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For transfer meeting folder

21 February 1983

Policy Unit

PRIME MINISTER

THE REVISED VOUCHER SCHEME

In many ways, the latest draft is worse than the first. It is obviously politically dangerous. I also think it is both unjust and unnecessary. It could easily be emended to meet the following principal objections:

1. It assumes that most people will have to pay something towards the cost of their children's education, contrary to the principles of the 1944 Education Act.
2. There will only be one altogether free school in most areas, which means that the poor will get no choice. That is worse than the present position.
3. Those independent schools which become "voucher schools" will lose their independence and could easily be nationalised by a subsequent Labour Government. The route to nationalisation has been carefully paved and is carefully concealed in the draft. The steps are (a) take-over of the capital debts of all independent "voucher schools" by LEAs; (b) abolition of any distinction between maintained and formerly independent voucher schools; (c) LEA takeover of any voucher school that becomes unprofitable. All these steps are outlined in various parts of the paper: the unstated final step could be outright and immediate nationalisation of all the independent voucher schools by an incoming Labour Government.
4. The elimination of the original proposal either to tax or to means-test the voucher (we favour no taxation below a parental income of £20,000 pa) adds to the "deadweight" cost of giving vouchers to those parents who now get no State cash for educating them privately. This and other measures in the latest draft make it potentially very much more expensive than the original scheme.
5. Those LEAs and independent schools who have already agreed to try the original scheme ad experimentum are most unlikely to go for the latest scheme at short notice. That means delay at best; cancellation at worst.

6. The latest draft proposes that in future independent schools in the scheme (and this would also apply to the voluntary-aided schools such as the Church schools) would get only 70% rather than the present 85% of their capital costs reimbursed by the State. This provision could not have been more calculated to arouse the strongest political opposition.
7. It is now proposed that free education for the under-fives, now widely available, should be replaced by charging of fees for all children. This again will arouse strong opposition.
8. Pilot schemes were thought necessary for the original scheme; yet the present paper, which proposes a more far-reaching scheme, suggests that pilot schemes are not advisable. Yet they would be even more politically necessary for a far-reaching scheme than for a halfway-house scheme.

#### How to emend it

- A. Forbid LEAs to charge more than the voucher. DES officials claim that a "Budget Centre" must have the freedom to set its own fees. This is an unnecessarily extreme definition of Budget Centre which I doubt whether either Arnold Weinstock or the Girls' Public Day School Trust would recognise. A Budget Centre is simply the place where you do the sums. The overall Budget ceiling can be set at HQ.

All that is necessary is to set the voucher at a realistic level which takes account of inflation and the latest teachers' pay settlement. LEA schools would then have to manage on voucher income plus occasional specific grants from the LEA and voluntary donations from local business and from parents. Power would be devolved to the school, but schooling would still be free and poor parents would still have plenty of choice.

- B. Reduce the number of LEA-nominated governors on the boards of LEA schools to less than half, to minimise political interference.
- C. h Leave the independent schools independent. The voucher would be taxed or means-tested, thus reducing the cost to the Exchequer.
- D. Leave higher education and nursery education out of the scheme, at least for the time being.

PRIME MINISTER

Attached is the meeting folder for your Education Vouchers meeting. The papers you will particularly wish to look at are Peter Gregson's brief, Sir Keith Joseph's paper (Flag C), and Ferdie Mount's comments (Flag E). We have also received a minute from George Younger who is not a member of the small group (Flag F) which expresses the view that Scotland is different and does not need a voucher system to encourage parental choice. *See also a minute from Mr Prior expressing the same sentiments for Northern Ireland.*

Sir Keith's paper has been circulated, as you instructed, only to Ministers who are members of the Group, with the strict injunction that it should neither be copied nor circulated outside their Private Offices. Sir Robert Armstrong and Mr. Gregson have also had a copy on the same basis.

TS.

23 February 1983

Education  
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PRIME MINISTER

MISC 91

file  
per.

This note seeks your approval for the arrangements we make following your conversation with the Secretary of State for Education and Science yesterday. Sir Keith's paper on a wider voucher scheme will be considered by a small group of Ministers rather than a full MISC 91, although if that group approves the paper it will subsequently have to be discussed either in MISC 91 or with the Ministers involved separately. The small group will comprise: the Chancellor of the Exchequer, the Secretaries of State for Education, Employment and the Environment, and the Chancellor of the Duchy of Lancaster. <sup>You</sup> ~~It was~~ also agreed that Mr. Gregson could be present. Sir Keith's paper should be circulated only to those Ministers involved in the small group, and should be marked "not to be copied or circulated outside the Private Offices of the Ministers concerned".

Do you agree to these arrangements?

Yes not

JF

15 February 1983

cc Gregson  
Matfield.

Prime Minister (2) /

SECRET AND PERSONAL

MUS 18/2

The Prime Minister has asked that the  
attached paper should not be copied or  
circulated outside your Private Office.

## WIDER PARENTAL CHOICE

## A RADICAL VOUCHER SCHEME: PAPER BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

1. This paper outlines a voucher scheme for schools in England in accordance with the remit given me by MISC 91 at its first meeting. That remit entails radical changes in the law and some very difficult political choices.

2. The scheme's objective is to give all parents financial power to choose a school and to bring about the greater diversity, improved efficiency and higher standards flowing from the exercise of that power. It is based on a cost centre approach, but also takes account of certain fundamental features of our present arrangements which politically we cannot ignore and which to some extent constrain what we can achieve in pursuit of those objectives. These are:

- i. that education should be compulsory for pupils aged 5-16. The scheme envisages that, as now, parents would have a duty to secure efficient and suitable full-time education for their children aged 5-16; and that young people aged 16-18 inclusive would have the right to full-time education at school or college. It follows that the scheme should ensure that every parent in every locality is able to secure a place in a school for a child of compulsory age.
  2. That parents should be able, if they so wish, to obtain such compulsory education for their children without cost to themselves. While I believe it is right to offer parents the freedom to pay more than the value of a voucher towards the cost of school fees, it would not in my view be politically feasible to compel them both to secure education for their children and to pay for doing so. But if parents are given, as I believe they should be, an absolute entitlement to free schooling for their children, that carries implications both for the way in which schools operate as autonomous cost centres and for the value of the voucher (see paragraphs 5 and 12-14).
  3. That there should be a continuing role in education for local authorities. Under a cost centre approach, most schools would not be maintained by LEAs. But certain things which schools and parents could not do between them would need to be done by a public body. Many of these public functions should in my view remain with the LEA; some would have to be performed centrally. This issue is discussed more fully at Annex A.
3. Within these constraints, the scheme is based on the principle that, certain cases apart, schools should be autonomous

cost centres. As cost centres, they would determine their own expenditure and the fees they charged, and could function only if income did not fall below necessary expenditure. Income would derive mainly from fees and voluntary parental contributions. Schools would employ their own staff, provide their own books and equipment, maintain their buildings and meet such outgoings as rates and electricity charges. For this purpose each school would have to be constituted as eg a commercial enterprise, trust or parent co-operative responsible in law for its own affairs including the details of provision and of its curriculum, and would be free to decide which pupils it admitted, with no appeal against its decision (subject to paragraph 17). The essence of the cost centre approach is therefore that schools should be independent of the LEA and, within limits, free to set their own standards in response to parental demands.

4. Every parent residing in England would receive, in respect of every child aged 5-18 inclusive, a voucher of a stipulated value for use as payment towards the fees charged by any school which had agreed to accept voucher-bearing pupils and to admit the child either as a day-pupil or as a boarder. The school would receive in cash from the Exchequer the full value of the voucher.

5. The value of the voucher, if used, would not vary with parental income. If it did, eg because it was taxable, most parents would in effect be charged directly for schooling. I would therefore accept the extra dead-weight cost from the use of the voucher by parents who would otherwise have met the fees themselves out of taxed income.

### 3 Categories of school

6. Schools would fall into 3 categories:

1. Those who admitted only fee-paying pupils in the way independent schools do now (Independent Schools).
2. Those who agreed to admit voucher-bearing pupils on certain conditions (Voucher Schools).
3. Those who, for various special reasons, had to be maintained by a public body (Public Sector Schools).

The Voucher Schools would cater for the great majority of pupils. They would initially include virtually all existing LEA-maintained schools, and over time new schools set up by entrepreneurs or as charities, not least by groups of parents.

7. The Independent Schools would, as now, have to satisfy certain minimal requirements relating to propriety and educational standards. They would continue to be subject to inspection by HMI. Some schools, now independent, would decide to become Voucher Schools.

8. The Voucher Schools would not be allowed to be maintained by an LEA. If we did allow this, the school would cease to depend on parental custom; the LEA, and not the school, would determine the school's budget, so that the school would not be an autonomous cost centre as described in paragraph 3; and, because the LEA would be free to top up the school's voucher/fees income from the rates, the school would compete unfairly with other types of Voucher School, and would have little incentive to be efficient - we should not allow hostile LEAs to exploit such an opportunity. Since a Voucher School's income would largely derive from public funds, it would have to satisfy a public authority on the conduct and audit of its financial affairs; and it would be required to offer a minimum standard of education higher than the very low standards with which an Independent School would have to comply. Such a requirement might relate (but not vexatiously) to such things as the broad content of the curriculum and teacher qualifications. HMI would vet compliance with the requirement and my Department would enforce it. A school which was refused the status of a Voucher School would be able to appeal to an independent tribunal.

9. In the less densely settled areas, many parents would have little or no choice of school. So that a Voucher School did not exploit a monopoly position (or form itself into a cartel with other schools in the area), the LEA would have power to limit the fees it charged subject to an appeal by the school. HMI Inspections would give parents some protection against a Voucher School using its monopoly position to depress standards.

10. Public Sector Schools would normally be maintained by the LEA. Annex A outlines the circumstances which would give rise to their existence.

#### The value of vouchers

11. In fixing the value of the voucher one has to differentiate by age range of pupils; and to balance several other factors, viz:

1. No parent should be obliged to top up the voucher to meet the fees: such an obligation would be a charge.
2. Public expenditure considerations.
3. Minimum standards entail a minimum scale of provision.
4. Unit costs vary inescapably between schools by reason of the size of school, age of its buildings etc.
5. Some pupils have special needs with the result that they cost relatively more to educate.



6. A low value encourages efficiency of provision, but less where population distribution gives the school a monopoly.

12. The overriding priority would be that every parent should be able to find a place in a Voucher School for which he had to pay no charge. We should not attempt to secure that objective by restricting the fees of every Voucher School. If we did, existing independent schools would be unlikely to accept Voucher School status. If we did it for all those Voucher Schools who are now maintained by an LEA, far too many of these would need a subsidy from the LEA in order to balance expenditure and fee income and would in effect continue to be maintained by the LEA instead of becoming autonomous cost centres and essentially dependent on parental custom. The voucher scheme would cease to be a real one for most schools.

13. There is a spectrum between the purity of autonomous cost centres with charging at one end through less and less exclusively autonomous arrangements to a scheme on the lines of that set out in MISC 91(82)1 at the other.

14. I therefore recommend 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. Even to secure this priority, voucher values would have to be generous, at the expense of higher public expenditure, more detailed administration, a lower incentive to schools to provide efficiently, and rewards to schools with inherent or quasi-monopoly-induced economic advantages. I envisage that my Department would set a basic national value for the voucher for the 5-11, 11-16 and 16-18 age ranges. It would then, on a discretionary basis, supplement the basic voucher value for all pupils in an area or locality to take account of such special local factors as population sparsity or the prevalence of social deprivation, which affect the unit costs of all schools in the area. The area or locality would not necessarily relate to LEA boundaries; but initially the discretion to supplement would need to take some account of difference in unit costs per pupil then obtaining among the 97 LEAs. In addition the LEA would have discretion:

1. to supplement the voucher of an individual pupil with very special needs which made him exceptionally expensive to educate.
2. To supplement the voucher of able or talented pupils by a scholarship, subject to a right of appeal to the Secretary of State: this would replace the Assisted Places Scheme, and might extend to Independent Schools.

3. To pay cash to parents towards unusually high costs of transport to school.
  4. To subsidise a Voucher School to enable it to charge fees which did not exceed the values of the vouchers presented by parents living within reasonable reach of it. (see also para 17(3)).
15. To the extent that the LEA maintains or sustains some schools the purity of an autonomous cost-centred regime is diluted, but the alternative is to abandon the right to free access to schooling.

#### A selective pattern

16. Since each Voucher School would be largely free to determine its admission policy, the scheme would encourage a selective pattern of both primary and secondary schooling, eg by reference to ability, home background and religious beliefs. Particularly in densely settled areas, minorities could secure schools specially suited to their demands including, for example, grammar schools. In sparsely settled areas minority interests would continue to be harder to meet.

#### Securing enough places for pupils of compulsory age

17. Certain adjustments would be needed to enable all parents to discharge their duty to secure education for their children.

1. Where there were insufficient school places in an area, eg because of population movement or increase, the LEA would have to provide a Public Sector School (or provide transport to available places elsewhere) until this could be reconstituted as a Voucher School.
2. Where Voucher Schools admitted less pupils than they had places for and children in the area could not secure admission to any school there, the LEA would have power to require Voucher Schools to fill empty places (charging their normal fees) as a (cheaper) alternative to the creation of Public Sector Schools.  
| Appeals machinery would be necessary to determine disputes.
3. Where a Voucher School, because it was unpopular or had high unit costs for whatever reason, failed to cover the expenditure needed to meet the required minimum standards, but some of its pupils could not be found a place in another Voucher School, the LEA would have power either to subsidise the school or to take it over as a Public Sector School until such time as the school could be closed, or could again break even.

Capital assets and expenditure

18. When existing maintained schools became Voucher Schools, all those who do not, like some voluntary schools, own their buildings now would be given ownership of them without payment, and the local authority would continue to be responsible for servicing and amortising any debt on them, since the incidence of debt charges on maintained schools is haphazard. If the school ceased to exist as a Voucher School, ownership would normally pass to the LEA, which would also take over the capital debt of any school now independent which became a Voucher School. Subsequently each Voucher School would become responsible for its own capital expenditure, but could obtain a 85% grant (as is now available to voluntary aided schools) at the LEA's discretion. The LEA would use its discretion, in the light of public expenditure constraints, in the interest of offering parents a coherent pattern of choice in each area, and would give some priority to essential schemes which would yield little or no extra fee income eg major repairs and improvements. The 15% contribution falling on every Voucher School would mean less public capital expenditure.

Constitution of governing bodies

19. When some 25,000 existing LEA-maintained schools first became Voucher Schools, each new Voucher School would initially become a trust with a governing body which would be responsible in law for all its affairs. As long as it retained this status the LEA would determine the number of governors and appoint an appropriate proportion of them. It might be possible to prescribe rules which would allow minority parties in the LEA to make a proportion of such appointments. The remainder of the governors would be elected by parents of pupils, and by teachers. In the former voluntary schools, some governors would be appointed by the voluntary body. The initial constitution of governing bodies of Voucher Schools would be a big operation.

Education below age 5

20. A radical voucher scheme devised primarily for full-time compulsory education is not easy to fit into the present arrangements for the education of children under 5. Such children now receive education in an LEA-maintained school only at the discretion of the LEA; such schooling must be free, but may be part-time or full-time. It usually takes place in a primary school either in a nursery class or in an infant class alongside children over 5; only a small proportion of nursery education takes place in separate nursery schools. To give parents a voucher in respect of every child aged 3 or 4 would create a universal entitlement to schooling under age 5; but a primary school which was a Voucher School could not admit under-5s free without risking bankruptcy. We would therefore have 2 broad choices:

1. A Voucher School admitting under-5s would charge fees. The LEA would have discretion to assist poor parents with the fee, subject to a means test, or perhaps to subsidise the Voucher School in respect of its under-5s. Existing nursery schools would merge with primary Voucher Schools or become Independent Schools or Public Sector Schools.
2. Vouchers would be issued for all children aged 3 and over, but LEAs would have power to control the number of places for under-5s in Voucher Schools.

#### Further education

21. Young people aged 16-18 inclusive should, if possible, continue to have a fairly free choice between full-time education at school and at a further education (FE) institution. Voucher Schools would be free to create or expand sixth forms, subject to the constraints on capital expenditure. But they would not compete on level financial terms with LEA-maintained FE institutions: the LEA could subsidise these at its discretion while Voucher Schools would be subject to the discipline of the autonomous cost centre. It would be possible to level the financial terms of competition by converting FE institutions also into autonomous cost centres charging fees and receiving vouchers towards fees for full-time education under age 19. I do not recommend such a course which would deprive local authorities of further important educational functions; create problems of charging for part-time and full-time participation in the essential aspects of technical and vocational education, youth work and adult education; and give grounds for large and controversial changes in the management and financing of that sector of higher education for which local authorities are now responsible.

#### Teachers

22. Making virtually every school a cost centre could lead to school-by-school bargaining on pay and conditions of service of teachers and other staff. But so that the Government's influence over the teaching profession should match the stake it has in it, the present arrangements which I shall shortly be suggesting to colleagues should be sharply tightened up and which give the Secretary of State ultimate control over the supply of new teachers, their calibre and qualifications, and the quality of their training, would continue in the interest of teaching standards. My Department would assist schools with the extra cost of in-service training and the provision of courses.

#### Transitional problems

23. On the basis of these solutions of the problems generated by the new system, it should be possible to solve the many problems of the transition to it. I have not had time to consider these. But I believe that they are soluble if we are prepared to spend.

Public expenditure and manpower

24. The public expenditure effects of the scheme depend on such features as the value of the voucher. The scheme could open the way to savings from charges for education below age 5 and on capital expenditure. But, on the assumption that vouchers would not be taxed, it seems unavoidable that public expenditure on education, at least in the first decade, would rise over what it would otherwise be, on two counts.

1. the dead-weight cost - say £200m a year - of vouchers used by parents who would otherwise pay all fees themselves;
2. the heavy financial lubrication arising from the various measures needed to secure the acceptability of such a radical change. We would spend our way out of many of the difficulties of fixing voucher values so as to avoid charging, and of the transition to the new system.

25. Since local authorities would cease to maintain schools, there would be a large reduction in rate-borne expenditure on education (on the basis of present RSG arrangements, about £3 billion) and a correspondingly higher Exchequer contribution.

26. Local authority manpower would be greatly reduced because school teachers and other, including administrative, educational staff would no longer be employed by local authorities. That saving would be offset to some extent by the substantial extra manpower needed locally and centrally for the administration of the scheme, including much extra specialist manpower for the inspection and audit of schools; and by the extra administration needed to enable Voucher Schools to function as publicly accountable cost centres.

Pilot projects and consultations

27. There are arguments for and against proceeding first by way of pilot projects. These are developed in Annex B. If we go for pilot projects we should need two successive Parliaments to legislate and to implement the scheme nationally. If we proceed straight to a national scheme, our objective would be to legislate and implement in a single Parliament.

28. A scheme along these lines, even in a pilot form, would be very bold and highly controversial. Before we commit ourselves in principle we would need to consult our supporters, the local authority associations, the voluntary bodies, and the independent school sector.

Conclusion

29. I invite my colleagues:

1. to decide on the political and practical feasibility of a scheme on the lines set out in this paper, given that the required changes are difficult and controversial;
2. to consider whether we should go for pilot projects;
3. if we decided to take such a scheme further, to consider the arrangements for consultation.

KJ

18 February 1983

## THE RESIDUAL PUBLIC FUNCTIONS

1. Under the radical voucher scheme outlined in the paper, most of the action would lie with essentially autonomous schools and parents. But certain things would need to be done which schools and parents could not do between them. These residual functions would fall to some agency of the State either at local or at national level.
2. There is a case for not entrusting any of these functions to the local authorities. Their present involvement in education entails a range of functions which are interrelated. Once the most important of these functions are removed, there is no intrinsic reason why the remainder need be discharged by locally elected bodies. The local authorities might not wish to retain functions in relation to education which were a pale shadow of their present ones and gave them a largely subordinate or peripheral role by comparison with the schools. But since this role would continue to be essential, performing it would enable hostile local authorities to obstruct the implementation and operation of the scheme.
3. On the other hand, to entrust all the residual functions either to my Department, or to a special quango set up for this purpose and responsible to the Secretary of State, would entail an increase in central control which runs counter to our political philosophy and our policy for Government manpower.
4. On balance, it seems preferable to entrust to local authorities such of the residual functions as can be discharged locally without too much risk that hostile authorities would obstruct or frustrate the scheme. Certain of the functions which determine the character of the scheme would have to be done centrally. As they so directly affect policy and public expenditure, these functions should be performed by my Department.
5. The functions which could sensibly be carried out only at a central level have very much to do with shaping the overall character of the scheme. Some examples:
  - i. the registration of Voucher Schools, and the handling of appeals against refusal of voucher status;
  - ii. the promulgation and enforcement of minimum educational standards (with the advice of HMI);
  - iii. the determination of basic voucher values and of supplements for particular localities;
  - iv. arranging for the redemption of vouchers presented for payment by Voucher Schools;

- v. authorising the setting up by LEAs of new schools in areas where entrepreneurs were failing to respond fully to demand, and overseeing other forms of LEA intervention in Voucher Schools;
  - vi. the administration of specific grants for the in-service training of teachers;
  - vii. possible supervisory functions in relation to education below age 5;
  - viii. the arrangements for appeals and complaints against decisions made by schools and LEAs.
6. The following are among functions which might be discharged by LEAs:
- i. the maintenance of lists of children eligible;
  - ii. the distribution of vouchers to their parents;
  - iii. the determination of supplements in individual cases, eg of special educational needs, and of cash payments for high travel costs;
  - iv. the monitoring and enforcement of school attendance during the compulsory period;
  - v. intervention to ensure that spare places in Voucher Schools were used to meet excess demand in an area;
  - vi. intervention to subsidise or take over Voucher Schools, which were failing, or to ensure that a free place was available to every pupil whose parent wanted one; or to create new Voucher Schools where children in an area would otherwise have no school within reasonable reach;
  - vii. the limitation of fees charged by Voucher Schools in a monopoly or cartel position;
  - viii. the determination of the size of governing bodies of each Voucher School; and the appointment of an appropriate proportion of the governors;
  - ix. the running of special schools for children, the severity of whose handicaps placed them outside the scope of the Voucher Schools;
  - x. the supervision of financial standards in the Voucher Schools;
  - xi. making capital grants to Voucher Schools;
  - xii. special functions in relation to education under age 5.



## PILOT PROJECTS

1. A desirable first step in implementing the radical changes in this paper would be to establish pilot projects in one or more representative areas covering the whole or part of an LEA. Insofar as they tested the workings of a completely untried framework of responsibilities for school education, such projects would help both to deflect criticism from our opponents and to marshal potential support through a process of familiarisation.
2. But pilot projects would also create political and practical difficulties of their own. It would be inconsistent with the concept to impose a pilot project on an unwilling authority: in any case, an imposed project seems bound to fail. Even a Conservative LEA might be unwilling to experiment in the substantial erosion of its functions and to offer up its electors, ratepayers, parents and children as guinea pigs.
3. If a few authorities did volunteer, we would have difficulty in protecting them from the sabotage which political opponents and entrenched interests would be well placed to inflict on an isolated authority. We would be embarrassed if the project failed to work properly. Simply getting pilot schemes off the ground would require a degree of political and legislative commitment which would make it harder to turn back even if the initial indications were adverse.
4. In practice we might not learn much more from pilot projects than we would learn from the comments and objections of those hostile to the national scheme. An isolated local scheme could not by definition replicate precisely the workings of a national scheme. Questions arise whether parents outside the boundary should be allowed to opt in and, more importantly, whether those inside could opt out. There can be no guarantee that, collectively, the volunteer areas would mirror the range and diversity of provision in the country as a whole. A scheme which worked in a small town or in the suburbs would prove little about practicalities in either inner cities or sparse rural areas.
5. The legislation needed for pilot projects would be complex and controversial. Nevertheless pilot projects may be the price we have to pay to make the proposal of a national scheme acceptable to our supporters.
6. The alternative would be to match the boldness of the scheme by the boldness with which we implement it in a single operation, and thus minimise the distraction which our proposals would cause. This would mean imposing radical change across the board from the outset.
7. However we decided to proceed, the logic of a national scheme is that at some stage unwilling LEAs will need to be forced into compliance.