacity to contribute in schools funding, including the SES scoring methodology'[5]. The review of SES scores was a missed opportunity to examine 'capacity to contribute' against a clear understanding of the choice of schools that the Turnbull Government wants to make available to families. This opportunity was missed because of the limited Terms of Reference given to the NSRB.

*The NSRB should state there is a lack of clarity on the policy objective of 'school choice' including whether it is a policy objective of the Turnbull Government to give families the choice of a low-fee faith-based education alongside a free-of-charge secular education.*

## The approach recommended by the NSRB will remain biased – and the NSRB should have been transparent about this

The (original) Gonski Review panel set the worthy aspiration that 'differences in educational outcomes are not the result of differences in wealth, income, power or possessions'[6]. The CECV strongly agrees.

But a funding model cannot hope to deliver on this objective unless it takes into account all differences in wealth and income, that otherwise cause differences in educational outcomes. That means it has to take into account all of the wealth and income sourced by families that lead to differences in school resources – especially, to pay school fees.

All of the evidence shows that grandparents are an important source of wealth and income to pay school fees. Independent school associations readily accept this. For example, research by the Independent School Council of Australia (ISCA) suggests that, for secondary schools, 30 per cent of independent school parents say that grandparents contribute to school fees[7].

In this context, the decision by the NSRB to exclude grandparents from its definition of capacity to contribute undercuts the aspiration that 'differences in educational outcomes are not the result of differences in wealth, income, power or possessions'. The NSRB's justification for this, that 'it is not possible to comprehensively capture and link this information to students at a school' (page 8), may be true but this does not mean grandparent contributions should be ignored. This approach will misclassify families who rely on grandparents to contribute toward school fees, especially if parents/guardians have modest incomes. Grandparent contributions are likely to be higher in schools with higher fees. Thus the narrow definition of capacity to contribute applied by the NSRB makes their recommended approach likely to underestimate capacity to contribute in higher-fee schools.

Family wealth is also an important source of 'wealth and income' used by families to pay school fees. The NSRB acknowledges this: 'where there are two households with identical income, the household with the higher wealth may have higher capacity to contribute to the costs of schooling' (page 8). Despite this, in concluding that 'household wealth cannot currently be included in a measure of capacity to contribute' (page 33) due to difficulties in measurement, the NSRB fails to declare the consequence. The NSRB merely states (page 33) that:

[5] As quoted from a letter from The Hon Bill Shorten MP, Leader of the Opposition, to Archbishop Denis Hart, dated 7 March 2018.
[6] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, xxxi.
[7] ISCA research report 2017, *Factors Influencing School Choice*, available at www.isca.edu.au.

*The inability to assess household wealth does mean that a direct income-only measure of capacity to contribute for schools with students from wealthy families will potentially understate some school communities' capacity to contribute. The size of this inaccuracy cannot be established reliably.*

It is hard to reconcile this statement with research commissioned by the NSRB on the measurement of household wealth[8]. This research found that:

*If reported wealth could be used to generate school CTC scores, the findings suggest Catholic school families would experience a very small reduction in their relative CTC position. Conversely, independent school families would experience a small increase. The distribution of these changes could however vary greatly with and between schools.*

This finding of the research commissioned by the NSRB is consistent with other research. Unambiguously, family expenditures on schooling increase with their wealth. Because Catholic schools tend to have lower fees than independent schools, it is to be expected that their scores would be relatively lower if family wealth is included in capacity to contribute. Therefore the omission of household wealth from a measure of capacity to contribute is likely to cause a bias against Catholic school families. So why did the NSRB not report its own research?[9] Why did it only state that the size of inaccuracy from not measuring household wealth 'cannot be established reliably'? Was the NSRB trying to create the impression its recommended approach was free of bias, despite its own research?

The NSRB view that household wealth 'could be considered for inclusion in future if suitable and reliable direct data becomes available' (page 33) does not address this matter. SES scores have not been reviewed since they were introduced in 2001. The unfortunate reality is that further changes to SES scores – after the Government responds to the NSRB report – will be highly challenging.

A further issue with the analysis of the NSRB and its recommended approach is that it lacks an honest and transparent discussion about difficulties in measuring family income. For example, individuals can reduce their assessable incomes:

- Through voluntary superannuation contributions.
- Via small business ownership[10]. This strategy is most commonly employed by wealthy farmers, but is also used by any small business structured as a trust or company, where the business is not classified as a personal services business by the Australian Tax Office.
- By paying personal and semi-personal expenses from their business[11]. This strategy is most commonly employed by builders and other tradesmen that have no set place of business. It is also employed by small businesses, with only one individual involved, that are registered for the GST.
- By using a service trust in a professional organisation[12]. This strategy is most commonly employed by medical professionals, legal professionals and accountants in large firms.

The impact of these strategies on the accuracy of the approach recommended by the NSRB is unlikely to be trivial. Nor will this impact be unbiased across schools. Parents employ more tax minimisation strategies, and have more potential to reduce their assessable income, as their wealth and income increases. They also spend more on schooling as their wealth and income increases.

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[8] Wade, A. *The potential for including household wealth in a measure of capacity to contribute*, Victoria University, Melbourne, May 2018 (https://docs.education.gov.au/system/files/doc/other/2018-andrewwade-vu-household_wealth.pdf)

[9] In its submission, the CECV specifically requested that the NSRB report be transparent about any bias that might arise from the exclusion of household wealth, but this was ignored by the NSRB. The CECV submission stated that 'if the methodology recommended by the NSRB does not include a measure of family wealth, then the NSRB should specify that this omission would be of most benefit to wealth families. The NSRB should further identify the types of schools that would benefit from any such omission'.

[10] This strategy shifts income into other entities, for distribution in a way that minimises tax.

[11] This strategy shifts personal expenditures into a business, thereby reducing business profit and personal income.

[12] As above, this strategy shifts income into a business, for distribution in a way that minimises tax.

Difficulties in measuring family incomes due to tax minimisation strategies will therefore benefit schools with higher-fees.

There will also be challenges in accurately measuring the family income of separated families, and of families with one or more parents based overseas. These challenges make it likely that the true capacity to contribute of these families will be under-estimated.

The CECV does not deny that there are enormous challenges in accurately measuring all the sources of income and wealth that pay schools fees – to ensure that 'differences in wealth, income, power and possessions do not drive differences in educational outcomes'. But this does not justify turning a blind eye to the limitations of a measure of capacity to contribute based solely on personal income. The NSRB should have given a frank and objective assessment of the limitations of its recommended approach and the biases that are likely to result. Difficulty in measuring the extent of the bias does not justify omitting such an assessment.

Highlighting the limitations of the approach recommended by the NSRB is its admission that some 'very high fee' schools would continue to be funded above the minimum rate (page 44). This outcome is again suggestive of bias, with the true capacity to contribute of higher-fee schools potentially underestimated. It is unfortunate that the NSRB could not be more transparent about why this underestimation may be occurring. Instead, the NSRB merely suggests that there may be circumstances affecting high-fee schools that 'are not fully reflected in the current data' and puts forward an incomprehensible proposal whereby the Government may wish to consider determining the funding of some schools 'outside the capacity to contribute calculation' (page 44).

*The NSRB should provide further details on the limitations of its recommended approach and state that these are likely to result in the capacity to contribute of families in higher-fee schools being underestimated.*

*The NSRB should explain why it did not cite its own research that suggested the omission of household wealth would cause a bias in measurement against Catholic school families.*

*The NSRB should amend its discussion on household wealth to accurately and transparently report the findings of its own research (and other research) and state that the omission of household wealth from its recommended measure is likely to mean it is biased against Catholic school families.*

*The NSRB should specify the number of 'very high fee' schools that would be funded above the minimum funding rate, under current policy settings, under its recommended approach.*

*The NSRB should state that the reason its recommended approach would not fund all 'very high fee' schools at the minimum rate may be because its approach has important limitations which are likely to underestimate the true capacity to contribute of families in higher-fee schools.*

## Why didn't the NSRB recommend that its 'refined area-based method' apply in 2019 as an interim arrangement?

The NSRB report presents compelling evidence of bias in SES scores. If SES scores continue to be applied in 2019, as the NSRB has shown, school funding will be calculated using a flawed and biased measure. This would prolong funding inequity and the transition that will be required by many schools in moving to a fairer funding level. Delay may also jeopardise the Government's clear policy objective of having all schools receive their correct funding entitlement by 2027.

Meanwhile, in its report, the NSRB presents an alternative to SES scores that:

- Uses a very similar methodology to SES scores, albeit with important improvements[13]
- Uses the same source data as SES scores (the Census of Population and Housing)
- Is already available.

The NSRB considers that these 'refined area-based' scores 'improve accuracy' and 'result in a better representation of non-government school parent income than the current measure' (page 30). It is clear, then, that a better measure than SES scores is available right now to use in school funding.

So why did the NSRB recommend that 'current arrangements be rolled over in 2019' when it has already developed a better measure that could be used in 2019? No reason is given for this recommendation even though it is contentious and requires an explanation. Use of the refined area-based approach would immediately begin to transition school funding in the required direction while work progresses to finalise the direct income-based approach.

Was the NSRB concerned about the late timing of any changes to school funding in 2019? If so, this would ignore the precedent set by the Turnbull Government in 2017. In early May 2017, without forewarning, the Turnbull Government increased the SES scores of some Catholic schools by up to 29 points for 2018, cutting their by over 50%.

The CECV is concerned that the NSRB recommendation on funding for 2019 gives justification for the Turnbull Government to 'kick the can down the road' until after the next federal election. It is further concerned that the interim arrangements that apply in 2019 will be extended. It has already become clear that the independent school associations will seek to stymie and delay implementation of the direct income-only measure recommended by the NSRB[14]. For example:

- Before the NSRB had finalised its report (but after it become aware of funding impacts), ISCA demanded 'nothing less' than three years before a new measure was implemented[15]. This was reaffirmed after the report was released, with warnings 'significant clarification' was required[16].
- In response to the NSRB report, the Association of Independent Schools NSW declared 'a great deal of work now needs to be done…an implementation date of 2020 appears optimistic'[17].
- Independent Schools Queensland said that the proposed funding changes 'must be rigorously tested and fairly applied' and claimed it was 'doubtful' they could be implemented by 2020[18].

The independent school associations will seek to extend the use of SES scores for as long as possible – certainly beyond 2019. This predictable strategy would have added further merit to a NSRB recommendation to use its 'refined area-based method' as an interim measure. Presumably the independent school associations would have supported this. In its submission to the SES review, ISCA praised the current SES scoring methodology because[19]:

- It uses ABS data 'so is updated on a frequent and predictable cyclical basis'
- The ABS data is independent of school operations
- It represents a good balance between stability in funding for schools and the currency of data
- It preserve incentives for schools to increase their fees
- It does not pose a major administrative burden for schools.

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[13] These include: more accurate targeting of families in each school sector; exclusive focus on the income dimensions; and adjustments of incomes for family size.
[14] This comes despite the fact that many low-fee independent schools stand to gain from the recommended measure. It seems that when it comes to funding, the independent school associations are most concerned about high-fee independent schools (which stand to lose funding under a new measure).
[15] ISCA media release, *Independent schools respond to SES review speculation*, 21 June 2018
[16] ISCA media release, *Further work required to determine feasibility of SES changes*, 6 July 2018
[17] AIS NSW media release, *Independent schools focused on fairness in funding*, 6 July 2018
[18] ISQ media release, *Proposed Funding Changes Must be Rigorously Tested and Fairly Applied*, 6 July 2018
[19] ISCA, *Submission to the Review of the Socio-Economic Status Score methodology*, February 2018.

All of these statements are equally true of the ‘refined area-based method’ developed by the NSRB, with the added bonus that the ‘refined area-based method’ is more accurate.

*The NSRB should explain why it did not recommend that its ‘refined area-based method’ apply in 2019 while its ‘direct income-based’ method was being further developed.*

## The data presented by the NSRB on its estimated changes in school scores is misleading

Early in its report, the NSRB emphasises that ‘the capacity to contribute discount rates are considered to be a policy matter and thus a decision of the Australian Government’ (page 2). It further states that ‘in applying a new measure, further modelling and analysis will be needed to determine whether the primary and secondary capacity to contribute percentages require any adjustments’ and ‘the levels of funding schools attract is essentially a policy decision’ (page 49). Consistent with this position, for the most part, the NSRB report avoids linking its analysis of changes in SES scores to funding outcomes.

Two exhibits in the NSRB report contravene this scope limitation: Exhibit 16 (page 29) and Exhibit 21 (page 37). According to the NSRB, these exhibits purport to show that ‘the majority of non-government schools would have no change or a relatively small change in score’ under the new approaches modelled by the NSRB. This impression is reinforced by the titles of these exhibits. Exhibit 21, for example, is entitled ‘under a direct approach, the majority of non-government schools would have no change or a relatively small change in score’ (page 37).

These exhibits are misleading because the NSRB decided to introduce the current capacity to contribute discount rates to deem some schools did not change SES scores. Any school with SES scores below 94 or above 124 received a change in score of zero. Thus the exhibit does not reflect the accuracy of SES scores for these schools. It reflects instead their capacity to contribute discount rates – which the NSRB stated may need adjustment in applying a new measure, and are outside its scope of work.

Preceding exhibits in the report do not ignore changes in scores for schools with SES scores below 94 or above 124. In this regard, exhibits 16 and 21 are inconsistent both with the scope of review (which does not include a consideration of capacity to contribute discount rates) and with other analysis in the Final report.

Referring to exhibit 21, the NSRB claims that ‘approximately 26 per cent of non-government would have no change in score (of which approximately 19 per cent is due to capping’ (page 37)[20]. If the distortion from ‘capping’ is removed, the NSRB estimates actually suggest that scores will change for 93% of schools that receive one.

This questionable and inconsistent decision in preparing exhibits 16 and 21 means that the NSRB has relied on ‘a policy decision’ to assign many schools a change of zero. Yet this is precisely the ‘policy decision’ that the NSRB has placed outside their scope of work, while also acknowledging that the current discount rates may need adjustment in applying a new measure.

Why did the NSRB make this questionable and inconsistent decision in preparing exhibits 16 and 21? CECV considers that the following observations are relevant.

First, this decision inflated the percentage of schools shown in exhibits 16 and 21 that have no change in score, and distorted the distribution of changes. This supports a narrative about SES

[20] This figure refers the ‘direct median household income’ approach. The corresponding figure for the ‘targeted equivalised household income’ approach is 29 per cent. ‘Capping’ refers to the decision to deem that all schools with SES scores below 94 or above 124 have a change in score of zero.

scores that is sympathetic to the Turnbull Government. Exhibits 16 and 21 suggest that SES scores are not too inaccurate; that the extent that SES scores misallocate funding is not too great; and that the funding changes that would result from the replacement of SES scores would be modest. This narrative has already fooled some commentators[21].

Second, Exhibit 21 was immediately seized upon by Minister Birmingham in a media appearance on the day the NSRB report was released. The Minister specifically sought to 'draw people's attention to the graph on page 37' (i.e. Exhibit 21) to argue there are 'strong levels of correlation' between current SES scores and the direct income methodology[22] – though this interpretation of Exhibit 21 is incorrect. This was the only exhibit in the report to which the Minister referred. This coincidence undermines stakeholder perceptions of the independence of the NSRB.

*The NSRB should amend exhibits 16 and 21 to better reflect changes in school scores and the scope of the review. Changes in school scores should be shown before the impact of 'capping' or school appeals of scores.*

## The NSRB should have reported its findings on SES scores in a way that does not pit Catholic schools against independent schools

It is unfortunate that the only classification of schools used by the NSRB in reporting on its analysis of SES scores is whether a school is Catholic or independent.

As the CECV has argued previously, the bias in SES scores is caused by school fees, not school sector. Catholic schools are short-changed overall by SES scores because they tend to have lower fees than independent schools. However there are also many independent schools that strive to remain affordable and inclusive, and are therefore disadvantaged by SES scores – just like there are some Catholic schools whose SES scores are underestimated. The NSRB acknowledges this on page 37:

> *Catholic schools are more likely to receive a lower capacity to contribute score and independent schools are more likely to have an increased score. However, there is still a significant percentage of schools in both sectors that display the opposite trend.*

It would have been more insightful had the NSRB expanded on this pattern and showed changes in school SES scores based on school fee levels. This would have made the funding impacts of SES scores on different types of schools more transparent. In particular, it would have become more visible to low-fee independent schools – Lutheran schools, Christian schools, Jewish schools, Islamic schools and others – that in many cases they are also disadvantaged by SES scores. Such transparency would have facilitated wider endorsement of the need for change and for prompt action. Unfortunately, the way the NSRB has classified schools directly pits one school sector against another.

*The NSRB should release exhibits on changes in scores for schools based on fee levels, to provide greater transparency on how different types of schools are currently impacted by the bias in school SES scores.*

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[21] For example, Peter Goss at the Grattan Institute has claimed on the basis of Exhibit 21 that 'the area-based approach turns out to be less biased than many thought' – see Peter Goss, 'Explaining Australia's school funding debate: what's at stake', *The Conversation*, 18 July 2018. Analysts from the Centre of Independent Studies also claimed that 'the majority of non-government schools would have little or no change in SES score' – see Blaise Joseph and Jennifer Buckingham, 'Chaney report a step closer towards settling the federal funding debate for non-government schools', *The Australian*, 10 July 2018. These interpretations are incorrect but the mistake is understandable given the way the NSRB has presented the data.
[22] Minister Birmingham, Press conference, Adelaide, 6 July 2018, 10:30am

## The NSRB commentary on school fees and capacity to contribute has many shortcomings and inconsistencies

The NSRB report dedicates a chapter to the consideration of school resources in assessing a school community's capacity to contribute. Presumably this is because this has widespread support within the education sector. Stakeholders who advocate on behalf of over 85 per cent of students in Australian schools – such as the AEU, the NCEC, and some low-fee independent schools – submitted that governments should take into account school resources when funding non-government schools. It is strange that the NSRB did not cite this widespread support, when elsewhere in its report the NSRB did refer to stakeholder support in defending the idea that a public contribution should be made for every student in a non-government school (page 5). This is inconsistent and should be rectified.

Chapter 7 of the NSRB report is highly concerning to the CECV. It lacks insight, the content is skewed and highly inconsistent, and some of the language is concerning. This section could have benefited greatly from stakeholder feedback and clarification before the NSRB released the Final report.

In defending the notion of 'capacity to contribute', the NSRB quotes the final report of the (original) Gonski Review panel but does this in a manner that is highly selective. The NSRB did not state that the Gonski Review panel advocated the use of enrolment-weighted-average SES scores in funding systems[23]. The NSRB did not state that the Gonski review panel recommended that public funding for systems be assessed and calculated at the system level. The NSRB did not state that the Gonski review panel urged that capacity to contribute be 'implemented carefully…to take into account the considerable diversity in the existing private contribution among non-government schools'[24]. This advice shows that the Gonski review panel only supported the notion of 'capacity to contribute' within a framework that also supported the ongoing viability of low-fee faith-based schools. It is unfortunate that the NSRB chose not to present this crucial, broader context.

Curiously, Chapter 7 is that it is the only part of the report where the NSRB provides significant details of the funding outcomes of an alternatives to SES scores. This step requires the NSRB to make assumptions about future capacity to contribute discount rates that it does not make elsewhere, are not transparent, are not within the scope of its report, and which the NSRB declares to be a policy decision for government (page 49). The NSRB's approach to assessing this option therefore lacks transparency and is highly inconsistent with other analysis in the report. Nevertheless, the NSRB then details hypothetical funding outcomes of this potential approach, including by school fee levels, school sector and school type. The level of detail provided on these funding outcomes is extraordinary given that the same level of detail is not provided for the approach that the NSRB actually recommends.

It is equally extraordinary that the NSRB seems to rely on funding outcomes for 'very high fee' schools to justify its recommended approach. The NSRB argues, for example, that there is no need to adjust school funding for school total private income, because use of a direct measure of income would already ensure that most 'very high' fee schools would be funded at the minimum rate (page 44). If funding 'very high fee' schools at the minimum rate is the required outcome to gain 'public confidence', then why not reference school private resources in funding? Given the recommended approach of the NSRB actually fails this self-established test[25], the NSRB appears to concede that its recommended approach would lack public confidence, and makes an incomprehensible suggestion to adjust the funding of some schools 'outside the capacity to contribute calculation' (page 44). This

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[23] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, xxv.

[24] Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p79.

[25] The NSRB admits that a 'handful' of very high fee schools would not be placed on the minimum funding rate under its direct income-based approach. As discussed earlier, this is probably due to limitations in the NSRB approach, which means it is likely to underestimate capacity to contribute in higher-fee schools.

failure comes even though the NSRB has applied a threshold to classify a school as having 'very high fees' that is extremely high given the incomes of the vast majority of Australian families.[26]

The NSRB further argues that additional funding for low-fee Catholic schools in wealthier areas 'would assist Catholic systems in their efforts to maintain low-fee options in all areas regardless of the financial capacity to contribute of the families they service'. The NSRB then declares that 'such an outcome would, however, not be consistent with the fundamental Commonwealth principle of distributing funds to schools and school systems on a needs basis' (page 44).

This language reinforces grave concerns held by Catholic education about the future of its school systems under the policies of the Turnbull Government, including in relation to the requirements of section 78 of the *Australian Education Act 2013* and the oversight role of the NSRB.

It also highlights a fundamental inconsistency in the way the NSRB discusses two closely related issues in the way governments fund 'choice' in non-government schools. It has long been bipartisan government policy to provide parents the choice of a low-cost, faith based education. It has also been longstanding policy to provide funding to all parents in non-government schools. These two policies have underpinned the concept of 'school choice' in Australia for several decades.

While these policies are closely related, there are stark differences in the way they have been discussed by the NSRB. The NSRB argues that the policy of providing families the choice of a low-cost, faith-based education is not 'needs based'. In contrast, the NSRB argues that funding all non-government schools – regardless of their private resources, or the financial capacity to contribute of the families they service – is a policy that has had longstanding bipartisan support (page 5), is supported by the major stakeholders from the non-government sector (page 5), and is nonetheless a policy decision for the Government (page 49). Despite referring to stakeholder views in defending this policy, in its report the NSRB refuses to acknowledge that stakeholders who represent the vast majority of students in Australian schools actually support reference to school private resources in funding arrangements. These inconsistencies undermine stakeholder perceptions of the independence of the NSRB.

Finally, this commentary in Chapter 7 fails to acknowledge wider policy objectives. For example, the NSRB should note that the inclusion of school resources in funding arrangements would be an effective way of providing all families the choice of a low-fee faith-based education, alongside a free-of-charge secular education. Therefore, if the Government does indeed have a policy objective of giving families this choice – and clarity is urgently needed on this – then this funding approach should come under serious consideration. In addition, by allowing non-government schools to be open to all, 'regardless of the financial capacity to contribute of the families they service', the NSRB might further note that inclusion of school resources in funding arrangements would reduce socio-economic segregation in non-government schools. This outcome should be highly valued; one leading education expert has claimed that reducing the disparities between the most and least advantaged schools is one of the five main challenges in Australian school education[27].

*The NSRB should highlight that there is widespread support for consideration of school private resources in the funding model, by public schooling advocates, by Catholic education, and by low-fee, faith-based independent schools.*

[26] The NSRB applies a threshold of average fees of $25,000 per student and above to classify a school as having 'very high fees'. Given that the median annual family income in Australia in 2016 was about $90,000, it is likely that most families in Australia would consider annual fees above $15,000 per student or $20,000 per student to be 'very high'. The low threshold applied by the NSRB means that schools such as Geelong Grammar (Victoria), Brisbane Grammar (Queensland), Newington College (New South Wales), St Peter's College (South Australia) and Christ Church Grammar (Western Australia) are not considered to have 'very high fees'.
[27] Masters, Geoff N *Five Challenges in Australian School Education*, Australian Council for Educational Research, Policy Insights, Issue 5, May 2016.

*The NSRB should state that the Gonski review panel supported system-average SES scores for school systems, and urged caution in how capacity to contribute is implemented, 'to take into account the considerable diversity in the existing private contribution among non-government schools'.*

*In discussing funding outcomes for 'very high fee' schools, the NSRB should apply a much lower fee threshold than $25,000 per student (i.e. no greater than $20,000 per student), to better reflect the views and incomes of the vast majority of Australian families.*

*The NSRB should clarify its statement that funding arrangements that 'maintain low-fee options in all areas… would not be consistent with the fundamental Commonwealth principle of distributing funds to schools and school systems on a needs basis' in the context of Catholic and government school system funding models.*

*The NSRB should declare the use of a minimum funding rate in capacity to contribute calculations – which provides funding to all non-government schools, regardless of school private resources or the financial capacity of the families they service – is not consistent with 'the fundamental Commonwealth principle of distributing funds to schools or school systems on a needs basis'.*

*The NSRB should note that inclusion of school resources in funding arrangements would be an effective way of providing all families the choice of a low-fee faith-based education, and of reducing socio-economic segregation in non-government schools.*

## The NSRB should have highlighted that capacity to contribute creates major challenges for Catholic primary schools

In Chapter 7, the NSRB finds that 'school fees or total private income…are not a reliable indicator of capacity to contribute' (page 42). It argues, based on Exhibit 23, that 'school fees do not reflect median household incomes for schools' (page 44). This is especially true for Catholic primary schools: 'for Catholic schools (and particularly Catholic primary schools), the level of fees is a very poor indicator of household income' (page 43).

Leaving aside shortcomings in how the NSRB has measured capacity to contribute (as discussed earlier), which may weaken these conclusions, it is unfortunate that the NSRB did not contemplate the wider implications of this observation. If 'fees are a very poor indicator of household income' in Catholic primary schools then the converse is also true: household income is a very poor indicator of fees in Catholic primary schools. Capacity to contribute, as defined by the NSRB, is not a reliable guide to the resources that Catholic primary schools raise privately or the public funding they need.

It therefore present major challenges to Catholic systems that the capacity to contribute parameter in the SRS model can change by fourfold the amount of base funding that Catholic primary schools attract. This suggests the SRS model is a poor fit for Catholic primary schools. Could Catholic primary schools in high-SES areas charge parents significantly higher fees? Is the SRS model a poor fit for high-SES Catholic primary schools, simply because those schools choose not to charge parents what they will pay? Several observations are relevant here.

- In most cases, Catholic primary schools compete against free-of-charge government schools, and have similar facilities and teaching resources. In this context, there is no basis for assuming Catholic primary schools can charge parents what they could theoretically afford.
- It is not true that Catholic education is reluctant to charge higher fees to higher-income parents. The analysis of the NSRB clearly shows that Catholic secondary and combined schools do this.

- In high-SES areas where Catholic primary schools have significantly increased their fees – to levels that still remain far below the fees that are expected in the SRS model – this has resulted in a significant loss of enrolments. The diocese of Broken Bay is a prime example[28].
- While there are some stand alone, non-Catholic primary schools that do charge high fees, these are not representative as they form a small share of the market and are mostly niche schools[29].

The conclusion that the NSRB might have reached from the data in Exhibit 23 is that capacity to contribute is not an accurate basis for estimating the fees that stand alone primary schools raise, especially in high-SES areas. It will therefore create major challenges for Catholic systems.

*The NSRB should highlight that the way capacity to contribute is applied to Catholic primary schools will require large fee increases in Catholic primary schools in middle-income and high-income areas, or large funding transfers to these schools from schools in lower-income areas.*

## The NSRB has quoted the CECV in ways that misrepresent our views

The CECV is concerned that the NSRB report quotes the CECV inappropriately on two occasions. In both instances, the NSRB has quoted the CECV in a manner that appears to endorse the reasoning of the NSRB when this is not actually the case.

First, the NSRB quotes the CECV as arguing that 'the specific objectives of the Government urgently need clarification' (page 6). This quote is given in relation to the policy intent of the 'capacity to contribute' element of the school funding model.

This does not accurately represent the views of the CECV. The CECV submission stated that 'the specific objectives of the Government urgently need clarification' with respect to the notion of 'school choice' and whether the Turnbull Government wants to give all families the choice of a low-fee faith-based school. There is a major difference between the meaning of this statement in the CECV submission and the way it is presented in the NSRB report. It is not only the notion of 'capacity to contribute' that needs clarification.

Second, the NSRB quotes the CECV in relation to the potential measurement of household wealth. The NSRB states that the CECV 'argued in their submission that household wealth is important, but acknowledged that it is difficult to measure' (page 33). The NSRB presents this quote in a manner that appears to endorse its view that family wealth is too difficult to measure and that a new measure of capacity to contribute should not, at this time, seek to measure family wealth.

Once again, this misrepresents the views of the CECV. The CECV submission is very clear on the issue of family wealth. It indeed states that family wealth is important and notes that it is difficult to measure. However, the CECV submission further notes that if family wealth is omitted from how capacity to contribute is calculated then this would make the measure biased against Catholic schools – a point that is seemingly reinforced by the NSRB's own research. The CECV submission went on to argue that reference to school private income, along a measure of parental income, could correct for any bias that arose from omission of family wealth. Yet the NSRB report omitted these critical points.

The CECV is greatly concerned about the misinterpretation and/or misrepresentation of CECV views on these issues.

[28] As reported in 'Catholic families flee fee hikes', *The Australian*, 22 March 2018.
[29] 92% of students in stand alone non-government primary schools are in low-fee Catholic primary schools. Less than 3% of students in stand alone non-government primary schools are in schools that charge fees above $5,000 per student. The small number of stand alone non-government primary schools that do charge fees above $5,000 per student include a number of Montessori schools and bi-lingual schools.

*The NSRB should accurately present the views of the CECV on the lack of clarity in government policy objectives, and on the omission of household wealth.*

## The NSRB report gives a false impression it was not possible to conclusively analyse concerns about SES scores earlier

The CECV disputes a number of comments in the NSRB report that give the impression it has only recently become possible to conclusively analysis concerns about SES scores. The NSRB claims that 'one of the difficulties faced in assessing and validating the concerns that have been raised by some stakeholders to date has been the limited data available' (page x). The NSRB also claims 'new data capacity within the government has only now made it possible to fully analyse these issues' (page x).

The first point to make about this material is that it is not necessary. These statements are not relevant to the report Terms of Reference. There was no need for the NSRB to provide any discussion about the extent SES scores could be assessed in the past.

The second point about this material is that it is misleading. The bias in SES scores can be surmised from two basic facts: Statistical Area 1s contain families with differing levels of wealth and income; and families spend more on schooling as their wealth and income increases. These were as true in 1999 as they are in 2018. SES scores are based on assumptions that have never been true. It should have always been assumed that SES scores are biased.

Nevertheless, the CECV did use a number of datasets to demonstrate, in two reports it released during 2017[30], that SES scores are biased against Catholic schools. One of these reports concluded, for example, that 'the Catholic sector is systematically disadvantaged by the bias in SA1-level averaging, for schools with SES scores above 100'[31]. This is almost identical to the NSRB conclusion that 'for SES scores above 100, students at independent schools, on average, come from higher income households than students at Catholic schools' (page 17).

The CECV did not require sophisticated data-matching techniques to reach this conclusion; it is clear from Census data, Health Care Card data, Socio-Educational Advantage data and geographic patterns in school enrolments. SES scores could probably have been reviewed using this type of data at any time over the past decade. In particular, if Census data was deemed accurate enough to determine SES scores, then it should also have been deemed accurate enough to 'fully analyse' stakeholder concerns about SES scores. It is disappointing that the NSRB did not reference the CECV reports, given they prompted the SES review and the NSRB has wholeheartedly endorsed their findings that SES scores are biased.

The major advancements of the NSRB work have been to assess SES scores using personal income data, and to re-estimate scores using improved approaches. The work of the NSRB in this regard is novel and impressive – particularly given the time constraints faced by the NSRB. But it is arguable that this work has only just become possible. The only step that appears to have just become possible is to link de-identified parental addresses to tax data. However, governments could have undertaken its own research without this advancement[32]. And contrary to the claims of the NSRB, it has not 'fully analysed' stakeholder concerns, since it has not fully measured all the sources of income and wealth that families use to pay school fees (as discussed earlier).

[30] See CECV 2017, *Capacity to contribute and School SES scores*, March and CECV 2017, *The Special Deal of a Lifetime: SES scores, school fees and school funding*, November. Both are available from the CECV website.
[31] CECV 2017, *The Special Deal of a Lifetime: SES scores, school fees and school funding*, November, p50
[32] For example, it could have collected tax file numbers from parents to test SES scores, not dissimilar to the way it currently surveys parents when schools appeal their SES score.

It is unclear why the NSRB report would include material that is unnecessary and misleading, on the previous ability of governments to evaluate concerns about SES scores. It is clear, however, that this material supports a narrative about SES scores that is sympathetic to the Turnbull Government. It gives the impression that governments could not have improved SES scores until now. This narrative was seized upon by Minister Birmingham in a media appearance the day the NSRB report was released. Drawing on the language of the NSRB report, Minister Birmingham claimed that use of parental incomes in school funding 'wasn't possible before'[33]. The problem for this narrative is that tax file numbers have been collected by the Turnbull Government for several years for the payment of childcare subsidies and private health insurance rebates.

*The NSRB should state that it has long been possible to definitively assess concerns about SES scores using Census data, but this was not done by governments, and that its analysis of Census data and tax return data confirms what was previously concluded by the CECV in 2017.*

[33] Minister Birmingham, Press conference, Adelaide, 6 July 2018, 10:30am