

Updated 8 August 2020

Direct Measure of Income Methodology

In April 2020 changes were made to the Australian Education Act 2013 to legislate the Direct Measure of Income methodology and its use in calculating Capacity to Contribute scores.

What is the DMI methodology?

In the current Australian Government schools funding model, base funding for students attending non-government schools is discounted by the 'capacity to contribute' (CTC) of a school's parents and community.

Prior to 2020 CTC scores were determined solely using an area-based measure of the school community's socio-economic status (SES) based on the ABS Census of Population and Housing.

From 2020 a new Direct Measure of Income (DMI) methodology has been implemented using the personal tax income data of parents and guardians to calculate the median income in a school to determine the 'capacity to contribute' score for that school.

The difference in methodology means that for most schools, there will be a change in their CTC scores between the two methodologies. Some schools will see a resulting increase in funding, some schools will have the same CTC score and thus no change, and some schools will see a reduction in funding.

How is parental data collected?

The new DMI methodology for calculating CTC scores requires the collection of the names and addresses of students' parents and guardians from non-government schools every year which are then provided to the Commonwealth Department of Education as part of the student address collection.

These names and addresses are then linked to personal income tax records in the Multi-Agency Data Integration Project (MADIP), a secure ABS data environment which enables linkages between large government data sets.

For the 2019 Address Collection all approved authorities for schools in the non-government sector were provided with a 2019 Collection Notice for parents and guardians setting out the use and disclosure of personal information and a FAQs document.

These documents are available at <https://schools.education.gov.au/SchoolsHub/About-data-collections/>

Phase-in Arrangements

The move to the new arrangements for calculating a CTC score will be phased in from 2020. These phased arrangements mean that schools will be funded on the basis of 'best-of' CTC score using methodologies based on either the 2011 Census SES, 2016 Census SES or DMI in 2020 and 2021 with all schools transitioning to DMI methodology in 2022.

Also announced were amended transition pathways for schools which take into account the move to DMI CTC scores.

- Schools transitioning up to 80% Commonwealth share of their Schooling Resource Standard (SRS) will complete their transition in 2023.
- Schools transitioning down to 80% Commonwealth share of their SRS will complete their transition in 2029.

This gives schools transitioning down to their entitlement an additional 2 years to complete their transition.

For systems, the transition arrangements will be applied at the school level rather than at the system level which is the current methodology. Systems will still be able to redistribute funding between schools.

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Impacts at the school level

While for most schools a decrease in the DMI CTC score will result in additional funding and an increase in the DMI CTC score will result in decreased funding, it is important to note that the current SRS funding model is complex and Independent schools are already in the process of transitioning from their current funding levels to an 80% Commonwealth share of the SRS.

Some schools are already on their SRS, but most are still in the process of either transitioning up or down to an 80% Commonwealth share of SRS.

This means that each Independent school will be on an individual transition path incorporating a range of factors, including CTC scores but also future changes in demographics, student numbers and the loadings for disadvantage which are fully publicly funded.

Impacts at the sector level

ISA estimates that the introduction of the DMI methodology to calculate the CTC score will result in a reduction in funding to the Independent sector of \$212 million between 2020 and 2029 compared to the funding the sector would have received under the current SES methodology.

Approximately 420 schools (or 42% of the sector) will have an increase in per student funding between 2020 and 2029 as result of the DMI methodology. The additional funding is estimated to be worth \$1.6 billion between 2020 and 2029.

350 schools (35% of the sector) will have a decrease in per student funding between 2020 and 2029 as result of the DMI methodology. The decrease in funding is estimated to be worth \$1.8 billion between 2020 and 2029. For some schools this means a reduction in per student funding between 2020 and 2029 but for most schools it results in a reduced rate of growth in per student funding.

Approximately 230 schools (23% of the sector) will have no change in CTC score and thus no change in funding as a result of the introduction of the DMI methodology.

These figures do not include CTC exempt schools which are those serving highly disadvantaged communities and students such as special schools, Special Assistance Schools, remote sole providers and 'Majority Aboriginal and Torres Strait Islander schools.'

Choice and Affordability Fund

Funding has been made available to the Independent Sector under the Choice and Affordability Fund to support schools to transition through the Associations of Independent Schools. As announced by Minister Tehan, a portion of this funding will be used specifically to assist regional and remote schools requiring transition assistance.

The national priorities of the Choice and Affordability Fund as outlined in the Choice and Affordability Fund Guidelines are:

- Choice and affordability of schools
- Transition assistance
- Special circumstances funding
- Strengthening outcomes for schools and educationally disadvantaged schools and students
- Student wellbeing and support
- Other priorities identified by the Minister

On-going concerns

ISA still has a range of concerns associated with the introduction of the DMI methodology. These include:

- The lack of a thorough validation of the model and quality assurance processes including data matching rates,
- A lack of clarity around the appeals process,
- Insufficient time and a lack of data to assess the impact of the model on individual schools,
- The potential impact of the model on some types of schools such as regional schools,
- The lack of transparency inherent in the model.