



Australian Government

Department of Education and Training

# **The National School Resourcing Board's Review of the socio-economic status score methodology**

Australian Government Response

## Contents

<b>Summary</b> .....	3
<b>Background</b> .....	5
<b>Recommendation 1 - Clearer definitions</b> .....	6
<b>Recommendations 2 and 4 - Transitioning to a direct measure</b> .....	6
<b>Recommendation 3 - Consulting with the non-government sector</b> .....	7
<b>Recommendation 5 - Continue existing arrangements in 2019</b> .....	7
<b>Recommendation 6 - A transparent and robust appeals system</b> .....	7
<b>Further support for government priorities in non-government schools</b> .....	8
<b>Conclusion</b> .....	8

## Summary

The Australian Government welcomes the National School Resourcing Board's (the Board) *Review of the socio-economic status score methodology*. The Board made six recommendations that the Government accepts.

In response to the Board's recommendations, the Government will implement new, improved arrangements to determine the capacity of a school community to contribute to the operation of non-government schools.

Current arrangements for determining non-government school funding levels use an area-based socio-economic status (SES) score measure, which was based on the best available data when it was implemented in 2001. The Board found that recent innovations in whole-of-government data linkages mean that a better measure of a school community's capacity to contribute to their school costs is now available.

Accordingly, from 2020, new arrangements will use a direct income measure to determine the capacity of a school community to contribute to their school. The direct income measure will be based on the median income of parents or guardians as determined through linkage of personal income data and residential address data collections. This more targeted, more accurate measure will ensure funding flows to the schools that need it the most.

Implementation of the new arrangements will be phased in over three years from 2020. Approved authorities for schools will be able to choose whether individual schools commence in 2020, 2021 or 2022, depending on their own readiness for the new data collection.

In recognition that systems are best placed to understand the needs of their schools, approved system authorities will continue to have the flexibility to distribute funding to individual schools according to their own needs-based funding arrangements that comply with section 78(5) of the *Australian Education Act 2013* (the Act).

The implementation of the new direct income measure will see the Government provide an additional \$3.2 billion in funding for the non-government sector during the transition to the new arrangements from 2020 to 2029.

As an interim support measure, the Government will provide \$170.8 million in additional funding for 2019 for non-government schools. The interim support builds on similar temporary provisions in 2018 and it will allow schools to plan with confidence for the 2019 school year while work is underway to test and refine the direct income measure and settle the new arrangements.

By 2022, all non-government schools will have begun their transition to the new arrangements. A robust appeals process will be in place to ensure confidence that the new direct measure is applied fairly and transparently.

To complement recurrent funding arrangements, the Government will create a new \$1.2 billion fund to 2029 that will provide the non-government sector with a flexible means of driving other government priorities, including support for parental choice and diversity in the schooling system, providing structural adjustment assistance, lifting outcomes in underperforming schools and targeting extra support for schools who need a helping hand.

The Government is confident that these measures provide an appropriate response to the Board's recommendations. The measures address concerns of the sector about the implementation of a new direct income measure of capacity to contribute and respond to the needs of those non-government schools who face extra challenges.

This additional funding will ensure all Australians can be confident that the distribution of Australian Government school funding to the non-government sector is fair and consistent and that the greatest level of funding is flowing to the students and communities that need it most.

The Government would like to thank all those who contributed to the SES score methodology review, with particular thanks to the Board Chair, Mr Michael Chaney AO and the Board members, Emeritus Professor Denise Bradley AC, Professor Natalie Brown, Professor Greg Craven AO, Mr William (Bill) Daniels AM, Professor Stephen Lamb, Professor Ken Smith and Dr Alison Taylor, for their important report.

### National School Resourcing Board recommendations and Australian Government response

Recommendations	Australian Government response
<p><b>Recommendation 1</b></p> <p>Adopt the following definitions:</p> <ul style="list-style-type: none"> <li>• 'capacity to contribute' is a function of the school community's income and wealth</li> <li>• 'school community' is the parents and guardians of the students at the school.</li> </ul>	<p><b>Agreed</b></p> <p>The Australian Government will adopt the Board's definitions for capacity to contribute and school community.</p>
<p><b>Recommendation 2</b></p> <p>The capacity to contribute for a school be determined based on a direct measure of median income of parents and guardians of the students at the school.</p>	<p><b>Agreed</b></p> <p>The Government will adopt a direct measure of median income of parents and guardians of the students at the school to calculate the capacity of a school community to contribute to the cost of schooling.</p>
<p><b>Recommendation 3</b></p> <p>Consult further with the non-government sector and experts on the development of, and transition to, a new direct measure of capacity to contribute for implementation from 2020.</p>	<p><b>Agreed</b></p> <p>The Government will establish a working group of non-government sector representatives and experts to oversee the development of the new measure.</p>
<p><b>Recommendation 4</b></p> <p>Undertake an annual residential address collection and data-matching with income tax data to enable the calculation of a rolling average for a stable direct measure of median parent and guardian income for a school.</p>	<p><b>Agreed</b></p> <p>The Government will amend the Australian Education Regulation 2013 specifically related to the non-government school Student Residential Address Collection to establish an annual collection.</p>
<p><b>Recommendation 5</b></p> <p>Continue existing arrangements for determining capacity to contribute for 2019, using updated 2016 Census data.</p>	<p><b>Agreed</b></p> <p>The Government will provide schools with the benefit of updated 2016 Census data in 2019 and will extend the 2018 interim measures.</p>
<p><b>Recommendation 6</b></p> <p>Ensure a transparent and robust appeals system is in place.</p>	<p><b>Agreed</b></p> <p>The Government will ensure a robust and appropriately resourced appeals process is in place.</p>

## Background

The National School Resourcing Board was established on 1 November 2017 under section 128 of the Act to provide independent oversight over Commonwealth school funding and help ensure public confidence in the operation of the funding model. Further information on the Board is available at [www.education.gov.au/national-school-resourcing-board](http://www.education.gov.au/national-school-resourcing-board).

The Board's first priority was to undertake a review of the SES score methodology and current funding arrangements for determining the capacity of non-government school communities to contribute to the operational costs of their school.

### **How the SES score affects funding for non-government schools**

Under the Act, Commonwealth recurrent school funding is based on the Schooling Resource Standard (SRS). The SRS is an estimate of how much total public funding a school needs to meet the educational needs of its students, as recommended by the 2011 Gonski *Review of Funding for Schooling*.

The SRS is made up of a base amount for every primary and secondary student, along with six loadings to provide extra funding for disadvantaged students and schools.

For most non-government schools, the base amount is discounted by the anticipated capacity of their school community to financially contribute towards the school's operating costs. This is called the capacity to contribute assessment and it is currently based on the SES score of the school. The higher the school's SES score, the more the base amount is discounted, up to a cap of 80 per cent of the base amount.

The capacity to contribute does not apply to government schools and non-government special schools and special assistance schools, non-government majority Aboriginal and Torres Strait Islander schools, and non-government sole-provider schools. There is also no capacity to contribute discount applied to the loadings.

The SES score methodology currently used to determine the Commonwealth's recurrent funding contribution for non-government schools has been in place since 2001, with gradual refinements to reflect improvements in data.

### **The review of the SES score methodology**

The Board's review of the SES score methodology was a response to concerns in the non-government school sector about the appropriateness and accuracy of the capacity to contribute assessment. The Board presented its report to the Minister for Education and Training in June 2018.

The review considered:

- The strengths and limitations of the current SES measure in determining the capacity of a school community to contribute to the recurrent costs of the school
- Possible alternative methodologies or refinements for calculating the capacity of a school community to contribute or for calculating the SES score, including the use of more direct measures
- How frequently measures should be updated into the future
- Timeframes for possible implementation of its recommendations for the 2019 school year.

The Board undertook extensive consultation to inform its advice and recommendations, including meeting with researchers, policy analysts and a broad range of stakeholders across all states and territories. The Board circulated an issues paper in December 2017, which attracted 295 submissions. To inform its work further, the Board commissioned research and analysis from an expert panel.

## Recommendation 1 - Clearer definitions

The Board's review found that the current terminology used in both the Act and Australian Education Regulation 2013 (the Regulation) was unclear and needed clarification. The Board recommended that the following definitions be adopted:

- '*capacity to contribute*' is a function of the school community's income and wealth
- '*school community*' is the parents and guardians of the students at the school.

The Government agrees with this recommendation.

The Government will adopt the Board's recommended definitions to provide clarity that an assessment of a non-government school's need for public funding should be based on the anticipated capacity of the parents and guardians enrolling their children in the school to contribute financially towards the school's resource requirements.

## Recommendations 2 and 4 - Transitioning to a direct measure

Current arrangements for determining non-government school funding levels use an area-based SES score measure, which was based on the best available data when it was implemented in 2001.

The Board found that recent innovations in whole-of-government data linkages mean that a better measure of a school community's capacity to contribute to their school's operating costs is now available; a direct measure of parental income is currently the most fit-for-purpose, transparent and reliable approach.

In order to implement a direct measure, the Board recommended an annual residential address collection and data-matching with income tax data to enable the calculation of a rolling average for a stable direct measure of median parent and guardian income for a school. This will require data linkage of parental name and address data with personal income tax (PIT) data.

The Government agrees with these recommendations and will phase in arrangements for a direct measure over three years from 2020.

As the first step towards the new measure, the Government will amend the Regulation specifically related to the non-government school Student Residential Address Collection to establish an annual collection to underpin the new arrangements.

Consultation with the non-government sector indicated a clear preference for a staggered start to the new arrangements until schools and systems have confidence in the data applicable to their schools. Accordingly, approved authorities for schools will be able to choose whether to commence in 2020, 2021 or 2022, depending on their own readiness for the new data collection. The staggered start gives schools the flexibility to move to the new direct income measure once they are confident in their school's data quality.

By 2022, all non-government schools will have their funding calculated using the new direct measure.

As individual schools move to the new measure, a new transition path will be set towards the consistent Commonwealth shares of 80 per cent of the SRS. Schools that are below the 80 per cent share of the SRS when they move to the direct measure will transition to 80 per cent by 2023. Schools that are above 80 per cent share of the SRS when they move to the direct measure, will transition to 80 per cent of the SRS by 2029.

The implementation of the new direct income measure will see the Government provide an additional \$3.2 billion in funding for the non-government sector as they transition between 2020 and 2029.

## Recommendation 3 - Consulting with the non-government sector

The Board recommended further consultation with the non-government sector and experts on the development of and transition to implementation of the direct measure in 2020.

The Government agrees with this recommendation and believes collaboration with the non-government sector will be critical to successful implementation of the new direct measure.

The Government commits to establishing a working group with non-government sector representatives and experts to progress this work and inform future funding arrangements. This work will include extensive data validation and quality assurance activities to ensure the reliability of the measure and to promote confidence in the outcomes.

The working group(s) will look at a range of issues including:

- the use of adjusted taxable income or gross income
- acceptable benchmarks for linkage rates and options for schools with lower linkage rates
- how family size can be taken into account
- how family circumstances can be accounted for
- options for individuals without taxation information
- income distribution within individual schools, including small schools
- the impact on regional, rural and boarding schools
- options to reduce the volatility between years, including the use of a rolling average, or a cap on annual change
- whether there should be separate calculations for primary and secondary school parents within combined schools; and
- any other relevant issues arising from the analysis and validation work.

## Recommendation 5 - Continue existing arrangements in 2019

Given new arrangements would not commence until 2020, the Board recommended existing arrangements for determining capacity to contribute be continued for 2019, using updated 2016 Census data.

The Government agrees with this recommendation.

As an interim arrangement, the Government will provide \$170.8 million in additional funding for 2019 for non-government schools. The interim support builds on similar temporary provisions in 2018 and it will allow schools to plan with confidence for the 2019 school year while work is underway to test and refine the direct income measure and implement the new arrangements.

The \$170.8 million in additional funding will provide:

- Financial assistance for low growth independent schools in 2019 guaranteeing a minimum of 3 per cent growth in funding in that year
- Financial assistance for system-weighted average SES schools in 2019
- Financial assistance equivalent to the benefit that a school would receive if updated 2016 Census data were used to calculate SES scores in 2019.

## Recommendation 6 - A transparent and robust appeals system

The Board identified that in some cases the new process will still not satisfy all school and community circumstances and accordingly a transparent and robust appeals process should be in place.

The current appeals process allows approved authorities to request a review of current SES scores if they consider the score does not accurately reflect the socio-economic circumstances of the school community.

Under the Act, an approved authority can:

- seek an 'internal review' of their SES score within 30 days after the decision has been made (Section 120 of the Act). This will apply to systemic schools seeking to appeal school-level scores for 2018.
- appeal a school's SES score at any time if they believe the current score does not accurately reflect the school's community profile based on unique circumstances at any time (Section 53 of the Act). This is referred to as a review of an 'original decision'.

The Government agrees with the Board that moving from an area based measure to a direct measure of parental and guardian income of students at a school will change the nature of appeals. The Government will develop a new appeals process that reflects the new methodology and which is appropriately resourced. This could be an area of focus for the working group(s) to ensure a transparent process.

## Further support for government priorities in non-government schools

The Government is confident that these measures provide an appropriate response to the Board's recommendations and will address concerns of the sector about the implementation of a new direct income measure of capacity to contribute.

As the majority funder of non-government schools, the Government is committed to supporting parental choice and diversity in the schooling system. The Government also recognises that from time to time challenges will arise for the non-government sector that require a targeted response, such as extra support for schools in regional, rural and remote locations, schools in drought-affected areas or underperforming schools.

To this end, the Government will create a new \$1.2 billion fund over ten years that will complement existing recurrent school funding by providing a flexible means of targeting extra support for those schools in the non-government sector who need a helping hand.

The new fund will be prescribed in the Regulation following consultation with the non-government sector. Funding will be used to support priorities agreed with the Government and outlined in an agreement. It will be distributed between the independent and Catholic sectors based on their sector share of schools.

The Government will work with the non-government sector to develop and implement the fund.

## Conclusion

The Government welcomes the National School Resourcing Board's report on the *Review of the socio-economic status score methodology* and agrees with all recommendations. The Government looks forward to working closely with the non-government sector to implement the new arrangements that will enhance the Commonwealth's existing needs-based funding for schools and ensure funding supports those schools who need it the most.