

Submission to the Review of the socio-economic status (SES) score methodology

Catholic Education

Archdiocese of Canberra & Goulburn

1. Introduction

Catholic Education Archdiocese of Canberra & Goulburn (CECG) welcomes the opportunity to make this submission to the National Schools Resourcing Board (NSRB) for its review of school SES scores.

This submission is intended to be complementary to submissions made by the National Catholic Education Commission (NCEC). CECG operates 29 systemic Catholic schools in the ACT and 27 systemic Catholic schools in southern NSW. In 2018 these schools enrol almost 14,000 students in the ACT and almost 7,000 students in NSW. This submission is limited to issues of particular importance to systemic Catholic schools in the ACT.

This submission should not be read as a comprehensive response to the issues under consideration by the National School Resourcing Board (NSRB) in this review. Rather it is a contribution with a focus on ACT systemic Catholic schools and how the current SES methodology does not meet the needs of Catholic systemic schools as one example of the non-government school sector. While beyond the mandate of CECG the issues raised here may be relevant to the needs of other non-government schools.

The submission proceeds as follows:

- Section 2 canvasses worthy policy objectives in determining funding for non-government schools
- Section 3 highlights areas in which the Government's funding model fails to deliver on these policy objectives
- Section 4 provides a conclusion with reflections on directions to evolve the SRS funding model.

2. Government policy objectives in funding non-government schools

School funding policy should be based on clear principles. The current funding settings, particularly with respect to the funding outcome of the capacity-to-contribute and SES calculation for non-government school base funding, do not support desirable policy principles outlined below.

- Direct funding to non-government schools where it is more likely to improve educational outcomes¹ (i.e. to non-government schools that require additional government funding to reach the SRS)
- Preserve incentives for non-government schools to raise private income²
- ‘Support parental choice and diversity in the schooling system. This means supporting the full breadth of the non-government sector’.³ As part of this objective, CECG believes that ‘the full breadth of the non-government sector’ includes a wide range of low-fee non-government schools. Funding arrangements should also support student diversity within schools
- Provide more support to the families that can least afford fees, and provide less to those that can most afford it.⁴

Assuming the objectives above do align with Government policy, then current funding arrangements have several shortcomings in the ACT. These are identified and explained in section 3.

¹ The Minister for Education and Training recently stated that the most important objective of government funding for schools is to lift student outcomes. Senator the Hon Simon Birmingham, Minister for Education and Training, Senator for South Australia, Transcript, Interview on 2GB Money News with Ross Greenwood, 30 October 2017. (available at <<https://ministers.education.gov.au/birmingham>>)

² See the final report of the Gonski Review (Expert Panel (Gonski, Boston, Greiner, Lawrence, Scales, Tannock) 2011, *Review of Funding for Schooling – Final Report*, Canberra, December.)

³ As stated in the Terms of Reference for the review of the SES score methodology, available at <<https://www.education.gov.au/review-socio-economic-status-ses-score-methodology>>.

⁴ As stated by the Minister for Education and Training. Senator the Hon Simon Birmingham, Minister for Education and Training, Senator for South Australia, Speech to the Association of School Business Administrators Annual Conference, 30 October 2017. (available at <<https://www.senatorbirmingham.com.au/speech-to-the-association-of-school-business-administrators-annual-conference/>>)

3. Problems in current funding arrangements

CECG considers there are three key problems with the funding arrangements that have been legislated that have specific, adverse effects on systemic Catholic schools in the ACT and do not government policy objectives.

These problems are as follows:

- Problem 1: Use of area-based data to means-test parents is highly disadvantageous to systemic Catholic schools in the ACT
- Problem 2: Current funding arrangements as defined preclude the operation of low-fee non-government schools in the ACT
- Problem 3: The Schooling Resource Standard model systematically underestimates need for ACT Catholic schools.

These problems are further discussed below. Current funding arrangements, incorporating the SES, do not serve government policy objectives for non-government schools in the ACT as follows:

- Government funding for ACT Catholic schools is not sufficient to enable ACT Catholic schools to reach the schooling resource standard and by implication deliver the expected educational outcomes
- Government funding is poorly targeted to assist low-income and middle-income families who attend non-government schools in the ACT
- Government funding arrangements, incorporating the SES, does not enable low-fee non-government schools to operate in the ACT, undermining school choice for all families.

Problem 1: Use of area-based data to means-test parents is highly disadvantageous to systemic Catholic schools in the ACT.

Use of area-based data to assess families with children in the ACT is highly disadvantageous to Catholic schools in the ACT. Area-based data creates a misleading portrait of many families in the ACT. In particular, it misclassifies many families as high-income, when in reality families can have low and middle incomes.

While this is a general problem with area-based data, it especially impacts the ACT because in the ACT the geographical unit of analysis used to calculate the SES is much more heterogeneous than other places in Australia. Most neighbourhoods within the ACT contain a mix of low-income and high-income families. A study of the 2006 Census found that, in the ACT, most disadvantaged persons in the ACT (proportionally) actually reside in the least disadvantaged areas.⁵ In addition, in the ACT, high-income families are not concentrated in particular areas – they are dispersed throughout the ACT.

The unique, heterogeneous nature of Statistical Area 1s in the ACT can be observed by comparing the composition of SA1s in the ACT with the composition elsewhere in Australia. Table 1 undertakes

⁵ Wise, Phillip and Mathews, Rosalynn 2011, 'Socio-Economic Indexes For Areas: Getting a Handle on Individual Diversity Within Areas', ABS Cat. No. 1351.0.55.036, Research Paper, ABS.

this comparison using income data for families with dependent children⁶ from the 2011 Census of Population and Housing (note that 2011 data is used, because school SES scores are also calculated from the 2011 Census).

In 70% of SA1s in the ACT there are at least 20% of families that earn more than \$156,000 per annum. Elsewhere in Australia, this figure is only 26%. This shows that high-income families tend to be geographically dispersed in the ACT relative to other places.

Moreover, in 26% of SA1s in the ACT at least 20% of families earn relatively high incomes (\$156,000 per annum and above) and at least 10% of families earn relatively low incomes (below \$65,000 per annum).⁷ The corresponding figure elsewhere in Australia is only 13%.

Table 1: Distribution of families with dependent children, by family income, 2011 Census*

	ACT		Rest of Australia	
	Number	% of total	Number	% of total
Total number of SA1s containing data	871		51,715	
SA1s in which >20% of families earn above \$156,000/annum	610	70%	13,645	26%
SA1s in which >10% of families earn below \$65,000/annum	427	49%	41,149	80%
SA1s with both of the above	230	26%	6,728	13%

**Excludes observations of 'nil income', 'negative income', 'partial income stated', 'all incomes not stated' and 'not applicable'.*

Source: ABS 2011, Census of Population and Housing 2011: household income by SA1; Department of Education and Training

The dispersion of high-income families throughout the ACT can mean that families with relatively low incomes (below \$65,000 per annum) are hidden in area-based data. This can be shown by looking at the number of low-income families in the ACT that live in areas that are assessed to have above-average incomes and high-incomes when area-based data is used to classify families (Table 2). When area-based data is used⁸, those low-income families are misclassified.

In the ACT, 73% of low-income households reside in SA1s that receive a score for the family income dimension of above 100 – and 28% of them reside in a SA1 that receives a score of above 115. Thus, when the area-based data is used, 73% of low-income families in the ACT are assessed to have above-average incomes, while 28% of low-income households in the ACT are assessed to have high incomes. These rates of misclassification are much greater than elsewhere in Australia. The clear conclusion is that area-based data results in very high rates of misclassification of ACT families, especially low-income families.

⁶ These are one-parent and couple families with children under the age of 15. These families have been selected to be consistent with how the family income dimension is calculated as part of the SES scoring methodology.

⁷ The thresholds of \$156,000 per annum and \$65,000 per annum are the same ones that were used to calculate positive and negative loadings for SA1s in the calculation of family income dimension scores.

⁸ This analysis uses the scores received by SA1s in the ACT for the family income dimension, as part of the SES scoring methodology, from the 2011 Census of Population and Housing.

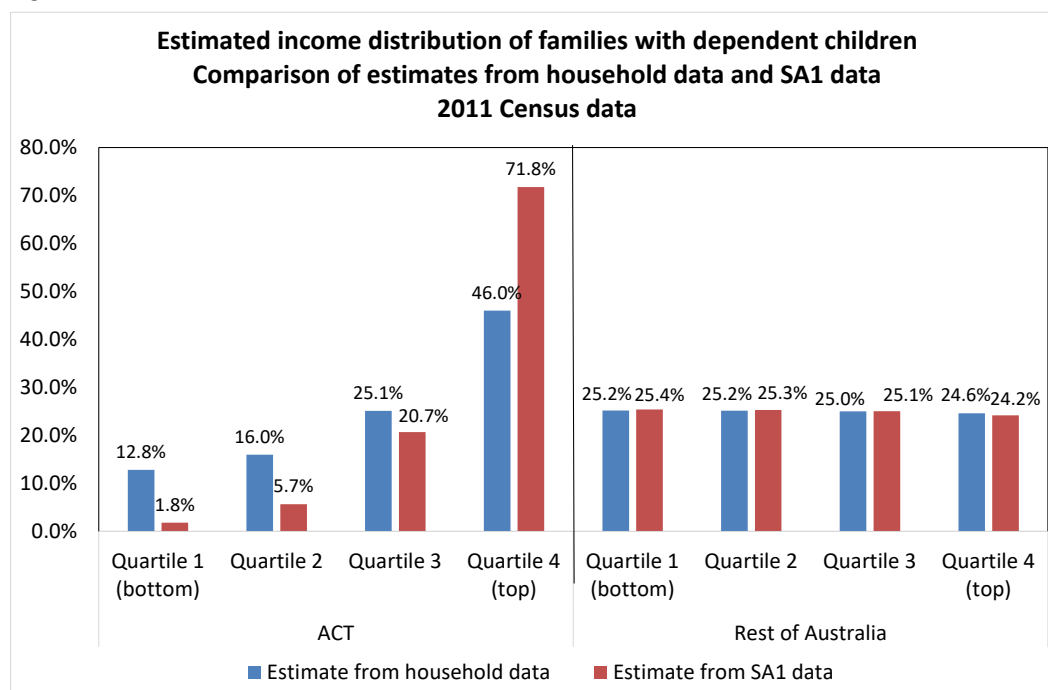
Table 2: Distribution of families with dependent children, by family income, 2011 Census*

	ACT		Rest of Australia	
Total number of families earning below \$65,000/annum	4,208		576,096	
Families earning below \$65,000/annum that live in SA1s with a family income score >100	3,068	73%	125,199	22%
Family earning below \$65,000/annum that live in SA1s with a family income score >115	1,199	28%	19,844	3%

*Excludes observations of 'nil income', 'negative income', 'partial income stated', 'all incomes not stated' and 'not applicable'.

Source: ABS 2011, Census of Population and Housing 2011: household income by SA1; Department of Education and Training

This can be further observed by comparing the income distribution of families with dependent children, that can be derived for the ACT from using household data and from using area-based data (Figure 2).⁹ To make the estimates of income distribution comparable, they are presented in quartiles calculated using data for all Australian families. The two estimates for the ACT (household data, SA1 data) are shown alongside the same two estimates for the rest of Australia.

Figure 2: Estimated income distribution of families with dependent children in the ACT, 2011

*Excludes observations of 'nil income', 'negative income', 'partial income stated', 'all incomes not stated' and 'not applicable'.

Source: ABS 2011, Census of Population and Housing 2011: household income by SA1; Department of Education and Training

In the household data, 12.8% of families in the ACT are estimated to be in the bottom income quartile within Australia, while 46.0% of families are estimated to be in the top income quartile. However, when area-based data is used (whereby families are assigned an income from their SA1

⁹ In deriving an income distribution for families from area-based data, families in each SA1 receive their SA1 score for the family income dimension, as calculated as part of the SES scoring methodology. Quartiles are then determined based on the distribution of families using their family income dimension SA1 scores.

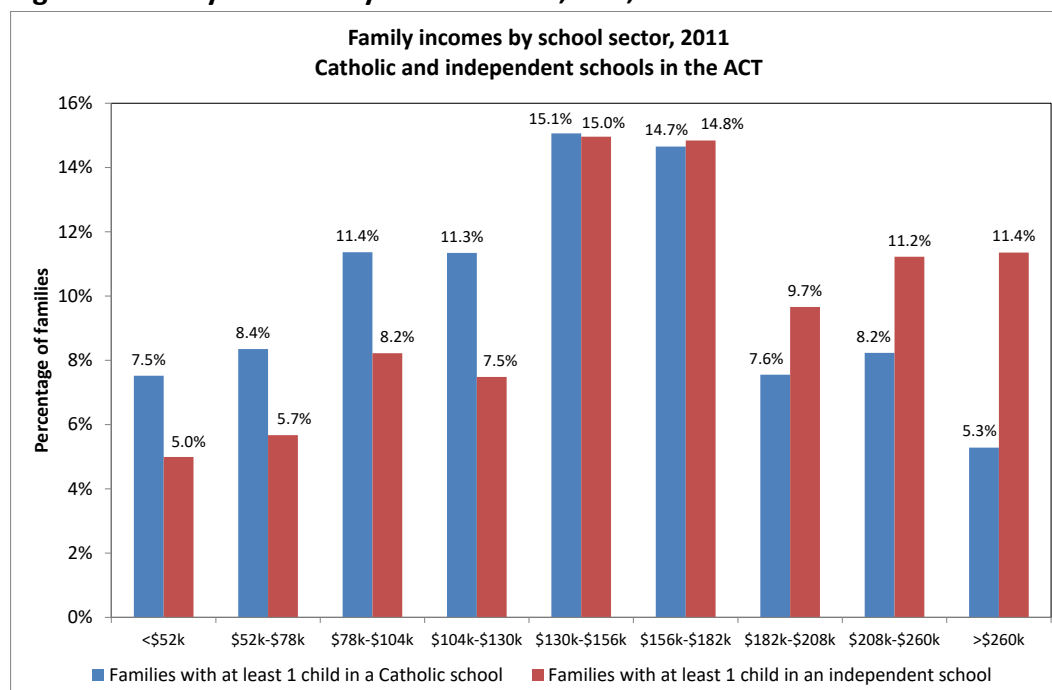
score), only 1.8% of families are estimated to be in the bottom income quartile within Australia. Meanwhile, 71.8% of families are estimated to be in the top income quartile. The distributions are very different. In particular, there is a significant over-estimate of the number of high-income families in the ACT.

Elsewhere in Australia, there is very little difference in the estimated distribution of family incomes from using household data and from using SA1 data. The evidence indicates that area-based data uniquely skews the estimated distribution of family incomes in the ACT, in a way that over-estimates the incomes of ACT families.

Within current school funding arrangements, the burden of this disadvantage in the ACT falls overwhelmingly on Catholic systemic schools. This is because, within the non-government sector, it is Catholic systemic schools that enrol the majority of low-income families and the fewest high-income families. This can be observed in Figure 3:

- Catholic schools enrol more low-income families than independent schools
- Catholic schools enrol fewer high-income families than independent schools.

Figure 3: Family incomes by school sector, ACT, 2011 Census*

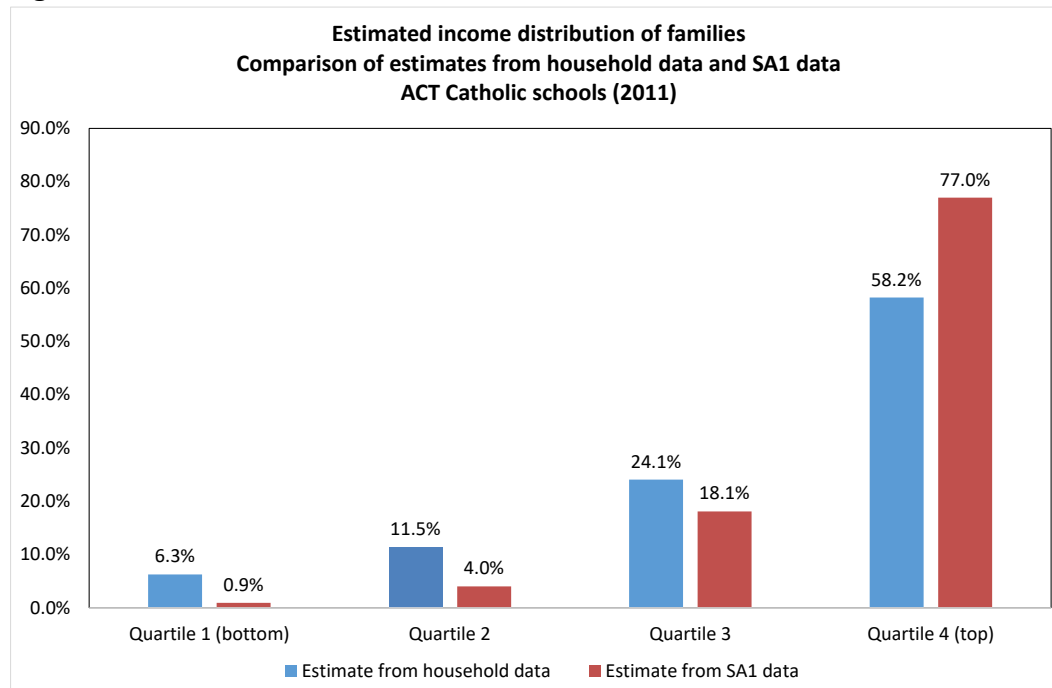


* Excludes observations of 'nil income', 'negative income', 'partial income stated', 'all incomes not stated' and 'not applicable'. Families enrolled in independent Catholic schools are categorised as part of the "Catholic" sector. About 25% of students in Catholic schools in the ACT are in these schools. As independent Catholic schools tend to have higher fees than systemic Catholic schools, this means that the true income profile of families in ACT Catholic systemic schools would be lower than shown in the figure above.

Source: ABS 2011, Census of Population and Housing 2011: family income by school sector (unpublished)

The extent of disadvantage for ACT Catholic schools can be observed by comparing estimates of the income distribution of families in ACT Catholic schools that can be derived from using household data and from using SA1 data.¹⁰ This comparison is shown in Figure 4.

Figure 4: Estimated income distribution of families in ACT Catholic schools, 2011*



* Excludes observations of 'nil income', 'negative income', 'partial income stated', 'all incomes not stated' and 'not applicable'. Families enrolled in independent Catholic schools are categorised as part of the "Catholic" sector in the household data. About 25% of students in Catholic schools in the ACT are in these schools. As independent Catholic schools tend to have higher fees than systemic Catholic schools, this means that the true income profile of families in ACT Catholic systemic schools would be lower than shown in the household data. Source: ABS 2011, Census of Population and Housing 2011: family income by school sector (unpublished)

As can be seen, area-based data makes families in ACT Catholic schools appear to have much higher incomes than they actually do. Household data indicates that 6.3% of students in ACT Catholic schools are in the bottom income quartile within Australia, but area-based data indicates this figure is only 0.9%. That is, use of area-based data makes low-income families in ACT Catholic schools almost disappear.

Conversely, area-based data indicates that 77% of students in ACT Catholic schools are in the top income quartile within Australia. Yet household data indicates this figure should be 58.2%. Area-based data overestimates the number of families from the top income quartile by about one-third.

It should also be noted that this data may under-estimate the true extent of disadvantage for ACT Catholic *systemic* schools. This occurs because families enrolled in *non-systemic* Catholic schools in the ACT (which may have higher incomes than families in systemic schools) are also categorised as 'Catholic' in the estimate derived from household data. This could have a large bearing because about 25% of students in Catholic schools in the ACT are in *non-systemic* Catholic schools which on average have higher fee levels than systemic Catholic schools.

¹⁰ In deriving an income distribution for families from area-based data, families in each SA1 receive their SA1 score for the family income dimension, as calculated as part of the SES scoring methodology.

This analysis shows that, due to ACT being uniquely heterogeneous, use of area-based data to classify student families can greatly disadvantage ACT Catholic schools.

If the NSRB recommends that area-based data continue to be used to assess parental capacity to contribute, then a different approach would likely be necessary for the ACT. This could involve development of a unique index, for use in the ACT, or unique funding arrangements for the ACT.

Problem 2

Current funding arrangements as defined preclude the operation of low-fee non-government schools in the ACT. This will undermine school choice for ACT families and student diversity in ACT schools.

Current funding arrangements do not ‘support parental choice and diversity in the schooling system’ or support ‘the full breadth of the non-government sector through needs based funding arrangements.’ The concept of ‘capacity to contribute’, whereby government funding for non-government schools is substantially dependent on a means test of parents through the SES. This means test denies families in high SES areas the choice of a low-fee non-government school. The funding model supports the same middle and high SES parents to access a free government school absent a means test.

This is clearly observed in the ACT. In 2018, the lowest fee expected in any non-government school in the ACT is \$4,121 per primary student and \$6,797 per secondary student (excluding capital levies). There are 8 Catholic primary schools that are expected to raise at least \$6,698 per student under the SRS (excluding capital levies). Under these arrangements (and setting aside short-term transition payments to ACT Catholic schools) a foreseeable outcome will be that the provision of low-fee non-government schools in the ACT will not be possible.

The main determinant of this outcome is the dependence of non-government school funding on a means-test of parents through the SES within the SRS model. However the use of SES scores to measure capacity to contribute amplifies the problem. As shown above, SES scores over-estimate the capacity to contribute of families in ACT Catholic schools. But this problem is not solely related to SES scores – even with a better measure of capacity to contribute, which more accurately identifies low-income and middle-income families, it is questionable whether low-fee non-government schools would be viable in the ACT.

This outcome greatly undermines school choice – for both high-income and low-income families. Low-income families have their choices especially restricted because it is unlikely they could afford to attend high-fee non-government schools – the only type of non-government schools that would be viable in the ACT. This will also have consequences for student diversity. Segregation of students by socio-economic status between government and non-government schools is likely to increase. This would likely be detrimental to equity in schooling and overall schooling outcomes.

The viability of low-fee non-government schools in the ACT is further challenged by the relatively high rates of funding for government schools in the ACT. Government schools in the ACT receive more funding per student than government schools in every other jurisdiction, apart from the Northern Territory (see Table 3). In comparison ACT systemic Catholic schools receive less government funding per student than Catholic schools in every other jurisdiction by a considerable margin.

Table 3: Recurrent government grants, by state, Catholic and government schools, 2015 (\$/student)

	Catholic schools	Government schools
Australian Capital Territory	\$9,354	\$14,390
New South Wales	\$10,488	\$12,355
Northern Territory	\$17,054	\$19,438
Queensland	\$10,484	\$12,380
South Australia	\$10,266	\$13,245
Tasmania	\$11,292	\$13,502
Victoria	\$10,189	\$10,783
Western Australia	\$10,930	\$14,365
Australia	\$10,469	\$12,427

Source: ACARA MySchool website

The high rate of funding for government schools in the ACT places further pressure on the viability of low-fee non-government schools in the ACT. This makes it essential that low-fee non-government schools are adequately funded by the Australian Government, if the Government desires funding arrangements that enable all families to have a choice of a low-fee non-government school.

Problem 3

The Schooling Resource Standard funding model systematically underestimates school needs in the ACT. This places even greater pressure on school fees in non-government schools in the ACT.

A further issue with the SRS model that puts financial pressure on ACT Catholic schools is the rate of base funding compared to school costs in the ACCT. ACT Catholic schools must pay higher school staff salaries than is assumed by the SRS model. Assumptions over staff salaries are critical because these represent in the vicinity of 80% of the recurrent cost of school operations.

Base funding amounts in the SRS model are predominantly estimated from the cost of Victorian schools.¹¹ However, salaries for 3rd year teachers in the ACT have recently been estimated by the Commonwealth Grants Commission to be 4.1% higher than in Victoria.¹² In other words, the SRS model assumes that ACT Catholic schools have staff salary costs that are around 4% lower than actual salaries. (Note that staff salaries in ACT Catholic schools tend to be driven by the agreement made between the teachers' union and the ACT Government for government schools).

There is an argument that federal funding arrangements should not compensate jurisdictions for their policy choices in regards to teacher salaries. This argument has been assessed extensively by the Commonwealth Grants Commission (CGC), which concluded that there are differences in salaries between states that are not solely due to state government policy choices. Cost-of-living factors and

¹¹ 31% of reference schools in the sample used to estimate school base funding requirements were from Victoria. These schools have a strong influence on base funding amounts, because the regression methodology estimates base funding amounts only from the most efficient quartile of these reference schools, and the most efficient schools are in Victoria. For example, according to 2015 financial data, government schools in Victoria spent 13% less than government schools in the next lowest state (NSW) (see Table 3).

¹² Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2016 Update, p69

competition for labour also drive salary differences. This is evident because the CGC has observed similar differences in salaries between states in public and private sector salaries:¹³

“We also observe that private labour markets display differences in remuneration for comparable employees; we generally consider these to be broadly independent of State wage policy choices...”

Because of these differences, the cost of service delivery by governments differs between states. Accordingly the CGC argues that it is only fair and equitable to take into account differences in salaries when estimating the cost of service delivery in different states.¹⁴

“...we consider some allowance for any intrinsic differences in wages they have to pay represents a better GST distribution...than one where no allowance for these differences is provided.”

Based on this reasoning, the CGC uses ‘wage cost factors’, reflecting salary pressures facing each jurisdiction, in how it allocates GST revenues. These factors are based on observed differences in private sector salaries between jurisdictions. The wage cost factor in ACT is over 4% higher than that for Victoria.

This exact same logic applies in regard to school funding in the SRS model. If the Government is intent on funding schools and systems “consistently” based on their need then the SRS model should appropriately reference salary pressures in each jurisdiction.

The SRS model falsely assumes that ACT schools pay their staff similar salaries to Victorian schools. In this way the SRS systematically underestimates the financial needs of schools in the ACT.

Non government schools must make up any funding shortfall – between their real financial need, and the SRS model entitlement – through higher fees than is assumed in the SRS model.

For example, with teacher salaries 4.1% higher in the ACT than Victoria, to meet the extra need in schools relating to these higher salaries, Catholic schools in the ACT must raise about 3% more in fees and charges than is assumed in the SRS model.¹⁵

Non-government schools are most affected by this shortcoming.

¹³ Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2016 Update

¹⁴ Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities, 2016 Update

¹⁵ This assumes school salaries comprise 80% of school operating costs

4. Conclusion

This submission should be considered complementary to that of the National Catholic Education Commission.

This submission has not attempted the ambitious task of proposing a calculation of base funding appropriate for the almost 3,000 non-government schools. The limitations placed on submissions and the consultation process make this task beyond the scope of this submission.

This submission has identified a range of flaws and inadequacies in the SES in combination with the capacity-to-contribute mechanism which determines base funding for non-government schools in the Schooling Resource Standard.

The NSRB should urgently address the flaws in the methodology of the SES together with the deeper issues of funding support for viable low-fee non-government schools.

In support of representations from other Catholic education authorities the NSRB should recommend:

1. Alterations to the funding model and SES measure sufficient to support viable low-fee non-government schools in the ACT.
 - a. This likely involves at least moving from an indirect measure of capacity-to-contribute to a direct measure eg. parental income derived from a tax file number as with childcare, and
 - b. Recognition in the funding model of the resource levels – particularly base funding - of low-fee non-government schools. This may require recognition of school resources in determining funding.
2. Alterations to the funding model and SES measure sufficient to make a low-fee non-government school a possible option for every resident in every community across Australia (all relevant constraints being accounted for)
 - a. If necessary a separate arrangement for ACT non-government schools if a national model cannot be devised which provides for the possibility of financially viable low-fee non-government schools in the ACT

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