Education Policy Brief

The Private School Funding Model is Deeply Flawed: A New Approach is Needed

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September 2020

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Summary

Six months ago, the Morrison Government changed the method used to determine Commonwealth funding of private schools. It adopted a direct measure of the income of families called Adjusted Taxable Income (ATI) to assess their capacity to contribute to school income and thereby determine the level of Commonwealth funding for each private school. It will provide a net funding increase of $3.5 billion to private schools over the next ten years compared to the previous method of funding.

ATI is a deeply flawed measure of the financial need of schools. It will result in massive over-funding of private schools because it badly under-estimates the capacity to contribute of families and ignores other sources of income of private schools as well as their assets. As a result, the financial need of schools is over-estimated and consequently they receive more government funding than warranted.

ATI under-estimates the capacity to contribute of families who receive income from grandparents to pay all or part of school fees and make other purchases, receive non-taxed income from capital gains, or have non-disclosed income in Australia or in overseas bank accounts and tax havens.

A fundamental flaw in the funding model based on ATI is that it assumes that the parents of children pay the school fees. There is widespread evidence that many grandparents pay at least part of the fees. Surveys show that almost one-third of grandparents draw down on their superannuation to pay school fees for grandchildren and about 60% of private school students have their fees at least partly paid by their grandparents.

In addition, grandparents financially support their children in a myriad of ways such as deposits on houses, house renovations, household assets, cars, holidays, etc. Income provided for these purposes frees up family income to be used to pay school fees. All this income increases the capacity to contribute of families but because it is non-taxable gift income it is not included in ATI.

ATI also under-estimates the total disposable income of families who receive a capital gain because only 50% of the gain is recorded as taxable income. The capital gains tax discount is worth over $10 billion a year and over 80% of this goes to the top 20% of income earners. Many high income families with children in private schools are likely to be recipients of this non-taxed income.

ATI also does not include non-disclosed income in Australia or held in overseas bank accounts and tax havens. The use of overseas bank accounts and tax havens to hide income are mainly used by high income earners and is likely to be significant in under-estimating the capacity to pay in elite private schools.

The ATI also ignores the wealth of families which is a significant factor in capacity to contribute. Assets such as shares, securities and other investments are just as much part of capacity to contribute as direct income. The assets of schools are also ignored in assessing their financial need.

Determining Commonwealth funding of private schools by a measure of the capacity of families to contribute income ignores the income of schools from other sources. Private donations are a significant source of income for private schools, especially high fee schools who receive millions in donations including from overseas foundations.

Apart from its fundamental flaws, the new method of funding private schools was the ex post result of a special peace deal negotiated between the new Morrison Government and the Catholic Church in 2018. The increase in funding was negotiated nearly 18 months before ATI was announced as the

measure of the direct income of families to be used to assess capacity to contribute. The funding method was fitted post hoc to the negotiated funding increase.

Several other methods can be considered to determine the capacity to contribute of families in private schools. However, they are all inherently flawed. They fail to adequately measure the capacity to contribute of families because several sources of family and school income are ignored as well as family and school wealth. The insuperable problems associated with accurately assessing capacity to contribute demonstrate that a new approach to funding of private schools is needed.

A new approach should abandon the whole idea of working out the capacity to contribute of families as a basis of government funding of private schools. Instead, the basic principle behind government funding of private schools should be that no school operates with less total resources than a community standard necessary to provide an adequate education for all students. Governments have the responsibility to ensure that children should not be deprived of an adequate education because their parents enrol them in under-resourced schools.

Government funding for private schools should fill the gap between the income from fees and other sources of income and the community standard. Schools with private income above the community standard are not entitled to baseline government funding because it extends their resource advantage over public schools.

Under this model, government recurrent funding for private schools would incorporate three features:

- A baseline component that varies between schools to take account of the funding obtained from private sources such as fees and donations;
- A discount factor applied to the baseline funding which varies according to the extent to which private schools meet the same social obligations of public schools; and
- Funding loadings for disadvantaged students and locations

This model would provide a genuine needs-based funding model that eliminates the vast over-funding of private schools under the current approach.

Introduction

Six months ago, the Morrison Government legislated a new method to decide the level of Commonwealth funding for private schools. It adopted a direct measure of the income of families called Adjusted Taxable Income (ATI) to assess their capacity to contribute to school income.

ATI is a deeply flawed measure of the financial need of schools and will result in massive government over-funding of private schools because it significantly under-estimates the capacity to contribute of families in private schools, ignores family and school wealth and other sources of income of private schools.

The new method is the main component of a special peace deal negotiated with the Catholic Church after Morrison replaced Malcolm Turnbull as Prime Minister in August 2018. It will result in an additional $3.7 billion (up from the originally agreed $3.6 billion) in funding for Catholic schools over 10 years from 2020 to 2029 compared to the previous method of funding.[1] Funding for Independent schools will be cut by $218 million overall, with some having their funding reduced while others gain increased funding. The funding increase was agreed in negotiations with the Catholic Church before it was decided to use ATI as the method of assessing the capacity to contribute of families and before detailed modelling of the financial impact on schools.

ATI under-estimates family income

ATI is a better indicator of the capacity to contribute than taxable income because it includes significant sources of income excluded from taxable income such as employer and personal superannuation contributions, fringe benefits such as re-imbursement of school fees, tax-free government pensions and benefits and losses from negative gearing. However, it under-estimates the capacity to contribute of families who receive income from grandparents to pay school fees and make other purchases, receive non-taxed income from capital gains, and have non-disclosed income in Australia or in overseas bank accounts and tax havens.

A fundamental flaw in the funding model based on ATI (and other measures of income) is that it assumes that only the parents of children pay the school fees. This is often not the case. There is widespread evidence that many grandparents pay at least part of the fees. Research by the industry superannuation fund, REST, shows that almost one-third of grandparents draw down on their superannuation to pay school fees for grandchildren.[2] Other research by REST shows that about 27% of retirees help their children with school fees.[3]

A survey by the education finance company Edstart in 2019 showed that only half of families with children in private schools can afford the fees from their income.[4] Given this, it is hardly surprising that more grandparents are helping out with school fees. Another financial services company has reported estimates that about 60% of private school students have their fees at least partly paid by their grandparents.[5] Similarly, adult siblings, particularly those without children, of families with

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[1] Senate Education and Employment Committee, Additional Estimates 2019-20 Budget, Answer to Question on Notice No. Q20-000154, Table 1.

[2] REST, The Journey Begins, October 2015. See also Alexandra Smith, Grandparents stumping up for private school fees, Sydney Morning Herald, 26 February 2016; QSuper, Grandparents helping ease school fee pain, 23 May 2018; Robert Bolton, Soaring School Fees Give Rise to New Financial Products, Australian Financial Review, 14 October 2019.

[3] REST, The Journey Begins, May 2017.

[4] Amy Chien-Yu Wang, Should Grandparents Pay School Fees of Their Grandchildren, SBS Punjab, 12 February 2019.

[5] Your Money Matters, Grandparents and school fees, 21 June 2018.

children in private schools may also contribute to the payment of school fees although there is only anecdotal evidence of this practice.

However, grandparents partially or wholly paying school fees is only part of the story. Grandparents financially support their children in a myriad of ways such as deposits on houses, house renovations, household assets, cars, holidays, etc. The REST research shows that 72% of people aged 50 of over planned to help their children financially with such purchases with 28% reporting they helped their children pay for holidays, 21% helped with house deposits and 23% helped fund house renovations.[6] In Sydney, 37% of grandparents surveyed planned to help their children with house deposits while 32% of grandparents in Melbourne planned to do so.

This income is not included in the assessment of families' capacity to contribute. Money is fungible, so income provided for these purposes frees up family income to be used to pay school fees. In addition, grandparents provide a variety of in-kind support for their children such as childcare which means that working parents do not have to pay for childcare. This frees up income to pay school fees.

Income provided by grandparents to pay school fees and other purchases is essentially non-declared income or early inheritance income. Family members who receive income as a gift do not have to declare it as assessable income and so do not pay tax on it. It is therefore not included in ATI. Give the extent to which grandparents provide such income, the ATI substantially under-estimates the capacity to contribute of parents of children in private schools. Therefore, the financial need of schools is over-estimated and they consequently receive more government funding than warranted.

ATI also under-estimates the total disposable income of families who receive a capital gain because only 50% of the gain is recorded as taxable income. The 2019 Tax Benchmarks and Variations Statement (formerly known as the Tax Expenditure Statement) shows that the revenue forgone from the capital gains tax discount for individuals and trusts was $10.4 billion in 2018-19.[7] This is estimated to increase to $11.18 billion by 2022-23. These are huge amounts of under-stated income and many high income families with children in private schools are highly likely to be recipients of this non-taxed income.

The benefits of the capital gains tax discount go mostly to the very wealthy. The National Centre for Social and Economic Modelling (NATSEM) estimated that the top 10% of income earners accounted for 73% of the benefit flowing from the capital gains discount in 2014-15 while the top 20% of income earners accounted for 82% of the benefit.[8] A report based on data from the 2016 Census shows that 51% of all Independent students and 44% of Catholic school students were from high income families.[9] While the definitions of high income are different in the two reports, these figures suggest that significant proportions of families in private schools benefit from untaxed capital gains. As a result, the income of these families is under-estimated in assessing capacity to contribute and therefore the financial need of many private schools is over-estimated which leads to greater government funding than warranted.

ATI also does not include non-disclosed income in Australia or held in overseas bank accounts and tax havens. The use of overseas bank accounts and tax havens to hide income are mainly used by high income earners and is likely to be significant in under-estimating the capacity to pay in elite

[6] REST, The Journey Begins, October 2015.
[7] Australian Taxation Office, 2019 Tax Benchmarks and Variations Statement, 31 January 2020, p. 115.
[8] Matt Grudoff, Top Gears: How negative gearing and the capital gains tax discount benefit drive up house prices, The Australia Institute, Canberra, 28 April 2015, p. 5.
[9] Barbara Preston, The Social Make-Up of Schools, April 2018, Table A.2, p. 38.

private schools. The Australian Taxation Office (ATO) has highlighted this as an issue. For example, in December 2015, the ATO announced that that it is investigating more than 100 Australian parents with children at 60 elite private schools who paid school fees of $100,000 a year from overseas bank accounts.[10] The ATO was concerned that the offshore accounts that are being used to pay the private school fees may be concealing much larger amounts of money amounting to millions of dollars. While the ATO has a long-standing campaign to chase wealthy individuals holding income in offshore bank accounts, tax-avoidance schemes that include creating offshore accounts in tax-free countries are being offered to the wealthy like holiday packages.[11]

The ATO has revealed that there is a huge gap between the total amount of income tax collected from high wealth private groups and the amount that would have been collected had they met their tax obligations in full. The tax gap for high wealth groups was estimated at $772 million in 2016-17 and has been increasing in recent years.[12] The high wealth group includes individuals and companies linked to a high wealth private group with group net wealth greater than $50 million and ownership greater than 40%. Assuming an average tax rate of about 30 per cent, the tax gap suggests that these individuals and companies are understating their income by about $2 billion a year or more. The ATO said that these groups were engaging in artificial and non-commercial arrangements that are intentionally designed to hide income and avoid paying tax.

The ATO benchmark for high wealth groups is quite restrictive. There will be many more such groups with a net wealth of less than $50 million and some of these are very likely to be engaging in similar behaviour to understate income and avoid paying tax. Both groups are likely to include families with children in private schools, especially high fee schools. The extent of such undisclosed income represents a serious flaw in using ATI or other direct income measures to assess the financial need of schools, particularly the higher fee schools.

ATI ignores family and school wealth

The ATI also ignores the wealth of families which is a significant factor in capacity to contribute. A report by the National School Resourcing Board (NSRB) recommended that ‘capacity to contribute' be defined as “the school community's income and wealth” [Recommendation 1].[13] Assets such as shares, securities and other investments are just as much part of capacity to contribute as direct income. As the report noted, family wealth contributes to capacity to contribute.

> The key factors affecting a family's capacity to contribute to the costs of a child's education are income and wealth. Income can be used to support consumption of goods and services, including investing in education. Income can also be saved and invested to increase wealth, which can be used to support consumption at a later date.[14]

While the NSRB report said that the failure to measure wealth is a weakness of a direct income measures, it also noted that measuring the wealth of families in private schools is not possible

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[10] Leo Shanahan, ATO targets elite school fees from offshore tax havens, The Australian, 7 December 2015; Joanne Mather, Private school fee records used to target offshore tax evasion, The Australian Financial Review, 8 December 2015; Nassim Khadem, ATO targets private school parents hiding secret offshore money, The Age, 8 December 2015.

[11] Rosie Pepper, Tax-avoidance schemes are being offered up to the wealthy like holiday packages, Business Insider, 19 January 2019.

[12] Australian Taxation Office, High Wealth Private Groups paid over $9 billion in income tax, Media Release, 12 March 2020.

[13] National School Resourcing Board, Review of the Socio-economic Status (SES) Score Methodology, Final Report, June 2018, p. 7.

[14] Ibid, p. 8.

because wealth data for individuals is only available from surveys.[15] This could be overcome by directly measuring the wealth of schools. The assets of schools are ignored in assessing their financial need but can be readily measured and are reported in the audited financial statements of schools.

ATI ignores other income of schools

Reliance on the concept of capacity to contribute as an indicator of the financial need of schools ignores income of schools sourced from other than the families of students at the school. Private donations are a significant source of income for private schools, especially high fee schools, which is not included in ATI.

Many elite private schools receive millions in donations. For example, the billionaire owner of Canberra Airport, Terry Snow, recently donated $20 million to Canberra Grammar School.[16] He had previously provided an $8 million gift to the school. Cranbrook School has a campaign to raise $25 million in donations from supporters of the school between 2018 and 2022 and had raised over $17 million by the end of 2019.[17] Brighton Grammar raises nearly $2 million annually in donations.[18] Loreto Kirribilli recently invited families to donate $1 million each in a campaign to raise $100 million.[19]

Many even receive donations from overseas. For example, The Australian Independent Schools USA Foundation raises donations in the United States and Canada for Australian private schools. Twenty-four elite schools in Australia receive donations from this Foundation, including Abbotsleigh, Ascham, Kambala and SHORE in Sydney; Scotch College, Wesley College and Xavier College in Melbourne; Geelong Grammar; Brisbane Grammar; and Prince Alfred College in Adelaide.[20] In 2018, it raised nearly $3 million and distributed $2.8 million in grants.[21]

Excluding such donations from assessment of the financial need of schools significantly under-estimates school income, over-states need and results in greater government funding than warranted.

Another special deal for private schools

The new method of funding is yet another special deal which provides much greater funding for private schools than warranted. It is the mechanism to deliver the $3.6 (now $3.7) billion increase in funding negotiated with the Catholic Church in the weeks following the appointment of Scott Morrison as Prime Minister and announced in mid-September 2018. It was Morrison's peace deal with the Church following its ruthless campaign against changes to private school funding introduced by the Turnbull Government.

On the day of his appointment as Prime Minister, Catholic education authorities let Morrison know they would continue their campaign against Turnbull's funding model unless he agreed to their demands. Morrison immediately sued for peace. He said that he wanted to move quickly to resolve

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15 Ibid, p. 34.

16 Robert Bolton, Why this billionaire gave $20m to a private school, Australian Financial Review, 19 October 2019.

17 Cranbrook School Foundation, Realise: A Plan for Renewal, Cranbrook School website, https://www.cranbrook.nsw.edu.au/foundation/ http://realise.cranbrook.nsw.edu.au/ ; Message from Cranbrook School Foundation, Cranbrook School website https://www.cranbrook.nsw.edu.au/foundation/ .

18 Brighton Grammar School, The Impact of Giving, School Impact Report 2019.

19 Daily Telegraph, 10 September 2019.

20 The Australian Independent Schools USA Foundation website https://www.aisusafoundation.com/

21 The Australian Independent Schools USA Foundation, Financial Return. Available at: https://projects.propublica.org/nonprofits/organizations/204693405

the conflict with the Catholic Church over school resourcing and he appointed Dan Tehan as the new Minister for Education to cut a deal with the Church. Within hours of his appointment on 26 August 2018 he was on the phone to a special negotiating team set up by the Catholic Church to sort out a deal. [22]

A week after Tehan's appointment, it was reported that the Government had offered increased funding for Catholic and Independent schools as a "peace deal".[23] A fortnight later, the Government had a deal. Tehan signed off on the deal in correspondence to Archbishop Fisher on 17 September and Fisher accepted the proposal on 19 September. [24] On the following day, Morrison and Tehan announced the new special $4.6 billion funding deal for Catholic and Independent schools, which included the new method of funding private schools and a $1.2 billion slush fund called the Choice and Affordability Fund.[25]

The announcement contained a major incongruity. The increase in funding was announced before the method of funding had been decided. It would be nearly 18 months before the Government's announcement in February 2020 that ATI would be the measure of the direct income of families to be used to assess their capacity to contribute.[26]

The incongruity was even greater because on the same day the increase was announced, the Government announced the establishment of a Direct Income Measure of Capacity to Contribute Technical Working Group of private school representatives and experts to advise on what measure of direct income should be used and related matters.[27] The report by the NSRB to the Turnbull Government had recommended that a direct measure of income (DMI) be used to assess capacity to contribute but not the actual measure of direct income to be used.

The Technical Working Group was not appointed until November 2018 and did not begin its deliberations until December. Its final meeting was held in May 2019. Its final report released in February 2020 indicated that it canvassed several measures of direct income. These were total income, taxable income, adjusted taxable income and disposable income.[28]

The fact that the funding increase was a peace settlement negotiated with private school organisations was made clear by an official of the Department of Education in Senate Estimates in October 2018. The official confirmed that the NSRB had not estimated how much it would cost to move to the direct income measure and that the Department had modelled a number of implementation options that it presented in extensive discussions with private school organisations.

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[22] Robert Bolton, Catholic schools keep pressure on ScoMo over funding, Australian Financial Review, 24 August 2018; Robert Bolton, Catholic schools signal an end to funding wars under new education minister, Australian Financial Review, 26 August 2018; Robert Bolton, Minister Dan Tehan reaches out to angry Catholic Church, Australian Financial Review, 27 August 2018..

[23] Rob Harris, Leak shows secret $4bn fix to sort Catholic school funding brawl, Herald-Sun, 4 September 2018.

[24] Correspondence between the new Minster and Archbishop Anthony Fisher released under FOI, National School Resourcing Board response package, TRIM Reference L19/20241, 24 April 2019.

[25] Scott Morrison and Dan Tehan, More choice for Australian families, Joint Media Release, 20 September 2018; Government Briefing Paper, 19 September 2018.

[26] Department of Education, Employment and Skills, What is the Methodology for the Direct Measure of Income, 14 February 2020.

[27] Department of Education and Training, The National School Resourcing Board's Review of the socio-economic status score methodology: Australian Government Response, p. 7; Department of Education and Training, Terms of Reference for the Direct Measure of Capacity to Contribute Working Group, 21 December 2018.

[28] Department of Education, Skills and Employment, Refinement of the Direct Measure of Income (DMI) Methodology, Final Report, February 2020, p. 4.

The official told the Estimates Committee that "there was quite a lot of consultation throughout that period from when the review was released to when the government announced its position".[29] A letter by the previous Minister for Education to Archbishop Fisher a few days before the fall of the Turnbull Government shows that no agreement had been reached about the amount of funding that would flow from implementation of the direct income measure.[30]

A report by the Senate Education and Employment Legislation Committee on the amendments to the Education Act to incorporate the direct income measure unequivocally showed that its financial cost was never properly calculated by the Government.[31] The report stated that the Commonwealth Department of Education "acknowledged that the Technical Working Group was only provided with papers covering the theoretical aspects of the new methodology…".[32] In its submission to the inquiry, the Department conceded that the settings of the new approach were only developed in consultation with private school organisations over 12 months following the Government's announcement of the funding increase.[33]

Moreover, damning evidence presented to the Committee showed that the funding increase was determined in advance of careful modelling of the impact of the change to the direct measure of income (DMI) methodology and that there is no rational basis to the figure. A submission by the Independent Schools Council of Australia (ISCA), which was represented on the Technical Working Group, said that the work of the Group was conducted on a "theoretical basis only" as no data or modelling was available to the Group to assess the financial impact on schools and its work was completed before modelling of different options was done.

> ….the Working Group never saw any modelling of CTC [Capacity to Contribute] scores using different variables or settings or any potential funding impacts on schools.
> … the lack of available data made proper consideration of the possible elements of the new model impossible.[34]

The only conclusion possible from all this evidence is that the funding method was designed to fit the aggregate funding increase negotiated beforehand with the Catholic Church.

Other options

The new method of determining the financial need of private schools is badly flawed and provides for much larger increases in funding than warranted. The failure to include major sources of family income and private donations to schools was not acknowledged by the NSRB when it recommended that a direct measure of income be used to assess the capacity to contribute of private schools. The key issue is whether the ATI can be improved upon or whether an entirely different approach to funding private schools should be adopted.

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[29] Senate Employment and Education Legislation Committee, Supplementary Estimates Transcript, 25 October 2018, p. 27.
[30] Simon Birmingham, Letter to Archbishop Anthony Fisher, 21 August 2018. Correspondence released under FOI, National School Resourcing Board response package, TRIM Reference L19/20241, 24 April 2019.
[31] Senate Education and Employment Legislation Committee, Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions], March 2020.
[32] Ibid, p. 13.
[33] Department of Education, Skills and Employment, Submission to Senate Committee on Education and Employment: Australian Education Amendment (Direct Measure of Income) Bill 2020, March 2020, p.7.
[34] Independent Schools Council of Australia, Submission to Senate Education and Employment Legislation Committee Inquiry into the Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions], March 2020, pp. 5, 10-12.

At the very least, use of ATI should be supplemented by including non-taxed capital gains, the assets of schools and private donations to schools in the measurement of the capacity to contribute of families in private schools. However, even with these changes major flaws would remain.

First, income provided by grandparents or other family members to pay schools and make other purchases would be ignored. The available evidence suggests such payments are a widespread practice which results in a significant over-estimation of the financial need of private schools. One way to overcome this would be to include the ATI of grandparents in the assessment of capacity to contribute, but this is likely to be administratively complex if not impossible. Moreover, it would not take account of the variation in the income contributed by grandparents.

Second, income held in overseas bank accounts and tax havens would also be ignored and is likely to result in significant under-estimation of the financial need of high fee private schools.

Another option is to use the Index of Community Socio-Educational Advantage (ICSEA) compiled by the Australian Curriculum, Assessment and Reporting Authority and used to measure the socio-economic status of schools. ICSEA is constructed from information about education and occupation of parents provided on student enrolment forms. Assessing capacity to contribute from the education and occupation of parents could be a reasonable proxy for family income.

Surprisingly, this option was not considered by the NSRB in its report on the methodology to be used to determine capacity to contribute. A significant problem with this option is that it would hands back control of the base data to private schools and there would be strong incentives for schools to manipulate the information provided on enrolment forms to minimise their assessed capacity to contribute. There are other problems such as enrolment forms only being filled out on enrolment and are not usually updated. As a result, they may not reflect changes in family circumstances during the years at school. These problems could be overcome to some extent by extensive random audits of enrolment forms and regular updating of forms but strong incentives to manipulate the data would remain.

If this option were adopted, it would need to be supplemented by including private donations and the assets of schools in the assessment of the financial need of schools.

Another option is to refine the previous method used to assess capacity to contribute. This was the so-called socio-economic status (SES) model based on the SES of ABS Census collection districts. This option was examined in the NSRB report. It found that Census data on household income could be used to create a more targeted population of parents of children in Catholic and Independent schools within statistical areas and would improve the accuracy of the measure of capacity to contribute. However, it concluded that the problems with the area-based measure of SES cannot be fully overcome as it only partially increases accuracy because it still groups parents of students at different schools together and averages their characteristics. Instead, it recommended adoption of a direct measure of income.

The case for a refined area-based measure could be reconsidered because the ATI significantly under-estimates family income and results in higher than warranted government funding and these flaws were not acknowledged by the NSRB report. If it proved to be a better method than ATI, it would have to be supplemented by inclusion of private donations and the assets of schools in the assessment of financial need.

A new approach is required

None of the options considered above accurately measure capacity to contribute. They are all inherently flawed. Each one fails to adequately measure the capacity to contribute of families because several sources of family and school income are ignored as well as family and school wealth. The insuperable problems associated with accurately assessing capacity to contribute demonstrate that a new approach to funding of private schools is needed.

A new approach should abandon the whole idea of working out the capacity to contribute of families as a basis of government funding. Instead, the basic principle behind government funding of private schools should be that no school operates with less total resources than a community standard necessary to provide an adequate education for all students. Governments have the responsibility to ensure that children should not be deprived of an adequate education because their parents enrol them in under-resourced schools.

Under this model, government recurrent funding for private schools would incorporate three features:

- A baseline component that varies between schools to take account of the income received from fees and donations;
- A discount factor applied to the baseline funding which varies according to the extent to which private schools meet the same social obligations of public schools; and
- Funding loadings for disadvantaged students and locations.[35]

Government funding for private schools should fill the gap between the income from fees and other sources of income and the community standard. Schools with private income above the community standard are not entitled to baseline government funding. Government funding of such schools extends their resource advantage over public schools.

The community standard could be determined by a simple benchmark such as the average funding per student in public schools with a minimum of disadvantage. Alternatively, it could be determined by one or more well-established research methods.[36] These are:

- Systematic identification of the required inputs to achieve selected outcomes and estimation of the cost;
- Statistical analysis of per student expenditure and student outcomes;
- Identification of high performance schools and their costs.[37]

The full difference between private sourced funding and the community standard would be provided only to private schools that meet similar social obligations as public schools - that is, schools that adopt inclusive, non-selective enrolment practices and provide access to a comprehensive curriculum. Schools that adopt selective or discriminatory enrolment policies or provide less than a comprehensive curriculum would receive less than 100% of their eligible baseline funding. For example, schools which select students according to ability, income, religious or other background characteristics would not be entitled to the full baseline funding component.

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[35] This model was proposed to the Gonski inquiry into school funding by Save Our Schools in 2011. An earlier version was proposed to the Connors inquiry into ACT school funding by the ACT Council of Parents and Citizens Associations in 2002.

[36] These methods have been used by researchers and official inquiries over several decades in the United States to determine the resources needed to achieve an adequate education for students in different states. See Helen F. Ladd, Rosemary Chalk & Janet S. Hansen, Equity and Adequacy in Education Finance, National Academy Press, Washington DC, 1999; Bruce D. Baker, Educational Inequality and School Finance, Harvard Education Press, 2018.

[37] This is the method used by the Commonwealth Government to determine the base Schooling Resource Standard in the current funding model, but the reference schools included many high fee private schools who are in receipt of government funding instead of only successful public schools.

Private schools would be classified for funding purposes in categories according to the extent to which they enrol students on a socially inclusive, non-discriminatory basis and the extent to which they provide a comprehensive curriculum. The classification would specify the maximum percentage of baseline government funding which schools in each category would receive.

Private schools enrolling disadvantaged students or located in disadvantaged areas should be entitled to equity funding determined by loadings for various categories of disadvantage. This is the same principle currently applied by the Commonwealth and state governments for both public and private schools. Disadvantaged students should not be denied supplementary funding because their parents choose to enrol them in private schools.

The model eliminates the need to assess family income and other sources of school income as well as family and school wealth, a process that produces many insuperable problems in assessing capacity to contribute. It would provide a genuine needs-based funding model that eliminates the vast over-funding of private schools under the current approach.