

The need to rethink need

How the Gonski Review got it wrong
on funding non-government schools

February 2018

Summary

In the Schooling Resource Standard (SRS) funding model, in 2018, schools are estimated to need \$10,953 per primary student, and \$13,764 per secondary student, plus loadings, to deliver strong educational outcomes.

There are almost 200 non-government schools that raise all of the funding their students are estimated to need from private sources – mostly school fees. These high-fee schools are also strong performers in NAPLAN. On average their students are six to 12 months ahead of students in other schools, and less than 1% of their students are below the national minimum standards in NAPLAN reading and numeracy tests.

Even though these schools already raise enough private income to reach their resource standard, the Australian Government nevertheless grants them almost \$750 million each year. This funding is ‘needs-based’. The SRS model tells us unequivocally that these schools do not need government funding to achieve strong educational outcomes.

Nor does this \$750 million in government grants deliver school choice for many families. High-fee schools only offer choice to the limited number of families that can afford them.

Of further concern, high-fee schools are increasingly serving the most advantaged and highest achieving students. This is undermining educational outcomes elsewhere in the schooling system as less wealthy students are denied access to the best teaching resources and also to positive peer effects.

Current funding arrangements for non-government schools are deeply flawed. While largely based on the views of the Gonski Review panel, they fail the worthy aspirations that the panel enunciated.¹ These funding arrangements are not genuinely needs-based, are not targeted to improve educational outcomes, and undermine school choice and student diversity. They will continue to frustrate those who want more improvement in education outcomes. They will drive further segregation in our schools. They will also deny many families the ability to choose an inclusive non-government school.

There is a widespread misunderstanding that the current, failing arrangements for funding non-government schools stem from the ‘no school loses a dollar’ commitment made by the Gillard Government at the outset of the SRS model. The real reason is the ‘capacity to contribute’ component of the SRS model, which mostly determines how ‘need’ is estimated for non-government schools. This component fabricates a need for government funding in highly resourced schools, where no need actually exists. It does this through three dubious settings:

¹ The Gonski Review panel sought to develop school funding arrangements that aim to ensure that: differences in educational outcomes are not the result of differences in wealth, income, power or possessions; and all students have access to a high standard of education regardless of their background or circumstances. See Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. xxxi.

1. Schools are means-tested using a hypothetical level of school private income, not their actual private income. Thus the abundant private resources of high-fee schools are not counted when their need for public funding is estimated.
2. A school's hypothetical level of private income is calculated using school SES scores, which are biased² in favour of high-fee schools, resulting in artificially low estimates of their hypothetical private income.
3. Irrespective of all else, no school is assumed to raise more than 80% of their required funding (before loadings) in private income.³ Thus every single non-government school in Australia is estimated to need government funding.

Among means-tests, these settings are unique to schooling – and in schooling they are unique to Australia. They distort how need is measured in ways that greatly benefit elite and exclusive schools, and they result in Australia being an international outlier for the extraordinary amounts of government funding that is provided to these schools.

Conversely, these settings greatly disadvantage families who wish to enrol in inclusive non-government schools, which operate in parallel with government schools, with comparable resources and facilities and student cohorts.

The dubious settings for funding non-government schools largely began in 2001 and, since then, significant increases in funding for schooling have barely improved outcomes. Meanwhile Australian students have steadily fallen in international rankings.

The case is compelling for major change to the way non-government schools are funded. Current arrangements are failing Australian students and must be revisited. The review of SES scores currently underway now provides the opportunity to change the trajectory of schooling in Australia and evolve the SRS model into a true, fair and equitable needs-based funding model for non-government schools.

Enquiries in relation to this paper may be directed to the contacts below.

Contacts	
Stephen Elder	Bruce Phillips
Executive Director	Policy Adviser
Catholic Education Commission of Victoria	Catholic Education Commission of Victoria
execdirector@ceomelb.catholic.edu.au	bphillips@cem.edu.au

² See *Capacity to Contribute and School SES Scores* and *The Special Deal of a Lifetime: SES scores, school fees and school funding*, which are both available from the CECV website (<http://www.cecv.catholic.edu.au/Publications>)

³ In 2018, for example, the maximum amount of private income assumed to be raised by a school is \$8,762 per primary student and \$11,011 per secondary student.

Contents

1. Introduction.....	5
2. Capacity to contribute: what the Gonski Review panel recommended	6
2.1 Use of capacity to contribute to assess need in non-government schools	6
2.2 Use of SES scores to assess capacity to contribute	8
2.3 Functions linking SES scores to funding	9
2.4 Summary.....	11
3. The adverse consequences of current arrangements	13
3.1 Government funding is not targeted to improve educational outcomes.....	13
3.2 Government funding favours affluent families	16
3.3 Government funding is not sector-neutral	17
3.4 Government funding undermines school choice and student diversity.....	18
3.5 Summary and case study.....	23
Appendix A Review of arguments for using capacity to contribute in funding	26
Appendix B Fully selective entry schools	29

1. Introduction

Capacity to contribute is the most important element in the Schooling Resource Standard (SRS) funding model for most Catholic and independent schools. That is, in the SRS model, the capacity to contribute component has a larger bearing than any of the loadings on the funding most Catholic and independent schools are estimated to need. In fact, for many Catholic and independent schools, capacity to contribute is more important than all of the loadings put together.

The extent to which the SRS model can truly be considered needs-based for non-government schools therefore fundamentally hinges on capacity to contribute.

Current capacity to contribute arrangements are deeply problematic. They were constructed to navigate the politics of school funding, not to deliver genuine needs-based funding. The recommendations of the Gonski Review panel ('the Review panel') in relation to capacity to contribute are cited and reviewed in section 2.

These recommendations – and the way the Turnbull Government has chosen to implement them – will have a number of adverse consequences on schooling in Australia. These consequences stem directly from the shortcomings in how 'need' is assessed in non-government schools through capacity to contribute. Section 3 provides further details.

Additional information relevant to the report is provided in appendices.

The information presented in this report shows a compelling case for major change to the way non-government schools are funded.

The establishment of the National Schools Resourcing Board (NSRB), and the review of SES scores, now provide the opportunity to evolve the SRS model into a true, fair and equitable needs-based funding model for non-government schools. However, this cannot be achieved through incremental change. There is an urgent need to rethink how need is measured in non-government schools, to make this better suited to our educational objectives and challenges. It remains to be seen whether the NSRB will face up to this challenge. Catholic education will shortly provide its specific views on how the SRS model should be changed as part of NSRB processes.

2. Capacity to contribute: what the Gonski Review panel recommended

The sections below revisit the Review panel recommendations in relation to capacity to contribute (section 2.1), school SES scores (section 2.2) and how SES scores are linked to school funding outcomes (section 2.3). Section 2.4 summarises key themes in these recommendations.

2.1 Use of capacity to contribute to assess need in non-government schools

The Review panel recommended that, for a non-government school, public funding be provided based on an anticipated level of a school's private contribution – the capacity of the school community to support the school.

In other words, need in non-government schools would be assessed using an 'anticipated' or hypothetical level of school private income, rather than actual school private income. The hypothetical level of income would be based on an assessment of the parents at each school. This has become known as 'capacity to contribute'.

The Review panel cited four reasons for recommending that schools be means-tested based on a hypothetical level of private income, not their actual income. It was argued that capacity to contribute:⁴

- *provides a fairer, more consistent and transparent basis for funding the different types of non-government schools to which parents can choose to send their children*
- *is simpler and less intrusive for schools and governments to administer than a model based on actual contributions given that different schools finance their recurrent and capital needs in very different ways*
- *provides stronger incentives for private investment by parents and others. Linking public funding to the actual private contribution would distort these incentives*
- *involves a more comprehensive and objective sense of a school's need for public assistance.*

As explained in Appendix A, these arguments have many weaknesses when scrutinised in detail.

These arrangements have led to a fundamental disconnect in how need is measured in schooling, how need is estimated and how funding for schooling is then allocated.

⁴ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, pp. 78-79.

Need is measured in relation to the level of resources required by a school (i.e. a school resource standard), while government funding is also provided to a school. Yet the Review panel believed that the parents at a school should be subject to a means-test, not the school itself.

This disconnect makes the means-test in school funding unlike any other in social policy. In other areas of social policy involving means-tests, it is standard practice for the entity for which need is measured, and which receives government funding, that is means-tested.⁵ This helps target government payments to those who have the greatest need; where government payments can make the most difference. Extending the usual practice to school funding would mean that schools, rather than parents, would be means-tested.

The use of a hypothetical level of school private income, rather than actual income, is highly advantageous to schools that raise the most private income – that is, schools with high fees. Conversely it disadvantages schools that set affordable fees and aim to be inclusive. It creates incentives for schools to maximise private income, rather than remain affordable, and undermines accurate targeting of need.

It is equivalent, for example, to means-testing eligibility for family tax benefits or the childcare rebate by assigning each family member a hypothetical income, instead of using actual data on family income. That approach would similarly favour the families with the highest actual incomes – but it would not target the families with the greatest need.

The use of hypothetical private income, rather than their actual income, to means-test non-government schools has laid the foundation for vast sums of funding to be allocated to schools that do not actually need it. They do not need it because their *actual* private incomes are greater than the total amount of funding they are estimated to need in the SRS model.

This approach would also, over the next decade and under current policy settings, cause major change to the role of non-government schools in Australia. These issues are further discussed in section 3.

The Review panel did not support the inclusion of a capacity to contribute calculation for government schools. The rationale for excluding government schools from any expectation to raise private income was as follows:⁶

The government sector is required to provide access to a place for all young people whose parents wish them to attend a government school and has less scope to deny entry or exclude some students than non-government schools...

⁵ Examples of these types of means-test elsewhere in social policy include the childcare rebate, family tax benefits, the private health insurance rebate, the pension and Newstart.

⁶ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 175.

In this context the panel believes that it is appropriate that in the government sector the fully loaded resource standard for each government system or school should be fully publicly funded...

This argument assumes that all government schools are required to provide access to all students.

Finally, the Review panel recommended certain types of non-government schools – special schools, special assistance schools, majority Indigenous student schools and sole provider schools – should be exempt from any expectation to raise private income from school communities.⁷ This means that the same student can attract different rates of funding depending on whether they attend one of these types of non-government schools or a mainstream non-government school.

2.2 Use of SES scores to assess capacity to contribute

The Review panel further recommended that capacity to contribute be measured using school SES scores (in the short term).

Schools receive an SES score based on the socio-economic characteristics of the neighbourhoods – Statistical Area 1 – (SA1) in which student families reside. On average these neighbourhoods have about 150 households and 65 families.⁸ Due to the way school SES scores are constructed, the average school SES score is close to 100. The higher a school's SES score, the wealthier its school community is assessed to be.

Even though school SES scores are supposed to be a financial means-test of the families in a school:

- SES scores are based on the characteristics of the neighbourhood (SA1) in which a student lives, not the actual characteristics of each student family.
- SES scores mostly measure high-level education qualifications and occupation types in SA1s, not financial characteristics.
- SES scores are based on data collected every 5 years in the Census of Population and Housing and can quickly become out-of-date.

School SES scores are used in the SRS model based on the recommendation of the Review panel. However, the Review panel were highly aware they were problematic. It stated that SES scores were 'subject to a potentially large degree of inaccuracy' and 'a more precise measure of the SES of a schools would be more accurate and credible'. It therefore recommended that 'all Australian Governments should commence work as a

⁷ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 176.

⁸ See *The Special Deal of a Lifetime: SES scores, school fees and school funding*, which are both available from the CECV website <<http://www.cecv.catholic.edu.au/Publications>>

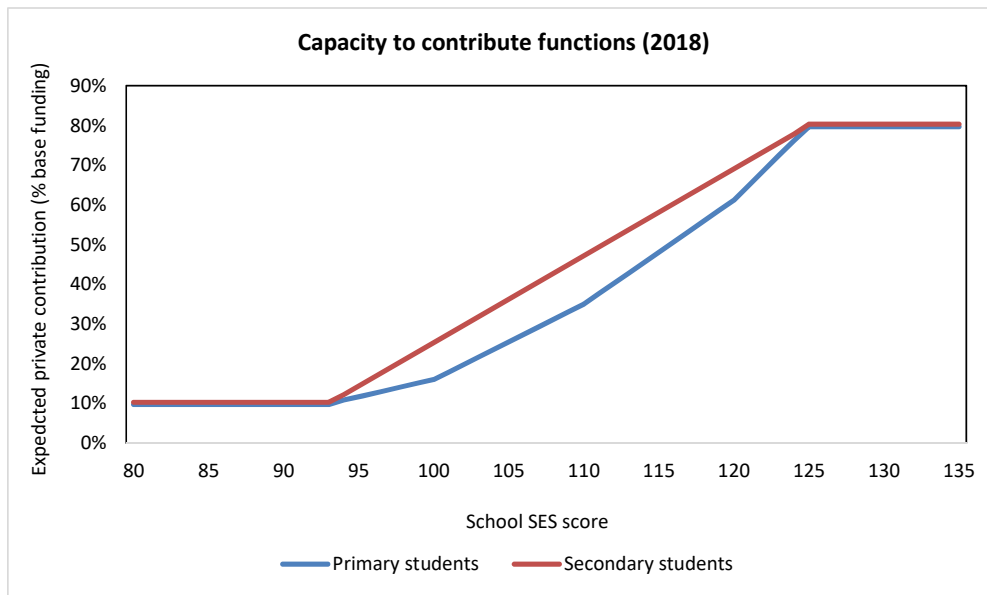
priority to develop, trial and implement a better measure of the capacity of parents to contribute'.⁹ Until recently this recommendation has been ignored.

For non-government school systems, the Review panel stated very clearly that 'the enrolment weighted average SES score of all schools in the system' should be used to calculate the capacity to contribute of systemic schools.¹⁰

2.3 Functions linking SES scores to funding

School SES scores are linked to two capacity to contribute functions in the SRS model. There are separate functions for primary students and secondary students (Figure 1). The expected private contribution is expressed as a percentage of base funding in the SRS model. In 2018 the base funding amounts are \$10,953 for primary students and \$13,764 for secondary students. Altogether, the SRS model contains 67 discrete levels of private income that schools can be expected to raise for each student (including zero).¹¹

Figure 1: Capacity to contribute functions in the SRS model



The minimum expected private contribution (excluding exempt schools) is 10% of base funding, for schools with SES scores of 93 or below. Consequently, it is intended that

⁹ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 177.

¹⁰ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 177.

¹¹ This amount varies with the school SES score and whether a student is a primary student or a secondary student. Certain schools are not expected to raise any private income.

these schools receive 90% of the base funding amounts from government. The figure of 90% is based on recommendation 17 of the Review panel:¹²

Australian governments should base public funding for most non-government schools on the anticipation that the private contribution will be at least 10 per cent of the schooling resource standard per student amounts.

It is not clear why this amount was recommended. The Review panel only stated that the recommendation was ‘based on the existing level of public funding available to non-government schools’.¹³

The maximum expected private contribution is 80% of base funding, which applies for schools with SES scores of 125 and above. It is intended that these schools receive 20% of the base funding amounts from the government. This is based on recommendation 19 of the Review panel:¹⁴

To meet the Australian Government’s announcement that no school will lose a dollar per student as a result of this review, a minimum public contribution towards the cost of schooling should apply to non-government schools at a level between 20 to 25 per cent of the resource standard per student amounts without loadings.

As is clear from the extract above, the rate of 80% was set to try and ensure that ‘no school would lose a dollar’ as a result of the Review. The minimum rate of 20% attempts to achieve this by increasing the estimated need of applicable schools, to the point where few of them are assessed as ‘over funded’.

It was not within the Terms of Reference for the Review to develop a funding model in which ‘no school would lose a dollar’. Their brief was to construct a needs-based funding model – a model that best estimated that funding schools need from governments.

It seems that the Review panel drafted this recommendation with a view to the politics of school funding, and in particular, the commitment made by the Gillard Government that no school would lose a dollar under the new funding arrangements. The approach recommended by the Review panel – to manipulate the way that need is measured – is in fact a highly unusual way to deliver this type of commitment.¹⁵

¹² Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 175.

¹³ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 175.

¹⁴ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 177.

¹⁵ The standard way that such commitments are applied is instead through transition arrangements. This is indeed how the Gillard Government did implement its commitment – by providing a minimum 3% funding increase to the relatively few schools assessed to be funded above their entitlement (after a minimum rate of base funding of 20% was applied).

Under the policies of the Turnbull Government, the 'no school loses a dollar' guarantee no longer applies. This suggests that the issue regarding the minimum public contribution to non-government schools needs to be revisited.

In terms of the shape of the capacity to contribute functions, between the maximum and minimum funding levels, the Review panel advised a key consideration was to minimise differences between the SRS required by each school and its current resources.¹⁶ In other words, the Review panel advised that the functions should be designed in part to minimise changes in school funding. This approach is self-reinforcing: it estimates need in non-government schools to match their existing funding.

2.4 Summary

The Review panel was asked to provide recommendations directed towards 'achieving a funding system for the period beyond 2013 which is transparent, fair, financially sustainable and effective in promoting excellent educational outcomes for all Australian students'.¹⁷

For non-government schools, it is highly questionable whether the Review panel made recommendations to that end. Instead, for non-government schools, the recommendations appeared to be framed around maintaining the status quo in funding. For example:

- The Review panel recommended that need be measured for non-government schools using capacity to contribute, as measured by school SES scores (for the short term) – which essentially continued funding arrangements that had applied since 2001.
- The Review panel recommended that the capacity to contribute functions for non-government schools should take into consideration the funding changes that might result for schools.
- The minimum amount of funding for non-government schools that was recommended by the Review panel was intended to ensure that no school would lose a dollar. The maximum amount that was recommended was based on the existing level of public funding for non-government schools.

It is hard to reconcile these recommendations with genuine, needs-based funding:

- Assessing the need for government funding based on a hypothetical level of private income in non-government schools, rather than their actual income, is highly unusual

¹⁶ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 179.

¹⁷ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. 225.

and results in vast sums of funding being allocated to schools that do not need it given their actual private incomes.

- Further, school SES scores have been shown to be biased in favour of affluent families and high-fee, wealthy schools – that is, the schools with the least need¹⁸ (although the Review panel did recommend that SES scores be replaced).
- Funding arrangements that aim to ensure no school would lose a dollar – or which recommend that schools be funded based on the amounts that they already receive – cannot be considered needs-based.

It is also hard to understand why the Review panel would want to preserve funding arrangements for non-government schools that have largely existed since 2001. Those arrangements are failing Australian students. The Review panel itself documented several areas of concern with schooling that have emerged in recent years. Since 2001, significant increases in government funding have barely improved educational outcomes, the performance of Australian students continues to fall in international rankings, Australian schools have become more segregated, and inequity in educational outcomes has increased. More specific, adverse consequences of the Review panel recommendations on funding for non-government school are highlighted in section 3.

¹⁸ See *Capacity to Contribute and School SES scores* and *The Special Deal of a Lifetime: SES scores, school fees and school funding*, which are both available from the CECV website <<http://www.cecv.catholic.edu.au/Publications>>

3. The adverse consequences of current arrangements

Current capacity to contribute arrangements have a number of adverse consequences. As explained in this section, they result in funding outcomes such that:

- government funding is not targeted to improve educational outcomes (section 3.1)
- government funding favours affluent families (section 3.2)
- government funding is not sector-neutral (section 3.3)
- government funding undermines school choice and student diversity in non-government schools (section 3.4)

These problems establish a compelling case for change, as summarised in section 3.5. Section 3.5 also includes a case study that epitomises the flaws in current arrangements.

3.1 Government funding is not targeted to improve educational outcomes

Because of distortions in the way that need is measured in non-government schools, under current funding arrangements, government funding is not well-targeted to the schools where it can make the most difference.

This can be shown by analysing each school's resource standard, the amount of private income it raises, and the government funding it receives.

In the SRS model, each school is assigned a resource standard, which represents the (efficient) level of funding (from all sources, including private sources) it is estimated to need to be a strong performer.¹⁹ If the actual private income of a non-government school is greater than its resource standard then, by definition, the school does not need government funding to be a strong performer. In that case, a school already raises sufficient funding from private sources to excel. Accordingly, government funding that is directed to these schools would not be expected to have much impact.

Table 1 contains estimates of the amount of Australian Government funding that is allocated to non-government schools that already meet their resource standard from private income alone. It is estimated that this funding amounted to \$747 million in 2015.

¹⁹ The outcomes benchmark that underpins the SRS model is: at least 80 per cent of students are achieving above the national minimum standard, for their year level, in both reading and numeracy, in each of the past three years. This benchmark was described by the Review panel as 'a demanding benchmark that requires schools to systematically embed successful educational practices in all year levels'. Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p.158.

In other words, it is estimated that in 2015 the Australian Government provided \$747 million to non-government schools that did not need it. The vast majority of the \$747 million is provided to independent schools. The average ICSEA score of these schools was 1158, and on average 70% of their students come from the top SEA quartile.

Table 1: Schools whose private income exceeds their SRS, 2015*

	Schools	Students	Australian Government recurrent funding
Catholic	10	12,540	\$67 million
Independent**	185	168,461	\$680 million
Total	195	181,000	\$747 million

* This analysis compares school private income (net of private income used for capital purposes) against each school's resource standard in 2015 and includes those schools whose (net) private income is greater than their resource standard. School private income data is taken from the ACARA MySchool website. Each school's resource standard is estimated using the SRS model and input data for each non-government school that was publicly released in Senate Supplementary Estimates 2014-15 (October 2014), Education Portfolio (Questions on Notice, ED0572_15). The analysis excludes special schools, special assistance schools, majority Indigenous student schools and sole provider schools.

**Includes independent Catholic schools.

Source: ACARA MySchool website, Department of Education and Training and Senate Supplementary Estimates 2014-15 (October 2014), Education Portfolio (Questions on Notice, ED0572_15)

The inference that the schools included in Table 1 do not need government funding to be strong performers is supported by the data shown in Table 2. The 195 schools that did not need any government funding to reach their resource standard performed strongly in NAPLAN tests in 2015. In both reading and numeracy, in all year levels, on average, these schools greatly exceeded national average school scores. In Year 3 and Year 5, the schools were about 6 months ahead of the national average, while in Year 7 and Year 9 the schools were about 1 year ahead.

Table 2: Average performance of selected non-government schools in NAPLAN, 2015*

Year/domain	Reading		Numeracy	
	Average school mean score	Margin above national average	Average school mean score	Margin above national average
Year 3	488.8	+62.8	454.2	+56.2
Year 5	557.9	+58.9	542.5	+49.5
Year 7	597.2	+51.2	595.4	+52.4
Year 9	629.6	+49.6	645.6	+53.6

*These schools were selected on the basis that their private income (net of private income allocated to capital expenditures) exceeded their SRS in 2015 (refer to the notes for Table 1).

Source: ACARA MySchool website

Furthermore, in all of these schools in 2015, of the 58,000 students who participated in each of the NAPLAN tests for reading and numeracy, only 333 students (0.6%) were below national minimum standards for reading and only 142 students (0.2%) were below national minimum standards for numeracy.

Together, Table 1 and Table 2 show that in 2015, the Australian Government provided almost \$750 million to schools that:

- were strong performers in NAPLAN
- did not require any government funding to be strong performers in NAPLAN.

This practice directly contradicts the stated imperatives of the Minister for Education and Training. The Minister has claimed that the most important objective of government funding for schools is to lift student outcomes.²⁰ In making the case for its education agenda, the Government has repeatedly claimed that significant increases in government funding over the past two decades have not improved educational outcomes.

It is highly contradictory for the Government to complain that increases in funding have not improved educational outcomes, while it continues to provide almost \$750 million each year to schools where it is not needed. If the Government really wants its funding to lift student outcomes, then its own funding model reveals that almost \$750 million is being poorly spent each year.

In many of the schools that receive this funding, government funding contributes to a 'gold-plated' education. Elite schools typically compete with each other over facilities and technology.²¹ Government funding helps fuel this arms race. As one commentator has said, funding is directed to schools with 'heated Olympic pools, wellness and multimedia centres, shooting ranges and ski lodges'.²² Government funding also frees up school fees to purchase property²³, as well as rowing tanks, Pilates studios and sky decks.²⁴

Government funding also allows these schools to poach high-achieving students from other schools, through sporting and academic scholarships, to boost their image and profile. This is exemplified by the fact that in the 2016 AFL national draft, 10 of the top 13 selections attended an elite non-government school. It is highly probable that these students were on 'general excellence' scholarships subsidised in part by Australian Government recurrent grants.

²⁰ Senator the Hon Simon Birmingham, Minister for Education and Training, Senator for South Australia, Transcript, Interview on 2GB Money News with Ross Greenwood, 30 October 2017. (available at <<https://ministers.education.gov.au/birmingham>>)

²¹ As observed by Bruce Hawkins of the Australian Scholarships Group – as quoted in Matt Wade and Pallavi Singhal, 'Private School, Public Pain', *Sydney Morning Herald*, 27 January 2018, available at <<http://www.smh.com.au/nsw/private-schools-costly-private-pain-20180126-h0ouy8.html>>

²² Sloan J., 'Making a sense of giving a Gonski on needs-based school funding', *The Australian*, 27 May 2017, available at: <<http://www.theaustralian.com.au/news/inquirer/making-sense-of-giving-a-gonski-on-needsbased-school-funding/news-story/5fc43b0106071dd53f8a4f314dd55853>>

²³ For example, see <<https://www.domain.com.au/news/scotch-college-continues-property-buying-sprees-splashing-31m-for-hawthorn-house-20170817-gxy21o/>>

²⁴ See <<http://www.smh.com.au/comment/wellness-centres-and-rowing-tanks-private-schools-are-rubbing-our-noses-in-it-20170922-gymqoe.html>>

3.2 Government funding favours affluent families

Flaws in the way that capacity to contribute is measured make current funding arrangements biased. This is due to flaws in school SES scores. For reasons that are fully explained in two related reports²⁵, SES scores are biased against low-income families in favour of affluent families, and they are biased against lower-fee, inclusive schools in favour of high-fee, wealthy schools.

While there are several reasons for this bias, the area-based methodology that underpins SES scores is the main reason. This methodology assumes all families within the same SA1 have the same financial means, irrespective of the school they attend. In reality, school fees sort families in non-government schools by their incomes. Lower income families in each SA1 are more likely to attend low-fee non-government schools, while higher-income families in each SA1 are more likely to attend high-fee schools.

Another key reason is that SES scores do not measure family wealth. This is of major concern for at least two reasons. First, although SES scores do partly measure incomes (alongside education and occupation characteristics), the correlation between wealth and income is not as high as might be expected. About 30% of the wealthiest households in Australia have below-median gross household incomes.²⁶ This means, in practice, many wealthy families are hidden in the way SES scores are estimated.

Second, family wealth is important in capacity to contribute because it is often used to pay school fees. It has been reported, for example, that 15-20% of school fees in private schools are paid for by grandparents.²⁷ Research conducted by industry super fund REST further indicates that 29% of grandparents plan to draw down on their superannuation to pay school fees for their grandchildren, and that one of the most common ways that older Australians provide financial assistance to their children is by paying education expenses.²⁸ These transfers of family wealth can be considered a down payment of an inheritance and would ideally be measured in capacity to contribute.

The exclusion of family wealth from SES scores benefits wealthy families, which have their capacity to pay school fees underestimated. This, in turn, benefits high-fee non-government schools as these attract the majority of wealthy families.

²⁵ See *Capacity to Contribute and School SES Scores* and *The Special Deal of a Lifetime: SES scores, school fees and school funding*, which are both available from the CECV website <<http://www.cecv.catholic.edu.au/Publications>>

²⁶ In 2015-16, 30% of households in the top 2 deciles in Australia for net worth are in the bottom 5 deciles for gross household income. See ABS, *Household Income and Wealth, Australia: Summary of Results, 2015-16*, Cat no. 6523.0

²⁷ For example, see <<http://www.news.com.au/finance/money/investing/grandparents-are-spreading-their-wealth-to-their-grandchildren/news-story/fd2e4fd3e3ea709a91c46380445a05d3> and <http://www.smh.com.au/national/education/grandparents-stumping-up-for-private-school-fees-20160225-gn3hst.html>>

²⁸ REST, *The Journey Begins*, May 2017 and as reported in The Sydney Morning Herald, 26 February 2016 (<<http://www.smh.com.au/national/education/grandparents-stumping-up-for-private-school-fees-20160225-gn3hst.html>>)

The CECV has compiled a compelling body of evidence showing that SES scores systematically disadvantage low-fee non-government schools while they benefit high-fee non-government schools.²⁹ High-fee, wealthy schools are overfunded by hundreds of millions of dollars each year due to this bias. Altogether, SES scores greatly undermine the integrity of the SRS model. They deliver large windfall funding gains to wealthy schools while punishing non-government schools which enrol low-income families, unless those families also happen to live in low-income neighbourhoods.

3.3 Government funding is not sector-neutral

The way that capacity to contribute applies in school funding means that the SRS framework actually comprises two structurally different funding models – one for government schools, and one for non-government schools. The model for non-government schools³⁰ includes a means-test but the funding model for government schools does not. Sectors are not treated the same, even if they enrol the same student.

The Review panel argued for different funding models because government schools have less scope to deny entry or exclude students than non-government schools. This argument may have some validity, but it does not apply for all government schools. Selective entry government schools are highly exclusive. Selective entry schools:

- overwhelmingly educate students from highly advantaged families
- raise private income levels that are comparable to many non-government schools
- specifically exclude students who are not high-achievers.

This is reflected in the information presented in Appendix B, which lists fully selective entry schools in Victoria and NSW and provides details on their students:

- On average, 70% of the students in these selective entry schools come from the most advantaged quartile of the Australian student population, as measured by SEA.
- All these schools have high ICSEA scores. Three-quarters of them are in the top 5% of schools in Australia ranked by ICSEA score.

The private income raised by these schools is also considerable. For example, in 2015, Melbourne High School (\$3,935/student) raised more private income than 90% of Catholic schools across Australia.

The data for selective entry schools shows they are similar to elite non-government schools. Yet simply because they are part of government systems they are fully funded by taxpayers in the SRS model. This cannot be described as 'sector neutral'.

²⁹ See *Capacity to Contribute and School SES Scores* and *The Special Deal of a Lifetime: SES scores, school fees and school funding*, which are both available from the CECV website (<<http://www.cecv.catholic.edu.au/Publications>>)

³⁰ Note that some non-government schools are excluded from this means test.

3.4 Government funding undermines school choice and student diversity

Under recent reforms to school funding, the Government has ignored the advice of the Review panel and made non-government systemic schools unable to access enrolment-weighted average SES scores. This change, along with the use of capacity to contribute, will greatly change the characteristics of non-government schools in a way that undermines school choice and student diversity.

Impact on school choice

Current arrangements deem that families who are estimated to be affluent (e.g. families who live in areas that receive a SES score of 125 or above) should pay at least \$8,762 per child to attend a non-government school in 2018. Similarly, families estimated to be middle-class (e.g. families who live in areas with a SES score of 111) should pay \$4,120.

In other words, these arrangements deem that middle- and upper-class families should not have the ability to pay low fees in a non-government school. At the same time, it would be unviable for low-fee non-government schools to enrol these families, because they carry such a low rate of funding into the school that this would mean the school could not maintain low fees.³¹ In practice, therefore, current arrangements only permit middle- and upper-class to choose a high-fee non-government school.

This constraint of school choice is a concern in its own right. However, it also undermines school choice for low-income families that might live in middle- and upper-class areas. In these areas, it would be difficult for low-fee non-government schools to attract a critical mass of low-income students to be able continue to operate with low fees. The upshot is that, under current policy settings, low-fee non-government schools would disappear altogether from many parts of Australia.

These concerns are amplified by the crude and flawed way in which capacity to contribute is currently measured. School SES scores do not capture low-income families who live in middle- and upper-class areas. It is not an understatement to suggest that current arrangements threaten many low-fee non-government schools in middle- and upper-class areas. They will greatly undermine school choice for many families – directly contradicting the avowed commitment of the Government ‘to supporting parental choice and diversity in the schooling system’.³²

This concern is exemplified by how the funding model applies to the ACT. The lowest SES score of any non-government school in the ACT is 111. This means that the lowest expected fee (excluding capital levels) in any non-government school in the ACT is \$4,120 per student. Thus, low-fee non-government schools could not operate in the ACT. Most low-income families would not be able to attend a non-government school.

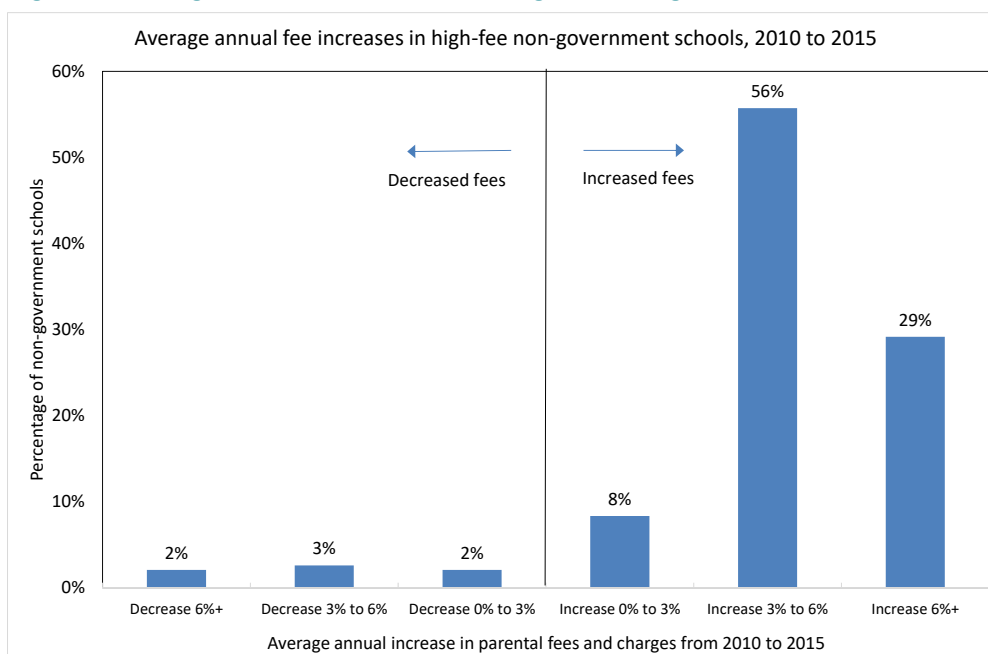
³¹ For example, in 2018, a primary student from an area with a SES score of 125 attracts only \$2,191 in base funding to their school (before loadings).

³² As stated in the Terms of Reference for the review of the SES score methodology, available at <<https://www.education.gov.au/review-socio-economic-status-ses-score-methodology>>.

Certainly, there is no evidence that high-fee schools have used their generous funding under current arrangements to become more accessible to low-income families. Figure 2 reports on how high-fee non-government schools have responded to recent increases in funding. It shows how schools which were high-fee schools³³ in 2010 changed their fees from 2010 to 2015 when their government recurrent grants grew strongly.

On average, from 2010 to 2015, high-fee schools received increases in Australian Government recurrent grants of 6% per student per annum. With education costs growing by less, this has provided ample opportunity for these schools to reduce fees. But evidently this has not been a priority. On average these schools increased their fees by 4.9% per student per annum, even though average weekly earnings³⁴ grew by only 3.4%. Less than 7% of these schools decreased their fees. Meanwhile, 56% of schools increased their fees and charges by 3% to 6% per student per annum, and 29% increased fees and charges by over 6% per student per annum.

Figure 2: Average annual fee increases in high-fee non-government schools*



*High-fee non-government schools are those which raised over \$10,000 per student in fees and charges in 2010. The analysis only includes non-government schools for which financial data is available for both 2010 and 2015. There are 192 non-government schools in this sample.

Source: ACARA MySchool website

Most high-fee schools have not used recent increases in government funding to extend choice to low-income families – which appeared to be one of the anticipated benefits of

³³ Schools are classified as high-fee schools if they raised over \$10,000 per student in fees, charges and parental contributions in 2010.

³⁴ This is the average annual growth in total earnings of all persons (trend series) from February 2010 to November 2015.

current arrangements when they were introduced.³⁵ High-fee schools have upped their fees and become more exclusive. From 2010 to 2015, the number of students in these schools from the bottom SEA quartile decreased by more than one-third.

These schools have used government funding to improve upon an already-high-quality education – to ‘gold-plate’. The data in Figure 2 also corresponds to earlier research, which found that private schools used the increases in government funding they have received after 1970 to lower student-teacher ratios, rather than to lower fees.³⁶

Impact on student diversity

Concerns around school choice have consequences for student diversity. Capacity to contribute is predisposed to segregate students in different types of non-government schools. As discussed above, low-fee non-government schools would only be viable if they enrol students from low-income families. Many middle- and upper-class families could only attend a non-government school that charges high fees. Funding arrangements will propel the sorting of families by income in different types of non-government schools.

Yet greater segregation in our schools is probably the last thing Australia needs. School segregation is a problem because it is linked to educational inequalities. Australia has one of the highest levels of school social segregation of all OECD countries, particularly at the secondary level.³⁷ As recently described:³⁸

Our system is increasingly divided between elite institutions serving the highest achieving and most highly engaged, and those that serve low achievers whose resistance to school is intensified by their exclusion from the most valuable educational opportunities.

Segregation tends to reinforce patterns of inequality, and means that students from disadvantaged socio-economic backgrounds tend to do worse because of the extent of

³⁵ For example, upon introducing capacity to contribute and SES scores as the cornerstone of funding arrangements for non-government schools, then-Minister David Kemp argued that ‘families will now have greater choice in selecting which school best meets their children’s needs under new funding arrangements for non-government schools. . .The new arrangements will particularly extend choice to low-income families.’ See Kemp, D. (Minister for Education, Training and Youth Affairs), Major reform of non-government school funding, media release, 11 May 1999, available at <<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FBE806%22>>.

³⁶ Ryan, C, & Watson, L 2010, ‘Choosers and losers: the impact of government subsidies on Australian secondary schools’, *Australian Journal of Education*, 54, 86–107.

³⁷ See <<http://theconversation.com/educational-disadvantage-is-a-huge-problem-in-australia-we-cant-just-carry-on-the-same-74530>>

³⁸ See <<http://theconversation.com/australian-education-fails-one-in-four-young-people-but-not-the-wealthy-ones-49663>>

segregation.³⁹ A key reason is peer effects on student achievement. Numerous studies confirm that student achievement is impacted by their peers:

- A recent study by the Melbourne Institute found achievement-related peer effects across multiple learning domains and school grades, but particularly in the first year of secondary schooling. It further found that low-achievement individuals benefit the most from having high-achievement peers.⁴⁰
- The Grattan Institute recently found that students with similar early potential (as measured by Year 3 NAPLAN test results) ultimately do worse in disadvantaged schools, especially students who were initially high achievers.⁴¹
- The NSW Department of Education and Training has found that student test scores improve if they are enrolled in a higher socio-economic status school, irrespective of their own socio-economic status. The performance of students with low socio-economic status scores will, on average, be lower if they also attend a school with a large number of other low socio-economic status students.⁴²
- Earlier reports in Australia have also found that concentration of disadvantage at the school-level plays a major role in determining average student performance.⁴³

Such is the concern that, according to Geoff Masters of the Australian Council of Educational Research (ACER), reducing the disparities between the most and least advantaged schools is one of the five main challenges in Australian school education.⁴⁴

A key instrument that drives segregation in schooling is school fees. This is evident from Figure 3, which shows the distribution by school fees of educationally disadvantaged (SEA quartile 1) and advantaged (SEA quartile 4) students within non-government secondary and combined schools. The higher the fees, the greater the concentration of advantaged students and the exclusion of disadvantaged students.

³⁹ Lamb, S, Jackson, J, Walstab, A & Huo, S 2015, *Educational Opportunity in Australia 2015: Who Succeeds and Who Misses out*, Centre for International Research on Education Systems, Victoria University, for the Mitchell Institute, Melbourne: Mitchell Institute. p. 69.

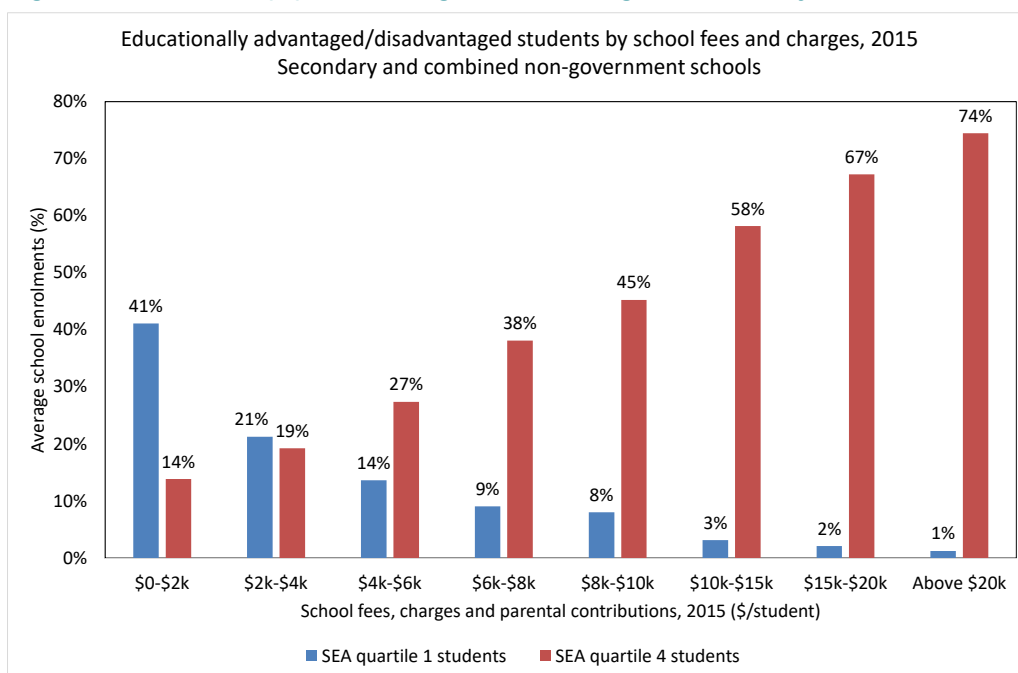
⁴⁰ Duncan McVicar, Julie Moschion and Chris Ryan, *Achievement Effects from New Peers: Who Matters to Whom?*, Melbourne Institute Working Paper Series, Working Paper No 17/16, Melbourne Institute, April 2016

⁴¹ Goss, P, Sonnemann, J, Chisholm, C, Nelson, L 2016, *Widening Gaps: What NAPLAN Tells us about Student Progress*, Grattan Institute.

⁴² NSW Department of Education and Training 2011, *Discussion paper: Australian School Funding Arrangements*, paper submitted to the Review of Funding for Schooling.

⁴³ See, for example, Holmes-Smith, P 2006, *School Socio-Economic Diversity and its effect on school performance*. School Research Evaluation and Measurement Services and Lamb, S, Walstab, A, Teese, R, Vickers, M, & Rumberger, R 2004, *Staying on at School: Improving Student Retention in Australia*. Centre for Post Compulsory Education and Life Long Learning, University of Melbourne.

⁴⁴ Masters, Geoff N *Five Challenges in Australian School Education*, Australian Council for Educational Research, Policy Insights, Issue 5, May 2016.

Figure 3: Enrolments (%) of advantaged/disadvantaged students by school fees, 2015

Source: ACARA MySchool website

Current arrangements contribute to this problem because, as discussed above, they reward schools that maximise their private income for a given student cohort. SES scores compound this problem because they actually penalise non-government schools for enrolling students who are relatively poor, and reward schools who enrol students who are relatively affluent.⁴⁵

But excessive school fees and charges can have negative externalities. When schools increase their fees they become less accessible. As a result, high-fee schools are increasingly serving the most advantaged and highest achieving students. This is undermining educational outcomes elsewhere in schooling as less fortunate students are denied access to the best teaching resources and also to positive peer effects.

It has been argued that the key to reducing educational disadvantage in Australia is reducing school stratification and segregation.⁴⁶ School funding should play a role in this. One of the policies actually suggested by Geoff Masters of ACER to reduce disparities between schools is to limit school fees.⁴⁷ In addition, Ken Boston – a member of the

⁴⁵ See *The Special Deal of a Lifetime: SES scores, school fees and school funding*, available from the CECV website (<<http://www.cecv.catholic.edu.au/Publications>>)

⁴⁶ See <<http://theconversation.com/educational-disadvantage-is-a-huge-problem-in-australia-we-cant-just-carry-on-the-same-74530>>

⁴⁷ Masters, Geoff N *Five Challenges in Australian School Education*, Australian Council for Educational Research, Policy Insights, Issue 5, May 2016, p. 13.

Review panel – recently argued that as a condition of the receipt of public funding, a cap should be placed on the level of fees able to be charged by non-government schools.⁴⁸

Students with disability

A further way that current arrangements undermines school choice and student diversity is through differential funding arrangements for students with disability based on the type of non-government school they attend. In particular:

- A student with disability in a mainstream non-government school is subject to capacity to contribute and therefore attracts a discounted rate of base funding.
- The exact same student, in a special or special assistance non-government school, attracts the full rate of base funding.

This anomaly effectively penalises parents who wish to enrol a child with disability in a mainstream non-government school rather than a special non-government school. The obvious impact is to push all students with disability out of mainstream non-government schools into special non-government schools. This is despite the fact that inclusive education for students with disability in mainstream educational settings have been found to have many benefits. For example, there is evidence that:⁴⁹

- students with disability who are included into mainstream educational settings demonstrate better academic and vocational outcomes when compared to students who are educated in segregated settings
- students with disability who are included into mainstream settings have been found to score higher on achievement tests and perform closer to grade average than students who are in non-inclusive settings
- inclusion results in a more positive sense of self and self-worth, and more advanced social skills – both for students who do and do not experience disability.

3.5 Summary and case study

The Review panel sought to develop school funding arrangements to ensure that:⁵⁰

- differences in educational outcomes are not the result of differences in wealth, income, power or possessions
- all students have access to a high standard of education regardless of their background or circumstances.

⁴⁸ <<http://www.abc.net.au/news/2017-04-13/our-school-funding-system-is-unfair-and-holding-australia-back/8435300>>

⁴⁹ Cologon, Kathy 2013, *Inclusion in Education: Towards Equality for Students with Disability*, Issues Paper, Children With Disability Australia, September.

⁵⁰ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, p. xxxi.

However, current funding arrangements lead to several adverse consequences that fail these worthy aspirations:

- Funding is not targeted to the non-government schools that require additional resources – thereby depriving the students in those schools the opportunity to ‘have access to a high standard of education regardless of their background or circumstances’. Meanwhile, almost \$750 million is provided each year to advantaged, high-performing schools that do not need it to deliver a ‘high standard of education’.
- Funding for non-government schools is biased in favour of affluent families and high-fee non-government schools. Conversely, funding is biased against low-income families, unless they also reside in low-income areas. Use of SES scores for school funding therefore reinforces ‘differences in education outcomes’ due to ‘differences in wealth, income, power and possessions’.
- These arrangements will deny many families across Australia access to a low-fee non-government school. They will further deny many low-income families the ability to choose any non-government school. They also promote the concentration of advantaged, high-achieving students in highly resourced non-government schools. While those students might benefit, this outcome undermines the educational outcomes achieved by students that do not have the ‘wealth, income, power or possessions’ to access those schools.

For these reasons, if the SRS model is to truly deliver on the aspirations of the Review panel, then a major overhaul of capacity to contribute is essential. Key recommendations of the Review panel in relation to capacity to contribute must be revisited.

Funding for Haileybury College, an elite independent school in Victoria, typifies the key problems with current funding arrangements (see Box 1). The Australian Government is forecast to provide Haileybury with about \$20 million in recurrent grants in 2018. This is despite the fact that Haileybury does not need government funding to reach its resource standard. Its need for government funding is fabricated by assuming that Haileybury only raises \$5,000 per student in private income, when in reality it raises more than \$20,000 per student. CECV estimates there are almost 200 non-government schools that benefit from this (section 3.1). This figure of \$5,000 is artificially low due to flaws in the SES scoring system (section 3.2). Finally, Haileybury is contributing to concerns about segregation in schools (section 3.4). As its funding has increased, the student population at Haileybury has become steadily becoming more advantaged.

Box 1: What's wrong with school funding? A case study of Haileybury College

Funding for Haileybury College typifies many of the problems with current funding arrangements for non-government schools. Haileybury is an elite independent school with almost 3,500 students on campuses in Keysborough, Brighton East, Berwick and Melbourne's Central Business District. It is the largest independent school in Australia, and the largest funder of Independent Schools Victoria.

In 2015, parental fees and charges at Haileybury were over \$20,000 per student. Most of the students at Haileybury come from advantaged families. In total, in 2016, 73% of students at Haileybury were from the top SEA quartile. Haileybury is also a strong performer in NAPLAN. In 2016, Year 9 students at Haileybury recorded test results that were over 1 year ahead of the national average for reading and about 2 years ahead of the national average for numeracy.

Given its fee levels, in 2015 Haileybury raised about \$23 million more in private income than it is estimated to need (i.e. its school resource standard). Despite this, in 2015, Haileybury College received \$18 million from the Australian Government. This is set to exceed \$20 million in 2018.

One reason that Haileybury received such a large amount of government funding is that, through the use of capacity to contribute, in 2015 the funding model assumed that Haileybury raised only \$5,000 per student (instead of the \$20,000). Another reason is that Haileybury's SES score is artificially low. This is because its main campuses are in Keysborough and Berwick, which are not highly advantaged areas. Thus, area-based data misclassifies many of Haileybury's students.

Haileybury does not appear to have used its government funding to make its school more inclusive. It has instead become more exclusive. From 2009 to 2015, fees at Haileybury increased by a total of 35% (a compound average of 5% per year). As fees have increased, student families at Haileybury have become even more privileged. Whereas only 48% of students were estimated to come from the top SEA quartile in 2009, this had grown to 73% by 2016.

It instead appears that the large amount of government funding provided to Haileybury has enabled it to invest more of its fee income into capital projects. Over the past 10 years, Haileybury has undertaken major redevelopments at its main campus in Keysborough, and has opened major new facilities in Brighton, Berwick and the Melbourne CBD. It appears this funding has also enabled Haileybury to offer several 'general excellence' scholarships in pursuit of sporting and academic excellence. In 2017, for example, Haileybury College won the football competition for elite schools in Victoria and had six students selected in the AFL national draft.

Appendix A Review of arguments for using capacity to contribute in funding

This Appendix reviews the various reasons provided by the Review panel for supporting use of capacity to contribute in funding non-government schools. It shows that there are major weaknesses and limitations in their thinking.

Rationale provided by Review panel ⁵¹	Response / weaknesses
Capacity to contribute provides a fairer, more consistent and transparent basis for funding the different types of non-government schools to which parents can choose to send their children.	<ul style="list-style-type: none"> • It is very difficult to measure capacity to contribute in a way that is 'fair' to all schools. To be 'fair' it needs to capture both family incomes and wealth. If these are not captured in a measure of capacity to contribute then this benefits affluent families – which usually attend high-fee schools. • The current way that capacity to contribute is measured – through school SES scores – is not 'fair'. The use of area-based data is systematically biased in favour of affluent families and high-fee schools. • It may be possible to use an improve measure of family incomes – for example, parental tax returns. However, this data will still have shortcomings because parental tax returns do not record family wealth. There are also various ways that affluent families (legally and illegally) minimise their taxable incomes. These shortcomings all serve to undermine the 'fairness' with which capacity to contribute can be measured. • Funding schools using SES scores is not highly 'transparent'. SES scores are estimated through a highly technical process that is poorly understood and lacks rigour. The Government has not provided a compelling rationale for using SES scores as a financial means-test of student families. There is little transparency in the process through which schools appeal their SES scores. There is no transparency in the school data used to calculate SES scores (e.g. the list of student SA1 codes for schools could be made publicly available but is not). There is no transparency in the fees that parents are expected to pay in non-government schools through the SES scoring system.
Capacity to contribute is simpler and less intrusive for schools and governments to administer than a model based on actual contributions given that different schools finance their recurrent and capital needs in very different ways.	<ul style="list-style-type: none"> • Capacity to contribute is only 'simpler and less intrusive' to administer for schools and governments when this is crudely measured using area-based data (e.g. SES scores). However, this approach is biased in favour of affluent families and high-fee schools. • In reality, the use of a better measure of capacity to contribute, such as parental tax returns, in school funding is likely to be complex, highly intrusive and very difficult to administer for schools and governments. This type of measure

⁵¹ Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December, pp. 78-79.

Rationale provided by Review panel ⁵¹	Response / weaknesses
	<p>would also be 'unfair' given the shortcomings with parental tax returns as a measure of capacity to contribute (especially given the omission of family wealth – as described above).</p> <ul style="list-style-type: none"> • It would be 'simpler and less intrusive' to base school funding on the 'actual contributions' of parents because collection and submission of detailed school financial data already occurs. This data is collected by the Australian Government from all non-government schools through Annual Financial Statements. In addition, non-government schools will soon be required to undertake financial reporting consistent with Australian Accounting Standards, including accrual accounting, and their financial reports will be made publicly available on the Australian Charities and Not-for-profit Commission website. It will be simple to analyse school financial data, and this data will be rigorous and highly transparent. • It is not true that non-government schools 'finance their recurrent and capital needs in very different ways'. Over 90% of non-government schools raise over 95% of their gross income from government recurrent grants and parental fees and charges. In aggregate, 95% of the gross income of non-government schools comes from government recurrent grants and parental fees and charges. Other sources of income are material for only a handful of non-government schools. These outliers should not drive government policy on school funding.
<p>Capacity to contribute provides stronger incentives for private investment by parents and others. Linking public funding to the actual private contribution would distort these incentives.</p>	<ul style="list-style-type: none"> • Encouraging private investment in schooling by parents should be a key policy objective in funding non-government schools – but it should not be viewed as the only policy objective. In funding non-government schools, the Government should also support school choice and student diversity, and aim to ensure all schools can operate at their resource standard (thereby allowing them the opportunity to achieve strong educational outcomes). • Current arrangements for capacity to contribute do not strike a reasonable balance between these policy objectives. They establish incentives for schools to maximise their private incomes, but this has a number of adverse consequences, especially the way funding is poorly-targeted to schools where it might improve outcomes, and in relation to school choice, the accessibility of non-government schools and student segregation (see section 3). • To strike a better balance between policy objectives in school funding, incentives for private investment in schools need to be considered alongside each school's resource standard. Governments should be most concerned about incentives for private investment where this is required by schools to ensure they can reach their resource standard. There should be less emphasis on preserving incentives for non-government schools to raise private income once they raise significantly more income than they are estimated to need – particularly as this income is not necessary to achieve strong educational outcomes, but it can result in adverse outcomes in terms of student segregation and educational inequality.

Rationale provided by Review panel⁵¹

Capacity to contribute involves a more comprehensive and objective sense of a school's need for public assistance. Actual recurrent fees and charges are not always an accurate indicator of need as schools operate in different ways, with some relying on other sources of private income, for example, donations and levies for a mix of capital and recurrent purposes.

Response / weaknesses

- Capacity to contribute does not involve a 'comprehensive and objective sense' of a school's need for public assistance because it is very difficult to measure capacity to contribute in a 'comprehensive and objective' way – that is, in a way that captures all of the financial means (both family income and family wealth) available to a family (see above). Given the difficulties in measurement, subjective choices need to be made about how to measure capacity to contribute in the least-flawed way. This choice must inevitably involve the trade-off of various criteria for data collection (e.g. accuracy, validity, timeliness, availability, etc.)
- The use of SES scores to calculate capacity to contribute is certainly not 'comprehensive and objective'. The estimation methodology for SES scores involves many subjective choices, and SES scores themselves have many limitations that make them biased in favour of affluent families and high-fee schools.
- Capacity to contribute also does not involve an 'objective' sense of a school's need for public assistance because further subjective decisions must be made about how a measure of capacity to contribute is then used to determine expected school private income. The current functions linking SES scores to expected school private income are a good example – these functions are highly subjective and very little evidentiary justification.
- It is not true that non-government schools fund their operations in many different ways. Over 90% of non-government schools raise over 95% of their gross income from government recurrent grants and parental fees and charges. In aggregate, 95% of the gross income of non-government schools comes from government recurrent grants and parental fees and charges. Other sources of income are material for only a handful of non-government schools. These outliers should not drive government policy on school funding.

Appendix B Fully selective entry schools

Table 3 lists fully selective entry government schools in Victoria and New South Wales. It also shows their number of students, ICSEA scores and enrolments from the top SEA quartile.

On average, these schools raised \$1,938/student in private income in 2015, which was more than 59% of Catholic schools in Australia.

Table 3: Fully selective entry schools in Victoria and NSW, 2016

School	Students	ICSEA	Top SEA quartile
Nossal High School	832	1114	52%
Suzanne Cory High School	823	1106	49%
Melbourne High School	1,367	1170	70%
MacRobertson Girls High School	970	1166	68%
Baulkham Hills High School	1,206	1192	78%
Caringbah High School	913	1175	70%
Fort Street High School	938	1183	71%
Girraween High School	1,044	1105	52%
Gosford High School	1,092	1159	64%
Hornsby Girls' High School	725	1215	84%
Merewether High School	1,068	1200	75%
Normanhurst Boys' High School	744	1200	80%
North Sydney Boys High School	923	1210	78%
North Sydney Girls High School	917	1205	79%
Northern Beaches Secondary College	786	1247	87%
Penrith High School	950	1163	70%
Smith's Hill High School	740	1193	73%
St George Girls High School	917	1143	61%
Sydney Boys High School	1,198	1186	74%
Sydney Girls High School	936	1193	73%
Sydney Technical High School	921	1130	57%

Source: ACARA MySchool website