



**Independent
Schools** Victoria

**Submission to the National School
Resourcing Board**

February 2018

*Response to the Review of the
Socioeconomic Status Score
Methodology Issues Paper*

The Independent Schools Victoria Vision:

‘A strong Independent education sector demonstrating best practice, providing excellent outcomes for students and choice for families’.

To realise this, we:

- advocate for excellence in education
- champion Member Schools
- support quality education
- protect the right of parents to choose where and how their children are educated.

Independent Schools Victoria will assist our 220 diverse Member Schools to continue providing the best possible education outcomes for the citizens of tomorrow.

40 Rosslyn Street West Melbourne VIC 3000; PO Box 119 North Melbourne VIC 3051
T: (03) 9825 7200 F: (03) 9826 6066 E: enquiries@is.vic.edu.au W: www.is.vic.edu.au
ABN 44 711 074 857
A0009210H

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Executive Summary

This submission is made on behalf of our Member Schools, and is based on ISV's published funding principles. It should be read in conjunction with, and in support of, the submission of the Independent Schools Council of Australia.

This submission does not provide any solutions to the question of whether the SES methodology should be amended or replaced. Consideration of 'solutions' can only be given once evidence has been collected and considered, to determine the extent to which the proposed solution meets the underlying principles of fitness for purpose, transparency and reliability. Any proposed solution should also ensure that its implementation does not result in changes in behaviour.

ISV acknowledges that there are limitations to the current SES methodology. It may be possible to make improvements, in order to make it more accurately measure capacity to contribute. However, such improvements must be assessed against the fundamental criterion that they improve the ability to measure capacity to contribute. It is also important that we do not allow 'the perfect to become the enemy of the good' in our efforts to improve the SES methodology. Any suggestions for improvements to the model must also be assessed against the ability to implement them in a practicable matter.

ISV fundamentally believes that it is appropriate for funding to be linked to a school's capacity to contribute. Thus, the first step in any process must be to repeat the validation exercise that was undertaken in 1999, to ensure that the SES methodology is still achieving this function.

Without a full validation exercise, there is no evidence available to suggest that any other methodology would perform this function better, without placing a significant burden on schools and parents. Without such evidence, ISV would not be able to support any changes to the SES methodology.

ISV is particularly concerned that some calls to replace the SES methodology are not based on the principles identified above. Instead, they are based on predetermined preferences about what the results of a funding model should be. It is largely these preferences that lead to calls for funding models either not to be linked to SES or not to capacity to contribute.

Finally, ISV believes that proposals to amend the slope of the current funding curve are inherently political decisions, rather than policy decisions. Again, these are linked to predetermined notions about which schools should 'win' or 'lose'. As previously stated, any such changes should only be made where there is a demonstrable policy improvement.

Submission

Funding Principles

Much of the current public debate on funding for schools is driven by desires, beliefs and assumptions about what level of funding should be allocated to individual schools and sectors. Based on this logic, funding models must then be retro-fitted to achieve the predetermined outcomes, or be regarded as a failure if they do not achieve these outcomes. As long as the development of funding models is driven by this sort of thinking, a stable and long-term solution will never be achievable, since everyone has a different opinion regarding the 'perfect' funding outcome at the school or system level.

For this reason, ISV believes that the third question in the National School Resourcing Board's (NSRB) Issues Paper is the key to the other two. Consideration about the pros and cons of the SES methodology, or any funding model, can only be made if the guiding principles are established as the first step in the process, and then evidence is collected to determine the extent to which any given funding model achieves these principles. Changes to funding arrangements should only be made where the evidence demonstrates either that current arrangements fail to meet the stated principles and/or that new arrangements would better achieve those principles.

ISV therefore agrees with Victoria University's Research Paper that the most fundamental principle, and the one that the NSRB would therefore need to consider first, is the purpose and objective of the measure. Specifically, NSRB should address the question of whether it is appropriate to allocate funding to schools on the basis of their community's capacity to contribute.

In the Review of Funding for Schooling, the Review Panel recognised that there was a fundamental difference between funding non-government schools according to the capacity for parents and a school community to contribute towards the cost of schooling, and funding schools according to the actual extent to which they contribute. The Panel's Recommendation 2 was based on the conclusion that:

'there remain a number of strong principled and practical arguments for continuing to base the allocation of the public contribution to non-government schools on the expected capacity of parents to make a financial contribution, rather than the extent to which they actually do so or have done so in the past.'

ISV supports this view. The old Education Resource Index [ERI] model is an example of the problems associated with allocating funding to schools on the basis of actual income levels. Under this model, there were particular concerns about both the transparency and the reliability of the data used to determine schools' level of need. Schools that had the time and capacity to understand the convoluted working of the methodology were better placed to structure their finances in such a way as to maximise funding outcomes.

Ideally, schools should set up their financial structures so as to best ensure their financial strength. However, the complexity of the ERI model, which was an attempt to cope with the range of financial structures in different schools, created incentives for schools to change their financial structures, solely in order to maximise their funding outcomes. These perverse incentives resulted in schools with similar levels of need ending up receiving very different funding outcomes, and funding was targeted to a school's flexibility in altering its financial structure rather than the need of its students.

Once the underlying purpose of the measure has been established, ISV supports the principles outlined in the Issues Paper. These principles match the criteria that the Independent Schools Council of Australia [identified](#) in 2012 for assessing any future funding model.

While it is implicit in the concept of equity, ISV strongly believes that an overriding principle is that all non-government schools should be treated in exactly the same way, regardless of what jurisdiction, sector or system they are in, and regardless of any characteristics extrinsic to the funding model.

Following on from the example provided by the ERI model, we identify another guiding principle that should be considered when assessing funding options – that funding arrangements should not promote perverse financial incentives, but should encourage schools to take decisions for sound educational reasons.

In saying this, however, we submit that none of the guiding principles can be absolute. Inevitably no funding model can achieve all of the principles perfectly, and trade-offs will be inevitable. For instance, any funding model which is completely responsive to economic and demographic change will not provide stability or certainty for schools – particularly where a large proportion of a school's funding is linked to a single, volatile measure of need.

The Victorian Government's funding for non-government schools provides a strong example of this problem. Just under half of the Victorian Government's Financial Assistance Model [FAM] is allocated according to students who are in receipt of Camps, Sports and Excursions Funding [CSEF], which is predominantly provided for students whose parents are on health care cards. The number of students in a school who are eligible for CSEF can vary significantly from year to year. And as the amount of funding provided per eligible student is significant, a small change in the number of eligible students can result in significant annual increases and decreases in a school's funding. Moreover, since schools are not easily able to predict future levels of funding under this element of the FAM, they can only confirm their funding entitlement half-way through the year in which the funding is provided, once CSEF applications close. Thus, while the CSEF element of the FAM is extremely responsive to change, it creates havoc with schools' ability to budget and plan effectively.

SES Methodology

The NSRB can only consider the strengths and weaknesses of any particular option, including retaining the SES methodology, once the guiding principles for assessing it are established. The NSRB should beware of allowing the 'perfect to become the enemy of the good'. The extent to which any proposed amendments or replacements of the SES methodology perform better on one funding principle must be balanced against the extent to which they may perform worse on another.

Strengths

Prior to the introduction of the SES methodology in 2001, the Australian Department of Education, Training and Youth Affairs conducted an extensive analysis of its merits. In 1998, the Department's SES Simulation Project Report stated that in a funding methodology, consideration should be given to

'a preference for a transparent funding system, a system based on reliable data, collected independently of the purpose of the funding program. For transparency, the relationship between source data, indicators and the relative funding level of a school should be able to be demonstrated, and the data should not be able to be manipulated to affect funding.'

This argument was one of the key reasons for preferring the SES methodology to the ERI model.

In recommending the SES methodology, the Department's 1999 Validation Report also noted that

'a Census-based SES measure produces a good proxy for parental income without the intrusiveness and administrative complexity inherent in measuring parental income more directly'.

These comments were later picked up by the Gonski Review Panel, which noted that

'the major strength of the existing SES funding model is that public funding is directly related to the capacity of non-government schools to fund their own resourcing requirements'.

The Panel also noted that an SES-type measure was fair, consistent and transparent, while also being simpler and less intrusive, and not distorting incentives for private investment.

ISV can see no reason why these views would apply less in 2018 than they did in 2000 or 2012. On this basis, and based on the fact that the model has been in use for almost 20 years, it is reasonable to conclude that the SES methodology meets the following guiding principles:

- it has a clearly articulated purpose
- it can be implemented without significant reporting burden
- it can be clearly explained
- it can be formulated through independent, established, high-quality and trusted data
- it is robust and reliable
- it provides stability and certainty for a defined time period
- it does not provide perverse incentives for schools to change their behaviour.

A strength of the Australian Government's implementation of the SES methodology was the provision for schools to request a review of their SES score. This could take the form of either a recalculation of the school's SES score (for instance because the school's enrolment catchment area had changed significantly) or a review of the SES score (for instance where a major employer had left an area, or the school could demonstrate that the usual SES methodology failed to identify a particular characteristic of that school's community).

According to Victoria University's research, 20 Australian schools have requested a review of their SES score, and 11 have done so successfully. These numbers suggest not only that the current SES methodology works well for the vast majority of Australian schools, but that it is fair in assessing the arguments of schools that do request a review.

Limitations

Victoria University has provided a brief outline of the concerns about limitations of the SES methodology. These concerns fall into two broad categories:

- concerns about the viability of capacity to contribute as a funding principle (which will be addressed in the next section)
- concerns about the extent to which the current SES methodology is the best way to measure capacity to contribute.

The latter concerns intersect with the NSRB's guiding principles in the following ways:

- Is the SES methodology still an accurate estimate of capacity to contribute?
- Does SES draw on the best possible national data, or can the data sources be improved?
- While the SES methodology might be based on high-quality data, is it based on the highest quality data available?
- Given that Census data is only collected every five years, is the SES methodology sufficiently responsive to economic and demographic change?

Victoria University's paper cites various claims, including that the SES methodology is subject to the ecological fallacy, that it favours regional schools, that it favours one non-government school sector over another, and that the SES factor weightings are inappropriate. In addition, it outlines possible suggestions for improving the SES methodology by, for instance, incorporating family size, or by moving to mesh blocks as a possible geographical unit. As the paper clarifies, these claims and suggestions remain, as yet, untested.

Therefore, the first thing that the NSRB needs to do is to update the validation tests of the current SES methodology. This test would need to consider questions such as:

- to what extent does the current methodology accurately estimate capacity to contribute?
- to what extent does the current methodology favour particular groups of schools? (noting that the definition of 'equity' is itself contentious)
- would any of the proposed changes to the SES methodology result in a better estimate of capacity to contribute?
- to what extent do the SES scores of geographical areas change within five year periods, assuming no extraordinary economic shocks?
- are extraordinary economic shocks prevalent enough to justify doing more than the current practice of permitting schools to submit a review request to the Department?
- how practical would it be to collect direct socioeconomic data from school communities?

Some of these questions were considered in the initial validation report, where, for instance, it concluded that an indirect measurement of a school community's capacity to contribute was

valid. However, rigorous work needs to be undertaken to determine the extent to which any of the concerns or suggestions for improvement are valid in 2018.

Until the evidence is collected and considered, ISV does not consider calls for changes to the SES methodology to be helpful. And since ISV has not collected and considered all of this evidence ourselves, we are equally not in a position to put forward a definitive view of what the best funding solution would be for Australian schools.

Alternative Methodologies

While ISV is not able to provide a view of the fine detail of a methodology that would best reflect capacity to contribute, we would not support any funding model that was based on the actual resources of schools, whether measured by income or wealth. In ISV's opinion, there are a range of problems associated with these measures:

- they represent bad public policy. The financial investment made towards school education by parents out of their post-tax income represents a substantial contribution to the long-term development of national human capital. When parents contribute fees for the education of their child, they elect to reallocate resources that would otherwise have been consumed or invested elsewhere. This fee collection by non-government schools does not constitute a transfer of educational resources from other children. How parents elect to spend their own after-tax dollars – on education, housing, or elsewhere – is not a public policy issue and should not be included in any consideration of government funding for school education.
- they lead to perverse incentives for schools to change their financial structures solely in reaction to funding arrangements. At one end, this would lead to cost-shifting, whereby schools reduce their fees or change their legal structures to reduce apparent income and wealth, so as to place a greater burden on taxpayers. At the other end, schools with higher fees would have the incentive to continue to increase their fees to cope with a lack of government funding.
- the methodological issues in measuring income and wealth in a consistent way are hugely problematic. Schools have a wide range of legal financial structures in which they operate, and they can record income in very different ways. This particularly applies to schools which are part of larger entities. For instance, it would be virtually impossible to identify the total income and asset base of the Catholic Church, which could be used to support schools, should the Church so choose.

Initial modelling by ISV has demonstrated that claims that linking funding to fees will transfer funding from 'elite' schools to poor schools are incorrect. The more likely outcome is that replacing the current SES methodology with a measure based on the average fees collected by schools would have the perverse effect of transferring funding from low-SES schools to high-SES schools. Since high-fee, high-SES schools already receive limited funding, and therefore do not experience a huge change in their funding when SES is replaced by fees, the only way that high-SES, low-fee schools can receive extra funding is for the funding to come from low-SES, low-fee schools.

ISV would also have concerns about replacing SES with a direct measure of the income and/or wealth of individual parents. While in theory this would provide a more accurate measure of a community's capacity to contribute, some obvious concerns include:

- it would be difficult to create a consistent measure that treated all parents in the same way. For instance, current means-tested measures that include assets typically exclude the primary home. However, this would bias any measure in favour of the larger cities of

Australia, where higher house prices would result in a greater proportion of parents' wealth being excluded from the analysis

- it would be burdensome for parents and government to collect and analyse the data
- there would be significant privacy concerns
- there would be a strong impetus for parents and schools to manipulate their responses to maximise funding outcomes
- schools that struggled to collect data from parents would be significantly penalised.

Linking Funding Methodologies to Funding Outcomes

Once a metric for estimating capacity to contribute is determined, linking this metric to funding outcomes is a separate decision. For instance, simply changing the slopes and/or start and endpoints of the current capacity to contribute curves would result in very different funding outcomes for non-government schools, despite retaining the current SES methodology.

Decisions about how to link a funding methodology are subjective and political. Even attempts to estimate how much schools should expend, given their student cohort, are either based on levels of actual expenditure (with the untested assumption that schools are spending what is necessary, rather than what is available), or are based on particular assumptions about what is the purpose of school education, and how much it should cost to deliver this.

ISV's fundamental position is that education is a public, as well as a private, good. While all schools should not receive the same level of government funding, all schools should receive some level of funding support. We would not support a reduction of the bottom end of the Capacity to Contribute curve to zero. We support the retention of the 100% funding for special schools, special assistance schools, majority indigenous student schools and remote sole-provider schools.

Finally, ISV is unaware of any sensible evidence underpinning the different slopes for the primary and secondary capacity to contribute curves. If primary schools do, as has been claimed, experience different levels of expenditure, it is unclear why:

- this is not represented in a different primary Schooling Resource Standard
- why it applies to a different degree for schools whose SES is between 93 and 125
- why it does not apply at all to schools with an SES score outside of 93 and 125.

ISV recommends that analysis be undertaken of the evidence for why a curved primary line and a straight secondary line best represent the capacity to contribute of the relative school communities.