“What, will the line stretch out to the crack of doom?”

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Ending the Howard/Gonski SES

Chris Curtis

August 2012

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Preface

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>
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Summary

The greatest flaw in the *Review of Funding for Schooling - Final Report* is its recommendation to keep the Howard government's socio-economic status funding concept, which it rebrands "parents' capacity to pay". It is not difficult to devise a better model, one based on the resources of each school being funded. Such a model, the education resources index, was used in the 1990s. However, a return to the ERI model, while justified, would require transitional arrangements to meet the guarantee that no school be worse off, just as the SES model required compensation for all the schools it would have made worse off.

The transition to the ERI model can be smoothed by:

1. Recommendation 23 in the report that systemic authorities be free to allocate the funds to specific schools as they see fit, as in this case all that the government must ensure is that the total money allocated to the system under the school resource standard is at least the same as it would have been under the SES model;
2. the restriction of loadings to schools that move to the SRS system, as those under the SES model are funded according to the average government schools recurrent costs formula which is already inclusive of loadings;
3. the payment of a higher SRS for students in prep to year 2;
4. differential indexation rates: the consumer price index, say 3 per cent, for fees for schools under the SES model, average weekly ordinary time earnings, say 4 per cent, for the SRS, the threshold and the transition payment, and AWOTE plus 2 per cent, say 6 per cent, for loadings as we move to a more needs-based system;
5. unification of the various state and territory private school funding systems.

The Injustice of the SES Model

The socio-economic status model bases the funding of schools on the comparative wealth of the areas, specifically the census collector districts, that the students come from. It is not a measure of student need. It is not a measure of school need. It is not a measure of school resources. It takes no account of school fees or other income. It pays more money to a high-fee school with well-off students from a poor area than it does to a low-fee school with poor students from a well-off area. That is why half the private schools in the country are not on the SES model. They are effectively where they would have been had the SES model never been introduced. They are funded as if Labor's education resources index were still in place; i.e., on the basis of their own fees and other income.

The SES model punishes low-fee inclusive schools. There are many schools which take students from comparatively well-off areas and which keep their fees low so as not to exclude poorer children from the education they provide. The Gonski report would give more public money to Geelong Grammar, with an average parent contribution of $16,8398 per student, than to Loreto Primary School in Nedlands, Western Australia, with an average parent contribution of $6,752 per student, purely because Geelong Grammar has a lower SES score than Loreto Primary.

Evidence suggests that a socially inclusive education system will perform better overall than a socially exclusive one. It is good public policy to support socially inclusive private schools for the same reason that it is good public policy to support socially inclusive public schools.

The SES model encourages fee increases. It does this because the fees charged have no effect on the level of public funding. Thus, a school with a certain SES rating can push its fees up, making itself more socially exclusive while retaining the same level of public support.

In the case of low-fee private schools that draw their students from comparatively well-off areas, the pressure to push fees up will be irresistible because the level of public funding will be too low for the school to survive without higher fees.

A consequence of fee increases in private schools is the removal of poorer children from them and the return of those children to public schools. While some may see this as a good thing, it will increase the socio-economic divide between public and private education by concentrating the poorer children in public schools and the better-off children in private schools.

The argument presented in the Gonski report for continuing the SES model is:

> *The panel considers that basing public funding on the level of private resources a school is likely to be capable of raising for itself is preferable to relying on the private income that it actually receives. As argued in Chapter 2.3, linking public funding directly to a non-government school’s private income, expenditure or assets would be inherently complex and difficult to implement equitably given that different schools finance their recurrent and capital needs in very different ways. It would also accentuate disincentives for parents to invest in their children’s education.*
> *(p 177)*

That something is “inherently complex and difficult to implement equitably” is not an argument against it. It is an argument to simplify it. The principle itself is simple: a good education costs a certain some of money. Every child should have access to that sum of money, whether from public or private sources. The public purse should obviously support low-fee private schools to ensure that every child gets that access. The practicalities were worked out in the 1990s. There is no reason that they cannot be in the 2010s.

That something would “accentuate disincentives for parents to invest in their children’s education” is no argument at all. The principle being asserted here is one that would undermine the whole idea of universal access to public services. It has not yet been proposed for other areas of government endeavour. Once it is accepted that the parents of private school children should make a contribution to their child’s education that increases with their own increased income, the idea that the parents of public school children should make a contribution to their child’s education that increases with their own increased income also becomes acceptable.

Transition

Currently, schools that would have lost funds by the application of the socio-economic status model are compensated for that loss. Should the government move to the more rational eduction resources index model, other schools will have to be compensated for the loss that would face them under the guarantee that no schools would be worse off under a new funding system. The schools needing compensation are those that receive more funding under the SES model than their fees would entitle them to. This should be a transitional arrangement as in the long run, the policy aim is to have the fees reduced to the level that warrants the funding currently provided under the SES model.

Once the new model is in place, there will be no need ever again to calculate an SES level. The SES level is completely irrelevant to the new funding model as the new model is based on the school’s fees and other income.

The SES level is of historical interest only. It will have been used to calculate the SES funding level. Once calculated, that SES funding level forms the guaranteed minimum funding for the school, but no further SES calculation is necessary. The calculated amount at the start of the new system would become the transition payment. It would then be indexed, but no further SES calculation would be required as changes in the SES level of the school’s catchment are irrelevant under the new funding principles.

The transition process for systemic schools would be simpler than and different from that for non-systemic schools.

Systemic Schools

In the case of systemic schools, all that is necessary is that each system as a whole receives at least as much per student as it would have under the socio-economic status model. This is because the system retains the freedom to allocate its funds among its schools as it sees fit.

The Gonski report makes the following recommendation on the extent to which the schooling resource rate must be allocated to students and schools:

> *Recommendation 23*
>
> *Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, public funding for systems should be assessed and calculated at system level provided that systems:*
>
> • *are transparent about the basis on which they allocate any public and private funding to member schools and the purpose for which it is spent*
>
> • *report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard*
>
> • *continue to report income and expenditure from each source for individual member schools on the My School website.*
>
> *(p xv)*

While this recommendation leaves open the possibility that an amount of money can be allocated to a system for a particular student in a particular school but not even be granted to that school, it does provide the opportunity for the system to allocate funds in such a way that no school within that system loses funds. It is, nonetheless, unarguable that some of the loadings (e.g., that for students with disabilities) must go to the school in which the students it is allocated for are and they ought not be subject to re-allocation by the system authority.

The education resources index model would determine an allocation based on the fees and other income of each school, but that total allocation would be distributed to individual schools by the systemic authorities. It is thus crucial that the amount per student be set at a level sufficient to ensure it at least equalled the old SES-derived amount, including the previous guarantee that no school would be worse off.

Non-Systemic Schools

In the case of non-systemic schools, the long-term aim must be to bring the socio-economic status amount into line with the education resources index amount. Schools may immediately reduce their fees until they reach the level at which their school resource standard is equal to their SES payment. However, to do so would mean reducing the total resources available to the school. This is unlikely. Any compulsion on them to do so over a set period would also be difficult. They can, however, be encouraged to do so by three means. The first relates to the fact that the SES model relies on the average government schools recurrent costs. The second relates to indexation. The third relates to different school resource standard rates for the different levels of primary schools.

1. Restrictions on Eligibility for Loadings

First of all, schools receiving transition payments would not be eligible for loadings. This is justified because the transition payments are percentages of the old average government school recurrent costs amount (i.e., the total cost of educating a range of students), not of the new SRS amount (i.e., the cost of educating mainstream students only). In time, there will be schools that would receive more money under the SRS plus loadings than under the AGSRC. This will be all the incentive that they will need to move off the transition payments. These are likely to be schools for which the differences in funding between the SRS system and the SES system are small.

Budgetary requirements suggest that loadings ought to be phased in. The overwhelming need of those with disabilities suggests that disability loadings be put in place in full first. As the disability loadings will be the largest, they will make the greatest individual difference. They will also make a significant contribution to closing the gap between the SRS and the transition payments. Then there are English as a Second Language loadings. Then there are loadings for socio-economic disadvantage, which ought to be related to the students in the school, not the areas they come from. The Victorian system of student family occupation has proved successful in this regard. (Having loadings for size is not justified because it increases the overall costs of education by having size loadings for two small schools close to each other when one school would be cheaper. The way to deal with the extra needs of small schools is to have base funding factor, as explained in *Implementing Gonski*.)

2. Differential Indexation

Secondly, the indexation rates applied to the different elements ought also to be different.

Average weekly ordinary time earnings would be a valid measure of the increased costs in education and ought to be the standard method over the four-year funding period (with a review on the third year for the following four-year funding period). This measure would allow for increases in general costs and movements in the pay of teachers and other workers in education along the same lines as such movements in the general community. The SRS, the level of fees at which the SRS starts to phase down (the threshold) and the transition payment ought to be at this standard rate of indexation. Any attempt to have a lower indexation rate for the transition payment than for the SRS would undermine the promise to maintain funding for individual schools.

Loadings out to be indexed at a higher rate as the system shifts to be more needs-based. This will automatically close the gap between the transition payment and the SRS plus loadings amount at a school would receive.

Schools in receipt of transition payments would be free to increase their fees to whatever level they liked, but they could not expect to receive the same real level of subsidy if they did so. Schools that increase their fees above the consumer price index rate would have the excess increase deducted from their transition payment. As the SRS is set as a percentage of the fees charged, it will increase at a greater rate than the transition payment and will eventually equals it, at which time, the transtion payment would end.

3. Higher SRS for Early Years

Thirdly, there is a very strong case for the SRS to be higher for students in prep to year 2 than for those in years 3 to 6. The state equivalent in Victoria already is. This is not the case with the current SES-based payments to primary schools and would therefore not be the case with the transition payments. In other words, the gap between the SRS and the transition payment would be smaller in the case of prep to year 2 than in the case of years 3 to 6. In some cases, the SRS amount would exceed the transition payment. In all cases, the higher SRS for prep to year 2 would reduce the gap in total funding for the school under the new system and the older SES system. Reducing the initial gap would also reduce the time that the different indexation arrangements would take to remove the gap completely.

Examples

Examples will illustrate the points above more clearly. The SRS is based on that devised in the submission that argued for base funding for each school and then the marginal recurrent cost per student, called a student learning entitlement in the submission. In this case, the full amount ($6,993 for years 3 to 6 and $8,320 for all other levels) is paid to all public schools and to those private schools whose fees are no greater than $2,000. (*Implementing Gonski* calculated the amounts at $1,698 for a primary school and $1,692 for a secondary school. This paper provides a further amount for the capital costs that must come out of private school fees and simplifies both figures to uses $2,000. Further investigation may produce a more precise figure.) The phase down rate is set at 50 per cent; i.e, for every dollar increase in school fees, 50 cents will be deducted from the publicly funded SRS. The residual amount is set at 25 per cent of the SRS. (The Gonski report suggests 20-25 per cent. The higher percentage is chosen because the percentage in this example is of a lower total than in the Gonski report.)

Assume a primary school that has 100 students in prep to year 2 and 200 students in year 3 to 6 and that charges $3,000 in fees. The SRS for prep to year 2 is $7,820 ($8,320 – (3,000-2,000/2). The total income per student at those levels is thus $10,820, meaning the total income for the school at those levels is $1,082,000. The SRS for year 3 to 6 is $6,493 ($6,993 – (3,000-2,000/2). The total income per student at those levels is thus $9,493, meaning the total income for the school at those levels is $1,898,600. The school's total income for prep to year 6 is $2,980,600. Additional income would be provided for students with additional needs.

If that school currently receives a greater SES payment, say $7,000 per student (greater that is than the SRS for years 3 to 6), its total income would be $3,000,000 (300 students by fees of $3,000 each and the SES payment of $7,000 each). The transitional payment would be only $19,400 in the case of school that had no students eligible for loadings. That transitional payment would reduce in accordance with the number of students eligible for loadings.

If its fees were indexed at the CPI of, say, 3 per cent, while the SRS, the threshold and the transition payment were indexed at AWOTE of, say 4 per cent, the gap would close year by year.

The $3,000 in fees would become $3,090. The SRS for prep to year 2 would become $8,147.80 ($8,652.80 – (3,090-2,080/2). The total income per student at those levels is thus $11,237.80, meaning the total income for the school at those levels is $1,123,780. The SRS for year 3 to 6 is $6,767.72 ($7,272.72 – (3,090-2,080/2). The total income per student at those levels is thus $9,857.72, meaning the total income for the school at those levels is $1,971,544. The school's total income for prep to year 6 is $3,095,324.

The SES payment would also increase by 4 per cent, to $7,280 per student. With the fees at $3090, the total income per student would be $10,370, giving the school a total income of $3,111,000. The transitional payment would be reduced to $15,676 in the case of school that had no students eligible for loadings. The gap between what the school would get under the SRS and what it would get under the SES model has been reduced by $3,724. It would take about five years for the gap to disappear and the school to no longer need transition payments. In the case of a school with loadings, the gap would disappear much more quickly.

Given that access to loadings is available only to schools that move off the transition payments, the school would in all likelihood never access transition payments.

Assume a secondary school that has 1,000 students and that charges $4,000 in fees. The SRS is $7,320 ($8,320 – (4,000-2,000/2). The total income per student is thus $11,320, meaning the total income for the school is $11,320,000. Additional income would be provided for students with additional needs.

If that school currently receives a greater SES payment, say $7,500 per student, its total income would be $11,500,000 (1,000 students by fees of $4,000 each and the SES payment of $7,500 each). The transitional payment would be $180,000.

If its fees were indexed at the CPI of, say, 3 per cent, while the SRS, the threshold and the SES transition payment were indexed at AWOTE of, say 4 per cent, the gap would close year by year.

The $4,000 in fees would become $4,120. The SRS would become $7,632.80 ($8,652.80 – (4,120-2,080/2). The total income per student is thus $11,752.80, meaning the school's total income is $11,752,800.

The SES payment would also increase by 4 per cent, to $7,800 per student. With the fees at $4,120, the total income per student would be $11,920, giving the school a total income of $11,920,000. The transitional payment would be reduced to $167,200 in the case of school that had no students eligible for loadings. The gap between what the school would get under the SRS and what it would get under the SES model has been reduced by $12,800. It would take about 14 years for the gap to disappear and the school to no longer need transition payments. This is a very long transition period. However, the transition payment would reduce every year and, given that access to loadings is available only to schools that move off the transition payments, the school would in all likelihood not wait for it to completely disappear before changing to the SRS model.

If the initial SES payment is very high, it is mathematically possible for the gap to increase, not reduce, over the transition period. In that case, the full weight of the transition will depend on the increase in loadings; e.g., indexing them at 6 per cent.

Detailed work by those with access to the actual figures for all schools is required to determine the precise figures.

States and Territories

The final complication is the fact that the states and territories have different models for allocating state and territory funds to private schools. The sooner, they agree to one national model, the better.

In the interim, federal funding for each school ought to be based on the school resource standard minus whatever the state or territory has determined by its own model. This would put all schools on the same basis and provide an incentive for the states and territories to accept the new model.

Conclusion

Perhaps two thirds of schools would be removed from the number needing transition payments because they were systemic. Perhaps half the remainder would be removed because as primary schools the school resource standard for prep to year 3 was greater than that for years 3 to 6. More would be removed because they would gain by making themselves eligible for loadings. Differential indexation (lower for fee increases, higher for loadings) would quickly deal with the majority of those left.

The current situation of half the private schools in the country being funded according to a different model from the one supposedly in operation would end instantly. Few schools would require transition funding, and the numbers requiring it would reduce every year.

Most importantly, school funding would be on a just and rational basis for the long term. The socio-economic status funding model is fundamentally unjust. When the Howard government introduced it, Labor condemned it. Labor had a better model 20 years ago. It ought to be re-instated.

Appendix 1: Gonski Recommendations

The Gonski report makes the following recommendations on the continuation of the socio-economic status model and its eventual refinement:

Recommendation 2
In a new model for funding non-government schools, the assessment of a non-government school's need for public funding should be based on the anticipated capacity of the parents enrolling their children in the school to contribute financially towards the school's resource requirements.

Recommendation 3
For the purposes of allocating public funding for non-government schools, the Australian Government should continue to use the existing area-based socioeconomic status (SES) measure, and as soon as possible develop, trial and implement a new measure for estimating the quantum of the anticipated private contribution for non-government schools in consultation with the states, territories and non-government sectors. (p xxi)

Recommendation 20
For the purposes of allocating public funding for non-government schools and systems, all Australian governments should:
• adopt a common concept of need for public funding based on the capacity of the school or system to contribute towards its total resource requirements
• commence work as a priority to develop, trial and implement a better measure of the capacity of parents to contribute in consultation with the non-government sectors.
The Australian Government should continue using the existing area-based SES measure until this better measure is developed.

Recommendation 21
For the purposes of allocating public funding for non-government schools, the minimum private contribution should be anticipated for schools with SES scores in the lowest quarter of scores. The minimum public contribution should apply to schools with SES scores above around 130. The precise school SES scores and the shape of the anticipated private contribution between these two points should be set in a way that balances:
• minimising the extent and incidence of any differences between the schooling resource standard required by each non-government school and system and the resources currently available to it from all sources
• preserving reasonable incentives for an adequate private contribution towards the schooling
resource standard across non-government schools with various capacities to contribute.
(p xv)

Appendix 2: Extract from Speech Opposing the SES Model at its Introduction

There are the following five flaws in the SES model. Firstly, it could be argued that the model is flawed, proceeding as it does on the basis of the average government school recurrent costs figure. This figure makes no allowance for the cost variation for delivering education in different parts of Australia, though we are all well aware that such costs vary considerably across the nation. It may well be that a base figure which took account of the variation in costs for remoteness and to which an SES methodology was then applied would be a better and fairer model for exposing need without discriminating against people because of their relative remoteness.

Secondly, this model uses only some aspects of the census data. Of course, census data reveals more than simply occupation, education and income. It reveals home ownership statistics, the usage in the home of languages other than English, family structures and the like. It may be that some of these indicators should also be built into the SES methodology. Certainly a debate needs to be had on this, where we are provided with various simulations showing the difference that the additional subtraction of these various factors would make, so we can compare the various methodologies and select the one which is the fairest.

Thirdly, the model may lose veracity the more geographically dispersed the students of a particular school are. If students live close to their school and those areas are all disadvantaged according to the census data, it makes intuitive sense that those students come from disadvantaged homes and we are dealing with a school that is working in disadvantaged circumstances. Yet for many non-government schools the catchment area is geographically large. Indeed, in some cases it is right across the face of our capital cities. In some circumstances it is conceivable that only one student comes from a particular census collector district and that the data for that census collector district is in no way representative of that student's circumstances, because their family is either more advantaged than the census collector district generally or far more disadvantaged. Either way, there is a flaw in the methodology which will be particularly acute for those schools whose catchment areas are very large and where the number of students coming from any one census collector district could be as low as one or a very small number.

Fourthly, the model may lose veracity in highly differentiated areas where wealth and poverty live cheek by jowl. This can often be true of inner city areas where housing commission residences and historic slums abut wealthy gentrified suburbs, and I am sure we are all aware of that phenomenon in our capital cities. It can also be true in electorates like mine where abundant land means it is possible for new prestige developments, like Sanctuary Lakes, to emerge in the midst of what has been a long-term area of disadvantage. In such circumstances, where census collector districts wander across these lines of wealth and poverty, it is possible for the census collector district averaged data not to be very representative of the individual households involved. Therefore, of the criticisms of the SES model, three of them are of a relatively technical nature. Just because they are of a technical nature, that does not mean that they are minor, and the best way to have this debate would be to have a series of simulations where those factors are run in the simulation and then left out of the simulation so we could all see the difference that they make.

The last objection to the SES model is more philosophical, that the model makes no allowance for the amassed resources of any particular school. As we are all aware, *over the years many prestige schools have amassed wealth—wealth in terms of buildings and facilities, wealth in terms of the equipment available, wealth in terms of alumni funding raising, trust funds, endowment funds and the like. Obviously, just as the economic capacity of an individual is affected by his or her income and assets—a principle which is enshrined throughout our social security system and which is used for all benefit calculations for pensions and the like; there is the income test and the asset test, because we recognise throughout our social security system that both contribute to the economic capacity of an individual—it must follow as a matter of logic that the economic capacity of a school is affected by both its income generation potential—from the current class of parents whose kids are enrolled in the school—and the assets of the school. The SES funding system makes some attempt to measure the income generation potential of the parents of the kids in the school but absolutely no attempt to measure the latter, the assets of the school. This is a gaping flaw, one which the government would not allow to emerge in any other benefit distribution system. Can you imagine anybody in this parliament suggesting that social security benefits ought to be distributed with regard only to income and not assets? This government would be the first baying for that person's blood, yet that is the model that is being predicated here in terms of SES funding, where there is no regard for the question of amassed wealth by schools. That is a very big flaw, one that needs to be addressed.*

(The Hon. Julia Gillard MP, Second Reading Speech, States Grants (Primary and Secondary Education Assistance) Bill 2000, Hansard, 4 September 2000, p. 20047.)

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