THE AUSTRALIAN

Gonski school funding harms education quality and equality

Malcolm Turnbull, seen at Bondi Public School in Sydney last week, can undo the damage done under Julia Gillard.

HENRY ERGAS THE AUSTRALIAN 12:00AM June 3, 2017

It's those wretched Catholics again. If you believe the press, they are spending substantially less than they should on Catholic schools in low-income areas, while using taxpayer dollars to subsidise the ones that compete with independent schools at the top end. Yet there they go, howling about the new school funding package.

Good thing an agreement seems to be in prospect, allowing the government to get on with its plans, which will take education expenditure from merely astronomical to truly stratospheric.

But there is a puzzle in that story. As best one can tell, outlays per student in Catholic schools seem to be about 30 per cent below the "school resourcing standard" that the Gonski review defined as the benchmark to be used for commonwealth funding. However, most studies find that those schools outperform their public sector rivals, particularly for poorer students. That suggests the SRS is much too high — or at least that the state schools that play a large part in determining it are far from being efficient.

And one might also have thought that the Catholic schools, which get better results at lower cost, should be encouraged to expand, saving on public expenditure while giving even more kids from poorer areas the education they deserve. The commonwealth should therefore be shovelling funds in their direction, instead of increasing the funding for state schools 1.5 times more rapidly.

And equally so for the independent schools, which also outperform the state schools, but whose funding will also grow far less quickly than the public sector's.

Well, if you entertained those thoughts, wipe them from your mind. Because the genius of Labor's "needs-based" funding system, which the government is largely keeping in place, is this: performance plays no part in it.

The outcomes schools achieve aren't secondary to what is loosely defined as "need" in the allocation of the many billions the commonwealth spends; they are completely irrelevant. That our school system doesn't deliver consequently seems unsurprising; the only mystery is why anyone would expect it to, as schools that fail year after year can expect to be lavishly underwritten.

Now, a system that so defies common sense is hardly likely to emerge by accident. Nor did it. The 2011 Gonski review laid the groundwork, notably by exaggerating out of all proportion the role socioeconomic status plays in determining student outcomes. Agitating the banner of "fairness", and brandishing the "needs-based" model, the Gillard government then did the rest.

What its motives were is controversial. There is, however, no uncertainty about what it designed: a funding formula under which state schools, that serve about 65 per cent of students, would secure more than 80 per cent of the increased commonwealth funding, regardless of how well or poorly they performed. So as to divide and conquer, Julia Gillard did special deals with the Catholic schools (whose funding would, nonetheless, rise much less rapidly than that of state schools), while hanging the other non-government schools out to dry.

That belies the many claims that the funding arrangements introduced six years ago are "sector neutral". But the problems with

those arrangements don't end there. To lock that distribution in, the funding formula had to be structured in ways that are peculiar at best, irrational at worst.

Nothing more starkly highlights the issues than the perverse incentives the formula creates. To begin with, rather than encouraging non-government schools to attract students from public schools in low-income areas, the formula does the exact opposite.

That effect arises from the "loadings" for disadvantage — the additional amounts a school receives for teaching students from disadvantaged areas. Those loadings depend not only on a student's own SES but also on the share of low SES students at the school: up to an entirely arbitrary threshold, the higher that share, the greater is the payment per low SES student.

As a result, when a low SES student leaves a state school with a high concentration of students from poor areas for a Catholic school with a somewhat lower concentration, the loading payment falls. In practice, the reduction is anything but trivial: for an identical student, the typical Catholic school will get 70 percent of the loading the typical state school would have received, while an independent school may get as little as 22 percent.

The formula therefore blunts the incentive for non-government schools to attract low-income students, despite their significantly better teaching outcomes.

Nor do the perversities end there. The funding model doesn't merely discriminate between sectors, locking poorer children into the public system; it also encourages socioeconomic segregation within sectors.

Take two equally sized primary schools, each with 25 per cent of its students in the lowest SES classification and 25 per cent in the second lowest. Those schools would attract an average annual socioeconomic status loading of just over $1000 per student. However, if they swapped students, so that one school now had all the students in the lowest SES classification while the other had all those in the second lowest, the average per student loading for the two schools would rise by 49 per cent.

Moreover, both schools would attract higher total loadings, even though one school no longer had any students with the lowest SES. Indeed, the school that had shed the most disadvantaged students would secure a 25 per cent greater loading for disadvantage.

Yes, you read that correctly: having slashed its share of the poorest students to zero, the school's loading for disadvantage would actually rise. That might seem ludicrous — but not once you know that those contortions help maximise the proportion of the commonwealth's spending increase going to state schools.

Ignored so as to achieve that outcome is the fact that schools and school systems take myriad longer-term decisions — including with respect to location, curriculum and outreach — that shape the composition of their student bodies. And given how slanted the funding incentives are towards greater socioeconomic segregation, it is hard to believe greater segregation will not be the eventual result.

What, then, should be done? Many of the Turnbull government's initiatives go in the right direction. But other changes are vitally needed. Specifying the goals the funding arrangements ought to pursue would be a crucial place to start. At the heart of those goals should be ensuring that as many parents as possible can choose between good options, including public, independent and Catholic schools, on a basis not distorted by government policy.

To say that isn't to suggest choice is a panacea: but suppressing it gives state schools monopoly power over the supply of education to disadvantaged families and to many others, weakening the incentives for quality teaching.

And thanks to that monopoly power, it is not Australian kids who benefit from the torrents of public spending — all too often, it is the teachers unions, who can grab the additional dollars for themselves in the form of more jobs, higher pay and less demanding working conditions.

The best way to undermine that market power is to make funding truly follow students. Parents and kids would then determine the allocation of funding on the basis of merit, rather than the sectors vying for taxpayer dollars on the basis of political clout and of noisy public stoushes. Achieving that full portability would require co-operation from the states. But the commonwealth has plenty of room to move.

Revising the loadings the commonwealth pays so that they are a flat, completely portable, dollar amount that a genuinely disadvantaged student could use at any school would help. So would reconsidering the "capacity to contribute" factor, which discounts the funding non-government schools (but not state schools) receive in line with estimated parental income. Because of that discount, non-government schools are penalised twice: once through the "capacity to contribute" offset, and then again through the loadings.

As follows, that "double whammy" has increased the effective difference in treatment between government and non-government schools, further skewing the playing field.

At the same time as those flaws are tackled, a clear link needs to be established between funding and outcomes. At least 10 per

cent of the funding pool should be reserved for helping outstanding schools to expand; by the same token, schools that persistently fail to meet the grade should be required to shut, allowing other schools to take their place.

The greatest needs in that respect are in the public sector, which accounts for about 10 per cent of the best performing schools but for 95 per cent of the worst. Yes, schools at the bottom of that distribution have more students from low-SES families than their best-performing counterparts. But everything suggests that is a consequence, not a cause, of poor outcomes, as those students who can flee, do.

Once fully portable subsidies give every student a credible option of shifting to better alternatives, there can be no case for indefinitely propping up state schools that have failed.

Those changes will, no doubt, be controversial. The reality, however, is that the funding system that came out of the 2011 Gonski review harms both quality and equality. It can hardly be what our children deserve. It is certainly not what our schools need. For so long as it remains in place, all the spending in the world won't set the situation right.