



2

SECRET AND PERSONAL

P.0968

PRIME MINISTER

Wider parental choice: a radical voucher scheme

BACKGROUND

FLAG A
FLAG B

The Ministerial Group on Wider Parental Choice considered on 2 February (MISC 91(83) 1st Meeting) a paper by the Secretary of State for Education and Science (MISC 91(82)1) setting out a two limbed scheme for widening parental choice in education. Vouchers would be available for use in the independent sector but in the maintained sector parents would receive a statement of their rights to exercise choice and local authorities would receive financial help from the Government for schemes designed to respond more effectively to parental choice. Some members of the Group thought that these proposals went too far, that there were some practical limitations to the exercise of parental choice in the maintained sector, and that more could be done, within these limitations, to satisfy parental choice under existing powers. Most members of the Group thought the proposals did not go far enough because they would have negligible effect on the maintained sector in which 95 per cent of children were educated. The Secretary of State for Education and Science was therefore asked to bring forward proposals for a radical voucher scheme covering both the independent and the maintained sectors, to be implemented initially on a pilot basis.

FLAG C

2. The Secretary of State for Education and Science's paper of 18 February is in response to that remit. Because of the political sensitivity the meeting of MISC 91 arranged for 24 February has been cancelled and the paper will be discussed at a small informal meeting of Ministers under your chairmanship.



SECRET AND PERSONAL

3. The main features of the radical voucher scheme are as follows:

i. every parent would receive in respect of every child aged 5-18 a non taxable voucher of a stipulated value;

ii. with a few exceptions schools in the maintained sector would become "voucher schools", ie independent cost centres controlled by their own governing bodies and deriving their income from parents' vouchers which would be reimbursed by the Government;

iii. existing independent schools would continue as now receiving income either from fees or, if they so chose, from vouchers;

iv. voucher schools would have to meet minimum standards enforced by the Department of Education and Science through the Inspectorate;

v. Local Education Authorities (LEAs) would be left only with some minor administrative tasks (eg distribution of vouchers, monitoring of school attendance) and some residual functions in providing schools where the voucher system was not ensuring enough free places within reasonable reach.

MAIN ISSUES

4. You will want to encourage a general discussion about the political and practical feasibility of the proposals. Under this heading the main points to be considered might be:

i. how far can vouchers be reconciled with the policy that education should be both compulsory and free;

ii. whether the public expenditure implications are likely to be acceptable;



SECRET AND PERSONAL

- iii. whether the shift in responsibility in education between local and central government is acceptable;
- iv. whether it is feasible and desirable to have pilot schemes;
- v. what the next steps should be (ie the forum for further Ministerial discussion, and the nature and timing of any announcement of the Government's intentions).

Vouchers in the context of compulsory and free education

5. It is desirable that the meeting should be clear at the outset whether they accept as constraints for a voucher scheme that education should be both compulsory and free. Once those constraints have been accepted, a voucher scheme has to cope with a major practical problem. This is that the unit costs of schools vary widely, by 50 per cent or more. Only by setting a very high value for the voucher would it be possible to ensure both free education and the viability of the voucher schools. Even if the value of the voucher were to be set at 5-15 per cent above the average unit cost (with the far reaching consequences for public expenditure discussed below) many schools could not be adequately funded by their pupils' vouchers.

6. The Secretary of State proposes to tackle this problem in a variety of ways. He envisages that the DES would supplement the basic voucher value for all pupils in an area or locality to take account of special local factors. Even then the unit costs of particular schools within each area or locality would vary considerably. A residual role is therefore proposed for the LEA in three ways: it would top up vouchers for some parents; it would top up the funds of some schools; and it would continue to provide some schools itself (eg by taking over failing voucher schools, by creating new schools which might eventually become viable voucher schools, and by running special schools for the handicapped etc). Some Ministers may feel that the role envisaged for the LEA represents a substantial dilution of the purity of the voucher scheme. There are however only two main ways of avoiding this -



SECRET AND PERSONAL

by breaching the principle of free education or by an even larger increase in public expenditure than that discussed below.

7. The meeting will also wish to consider how far the scheme is likely to meet the objective of widening parental choice. The paper concedes (paragraph 9) that "in the less densely settled areas, many parents would have little or no choice of school". Moreover the objective is defined in paragraph 14 as "that we should ensure merely that every parent should be able to secure a free place in a voucher school in his locality, but that this would not necessarily be the school of his choice". The main effect is likely to be, as paragraph 16 explains, to increase the scope for schools to choose their pupils rather than for parents to choose their children's schools. The widening of parental choice may depend on how far the existence of the voucher scheme would over time stimulate the creation of new schools to meet identified needs.

8. It may be argued that the main virtue of the voucher scheme, as now proposed, is not so much to widen parental choice as to increase parental power over the schools to which their children may have to go. On this argument the voucher provides all parents with the power of the purse which is at present only available to better off parents sending their children to independent schools. Against this it may be argued that the power provided by the voucher is an artificial power devised by the state. The same result might be achieved, without complicated arrangements for money flows, by putting control of schools in the hands of governing bodies composed of elected parental representatives.

9. The most important questions on which the meeting should take a view are therefore:

- what are we trying to achieve?
- is this scheme a workable and cost-effective way of achieving our objectives?



SECRET AND PERSONAL

Public expenditure

10. Public expenditure on education in 1983-84 is planned to be some £13.1 billion out of total public expenditure of some £121 billion. Any major increase in expenditure on education is therefore likely to have significant effects on total public expenditure. The paper explains that the voucher scheme may increase public expenditure in various ways, for example: the deadweight cost (say £200 million a year) of vouchers used by parents who would otherwise pay all fees themselves; the need to fix voucher values above average unit costs; various costs involved in easing the transition to the new scheme; and the extra administrative costs in creating 25,000 schools as independent cost centres, as compared with 97 LEAs in England. It has been estimated that if the voucher value were to be set at 15 per cent above average unit cost, the annual addition to public expenditure, including deadweight cost, would be of the order of £1.4 billion. If the voucher were to be set at 5 per cent above average unit cost, the additional expenditure, including deadweight, would be some £650 million. It would be difficult to reduce these costs significantly without breaching the principle of free education discussed above.

Transfer of responsibility from local government to central government

11. The essence of the proposed scheme is that local authorities would lose their major educational functions. The proposed distribution of functions is set out in Annex A to the paper. The control will pass in part to the governing bodies of the voucher schools but there would also need to be a substantial increase in central Government involvement in education, not just in administering the voucher scheme but also in setting educational standards and monitoring them through the Inspectorate. It is suggested in paragraph 25 that responsibility for educational expenditure amounting to some £3 billion would pass from local government to central Government.

12. The meeting may see considerable advantages in these changes. They would enable central Government to intervene much more directly in setting educational standards. There would be the incidental advantage that, as



SECRET AND PERSONAL

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recently discussed by the Ministerial Sub Committee on Local Government Finance (E(LF)(83) 1st Meeting) it would be possible to reduce rates and subsequently limit their increase.

13. It may be argued on the other hand that education has come to be regarded, rightly or wrongly, as the most important function of local government and that a change of the kind proposed would involve an intolerable political upheaval. The meeting will need to consider where the balance of advantage lies.

Pilot schemes

14. The arguments for and against proceeding first by pilot projects are discussed in Annex B to the paper. In commissioning proposals for a radical voucher scheme, MISC 91 assumed that there would have to be a pilot stage. There is however the disadvantage that there would have to be two separate tranches of legislation, each of which would be contentious. Moreover the pilot stage would depend on willing volunteers and some doubts are expressed as to whether even a Conservative LEA would be willing to experiment with the kind of radical scheme now proposed. The meeting will need to reach a political judgement based mainly on any information which may be available about the extent to which Conservative LEAs may be willing to volunteer for pilot schemes of the kind now proposed.

Next steps

15. If the meeting takes the view that the proposals in the Secretary of State's paper should, despite their political sensitivity, be taken further, the natural next step would be to have them tabled for discussion at an early meeting of MISC 91. You may also feel that it would be difficult to go ahead with proposals as far-reaching as those now engaged without approval by the Cabinet at an appropriate stage.

16. The Secretary of State envisages that the proposals will have to be the subject of widespread consultations. It would be useful for the meeting to reach a preliminary view on the nature and timing of these consultations. Should there be a Green Paper? If so, should it be published before the



SECRET AND PERSONAL

Election? If not, what should be the Government's public stance during the remaining life of this Parliament?

HANDLING

17. You will wish to invite the Secretary of State for Education and Science to introduce his paper. All those present are likely to have comments.

CONCLUSIONS

18. You will wish to reach conclusions on the following main points:

- i. whether, subject to any points raised in discussion, the Secretary of State for Education and Science's proposals are politically and practically feasible;
- ii. whether the proposals should go ahead in the first instance on a pilot basis;
- iii. what the next steps should be (ie the forum for further Ministerial discussion, and the nature and timing of any announcement of the Government's intentions).

PLG

P L GREGSON

23 February 1983

SECRET AND PERSONAL

