



10 DOWNING STREET

From the Private Secretary

Prime Minister ①

Stung by your dismissal of their earlier proposals on school closures, the Policy Unit have produced the attached. I doubt if you need study all the annexes though Annex B is interesting as it shows how the LEA could save money while keeping an extra village school open (partly transport costs, and partly mobilizing finance from parents).

But the annexes demonstrate that Policy Unit has done its homework

Agree they deserve chance to discuss with DES?

AT

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27 January 1984
Policy Unit

PRIME MINISTER

PRIVATE MONEY AND PARENTAL CHOICE

Keith Joseph's new proposals to increase the number and power of parent-governors are excellent. But we can increase parental power and choice further by providing a middle way between maintained and independent education in which parents pay the school directly for part of the cost. They would then gain more responsibility and more influence over the quality of their children's education.

Two ways of widening choice are the Assisted Places Scheme and Vouchers. But Assisted Places help only bright children, and Vouchers were abandoned last year after long debate. To find a genuine via media we need some version of the "grant-aided" principle, under which the state partially subsidises schools, and leaves them to raise the rest of their funds by charging modest fees, related to parents' capacity to pay.

We present three schemes for consideration, which Oliver Letwin has prepared with help from Stuart Sexton:

- (1) a proposal for new direct-grant technical schools;
- (2) a proposal enabling existing county schools to transfer from maintained to grant-aided status; and
- (3) a proposal to allow parents of children in a school under threat of closure access to limited grant to keep the school open. (In response to your earlier criticism of this idea, we provide - in Annex B - evidence to show that this scheme would not cost more than closures.)

(1) Direct-Grant Technical Schools

Under Section 100(1)(b) of the 1944 Education Act, the Secretary of State has the power to "pay grants in respect of expenditure incurred or to be incurred for the purposes of educational services". This power could be used to establish one or more new direct-grant technical schools, without any need for further primary legislation.

These schools would be managed by independent charitable trusts, with governor-trustees. The governors would appoint the staff, have financial responsibility, and run the schools. A proportion of governors should be elected by parents, and the remainder would be appointed by the body founding the school.

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Having set a maximum number of pupils for each school, the Government would make a per capita grant. The rate of grant would be fixed at half the cost of providing a pupil with technical education under the TVEI. The schools would find the bulk of their remaining funds from fees and donations. The Government could add a subsidiary grant to give low-income parents some fee remission. There could be a sliding scale; at the bottom end, parents with incomes below £6,000 might pay only £300 p.a. of fees or even less. No child should receive an entirely free education.

The schools would select pupils according to their ability to benefit from technical education. It would be traditional to fix the age of selection at 11. But it might be politically astute to select instead at 14, since this would enable us to describe the scheme as an extension of the TVEI; it would also be easier to determine a child's suitability for technical education at this age.

The cost of creating such schools would be an addition to public expenditure as, in the short-term, LEAs would not be able to make matching savings. To keep the additional expenditure very low, it would be necessary to restrict the scheme to a few model establishments, which might serve as showpieces of technical education. David Young has suggested that one obvious location for such a model school would be London. Applications from LEAs wishing to participate in the TVEI have now been received by the MSC. The ILEA is one of the few LEAs to have made no application. The Government could announce that Londoners should not be left out, and that it proposed to reopen the direct-grant list. Applications from new or established charitable bodies wishing to set up a new technical school in inner London would be invited.

Setting up such a school might involve public capital expenditure up to a maximum of £7 million. (This capital cost would have to be written off, though the Government would retain ownership of the assets.) The Exchequer would have to find a further £1 million in running expenses once the school was fully established. A parent whose income exceeded £10,000 might expect to pay about £900 p.a. in fees. The capital cost could be lowered substantially if (a) the specification of building and equipment was less lavish and the land given free from public land banks; or (b) if an existing school subject to closure was adapted. (A table of the likely costs and revenues is given in Annex A.)

(2) Transfers from Maintained to Grant-Aided Status

If the direct-grant list were reopened, it could be used for other purposes besides setting up technical schools.

The most radical option would be to offer grant-aid to any foundation wishing to set up an academically respectable school. But this would involve subsidising new independent schools that would have been created in any case, and also existing independent schools which could "abolish themselves" and reopen with a grant. This would lead to needlessly increased public expenditure. As our aim is not to subsidise independent schools, we should not pursue this option. But we could open the direct-grant list for those schools that are at present maintained. (To avoid difficulties with the Churches, it might be prudent to restrict the opportunity still further, allowing only county schools to join the list.)

In some places, such as Liverpool, the parents at a given school may almost unanimously agree that the policies of the LEA are disastrous, and may well be willing to pay fees in exchange for greater freedom of action. At present, these views are unlikely to be reflected by the governing body, since the governors of county schools are generally the creatures of the LEAs. Keith Joseph's new proposals will change this: a majority of the governors will be chosen by the parents.

Under this new regime, it would be practicable to give the governing bodies of county schools the right to apply to the Secretary of State for transfer to the direct-grant list. Before approving any such transfer, the Secretary of State would have to take into account:

1. Objections from the LEA.
2. Objections from parents at the school.
3. The likelihood that the governors could manage the school properly once the umbrella of the LEA was removed.
4. The effect on public expenditure.

Since such a transfer would cause the school to start charging fees, where none had been charged before, some parents might feel that they were being robbed. They would, of course, have the right to move to other local county schools; but they might nevertheless strenuously

object, as they do when closures are proposed. To minimise such problems, it might be wise to stipulate that no transfer to direct-grant status should be permitted if more than 5 per cent of the parents at the school objected in writing.

Where a transfer was approved, the school's position would be roughly the same as that of a direct-grant technical school. The governors would be reconstituted as trustees of an independent charitable trust who would appoint staff, take financial responsibility, and in every way run the school. The LEA would have to lease the buildings to the governing body at a peppercorn rent. The Government would make a per capita basic grant to the school, fixed at half of the national average cost for pupils of the relevant age; and this would be supplemented by a fee-remission grant for poor parents, arranged on a sliding scale, as in the case of the technical schools.

The position would be different from that of the technical schools in three ways:

1. Legislation would be required, setting out the Government's relation to the LEA in the case of a transfer.
2. Instead of increasing public expenditure, the scheme would certainly contain, and might possibly reduce it. (The Secretary of State would not approve a transfer unless he was satisfied that (i) the grant paid would be less than the funds provided by the LEA for the school; and (ii) the LEA would reduce its expenditure sufficiently to offset at least the net increase in Exchequer funding.)
3. The likelihood of some parents objecting, and of the transfer being baulked, would be very high: this option is therefore, in our view, much less likely to work than the direct-grant technical school.

(3) School Closures

When a school is scheduled for closure, particularly in a village community, many parents would like to find a way of preserving it. The Secretary of State has the power to accept or reject any LEA proposal to close a school. He could therefore make such approval conditional upon the LEA's willingness to grant-aid the school, if parents wished to reopen it as a charitable trust.

We should ensure that this saved as much or more money than closure, by inserting the further condition that the Secretary of State would disallow any grant-aid where either the DES or the LEA could show that it would cost more than closure.

Where the LEA did offer grant-aid and this offer was taken up by the parents, the position of the school would be in most respects the same as that of non-technical direct-grant schools: the same status as a charitable trust, the same gubernatorial control of staff and educational policy, the same leasing of the school buildings from the LEA at a peppercorn rent, and the same need for primary legislation. The differences would be that:

1. The basic grant and supplementary fee-remission grant would come from the LEA, rather than the Government.
2. The Secretary of State would not have to worry about objections from parents since the scheme would be offering relief from closure, and would therefore constitute a pure gain for the parents - an offer that they could take or leave.
3. The basic grant paid would be fixed not at half the national average cost, but at half of the average cost of educating a pupil in the area covered by the LEA.
4. The school could be allowed to set its own fees, subject only to the approval of the Secretary of State.

I attach, in Annex B, examples which show that schools of this sort could both be viable for the parents and as cheap as closure for the LEA.

The examples overstate likely costs and understate likely revenues, and have been checked with DES officials and by the more numerate members of the Policy Unit.

The political advantages of a scheme of this sort are obvious: parents, particularly in rural areas, would be offered a way of avoiding school closures by taking a significant proportion of the cost of the school upon themselves. There is a reservoir of goodwill and willingness to volunteer and help in our village communities that should be tapped, and that could result in both financial economies and better education.

We recommend that these three options be sent to the DES to further the policy of finding private money and a middle way of educational change. Schemes (1) and (3) are strong contenders. Scheme (2) may be more problematic, as the hurdles parents would have to leap to succeed could be too high.

John Redwood

DIRECT GRANT TECHNICAL SCHOOL: COSTS AND REVENUES

The Tables below set out the likely costs of establishing a direct grant technical school, and show how these costs might be met from grants and fees. The amounts given here are necessarily more speculative than they would be in the case of a non-technical school, since we have had only limited experience with technical education in recent years.

Table I is based on the assumption that all places in the school are taken up, and that parental incomes are distributed roughly as we have found them to be when operating the Assisted Places Scheme.

Table II is based on the pessimistic assumption that 20 per cent of the school places are not taken up, that all those who fail to take up places have well-off parents, (leaving the school with large numbers of parents entitled to fee-remission), and that the pupil/teacher ratio is only 15:1.

As the Tables show, the school would be comfortably viable after the first year of operation, and would need only modest increases in grant in the first year.

DIRECT GRANT TECHNICAL SCHOOL: COSTS AND REVENUESTABLE I: Assuming full take-up of places and expected distribution of parental incomes1. Costs

	No. of Places	No. of Pupils	No. of Teachers	Cost of Teachers ⁽¹⁾ £	Non-Teaching Salaries ⁽²⁾ £	Other Running Costs £	Total Running Costs £	Capital Costs (Purchase of Bldg, + Equipment) ⁽³⁾ £		
								Lavish	Economy	Refurbishment
Yr.1								[5,000,000	4,000,000	3,000,000]
Yr.2	1,000	250	15	200,000	55,000	200,000	455,000	[500,000	250,000	187,500]
Yr.3	1,000	500	25	300,000	55,000	350,000	705,000	[500,000	250,000	187,500]
Yr.4	1,000	750	40	480,000	100,000	500,000	1,080,000	[500,000	250,000	187,500]
Yr.5	1,000	1,000	50	600,000	100,000	650,000	1,350,000	[500,000	250,000	187,500]

2. Revenues

	No. of Places	No. of Pupils	Basic Grant per capita ⁽⁴⁾ £	Total Basic Grant £	Fee Remission Grant ⁽⁵⁾ £	Total Exchequer Grant £	Full Fee Charged £	Fee at £8,000 £	Fee at £6,000 £	Total Fee Income £	Total Revenue £	Surplus/Deficit on Running Costs £
Yr.1												
Yr.2	1,000	250	850	212,500	37,500	250,000	900	600	300	180,000	430,000	(25,000)
Yr.3	1,000	500	850	425,000	75,000	500,000	900	600	300	360,000	860,000	155,000
Yr.4	1,000	750	850	637,500	112,500	750,000	900	600	300	540,000	1,290,000	210,000
Yr.5	1,000	1,000	850	850,000	150,000	1,000,000	900	600	300	720,000	1,720,000	370,000

(See explanatory notes overleaf)

NOTES TO TABLE I

- (1) This assumes that the average teacher costs £12,000, but that the senior teachers are recruited in the first years.
- (2) The figure for non-teaching salaries assumes: (i) in the first 2 years, 3 cleaners @ £5,000 each plus 4 technicians @ £10,000 each; and (ii) in the next 2 years, 3 cleaners @ £5,000 each plus 8 technicians @ £10,500 each.
- (3) We estimate that each pupil will need 55 sq.ft. of space (40 sq.ft. for teacher, 7.5 for dining, staff rooms etc, and 7.5 for assembly hall etc). This estimate is based on figures from a major public school in the London area which does not make a habit of overcrowding its classrooms.

The cost of a site in a residential area of London should be roughly £100,000. (For a school of 55,000 sq.ft. on five floors, we would need 11,000 sq.ft. and another 10,000 sq.ft. for the grounds - amounting to 21,000 sq.ft., or half an acre - and land in residential areas of central London costs about £200,000 per acre.)

We are told that the building itself would cost c.£3 million. This includes the cost of architects, engineer, quantity surveyors and interest charges. (Costs of refurbishing an old building are typically 20% to 30% lower.)

The total cost of land and buildings should therefore be c.£3.1 million. To this, we might add something under £2 million for initial technical equipment - a generous allowance by any standards. And we assume that a further £0.5 million will be spent each year on additional equipment, as the number of pupils rises.

We estimate that a school on somewhat less lavish lines could be constructed as follows:

Site + Building	£3.0 million
Initial Equipment	£1.0 million
Additional Equipment	£1.0 million
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Total	<u>£5.0 million</u>

and we believe that a school could be constructed by refurbishing existing property outside the expensive part of central London at something like the following costs:

Site + Building	£2.5 million
Initial Equipment	£0.5 million
Additional Equipment	£0.75 million
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Total	<u>£3.75 million</u>

- (4) The basic grant per capita = 50% of the average cost of TVEI. (The average full recoupment cost for normal 14-18 education is c.£1,200 per pupil; the TVEI costs an average of £500 more than this.)
- (5) The sum allocated for fee remission grant assumes that 20% of parents earn £8,000, for each of whom the school receives an additional grant of £250; and that a further 20% earn £6,000, for each of whom the school receives an additional £500. (These assumptions are based on our experience of the Assisted Places Scheme.)

DIRECT GRANT TECHNICAL SCHOOL: COSTS AND REVENUES

TABLE II: Assuming only 80% take-up of places, a high proportion of poorer parents, and pupil/teacher ratio of 15:1 (1)1. Costs

	No. of Places	No. of Pupils ⁽²⁾	No. of Teachers ⁽³⁾	Cost of Teachers £	Non-Teaching Salaries £	Other Running Costs ⁽⁴⁾ £	Total Running Costs £	Capital Costs (Purchase of Bldg, + Equipment) £		
								Lavish	Economy	Refurbishment
Yr.1								[5,000,000	4,000,000	3,000,000]
Yr.2	1,000	200	13	180,000	55,000	150,000	385,000	[500,000	250,000	187,500]
Yr.3	1,000	400	26	312,000	55,000	300,000	667,000	[500,000	250,000	187,500]
Yr.4	1,000	600	40	480,000	100,000	400,000	980,000	[500,000	250,000	187,500]
Yr.5	1,000	800	53	636,000	100,000	500,000	1,236,000	[500,000	250,000	187,500]

2. Revenues

	No. of Places	No. of Pupils	Basic Grant per capita £	Total Basic Grant £	Fee Remission Grant (5) £	Total Exchequer Grant £	Full Fee Charged £	Fee at Income £8,000 £	Fee at Income £6,000 £	Total Fee Income ⁽⁶⁾ £	Total Revenue £	Running Surplus (or Deficit) £
Yr.1												
Yr.2	1,000	200	850	170,000	37,500	207,500	900	600	300	135,000	342,500	(42,500)
Yr.3	1,000	400	850	340,000	75,000	415,000	900	600	300	270,000	685,000	18,000
Yr.4	1,000	600	850	510,000	112,000	622,500	900	600	300	405,000	1,027,500	47,500
Yr.5	1,000	800	850	680,000	150,000	830,000	900	600	300	540,000	1,370,000	134,000

(See explanatory notes overleaf)

NOTES TO TABLE II

- (1) All other assumptions are as in Table I, except where stated otherwise.
- (2) Number of pupils is reduced by 20%.
- (3) Pupil/teacher ratio is c.15:1.
- (4) These costs are considerably reduced, since the smaller number of pupils will use less electricity, spare parts, materials, etc.
- (5) The Fee Remission Grant remains as in Table I, because the number of poor pupils remains as high.
- (6) Total fees are considerably reduced because (i) the number of pupils has decreased; and (ii) the proportion of pupils paying reduced fees has increased.

COMPARISON OF SAVINGS FROM SCHOOL CLOSURES AND GRANT-AID

Area X: Country District with 4 Primary Schools

Present situation: As a result of falling rolls, the district's 4 primary schools have, between them, 250 surplus places; the average cost of educating a pupil in this area has consequently risen to £814 p.a., compared with an average cost of £700 p.a. in the LEA as a whole. The position is:

Table with 8 columns: School, No. of Pupils, No. of Teachers, Pupil: Teacher Ratio, No. of Places, No. of Surplus Places, Cost per Pupil (£), Total cost (£). Rows A, B, C, D, and a total row.

LEA proposal: The LEA is alarmed by the number of surplus places, and believes that small village schools are educationally damaging. It therefore proposes to close schools C and D, which have a small number of pupils, large numbers of surplus places, and high unit costs. The proposal is to move the 25 children in school C to school A, and the 25 in school D to school B. The two part-time teachers in C and D are to be made redundant; the full-timers are to be transferred to A and B respectively: this minimises redundancy costs, which can in any case be set against receipts from sale or lease of the redundant premises. The result of the move is to eliminate 150 surplus places and to reduce average unit costs by £41 p.a. There are, however, considerable additional transport costs - another 25p per child per day: this amounts to £50.00 per child per school year, or a total extra cost for the 50 displaced children of £2,500p.a. The total saving brought about by the closures is therefore only £15,500 p.a. The LEA's costs will be:

Table with 9 columns: School, No. of Pupils, No. of Teachers, Pupil: Teacher Ratio, No. of Places, No. of Surplus Places, Cost per Pupil (£), Additional Tspt. Costs (£), Total Cost (£). Rows A, B, C, D, and a total row.

Grant-aided option:

School D is not particularly popular; most parents do not object to closure. But 20 of the parents at C do like their school, and are happy to pay something to keep it open. Ten of the parents from D decide to join them. Under the new grant-aided scheme, they could set up as an independent trust, and receive half the LEA's average cost per child as a basic grant, together with a fee-remission grant for poor children, and lease of the buildings at a peppercorn rent. But the LEA is not obliged, or indeed allowed, to offer this grant unless it is clear that the savings will at least equal those accruing from closure.

In the present case, the LEA's average cost per child is £700; the basic grant is therefore fixed at £350 per child. To this must be added a fee-remission grant of, say, £100 per child for the 5 children whose parents have incomes of between £10,000 and £8,000, and £200 per child for those 5 whose parents have incomes below £8,000. [These figures are based upon reasonable assumptions about the level of parental income, which are derived from our experience of the Assisted Places Scheme.] The LEA also loses unit savings from failing to fill some surplus places in A and B. But there are compensating savings on transport. The LEA would, in the short term, lose from its failure to lease or sell C's premises at commercial rates; but it would retain title to the assets. And the LEA would gain from the absence of redundancy payments, due to C's remaining open. It should also be remembered that the continued existence of school C under the scheme covers the LEA should there be any further expansion of the village in future years.

The LEA's running costs might be as follows:

School	No. of Pupils	No. of Teachers	Pupil: Teacher Ratio	No. of Places	No. of Surplus Places	Cost to LEA per Pupil (£)	Additional Tspt. Costs (£)	Total Cost (£)
A	255	12	21:1	300	45	725	250 (4)	185,125
B	165	8	21:1	200	35	850	750 (4)	141,000
C	30 ⁽¹⁾	2 ⁽²⁾	15:1	100	70	400 ⁽³⁾		12,000
D	—	—	—	—	—	—	—	—
	450	22	Av. 20.5:1	600	150	Av. 749	1,000	338,125

Notes:

- (1) = 20 from C + 10 from D.
- (2) = 1 full-time from C + 1 part-time from C + 1 part-time from D.
- (3) = £350 per child basic grant + £50 average of remission grant spread over 30 pupils. (The remission grant figure assumes that 5 parents have incomes of £8,000 and qualify for £100 remission; while 5 have incomes of £6,000 or below, and qualify for £200 remission.)
- (4) = £50.00 per child for 5 remaining children from C, going to A; and for 15 remaining children from D, going to B.

As the table shows, the total cost to the LEA of the district's schools will be £12,500 less under the grant-aided scheme than under the closure scheme.

But will the new grant-aided school be financially viable? Its annual costs might be:

	£
1 full-time teacher (salary and employment costs)	10,000
2 half-time teachers	10,000
1 half-time caretaker	3,000
Heat, lights, repairs, books, equipment	5,000
	<u>£28,000</u>

The receipts might be:

Basic grant from LEA, @ £350 per capita	10,500
Fee remission grant for 10 poor people @ £100 for those with incomes bet. £6,000 & £10,000 and £200 for those with incomes under £6,000	1,500
Fees of £700 from 20 pupils whose parents have over £10,000 p.a.	14,000
Fees of £500 from 5 pupils whose parents have £8,000 p.a.	2,500
Fees of £300 from 5 pupils whose parents have under £6,000 p.a.	1,500
	<u>£30,000</u>

In other words, by charging its richer parents fees of under £15 per week, and by remitting over half of this for its poorest parents, the school could comfortably cover all its expenses.

Indeed, as the following table shows, the school could cover its costs even if half of its pupils' parents had incomes below £10,000, and even if two-thirds of these had incomes below £6,000. (The table also shows that such a school would cost the LEA a total of only £1,000 p.a. more in fee remission grant, and would therefore still be cheaper than the closure option.) The revenue of the school would be:

	£
Basic grant	10,500
Fee remission grant	2,500 (vs. £1,500 above)
Fees of £700 from 15 pupils (income £10,000)	10,500
Fees of £500 from 5 pupils (income of £8,000)	2,500
Fees of £300 for 10 pupils (income under £6,000)	3,000
	<u>£29,000</u>

This example is not arbitrary or wildly optimistic. It is based upon plausible assumptions about costs. It shows not that life would be easy for such a school, but that some schools in this position could very probably be grant-aided, and could survive, whilst both saving the LEA as much as closure, and charging extremely reasonable fees.