

Review of the socio-economic status score methodology

Submission



About Queensland Independent Schools

Community confidence in the independent schooling sector remains strong with about 120,000 students enrolled in 202 independent schools across Queensland in 2017. These schools educate approximately 15 percent of the state's total school-age population and about 20 percent of all secondary students.

The strength of Queensland's independent schooling sector lies in the rich mix of education choices and opportunities local schools provide families. Independent schools are as diverse as the students and parents who make up their close-knit communities. Of Queensland's 202 independent schools: 182 educate children with disability; 109 cater for students for whom English is a second language or dialect; 187 enrol Indigenous students; 75 offer international education programs; 33 provide boarding services; and 16 cater specifically for students who have disengaged from mainstream education.

Common to all independent schools is their commitment to strong student outcomes, high standards and expectations, and the welfare and well-being of students.

Over the past 10 years, enrolments at Queensland independent schools have increased by 22 percent. This growth is a clear indication that parents value an independent education and are prepared to invest their after-tax incomes in their child's schooling.

Summary

ISQ recognises that the current SES methodology for discounting Australian Government recurrent funding to non-government schools has stood the test of time. This is due largely to the thoroughness of its initial development in the late-1990s and its relative robustness as a measure of a school's community capacity-to-contribute to schooling costs.

ISQ strongly supports the continuation of the current SES methodology during the implementation phase of the Gonski 2.0 funding arrangements. The Gonski 2.0 funding arrangements were legislated based on the accepted SES measure; to change that measure would compromise the current funding arrangements which are considered fair and equitable.

Notwithstanding this, it may be appropriate to give detailed consideration to other possible measures of capacity-to-contribute and/or potential enhancements to the SES methodology in light of advances in analytical tools and the compilation of relevant data sets over the past two decades. However, a long lead time would be required to research, validate and pilot any changes.

Independent schools are stand-alone operations that do not have the institutional support of schools that operate in systems.

As the current funding policy permits school systems to reallocate Australian Government recurrent grants to their schools, any changes to the methodology will likely impact most directly on non-systemic independent schools. It is imperative therefore that any changes be thoroughly validated - as occurred with the original development of the SES methodology - and that appropriate transitional arrangements are put into place.

Certainty in funding is paramount to independent schools. ISQ would expect that any changes to enhance the SES methodology would not be implemented quickly - to give schools certainty and time for the necessary research, validation and piloting.

Submission Questions

What are the strengths and limitations of the current SES methodology that is used to determine the capacity of a school community (school, family, parent) to contribute to the recurrent costs of the school? Please provide any supporting evidence.

An assessment of the strengths and limitations of the current SES methodology can be done from two perspectives i.e. policy intention and technical adequacy.

The policy intention perspective probes the purpose of public funding of non-government schooling, the policy settings that encourage private investment rather than discourage it, and what feasible measures are available to determine an accepted level of public funding.

The technical adequacy perspective explores various measures and data sets that might give effect to the public policy intention.

Policy intent

National interest

Australian Government funding of schooling recognises the national interest in having a well-educated citizenry and modern capable workforce. While schooling is constitutionally a State responsibility, the national interest of quality schooling is firmly in the public policy arena of the Australian Government.

Choice of schooling

While Australian Government schools funding aims to support strong educational outcomes, fundamentally, the purpose of non-government schools funding policy at the national level is to foster 'choice of schooling' options for parents. This policy is both long standing (having existed for generations) and broadly supported by the Australian community. All States and Territories also support this 'choice of schooling' policy position through both statutory recognition/regulation and local funding mechanisms.

To promote and incentivise this choice, public funding of non-government schools needs to be sufficient to encourage private investment into non-government schools and, importantly, to avoid creating penalties or disincentives to this investment.

Capacity-to-contribute

The current public funding discount mechanism, using assessment of 'capacity-to-contribute' rather than 'willingness-to-contribute', is an effective policy approach to creating the abovementioned incentive to choose and to invest in non-government schooling.

Capacity-to-contribute recognises the *potential* financial resources of a school community (i.e. the parents) to invest privately in schooling, while avoiding unintentionally creating restrictions to this investment. A school community's willingness to invest private funds, in pursuit of choice of schooling, is thereby encouraged rather than being penalised - such as through reduced public funding.

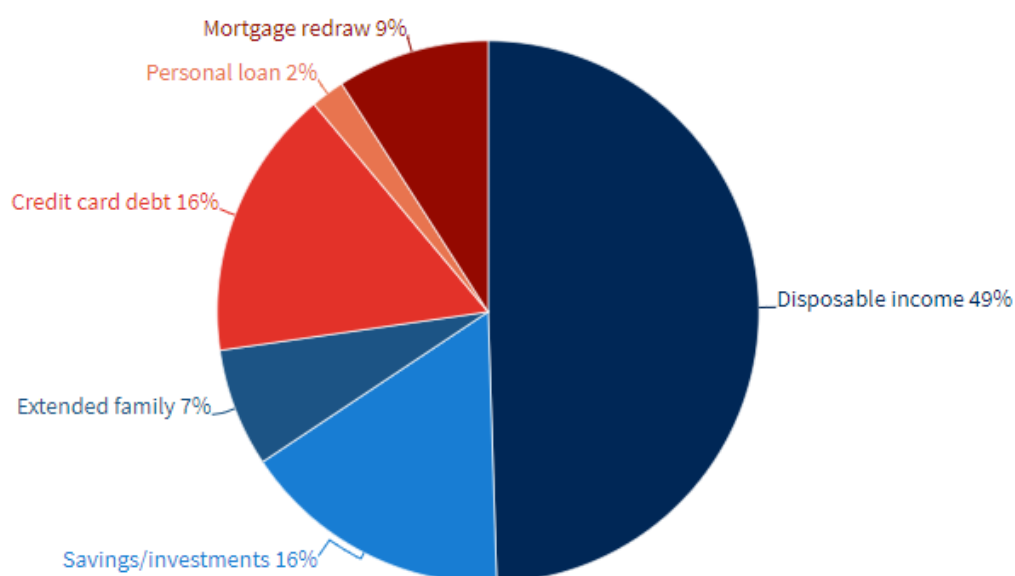
Willingness-to-contribute

Non-government schools operate under 'market' forces. They offer a specific schooling service to the public and will flourish or flounder according to the numbers of families that are willing to pay fees for their particular service, rather than for others. Independent schools also need to constantly seek to maximise the willingness of their communities to contribute, through fees and other contributions.

The extent of some parents' willingness-to-contribute was recently illustrated by *The Age* in a report on survey research undertaken by Edstart, a company that assists parents to manage payment of their non-government school fees ([Private schools, costly private pain](#); January 27, 2018).

This research showed that around half (49%) of families choosing the non-government school option paid fees from disposable income. The remaining families reported using savings/investments (16%), credit cards (16%), mortgage redraw (9%), extended family (7%) and personal loans (2%). These figures point to the strength of many parents' choice of schooling, to the extent that their willingness-to-contribute stretches their capacity-to-contribute, to the limit. Such sacrifices are made not just from current disposable income but also future disposable income (i.e. in the form of debt).

How parents pay for private school fees

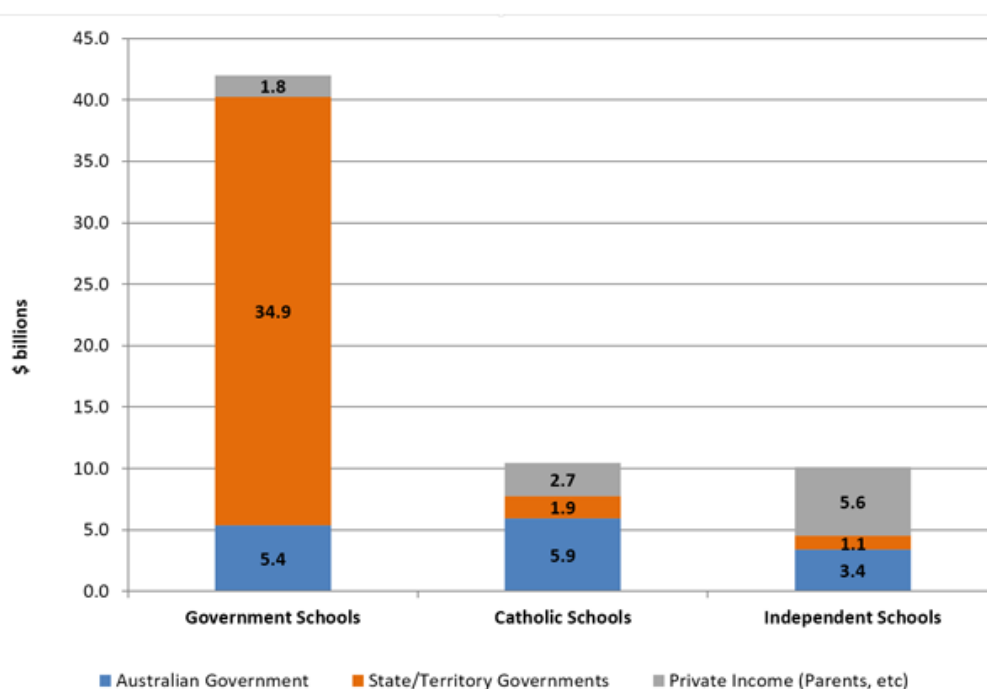


SOURCE: EDSTART (SAMPLE OF 500 FAMILIES WITH CHILDREN AT PRIVATE SCHOOLS, JULY 2017).

Independent school parents' willingness-to-contribute extends beyond contributing to recurrent operational costs to include significant capital investment. Independent Schools Council of Australia (ISCA) notes that ninety percent (90%) of investment in school facilities is also met by parents (ISCA Submission, p.9).

Data from 2014-15 shows the total dollar amounts of private income by sector, relative to other sources of funding. For the independent sector alone, this is some \$5.6 billion – contributions to schooling not to be discouraged or would result in transfer of cost back to the taxpayers.

Recurrent funding for school education, 2014-15 (\$ billion)



Source: Productivity Commission 'Report on Government Service Provision' and Australian Government Department of Education

School financial assets

While data on actual school financial resources are available and can be readily assessed from official records (e.g. school bank balances, etc.), incorporating such information into the methodology would tend to discourage private contributions/income, 'reward' reduction of private contribution and potentially distort financial management practices (as occurred in some cases under the former Education Resources Index (ERI) based funding arrangements – see Victoria University Research Paper commentary, pp.6-9).

As independent schools are wholly responsible for their initial and ongoing capital costs, surplus earnings need to be accumulated over time to contribute to future capital investment and development. These resources should therefore not be assessed in order to discount public funding, to avoid penalising the thrift and willingness of parents to invest in their schools.

School fees

Similarly, a public funding discount based on the level of school fees - such that lower fees attract higher public funding - also acts as a disincentive to maximise private investment and may prompt financial management distortions, as mentioned above. In this sense, setting fee levels below a community's capacity-to-contribute may lead to 'market' distortion (inefficiency) where parents pay less than they would otherwise be willing to do so.

The Independent Schools Council of Australia (ISCA) submission to the Review refers to this issue as follows:

The SES methodology is a measure of capacity to contribute. Whether a school or system has chosen to be 'low-fee' should be immaterial to the actual capacity to contribute of the parents of students in a school. The issue is "why is a particular school

low fee?” If it is because it is serving a low-SES community then the SES methodology will generate Australian Government funding to ensure it can remain low fee.

If a school is low fee but serving communities other than low-SES, then Australian Government funding should not be subsidising the cost of schooling for families that can have capacity to make an appropriate contribution to their children’s education. The alternative is cost-shifting the difference between fees and capacity to contribute to the tax-payer. (ISCA, p.7)

Parental income

While assessment of parental income levels may be a measure of capacity-to-contribute, this approach raises issues of privacy, imposes further access to sensitive data, and has potential to incentivise manipulation of income related data (such as minimisation), amongst other concerns.

For a parental income, or means-testing, approach to be acceptable in discounting non-government schools public funding, schools funding would need to be based on a voucher-style approach and be applicable to all parents, including those choosing ‘free’ public schooling. Public funding entitlements would then be based on every parent’s actual reported income level with a subsidy flowing to school of choice, whether government or non-government. Presently, this policy option would likely not have wide support and is somewhat out of scope of the current review.

Accessing information about parents’ income from taxation data would be fraught with issues related to privacy and potentially incentivise minimisation exercises as mentioned above.

While the *Review of Funding for Schooling* (Gonski, et al., 2011 pp.79-81) recommended the development of a new measure of capacity to contribute, the panel was clear that public funding should be based on the ‘*anticipated capacity of the parents enrolling their children in the school to contribute financially...*’, i.e. not actual school bank balances, nor school fees, nor the reported income of parents.

Conclusion

Given the public policy intention of fostering school choice, ISQ agrees that a form of capacity-to-contribute should continue to be applied to discount the level of public funding granted rather than, as is sometimes suggested, an assessment of actual private investment (or willingness-to-contribute). High levels of willingness to invest privately in schooling should not be discouraged nor distorted by the penalty of reducing levels of public funding.

Technical adequacy

Strengths

The current methodology that determines area-based, relative SES scores has been generally accepted by school authorities across all sectors for many years, despite some residual concerns. Indeed, the current SES scores have been, and continue to be, utilised in allocative funding models by various jurisdictions, school authorities and systems.

It is a methodology that was thoroughly researched, developed and validated over a number of years prior to adoption in 2001. Only a few minor adjustments have been warranted since then. It has stood the test of time as a measure of capacity-to-contribute.

In the current methodology use is made of data derived from the statistical areas (SA1s) from which the school attracts its students. The data is representative of all the population within these areas. This approach is identified as being a strength by Walter Robb of Analyse Australia in a discussion

paper commissioned by ISQ. He makes the following points about capacity-to-contribute, willingness-to-contribute and the dynamics of choice of schooling:

The current SES methodology uses a definition of the potential contributors as being representative of the wider school community rather than just the parents. Therefore, it includes parents who have the capacity and willingness to pay and do so; those parents who have the capacity but not willingness; as well as those parents who do not have the capacity. This inclusive approach is more aligned with 'school choice' because school fees can be aligned with the community to be serviced to allow for choice to be exercised i.e., choice of schools should be available to all within the community that is serviced.

The current methodology focuses on potential rather than actual contributions. This provides incentives for schools to achieve income well beyond the baseline SRS. It also allows the market to operate in developing a range of schooling products demanded by parents from basic but effective schooling services to extremely advanced services that parents may wish to invest in for their children. (p.2)

The attractiveness of the current methodology includes the use of credible, independently derived and validated data (by the reputable Australian Bureau of Statistics) that avoids the weaknesses associated with financial data accessed directly from parents and schools, such as parental taxation returns or school income/wealth reports, or self-reported parental information held by schools which can be incomplete, out of date and inaccurate.

The current methodology uses census data that are collected and validated by the independent ABS on a regular five-yearly cycle – a process well understood and anticipated by independent schools. The data are relatively current (updated regularly), independent of the schools and their communities (independently derived), validated, nationally consistent and accessible. This approach also makes little impost on the administration of schools as the cyclical provision of student address data is drawn from existing school records.

With each update of the SES, the changes for individual schools have generally been muted – leading to relative stability in Australian Government funding. Independent schools value stability of public funding as they stand alone without systemic supports and must plan for many years ahead.

Where the current SES score is considered by a school to be unrepresentative of its parent body, a review process is available. This ought to continue regardless of any changes that might occur.

Possible limitations

A number of references have been made to the ecological fallacy that stipulates the individuals within an area are not representative of that area. This has been central to the concern that there is systemic bias whereby the wealthiest families within an area tend to choose schools of one sector while poorer families within the same area attend schools of another sector. The concern is that there are sectoral biases that lead to a funding advantage of one over the other (Victoria University, pp.31-34).

Research undertaken in Queensland using the 2016 census data has shown that there is little real difference between the income levels of families, by the sector of non-government schooling attended.

Key findings of this research:

- Queensland independent schools serve families from every income level – from those with the lowest weekly earnings to the highest.
- Government schools educate the highest proportion of students whose families earn weekly wages that put them in the highest three income brackets: 50% of families who earn in excess of \$2,346 per week, choose a free state education, while 28% choose Catholic schools and 22% choose independent schools
- Catholic and independent schools serve families with broadly the same financial profile and capacity to pay fees.
- Both non-government sectors serve similar proportions of families earning less than \$1,104 per week, Catholic (11%) and independent (9%), with government schools catering for the majority of families (80%).

([Income Levels of Families with Students in Queensland Schools – Research Report](#), 2017. p.2)

Figure 1: Queensland Students by Schooling Sector, by Family Income Deciles, 2016



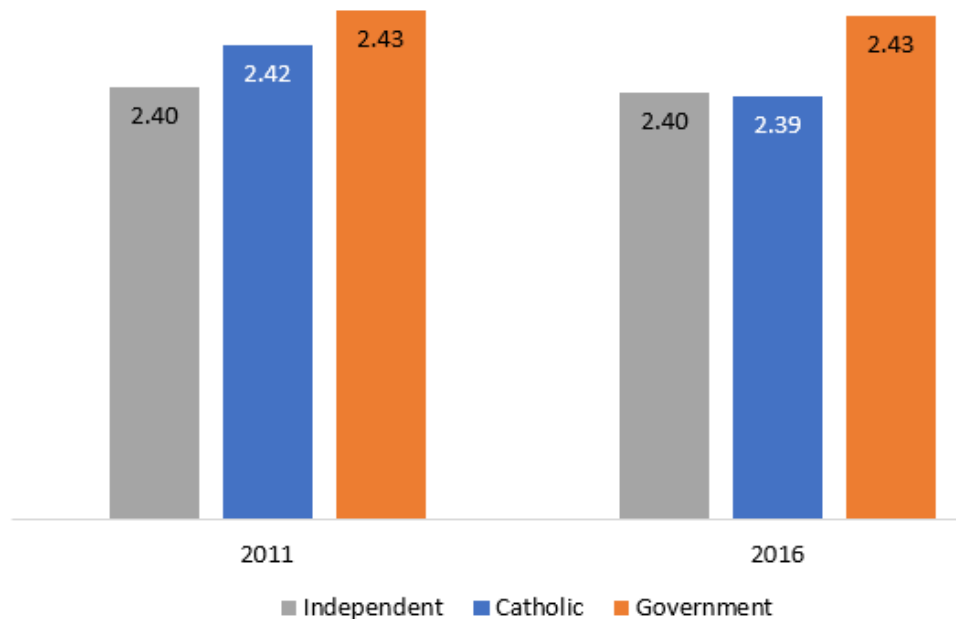
([Income Levels of Families with Students in Queensland Schools – Research Report](#), 2017. p.5)

Another possible limitation is that the current methodology does not consider the size of families with school-aged children. The concern is that, within a given area, there may be a bias towards larger families accessing one school sector rather than another. If so, these families would bear the additional costs of larger numbers of children, including schooling costs.

But the statistical evidence suggests that family sizes are similar across the Catholic and independent school sectors and that there has been only some change – a reduction in size of families in the Catholic sector.

ISCA's submission provides the following analysis of family size by sectors, drawing on the 2011 and 2016 ABS Population Census data sets (ISCA Submission, p.12):

Chart 12: Number of dependent children per family by sector attended, 2011 and 2016



Source: ABS Census of Population and Housing 2011 and 2016

The analyses of income levels and family size suggest that, overall, there are few differences in the characteristics of families choosing independent or Catholic schooling.

The Victoria University research paper points to concerns about the possible advantageous effect of the ecological fallacy on the SES scores of schools serving regional students, whether located regionally or via the boarding of these students. (pp.32,33)

The argument is that these schools would likely attract students who are not representative of their SA1 areas i.e. the SES scores for these schools would be lower than the scores ought to be - resulting in lower discounts of public funding than comparable non-regional schools. This is speculative and makes assumptions that there is high level of diversity within all regional SA1 areas, that 'choice of schooling' patterns result in wealthier students consistently attending independent schools and that these patterns favour one non-government school sector over another sector.

What refinements or alternative methodologies could be considered to improve on the current SES measure, including how frequently should measures be updated?

ISQ commissioned Analyse Australia to undertake analysis of the current SES methodology and to identify potential improvements that retain the key aspects of the current methodology.

The discussion paper by Analyse Australia places 'relevance' at the top of several guiding principles for determining an appropriate measure of capacity-to-contribute (p.8); seeks to clarify the definition of whose capacity-to-contribute is to be assessed – i.e. which contributors? (pp.9-21); queries some options for defining school community, including 'school catchment' as the contiguous area encompassing all SA1s containing the school's students (pp.14-19) and postulates the potential of alternative ABS-derived indices that may contest the relevance of the current SES indices, such as

those within the suite of SEIFA (pp.22,23). For example, the Index of Economic Resources that focuses on the financial aspects of relative socio-economic advantage and disadvantage.

ISQ strongly supports the use of ABS-derived data and indices to underpin the capacity-to-contribute methodology.

Referring to the timeliness of the ABS Census, Analyse Australia suggests:

Funding periods have previously been 4-year periods. Depending on final decisions about appropriate measures and data availability, funding periods may benefit from amendment. For example, if it is decided that Census data would be the foundation for estimating capacity to contribute, a funding period that acknowledges the 5-year cycle of Census would make sense. This could be a 3-year approved budget allocation with review for a possible 2-year extension, based on forward estimates. (p.11)

Are the guiding principles appropriate to assess alternative approaches or are there other principles that should be considered?

In the Issues Paper, the Board has nominated fitness-for-purpose, transparency and reliability as key principles to guide the assessment of a methodology.

Analyse Australia insists that relevance should be the primary guiding principal:

“...relevance is considered imperative to ensuring other principles are achieved. If relevance is compromised it is inconsequential as to whether a measure is capable of providing certainty for funding, based on timely and accurate data, or from a reliable and impartial source. The mechanism will not be fit for purpose. Only when relevance is addressed can an appropriate index be identified which is fit for purpose, and methodologies developed to address the subsequent criteria.” (p.8)

Assessing fitness for purpose requires firstly, clarity about the purpose and hence the relevance of a methodology.

As noted above, a key purpose of Australian schools funding policy is to foster choice of schooling options for parents. To incentivise this choice, public funding of non-government schools needs to be sufficient to encourage private investment into non-government schools and to avoid creating penalties to this investment.

Fitness-for-purpose can then be assessed based on the extent to which specific measures of capacity-to-contribute best support this policy intention. The optimal measure needs to be a valid and reliable indicator of the relative capacity-to-contribute of a non-government school community.

Furthermore, this assessment should be informed by technical analyses utilising high quality data that are national in scope and independently derived, such as produced by the ABS from the national population census. The validity of any measure will depend on these features.

References

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