



INDEPENDENT SCHOOLS  
COUNCIL OF AUSTRALIA

Independent Schools Council of Australia

Submission to the Review of the Socio-  
Economic Status Score Methodology

February 2018



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## About ISCA

ISCA is the national peak body representing the Independent school sector. It comprises the eight state and territory Associations of Independent Schools (AISs). Through these Associations, ISCA represents a sector with 1,123 schools and 604,436 students, accounting for approximately 16 per cent of Australian school enrolments. ISCA's major role is to bring the unique needs of Independent schools to the attention of the Australian Government and to represent the sector on national issues.

Independent schools are a diverse group of non-government schools serving a range of different communities. Many Independent schools provide a religious or values-based education. Others promote a particular educational philosophy or interpretation of mainstream education.

Independent schools include:

- Schools affiliated with Christian denominations for example, Anglican, Catholic, Greek Orthodox, Lutheran, Uniting Church, Seventh Day Adventist and Presbyterian schools
- Non-denominational Christian schools
- Islamic schools
- Jewish schools
- Montessori schools
- Rudolf Steiner schools
- Schools constituted under specific Acts of Parliament, such as grammar schools in some states
- Community schools
- Indigenous community schools
- Schools that specialise in meeting the needs of students with disabilities
- Schools that cater for students at severe educational risk due to a range of social/emotional/behavioural and other risk factors.

Many Independent schools have been established by community groups seeking to meet particular needs. Examples include the Independent community schools for Indigenous students in remote areas, special schools for students with disability and boarding schools to educate children from rural and remote areas. There are also schools that seek to reflect the religious values of a particular community or that seek to practise an internationally recognised educational philosophy such as Rudolf Steiner or Montessori schools. Independent Catholic schools are a significant part of the sector, accounting for eight per cent of the Independent sector's enrolments.

Most Independent schools are set up and governed independently on an individual school basis. However, some Independent schools with common aims and educational philosophies are governed and administered as systems, for example Lutheran systems. Systemic schools account for 18 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

## Executive Summary

ISCA welcomes this opportunity to provide input to the Review of the current Socio-Economic Status (SES) methodology. The current SES methodology has been in place for nearly two decades and is a core component of Australian Government funding for non-government schools.

It is ISCA's view that the current SES methodology is an appropriate measure of a school communities' capacity to contribute to the costs of education. However, given the length of time that the SES methodology has been in place, ISCA would support a revalidation of the current settings of the SES to see if they can be further refined.

From ISCA's analysis of the available data, it is clear that many of the criticisms that have been levelled against the current SES methodology are a result of either flawed analysis or the product of misconceptions around the nature of the Independent sector.

The Independent sector is comprised of an extremely diverse range of schools serving the full spectrum of communities and does not only serve a particular segment of the Australian population. In fact, the largest group of Independent schools is in the medium SES category. The Independent sector also has a very high number of schools serving some of the most disadvantaged students in Australia.

ISCA believes that the current SES methodology is fit-for-purpose, transparent and reliable. This is largely due to the area-based approach of the current methodology which provides stability in funding for non-government schools and cannot be manipulated or gamed.

While arguments have been made for the use of direct parental data, there is no evidence that direct parental data would be more accurate and there are significant negative impacts including administrative burden, volatility and ability to be manipulated.

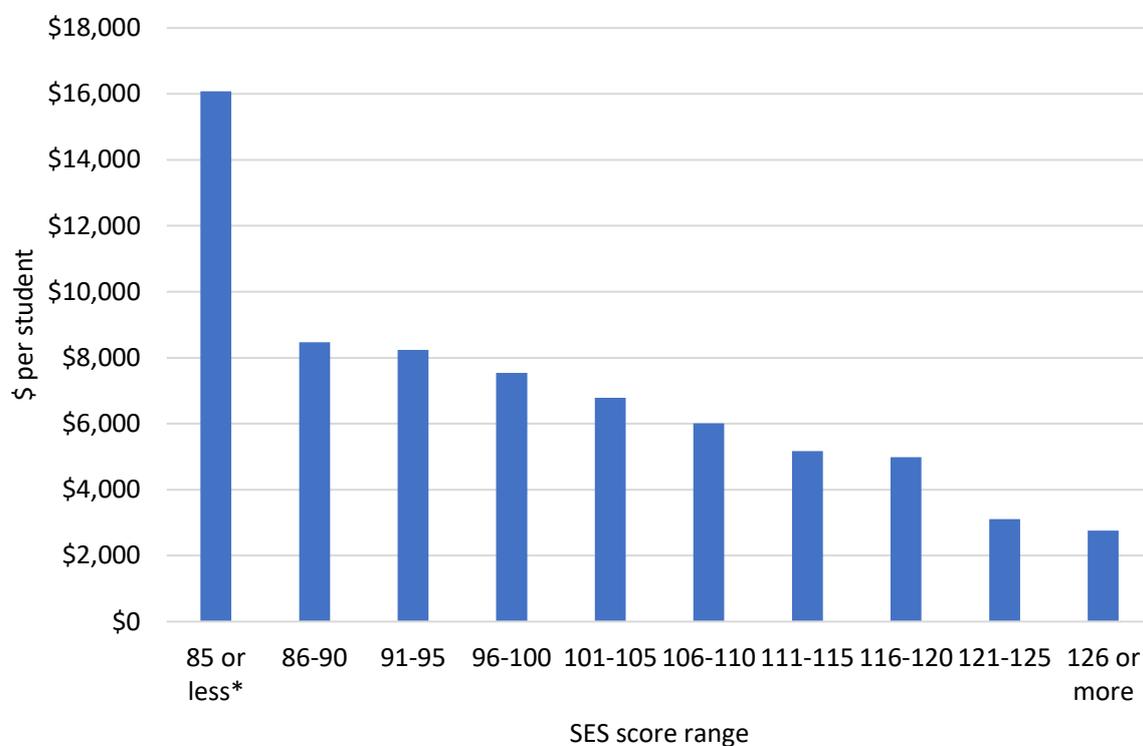
ISCA is also concerned that arguments to include other factors in the SES methodology, such as school fees, are inherently contradictory to the purpose of measuring a school communities' capacity to contribute and the rationale of the SES methodology. The SES is used to determine parents and communities' capacity to contribute to the costs of education, not schools' willingness to charge fees.

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

It is ISCA’s view that the SES methodology used in the current Australian Government funding model is well-accepted and established in Independent schools and is an appropriate mechanism for determining school communities’ capacity to contribute (CTC) for non-government schools.

Analysis of Australian Government funding to Independent schools demonstrates that the SES methodology successfully achieves its intended objective of delivering more government funding to low SES schools serving communities with lower capacity to contribute and less funding to high SES schools serving communities with a higher capacity to contribute exactly as it was intended to do.

*Chart 1: Australian Government funding per student in Independent non-systemic schools by SES score, 2015<sup>1</sup>*



\*Includes schools which are CTC exempt due to high level of disadvantage i.e. Majority Indigenous Student Schools, Remote Sole Providers, Special Assistance Schools and Special Schools.

Source: ACARA My School 2017; Dept of Education and Training SES Tables 2016

While there is a significant body of work underpinning the current SES methodology, it was developed 20 years ago. ISCA acknowledges that this Review presents an opportunity to undertake a revalidation of the current settings of the SES methodology to see if the measure can be further refined to produce even more accurate SES scores for non-government schools.

<sup>1</sup> 2015 is the latest publicly available financial data.

## Strengths of the SES methodology

The current SES methodology has been in place for almost two decades in Independent schools and is well understood and supported. In 2001, the SES methodology replaced a funding methodology which had become increasingly complicated and opaque over time and subject to manipulation<sup>2</sup>.

Some of the key features of the SES methodology which have made it so well supported by the Independent sector are outlined below:

- The SES methodology utilises ABS data so is updated on a frequent and predictable cyclical basis. The timing of the ABS Census of Population and Housing (the Census) is well known and schools are familiar with the processes in place for the recalculation of SES scores which follows each Census.
- The ABS data used for the SES methodology is independent from the operations of the school and the individual personal data or characteristics of parents or students which means it cannot be manipulated or gamed. The Education Resource Index (ERI) which the SES funding model replaced was considered to be open to manipulation and had grown in complexity over many years. The use of data based on school community characteristics rather than data provided directly by parents or the school was seen as a significant safeguard against this.
- The SES methodology represents a good balance between stability in funding for schools and the currency of data. Stability in school funding is highly prized, particularly by stand-alone Independent schools which do not have systemic supports, although it is recognised that as school communities change, the capacity to contribute has to be reassessed regularly. The five-year cycle for the ABS Census provides an appropriate balance between the two.
- The use of ABS Census data provides stability in funding for schools without year on year volatility. Funding stability is essential for non-systemic schools which need to be able to undertake long term financial planning to ensure financial viability. When school funding is volatile, it adversely impacts individual schools and their capacity to plan effectively. This year on year stability is less significant for large systems, in particular Catholic systems, which undertake significant redistribution of Australian Government funding according to their own system-based methodologies, which mitigates against volatility.
- The SES methodology does not discourage the contribution by parents of private income. To maximise efficiency in the allocation of public resources, the Australian Government capacity to contribute methodology should be encouraging parents to invest in their children's education. This was one of the main drivers for the establishment of the SES funding model as the ERI was seen to provide disincentives for schools to encourage private investment through its funding formula.
- For those non-government schools that do not consider that the SES methodology is an accurate reflection of the actual SES of their school community, there is an appeal mechanism that has been successfully utilised by a small number of schools in the Independent sector. The appeal mechanism is open to all non-government schools, but it is ISCA's understanding that Catholic systems have elected not to use utilise this option.
- The transition from the use of Census Collection District (CCD) to Statistical Area 1 (SA1) for the purposes of the SES methodology means that the SES is now based on smaller groupings of households and so statistical accuracy is higher than it was previously.

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<sup>2</sup> The SES was used for Independent schools from 2001 and from 2005 for Catholic systemic schools.

➤ The use of the ABS Census data does not pose a major administrative burden on schools. When the SES is recalculated following each Census, schools provide a list of their student addresses to the Department of Education and Training for geo-coding to the relevant SA1 and these scores build up into the schools' SES score. Given the raft of accountability and reporting requirements being faced by all schools at this point in time, any shift to a methodology requiring more effort from schools or from parents would be a significant imposition on schools' and parents' time and resources.

#### Arguments for changes to the SES methodology

The Victoria University paper highlights some of the concerns that have been raised regarding the current SES methodology that have been identified by some non-government education stakeholders. As identified by the paper's authors, these concerns have been presented without any consideration of the evidence underlying them.

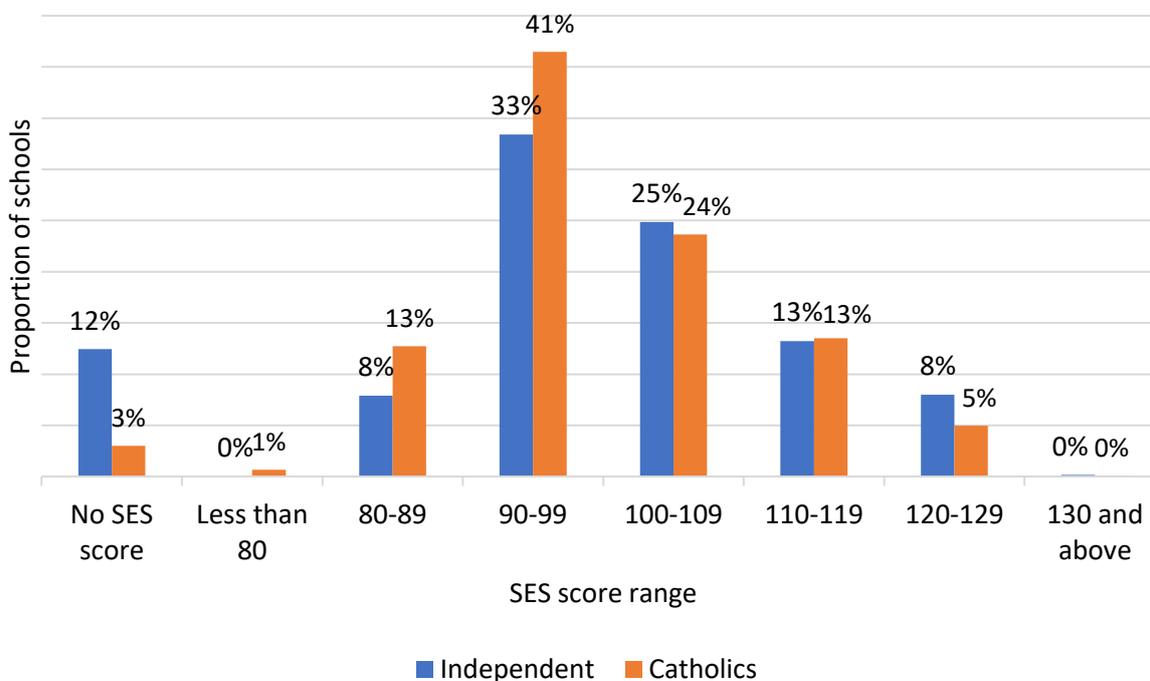
These concerns have not been identified by ISCA. The only issue noted as being raised by ISCA in the Victoria University research paper is in fact a misinterpretation of the argument put forward in ISCA's submission to the Gonski Review regarding the quantum of funds available rather than the SES scores themselves.

Identified limitations of the SES methodology are addressed below:

#### *The SES model favours Independent schools as they serve high-SES families while Catholic schools serve low-SES families*

This argument is largely based on the longstanding misconceptions regarding the nature of Independent schools. In fact, only a small minority of Independent schools are high-fee schools serving high SES communities.

Chart 2: The distribution of Independent and Catholic systemic schools by SES score, 2018



Note: Schools with no SES score are CTC exempt schools with high levels of disadvantage i.e. Majority Indigenous Student Schools, Remote Sole Providers, Special Assistance Schools and Special Schools.

Source: Dept of Education and Training SES Tables 2017 and 2018

The perception that all Independent schools are high-SES schools serving only high SES families is a fundamental misunderstanding of the Independent sector. For the last thirty years most of growth in the Independent sector has been in low to middle-fee schools.

Catholic systemic and Independent schools and school communities have more similarities than differences and over time have moved to serve substantially similar populations.

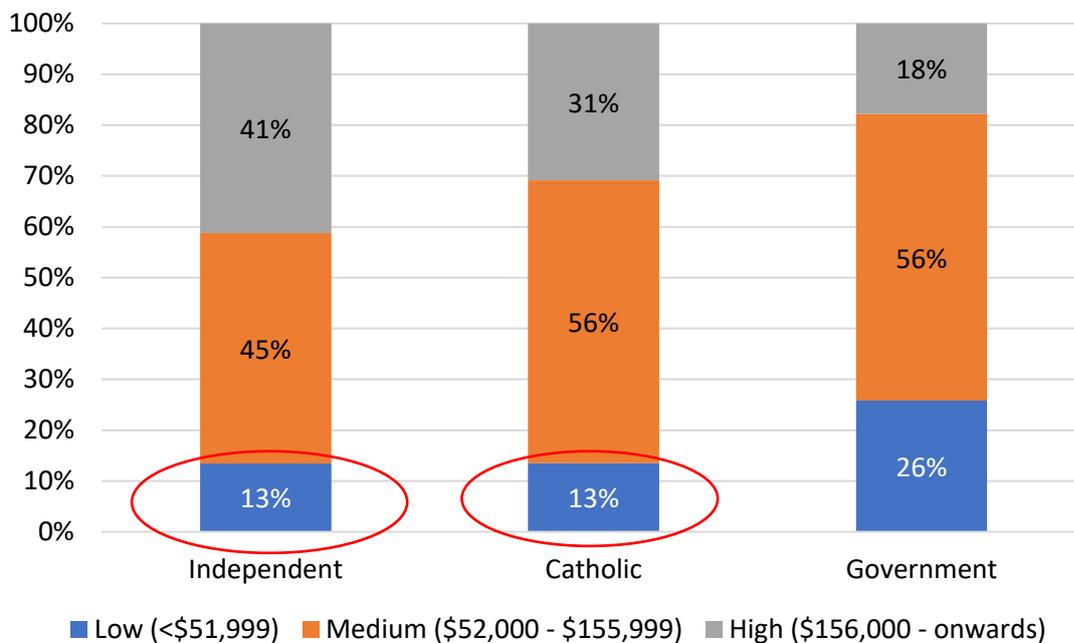
The median fee charged by Independent schools in 2015 was \$4,877. Seven per cent of Independent schools charged fees in excess of \$20,000, while 70 per cent of Independent schools charged fees less than \$10,000. Independent schools serve regional communities, Indigenous communities, and encompass schools for students with disability and highly disadvantaged students. A number of these schools do not have the capacity to raise fees from their parent community.

In fact, when comparing the two non-government sectors, in 2018 the Catholic systems schools have a national average SES of 100 while Independent schools have an average SES of 102<sup>3</sup>. Both groups have outliers, although it is interesting to note that it is the Independent sector that has a higher proportion of highly disadvantaged schools.

ISCA’s analysis of the ABS Census over the last several decades has shown that the families that send their children to Catholic and Independent schools are increasingly more similar in character, not less. For both sectors, the proportion of low and middle-income families has grown while the proportion of high income families has decreased. This is true for family income, education and occupation.

The 2016 ABS Census data shows that each sector is primarily comprised of Medium-income families (\$52,000 to \$155,999). The Independent and Catholic sectors have the same proportion of Low-income families (<\$51,999). Please note that charts may not total 100 per cent due to rounding.

Chart 3: Family income by sector, 2016



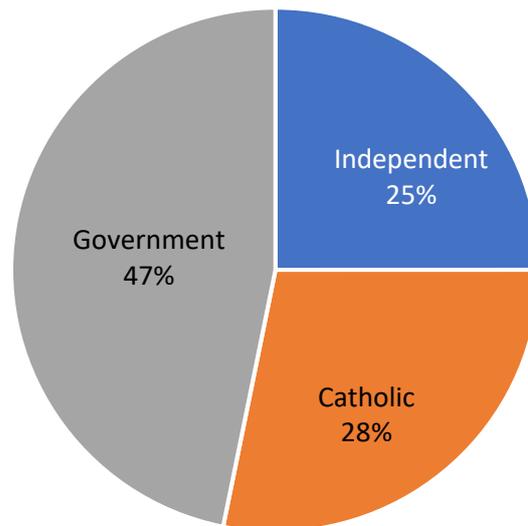
Source: ABS Census of Population and Housing 2016

<sup>3</sup> Dept of Education and Training SES Tables 2017 and 2018 – excludes schools without an SES score.

In 2017, Independent schools accounted for approximately 15 per cent of school level enrolments, Catholic schools accounted for 20 per cent and government schools accounted for 65 per cent of enrolments<sup>4</sup>.

ISCA's analysis of the ABS Census data also shows that by far the largest group of high income families send their children to government schools (47 per cent), followed by Catholic schools (28 per cent) and finally Independent schools (25 per cent).

*Chart 4: Students from high income families (>\$156,000) by sector attended, 2016*



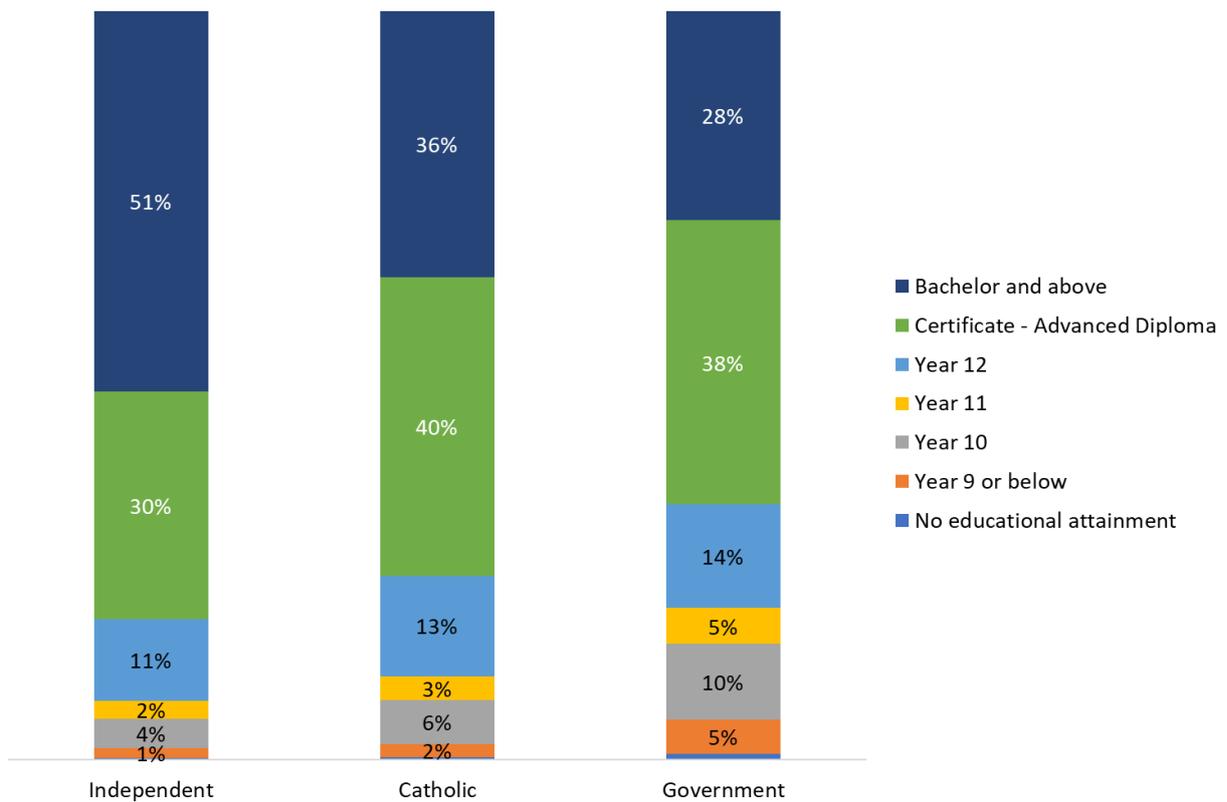
*Source: ABS Census of Population and Housing 2016*

ISCA also analysed the educational attainment and occupation of the highest earning parent in families by sector. The analysis shows in relation to educational attainment, 81 per cent of Independent and 76 per cent of Catholic highest earning parents have a tertiary qualification compared to 66 per cent of government school parents.

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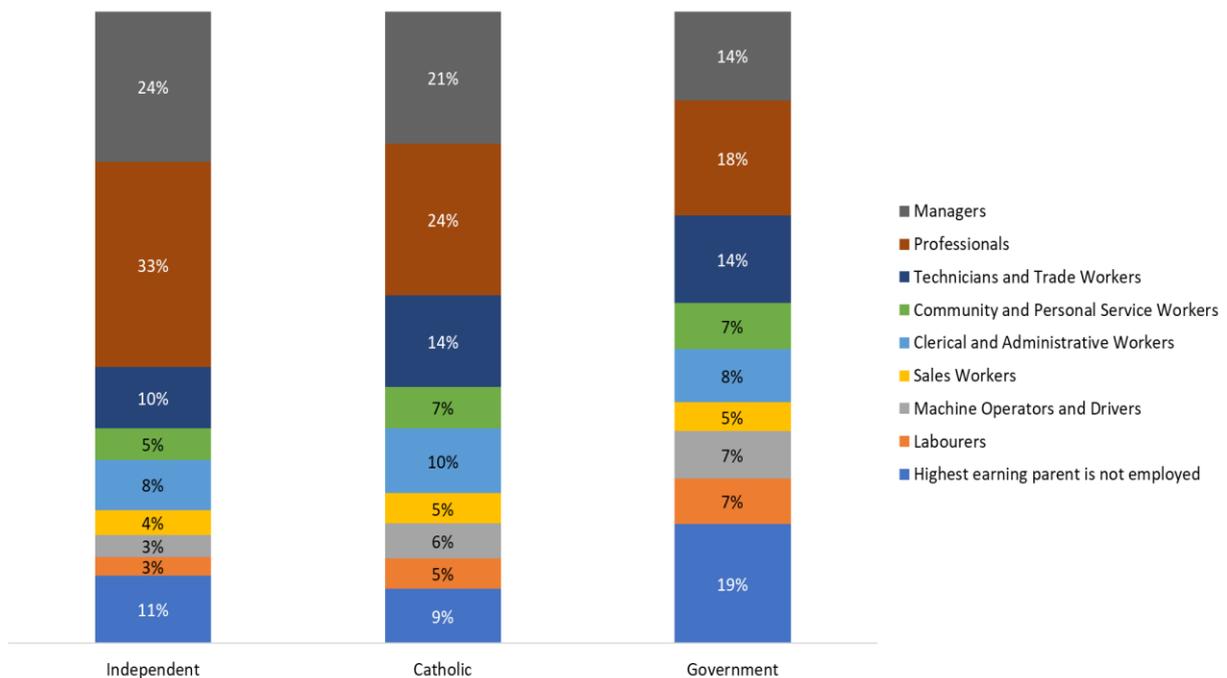
<sup>4</sup> ABS Schools Australia 2017 - note the ABS includes independent Catholic schools with Catholic.

Chart 5: Highest level of education attained (by highest earning parent) by sector, 2016



Source: ABS Census of Population and Housing 2016

Chart 6: Occupation of highest earning parent by sector, 2016

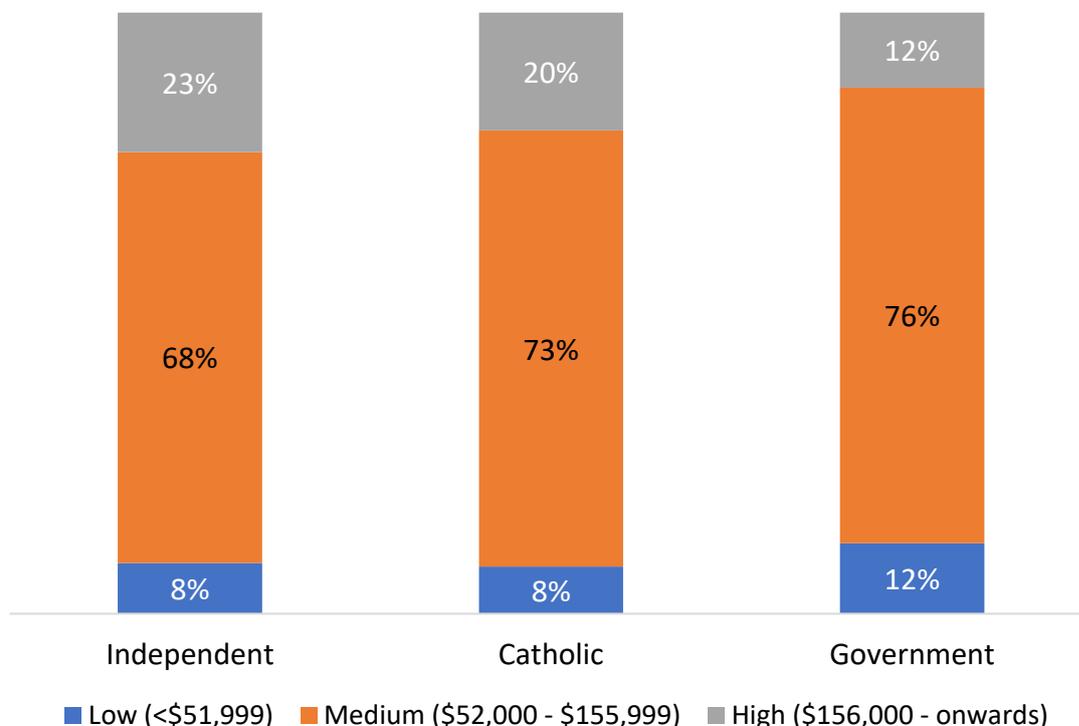


Source: ABS Census of Population and Housing 2016

An analysis of the occupation of the highest earning parent by sector attended presents a more complex picture, particularly if taking the income earned by occupation into consideration as well.

The overall income level of those identifying as being in a particular occupation also varies by sector. For example, Technicians and Trade Workers in the non-government sector have higher incomes than in the government sector.

Chart 7: Family income of highest earning parent by sector, 2016 – Technicians and Trade Workers



Source: ABS Census of Population and Housing, 2016

From ISCA’s perspective, the value in including education and occupation in the SES methodology is that it acts to offset the variability and fluctuations in income that can occur over time. By acting as a partial proxy for income, these variables ameliorate the effect of any temporary changes in income.

*The SES model does not accommodate Catholic systemic schools’ objective of being low-fee regardless of the SES of the school community*

The SES methodology is a measure of capacity to contribute. Whether a school or system has chosen to be ‘low-fee’ is 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.

The inclusion of fees in the SES methodology could also create some significant negative feedback loops. Low fee schools receiving more funding would continue to lower fees and schools receiving less funding could be forced to increase fees to compensate. This would have the effect of distorting the current fee structure of schools and could result in mid-range SES schools moving to either end

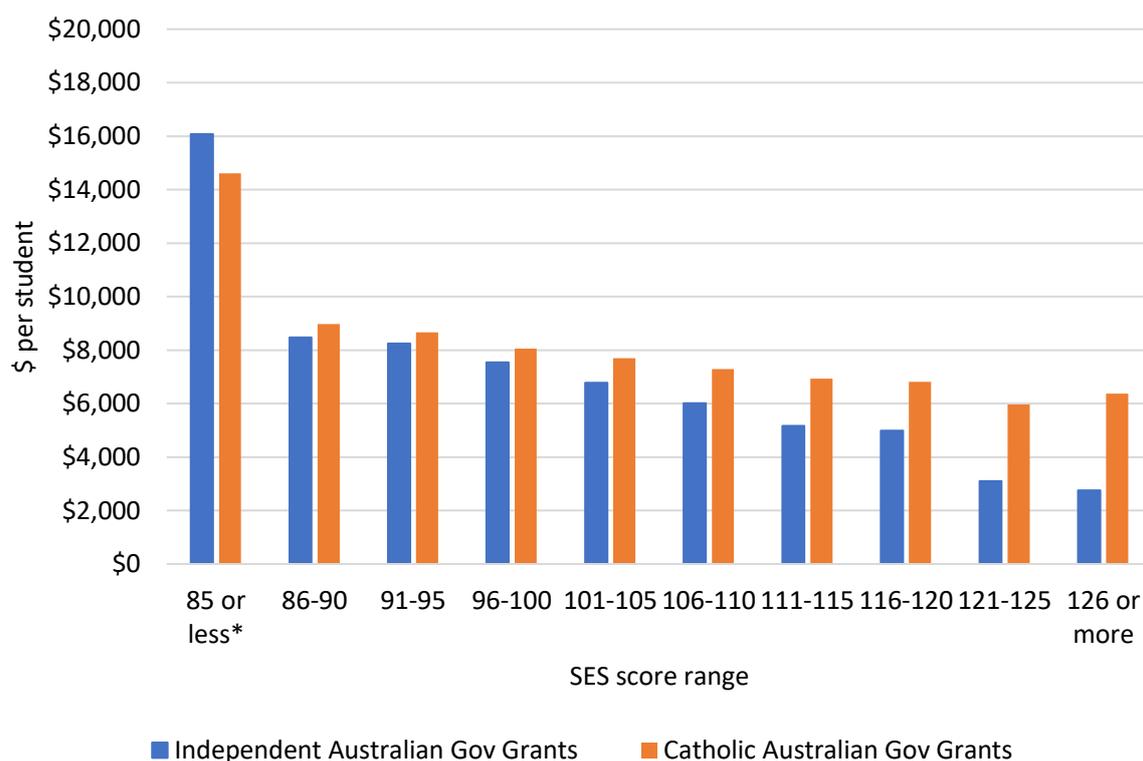
of the SES scale, with fee structures changing accordingly depending on the quantum of funding received.

Some argue that the fees charged by schools should be part of the SES methodology on the basis that the fees charged are always reflective of parents' capacity to pay. However, while there is a tendency to conflate parents' capacity to pay with a school's willingness to charge fees, they are not the same.

Catholic systems redistribute funding between schools in the system. The effect of this redistribution is that there is far less difference between the funding received by Catholic systemic schools of different SES scores than in the Independent sector where the majority of schools receive their needs-based funding directly from the Australian Government.

This redistribution enables Catholic systemic schools to charge the same fees regardless of school SES. The chart below shows the difference in Australian Government funding by SES between Catholic systemic and Independent schools once Catholic school funding has been redistributed by the Catholic systems.

*Chart 8: Australian Government funding per student in Catholic systemic schools and Independent schools by SES score, 2015 (will be updated to 2016 data)*



\*Includes schools which are CTC exempt due to high level of disadvantage i.e. Majority Indigenous Student Schools, Remote Sole Providers, Special Assistance Schools and Special Schools.

Source: ACARA My School 2017; Dept of Education and Training SES Tables 2016

This flatter redistribution is allowable under the current funding arrangements provided that the system is using a needs-based funding model for the redistribution. It doesn't however mean that the SES model is somehow 'broken' if the fees charged by a system-subsidised school are lower than in a stand-alone Independent school serving the same community.

*The SES methodology does not take into account the assets of the school*

Another issue that has been raised is the possible exclusion of school 'wealth' or assets in the SES methodology. By excluding any component of school wealth or assets, the SES rightly focusses on parents and families and their capacity to pay fees rather than the facilities that may have been built up by a school over decades.

Comparing schools with similar SES scores by looking at the buildings and grounds can be as misleading as comparing schools by SES on the basis of fees charged. As noted earlier, in some Catholic systems, funding nominally allocated to low SES schools is distributed to high SES schools meaning that the resources available to these schools is below that of an Independent school with an equivalent SES score.

Further, without systemic support, Independent schools rely heavily on parents and their communities to pay for capital works. In the Independent sector 90 per cent of capital costs are met through private contributions. ISCA would argue that the contribution of past parent communities to a school's building and grounds should not be included in an assessment of the current parent community's capacity to pay fees.

Another factor that would need to be taken into account is the different financial structures of individual Independent schools versus systemic schools. Where schools are part of an overarching entity, such as a school system, different arrangements may be in place, such as who owns the land on which the school is built. Any comparison of school wealth would need to take into account the different financial and governance structures in place for all schools and devise a means of fair comparison which in the case of systemic schools, looks beyond the individual schools. This would be a significant undertaking.

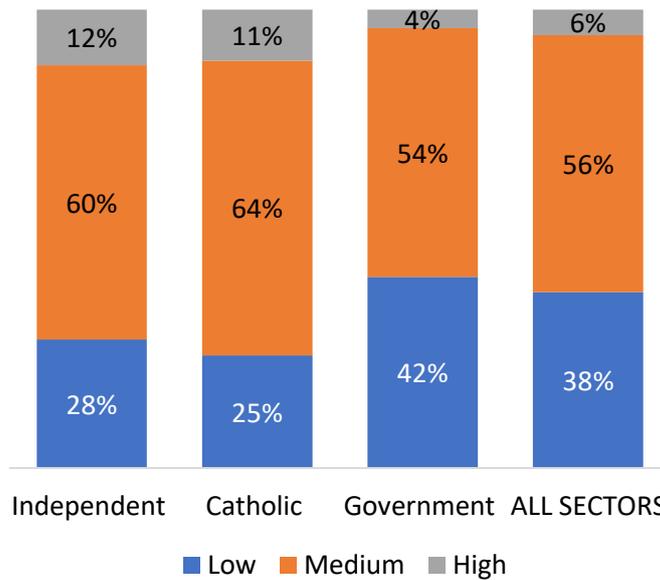
But most importantly, looking at the physical entity of a school does not necessarily provide an accurate picture of the parental community of school. As noted earlier, the myth that all Independent schools cater to wealthy families and that Catholic systemic schools cater to poor parents is just that, a myth.

*Within SA1s, Independent schools enrol advantaged students and Catholic schools enrol disadvantaged students*

There has been a claim that within SA1s, it is disadvantaged Catholic parents who send their children to Catholic schools and it is the more advantaged families in an SA1 who send their children to Independent schools.

ISCA's analysis of SA1 data from the most recent Census of Population and Housing correlated with the ABS Socio-Economic Index for Areas (SEIFA) Index for Relative Socio-Economic Disadvantage shows that in the most disadvantaged SA1s, Independent and Catholic parents have almost identical income distributions and in fact Independent schools enrol a slightly higher proportion of students from low income families than the Catholic sector.

Chart 9: Family income by sector attended for SA1 locations in SEIFA lower 3 deciles, 2016

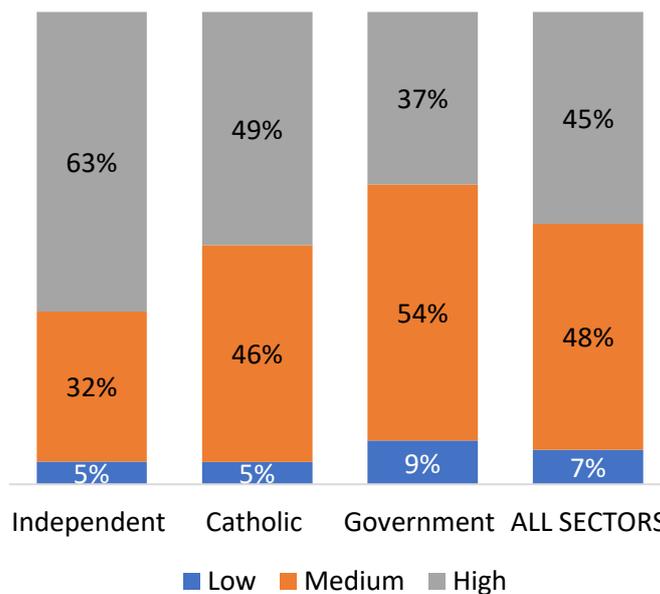


Source: ABS Census of Population and Housing 2016, SEIFA 2011

The largest proportion of disadvantaged families are more likely to send their children to a government school than they are to either a Catholic or Independent school.

In the most advantaged SA1s, low income Catholic and Independent families make up the same proportion of enrolments. Catholic schools have a larger enrolment of children from middle income families and Independent schools have a larger enrolment of children from higher income families. Both the Catholic and Independent sectors have higher proportions of middle and high-income families than the government sector.

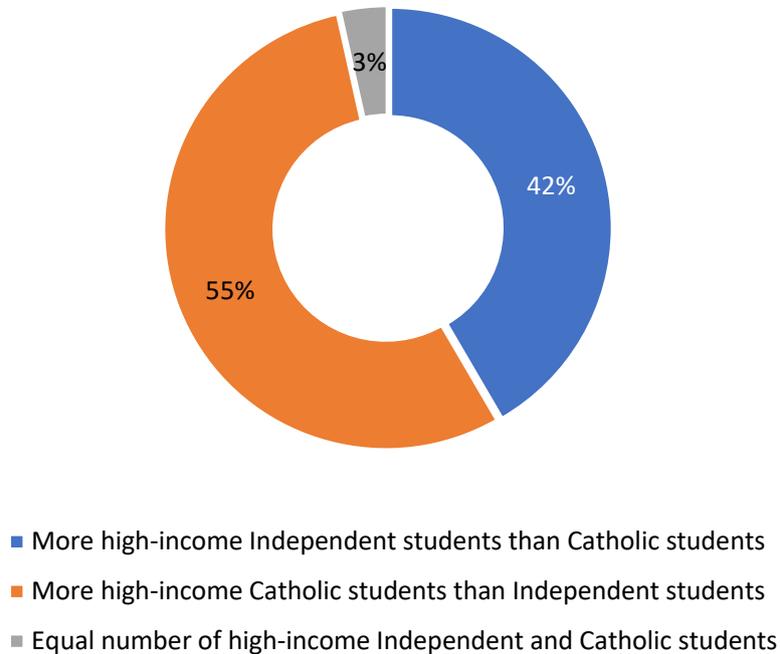
Chart 10: Family income by sector attended for SA1 locations in SEIFA upper 3 deciles, 2016



Source: ABS Census of Population and Housing 2016, SEIFA 2011

Looking at all SA1s, the Census data shows that there are more SA1s where the majority of students from high income families attend Catholic schools rather than Independent schools.

Chart 11: Independent and Catholic sector enrolments in SA1s by family income, 2016



Source: ABS Census of Population and Housing 2016

As noted previously, it is not ISCA's contention that the Independent and Catholic sectors are exactly the same. However, what is clear at both the national level and at the SA1 level, is that the perception that Independent schools 'cherry-pick' the students from advantaged backgrounds while Catholic schools only serve students from disadvantaged backgrounds is incorrect. As the analysis shows that there is no bias towards either advantaged or disadvantaged students in SA1s by sector, there is no case to be made for the argument that Independent schools have a systemic funding advantage from the current SES methodology.

#### *5-year timing of census means data becomes outdated*

The quantum of movement in SES scores for schools between censuses (generally minor) shows that data does not rapidly become outdated but instead caters in a timely way for changes in demographics. Further, the timing of SES score recalculations is now established for Independent schools and is predictable and avoids dramatic year on year funding changes. This is much more relevant for stand-alone schools where funding is provided directly to the school and small systems than for large systems which undertake wholesale redistribution of funding and can smooth out any dramatic funding changes to reduce the impact on individual schools.

One notable feature of the SES methodology is that there is in fact very little movement in schools' SES scores from one recalculation to the next. In the last recalculation following the 2011 Census, 34 per cent of Independent schools had no change in their SES score. Of those that had a change in their SES score, 80 per cent moved 2 points or less showing that overall, the model balances stability and demographic change.

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

ISCA has examined the issues noted in the research paper and considers that the fundamentals of the SES methodology remain the most appropriate methodology to determine capacity to contribute. Several possible refinements have been examined but it cannot be demonstrated that they are significant issues requiring substantial change. Further, in some instances the proposed changes are either unnecessary or would affect the reliability and stability of the SES methodology.

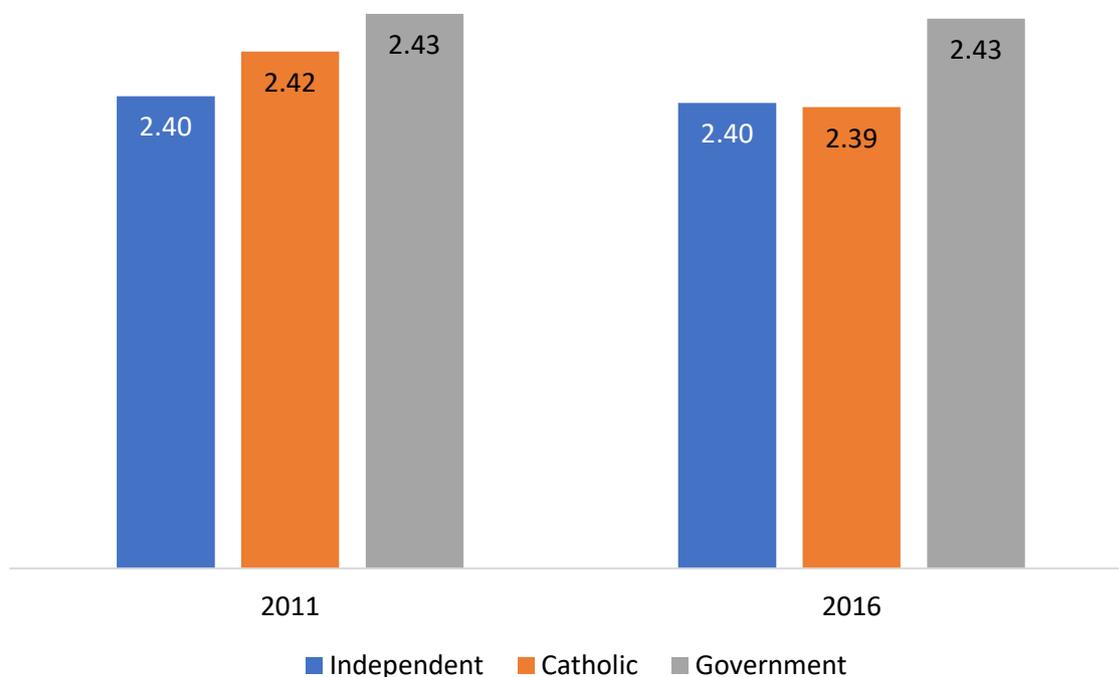
#### Refinements to existing methodology

##### *Family size*

Through data obtained from the most recent ABS Census, ISCA examined the contention that family size should be incorporated into the methodology given the additional costs borne by families with large numbers of children, including schooling costs.

The 2016 ABS Census data shows that the average family size per family for both Catholic and Independent schools is very close to the national average, albeit with family size being slightly higher in the Independent sector in 2016. While the Catholic sector had a higher average family size in 2011, this has declined. One reason for this appears to be the growing mix of students from different types of backgrounds, including non-Catholic families, in the Catholic sector. The growth in family size in the Independent sector is also a reflection of changing demographics in with increasing numbers of students from communities which have larger families. The government sector has the largest average family size.

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



*Source: ABS Census of Population and Housing 2011 and 2016*

In the Independent sector there are several orthodox Jewish schools who have appealed their SES scores in order to take into consideration a range of factors including family size. These schools have successfully had their SES score adjusted since the inception of the SES funding model in 2001. This

would indicate that the existing mechanisms which are in place to address issues such as these are adequate for the small number of schools for which it might be relevant. It is ISCA’s view that while this issue could be examined further, the current SES appeal mechanisms have worked to address this specific issue to date.

*Regional schools and boarding schools*

Another issue that is noted in the Victoria University paper is in relation to the SES scores of some regional Independent schools and Independent boarding schools, which may seem low when compared to other metropolitan Independent schools which ‘look’ similar. This viewpoint has caused significant consternation in the Independent sector as it ignores some significant factors for regional schools and boarding schools.

The first issue to note is that the income for similar professions are often lower in regional Australia than they are in metropolitan areas. ABS Census data shows that there are large wage gaps between metropolitan and regional salaries for the same occupation groups.

*Table 1: Percentage of Managers and Professionals reporting income of \$104,00 or more*

	<b>Manager</b>	<b>Professional</b>
Within Major Cities	38%	26%
Outside Major Cities	21%	19%

*Source: ABS Census of Population and Housing 2016*

This difference would lead to an expectation that the SES scores for schools in regional Australia would be lower than their counterparts in metropolitan areas. Regional families also face other costs, such as transport costs, which are not faced by families in metropolitan areas.

The main comparator that was used in the analysis<sup>5</sup> which labelled some Independent schools as having lower SES scores than ‘expected’ was published school fees. The reality of published school fees is that all Independent schools will have some amount of fee discounting, including scholarships and bursaries, which mean that schools are unlikely to collect full fees for every student. The range of discounting varies from school to school however when ISCA compared the average tuition fee based on published fee levels for several large regional Independent schools with their actual income from fees<sup>6</sup>, these schools were collecting fees of around 40 per cent less than their published fee levels. Similar analysis of some large boarding schools showed discounting of 10 -15 per cent. Clearly these schools are offering significant fee remission.

This misrepresentation of regional Independent schools is another example where popular misconceptions around the make-up of these schools clouds a realistic assessment of the circumstances of the student and parent population.

There are only a few Independent boarding schools in Australia which have a sufficient number of boarders to materially affect their SES score. In 2017, of the 150 Independent boarding schools, only 29 schools (3 per cent) have a boarding population comprising 25 per cent or more of total enrolments. Of these, 6 schools are boarding only, five of which are entirely Indigenous boarding schools.

<sup>5</sup> Watson, L. (2004) Don’t throw the baby out with the bathwater: The case for a reformed SES Funding Scheme. Australian Journal of Education, 227-238.

<sup>6</sup> 2015 published fee levels and My School 2017

The Independent sector is the largest provider of boarding to Indigenous students in Australia. There are a number of Majority Indigenous Student Schools which are boarding schools catering to Indigenous students from remote communities who would otherwise not be able to access secondary education. These schools would have some of the lowest SES scores in the country.

For the non-Indigenous boarding schools, once again there may be an element of assuming that all students at all schools are from the same family background with the same capacity to pay fees when this is not the case at all. Many Independent schools offer bursaries, discounted fees for siblings and fee remission for families in hardship. As indicated earlier, many regional families have generational relationships with individual Independent boarding schools and they make sacrifices to ensure that their children can continue to be educated at these schools. It is also often the case that in recognition of these long-standing relationships the school puts in place fee arrangements which can accommodate the often unpredictable and highly variable income from rural families.

Further, there are a number of metropolitan boarding schools which offer educational opportunities to disadvantaged Indigenous students through bursaries and scholarships. These schools see this activity as part of their mission.

The difficulties faced by Indigenous and non-Indigenous students from regional and remote areas are recognised in government programs such as ABSTUDY and the *Assistance for Isolated Children* scheme which both provide funding for these students to attend schools, including Independent boarding schools, in order to complete their schooling and receive educational services they cannot access where they reside.

Without knowing the individual circumstances of each individual student from a regional/remote area it is impossible to assess whether the SES score of the SA1 in which they reside is inappropriate or not. While counterintuitive to many, what many see as ‘anomalous’ SES scores in some cases, are in fact an accurate reflection of the SES of the school’s parents and community.

#### *Utilising the more fine-grained ABS unit of mesh blocks*

Another suggested enhancement is that of moving to the smallest unit in ABS geography – the mesh block – to further enhance the reliability of the SES score. However, rather than enhancing the validity of the SES methodology, given the small size (30 – 60 dwellings) of each mesh block, a move to mesh blocks could reduce the validity of the SES as a measure. There is a high likelihood that such a move, particularly outside of dense suburban areas, could produce misleading, highly variable results for both the Independent and Catholic sectors and may not significantly improve accuracy.

In addition, and according to the ABS, “Mesh Blocks are not intended as regions for statistical output as their small size creates issues with confidentiality.” While the ABS could make SES calculations using mesh block data, this would not be desirable as transparency would need to be sacrificed in order to maintain the confidentiality of census data. Therefore, the SES calculation should continue to be based on the lowest level of data aggregation that can be made public- the SA1 data.

#### *SES methodology*

The research paper also lists a series of queries which have been raised regarding the SES calculation itself. These include

- The relevance of education and occupation,
- The weightings for the variables, and
- The correlations between income, education and occupation.

The suggestions that the SES methodology as developed is somehow ‘arbitrary’ or that the factors do not correlate have no basis in fact. ISCA was closely consulted in the development of the SES methodology and has retained the relevant development documentation, including those noted below. These documents clearly indicate there was an extensive development process for the SES methodology and the variables and weightings were chosen precisely because of their relevance for the assessment of a school community’s capacity to contribute.

The Department of Education and Training released several public reports regarding the Review of the Education Resource Index (ERI) funding model and subsequent development of the SES methodology, including the *SES Simulation Project Report* in 1998 which details the rationale for the move away from the Education Resource Index (ERI) funding model to the SES funding model as well as the underpinning theoretical framework of the SES methodology.

It is also worth noting that the interest in a funding model that was based on the SES of a school community came from the entire non-government sector and there were representatives from both the Catholic and Independent sectors on the Steering Committee for the Simulation Project on a socioeconomic (SES) based model for recurrent funding of non-government schools set up as part of the 1997 Review of the ERI.

Possible refinements to existing methodology

*Refining the settings of the current methodology*

Notwithstanding the fact that there is a significant body of work underpinning the current SES methodology, this Review may be an opportune time to revisit the settings of the SES methodology, including the income levels used in the calculation, to see if the settings are still relevant and/or could be further refined to produce more accurate SES scores.

Alternative methodologies

*Problems with direct measures - Moving from an area-based measure to direct measure (Use of parental background data or personal income tax data)*

A range of alternative methodologies have been proposed utilising direct measures to assess parental capacity to contribute.

It has been ISCA’s experience that the use of self-reported individual parental background data has some significant issues. These have been raised by ISCA and others in the sector many times in relation to the ACARA Index of Community Socio-Educational Advantage (ICSEA) which is used to inform the Low Socio-Educational Advantage (SEA) loading in the current funding model.

The 2017 Australian Curriculum, Assessment and Reporting Authority (ACARA) Data Standards Manual notes that “Concerns have been raised about the extent of incomplete data, most notably, the high levels of missing data for the parental education and parental occupation data items. In some school systems and schools, the collection of data for the parental education and parental occupation indicators has proven difficult.<sup>7</sup>

These issues include the problems for some schools which serve highly disadvantaged communities such as Indigenous Community Schools and Special Assistance Schools. In these cases, accurate parental background data is both difficult to collect or is in fact not collectable at all. This has resulted in a high degree of volatility in some schools’ ICSEA scores.

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<sup>7</sup> 2017 ACARA Data Standards Manual, p8.

In other cases, it has been reported that parents are prone to overstate certain background factors particularly given that the details provided on enrolment forms are not protected as per ABS census data but are accessible by large numbers of school staff.

Further, if a parent doesn't want to provide their background data, they are under no obligation to do so and a school cannot fill in a form for a parent nor can they compel a parent to do so, or correct data, even if they know it to be incorrect.

According to the 2017 Data Standards Manual, schools "are not to override information given by the parent/guardian on an enrolment form. The data given by the parent/guardian should not be altered even if the data provided by the parent are known to be incorrect. This includes where the parent has chosen not to provide the information."<sup>8</sup>

Another possible change that has been flagged is the use of parents' tax return data to obtain income data for the SES methodology. Apart from significant privacy and administrative concerns about the legality and practicality of such an exercise, the assumption that this approach would provide a more accurate picture of family income seems somewhat flawed. For example, individuals who pursue aggressive tax minimisation strategies will have tax return data which does not reflect their 'true' income or wealth. It is possible that these parents could be more likely to provide a more accurate assessment of income where it is considered to be 'low stakes', as for the ABS Census.

Further, this approach is not appropriate for school funding. At this point in time the Australian Government funding of non-government schools is not intended to provide individual parents with means-tested vouchers with which they would pay for their children's schooling. Rather, it is based on an assessment of the capacity to contribute of a school's parents and community, as a whole.

In summary, any direct measure of capacity to contribute is subject to potential manipulation or offer perverse incentives. The durability of the SES methodology is in part due to the robust nature of the area-based measure.

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<sup>8</sup> 2017 ACARA Data Standards Manual, p13.

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

It is ISCA's view that the principles developed by the National Schools Resourcing Board to guide the development and assessment of alternative approaches to the SES methodology are appropriate to the task at hand and reflect ISCA's key funding principles which have been developed by the Independent sector over many years.

While these principles are intended to guide the development of alternative approaches to the current methodology, ISCA believes that they are equally applicable to the current methodology and that the current methodology fulfils each of the principles as outlined.

ISCA's assessment of the SES methodology against the guiding principles follows:

#### Fit-for-purpose

It is ISCA's view that the articulated purpose of the SES methodology, to provide a measure of the capacity of non-government school communities to contribute towards the operating costs of their schools, is clear enough that the Australian public can have confidence in the measure. The SES methodology has now been in use in the Independent sector for 17 years and schools and their communities know and understand the measure well.

By drawing on ABS Census of Population and Housing data, the SES methodology utilises national independent data for the calculation. Due to the nature of the response to the ABS Census, in particular the privacy aspects, it is ISCA's view that for the non-government sector, this data provides the best and most accurate data source for this type of calculation.

The transition from the use of Census Collection District (CCD) to Statistical Area 1 (SA1) for the purposes of the SES methodology means that the SES is now based on smaller groupings of households and so statistical accuracy can be considered to be higher than it was previously.

Further, the use of the ABS Census data does not pose a major administrative burden on schools. When the SES is recalculated following each Census, schools provide a list of their student addresses to the Department of Education and Training for geo-coding to the relevant SA1 and these scores build up into the schools' SES score. Given the raft of accountability and reporting requirements being faced by all schools at this point in time, any shift to a methodology requiring more effort from schools would be a significant imposition on schools' time and resources.

Primarily, however, the SES methodology cannot be manipulated or incentivised unlike any direct measure.

#### Transparent

The SES is far less complex than previous funding mechanisms and based on ABS Census data, rather than self-reported data. One of the main criticisms that was levelled against the Education Resource Index (ERI), which the SES funding model replaced, was that it was open to manipulation. This is not possible with the SES methodology.

As noted above, the SES methodology has been in place for 17 years in the Independent sector. The measure was developed after a significant consultation process with the non-government sector and went through significant modelling and trialling with schools. Since the introduction of the model, it has been reviewed by the Department and as noted previously the measure was updated with the move from using CCDs to SA1s in line with changes in ABS geography.

Over this time, the Department of Education and Training has provided extensive materials to support schools to understand the SES methodology. This information included the SES scores of individual SA1s which were available on the Department's website. Using their own student addresses, schools were also able to model any potential changes in SES using a tool that was available to them on the Department of Education and Training website. From the introduction of the measure and with the support of the sector, the efforts of the Department of Education and Training have meant that the SES is an extremely well understood measure by schools, both theoretically and in practicality.<sup>9</sup>

As has already been stated, it is ISCA's view that the use of ABS Census data means that the SES methodology is based on independent, established, high quality and trusted data.

### Reliable

ISCA views the reliability of the ABS Census data that is used in the SES methodology as one of the strengths of the measure. As has been previously stated, ISCA views the fact that is based on a population measure to be one of the strengths of the SES methodology.

The argument has been put forward that as the SES scores are based on data from the ABS Census of Population and Housing which is carried out every five years that the SES scores become out of date before the next recalculation.

However, an alternative way of looking at this issue is that the period of time between recalculations gives schools a high degree of certainty around the base funding component of their funding entitlement. Stability in school funding is extremely important as schools need predictability in order to plan and ensure their financial viability.

One notable feature of the SES methodology is that there is in fact very little movement in schools' SES scores from one recalculation to the next. In the last recalculation 34 per cent of Independent schools had no change in their SES score. Of those that had a change in their SES score, 80 per cent moved 2 points or less showing that overall, the model is both stable and reliable.

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<sup>9</sup> None of these tools are currently available on the Department of Education and Training website.

## Summary

No system or model is perfect. There are always trade-offs. However, it is the view of the Independent sector that the SES methodology is fit for purpose. For those small number of cases where there are issues regarding the accuracy or currency of a school's SES score, the appeals processes have proven to be an appropriate mechanism to address those concerns.

Where there were reductions in school funding due to changes to SES scores, the SES methodology had a mechanism known as 'funding guarantee' which meant that a school's funding was frozen until its new funding level reached the same dollar amount through indexation. This protected schools from funding volatility and undue financial hardship. As there has yet be an SES score recalculation under the new SRS funding arrangements introduced in 2014, it is not clear how any transition would be treated, however there is a long history in school funding of assisting schools to maintain their financial viability when transitioning to a lower funding level if their funding circumstances change.

The historical view that the SES model was broken was largely based on the added-on mechanism of 'funding maintenance' which allowed schools, Catholic and Independent, to retain their previous ERI funding levels without a transition pathway on to their actual SES score. Funding maintenance no longer exists. Currently it is the intention that all schools will transition to their actual funding entitlement under the new SRS funding model. Without the overlay of previous funding arrangements, the SES methodology is working solely as intended – to measure the capacity of parents and school communities to contribute to their school's operating costs.

It is imperative that any change to the current SES methodology be carefully considered and tested prior to implementation to ensure that there is not wholesale disruption to the funding of non-government schools. The current SES methodology was nearly five years in development, testing, modelling and consultation prior to implementation. The timelines for this Review are extremely short and the idea that significant change could be implemented from 2019 while all schools are currently engaged in an existing funding transition under the new Australian Government funding arrangements is extremely concerning for the Independent sector.

While ISCA supports the current methodology, ISCA would support a revalidation of the current SES methodology settings to see if the measure can be further refined to produce even more accurate SES scores for non-government schools.