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P.0994

PRIME MINISTER

Wider Parental Choice

BACKGROUND

A
At your meeting on 8 March the Secretary of State for Education and Science presented a paper dated 18 February setting out a radical voucher scheme under which: every parent would receive in respect of every child aged 5-18 a non-taxable voucher; most schools in the maintained sector would become independent cost centres financed by vouchers; and local education authorities (LEAs) would be left only with minor administrative tasks and with the residual task of providing some schools (eg special schools) which could not be financed by the voucher system. The meeting rejected that scheme on a number of grounds: that it would provoke widespread political hostility; that it would be prohibitively expensive because of the need to fix vouchers at a level which would both ensure the viability of most schools and preserve the principle of free education; and that it might not in practice do much to widen parental choice.

B
2. The Secretary of State for Education and Science therefore undertook to look again at a two-limbed scheme of the kind discussed by MISC 91 on 2 February (MISC 91(83) 1st Meeting), with a first limb designed to increase access to the independent sector and a second limb designed to foster the widening of parental choice in the maintained sector by financial incentives to LEAs. Such a scheme would be open to LEAs who wished to take advantage of it. By comparison with the original two-limbed scheme discussed by MISC 91, it was proposed that there should be more emphasis on the budgetary independence of schools and more scope for parental pressure to improve schools. There was also a feeling that it would be more acceptable to get away from the terminology of vouchers and to present any changes as having evolved from existing concepts such as the Assisted Places Scheme.

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C
3. The Secretary of State's paper of 25 March now puts forward for consideration two alternative versions of a two-limbed scheme:

i. The first variant is set out in Annex A (independent sector limb) and Annex B (maintained sector limb). It is in effect a development of the original proposals put to MISC 91. Under the maintained sector limb it is now proposed to use the leverage of a 75 per cent specific grant not only to finance expansion of popular schools but also to press LEAs to improve unpopular schools, give schools greater budgetary freedom, and give parents a bigger say in the running of schools. This is a gradualist approach in which the terminology of vouchers need not be used. The Secretary of State regards this variant as technically feasible and worthwhile.

ii. The second variant is set out in a paper by the Special Advisers at Annex C. In respect of the independent sector limb the proposals are not very different from those in the first variant, except that the Special Advisers have a preference for introducing it on a local rather than a national basis so as to dovetail more closely with their proposals for the maintained sector. In respect of the maintained sector, the Annex C variant retains some but not all elements of the radical voucher scheme rejected at your meeting on 8 March. Where an LEA chooses to experiment under the scheme, each maintained school would become an independent legal entity such as a trust. There would be a voucher in respect of each child of school age. To deal with the fundamental problem of variations in unit cost, the value of vouchers would not only vary for each LEA, but the LEA would have the power to treat a ^{voucher} / as having more or less than its face value depending on the circumstances of each school. Although the bulk of the LEAs' resources for education would be allocated to vouchers in this way, it would retain a discretionary fund for certain purposes. The Secretary of State sees some political difficulties about this variant and also suggests that further study is required to find out whether it is workable.



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MAIN ISSUES

4. The most important area for discussion is that relating to the maintained sector which accounts for 95 per cent of pupils. You will probably therefore wish to concentrate on the issues relating to the maintained sector, and deal with the issues relating to the independent sector in the light of the earlier discussion. The main issues are therefore as follows:

- i. In relation to the maintained sector, is the more gradualist (Annex B) approach preferable, or should further work be done to explore the feasibility of the more radical Annex C approach?
- ii. In relation to the independent sector, is the approach at Annex A preferable to the alternatives of expanding the Assisted Places Scheme, or reviving the direct grant scheme?
And, if so, should the scheme be introduced on a local or national basis and should it be taxable or means tested?
- iii. What should be the next steps and the timetable?

The maintained sector

5. In comparing the more gradualist Annex B and more radical Annex C approaches, the meeting will wish to assess them under the following criteria:

- which is more likely to do most to widen parental choice and improve standards?
- which is likely to attract more willing volunteers from the LEAs?
- which is likely to be more acceptable politically?



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6. When MISC 91 considered the earlier version of Annex B on 2 February, there were doubts about its effectiveness. The 75 per cent specific grant was essentially to permit LEAs to expand more popular schools. There are however physical limits to the feasible expansion of such schools. The scheme was therefore criticised because it did not do anything to improve unpopular schools. The new version seeks to answer this criticism and to take account of the points made on 8 March by using the specific grant as a lever to secure various objectives (improving poor schools, more budgetary freedom etc) which are set out on page 2 of Annex B. It is also envisaged that there would be legislation to require the governing body and head of every maintained school to convene an annual meeting to which all parents would be invited and would be entitled to pass resolutions which the LEA, governors and head would be required to consider. It would no doubt be possible to take this approach further by introducing additional conditions which an LEA would be required to meet before gaining access to the new 75 per cent specific grant. The meeting will need to consider whether proposals on these lines would go far enough and be effective in widening parental choice and improving standards.

7. The version proposed by the Special Advisers at Annex C starts from the concept of a pure voucher scheme but very substantially dilutes this concept by making the value of the voucher variable from school to school. The result is that the parent retains in practice a free place at the school to which his child goes and the financial viability of schools is largely preserved. The meeting will however wish to consider whether the result of these changes has been to preserve merely the shadow of a voucher scheme without doing much to widen parental choice. Annex C argue that there would be "a general enhancement of the power of parents to affect the education of their children and an increased devolvement of responsibility to individual schools". It suggests that an important effect of the scheme would be to enable each voucher school to determine its admissions policy and thus to encourage the development of more variety of schools (academically selective, single sex, religious, etc). It is not clear however how far parents would in practice be able to take advantage of the resulting greater variety. The Secretary of State argues that parental rights and choice would in fact be diminished and that there would



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be difficulty in reconciling the independence of the schools under the proposed voucher regime with the continuing responsibilities and duties of the LEAs. The meeting will need to consider whether it shares these concerns.

8. It is common to both the Annex B and Annex C versions that they are permissive schemes and need to attract volunteer LEAs with the incentive of the 75 per cent grant. In Annex C the Special Advisers argue that some LEAs might be willing to join their proposed scheme because LEAs in various parts of the country are now expressing interest in the possibility of making schools more nearly self-managing; and because some Conservative LEAs expressed interest in the original two-limbed scheme, although that was less radical than Annex C. In his covering paper the Secretary of State argues that it is open to doubt that the government would find LEAs willing to change to a scheme on the lines of Annex C which would deprive them of many of their existing powers. He is also concerned that an LEA which had opted to adopt an Annex C scheme might opt out on a change of political control. If the meeting concludes that Annex C is much less likely to attract volunteer LEAs than Annex B, that would be a powerful argument against Annex C. There would be little point in introducing legislation to permit experimentation unless there is a reasonable chance that some experimentation will occur.

9. Finally, the meeting will need to compare Annex B and Annex C in terms of their political acceptability. The Secretary of State argues that Annex C would entail substantial changes in the 1944 Act and the political and religious settlement which underlies it, that the necessary legislation would provoke strong opposition, and that the Parliamentary effort might prove disproportionate to the take-up.

Independent sector

10. The first question about the independent sector limb is whether a new scheme is required as opposed to other approaches such as reviving the Direct Grant list, or expanding the Assisted Places Scheme. In paragraph 9 of Annex A the Secretary of State argues against trying to revive the Direct Grant Scheme on the grounds that schools would be unwilling to make



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themselves dependent wholly or mainly on direct government subsidy because of the risks of political change. He argues against a mere expansion of the Assisted Places Scheme on the grounds that this is too limited. It is restricted by primary legislation to the secondary sector only. It is also designed to meet the narrow objective of making places available in a restricted number of independent schools of high academic reputation to bright pupils from poorer families. It is not designed to meet the broader objectives of promoting expansion of the independent sector or of giving parents generally the opportunity to choose between the independent and the maintained sectors.

11. If the meeting concludes that it wants a scheme which goes much further than the existing Assisted Places Scheme, the proposals in Annex A will then need to be examined. One approach, preferred by the Special Advisers, would be to have vouchers available for use in independent schools in those LEA areas which have chosen to adopt vouchers for the maintained sector. An alternative approach would be to make assistance with independent school fees available nationally. It would not be necessary to issue vouchers to parents and the government could, if it wished, operate a fee-remission scheme with participating schools. The meeting will need to consider whether it prefers the local or national variant and whether it prefers the mechanism of vouchers or fee-remission.

12. Any proposal for widespread assistance with independent school fees faces the problem of the "deadweight" cost of those who already use the independent sector. This cost can be limited by making the assistance taxable or by applying means tests of various degrees of steepness. An important policy consideration is whether some assistance should be available for all parents, however rich. Depending on the choice made, the deadweight cost could vary, between £60 million and £330 million a year on a national basis (see paragraph 7 of Annex A). The meeting will need to consider how far it is prepared to allow resources to be used merely to assist those already in the independent sector.



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Next steps and timetable

13. The next steps and the timetable will depend crucially on the view taken by the meeting about the preferred approach for the maintained sector. If the meeting is inclined to favour the Special Advisers' Annex C scheme, there would need to be further study to explore its technical feasibility and we understand that this would probably take at least two months. It would probably also be sensible to bring the results of the study back to a small informal meeting under your chairmanship rather than to MISC 91 or some wider forum. If however the meeting favours a more gradualist approach on the lines of Annex B, and also reaches some conclusions about the main policy points relating to the independent sector in Annex A, it would be possible, if you wished, to plan for a discussion in MISC 91 soon after Easter with a view perhaps to some announcement or Green Paper in the early summer.

HANDLING

14. You will wish to ask the Secretary of State for Education and Science to introduce his paper. All those present are likely to wish to contribute.

CONCLUSIONS

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

- i. in relation to the maintained sector, is the more gradualist (Annex B) approach preferable, or should further work be done to explore the feasibility of the more radical Annex C approach?
- ii. in relation to the independent sector, is the approach at Annex A preferable to the alternatives of expanding the Assisted Places Scheme, or reviving the direct grant Scheme? And, if so, should the scheme be introduced on a local or national basis and should it be taxable or means tested?
- iii. what should be the next steps and the timetable?

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