SAVE OUR SCHOOLS

The Unwinding of Gonski
Part 3: Morrison Abandons Needs-Based Funding

Trevor Cobbold

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https://saveourschools.com.au

twitter.com/SOSAust

saveourschools690@gmail.com

Preface

This working paper aims to provide a comprehensive review of how the Morrison Government completed the demolition of the Gonski school funding model begun by the Abbott Government and continued by the Turnbull Government. It is the second of a series of papers on the introduction of the Gonski model and its sabotage by successive Coalition Governments. A third paper is planned on the funding arrangements introduced by the Turnbull Government and another will review the funding model recommended by the Gonski report and its implementation by the Gillard and Rudd Labor Governments.

Comments on this paper are invited. Notification of issues not covered and mistakes of fact, analysis and interpretation will be appreciated. Please excuse any remaining typos and repetitions. Comments can be sent to the email address of Save Our Schools: saveourschools690@gmail.com .

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1. Introduction

The Turnbull Government abandoned the Gonski vision of developing a national approach to school funding and entrenched the structural incoherence heavily criticised by the original Gonski report. It did so by amending the Australian Education Act to lock in the system whereby the Commonwealth has primary responsibility for funding private schools and the states have primary responsibility for funding public schools. Under the amended Act, the Commonwealth will fund private schools to 80% of their Schooling Resource Standard (SRS) and fund public schools to 20% of their SRS.[1] The 20% cap on funding of public schools meant that the Government had abandoned taking on an increasing role in funding disadvantaged students, over 80% of whom attend public schools.

Despite continuing funding increases for private schools, changes to the Education Act by the Turnbull Government attracted the ire of the Catholic Church and led to a "funding war" between the Church and the Government.[2] There were also divisions between Catholic and Independent school organisations over the funding mechanism advocated by Catholic school organisations. The then Minister for Education, Simon Birmingham, acknowledged that many private schools were over-funded and said that the 'no school will lose funding' principle would no longer apply. The Government introduced a revised capacity to contribute schedule for private schools and removed the 'system weighted average' arrangements for school systems so that all schools are funded according to their individual socio-economic status (SES) score rather than a system average score.

Catholic organisations accused the Government of risking their current levels of funding and wanted a new way to measure the financial need of Catholic schools which would lead to higher funding. They were particularly incensed at the removal of the system-weighted average arrangements. They waged a ruthless campaign against the Government with the support of the Labor Opposition.

While other factors ultimately led to the downfall of the Turnbull Government, the funding war with the Catholic Church and the divisions between Catholic and Independent school organisations were an ever-present issue in the divisions within the Government.

2. Morrison sues for peace with private schools

On the day of his appointment as Prime Minister, Scott Morrison was warned by Catholic authorities that they would continue their campaign against Turnbull's funding model unless he agreed to their demands.[3] Morrison immediately sued for peace. He said that he wanted to move quickly to resolve 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.[4] Within hours of his appointment on 26 August Tehan was on the phone to a special negotiating team set up by the Catholic Church to sort out a deal.[5] The Church negotiating team had been established in July and had a "hotline" to the Government. It was led by Sydney Archbishop Anthony Fisher.[6] The National Catholic Education

[1] Australian Education Act 2013, Clause 35A, 35B.
[2] Samantha Maiden, How the Catholic schools sector outplayed the Coalition, The Guardian, 6 November 2018.
[3] Robert Bolton, Catholic schools keep pressure on ScoMo over funding, Australian Financial Review, 24 August 2018.
[4] Robert Bolton, Catholic schools signal an end to funding wars under new education minister, Australian Financial Review, 26 August 2018.
[5] Robert Bolton, Minister Dan Tehan reaches out to angry Catholic Church, Australian Financial Review, 27 August 2018.
[6] John Ferguson, $4bn deal to avert Catholic and independent schools backlash, The Australian, 18 September 2018.

Commission (NCEC) had engaged the consultancy firm Port Jackson Partners to analyse and estimate the implications of any new funding deal offered by the Government.[7]

A week after Tehan's appointment, it was reported that the Government had offered increased funding of $4.4 billion for Catholic and Independent schools as a "peace deal".[8] 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.[9] On the following day, Morrison and Tehan announced the new special $4.6 billion funding deal for Catholic and Independent schools.[10] The main component was an additional $3.2 billion over 10 years from 2020 to 2029 to implement a new direct income method of assessing parental capacity to contribute in private schools. This was later increased to $3.4 billion.[11] In addition, $1.2 billion would be provided over the same period to support parent choice. A further $171 million was provided for 2019 for the transition to the direct income method of funding. The new funding package also extended the period for overfunded schools to transition to 80% of the SRS by two years from 2027 to 2029.

The large bulk of the increase was to go to Catholic schools. However, there was enough there to buy peace with Independent school organisations that had been warring with Catholic authorities. Following the announcement, Morrison said:

> All I did yesterday was I stand up with Dan Tehan and announce that we'd been able to come to a resolution of an ongoing discussion with independent schools and the Catholic school sector to ensure parents would continue to have affordable choice in non-state school education.[12]

Morrison also made it clear that the Catholic system would remain free to distribute Commonwealth funding according to its own arrangements.

> As you know, the Catholic system makes its decision about how it spreads the resources that are provided to it. That's been a longstanding arrangement.[13]

The new deal was widely seen as buying peace with Catholic school organisations. The Australian said it was an "appeasement package" for private schools incorporating a "peace deal" with Catholic schools to head off a potential election crisis and a small funding increase to ensure "détente" with Independent schools.[14] The former NSW Minister for Education and then Director of the Gonski Institute, Adrian Piccoli, said: "This is purely a political fix to shut down a powerful lobby group" and

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[7] John Ferguson, Catholic Church hires big guns to help crunch schools funding numbers, The Australian, 28 August 2018.
[8] Rob Harris, Leak shows secret $4bn fix to sort Catholic school funding brawl, Herald-Sun, 4 September 2018.
[9] 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.
[10] Scott Morrison and Dan Tehan, More choice for Australian families, Joint Media Release, 20 September 2018; Government Briefing Paper, 19 September 2018.
[11] See Dan Tehan, More accurate method to calculate funding for schools, Media Release, 2 March 2020; Department of Education, Skills and Employment, What is the Direct Measure of Income? 20 February 2020.
[12] Scott Morrison, Interview with Sabra Lane, ABC AM, 21 September 2018.
[13] Ibid.
[14] John Ferguson, School funding row ends with $4.5bn deal, The Australian, 21 September 2018. See also Simon Benson, School funding row ends with $4.5bn deal, The Australian, 21 September 2018.

"It's throwing money at the powerful and well connected".[15] The Grattan Institute schools director Peter Goss called the package a "special deal" for private schools.[16] One education reporter commented that the new deal was not "about fixing bad policy, but about fixing bad politics" and that its purpose was to appease Catholic school authorities.[17] Another commentator said: "Once again, the Catholic Church's education sector will get special handouts from a federal Liberal government."[18]

The Prime Minister himself acknowledged that the new funding package is a special deal. He told the ABC's AM program that his new announcements "sit outside" the current needs-based funding arrangements.[19] Even the normally supportive Centre for Independent Studies described it as a "special deal" that undermines the Coalition's Gonski 2.0 funding model.[20]

The Government succeeded in its aim of buying peace. Archbishop Anthony Fisher welcomed the deal, claiming it was an "equitable outcome" for students and families.[21] The NCEC said that it fully supported the package.[22] The Independent Schools Council of Australia (ISCA) welcomed the deal as a "fair and reasonable resolution of the current funding issues".[23] Its statement indicated that extending the 2018 funding arrangements to 2019, the extension of the transition period to 2029 for overfunded schools to adjust down to 80% of their SRS and the Choice and Affordability Fund were factors behind its acceptance of the deal.

Labor welcomed the funding announcement. Bill Shorten proudly took credit for the increase: "We've won the money for the Catholic sector… ".[24] He and Plibersek supported the increase as restoring funding the Abbott Government had "ripped" from Catholic and Independent schools but criticised the Government for not doing the same for public schools.[25]

Amendments to the Education Act to implement the package were introduced in the Parliament in February 2020 and passed in March.

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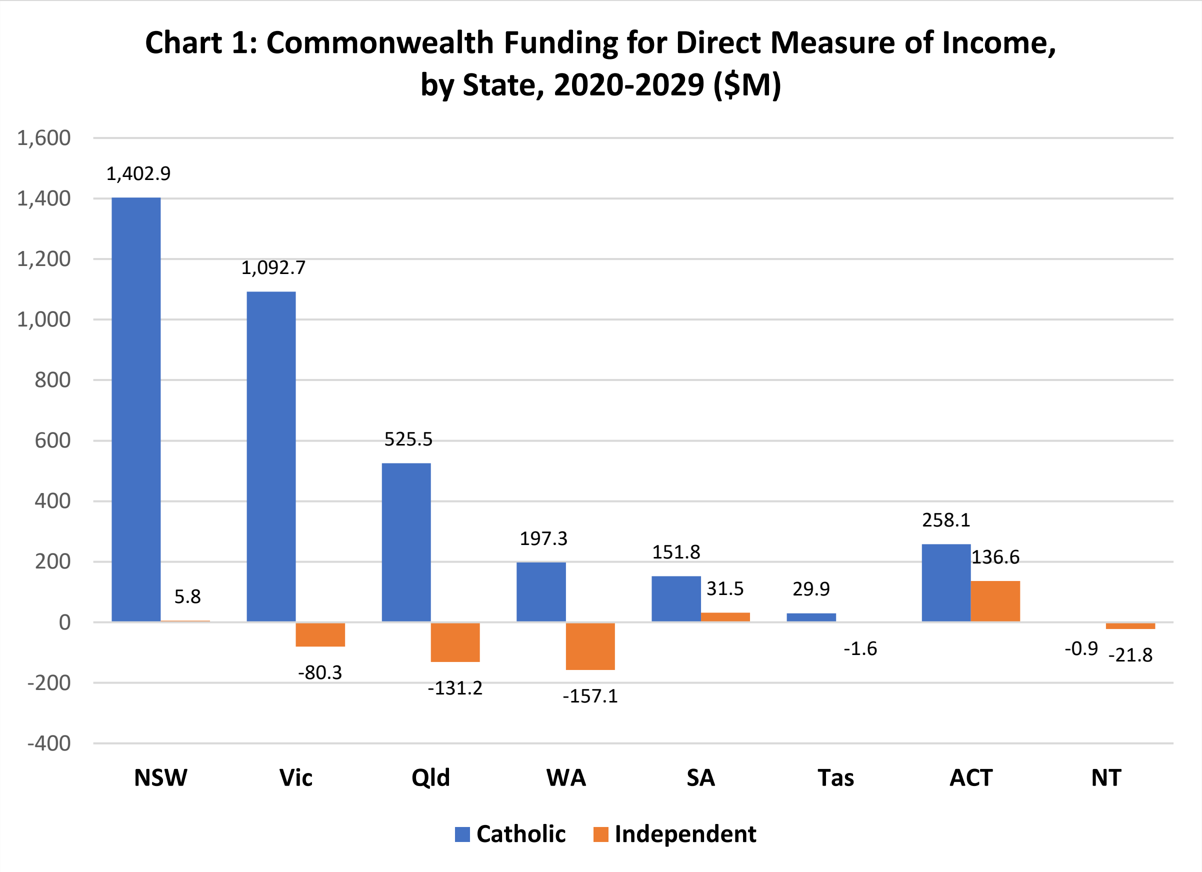
[15] Adrian Piccoli, 'Political fix': Why Morrison's school funding deal is a dud, Sydney Morning Herald, 22 September 2018; Michael Koziol and Jordan Baker, Scott Morrison's $1.2 billion bonus for private schools slammed as a 'slush fund', Sydney Morning Herald, 21 September 2018.
[16] Paul Karp, Morrison defends $1.2bn 'slush fund' for Catholic and independent schools, The Guardian, 21 September 2018.
[17] Michael Koziol, Win-win for private schools: Morrison's cash splash fixes politics, not policy, The Age, 20 September 2018.
[18] Bernard Keane, We're back to special school funding deals. Thanks Labor, Crikey, 21 September 2018.
[19] Scott Morrison, Interview with Sabra Lane, ABC AM, 21 September 2018.
[20] Michael Koziol and Jordan Baker, Scott Morrison's $1.2 billion bonus for private schools slammed as a 'slush fund', Sydney Morning Herald, 21 September 2018.
[21] John Ferguson, School funding row ends with $4.5bn deal, The Australian, 21 September 2018.
[22] National Catholic Education Commission, School funding changes support families, Media Release, 20 September 2018.
[23] Independent Schools Council of Australia, Independent schools welcome clarification of future funding arrangements, Media Release, 20 September 2018.
[24] Charis Chang, Why are Catholic schools getting more money? News.com.au, 25 September 2018; EducationHQ News Team, Shorten takes credit for school peace deal, Education HQ, 21 September 2018.
[25] Bill Shorten, Radio Interview, ABC Radio Gippsland, 21 September 2018; Tanya Plibersek, Radio Interview, ABC RN, 21 September 2018; Paul Karp, Labor defends $1.2bn private school package it previously called a 'slush fund', The Guardian, 10 September 2019.

3. Direct income measure of assessing capacity to contribute in private schools

3.1 Total funding increase

All the funding increase for the move to a direct income measure of capacity to contribute was due to go to Catholic schools. Under the original proposal, Catholic schools would receive a funding increase of $3.4 billion over ten years from 2020 to 2029 and funding for Independent schools would be cut by $222 million.[26] Under the revised amount, Catholic schools are estimated to receive $3.7 billion while funding for Independent schools is cut by $218 million.[27]

Commonwealth funding for Catholic schools was estimated to increase in all states except the Northern Territory [Chart 1]. Funding for Independent schools was due to increase by small amounts in NSW and South Australia and by a large amount in the ACT. Independent schools in the other states would have their funding reduced.



Source: Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000154.

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[26] Department of Education, Skills and Employment, Distribution of the Choice and Affordability Fund and the transition to personal income tax for the Catholic and Independent sectors, FOI Request, TRIM Reference L19/17478, 23 January 2019. This was later confirmed in Senate Estimates. See Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000154.

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

3.2 Funding increase was determined in negotiation with private school organisations

The increase had all the hallmarks of another special deal which provides more funding for private schools than warranted. As noted above, it was arrived at in negotiations with private school organisations before the direct income measure of capacity to contribute was even decided.

A report by the National School Resourcing Board (NSRB) published in June 2018 had recommended that a direct income measure be used but did not recommend which one should be used. It said that further work was needed to implement its recommended approach and that it would impact the overall cost to government and the potential impact on individual schools and systems.[28] Yet, the Prime Minister announced the increase before the actual direct income measure was decided. It was not explained how the Government knew what the new measure would cost despite not having determined what measure would be used. It was nearly 18 months before the Government announced that a direct measure of the income of families would be used to assess their capacity to contribute.[29]

The incongruity was even greater because on the same day that Morrison announced the $3.2 billion increase, the Government announced the establishment of a Technical Working Group of private school representatives and experts to advise on what measure of direct income should be used and related matters.[30] It said the matters to be considered by the working group include whether to use taxable income or gross income, how family size can be taken into account, how to overcome missing income tax data, whether there should be separate calculations for primary and secondary school parents within combined schools, and whether to use a rolling average of parental income which would involve annual collection of residential addresses or put a cap on the annual change in funding.

The Technical Working Group was appointed in November 2018 and did not begin its deliberations until December. Its final meeting was held in May 2019. Its final report indicated that it canvassed several measures of direct income. These were total income, taxable income, adjusted taxable income and disposable income.[31]

The answer to the puzzle as to how Morrison knew what the new direct income measure would cost before it had been determined was simple - it was a settlement negotiated with private school organisations as indicated above. This 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 several implementation options that it presented in extensive discussions with private school organisations. 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".[32] A letter by the previous Minister for Education to Archbishop Fisher a few days before

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[28] National School Resourcing Board, Review of the Socio-Economic Status Score Methodology, Final Report, June 2018, p. 38.

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

[30] Department of Education Employment and Skills, Terms of Reference for the Direct Measure of Capacity to Contribute Working Group, 21 December 2018.

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

[32] Senate Employment and Education Legislation Committee, Supplementary Estimates Transcript, 25 October 2018, p. 27.

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.[33]

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.[34] 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…".[35] 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.[36]

Moreover, damning evidence presented to the Committee showed that the $3.4 billion increase was determined in advance of careful modelling of the impact of the change to the DMI methodology and that there is no rational basis to the figure. A submission by 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.[37]

The funding increase also appeared to be much larger than that implied by the NSRB report which found that there would be no or little change in the SES score of many private schools. It said that preliminary modelling showed that that there would be a relatively small percentage reduction in funding for the Independent sector compared to the current funding model and a comparable increase for the Catholic sector.[38]

Analysis by the Grattan Institute found that Independent schools were equally likely to see their effective score go up or down while for every eight Catholic schools with scores that go down, five schools have scores that go up.[39] It estimated that a direct income measure would increase Catholic schools funding by somewhere from $50 million to $150 million a year with Independent schools funding ranging from a decrease of $100 million or more to even a slight increase in funding. In contrast, figures released under FOI by the Department of Education show that Catholic schools will

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[33] 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.
[34] Senate Education and Employment Legislation Committee, Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions], March 2020.
[35] Ibid, p. 13.
[36] 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.
[37] 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.
[38] National School Resourcing Board, Review of the socio-economic status score methodology, Final Report, June 2020, p. 38.
[39] Peter Goss, Explaining Australia's school funding debate: what's at stake, The Conversation, 18 July 2018.

gain an average of $342 million per year over ten years and Independent schools would lose an average of $22 million per year.[40]

3.3 The direct income measure of capacity to contribute

Following consultation with private school organisations and consideration of options for the direct income measure, the Minister for Education introduced amendments to the Australian Education Act in the Parliament on 26 February 2020 and released a report and fact sheets on the measure.[41]

The amendments to the Education Act altered the school score for assessing capacity to contribute from 'SES score' to capacity to contribute or 'CTC score'. It enabled the Regulation to prescribe a Direct Measure of Income (DMI) of a school community, alter the way in which the Commonwealth funding share for a private school is calculated, and alter the period over which that transition occurs. The actual measure of direct income is not prescribed in the Act or the Regulation. The amended Regulation states that the actual measure of direct income is that referred to in a Direct Measure of Income Methodology document issued by the Department, as in force from time to time. This document specifies that Adjusted Taxable Income (ATI) is used as the measure of the direct income of families.[42]

It is very strange that the measure of direct income used is not prescribed in the Education Act or its Regulation. It allows for the possibility that the Department of Education at the direction of the Minister could change the measure as deemed necessary at any time without informing or gaining the assent of the Parliament.

The DMI is to be introduced over 2020 to 2022 when it will apply to all private schools. It is based on the median family income of parents at the school and is translated into a CTC score for the school by comparing the median family income of a school against the median family income of other schools. The data are standardised to a mean of 103 and a standard deviation of 13, weighted by enrolments.[43] During 2020 and 2021, schools can choose their most financially beneficial CTC score from one of three options: the SES methodology based on 2011 Census data; the SES methodology based on 2016 Census data; and the new direct measure of income.

The CTC score is the average DMI scores for the school in the previous three years, although for 2020 it is the average of two years. For small schools, the year-on-year change in CTC scores are capped at two points to minimise year-to-year funding fluctuations.

The Government took the opportunity of the change from the SES methodology to the DMI to change the rate at which private schools whose Commonwealth funding share of their SRS exceeds 80% transitioned to that share. The transition period for these schools was extended by two years from 2027 to 2029. All private schools also had their starting Commonwealth share reset from 2020

[40] Department of Education, Skills and Employment, Distribution of the Choice and Affordability Fund and the transition to personal income tax for the Catholic and Independent sectors, FOI Request, TRIM Reference L19/17478, 23 January 2019.

[41] Dan Tehan, Second Reading Speech, Hansard, House of Representatives, 26 February 2020; Department of Education, Skills and Employment, Refinement of the Direct Measure of Income (DMI) Methodology, Final Report, February 2020; Department of Education, Skills and Employment, What is the Direct Measure of Income? Fact Sheet, 14 February 2020; Department of Education, Skills and Employment, What is the methodology for the Direct Measure of Income (DMI)? Fact Sheet, 14 February 2020.

[42] Department of Education, Skills and Employment, Direct Measure of Income (DMI) Methodology, 14 April 2020.

[43] The detailed methodology is provided in Department of Education, Skills and Employment, Direct Measure of Income (DMI) Methodology, 14 April 2020.

to 2022 to ensure they were not disadvantaged by moving from the SES methodology to the new direct measure of income.

The Regulation also provides for circumstances where the Minister may be satisfied that a refined area-based score may be used as the CTC score. This could be due to privacy concerns such as in the case of small schools, newly established schools, or where data quality is low.

On 27 February 2020, the Senate referred the Bill to the Education and Employment Legislation Committee for inquiry and report by 1 May 2020. However, a few days later the Committee agreed to table its report on 23 March 2020 and the period for submissions was reduced to one week. The committee recommended that the Bill be passed.[44] Labor senators accepted the proposed arrangements as a more direct and accurate measure of a school community's capacity to contribute which would deliver better targeted needs-based funding. A dissenting report by the Greens senators said the proposed $3.4 billion increase in funding "is yet another instance of the Liberal and Labor parties working to please the private school lobby at the expense of public schools".[45]

The Senate inquiry also exposed major differences about the new measure between Catholic and Independent schools. Catholic school organisations had conducted a long campaign against the SES methodology and welcomed the change to the DMI methodology.[46] In contrast, Independent school organisations raised several concerns about the DMI. ISCA considered that the methodology had not undergone adequate testing of its validity and suitability.

> Currently the DMI CTC methodology does not meet the same benchmarks in terms of what is desirable in a funding model; it was hastily developed due to impossible timeframes and seemingly without any consideration of impacts on individual schools and families in the worst affected schools.[47]

In addition, ISCA was concerned about several details of the DMI methodology. These included its impact on regional schools and boarding schools, reduced funding for 350 schools, the use of the median income of parents to determine the school's capacity to contribute score and low data matching rates and missing data.

Catholic support for the DMI was not surprising. Catholic schools benefit enormously compared to Independent schools. ISCA estimated that Independent schools would have their funding reduced by $212 million between 2020 and 2029 compared to the funding the sector would have received under the current methodology.[48] It said that 350 schools, or 35% of Independent schools, would lose funding over the period.

The amendments were passed by the Parliament on 23 March 2020 with Labor support. The Shadow Minister for Education, Tanya Plibersek, did not speak to the amendments, but had previously

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[44] Senate Education and Employment Legislation Committee, Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions], March 2020.
[45] Australian Greens Senators' Dissenting Report, Senate Education and Employment Legislation Committee, Australian Education Amendment (Direct Measure of Income) Bill 2020 [Provisions], March 2020, p. 31.
[46] National Catholic Education Commission, Catholic education welcomes new school funding measure to assess parents' income, Media Release, 26 February 2020.
[47] 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, p.13.
[48] Ibid, p. 7.

indicated support for the direct income measure.[49] Senator O'Neill said that the new arrangements would a more robust, direct and accurate measure of a school community's capacity to contribute and will lead to more targeted funding within the private school sector.[50] The Bill was opposed by the Greens.[51]

The Bill was considered by the Senate Standing Committee for the Scrutiny of Bills after the amendments were passed by the Parliament. It stated that significant matters such as the calculation of the Commonwealth share of funding for transitioning private schools should be included in the primary legislation rather than regulation.[52] It noted that a regulation is not subject to the full range of parliamentary scrutiny as are amendments to legislation.

> As the detail of delegated legislation is generally not publicly available when Parliament is considering a bill, this considerably limits the ability of the Parliament to have appropriate oversight over whether any method for the calculation of the Commonwealth share of funding for transitioning non-government schools is appropriate.[53]

3.4 Adjusted taxable income is a flawed measure of capacity to contribute

The report on the deliberations of the Technical Working Group and a fact sheet published by the Department of Education indicated that Adjusted Taxable Income (ATI) would be used as the measure of the direct income of families.[54] The only reasons given in the Government's fact sheet for using ATI was that it is supported by private school organisations and is consistent with other government policy for payments such as Family Tax Benefits and the Child Care Subsidy.

The report on the work of the Technical Working Group did not provide a comparative analysis of the strengths and weaknesses of the various measures of direct income that it considered. However, the Group found that both total income and ATI were fit for the purpose, but that ATI was the preferred approach.[55] It noted that use of ATI would introduce additional complexity to the calculation of the direct income of families because it requires using several fields and linking the names and addresses of families to personal income tax records in the Multi-Agency Data Integration Project (MADIP).

The Technical Working Group did not explain why it did not adopt total income as the measure of capacity to contribute. One possible reason, among others, is that people on the same level of income have differing legitimate deductions before tax which may affect capacity to contribute. For example, families with many dependents will have less capacity to contribute at each level of income than those with one dependent. A significant advantage of ATI over taxable income is that 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.

[49] Tanya Plibersek, Radio Interview, ABC RN, 21 September 2018.
[50] Senator Deborah O'Neill, Second Reading Speech, Hansard, Senate, 23 March 2020, p. 1763.
[51] Senator Mehreen Faruqi, Second Reading Speech, Hansard, Senate, 23 March 2020, p. 1763-1764,
[52] Senate Standing Committee for the Scrutiny of Bills, Scrutiny Digest 4 2020, 2 April 2020.
[53] Ibid, p. 2.
[54] Department of Education, Skills and Employment, Refinement of the Direct Measure of Income (DMI) Methodology, Final Report, February 2020; Department of Education, Skills and Employment, What is the methodology for the Direct Measure of Income (DMI)? Fact Sheet, 14 February 2020. See also Department of Education, Skills and Employment, Direct Measure of Income (DMI) Methodology, 14 April 2020.
[55] Direct Income Measure of Capacity to Contribute Technical Working Group, Communique, Meeting 2–14 December 2018, 21 January 2019, p. 2.

However, ATI is a deeply flawed indicator of the financial need of schools because it under-estimates the capacity to contribute of families in private schools, excludes family and school wealth and ignores other sources of income of schools.

3.4.1 ATI under-estimates family income

ATI under-estimates the capacity to contribute of families who receive income from grandparents, receive non-taxed income from capital gains, and have non-disclosed income in Australia or income held 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 ignores the 'Bank of Mum and Dad'. It assumes that only the parents of children pay the school fees, and it ignores other income from grandparents that frees up income to be spent on school fees. While the Bank of Mum and Dad also provides funds for families with no children, it is an important source of direct and indirect help with private school fees.

There is widespread evidence that many grandparents pay at least part of school 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.[56] A survey by the education finance company Edstart showed that only about half of families with children in private schools can afford the fees from their income.[57] Given this, it is hardly surprising that more grandparents are helping with school fees. Another financial services company reported estimates that 60% of private school students have their fees at least partly paid by their grandparents.[58]

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, medical expenses, etc. The REST research shows that 72% of people aged 50 of over planned to help their children financially in these ways, with 28% reporting they helped their children pay for holidays, 21% helped with house deposits and 23% helped fund house renovations.[59] In Sydney, 37% of grandparents surveyed planned to help their children with house deposits while 32% of grandparents in Melbourne planned to do so.

A 2020 survey by the finance company Mozo found that 32% of parents provided money for a home deposit, 14% acted as a guarantor and 10% assisted with home loan repayments.[60] Nine per cent purchased a property outright for their child. Almost half (46%) of parents had contributed toward purchasing a vehicle for their children, 33% helped with ongoing bills and 27% paid for household items such as furniture.

The 'Bank of Mum and Dad' is one of the biggest home lenders in Australia. One source says it is the 5th largest home lender in the country and made home loans of totalling $92 billion in 2017 with an average loan of $73,522. [61] Another says it is the 9th largest and made home loans totalling $34

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[56] REST, The Journey Begins, October 2015. See also REST, The Journey Begins, May 2017; 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.

[57] Matt Wade and Pallavi Singhal, Private schools, costly private pain, Sydney Morning Herald, 27 January 2028.

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

[59] REST, The Journey Begins, October 2015.

[60] Ceyda Erem, Bank of Mum and Dad report 2020: Meet Australia's fifth biggest home loan lender, Mozo, 4 March 2020. https://mozo.com.au/home-loans/articles/bank-of-mum-and-and-dad-report-2020

[61] Ibid.

billion in 2019 with an average loan of $89,000.[62] It Unlike other banks, home loans from the Bank of Mum and Dad tend to be gifts that are never repaid. Over two-thirds of parents (67%) do not expect to be paid back.[63]

All the income provided by grandparents to their children as gifts is not included in the assessment of families' capacity to contribute. Money is fungible, so gift income frees up family income to be used to pay school fees. Families supported by the Bank of Mum and Dad do not have to choose between buying a home or educating their children in private schools – they can do both.

The average non-repayable home loan from the Bank of Mum and Dad frees up income that is a substantial proportion of school fees. The average fees and other charges in Independent schools in 2017 was $11,303 per student which amounts to $135,636 over 12 years of schooling. The income from the home loan provides 54% of total fees for one child or 27% of the fees for two children. The average fee of Catholic schools was $3,693 per student which amounts to $44,316 for one child over 12 years. In this case, the income freed up by the non-repayable home load is more than sufficient to fund school fees for one child and to provide 83% of the fees for two children over 12 years.

Income provided by grandparents and other extended family members is essentially non-declared income or early inheritance income. It is not included in ATI. Given 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 they receive more government funding than warranted.

ATI also under-estimates the total disposable income of families who receive a capital gain because only 50 per cent 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 is estimated at $9.2 billion in 2020-21.[64] 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.[65] 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.[66] 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.

[62] Duncan Hughes, Bank of Mum and Dad becomes top 10 mortgage lender, Australian Financial Review, 19 March 2021.
[63] Kelly Emmerton, Bank of Mum and Dad the fifth biggest home loan lender - report 2017, Mozo, 5 September 2017. https://mozo.com.au/home-loans/articles/bank-of-mum-and-dad-the-fifth-biggest-home-loan-lender-report-2-17
[64] Australian Taxation Office, 2020 Tax Benchmarks and Variations Statement, 29 January 2021, p. 114.
[65] Matt Grudnoff, 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. See also Matt Grudnoff & Eliza Littleton, Rich men and tax concessions, The Australia Institute, Canberra, April 2021, p. 15.
[66] Barbara Preston, The Social Make-Up of Schools, April 2018, Table A.2, p. 38.

ATI also does not include non-disclosed income in Australia and 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 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.[67] 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.[68]

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 $808 million in 2017-18 and almost doubled between 2012-13 and 2017-18, increasing from $449 million in 2012-13.[69] 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 highly 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.

3.4.2 ATI excludes family and school wealth

The ATI also ignores the wealth of families which is a significant factor in capacity to contribute. The NSRB recommended that 'capacity to contribute' be defined as "the school community's income and wealth" [Recommendation 1].[70] 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,

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[67] 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.

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

[69] Australian Taxation Office, High Wealth Income Tax Gap, Trends and Latest Findings. https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/High-wealth-income-tax-gap/?page=2#Trends_and_latest_findings

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

> 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.[71]

Family trusts are mainly used by the wealthy to hold assets. According to a study by The Australia Institute, virtually all wealth held in all private trusts is by the 20 per cent wealthiest households.[72] The top 20 per cent account for 95 per cent of the value of all wealth held in trusts.

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 because wealth data for individuals is only available from surveys.[73] 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.

3.4.3 ATI excludes 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, Terry Snow, the billionaire owner of Canberra Airport, recently donated $20 million to Canberra Grammar School.[74] 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.[75] Brighton Grammar raises nearly $2 million annually in donations.[76] Loreto Kirribilli recently invited families to donate $1 million each in a campaign to raise $100 million.[77]

Many even receive donations from overseas. For example, The Australian Independent Schools USA Foundation raises donations for Australian private schools from the US and Canada. Twenty-four elite schools in Australia receive donations from this Foundation, including Abbotsleigh, Ascham, Kambala, SHORE, Geelong Grammar, Scotch College (Melbourne), Xavier College, Brisbane Grammar and Prince Alfred College.[78] In 2018, it raised nearly $3 million and distributed $2.8 million in grants to schools.[79] In 2019, it raised $2.7 million and distributed $2.5 million in grants.

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.

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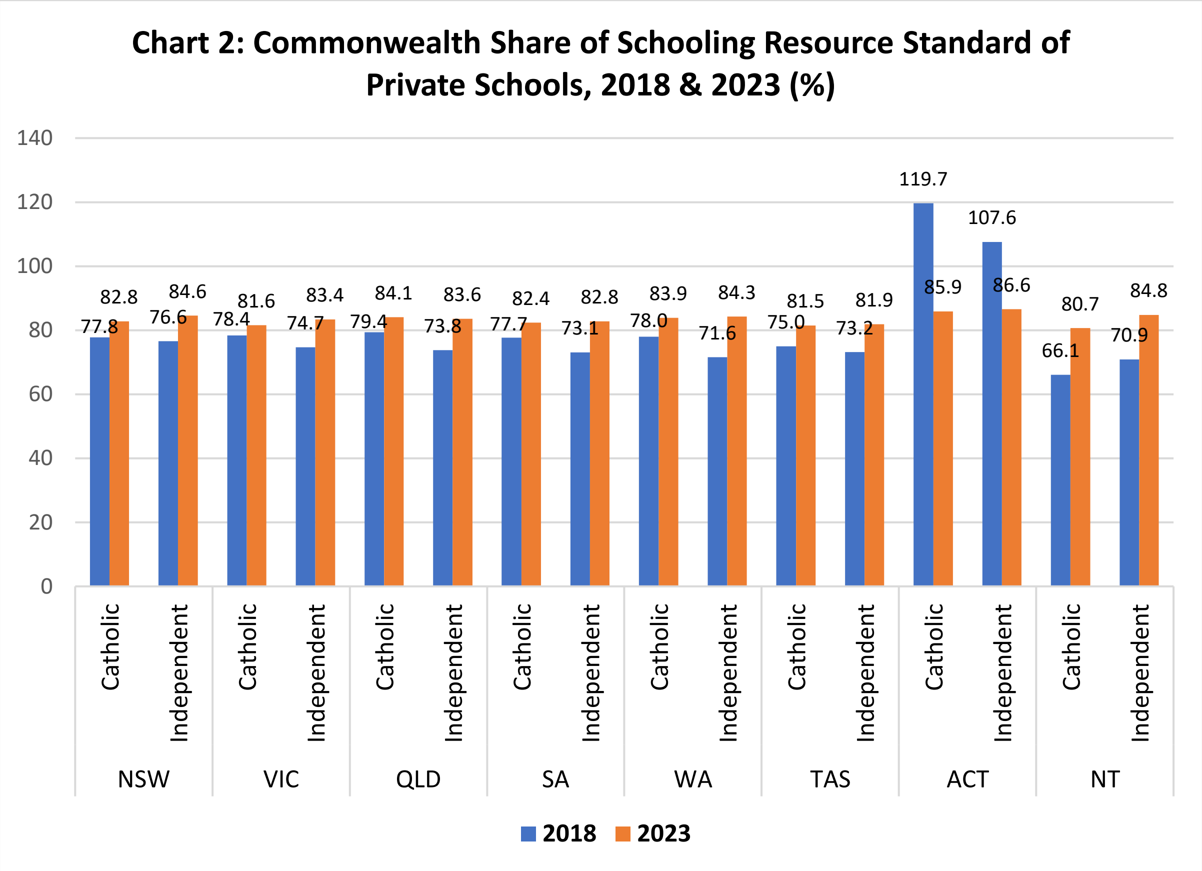
71 Ibid, p. 8.
72 David Richardson, Trusts and Tax Avoidance, The Australia Institute, July 2017, p. 9.
73 National School Resourcing Board, Review of the Socio-economic Status (SES) Score Methodology, Final Report, June 2018, p. 34.
74 Robert Bolton, Why this billionaire gave $20m to a private school, Australian Financial Review, 19 October 2019.
75 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/ .
76 Brighton Grammar School, The Impact of Giving, School Impact Report 2019.
77 Daily Telegraph, 10 September 2019.
78 The Australian Independent Schools USA Foundation website https://www.aisusafoundation.com/
79 The Australian Independent Schools USA Foundation, Financial Return. Available at: https://projects.propublica.org/nonprofits/organizations/204693405

3.5 Commonwealth funding of private schools exceeds 80% of their SRS under the DMI

Under the amendments to the Australian Education Act made by the Turnbull Government in 2017, the Commonwealth Government agreed to fund public schools at 20 per cent of their SRS and private schools at 80 per cent of their SRS by 2023.[80] Schools and systems that were funded above their target Commonwealth shares would transition to the lower share by 2027.

The introduction of the DMI significantly changed the projected Commonwealth shares of the SRS for Catholic and Independent schools. The new method will increase the funding shares to over 80% from 2022 and schools have until 2029 to adjust to the 80% target. Department of Education figures published by Senate Estimates show that Catholic and Independent schools will be funded at more than 80% of their SRS in each state by 2023 [Chart 2].



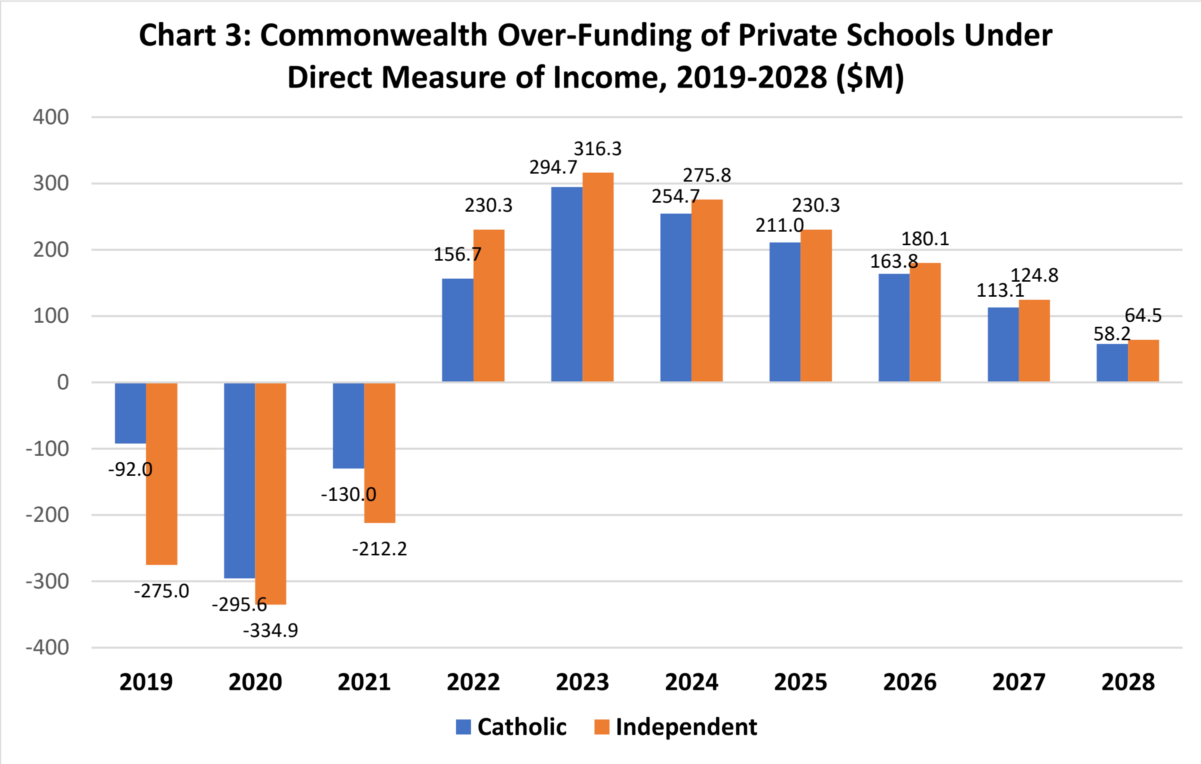
Source: Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice SQ20-000151.

The Commonwealth share of funding for NSW Catholic schools will increase from 77.8% in 2018 to 82.8% in 2023 while that for Independent schools will increase from 76.6% to 84.6%.[81] Private schools in Western Australia and the Northern Territory will gain the largest increases. For example, the Commonwealth share for Catholic schools in Western Australia will increase from 78.8% to 83.9% in 2023. Funding for Independent schools will increase from 71.6% to 84.3%.

[80] Australian Education Act 2013, Clause 35A, 35B.

[81] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice SQ20-000151.

As a result, Catholic and Independent schools will be significantly over-funded by the Commonwealth Government from 2022 to 2028 [Chart 3]. Catholic schools will be over-funded by about $1.1 billion and Independent schools by $1.2 billion with total over-funding of $2.3 billion. However, this is just the tip of the over-funding iceberg because it does not take account of the flaws in the method of assessing the financial need of private schools or funding provided through the Choice and Affordability Fund.



Sources:
Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice SQ20-000151
Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.

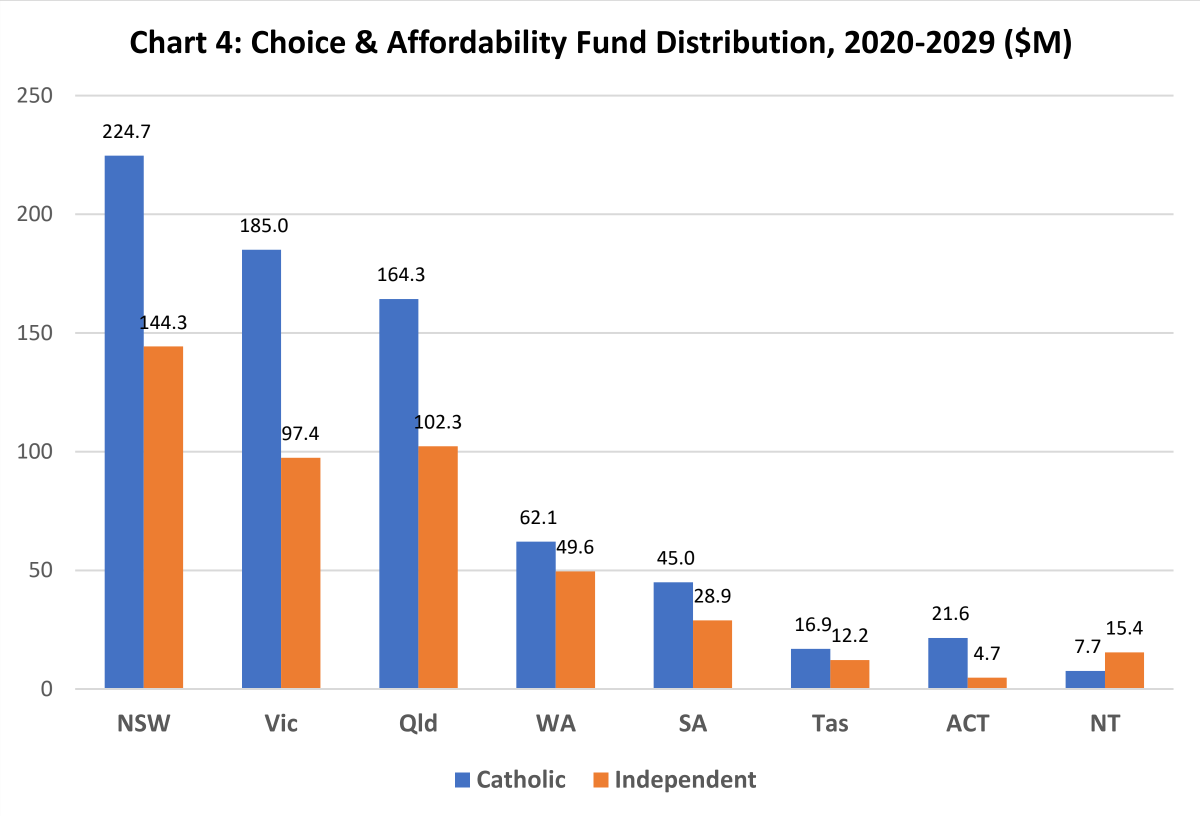
4. Choice and Affordability Fund for private schools

The Choice and Affordability Fund provides private schools with an additional $1.2 billion over 10 years from 2020 to 2029. Catholic schools will receive $727 million and Independent schools $455 million.[82] Catholic schools will receive greater funding than Independent schools in all states except the Northern Territory (Chart 4).

The Government said that the purpose of the Fund is to support private schools facing financial difficulty in special circumstances such as those in regional, rural, remote and drought-affected areas, and to support parent choice by providing opportunities to choose an affordable school.[83]

[82] Department of Education, Skills and Employment, Choice and Affordability Fund Agreements 2020. These figures are slightly different from those previously published. See Department of Education, Skills and Employment, Distribution of the Choice and Affordability Fund and the transition to personal income tax for the Catholic and Independent sectors, FOI Request, TRIM Reference L19/17478, 23 January 2019.
[83] Scott Morrison and Dan Tehan, More choice for Australian families, Joint Media Release, 20 September 2018; Government Briefing Paper, 19 September 2018; Department of Education, Skills and Employment, Choice and Affordability Fund Guidelines 2020-2029, February 2020.

However, many commentators, including Peter Goss from the Grattan Institute and Adrian Piccoli called it a “slush fund”.[84] Tanya Plibersek said it looks very much liked a slush fund.[85] In his memoirs, former Prime Minister Malcolm Turnbull said the Fund was introduced by the Morrison Government “without any particular rationale, other than as a way of buying some peace” with private school organisations and the Catholic Church.[86]



Source: Department of Education, Skills and Employment, Choice and Affordability Fund Agreements 2020.

The Fund is completely contrary to the principles of needs-based funding. First, it selectively makes additional funding available for private schools in rural and remote areas, but not for public schools. One of the justifications the Prime Minister gave for the Fund was to ensure that Catholic schools in less fortunate areas continued to get support.[87] However, this is what the loadings in the Gonski model are designed to do. Under the Australian Education Act, both public and private schools in regional and remote locations receive additional funding in recognition that it generally costs more to educate students going to school in these areas than it does for students in city schools. The additional funding ranges from 10% of the SRS for schools in inner regional areas to 80% for very remote schools. In effect, the Government is providing an additional locational funding loading for private schools in regional areas, but not public schools.

[84] Peter Goss, Three charts on: why Catholic primary school parents can afford to pay more, The Conversation, 21 September 2018; Adrian Piccoli, 'Political fix': Why Morrison's school funding deal is a dud, Sydney Morning Herald, 22 September 2018; Michael Koziol and Jordan Baker, Scott Morrison's $1.2 billion bonus for private schools slammed as a 'slush fund', Sydney Morning Herald, 20 September 2018.

[85] Paul Karp and Michael McGowan, Morrison defends $1.2bn 'slush fund' for Catholic and independent schools, The Guardian, 21 September 2018.

[86] Malcolm Turnbull, A Bigger Picture, p. 533.

[87] Scott Morrison, Interview with Sabra Lane, ABC AM, 21 September 2018.

If it were considered that schools in regional and remote areas warrant further support, the appropriate option would have been to provide it to all schools, not just private schools which comprise only a small minority of schools in these areas. The Halsey inquiry into regional and remote education reported that 79% of schools in outer-regional areas, 82% in remote areas and 84% in very remote areas are public schools.[88]

The Government unashamedly favoured private schools in these areas. Morrison dismissed the needs of public schools as a matter for state governments saying that the Commonwealth Government “has always been the principal funder of non-government schools”.[89] It continues the Coalition’s long tradition of guaranteed funding of private schools and no guarantees for public schools. The consequence of this additional funding for private schools is to increase their resource advantage over public schools and increase social segregation and social division in regional towns and cities by encouraging more families who can afford to pay fees to select private schools.

Second, the Fund breaks with needs-based funding by allowing Catholic schools in wealthy areas to charge low fees to better compete with public and Independent schools. The Minister for Education said that Catholic education authorities “put a very strong argument that in some cases they do need to be able to offer low-fee offerings because otherwise choice will be taken away from parents.”[90] It is another subsidy for the Catholic Church’s policy to provide low-fee schools in all areas, including well-off areas where parents can afford to pay higher fees. It is contrary to the principle of needs-based funding incorporated in the Australian Education Act. As the NSRB report observed, school fees do not necessarily reflect the capacity to pay of households especially for Catholic schools.[91]

The new subsidy for Catholic schools appeared to be designed as compensation for the abolition of the system-weighted average SES score applied to Catholic systemic schools that was negotiated as a special deal with the Gillard Labor Government. Under this deal, Catholic school systems were funded according to a negotiated state-wide average SES score instead of the SES score of individual schools as applied to Independent schools. As a result, they got more funding than if the needs-based formula had been strictly implemented for each school. It provided a considerable financial advantaged to Catholic schools over Independent schools in wealthy areas and enabled them to compete for enrolments. The fee difference between Catholic and Independent schools in wealthy suburbs could be considerable.[92] It proved greatly beneficial to the ACT Catholic school system where the SES score of each Catholic school ranged from 111 to 128, well above the negotiated system average of 101.[93]

The Turnbull Government’s Gonski 2.0 funding arrangements abolished this special deal and assessed the capacity to pay of Catholic systemic schools according to their individual SES score. It meant that Catholic schools would receive less funding in the future than if the special deal

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[88] Independent Review into Regional, Rural and Remote Education, Discussion Paper, July 2017, p. 14.
[89] Paul Karp, Catholic and independent schools given extra $4.6bn in funding peace deal, The Guardian, 20 September 2018.
[90] Michael Koziol and Jordan Baker, Scott Morrison's $1.2 billion bonus for private schools slammed as a 'slush fund', Sydney Morning Herald, 20 September 2018.
[91] National School Resourcing Board, Review of the Socio-Economic Status Score Methodology: Final report, June 2018, p. 44.
[92] Peter Goss, Catholic schools aren’t all the same, and Gonski 2.0 reflects this, The Conversation, 22 March 2018.
[93] Trevor Cobbold, Special Over-Funding Deal for ACT Catholic Systemic Schools to Continue, Save Our Schools, 30 May 2017.

continued to apply. This was at the heart of the Catholic school campaign against the Turnbull Government's Gonski 2.0 funding model. Morrison simply bought them off with a new special deal.

The Independent sector's share of the slush fund appeared to be designed to compensate them for a reduction in funding resulting from the shift to the DMI. The Government effectively guaranteed that the funding of Independent schools would not be reduced despite the judgement of the NSRB that Independent schools were likely to have a small percentage reduction in funding by the change to a direct measure of income. It appeared that the "no school will lose a dollar" guarantee was alive and well with the Coalition.

Third, the Fund incorporated funding for the National Adjustment Assistance Fund, another special deal for private schools that was announced in conjunction with the introduction of the Government's Gonski 2.0 funding arrangements. This Fund was not based on need. It provided additional funding of $40 million over 10 years for non-systemic Independent schools which expected to experience reductions in per student funding due to changes in Commonwealth recurrent funding settings over 2020 to 2029.

Fourth, the Choice and Affordability Fund is administered by private school organisations, not the Department of Education, and they are not required to distribute the funding according to need. The Minister for Education said that the funding will be paid to the peak bodies in each state, and distribution "will be choices that each of the sectors will make" based on their own priorities.[94] Private school organisations have discretion in the use of the funds over the 10 years. Unlike other recurrent funding, they can retain funds received in any year and expend them in later years before 2029. In other words, the Fund can be used as an investment fund by private school organisations to generate further income. Private school organisations can also claim up to two per cent of the total funding provided over the ten years for administration of the Fund, but they may apply for an increased proportion of funds to meet these expenses.[95] It is a unique and remarkable deal for private school organisations.[96]

In July 2019, the Government tabled regulations in the Parliament to amend the Australian Education Regulation 2013 to support the implementation of the Choice and Affordability Fund. These were subject to a disallowance motion by the Greens in September. The Greens education spokesperson, Senator Faruqi, went to the heart of the issue:

> This is public money that should be going to our grossly underfunded public schools, not private schools. If ever we had a perfect symbol of education and inequality in Australia then surely this has to be it: a big pile of cash for the Catholic and independent school sector announced a year ago to buy their silence in the election. This slush fund will only serve to widen the already extreme gap between public and private schools in Australia, fuelling further inequities introduced by Labor and Liberal governments in special deal after special deal.[97]

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[94] Michael Koziol and Jordan Baker, Scott Morrison's $1.2 billion bonus for private schools slammed as a 'slush fund', Sydney Morning Herald, 20 September 2018.
[95] Department of Education, Skills and Employment, Choice and Affordability Fund Guidelines 2020-2029, February 2020, p. 8.
[96] Michael Koziol, $1.2 billion private school 'choice fund' can be used as investment nest egg, Sydney Morning Herald, 8 March 2020.
[97] Senator Faruqi, Speech on Australian Education Amendment (2019 Measures No. 1) Regulations 2019 Disallowance, Hansard, Senate, 16 September 2019, p. 2298.

The disallowance motion was defeated with Labor support. Yet again, Labor ignored the principle of needs-based funding to curry favour with Catholic and other private school organisations.

Although the Fund is supposed to expire in 2029, the agreements between the Morrison Government and private school organisations on the distribution of the Fund state that it will be reviewed in 2027. This indicates that the Fund is likely to be maintained indefinitely and that the extent of future funding outside the needs-based funding formula is up for negotiation.

5. Transitional funding

In addition to the DMI and the Choice and Affordability Fund, the Government also provided $170.8 million in additional funding for private schools as part of the transition to the direct income measure of capacity to pay to apply from 2020. This additional funding included:

- Funding for low growth Independent schools to guarantee a minimum of 3% growth in funding for the year.
- Funding for system-weighted average SES schools.
- Funding equivalent to the benefit that a school would receive if updated 2016 Census data were used to calculate SES scores.

In addition to these measures, the Government retained the special adjustment assistance arrangements for ACT private schools established by the Turnbull Government.

5.1 Low growth funding

The Government extended the Turnbull Government's assistance for low growth Independent schools to provide a minimum increase in Commonwealth recurrent funding of a 3% per student from 2018 to 2019. The additional funding of $7.1 million in 2018 was secretly provided by the Turnbull Government in the 2017–18 Mid-Year Economic and Fiscal Outlook (MYEFO) although it was not separately itemised in the report.[98] The then Minister for Education, Simon Birmingham, said that extra funding was agreed during negotiations with private schools over the Gonski 2.0 legislation and was intended to help schools whose normal funding growth is less than 3 per cent in 2018.[99] In other words, it was another special deal for private schools by a Government that promised to end all special deals.

The special funding was intended for only one year but it was extended to 2019 by the Morrison Government. It was initially estimated that $8.8 million would be provided in 2019.[100] However, this was increased to $36.5 million.[101] Figures provided to Senate Estimates in 2020 show that $33.2 million had been provided to 232 schools.[102] Nearly half the funding ($15.5 million) went to 98 NSW schools, many of whom were highly advantaged private schools. In Sydney, Monte Sant' Angelo Mercy College received $585,685; St Scholastica's College $564,418; Oakhill College $530,939; Mount St. Benedict College $331,974, Loreto Kirribilli $324,229 while Christian Brothers schools collectively gained $1.5 million. In Melbourne, Carey Grammar received $733,588, St. Leonard's

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[98] Senate Education and Employment Committee, Additional Estimates 2017-18 Budget, Answer to Question on Notice SQ18-000254; Michael Koziol, Richest private schools get payments from $7m government 'slush fund', The Age, 12 April 2018.

[99] Michael Koziol, Richest private schools get payments from $7m government 'slush fund', The Age, 12 April 2018.

[100] Australian Education Regulation 2013 (Compilation No. 11, 14 December 2018), Schedule 1, Part 2, Clause 8; Department of Education and Training, What is the low growth for 2019 measure? 12 April 2019.

[101] Australian Education Regulation 2013 (Compilation No. 14, 8 November 2019), Schedule 1, Part 2, Clause 8;

[102] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000152. Also see Jordan Baker, Private schools to reap hundreds of thousands in extra payments, Sydney Morning Herald, 17 February 2019.

College $372,411 and Melbourne Grammar School $301,969. Eight high SES private schools in Canberra received $3.4 million.

Many schools were massively over-funded and were due to have their funding reduced over ten years from 2018 to 2027. Yet, several had their funding increased in 2018 and 2019 because of the program.

The funding provided in 2018 and 2019 could be retained by schools if it were spent or committed to be spent by December 2022.[103] Thus, it could be used as an investment to generate further income.

This funding was yet another secret deal for private schools that breached the principle of needs-based funding. It was funding provided outside the funding model and not based on need. It was a bonus payment that postponed the planned reduction in funding for highly advantaged Catholic and Independent schools and reduce the overall loss.

5.2 System-weighted average funding

Under the previous funding arrangements, schools in some private school systems attracted funding based on the average SES score for the whole system rather than that of the individual schools. As noted above, it was particularly beneficial to the Catholic school system. While the revised funding model introduced by the Turnbull Government removed this feature in 2018, transition funding was provided to continue the arrangement in 2018. The Morrison Government extended it to 2019.

As of October 2019, the 2018 payments had amounted to $41.3 million, of which $38.4 million went to Catholic schools.[104] The Government estimated that it would provide $82.7 million in additional funding in 2019.[105] Figures provided to Senate Estimates in 2020 indicated a total of $73.1 million had been distributed, of which $54.8 went to Catholic systems.[106] As in the case of the low growth funding, schools had until the end of 2022 to spend the money.

5.3 Census update payments

Prior to the change to the DMI, SES scores were based on an area-based measure derived from Census data. Up to 2018, 2011 Census data was used to determine SES scores. In 2019, additional funding was provided to schools that would financially benefit from using 2016 Census data to determine their SES scores.[107] There was no change in funding for schools that would have experienced a reduction in funding based on this update. The Regulations to the Australian Education Act 2013 provided for expenditure of $79.3 million.[108] Figures provided to Senate Estimates show that this resulted in additional funding of $78 million in 2019, of which $59.7 million went to Catholic systems.[109]

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[103] Senate Education and Employment Committee, Budget 2017-18, Additional Estimates, Answer to Question on Notice No. SQ18-000253.

[104] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000152.

[105] Australian Education Regulation 2013 (Compilation No. 14, 8 November 2019), Schedule 1, Part 5, Clause 18; Department of Education and Training, What is the system weighted average for 2019 measure? 12 April 2019.

[106] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000152.

[107] Department of Education and Training, What is the 2016 Census data update for 2019 measure? 12 April 2019.

[108] Australian Education Regulation 2013 (Compilation No. 14, 8 November 2019), Schedule 1, Part 5, Clause, Clause 21.

[109] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000152.

These payments were another version of the Gillard Government's policy that "no school would lose a dollar". They revealed that it was government policy to maximise funding for private schools whenever possible and avoid losses wherever possible. It was a "heads you win, tails you win" approach.

5.4 Adjustment assistance allows ACT private schools to double dip

The Choice and Affordability Fund superseded the $39.9 million National Adjustment Assistance Fund introduced by the Turnbull Government. However, the Morrison Government also maintained the adjustment assistance for ACT private schools introduced by the Turnbull Government to ensure the passage of funding changes through the Parliament. Under this arrangement, ACT private schools would receive $46.1 million over the period 2018-2023.[110] Catholic schools would receive $31.1 million over the six years and Independent schools $15 million over four years to 2021.[111]

This funding allowed ACT private schools to double dip. The original rationale for the adjustment assistance was to allow schools to adjust to a significant reduction in funding arising from termination of a unique special deal that provided massive over-funding for Catholic systemic schools while Catholic Independent schools and several other private schools were also significantly over-funded. However, introduction of the DMI resulted in additional funding for ACT private schools of nearly $400 million over ten years from 2020 to 2029, instead of a reduction in funding. Catholic schools will gain $258.1 million and Independent schools $136.6 million.[112] Despite this huge increase in funding, ACT private schools continued to receive the adjustment assistance funding. They received additional funding to adjust to higher levels of funding. They also received additional funding through the Choice and Affordability Fund and the low growth, system-weighted average and census update special arrangements.

6. Other special deals for private schools

In 2020, the Government provided additional funding for private schools affected by drought and for hygiene assistance following COVID-19. In November 2019, the Minister for Education, announced that the Morrison Government would provide $10 million additional funding to support private schools facing financial hardship because of drought conditions.[113] In January 2020, it increased the amount of funding to $20 million.[114] This funding was provided to 58 Independent schools and four Catholic approved system authorities to support drought affected students across 173 schools.[115]

In May 2020, the Minister for Education announced that the Government would provide $10 million in additional funding for private schools to improve COVID-19 hygiene measures.[116] None of this funding was provided to public schools. Additional funding was provided in the 2020-21 Budget.

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[110] Australian Education Regulation 2013 (Compilation No. 14, 8 November 2019), Schedule 1, Part 3, Clause 12.
[111] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000153.
[112] Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice No. SQ20-000152.
[113] Dan Tehan, Drought Support for Students, Media Release, 7 November 2019.
[114] Scott Morrison and Dan Tehan, More Support for Communities Affected by Drought, Joint Media Release, 28 January 2020.
[115] Senate Education and Employment Committee, Budget 2020-2021, Budget Estimates, Answer to Question on Notice No. SQ SQ20-001773.
[116] Dan Tehan, Improving Hygiene in Schools, Media Release, 14 May 2020.

7. Monitoring the distribution of government funding by private school systems

Under the Australian Education Act, school systems (public and private) are required to distribute Commonwealth Government funding on a needs basis which includes having a base amount per student and six disadvantage loadings. The Regulation accompanying the Act requires that information on the distribution of funds to affiliated schools is publicly available and transparent.

Past reports have shown that the Australian Department of Education has not met its responsibility under the Act to ensure that taxpayer funding is distributed on a needs-basis. Many reports have documented how Catholic education authorities divert taxpayer funding intended for poor schools to subsidise rich inner-city schools.

A National Audit Office report in 2009 found that systemic schools with low SES scores receive less Commonwealth Government general recurrent grants per student from their school systems than if they were directly funded under the SES arrangements.[117] The Gonski Report in 2011 expressed concern about the lack of transparency of funding allocations in private school systems.[118] It recommended that they should be obliged to disclose how government funding is distributed to member schools. This was ignored by the then Labor Government which had arranged a special funding deal with the Catholic Church. A review of the NSW Catholic education system in 2016 by Kathryn Greiner found significant differences between the current funding of schools and a model more closely aligned with the Australian Education Act.[119]

A further report by the National Audit Office in 2017 found that many low SES Catholic schools were allocated significantly less funding by Catholic education authorities than their entitlement. It found that the Department of Education failed to ensure that school systems published their distribution model and did not check whether systems distributed funding according to need.[120] This was endorsed by a report by the Joint Public Accounts Committee of the Commonwealth Parliament. It found that the monitoring arrangements established by the Department of Education and Training did not provide sufficient assurance that Australian Government school funding is administered in a way that is transparent, accountable and compliant with the Australian Education Act 2013.[121]

Following these reports, the Morrison Government commissioned the NRSB to review the needs-based funding arrangements of school systems and recommend action to improve compliance with the Education Act. The report found there is Insufficient transparency about how school systems distribute Commonwealth Government funding and that current reporting on school funding allocation and distribution is fragmented, inconsistent and incomplete. [122] There is much variation in the needs-based funding arrangements between school systems as well as the level of detail of what is published about these arrangements.

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[117] Australian National Audit Office, Funding for Non-government Schools, Audit Report No.45 of 2008-09, 2009.
[118] Review of Funding for Schooling, Final Report, December 2011, p.
[119] Kathryn Greiner, Review of Governance Structures and Funding of Catholic Schools in NSW and the ACT, March 2016.
[120] Australian National Audit Office, Monitoring the Impact of Australian Government School Funding, Audit Report No. 18 of 2017-18, 2017.
[121] Joint Committee of Public Accounts and Audit, Australian Government Funding, Report No. 476, February 2019.
[122] National School Resourcing Board, Review of the Needs-Based Funding Requirements: Final Report, December 2019.

The repot made several recommendations to increase publicly available information on system funding arrangements. It recommended that the Department of Education should provide a list of school systems on its website together with a link to each system's website where its current needs-based funding arrangement is published. It should include a statement by the Department advising whether all systems have published their current needs-based arrangements.

The report also recommended that the Government should identify instances where school-level public funding distribution in a private school system varies significantly from the publicly funded share of the Schooling Resource Standard for the school. This is needed to further revise funding arrangements and support public confidence that the Government is monitoring systems' distribution of taxpayer funds to schools.

Another recommendation was for the Department provide further guidance to school system authorities to standardise the level of information to be publicly available. This would require systems to make publicly available information on the methodology for their needs-based funding arrangements as well as requiring them to provide a rationale for that methodology.

The report also recommended that the Department publish the information provided in Block Allocation Reports provided to the Department by school systems. They provide information on the amount of funding distributed to each member school by base and loadings as well as administrative costs and centralised expenditure. At the time, information in the reports was not publicly available.

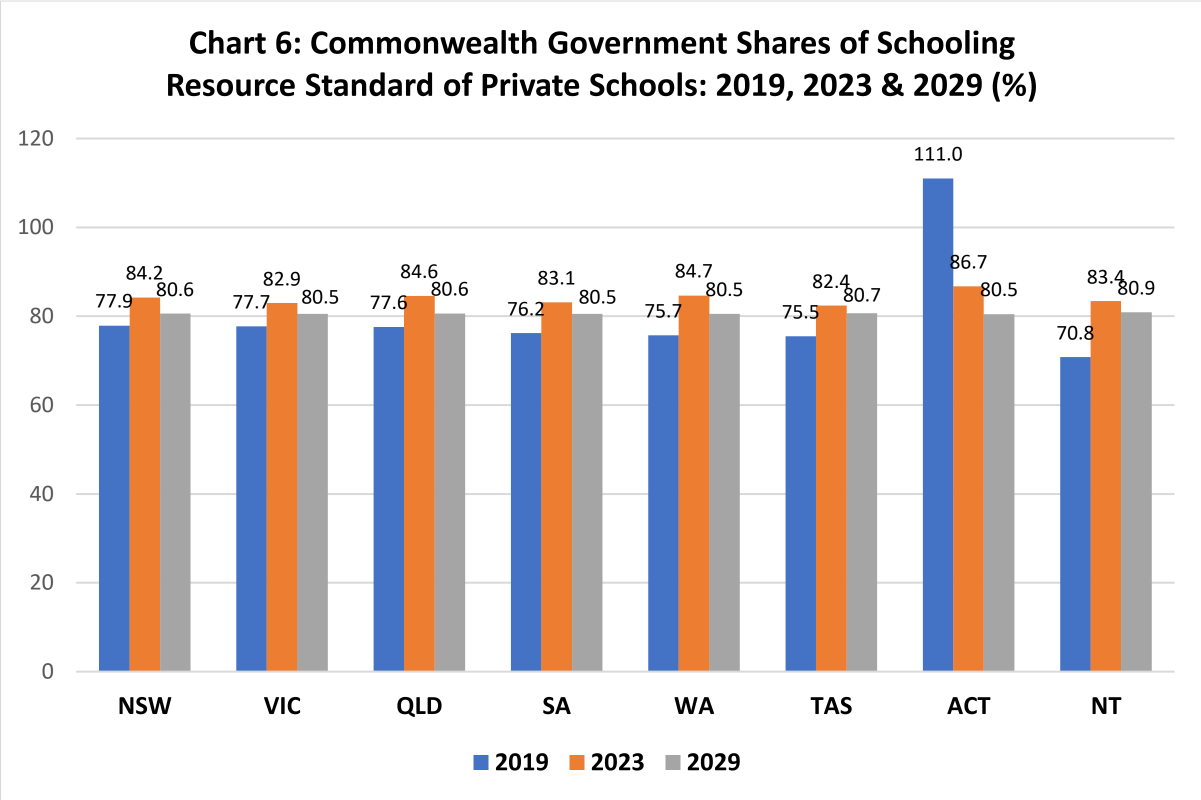
The Government accepted the recommendations and said that many would be implemented by the end of 2020.[123] However, there has been no announcement on progress in implementation of the recommendations.

8. Commonwealth over-funding of private schools

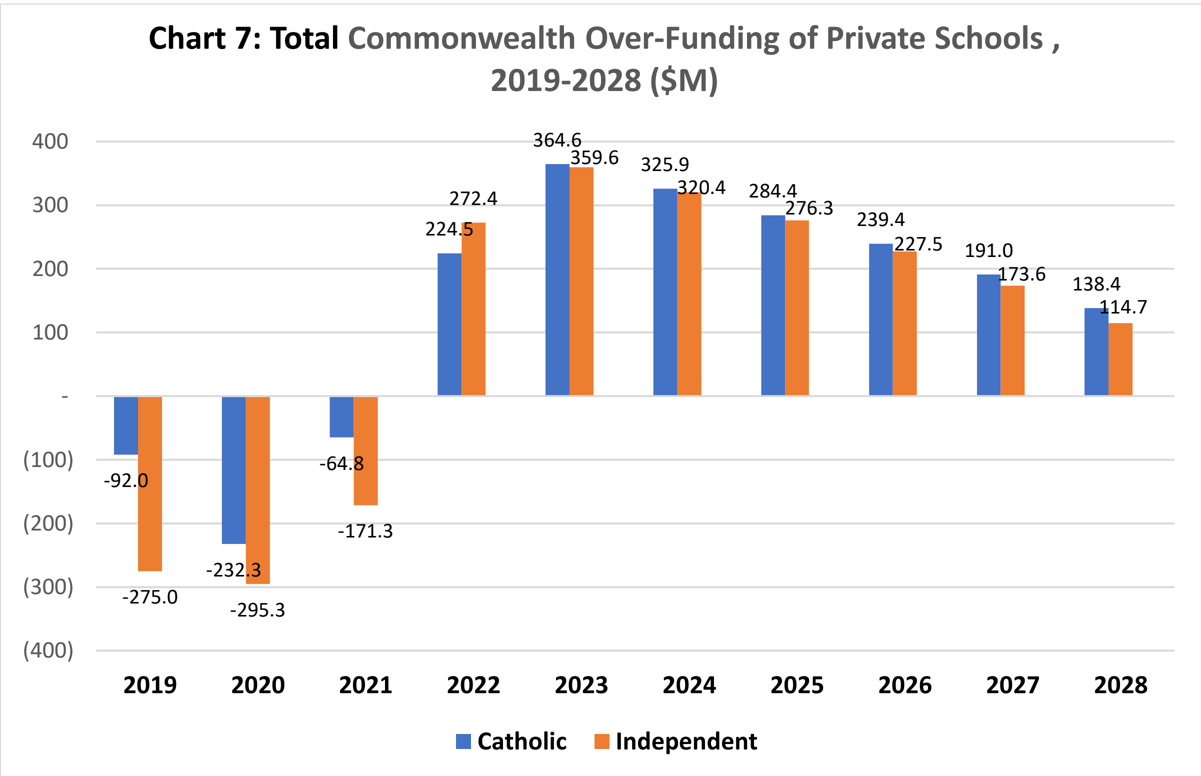
The introduction of the DMI approach to determining private school funding and the Choice and Affordability Fund ensure that the Commonwealth share of the SRS of private schools will overshoot the 80% target specified in the Education Act. from 2022 to 2029. As noted above, the original objective was to increase the Commonwealth share to 80% by 2023 for all private schools funded at less than 80%. However, under the changes introduced by the Morrison Government, private schools in all states will be funded at over 80% of their SRS by 2022 and by even more in 2023. The shares are due to gradually reduce to just over 80% by 2029 [Chart 6].[124]

The net over-funding from 2019 to 2029 will amount to about $2.6 billion after taking account of the fact that the funding shares are less than 80% in all states except the ACT for 2019 to 2021. However, the over-funding for the period 2022-2029 amounts to about $3.7 billion [Chart 7]. Catholic schools will be over-funded by about $1.9 billion and Independent schools by $1.8 billion.

[123] Department of Education, Skills and Employment, The National School Resourcing Board's Review of Needs-Based Funding Requirements: Australian Government Response, July 2020.
[124] Note that the shares shown in Charts 6 & 7 include funding provided under the DMI and the Choice and Affordability Fund.



Sources:
Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice SQ20-000151.
Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.
Department of Education, Skills and Training, Choice and Affordability Fund Agreements 2020.



Source: See Chart 6.

9. Commonwealth/State funding agreements

The requirement of the Education Act that the Commonwealth Government fund public schools to 20% of their SRS and private schools to 80% of their SRS is complemented by bilateral funding agreements between the Commonwealth and state and territory governments. Seven agreements were signed in December 2018 followed by an agreement with the Victorian Government in June 2019.[125] The agreements set out minimum state funding shares for the public and private schools as a condition for Commonwealth funding. The agreements run from 1 January 2019 to 31 December 2023 but include indicative arrangements to 2029.

Public schools rely heavily on state funding which accounts for about 80% of total government funding. Unfortunately, the agreements ensure that the national school funding arrangements are now systematically biased against public schools. Public schools will be under-funded indefinitely while private schools in several states will be over-funded.

There is no longer an integrated national funding model as envisaged by the Gonski report. The effect of the agreements is to further fragment and undermine what is left of the national funding model. They destroy the integrity of the national measure of the SRS by selectively changing what is included in the measure. They give favourable treatment of private schools while reducing state funding commitments to public schools. They deceive the public about the level of state government funding of public schools and the extent of progress in meeting target funding shares by the states for public schools.

9.1 State funding of public schools

The agreements will result in chronic under-funding of public schools until at least the end of the decade unless there is a dramatic change in Commonwealth and state funding policies. There are three sources of the under-funding:

- The formal target share for state funding is 75% of the SRS of public schools, not 80%;
- Apart from the ACT, the states can claim up to 4% of their share for expenditures not included in the income measure of the SRS;
- Several states can also include other specified items as part of their 75% share that are also not included in the income measure of the SRS;

As shown below, these provisions will mean that public schools in all states except the ACT will be funded at 71% of their SRS or less by state governments until at least the end of the decade.

The agreements also provide for funding for a range of reform measures to be included in the target shares of the states. These measures generally involve funding that is included in the income measure used to calculate the SRS. However, a few may be the responsibility of curriculum and standards authorities and these are not included in the SRS measure.

9.1.1 Formal target share of 75% of the Schooling Resource Standard

In 2018, all states except Western Australia and the ACT were funding public schools at far less than 80% of their SRS and the Commonwealth Government was funding public schools at less than 20% of their SRS in all states except the Northern Territory. While the Commonwealth will increase its share of funding public schools to 20% of their SRS by 2023 most state governments are only formally committed to funding public schools at 75% of their SRS by 2027 (2028 in Victoria, 2032 in Queensland and no commitment to any target beyond 59% of the SRS by 2023 in the Northern Territory).

[125] Department of Education, Training and Skills, The National School Reform Agreement. https://www.education.gov.au/national-school-reform-agreement-0

The Western Australian Labor Government agreed to reduce its SRS share from 84.43% in 2018 to 75% by 2022. While it also agreed to reduce its share for private schools from 26.3% to 20% by 2020, it included a caveat in the agreement to retain flexibility to fund private schools above the minimum requirements.[126] A similar caveat for public schools was not included in the agreement. The ACT Labor Government agreed to reduce its share from 92.11% in 2018 to 80% by 2023.

9.1.2 Allowance to claim non-SRS expenditures as part of the target share of the SRS

The agreements allow all states apart from the ACT to claim several of non-school based expenditures as part of their 75% SRS share, but which are excluded from the nationally agreed definition of net recurrent income per student used to estimate the SRS. They can include specified expenditures up to 4% of their SRS and all expenditure for other specified items.

These provisions allow all states except the ACT to artificially boost their funding shares of the SRS of public schools so they do not have to increase their recurrent funding by as much to achieve the 75% target. In effect, their required target share is less than 71% and public schools will only ever be funded at less than 91% of their SRS, taking account of the Commonwealth share.[127]

The additional expenditures allowed to be counted towards the achievement of the 75% target for public schools are depreciation, transport to and from school, regulatory authorities such as boards of studies and registration and qualification authorities, pre-school and early childhood (see Table 1). These expenditure items are specifically excluded from the income used to estimate the SRS.[128]

Table 1: Other Expenditures Allowed in State Shares of the SRS of Public Schools

State	Items in 4% Allowance	Other Items
NSW	Depreciation, Education Standards Authority	–
VIC	Depreciation, Rural & regional school transport	Curriculum & Assessment Authority; Registration & Qualifications Authority; other regulatory activity
QLD	Depreciation, School transport	Curriculum & Assessment Authority
SA	Depreciation, School transport	Certificate of Education Board, Education Standards Board
WA	Depreciation, school transport, pre-school	Curriculum & Standards Authority; regulatory functions
TAS	Depreciation, School transport	Office of Assessments, Standards & Certification
ACT	–	–
NT	Depreciation, School transport, Early childhood	–

Source: Commonwealth/State Bilateral Funding Agreements.

126 National School Reform Agreement - Western Australia Bilateral Agreement, 3 December 2018.

127 The swindle to defraud public schools was first exposed by Save Our Schools. See Trevor Cobbold, Public Schools Are Swindled by Billions Under New Education Agreements, Education Research Brief, Save Our Schools, November 2018; Trevor Cobbold, New Funding Agreements Defraud Public Schools, Education Research Brief, Save Our Schools, February 2019; Trevor Cobbold, Skulduggery by the Morrison & Andrews Governments Robs Victorian Public Schools of Billions, Save Our Schools, 9 July 2019. See also Jordan Baker, Loophole leaves nation's public schools short changed, Sydney Morning Herald, 30 November 2018; Michael McGowan, Special deals 'swindling' public schools out of billions, new analysis says, The Guardian, 7 February 2019; Henrietta Cook, Victorian state schools short changed under 'escape clause', The Age, 8 July 2019.

128 Australian Curriculum, Reporting and Assessment Authority, My School Financial Reporting: Key Principles and Methodology, 2020; Australian Curriculum, Reporting and Assessment Authority, Finance Data Working Group, Financial Data Reporting Methodology – 2018.

NSW and the Northern Territory can only claim the 4% allowance but the other five states can claim more than 4% because they can claim expenditure on standards and regulatory authorities as well. In the case of Western Australia, the sleight of hand will allow the state government to reduce its share of funding of public schools by even more than indicated by the schedule in the Agreement. Instead of the share being reduced from 84.4% in 2018 to 75% by 2022 its actual share of the SRS measured by the nationally agreed method will be less than 71% if the Government takes full advantage of the allowances.

It is incongruous to include these items as part of the 75% state funding shares of the SRS when they are specifically excluded from the expenditure measure of the SRS. It undermines national consistency in the definition of net recurrent income of schools and the SRS.

The SRS is measured by net recurrent income per student as compiled by ACARA. It includes income received by schools and a "notional income" derived from benefits provided by state education departments in the form of teaching staff, administrative support, IT support, etc. which are allocated to schools according to full-time equivalent enrolments. This definition was developed by a national Finance Data Working Group, with advice by the accounting firm Deloitte Australia, to support a nationally consistent system for the reporting of school financial data. It was accepted by all governments.[129]

The fact is that expenditures on depreciation, school transport, boards of studies, qualification authorities, etc. were excluded from net recurrent income per student for good reason. They are not income or benefits received by schools that is available for expenditure relating to the ongoing operating costs of schools. Therefore, they are not part of the SRS as the recurrent income needed by schools to achieve educational success for all children.

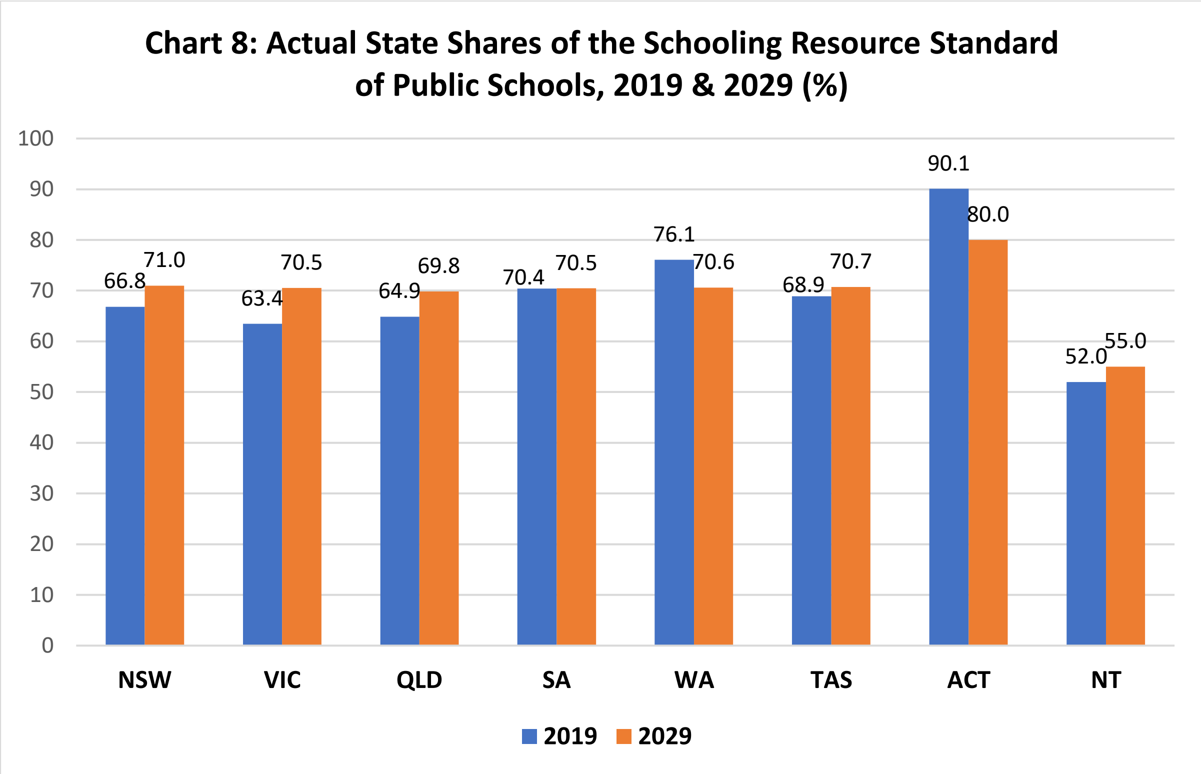
It is also revealing that the states are not permitted to claim their whole expenditure on the additional items now included in the measure of progress to the target SRS but can claim only up to 4% of the total SRS. This indicates that it is a convenient rort negotiated between the Commonwealth and state governments to get a political agreement.

This arbitrary arrangement undermines the integrity of the national funding model. What is included in the SRS is subject to government manipulation to serve political interests. The Commonwealth and state governments have conspired to change the rules about what is included in the target share of the SRS to meet their own respective political interests. The change of rules reduces the future funding commitments of the states and the Commonwealth gets the states to agree to implement its national education policies as a condition of Commonwealth funding. It defrauds public schools and serves to deceive the public about the extent of progress by state governments in meeting target funding shares for public schools.

9.1.3 State government under-funding of public schools

Public schools in all states except the ACT will continue to be funded at far less than 80% of the state share of their SRS if governments fully claim their allowances to include non-SRS expenditures as part of their funding shares. Public schools in Victoria, Queensland, South Australia, Western Australia, Tasmania and the Northern Territory will be funded at less than 71% of their SRS by 2029 [Chart 8]. New South Wales public schools will be funded at 71% of their SRS while the share for public schools in the ACT will fall from 90.1% in 2019 to 80% by 2023.

[129] Australian Curriculum, Reporting and Assessment Authority, My School ACARA FDWG 2011 Financial Data Reporting Methodology; Deloitte, Methodology for reporting financial data on the My School website, Letter to ACARA, 15 February 2012.



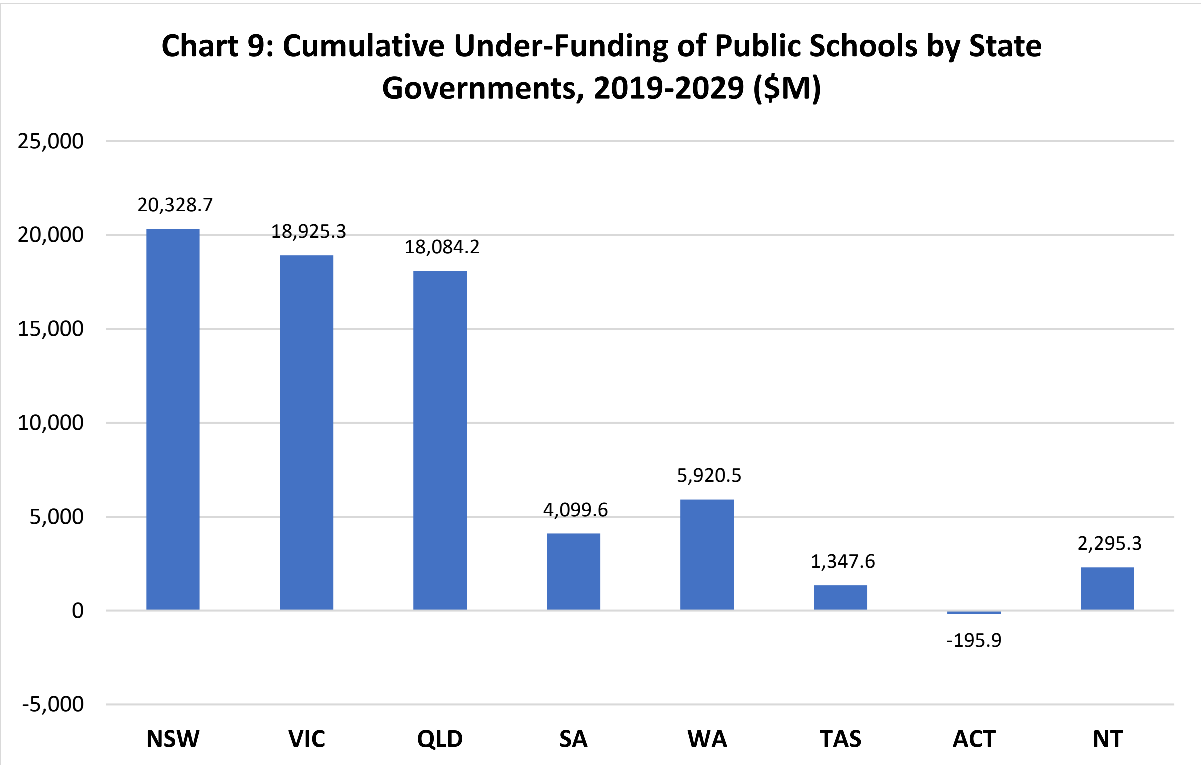
Sources:

Senate Education and Employment Committee, Budget 2019-20, Additional Estimates, Answer to Question on Notice SQ20-000151.

Senate Education and Employment Committee, 2020-21 Budget Estimates, Answer to Question on Notice No SQ20-001973.

Commonwealth/State Bilateral Funding Agreements.

Annual reports of regulatory agencies.



Sources: See Chart 8.

All this represents a huge potential loss of funding for public schools to 2029 if state governments choose to take full advantage of the expenditure allowances. The cumulative under-funding to 2029 will amount to about $71.5 billion, of which about 80% will be incurred by public schools in NSW, Victoria and Queensland [Chart 9].

9.2 State funding of private schools

The bilateral agreements are biased in favour of private schools over public schools in two major ways:

- Private schools will be fully funded at the state share of 20% of their SRS or more while the formal state share for public schools is 75% instead of 80%;
- States cannot include non-SRS expenditure up to 4% of the SRS as part of their target SRS share for private schools and must meet their share with recurrent funding included in the income measure of the SRS.

The bilateral funding agreements show that state funding of private schools in 2018 was above 20% of their SRS in all states except Victoria and the Northern Territory.[130] Only three states (Victoria, Tasmania and the ACT) have committed to funding private schools at 20% of their SRS from 2023. There are caveats in the NSW, Queensland, South Australian and Western Australian agreements that allow them to continue to fund private schools at above 20%. Under the Northern Territory agreement, the Territory Government is not committed to increase funding beyond 15.09% in future.

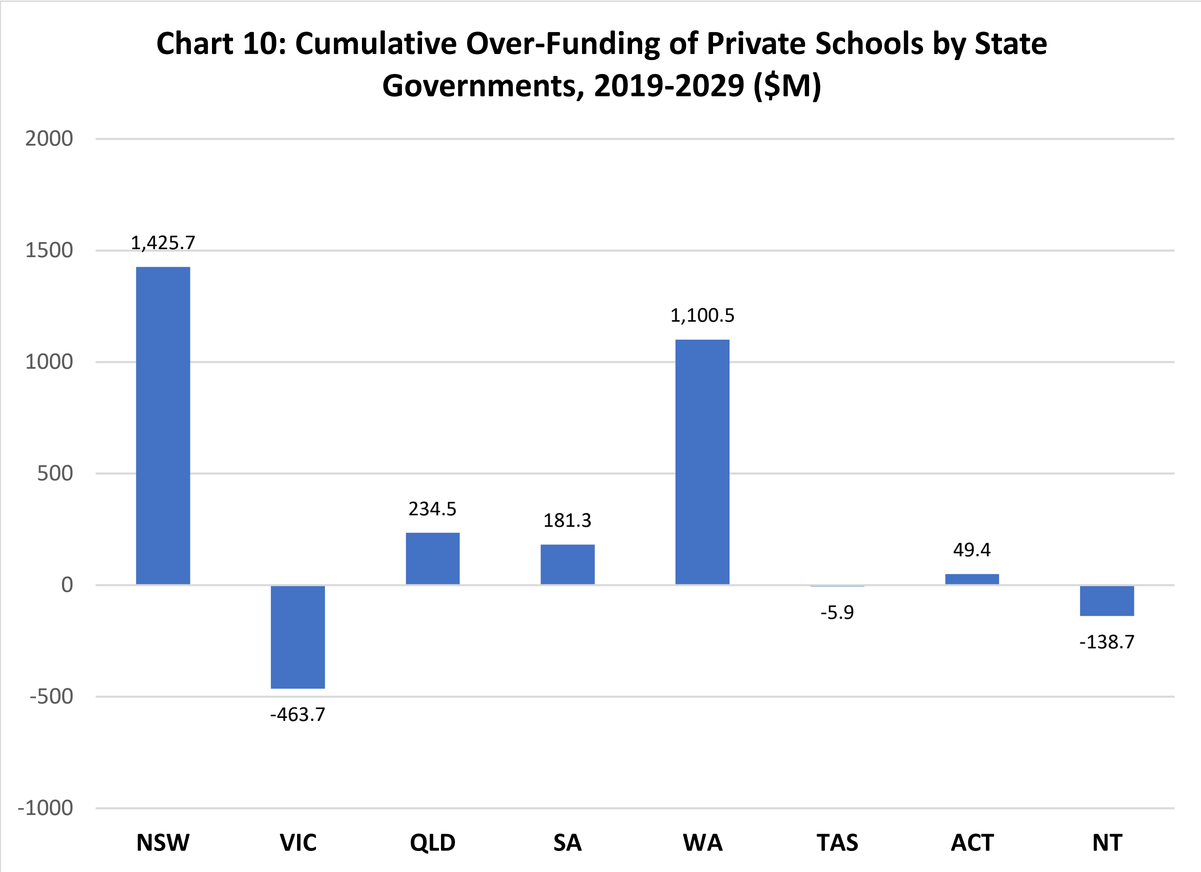
The NSW agreement says that the state share for private schools will be at least 20% by 2029, signalling that it may be above this. However, documents published by the NSW Government indicate that schools funded at above 20% of their SRS will transition down to 20% by 2029.[131] The Queensland agreement signals the intent of the state government to continue to fund private schools at above 20%. The agreement states that funding of private schools above the minimum is a “matter for the Queensland Government as provider and administrator of this funding”. The South Australian agreement states that the Government “intends to maintain funding of 22 per cent to the non-government sector for the period 2018 to 2023” and presumably beyond then. The Western Australian agreement states that WA Government “retains the flexibility to fund non-government schools above the minimum requirements for all or part of the term of the agreement”.

Private schools are not defrauded by the sleight of hand that applies to public school funding by the states. The states cannot claim non-SRS expenditures up to 4% of their SRS as part of their target share. Yet private schools benefit from capital and school transport funding by state governments. If there is case to include these expenditures in the definition of the SRS, it should also apply to private school funding. The selectivity with which this new arrangement is applied reveals that it is designed to reduce the funding commitments to public schools by state governments while continuing over-funding of private schools.

Victoria, Queensland, Western Australia, South Australia and Tasmania can claim the regulatory expenditures in Table 1 as part of their SRS share. These expenditures are negligible compared to all the non-SRS expenditures allowed for public schools. In 2019, they were about $76 million compared to $1.9 billion in non-SRS expenditures the states could claim as part of their target funding share for public schools.[132]

[130] The agreements do not provide separate state shares for Catholic and Independent schools.
[131] NSW Government, Funding for non-government schools in NSW 2019-2029, Fact Sheet (no date).
[132] Estimated as 4% of the SRS of public schools and non-SRS expenditure obtained from the annual reports of regulatory agencies included in Table 1.

In contrast to their under-funding of public schools by about $71.5 billion, state governments will over-fund private schools by about $2.4 billion between 2019 and 2029 [Chart 10]. Over-funding of NSW and Western Australian private schools will amount to about $2.5 billion. Victorian private schools will be under-funded by about $463 million because they funded at less than 20% of their SRS until 2023 and the Victorian Government can substitute expenditure on regulatory agencies for recurrent funding to 2029. Northern Territory private schools will be under-funded by a total of $139 million because the government has not committed to increasing its SRS share of funding beyond 15.09%. Tasmanian private schools will be under-funded by about $6 million over the period.



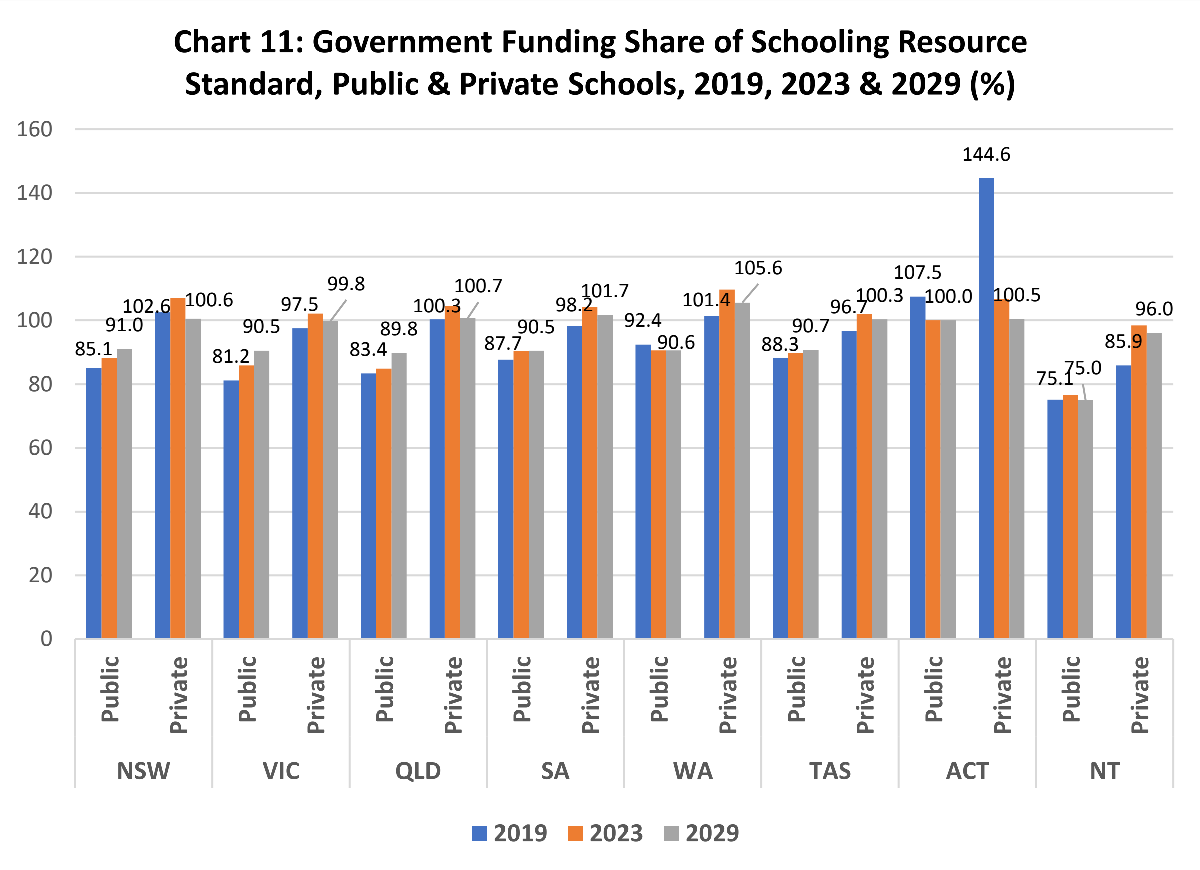
Sources: See Chart 8.

9.3 Monitoring state compliance

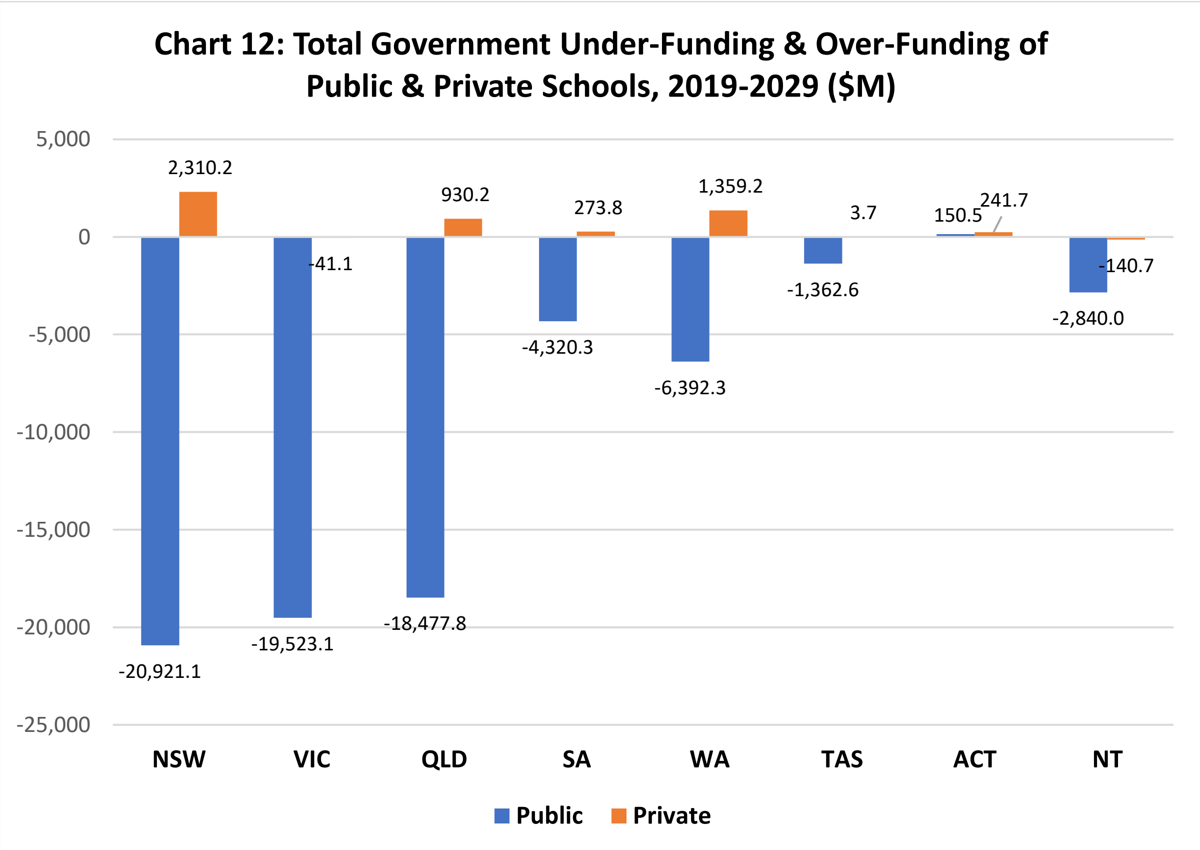
The Australian Education Act requires the National School Resourcing Board to undertake an annual review of state and territory compliance with the requirement for the states to meet the minimum school funding contributions for public and private schools. The Board is due to submit its review of state funding contributions by 30 June 2021.

10. Total under-funding of public schools and over-funding of private schools

The Morrison Government's new measure for determining the funding of private schools and the Choice and Accountability Fund combined with the bilateral funding agreements negotiated with the states ensures that public schools will be massively under-funded to the end of the decade while private schools will be significantly over-funded. Public schools in all states except the ACT will be funded at less than 91% of their SRS while private schools in all states except the Northern Territory will be funded at 100% or more of their SRS [Chart 11, only the shares for 2019 & 2029 are labelled].



Source: See Chart 8.



Source: See Chart 8.

In 2019, the private school funding shares were less than 100% in all states except NSW, Western Australia and the ACT. The shares are due to increase to a peak significantly above 100% by 2023 and then gradually decline to slightly above 100% in 2029, except in the Northern Territory. Public schools will be massively under-funded over the period to 2029. The cumulative under-funding is estimated at about $73.7 billion or an average of $6.7 billion per year for the eleven years.[133] Public schools in NSW will be under-funded by $20.9 billion, by $19.5 billion in Victoria, and by $18.5 billion in Queensland [Chart 12]. Under-funding will be smaller but significant in the other states except the ACT.

In contrast, private schools will be over-funded by $4.9 billion over the same period.[134] They will be fully funded by 2021 and annual over-funding of will increase to over $950 million in 2023 and then gradually fall to over $200 million in 2029. Total over-funding from 2022 to 2029 will amount to about $5 billion, with about $4.2 billion going to private schools in NSW, Queensland and Western Australia.

11. The Morrison Government has re-affirmed choice as its funding priority

Despite their initial opposition to the Gonski funding model, successive Coalition governments have been forced to retain its basic features, namely the base SRS and the needs-based funding loadings for various categories of disadvantaged students and schools. However, they have succeeded in destroying the model. The Abbott Government ditched the large funding increase for 2018 and 2019 that was planned under the original model, an increase that would have mainly benefitted public schools. The Turnbull Government abandoned the national approach to funding and reverted to the longstanding division of responsibilities for funding public and private schools, with the Commonwealth having primary responsibility for private schools and the states having primary responsibility for public schools.

The Morrison Government completed the demolition. It engineered a huge funding boost for private schools by adopting a highly flawed method of determining their financial need and by increased funding outside the basic model that was not based on need. Public schools were denied a similar increase. Indeed, the Government and conspired with state governments to massively defraud public schools by allowing them to claim expenditures not included in the measure of the SRS as part of their target share.

Morrison dismissed the needs of public schools as a matter for state governments saying that "state governments are the principal funders of state schools" while the Commonwealth "has always been the principal funder of non-government schools".[135] It continues the Coalition's long tradition of guaranteed funding of private schools and no guarantees for public schools. The Morrison

[133] This estimate is larger than previous estimates by the author because it covers the 2019-2029 period instead of 2021-2029 and includes estimates of regulatory expenditures claimed against the SRS target. For previous estimates see Trevor Cobbold, Over-Funding of Private Schools to Increase While Public Schools Remain Under-Funded, Education Research Brief, Save Our Schools, February 2021.
[134] This estimate is lower than previous estimates by the author because it includes funding for 2019 and 2020 when private schools were funded at less than 80% of their SRS by the Commonwealth and takes account of regulatory expenditures claimed against state government shares of the SRS of private schools.
[135] Scott Morrison, Press Conference with the Minister for Education, 20 September 2018; Paul Karp, Catholic and independent schools given extra $4.6bn in funding peace deal, The Guardian, 21 September 2018.

Government has fulfilled what Tony Abbott called the Liberal Party's "proud history of funding independent and Catholic schools" to "protect them" and ensure they "continue to flourish.[136]

The Government has effectively dismissed the needs of disadvantaged students because the vast majority attend public schools. In 2019, public schools enrolled 80% or more of disadvantaged students – low SES (80%), Indigenous (84%), extensive disability (86%), and remote area students (82%).[137] Also, over 90% of the most disadvantaged schools are public schools.[138] Yet, public schools are destined to receive a much smaller increase in funding to 2029 than private schools and will remain vastly under-funded.

Choice is more important than equity in education for the Morrison Government. It unashamedly re-affirmed the Howard-era mantra of school choice as its policy priority. Support for parent choice was a key justification for the funding boost for private schools. The Government's media release announcing its peace deal with the Catholic Church was headed "More Choice for Australian Families".[139] It said that the funding would provide "choice and equity in education". In the joint media conference on the funding announcement, Morrison said:

> We believe in choice in education. We believe Australian parents should have choice and we're guaranteeing that choice through the decisions and the commitments and the agreements we reached today. [140]

This was echoed by Tehan, who told the Parliament that the Choice and Affordability Fund is to:

> …ensure, right across Australia, that parents have the ability to have choice, and affordable choice. Whether they're in an inner-city area or whether they're in a rural or remote area, we want to ensure that that choice is there.[141]

These views reflect those of the Catholic Church. In his statement on the "peace deal" with the Morrison Government, Archbishop Anthony Fisher said:

> Educational need cannot be limited to financial need. Every child needs a quality education and there is a need for every parent to have a real choice in education, including the option of a faith-based school. The previous funding ¬ arrangements put in jeopardy the future of low-fee, low-expenditure, faith-based schools.[142]

The Catholic Church view of need was premised on the availability of choice of low-fee schools as the NCEC stated:

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[136] Sean Nicholls and Phillip Coorey, Dump plans to cut school funding, Abbott tells NSW, Sydney Morning Herald, 11 September 2012; Tony Abbott, Doorstop Interview, 7 March 2012.
[137] Australian Bureau of Statistics, Schools 2019; Steering Committee for the Review of Government Service Provision, Report on Government Services 2021, Productivity Commission, 2021, Tables 4A.6, 4A.7.
[138] Trevor Cobbold, The Vast Majority of Disadvantaged Schools are Public Schools, Education Research Paper, Save Our Schools, May 2019.
[139] Scott Morrison and Dan Tehan, More choice for Australian families, Joint Media Release, 20 September 2018.
[140] Scott Morrison, Press Conference with the Minister for Education, 20 September 2018; See also Scott Morrison, Interview with Sabra Lane, ABC AM, 21 September 2018.
[141] Dan Tehan, House of Representatives, Hansard, 20 September 2018, p. 65.
[142] John Ferguson, School funding row ends with $4.5bn deal, The Australian, 21 September 2018.

…'need' not only relates to wealth; every child needs a quality education and parents need a real, affordable choice including the option of a faith-based school. The community therefore needs a public school system and a parallel, low-fee alternative across Australia if these needs are to be satisfied.[143]

School choice has always been a cover for more funding for private schools. As many research studies around the world and in Australia have shown, school choice is a policy that promotes social segregation in schools and exacerbates inequity in education.[144] For example, an OECD study concluded:

> In the last 25 years, more than two-thirds of OECD countries have increased school choice opportunities for parents. The empirical evidence reviewed here reveals that providing full parental school choice results in further student segregation between schools, by ability, socio-economic and ethnic background, and in greater inequities across education systems.[145]

Another OECD report also found that school choice policies have increased social and academic segregation between schools which, in turn, reduced equity in education. it increases social segregation of students as choice is mostly used by middle-class and wealthy families:

> Empirical results in this volume suggest that weakening the link between place of residence and school allocation is related to a higher level of school segregation by social status. Some resilient disadvantaged students may have access to schools that would otherwise be inaccessible if a strict residence-based policy were applied. But that, in itself, does not offset the social-sorting effects that result when it is mostly middle- or upper-class families that take advantage of school-choice policies.[146]

Furthermore:

> Empirical evidence from systems with country- or state-wide school-choice policies, such as Chile, New Zealand, Sweden and the United States, suggests that providing more opportunities may increase school stratification based on students' ability, socio-economic status and ethnicity.[147]

Remarkably, the Prime Minister claimed that the new funding method would make the education system "fairer and more equitable".[148] It is incomprehensible how he could consider a massive increase for private schools and no equivalent increase for public schools will make the education system fairer. As former Minister for Education in NSW, Adrian Piccoli, said:

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[143] National Catholic Education Commission, School funding changes support families, Media Release, 20 September 2018.

[144] Waslander, S., Pater, C., & Weide, M. Markets in Education: An Analytical Review of Empirical Research on Market Mechanisms in Education. Working Paper 52. OECD Publishing, Paris, 2010; Trevor Cobbold, The Great School Fraud: Howard Government School Education Policy 1996-2006, Paper prepared for the Australian Education Union, April 2007.

[145] Pauline Musset, School Choice and Equity: Current Policies in OECD Countries and a Literature Review, OECD Education Working Papers, No. 66, OECD Publishing, Paris, January 2012.

[146] OECD, Balancing School Choice and Equity: An International Perspective Based on Pisa, PISA, OECD Publishing, Paris, 2019, pp. 11-12.

[147] Ibid, p. 20.

[148] Scott Morrison and Dan Tehan, More choice for Australian families, Joint Media Release, 20 September 2018.

> There is nothing equitable or fair about that at all and is contrary to the very concept of needs-based funding. This does nothing for the kids who need the funding the most.[149]

Morrison's argument that the new funding will make the system fairer has Orwellian overtones. As Peter Goss of the Grattan Institute commented: "…all schools are equal but some are more equal than others". [150]

Morrison's claims are not supported by the research evidence. A study published by the US National Bureau of Economic Research shows that school choice exacerbates inequality without improving opportunities for the most disadvantaged students.[151] This was confirmed by the OECD report which said there is widespread evidence that social segregation in schools impacts on the academic performance of its students.

> ….this evidence suggests that sorting students into schools by ability or social status may adversely affect both the efficiency and equity of the school system…. social and academic segregation in schools may create additional barriers to success for disadvantaged children and reduce equity in education.[152]

Moreover:

> School stratification may also have long-term negative consequences for social mobility. Disadvantaged students may develop biased education and career aspirations because of the absence of inspiring role models that are usually found in schools with a greater social mix. More generally, social stratification amongst schools may threaten social cohesion, as children are not accustomed to social or ethnic diversity.[153]

The report found added evidence of these effects from PISA 2015. It found that countries where schools were more socially segregated also had less-equitable education systems. Increasing social segregation amongst schools tends to widen the achievement gap between disadvantaged and advantaged students.

> In 2015, countries where schools were less socially diverse also had less-equitable education Systems…..
> Empirical evidence suggests that social segregation across schools is negatively correlated with equity in education…[154]

12. School funding must be completely over-hauled

The vision of the Gonski report to re-direct education policy and funding to reducing inequity in education has been extinguished by Coalition governments. The Gonski funding model was

[149] Adrian Piccoli, Political fix': Why Morrison's school funding deal is a dud, Sydney Morning Herald, 22 September 2018.
[150] Peter Goss, Three charts on: why Catholic primary school parents can afford to pay more, The Conversation, 21 September 2018.
[151] W. Bentley MacLeod & Miguel Urquiola, Is Education Consumption or Investment? Implications for the Effect of School Competition, Working Paper 25117, National Bureau of Economic Research, Cambridge, Mass., October 2018.
[152] OECD, Balancing School Choice and Equity: An International Perspective Based on Pisa, PISA, OECD Publishing, Paris, 2019, p. 20.
[153] Ibid, p. 20.
[154] Ibid, pp. 67, 68.

progressively dismantled by the Abbott and Turnbull Governments and the Morrison Government has completed the demolition with the complicity of Coalition and Labor state governments.

According to the new Education Minister, Alan Tudge, "the "school funding wars are now over".[155] Tudge has been an active participant in all stages of the war. He opposed the Gonski plan at the outset because it would "penalise" Catholic and Independent schools.[156]

The war is certainly not over for public schools. They have been under-funded for decades. For example, between 2009-10 and 2018-19, Commonwealth and state government funding for private schools increased by more than six times that for public schools. Private school funding increased by $2,164 per student, adjusted for inflation, compared to $334 per student for public schools.[157] The special deals for private schools introduced by the Morrison Government and the defrauding of public schools by the bilateral agreements between the Commonwealth and the states will ensure that private schools continue to be much better resourced than public schools until the end of the decade.

Radical change is required to provide public schools with the resources to confront the challenges they face. The original Gonski report made two key mistakes. First, it bowed to Julia Gillard's edict, not included in the terms of reference, that no school would lose a dollar of funding. This decree ensured that elite private schools whose resources massively exceed those of public schools would continue to be over-funded by the taxpayer at huge cost.

The second mistake was to continue to rely on the concept of capacity to contribute as the way to assess the financial need of schools. The problems in assessing capacity to contribute are insuperable. All methods ignore major sources of family and school income as well as family and school wealth with the result that private schools are hugely over-funded.

There is now no option but to return to the drawing board and design a new national funding model to address disadvantage and improve equity in education. This is the fundamental challenge facing education in Australia. The solution must involve boosting funding of public schools and a revised model for funding private schools.

Increased funding for public schools is fundamental to improved education outcomes for disadvantaged students because it provides the human and material resources needed to make a difference in learning. This is supported by numerous overseas and Australian studies and most recently by a comprehensive analysis of the most rigorous studies of the relationship between school funding and student outcomes published in the last 20 years.[158]

Increased funding for public schools must be better targeted to meet the needs of disadvantaged students and schools. This requires revised disadvantage funding loadings. For example, the current loadings are significantly below those suggested by international research studies on funding for low SES students.[159] These studies show that the additional expenditure required for low income

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[155] Alan Tudge, Being our best: Returning Australia to the top group of education nations, 11 March 2021.
[156] Alan Tudge, Second Reading speech, Australian Education Bill 2013, Hansard, House of Representatives, 2 February 2013.
[157] Trevor Cobbold, Private School Funding Increase is Six Times the Public School Increase, Education Research Paper, Save Our Schools, March 2021.
[158] C. Kirabo Jackson and Claire Mackevicius, The Distribution of School Spending Impacts, Working Paper 28517, National Bureau of Economic Research, Cambridge, Mass, March 2021.
[159] Trevor Cobbold, The Case for Gonski Plus Funding Loadings for Low SES Students, Education Research Brief, Save Our Schools, October 2014.

students to achieve adequate standards of education is double or more the cost of educating a non-poor student.

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 only 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. This is the model proposed to the Gonski review by Save Our Schools.[160]

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.

[160] Save Our Schools, A Fair Go for All Kids: Funding for Equity in Education, Submission to the School Funding Review, March 2011; Save Our Schools, A Proposal for a New School Funding Model, April 2011; Save Our Schools, Towards a New School Funding Model, Submission in Response to the School Funding Review Research Reports, September 2011.