



SUBMISSION TO NATIONAL SCHOOLS RESOURCING BOARD

Review of the Socio-Economic Status Score Methodology

INTRODUCTION

The Victorian Ecumenical System of Schools (“VESS”) consists of seventeen schools, the majority in regional Victoria, but with schools also in inner- and outer-metropolitan Melbourne, together educating about 17,000 students. Member schools vary widely in their size, and fee levels. Some are denominational, some multi-denominational, and some have no formal church connection, but all share a Christian ethos. Membership of VESS is voluntary; schools pay a small per-capita membership fee.

VESS has been increasing in size in recent years. The System provides opportunities for professional collaboration and supports school administration and governance. The sharing of experiences, ideas and resources is valuable for all, perhaps particularly so for those in more distant regional settings.

It is difficult for those without personal experience of regional education to appreciate the importance of an independent school for a regional town or city. Often, for example, the existence of an independent school makes it possible to attract professionals to a regional setting, to provide essential services for the community.

BACKGROUND

The history of VESS goes back to the days of ERI funding. That regime, while on the one hand was manipulable, was also inflexible. In the early 1990’s, in a depressed rural economy, enrolments in regional independent schools were declining, and the ERI took no account of the reduced capacity to contribute of country parents. Regional schools were being pushed to the brink or forced to close. The move to a funding model based on parental capacity to contribute restored viability to many of our schools.

SUPPORT FOR FUNDING MEASURES BASED ON ABS DATA

Those with experience of the ERI regime know of the extent to which some schools were able to massage school financial information to optimise funding outcomes, and they want no return to any methodology which encourages similar practices.

More recent experience with the school collection of data from parents for ICSEA calculations shows that this also invites manipulation. For reasons such as this, VESS has a firm preference for the founding of school funding parameters on **independently-collected data**. Census data from the Australian Bureau of Statistics is respected as being transparent and reliable and should form the basis of school funding parameters.

Data at Collection District level is sufficiently sharp, without being subject to the vagaries of individual outliers. While the SES is not perfect, it is far better than any other model seen to date.

THE SES SCORE AS A MEASURE OF CAPACITY TO CONTRIBUTE

VESS broadly supports a measure such as the SES, drawn from ABS data, but there is scope to make this a fairer instrument.

The SES score for a school is a weighted average of the SES scores for the statistical areas in which the school's students reside. For a statistical area,

SES score = ($\frac{1}{3}$ Occupation + $\frac{1}{3}$ Education + ($\frac{1}{6}$ Income + $\frac{1}{6}$ Income based on families with children))

There is an assumption that parental **occupation** and parental **education** levels are closely related to the means of the family, and hence its capacity to contribute to school income.

These two criteria yield two-thirds of the calculated SES. Probably over the broad sweep of Australia, there is reasonable correlation between these variables and family means. But is it true that the occupations and education of parents in regional areas yield the same capacity to contribute as the majority of parents in metropolitan Australia?

ABS data suggest that this is not true (see Appendix 1). There is clear evidence that parents of comparable occupational and educational levels have significantly lower incomes (and hence capacity to contribute) in regional than in metropolitan settings.

VESS recommends that research be undertaken to ensure that any future funding regime **takes account of regional income disparities and hence is fair to regional schools.**

SYSTEMS AS A FUNDING INSTRUMENT

Systems in different States around Australia provide a backbone for quality education under a range of different banners. The *2011 Review of Funding for School* ("*Gonski Review*") found that "School systems play a valuable role in funding and supporting schools". They provide essential support, especially for smaller schools and new schools, not only through preferential funding, but also in administration and compliance and through professional learning.

VESS supports *Finding 8* of the *Gonski Review*: "*In recognising the many benefits of government and non-government school systems, future funding arrangements for schooling should continue to enable systems to make decisions around the redistribution and allocation of resources at the local level, with enhanced accountability.*"

SYSTEM WEIGHTED AVERAGING OF SES FOR FUNDING CALCULATION

Acceptance of the principle of needs-based funding implies agreement that schools with lower socio-economic scores should receive higher funding. This principle is reflected only partially in the current and proposed funding models. Schools with SES scores below 93 receive only the same base funding as a school at 93. The current averaging provision for system SES calculation is one way of addressing this inequity.

The principle of averaging also helps to overcome the very substantial financial disadvantage faced by the operators of small schools, which in the case of independent schools are often in regional areas. The real economies of scale, available to so many metropolitan schools, evade smaller schools, unless they can combine in a system and be funded as a co-operative, which system weighted averaging provisions enable.

System averaging of SES-based funding meets important needs and should be retained. *Recommendation 23* of the *Gonski Review* was clear on this subject: "*public funding for systems should be assessed and calculated at system level*" - supporting system averaging.

RESEARCH FOR A NEW FUNDING MODEL

The review of SES funding methodology has already thrown up complex issues, which will require in-depth research. It is vital that this is done thoroughly, and that it is seen to be exhaustive. This cannot possibly be achieved by June 2018, for implementation in 2019. We will hopefully see a new model which garners wide support and is in place for a decade or more.

VESS contends that **any new funding methodology should be based on thorough research**, and that due time be allowed for this, thus precluding implementation in 2019.

TIMELINES FOR IMPLEMENTATION AND REVIEW

One limitation of the Census data is its five-year interval. On balance, however, five-year consistency is advantageous for schools in many ways.

In recent years, the timing of decisions about school funding, at both Commonwealth and Victorian Government levels, has inhibited good school governance. Schools have on occasion gone into a new school year without knowing the exact quantum of funding which they would be allocated for that year. Schools begin their budgeting for a calendar year in the July or August prior. Important decisions on staffing and programs need to be made by September. In view of this, schools deserve at least twelve months' notice of any change to government funding. If a completely remodelled funding mechanism is to be introduced, there should be at least two years' notice given to schools, partly in fairness to parents whose commitment to fee-paying may be compromised by any significant fee increases.

The ten-year timeframe of the Quality Schools program is a welcome new dimension to school funding modification.

If the review of the SES score methodology is to result in substantial adjustments to the funding of individual schools, VESS believes the implementation of any **major change should be staged over the same ten-year timeframe.**



Stephen Higgs
Executive General Manager
19 February 2018

APPENDIX 1

SES SCORES FOR REGIONAL SCHOOLS

The *Research paper – Victoria University: SES score methodology used in recurrent school funding* outlines (page 32) the claim from a 2004 publication that “schools serving regional students obtain an SES score that is much higher than is warranted.” (Clearly from the context, what it means to say is “...much lower than is warranted”, a lower SES score being advantageous.)

Beside its lack of evidence, this claim has two immediate problems. First, it uses posted fee levels as an indication of capacity to pay. The deceptive superficiality of this will be discussed later. Secondly, under the label “schools serving regional students” it classifies together regional schools and metropolitan boarding schools, which have entirely different demographics. A regional school may draw almost entirely from a regional community which is more homogeneous than many metropolitan communities, meaning that **the supposed “ecological fallacy” may itself be a fallacy.**

WHY SES CURRENTLY DISADVANTAGES REGIONAL SCHOOLS

In the use of Occupation and Education as the major criteria for determination of capacity to contribute in the SES, there are implicit assumptions, such as:

- a lawyer in Mildura has the same income as a lawyer in Melbourne
- a person with a bachelor’s degree in Bathurst has the same income as a similarly qualified person in Sydney.

Do these assumptions stand scrutiny?

The extract below from *ABS Census of Population and Housing, 2016: Employment, Income and Education Table* shows the numbers of managers and professionals in the “High Income” category (earning >\$78,000 per annum):

	<i>High income persons by occupation</i>				<i>High incomes as share of occupation</i>			
	Regional Victoria	Greater Melbourne	Regional Australia	Greater Capital Cities	Regional Victoria	Greater Melbourne	Regional Australia	Greater Capital Cities
Managers	28,598	151,129	157,155	529,713	4.6%	7.1%	4.7%	7.2%
Professionals	38,897	247,574	240,021	923,336	6.3%	11.7%	7.2%	12.6%
				Total	10.9%	18.8%	11.9%	19.8%

So, both in Victoria and in Australia at large, metropolitan areas have nearly twice the proportion of “high income” managers and professionals as are seen in regional Australia. The assumption that an occupation category gives someone in regional Australia the same capacity to contribute as a metropolitan counterpart is therefore invalid.

A similar pattern is seen with education, the extract below from the same table:

	<i>High income persons by qualification</i>				<i>High incomes as share of qualification</i>				
	Regional Victoria	Greater Melbourne	Regional Australia	Greater Capital Cities		Regional Victoria	Greater Melbourne	Regional Australia	Greater Capital Cities
Postgraduate	10,663	99,979	64,335	364,241		0.9%	2.7%	1.0%	2.9%
Graduate Diploma	7,460	36,546	35,406	121,378		0.6%	1.0%	0.6%	1.0%
Bachelor Degree	32,508	220,792	198,125	800,937		2.8%	6.0%	3.1%	6.3%
					Total	4.3%	9.7%	4.7%	10.2%

From this table, we see that a person with a bachelor's degree or higher qualification has more than twice the likelihood of a high income in metropolitan Australia as a similarly-qualified person would have in regional Australia. So again, the assumption that an education category gives someone in regional Australia the same capacity to contribute as a metropolitan counterpart is invalid.

Amplifying this, employment agency Adzuna compares salaries between metropolitan and regional areas, the data below comparing Melbourne and Victoria's largest regional city (where, presumably, incomes are higher than in smaller, more distant regional cities and towns).

Difference in Salary by sector: Melbourne v Geelong

Sector	Geelong	Melbourne	% Difference
<i>Healthcare</i>	\$103,532	\$89,715	15.40%
<i>IT</i>	\$65,000	\$115,007	-43.48%
<i>Finance</i>	\$70,000	\$84,577	-17.24%
<i>Trade & Construction</i>	\$91,000	\$96,029	-5.24%
<i>Admin</i>	\$50,000	\$64,706	-22.73%
<i>Sales</i>	\$67,500	\$85,067	-20.65%

Healthcare is the sole industry where workers can expect a higher salary in regional Victoria, \$103,532, compared to Melbourne at \$89,715. (This can be explained by the much higher rates of pay for locum doctors in regional Australia.)

Adzuna Australia CEO Raife Watson said (of similar data for NSW):

The salary levels in all job sectors, with the exception of healthcare, (are) dramatically lower in regional NSW compared to Sydney. Yes, the cost of living is lower in regional Australia, but the salary disparity compared to our capital cities still leaves a considerable shortfall for those living outside metropolitan areas."

<https://www.adzuna.com.au/blog/2017/03/26/adzuna-job-report-jobs-salary-city-vs-regional-australia>)

These figures demonstrate that, for people in similar occupation and education categories, the capacity to contribute to school recurrent costs will be significantly lower in regional areas than in metropolitan Australia.

So, two-thirds of the calculated SES score will be causing an underfunding of regional schools and disadvantaging rural and regional parents.

Other Factors Which Affect Regional Parents' Capacity to Contribute

- **Transport**

Whereas most metropolitan schools are served by public transport, parents in regional areas may have unfunded costs of the order of \$3,000 per child per annum for access to school

- **Boarding**

For many students to access the education they need, boarding is a necessity. This can be a cost to the family of around \$20,000 per child per annum.

- **Tertiary education**

Families who are supporting a young person in tertiary education away from home face living costs of some \$25,000 a year, often while at the same time paying school fees for younger children.

Regional School Fees

The 2004 research, which concluded that regional schools had lower SES scores than warranted, relied on an analysis of posted fee levels for these schools, and the assumption that fee levels correlate with parental capacity to contribute. The significant number of high-means families which send children to government schools shows that this assumption is invalid. Furthermore, the attempted correlation ignores several realities:

- **Fee Discounts**

Many regional independent schools offer widespread fee rebates meaning that fees paid by many parents are well below posted fees.

- **Boarding Subsidies**

Boarding schools are invariably forced to cross-subsidise boarding from tuition fee income, so that a parent is actually paying less for tuition than the posted tuition fee.

Expenditure Factors

All of the above related to the recurrent income side of schools' ledgers. There are other factors which make the day-to-day expenditure in regional schools higher than for similar metropolitan schools, such as:

- Staff attraction and relocation costs.
- Travelling, replacement and accommodation costs for professional development.
- Staff salaries, in many schools where there is low turnover and hence higher average salaries.
- Transport costs, for students and materials.
- Smaller average school size means loss of economies of scale.
- Commitment to purchase from local suppliers often comes with a price premium.