

Chapter 2

Need versus entitlement – the ERI and SES funding models debate revisited

2.1 In its legislation capacity, the committee has been over the SES and ERI ground when it dealt with the States Grants (Primary and Secondary Education Assistance) Bill 2000. It considered the Commonwealth's role in school funding and the proposed new socioeconomic status (SES) funding arrangements for non-government schools.

2.2 In its 2000 inquiry the committee heard arguments designed to justify the introduction of the SES funding model. This evidence was based on a DEETYA report of 1999 which concluded that an SES system provided a fairer and more equitable way of distributing recurrent funding to schools than the ERI-based arrangements. The report also found the model to be consistent with Government criteria deemed essential to any system of funding: equity, transparency, simplicity, flexibility and cost. The report concluded that the SES model, like its predecessor, was predicated on an assessment of 'needs', the main difference being that 'needs' related to the resources of the 'school community' (defined as the neighbourhoods in which students lived) rather than an assessment of the assets and financial capability of schools. The Opposition minority report indicated much scepticism about the claims of the Government of the virtues of the SES model, regarding it as a device to promote the rapid increase in non-government school enrolments and to justify increased assistance to asset-rich private schools.

2.3 The current inquiry has heard a range of evidence that casts serious doubt on the legislation committee majority report's positive spin on the SES model. Many of the criticisms of the SES model highlighted by Labor and the Australian Democrats in their minority report have been revisited during this inquiry. The committee examined new evidence from the government, non-government and Catholic school sectors and from leading education experts about the SES model since its implementation in 2001. The evidence before this inquiry casts a long shadow over previous claims made by supporters of the SES model.

2.4 The committee heard damaging evidence that the Government's claims of the SES system's effectiveness for allocating government funds based on the actual needs of schools (as measured by the needs of their 'school communities') have been fundamentally undermined by the detail of its implementation. Evidence was also brought forward in support of the view that the model in itself may not provide an effective basis for funding allocation in the first instance. After the SES system was introduced, the rate of funding increases to wealthy private schools has been disproportionate to the apparent needs of these schools and of the families which they serve. There has been a significant funding increase to a small percentage of well-resourced 'elite' and 'wealthy' private schools – schools which were previously

categorised as the least 'needy' under the old ERI model. Representatives of low-fee Christian schools, and other low-fee schools, told the inquiry that funding available to these schools under the SES funding system was inadequate, especially but for newly-established schools and those outside metropolitan areas. They argued that, unless the 'funding maintained' policy was to be permanently retained in some modified form for a significant number of schools, they would not survive. These policy distortions raise serious questions about the Government's treatment and implementation of the SES model and its continuation as the basis of Commonwealth Government funding to the schools sector.

2.5 Not only have the concerns raised in 2000 about the SES model been shown to be well founded, the alleged benefits of the new model have been demonstrated to be overstated. The current proposed funding package for the 2005-08 quadrennium is based on some of the fundamental principles underpinning funding arrangements for the 2001-04 quadrennium. DEST told the committee that the Schools Assistance (Learning Together – Achievement Through Choice and Opportunity) Bill 2004 includes a commitment to a strong schools sector offering high-quality outcomes for all students and choice to parents. Furthermore, it is based on a commitment both to the national goals for schooling and to ensuring that there is national consistency in education standards.¹

2.6 The DEST submission states that the Government's aim is to distribute funds in an equitable manner based on the needs of schools. It claims that the SES model provides an open and simple measure of need based on independent information which is consistent for all schools.²

2.7 This chapter examines the evidence before the committee relating to the current SES funding arrangements, and how Government policies have distorted the core funding principle of 'need' into principles of 'choice' and 'entitlement'. Chapter 3 examines concerns about the lack of transparency and accountability inherent in the SES system.

Education Resource Index (ERI)

2.8 The Education Resources Index (ERI) was a model introduced in 1985 to determine the level of Commonwealth funding for schools. Schools were allocated a score based on their total private income divided by their number of students. The score enabled each school to be ranked against other private schools. Based on their ERI score, all private schools were ranked from Category 1 to 12. The ranking determined the size of the Commonwealth general recurrent grant per student that the school would receive.

1 Ms Lisa Paul, Deputy Secretary, DEST, *Hansard*, Canberra, 27 July 2004, p.65

2 DEST, Submission No.48, p.8

2.9 Both prior to and since the introduction of the ERI funding system, problems emerged in assessing the level of a school's private income for the purpose of determining funding levels. It became increasingly difficult to obtain data from private schools about their private income. Schools discovered loopholes in the Government's annual financial questionnaire, enabling them to qualify for a higher funding category. This prompted attempts by Government to close off loopholes in the questionnaire by collecting yet more information on schools' private income. But, as University of Canberra academic Dr Louise Watson points out, as a result of successive amendments to the financial questionnaire: '...the basis for calculating the ERI became so complex that it was difficult to understand exactly how assessments were obtained'.³

2.10 Dr Watson concludes that the ERI model proved inadequate to measure the relative need of private schools for government subsidies. It failed to capture the capacity of schools to raise private income because:

- Schools providing financial information about their current projected income were able to obtain a high funding category by setting their fees low;
- Schools were able to disguise or minimise their level of private income in a way that did not reveal their full capacity to raise private resources; and
- Government attempts to stop abuses of the scheme resulted in a highly complex and inflexible system that could not respond to genuine changes in schools' financial circumstances.⁴

Socio Economic Status (SES)

2.11 The replacement of the ERI with an SES funding model changed the basis on which the funding needs for schools was determined. Rather than measuring the financial resources of each school directly, the new model was designed to measure the socioeconomic status of a school's student population. Under the new model, all schools were given an SES assessment or score. An SES core is calculated by linking student addresses to Australian Bureau of Statistics (ABS) Census Collections Districts of some 250 households in order to rank schools relative to each other, based on the SES of each school's community.

2.12 When the scheme was introduced, a minimum entitlement for schools funded on their SES score was set at 13.7 per cent of Average Government School Recurrent Cost (AGSRC), payable to schools with SES scores of 130 and above. The maximum entitlement for schools funded on their SES score was set at 87 per cent of AGSRC, payable to schools with a SES score of 85 and below. Between these SES scores,

3 Dr Louise Watson, *A Critique of the Federal Government's Recent Changes to Private Schools Funding*, Discussion Paper No. 3, University of Canberra, November 2003, p.9

4 *ibid.*, p.10

funding was payable on a 46-point scale, the steps set at about \$55 for primary students and \$75 for secondary students.⁵

Criticisms of the SES model

2.13 The Australian Education Union (AEU), state education unions, the Independent Education Union of Australia (IEUA) and a number of other witnesses drew the committee's attention to a range of problems with the current SES model. Put simply, the concerns include that the SES model is neither fair nor transparent in its operation, and produces significant discrepancies in funding outcomes.⁶ These discrepancies undermine principles of equity and need and have fuelled a sectarian tone to the schools funding debate across the community. The main criticisms can be summarised thus:

- More than half of all non-government schools are not funded (from 2005) according to their SES score;
- A large number of resource and asset-rich, high fee private schools have received the largest increases in funding as a result of the transition to the new funding model;
- The Catholic systems, comprising two thirds of all non-government schools, were outside the system, subject to specially negotiated arrangements, from 2001 until 2004;
- Many independent schools have been 'funding maintained' at higher levels than their SES score would indicate was appropriate, to prevent any loss of funding which would have occurred had their SES scores actually been applied; and
- The anomalies and special arrangements mean that, for any SES score, four different schools with that score could attract different levels of funding.⁷

2.14 To begin with, the AEU submission argued that the inequitable nature of funding to private schools has been exacerbated by the introduction of the SES model. Not only has there been a large increase in funding to private schools, the greatest increases have been to the wealthiest schools.⁸ This appears to be the main criticism raised by the education unions. The submission by the Queensland Teachers' Union, for example, states:

5 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Consideration of the Provisions of the States Grants (Primary and Secondary Education Assistance) Bill 2000*, October 2002, p.5

6 Submission No.49, Independent Education Union of Australia, p.3

7 *ibid.*

8 Submission No.33, AEU, p.39

Since its inception, the SES model has delivered the biggest Commonwealth funding increases to the nation's most wealthy non-government schools. The average funding increase of these wealthy schools...has been more than 160%, with a number of them receiving boosts of over 250%. Less wealthy non-government schools have received much smaller funding increases. Furthermore, recurrent government school funding increases from the Commonwealth have simply been based on indexation, meaning virtually no rise has been registered in real terms for the public education sector.⁹

2.15 A number of submissions highlighted other flaws with the SES system. The AEU pointed out that the SES model is based on the average income of the Census Collection District in which students reside, rather than the actual incomes or occupations of their parents. In practice, this creates a major distortion because the SES of a school is based on the income level of neighbours of the students rather than the families of the students themselves.¹⁰ This means that the SES system is not an accurate gauge of the wealth of a school and its capacity to attract private income.

2.16 This distortion of the SES system was highlighted in evidence by Blue Gum Community School, a low-fee independent school in Canberra. Blue Gum argued in its submission that it has a deliberate policy of keeping school fees as low as possible (approximately \$2600 a year) because most of its students are from low- to middle-income families. However, a serious discrepancy exists between Blue Gum's level of funding and the funding levels of other schools with the same SES rating. Under the SES scheme, Blue Gum is classified as a high SES score and as a result receives the second lowest per pupil Commonwealth funding in the ACT.¹¹ An implication of this anomaly is that low-fee schools in the ACT are struggling to survive financially under the current SES funding arrangements. The committee notes that Blue Gum's circumstances demonstrate that the SES system is not achieving its stated objective of allocating funding according to need.

2.17 The AEU also argued that under the SES model many private schools are funded at a rate above their SES ranking. This is because the model is not actually applied to the majority of private schools, an issue which the committee considers in more detail in the following section. The SES model also ignores a school's private income from fees, bequests, investments and other private income. Without taking into account this independent income, it is not possible to distribute resources equitably. An additional problem is that the calibration of the SES funding 'steps' is based on an artificial linearity rather than a consideration of real need. The AEU argued that this implies that each SES grade carries the same weight, regardless of where on the scale the grade occurs: 'Thus the difference in need between schools with the lowest possible scores of 85 and 86 is the same as that between those with the

9 Submission No.21, Queensland Teachers' Union, p.1

10 *ibid.*

11 Submission No.35, Blue Gum Community School

highest scores of 129 and 130. The SES funding scale also implies that those with high SES scores still have a level of need'.¹²

2.18 Finally, the NSW Public Education Council stressed that under the current arrangements, public resources are being allocated to non-government schools at rates where the benefits are likely to be non-existent or small. The comparatively high levels of expenditure in parts of the independent sector are likely to produce small returns on public investment. Yet returns are likely to be much higher in comparatively disadvantaged school communities.¹³

2.19 In the light of the weaknesses, the AEU concluded that:

...the SES model is fundamentally flawed. No amount of tinkering around the edges will turn it into an equitable and needs based system. The essential flaw lies in seeking to find a model which funds schools by assessing the economic circumstances of the students' parents.¹⁴

2.20 The only solution to the problem, according the AEU, is to return to a system which bases funding to private schools on measures of the financial capacity and the resource levels of those schools, assessed against a community standard. This is a view shared by the IEUA which argued that: '...any funding model needs to properly measure the actual resources of a school including fees, other sources of income...and also take account of the income and social circumstances of families attending schools. On the basis of this information, funding should be directed accordingly'.¹⁵

2.21 The committee notes that while the SES model is lauded by the Government and private school representative bodies, it has only been partially implemented across all parts of the private schools sector and has been subject to Government manipulation for political purposes. The committee is particularly concerned with the Government's decision to maintain the level of funding for schools which would have been disadvantaged by the transfer to the SES system, and to guarantee the level of funding for schools which entered the SES scheme in 2004. As the submission by the Queensland Department of Education and the Arts points out, Catholic and other school systems in the non-government sector do not themselves use the SES model to allocate funding – provided to them by the Commonwealth as an aggregate amount – internally within their own systems.

2.22 The committee notes that by 2005 the Commonwealth will be spending \$2 billion on 'funding maintained' non-government schools above the amount the SES index would determine their entitlements to be.¹⁶ As it stands, approximately 50 per

12 *ibid.*, pp.40-41

13 Submission No.52, NSW Public Education Council, p.10

14 Submission No.33, AEU, p.43

15 Submission No.49, Independent Education Union of Australia, p.3

16 Submission No. 50, Queensland Department of Education and the Arts, pp.5-6

cent of schools remain outside the current SES funding arrangements. As previously noted, the committee believes that the different funding levels which currently apply to non-government schools – funding maintained independent schools from 2001; funding maintained Catholic systemic schools from 2004; funding guaranteed schools; and those actually on the SES – demonstrates that the SES system is not meeting its stated intention of underpinning a nation-wide, needs-based funding system.

2.23 The Acting Chief Executive Officer of the WA Department of Education Services told the committee at a public hearing that all state and territory ministers had expressed concern about the inequity of the SES model at a recent MCEETYA meeting: 'There was a very strong view that the SES model was not dealing with need – that there was a large flow-on to schools that already had significant funds and the capacity to raise those funds'.¹⁷

2.24 The committee notes that the independent schools sector on the whole supports the SES system because, without a doubt, it has been the main beneficiary of the new funding arrangements. The Independent Schools Council of Australia (ISCA), the peak national body representing independent schools, believes that the SES model satisfies the essential criteria for a sound funding scheme: equity, incentive, flexibility, transparency, simplicity and predictability. On balance, it finds that the SES funding arrangements have worked satisfactorily over the 2001-04 quadrennium and are superior to the ERI model.¹⁸

2.25 The Australian Associations of Christian Schools told the committee of its support for the SES system: 'the reason that we were outspoken...was that it is far more transparent in its operation than the ERI, although that does not mean it is without problems. The ERI was a camouflage system and, in order to maintain its operation capacity, over time modifications, changes and amendments had to be made to it to the point that it became impossible to operate'.¹⁹ As noted earlier, however, representatives of Christian schools and also Lutheran schools expressed anxiety about the future of schools within their systems that were 'funding maintained'. They implied strongly that funding according to their actual SES score would render a significant number of schools financially unviable.²⁰

Government policy corruption of the SES system

2.26 Two important studies by Dr Louise Watson shed much light on the SES model. The first study provides a critique of Government changes to private schools funding and, in doing so, argues that a revised SES funding model, contrary to the assertions of some stakeholder groups, has the potential to become an efficient,

17 Mrs Norma Jeffery, Department of Education Services, *Hansard*, Perth, 12 July 2004, p.49

18 Submission No.43, Independent Schools Council of Australia, p.18

19 Mr Peter Crimmins, Australian Associations of Christian Schools, *Hansard*, Canberra, 27 July 2004, p.9

20 Submission No.28, Lutheran Education Australia, pp.5-6

incorruptible and transparent system of ranking private schools on the basis of need.²¹ Watson argues that this is so if the SES scheme is simply regarded as a ranking mechanism, and conceived separately to the dollar values assigned by the Government to the scores on the scale. This latter process is a matter of Government policy.²²

2.27 The study demonstrates how Government policy has resulted in significant funding increases to 'wealthy' private schools, rather than any methodological weaknesses with the SES index itself. At least four flaws in the implementation of the SES system, unrelated to the model itself, are the products of policy decisions made by the Commonwealth Government. These decisions have not only marred its implementation, they have also corrupted the system:

- The introduction of the SES system was accompanied by a Government decision to substantially increase the total level of private school funding, and change the relative funding levels between categories of private schools: 'This meant that the largest proportional funding increases were awarded to "wealthy" private schools'. Watson told the committee that as a result of this decision, the funding levels for schools that are ranked above SES 110 are 'excessive and unnecessarily extravagant'.²³
- The Government decided to guarantee that no school would be financially disadvantaged by the shift to the new funding scheme. This meant that the Government undermined its own policy objective of improving the ranking system by allowing schools disadvantaged by the transfer to have their funding maintained at previous (ERI) levels.
- The Government linked its private school funding to the average government school recurrent costs (AGSRC). By using the AGSRC to adjust its grants to schools, the Government has increased its schools funding by an average of 6.3 per cent per year at a time when the average weekly earnings have increased by an average of only 3.3 per cent per year.
- A final flaw was the decision to allow the Catholic education sector to be exempt from the new scheme for at least four years.

2.28 Dr Watson maintained that while the SES system has limitations – for example, it does not take into account sources of private school income other than those sourced from students' families, and it appears to result in a bias towards

21 Dr Louise Watson, *A Critique of the Federal Government's Recent Changes to Private Schools Funding*, Discussion Paper No. 3, University of Canberra, November 2003

22 The distinction between SES ranking and the allocation of dollars to different points on the SES scale was also conveyed to the Committee at a public hearing by the Association of Independent Schools of New South Wales, *Hansard*, Canberra, 27 July 2004, p.55

23 Dr Louise Watson, *Hansard*, Canberra, 27 July 2004, p.17

regional schools – it is a conceptually superior model to the ERI. At a public hearing, Dr Watson described the argument in the following terms:

The paper argues that the SES system is a superior system for ranking schools on the basis of their relative need, primarily because it is an incorruptible index and it is based on students' home addresses and sociodemographic data collected by the ABS. In contrast, the previous ERI funding scheme was based on financial questionnaires provided by individual schools which provided scope for schools to manipulate their income data to obtain more favourable funding categories.²⁴

2.29 The second study by Dr Watson analyses the impact of the SES model on the total resource levels of private schools. The study, based on a survey of 1000 private schools' tuition fees and funding data from Commonwealth, state and territory governments, found that 27 per cent of private school students attend schools where the income from tuition fees alone exceeds the average resources per student in government schools. These schools receive \$368 million each year in government grants that assist in raising their total average resources per student to more than 62 per cent above average state school resources.²⁵

2.30 The study concludes by noting that the findings of the survey are completely at odds with a core policy justification for Commonwealth funding of private schools – that schools should be ranked and funded according to their relative need for resources:

The original and abiding policy justification for funding private schools in Australia is to bring private schools to a standard of resources that is comparable to State schools...Overall, more than half...of students in independent schools enjoy resource levels higher than the average in government schools. These findings suggest that Australian governments – State/Territory and the Commonwealth – should review the current levels of public funding to independent schools.²⁶

2.31 At a public hearing, Dr Watson speculated on what the consequences would be of changing the amount of money that was attached to SES rankings. If funding levels at the top end of the SES scaled down above SES 110:

...you would have ample resources for bringing schools up to the government school benchmark. Based on the data I already have, it would cost about \$266 million to bring all the schools that are currently under the benchmark up to it. At the moment, the 27 per cent of students in independent schools which are in the 'well above' category – that is, schools that receive sufficient income from tuition fees to bring them above the

24 *ibid.*, p.16

25 Dr Louise Watson, *The Total Operating Resources of Australian Private Schools in 2004*, Discussion Paper No. 4, University of Canberra, 30 June 2004

26 *ibid.*, p.12

benchmark – receive \$366 million in government funding. So you could easily rejig the scheme in a cost-neutral way to make it work better.²⁷

2.32 Dr Watson's conclusions are broadly supported by another study of trends in government funding to government and non-government schools, published by the Institute for Social Research at Swinburne University.²⁸ The study found that while real Commonwealth funding of education has increased considerably over the last decade, the biggest beneficiaries have been non-government schools and, within this group, it is the wealthiest schools that have received the most funding. The study concludes by noting that: 'the percentage increases in Federal grants to the wealthiest one-third of non-government schools dwarfs the increases paid to government schools'.²⁹

2.33 The committee accepts the arguments presented by Dr Watson. However, it is not fully convinced that the problems with the SES model would be overcome by a revision of Government policy regarding its implementation. Evidence of methodological flaws in the SES scheme need further close study. A submission from the Archdiocese of Canberra and Goulburn Catholic Education Commission, for example, presents data showing that Catholic systemic schools in the ACT have been allotted SES scores comparable with those of some of the wealthiest schools in the country, including Geelong Grammar School and The King's School, Parramatta. Even bearing in mind that Canberra suburbs are unusually heterogeneous in their socioeconomic makeup, this data possibly points to an underlying problem with the mechanism itself. Dr Watson herself expresses misgivings about the accuracy of the SES index when it comes to determining the true SES score of schools in regional areas. The committee agrees, and points in addition to all schools with a substantial component of boarding students (which are likely to come from rural and regional areas) and also to the apparently glaring anomalies in the unexpectedly low SES scores for a significant number of high-fee metropolitan independent schools. These indicate that the SES model might not pick up the crucial differences between the comparatively wealthy clientele of some high-fee city schools that draw students from a diverse range of suburbs: these families are likely to be atypical – rather than typical – of their neighbourhoods. This view is supported by findings of an independent study of data from the 2001 census for every ABS Census Collection District in the Penrith Statistical Local Area in outer Sydney.³⁰

Catholic education sector

2.34 The position of the Catholic sector with respect to the SES system is also worth noting. Mr Ronald Dullard, Catholic Education Office of WA, told the

27 Dr Louise Watson, *Hansard*, Canberra, 27 July 2004, p.22

28 Submission No.71, Mr David Hayward

29 *ibid.*, p.29

30 Submission No.74, Ms Barbara Preston, pp.16-17

committee that although the Catholic system has moved within the current SES funding arrangements, the Catholic Education Commission does not actually support the SES model: 'We believe that there should be another layer on it and that it should have some form of resourcing. As to what form it takes...the national commission has said that it wants time to put a submission to government on what that other layer would be'.³¹

2.35 The committee also heard evidence from the Queensland Catholic Education Commission that indicated a lack of confidence in the SES index as a measure of actual need. It told the committee that it received funding at 56.2 per cent of AGSRC, and that schools that have an SES score below 96 in 2005-08 will attract funding at that SES score. In practice, the Commission is operating at best under a 'partial SES system'. Only one of nine distribution pools used by the Commission is based on the SES formula or the SES score of each school.³²

2.36 The committee heard similar evidence from the NSW Catholic Education Commission. It told the committee that while it supports the SES methodology, it does not support a 'pure' SES system. If the Catholic system moved to a pure SES system in 2009, parts of the system would collapse.³³

2.37 The National Catholic Education Commission (NCEC) submission stated that funding for the Catholic sector for the next quadrennium is based on the aggregation of schools' SES scores. Catholic systems will receive, on average, 58 percent of AGSRC from 2005. The NCEC has set 60 per cent of AGSRC as its target for Commonwealth General Recurrent Grants to state and territory Catholic systems, with the expectation that state and territory governments will provide 25 per cent and the remaining 15 per cent being met by fees and other sources of funding within the Catholic community.³⁴

2.38 Both the Queensland Catholic Education Commission and the Catholic Education Office of WA informed the Committee that a feature of their operations is that funding provided by the Commonwealth is redistributed on a needs basis as determined by the state Catholic authorities. The result is that the SES system, although now applied to Catholic systems in an aggregate sense, is not implemented at school level because some schools receive money above their SES entitlement to ensure that they remain financially viable. Apparently, each state has devised its own formula to determine how funds are redistributed.³⁵ This is often the only way

31 Mr Ronald Dullard, Catholic Education Office of WA, *Hansard*, Perth, 12 July 2004, p.8

32 Mr Joseph McCorley, Executive Director, Queensland Catholic Education Commission, *Hansard*, Brisbane, 21 July 2004, pp.32-33

33 Dr Brian Croke, Executive Director, NSW Catholic Education Commission, *Hansard*, Sydney, 26 July 2004, p.12

34 Submission No.55, National Catholic Education Commission, p.3

35 Mr Paul Dickie, Federation of Parents and Friends Associations of Catholic Schools in Queensland, *Hansard*, Brisbane, 21 July 2004, p.18

resources can be provided to schools which educate students with special needs and schools in remote and isolated communities.³⁶

2.39 The NSW Catholic Education Office casts some light on how these internal redistribution arrangements operate:

In the Sydney archdiocese system there are 148 schools. We run with a single account. All the Commonwealth funds, the state funds and the parent contributions – the tuition fees from parents – go into that single account. At the beginning of the year we are able to establish how much we have available and then it is redistributed to each school according to need. Before allocating the resources we look at enrolment, the special education needs, kids at risk and students with language backgrounds other than English. After looking at those we then distribute the funds to each school.³⁷

Towards a modified SES model: the inclusion of a needs-based component

2.40 The committee finds that the debate over the relative merits of the ERI and SES funding models has not taken place on a level policy playing field. As noted above, the introduction of the SES model coincided with a separate shift in Government policy resulting in outcomes which are antithetical to the principles upon which the model is allegedly based. It was not a case of Government simply shifting the methodological goal posts while adhering to the same policy agenda. Rather, the policy agenda of the Coalition Government shifted with the introduction of the SES funding model, carrying major implications for the way the model was subsequently implemented. This policy, while pointing to the existence of a group of very needy, resource-poor private schools, as is the usual practice in defending the generosity of private school funding, in fact skewed funding increases so that the most significant of these went to the wealthiest private schools.

2.41 The evidence shows that the principle of needs-based funding underpinning the ERI model, as it was understood in terms of a community standard, was essentially ignored by the Coalition Government when the SES model was introduced in 2001. The Government's use of the SES model for political purposes has distorted the schools funding debate and fuelled divisions among the different school sectors. It has also resulted in significant distortions in funding which have resulted in a small number of already wealthy private schools receiving a disproportionately high level of public resources. Under the guise of 'needs', the Government has pursued a policy of 'choice' and 'entitlement' bearing no relation to the actual needs of schools.

2.42 The committee is concerned that implementation of the SES model is being used to reinforce reported perceptions of an underperforming and impoverished public

36 Submission No.63, Queensland Catholic Education Commission, p.2; Submission no.57, Catholic Education Office of WA, p.1

37 Brother Kelvin Canavan, Catholic Education Office, *Hansard*, Sydney, July 26 2004, p. 5

schools system, on the one hand, and the privilege which attaches to a privately schooled education, on the other. This has created a stratified education system which reinforces disadvantage rather than providing equality of opportunity. However, the perception of an underperforming public sector does not match the reality. As a representative from the Queensland Council of Parents and Citizens Associations put it to the committee: 'There is a perception that public education is no longer delivering the outcomes. I think that is a perception, because the reality is that public schools are generally performing quite well academically against their non-government counterparts'.³⁸

2.43 The NSW Public Education Council expressed its concern about the steady drift in student enrolments from public schools to non-public schools, and some of the perceptions that appear to be contributing to the underlying issue of parental 'choice':

There is no doubt that some parents perceive that the level of resources available to their children in public schools is not adequate for their aspirations and that some of those who can afford it feel they would like to buy a higher standard of resources by sending their children to high fee or moderately high fee private schools. I think it is untenable that, if parents' real preference were for public education, they should be in a sense forced out, or feel forced out, by a relative lack of resources in public schools.³⁹

2.44 Dr Watson told the committee that over the last 30 years, Government funding to private schools has subsidised the drift from public to private schools and has made private schools more attractive and affordable to parents seeking alternatives to the government system: '...the decision to resource private schools was made in the full knowledge that it would subsidise the movement of students from government schools to private schools, and it still does that'.⁴⁰

2.45 The committee is concerned that the current approach to funding will further marginalise the public education system and needlessly encourage parents to opt out of the public education system. The WA branch of the AEU told the Committee:

If what you are doing is aggressively funding private schools in order to relieve the pressure on government of funding public schools, you are creating a society or you are moving towards a society in which every individual child is entitled to the education that their parents can buy; they are not entitled to a high level of education that is guaranteed by the state. Our deeper concern...is that by marginalising the public education system you are creating an Australian society that is quite clearly more and more divided in terms of religion, socioeconomic status and those sorts of key

38 Mr Garry Cislowski, Queensland Council of Parents and Citizens Associations Inc, *Hansard*, Brisbane, 21 July 2004, p.29

39 Ms Lyndsay Connors, Chair, NSW Public Education Council, *Hansard*, Sydney, 26 July 2004, p.34

40 Dr Louise Watson, *Hansard*, Canberra, 27 July 2004, p.22

qualities...The SES model, whether it is intentional or not, is as it were a strategy that will promote that rather than limit it.⁴¹

2.46 Other organisations were equally concerned about the effect of Government policy on the future of Australia's public school system. Former senator and state education minister, Mr Terrence Aulich, told the committee, in his capacity as Executive Officer, Australian Council of State School Organisations, that the current binary system of public and private school sectors '...is not good for the Australian education system. We believe it also has a detrimental effect on the type of society that we should be trying to maintain or develop'.⁴²

2.47 The committee accepts the argument that the Commonwealth Government's school funding priorities, which are underpinned by the SES funding model as applied, further exacerbate the social stratification of schooling in Australia and erode fair educational opportunity.⁴³

2.48 A number of witnesses expressed concern about how concepts such as 'need' and 'choice' have been manipulated by governments to justify the continued withdrawal of support from the public school sector, and the reduction of the share of Commonwealth funds going to government schools. The NSW Teachers Federation, for example, argued that when governments use the term 'need', it refers not to the needs of schools and their students but to the needs of parents to receive help to meet private school fees. Similarly, government rhetoric about 'choice' is couched in the language of the marketplace where education is viewed as a solitary act of consumerism.⁴⁴

2.49 Submissions by the NSW Public Education Council and the Federation of Parents and Citizens' Associations of NSW are highly critical of advocates of unfettered 'choice' policies in education. The NSW Public Education Council pointed to research in Australia and abroad which shows that the aggressive pursuit of greater choice and market-determined outcomes in education results in greater segmentation and sorting of students by socioeconomic status and educational achievement. Yet there is no evidence to show that such policies improve the efficiency or quality of education.⁴⁵ This view is supported by Professor Richard Teese who argued in his submission that while the growth of markets in school education may have altered the

41 Mr Mike Keely, President, Australian Education Union (WA Branch), *Hansard*, Perth, 12 July 2004, p.38

42 Mr Terry Aulich, Australian Council of State School Organisations, *Hansard*, Canberra, 27 July 2004, p.38

43 Submission No.52, NSW Public Education Council, p.1

44 Submission No.4, NSW Teachers Federation, p.7

45 Submission No.52, NSW Public Education Council, p.5

behaviour of individual consumers, there is no evidence to show that improvements in student learning outcomes or school performance has been the result.⁴⁶

2.50 This view is more or less shared by the NSW Public Education Council which told the committee that policies which endlessly segment the population into a stratified school system tend to force to the bottom those schools and students which are weakest in the marketplace. Similarly, schools which are 'fortified' are the strongest in the market place. While the existence of market forces in education might be seen by some as a bad thing, the role of government should be to mediate competing market forces and intervene in ways that encourage real equality of opportunity.⁴⁷

2.51 Evidence before the committee shows that it was the ERI model's implementation rather than its methodological foundations which caused most of the reported problems, resulting in moves for its replacement with an SES system. The committee notes the AEU's observation that the reasons for the alleged failure of the ERI model have never been adequately examined nor remedies sought:

The major argument put against the continuation of the ERI system appeared to be that the growing expertise of parts of the private sector to maximise their advantage and effectively to 'rort' the system was making it unworkable. If this is the case, proper accountability, including a proper system of auditing by Government appointed inspectors, should be contemplated.⁴⁸

2.52 The committee suspects that the principles underpinning the ERI system are sound but that problems with its implementation have never been properly addressed. The NSW Teachers Federation told the committee that while there is a widely held view that the ERI model had been discredited, there was only one inquiry into the ERI before the 1996 federal election, and that inquiry (the McKinnon review) was never completed.⁴⁹ While a number of unions expressed support for the principles underpinning the ERI system, they were reluctant to embrace the old ERI model. They told the committee they had not arrived at a final position with regard to funding models. The important issue, according to the NSW Teachers Federation, is not to discount a model because there is a potential for it to be rorted; rather, the public policy challenge is to ensure that there are proper reporting, accountability and regulatory mechanisms in place.⁵⁰ The committee agrees in principle with this view.

46 Submission No.8, Professor Richard Teese, p.2

47 Ms Lyndsay Connors, NSW Public Education Council, *Hansard*, Sydney, 26 July 2004, p.35

48 Submission No.33, AEU, p.43

49 Ms Sally Edsall, Research Officer, NSW Teachers Federation, *Hansard*, Sydney, 26 July 2004, p.20

50 Ms Jennifer Leete, Deputy President, NSW Teachers Federation, *Hansard*, Sydney, 26 July 2004, p.21

2.53 The committee accepts that any move towards greater reliance on a needs-based model would require changes to the current reporting and accountability regime. It is convinced that disclosure of private school incomes and more rigorous accounting and reporting standards and procedures should underpin any modified funding model. It is clear that the SES model was introduced without any attempt to take into account for funding purposes the extent to which schools are able to raise their own income from fees and endowments. Access to such information, and the inclusion of this data in a modified funding index, would go a long way to restoring a system of needs-based funding that takes account of schools' resources as well as the family circumstances of students. These issues are examined more fully in the next chapter.

Can the principles of 'need' and 'entitlement' coexist?

2.54 The committee is not surprised by the views of the independent schools sector on the legitimate role of non-government schools as publicly-subsidised education providers, and the importance of the current funding partnership comprising the Commonwealth and state and territory governments. Submissions by the Independent Schools Council of Australia (ISCA) and the Association of Heads of Independent Schools (AHISA) provided a defence of the current and planned funding arrangements for the 2005-08 quadrennium, and are broadly representative of evidence in submissions by other state-based independent schools associations. At least two core principles underpin the issues by raised by the ISCA and AHISA submissions:

- Every child has a right to have their school education supported by a basic entitlement to Australian Government and state and territory funding. Additional funding beyond this basic entitlement should be allocated on a needs basis. This is sometimes referred to as 'entitlement plus need'; and
- Funding arrangements should recognise the substantial contributions of families to the cost of educating their children in private schools. This reflects the right of all taxpayers in Australia to spend their after-tax dollars according to their own priorities. It therefore would not be just if government funding were to act as a disincentive to private contributions and investment in school education.⁵¹

2.55 The Association of Independent Schools of South Australian (AISSA) presented in its submission the clearest justification for public funding of non-government schools:

All Australian students are entitled to a level of government funding to support their education needs regardless of their background or the schools sector they attend. Parents of non-government and government students contribute to government funds for education through the taxation system. Parents of non-government school students also contribute a significant

51 Submission No.43, Independent Schools Council of Australian, p.7

amount of their after-tax income to the education of their children. In many cases non-government school parents are making considerable sacrifices to make this contribution. AISSA recognises that parents who choose non-government schools for their children also contribute financially to the costs of educating their children.⁵²

2.56 In addition to entitlement and need, AHISA identified stability and predictability of funding as an equally important principle for the funding of Australian schools. The submission argued that the ability of schools to deliver high quality education outcomes is largely dependent on stability in education funding. This is supported by AISSA which recommended that there be no changes in funding arrangements before the end of the 2005-08 quadrennium.

2.57 What is the appropriate level of entitlement to public funding for those schools and families in the most privileged of circumstances? What should the minimum entitlement be? These questions were raised in evidence by the NSW Secondary Principals Council. When asked by the committee whether it was a public entitlement that a child receives taxpayers' money for their education, Mr Chris Bonner, President, responded with a question of his own: '...how far does this entitlement go and how far do we continue to subsidise this entitlement at the expense of and risk to a public provision?'⁵³ This answer possibly indicates that this issue is one that has long been ignored, possibly because of the delicacy of the considerations involved.

2.58 The committee notes the observation of Dr Watson that the principle that all students are entitled to a set level of funding does not apply in many other education systems abroad, with one notable exception being New Zealand:

In places like the US, the Netherlands and France, if students opt out of a public education system, then they pay the full cost of private tuition. The only schools which have an entitlement to public funding are schools which perform a public role and carry out public responsibilities, and those are defined by government.⁵⁴

2.59 Submissions from the independent schools sector did not provide an estimate of a minimum entitlement, but suggested that an entitlement to an unspecified proportion of public money was nevertheless a right of parents who pay taxes. Mr Chapman, Executive Director, Association of Independent Schools of NSW, told the committee that parents who choose to send their children to private schools are entitled to 'a minimum basic grant. Thereafter it is quite appropriate for those schools to be subjected to whatever assessments of needs is determined by political judgment

52 Submission No.31, Association of Independent Schools of South Australia, p.1

53 Mr Chris Bonner, NSW Secondary Principals Council, *Hansard*, Sydney, 26 July 2004, p.56

54 Dr Louise Watson, *Hansard*, Canberra, 27 July 2004, p.20

of the day'.⁵⁵ There appears to be some consensus within the independent schools sector that there should be an entitlement for non-government students of approximately 25 per cent of the cost of educating a child in a government school.⁵⁶

2.60 The issue of a basic entitlement was not actually canvassed by the committee and accordingly no figure is struck for such a basic subsidy in this report. It does, however, reject the argument of the NSW Teachers Federation and the New South Wales Federation of Parents and Citizens Association that there should be no Commonwealth funding of any description for non-government schools. It also accepts that revisiting a needs-based component for a funding model should not automatically position 'need' and 'entitlement' as antagonistic concepts. To do so plays into the hands of those who seek to prise open the wedge between the government and non-government school sectors which characterises the current funding debate.

2.61 The core issue before the committee is that any Commonwealth funding of non-government schools should be based principally on the educational needs of students rather than the financial needs of parents in terms of their capacity to pay fees. However, under the current SES funding arrangements, it appears that many private schools whose need for government assistance appears minimal are receiving a disproportionate amount of Commonwealth funding. The committee does not accept that the current funding priorities of the Commonwealth are underpinned by the principle of student need when a number of 'wealthy' private schools have received, and continue to receive, substantial increases in funding.

Concluding observations

2.62 The distortions created by the application of the SES system are a serious concern to the committee. It has difficulty with the position of the independent schools sector which on the one hand espouses worthy principles of equity and need, yet on the other hand supports a funding model which continues an upward trend in Commonwealth funding to a small number of high fee paying schools. The committee heard some alarming evidence relating to government expenditure to the private school sector. Figures from the AEU, for example, show that expenditure for private schools by all levels of government has increased by approximately 90 per cent in the ten years to 2002 and, for public schools, by only 28 per cent.⁵⁷ The NSW Public Education Council in its submission states:

Between 1995 and 2005 the Commonwealth will have raised real outlays per student on non-government schooling in Australia by some 50 percent. Over the same period the non-government schools' share of total enrolments are estimated to have increased by some 4 percentage points.

55 Mr Terrence Chapman, Association of Independent Schools of New South Wales, *Hansard*, Canberra, 27 July 2004, p.59

56 Submission No.31, Association of Independent Schools of South Australia, p.24; Submission no.36, Association of Independent Schools of the ACT, p.4

57 Submission No.33, AEU, p.20

Clearly the price has been high with most of the increased real funding to non-government schooling going to people already committed to their choice of non-government school. It is hard to rationalise any economic or educational justification for this approach to public funding by the Federal Government.⁵⁸

2.63 The committee notes further that approximately two-thirds of the Commonwealth's proposed funding package contained in the Schools Assistance Bill currently before the Parliament will be directed to the non-government school sector. According to one witness, over the next twelve months non-government schools will be the beneficiaries of a 10 per cent, or \$426 million, increase in Commonwealth funding. This is \$138 million, or almost 50 per cent, more than the increases awarded to universities. Yet non-government schools account for only 32 per cent of school students, and less than one quarter of all students combined.⁵⁹

2.64 The committee therefore has difficulty accepting the argument that the SES model is delivering scarce public resources to where they are needed most, and on an equitable basis. The claim made by the Association of Independent Schools of Victoria that the SES funding formula, and the principles behind it, represent 'a significant step in advancing towards fairer, student based funding for all schools', is simply not supported by the data.⁶⁰ The committee finds it difficult to reconcile this assertion with a situation where a school such as Geelong Grammar, which charges fees of \$18,900 per annum for year 12 students, has received a 251 per cent increase in funding under the SES arrangements. There is no question that the SES system as it is currently constructed is inherently inequitable and flawed and does not equate with notions of social justice, equity or equality of opportunity.

2.65 The committee notes that the distortions created by the SES system reflect a broader shift in the Commonwealth's role in funding schools. As noted in chapter 1, the Commonwealth originally interpreted its role in schooling as ensuring that a community standard was reached by all public and private schools. This has gradually been replaced by an approach to 'fairness' which is based on a model of entitlement for all students to receive government support, irrespective of which schools they attend. Student 'need' has also been redefined by the Commonwealth to mean the financial needs of parents with regard to paying fees, rather than the needs of all students for an education of an agreed and appropriate level of quality and standards. The Committee broadly accepts the view of the Queensland Teachers Union that the Commonwealth Government's current funding priorities reflect poor social and education policy. Increasing the level of funds to the best resourced private schools in the long term

58 Submission No.52, NSW Public Education Council, p.6

59 Mr David Hayward, Submission No.71, p.1

60 Submission No.42, Association of Independent Schools

represents a threat to the viability of government schooling as a universal system that meets the needs of all Australian children.⁶¹

2.66 In the light of the Government's current priorities, the committee believes that needs-based funding can only be achieved if future funding arrangements are tied more closely to a revised accountability framework that takes into account a school's total economic resources. While the committee is not arguing here against the principles of a basic grant for all students, it concurs with the IEUA submission that both the point where the base grant should be pitched and the precise mechanism for distributing the 'needs' component are open questions requiring further consultation and debate.

2.67 The committee supports the proposition that the level of Commonwealth funding should be linked to the economic capacity of a school's community, which includes sources of private income from fees, endowments and sponsorships. It believes the total economic resources of a school, including fees, should be an integral part of determining the financial needs of its students. This is a major deficiency of the current SES system. The committee believes that non-government schools should be required to divulge financial information of the kind that they hitherto have been unwilling to submit to parliamentary scrutiny. The entitlement of non-government schools to Commonwealth financial assistance should be based on a principle of 'mutual obligation', to use an expression straight from the Government's policy lexicon. Assistance from the Commonwealth should be reciprocated by non-government schools adhering to a stricter reporting and accountability framework in which non-government schools disclose their privately-sourced income. The committee takes up the important issues of transparency, accountability and reporting in the following chapter.

Recommendation 3

The committee recommends that the Commonwealth note the overwhelming evidence put before the inquiry on the flawed nature of its funding arrangements for non-government schools, including:

- failure to take into account the total resources available to a non-government school in assessing relative need for funding;
- adoption of a funding scale that has provided the largest increases in funding to non-government schools that were already operating well above the resource standards in government schools; and
- creation of instability and insecurity in the post 2008 funding for the 50 per cent of non-government schools that are in one of the two 'funding maintained' categories for the 2005-2008 quadrennium, including 60 per cent of schools in Catholic systems.

61 Dr John McCollow, Assistant Secretary, Queensland Teachers Union, *Hansard*, Brisbane, 21 July 2004, p.2

Recommendation 4

The committee recommends that the SES non-government school funding model should be linked to the economic capacity of school communities, modified to include sources of private income including fees and linked to the educational needs of each school and its students.

