




The Education Cheque

Bringing education choice to all

by

Stuart Sexton

ADAM SMITH INSTITUTE

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Our minuscule market

Suppose that all parents had enough money to pay school fees; suppose that all parents understood and agreed that all children should go to school; and suppose that all schools were independent and fee paying.

There would then be a 'market' in schooling. In that 'market':

- Parents would seek out the best school for their children at the best price;
- schools would have the incentive and the means to cater for that demand in both quality and efficiency; and
- facilities would be built or expanded to meet demand in both quantity and type of education that was demanded.

In fact, that was the situation before 1870 — except that it was only the emerging middle class who had the money and the desire to educate their children. And very many of today's independent schools were founded in the Nineteenth Century in response to that demand. Since 1870, however, the state has provided 'free' (that is, taxpayer-funded) schools, and imposed on parents a legal obligation to see that their children get an education.

The advantages of a free market in schooling are the same as for any free market in either goods or services. The customer has the freedom to choose and to choose in terms of both quality and type. The supplier has the freedom, and most importantly the incentive, to meet that demand in terms of quantity, quality and type.

We still have such a market in schools, though for only 7% of our children — and it produces the high quality, customer focus, and efficiency we all associate with the independent schools.

Spreading the benefits to all

An obvious question arises. Could we somehow extend to all children the advantages of a free market in schools? Such would really meet parental choice and would produce schools of the type, quality, quantity, and efficiency which we all desire.

Most parents do want their children to go to school and do want that school to be the best available. That minority of parents not so convinced are still obliged by law to give their children an education, though they might not care too much about which school provides it. However, the existence of an unappreciative minority does not undermine the functioning of a market. The collective wisdom of the majority of parents would still spread to everyone the improvements in quality and quantity that the market provides, and the minority simply benefits without needing to be active customers.

What of course is lacking in our desire for an effective 'market' in schooling is our first supposition. For not all parents do have enough money to pay school fees — in fact the majority do not. Furthermore, as long as there are schools that remain free at the point of delivery, there is little incentive for parents to pay — even those parents who could afford to do so.

Can we therefore put into all parents' pockets the means to pay school fees?

Yes, we could. Instead of paying out billions directly to the state-maintained schools, we could put that money into the pockets of the parents who in turn would then pay the school. The government still pays for education, and the schools would still get their income. But their income would come directly from their customers — the parents — rather than filtering down through distant and complex bureaucratic structures.

But perhaps we cannot trust all parents to put all such money into school fees: they might be tempted to spend it elsewhere, and let their children's education suffer. So, instead of cash, we could give them a voucher that can be spent only on school fees.

This is the simple concept of what I call the *education cheque*. In 1870 the idea was known as the *ticket*, and had Parliament opted to introduce that rather than 'free' schools, then a market in schooling would be working today, and we would all be the better off for it.

Obstacles to an education cheque

Could Parliament, even now almost 150 years later, still introduce funding through parents to replace the current system of bureaucratic funding of schools?

Yes it could. But while the concept is simple enough in principle, the detailed application is much more complicated. The legislators of 1870 had a relatively clean sheet to work on. Today, any new funding arrangement has to fit in with the realities of our large and diverse educational system.

The purpose of this brief paper is to identify many of these complications and to suggest the solutions to some of them. To those people who oppose the very concept of a 'market' in schooling, these complications are handy excuses not to do it. To those who appreciate the great benefits that such a market would bring, these complications are ones to be resolved; and most of the resolution required is not technical anyway, but political.

The education cheque

Economists call the system which I am advocating a 'voucher' system, but I prefer the term 'education cheque' — because it spells out more clearly that this is a piece of paper actually worth a lot of money. Such a cheque would be distributed to every parent (or guardian) of every child of school age. With current levels of IT, it would be relatively easy to do (as was not so even 20 years ago). Furthermore, with IT it is simple to track the progress of the cheque from parent to school to Treasury for redemption.

Age range

The education cheque needs to cover all children aged 5–16, that is the ages of compulsory education. Preferably, it should cover everyone aged 5–18, and ideally, everyone aged 4–18. The decision is a political one.

In principle, the post-16 education cheque could be spendable at a college of further education instead of a school, or for an apprenticeship: again it is a political decision.

Value

The education cheque needs to represent the average cost of education in today's, and subsequently tomorrow's, state maintained schools. But it should be spendable in any school including current independent schools.

That cost of education varies with age. Generally we allocate more money per pupil per year to secondary schooling than we do to primary, and even more for post-16 work. For the education cheque to reflect this variation in cost, we would probably need to have 4 bands, for children aged 4-8; 8-11; 11-16; and 16-18, with education cheques of different values applying for each of them.

The exact size of the education cheques that parents receive will therefore depend on three factors:

- the overall sum that the government is prepared to spend on education;
- how the government weights the different bands to reflect the greater cost of educating older children; and
- how many children there are in each band.

The first two of these are inevitably political decisions. However, today's weighting patterns may well come under pressure to change as parents start to exercise greater customer power as a consequence of the education cheque system.

Variation in value

Apart from variation according to age, what variation might there be according to location? With 'London weighting' allowances, schools in London cost more than elsewhere; and schools in the South-East cost more than in other regions.

So should we have a less valuable voucher in North Wales than in South Wales, or in Manchester than in London? Technically you could have it so, but if you do that there is much less incentive for the more expensive schools to run themselves more efficiently, or to explore new technologies that might offset their greater staff costs. That is why I would recommend a standard value education cheque throughout the country.

Variations that I would entertain would be to meet certain clear needs. For example, we could have a higher-value education cheque to cover a child with learning difficulties, or where English was a second language.

The risk, however, is that such adjustments get so sophisticated, so complicated, and perhaps so politicised, that the simple principle of the education cheque is then lost. It could become as much of a financial mess, as much a bureaucratic nightmare, as funding is today. There is a fine point to be drawn between just enough sophistication to meet obvious needs with no more rough justice than is inevitable.

Top-ups

In justice the cheque should be payable for every school child resident in the UK. The parent should be free to spend it at any school, including currently independent fee-paying schools. It follows that such schools should be free

to charge above the value of the cheque, and therefore it follows that parents should be able to top up with their own money upon the value of the cheque.

Maintained schools

Some of the current state-maintained schools may wish to enhance their provision above the norm by supplementing their income through charging top-up fees. If the independent schools can do so, then surely the present maintained schools should be free to do so as well. Just as the independent schools have built up bursary funds to help lower-income families to meet their fees, so might the currently state-maintained schools seek to design any top-up arrangements so that lower-income families are not disadvantaged.

Free education

Should we seek to retain the concept of 'free' education for all? In other words, regardless of a parent's ability to pay a top-up, should there still be schools that are available at no direct cost to the parent, that is where the education cheque is sufficient to pay all the fees?

Depending on the value of the cheque that is set by the government, this could well be the case anyway. But it may not be the case in certain areas where the value of the cheque is not sufficient to maintain a school's budget. The choice then is to abandon the concept of 'free' education for all; or to retain, by direct subsidy, a cadre of schools throughout the country where the value of the cheque would be sufficient, with no top-up being necessary.

The decision is political. But the disadvantage of the second option is that the cadre of subsidised schools may come to be regarded as 'second class'. The advantage of abandoning the concept of free education for all is that it would draw in a lot more money from parents who are able and willing to pay something on top, even if they are not able and willing to pay full fees. And if, as is suggested, schools develop bursary schemes to help the more needy families, then this option does not imply any unfairness.

Revenue and capital expenditure

In maintained schools, the distinction between 'revenue expenditure' and 'capital expenditure' is rather false. Revenue expenditure covers staff salaries, heating, lighting, books, materials, routine maintenance and so on. 'Capital expenditure' means the cost of a new school, or of a new boiler, a new classroom, or even a new tile on the roof.

At present, funding to all schools is on a formula to cover 'revenue expenditure'. For 'capital expenditure', separate bids by the schools are required — which may or may not be approved by the officials.

At an independent school, the total fee income covers the total expenditure, including capital expenditure (either directly or by helping to secure a bank loan). Ideally, the education cheque should do the same, covering all costs including future capital expenditure, leaving the decision as to how and when to allocate resources to the management of the school.

But how then do we pay for totally new schools? More immediately, what of the maintained school that has recently had major capital expenditure compared to the school needing it but not yet given it? Should the education cheque be of the same value to both schools?

None of this is insuperable, but it probably requires an interim funding formula to cover essential capital expenditure. Thus the education cheque might initially be valued to cover revenue expenditure only, and later on to cover all expenditure including of course servicing loans for major investments; or the transitional adjustment may be made in other ways.

Staff salaries

About 75% of total revenue expenditure (running costs) in schools is taken by staff salaries. It follows that if the salaries are increased by, say, 5%, the overall expenditure increases by about 4% — and that excludes any inflation on non-salaried costs.

At present, teacher salaries and any annual increases in the maintained sector are ultimately and in practice decided by the government. If, therefore, the government awards a pay rise to teachers, the government automatically sets an increase of each school's expenditure. Unfortunately, in recent years the government has not fully funded these pay awards, leaving the maintained school in the position of reducing other costs in order to pay for them, often by reducing the number of staff. Any education cheque scheme assumes that the government of the day does keep up the value of the cheque, year on year, in line with schools' increased costs. It follows that if the government sets the annual pay award it automatically sets the increased education cheque value, and if it first sets the increase in the cheque value, it largely and in effect also sets the annual teachers' award, whether or not the government by then is still supposed to be involved in teachers' pay.

The independent schools today tend to follow whatever pay increase has been awarded in the state sector; but then they have to increase their fees to cover the pay increase.

Ideally teacher salaries should be set by each school and should vary over the country and over subject disciplines according to current conditions of supply and demand. That flexibility would require a system for reviewing the value of the education cheque that will cover average increases in salaries without itself dictating what those increases should be. Again it can be done, but it requires careful thought.

Treasury expenditure

About 7% of children are now educated in independent schools, with their parents paying the school fees. As taxpayers, they are also entitled to a 'free' school place in the maintained sector — and they are compelled to pay for this place, even though they do not take it up.

This is all very convenient for the Treasury, which collects their taxes but has to provide nothing in return. Every parent who forgoes a 'free' school place saves the government hundreds, or thousands, of pounds.

If an education cheque were payable to every parent with a child at school, then of course it would also go to all those parents who have voluntarily given up their 'free' place. Parents who presently pay taxes and get nothing would then be paying taxes, but getting back a cheque, which they could put towards the cost of their independent school (or, indeed, a maintained one).

In view of the sacrifices some parents make in order to escape local state schools that they believe are failing their children, this system seems more fair and equitable than the one-sided deal they get today. But the Treasury would have to find money that it does not have to find today. This, the Treasury calls a 'deadweight' cost — it merely helps those parents who have already decided to act without help.

In fact, of course, it does far more than that. The 'deadweight' cost of the education cheque is a cost of a policy that will help all parents to exercise real choice in the education system, thereby bidding up quality — and in the longer term, paring down cost. Perhaps we must simply accept that parents should not be penalised for choosing a non-state school, if they believe that this is best for their children; and thus we must accept the increased cost.

However, there may well be resistance against any such rise in public spending, particularly when the immediate beneficiaries seem to be better-off families — and where the longer-term benefits for everyone are more general but less immediate and visible.

In this event, a solution would be to treat the cheque as taxable income, so that better-off families would be taxed on its value. The education cheque would then be giving greatest help to those on the lowest incomes, while the total cost to the Treasury would be moderated.

School management

If the education cheque had been introduced thirty years ago, very few of the maintained schools could have handled it. They just did not manage their budgets. Indeed, few even knew how much it cost to run the school. Thanks to the introduction of Local Management of Schools, all maintained schools now exercise a measure of financial management. Thanks to the

introduction of Grant Maintained Schools (now discontinued), some maintained schools managed their financial affairs almost as completely as every independent school has to do.

A prerequisite of any education cheque system is that all schools should have complete control over their finances. Maintained schools would need to manage their affairs as fully as the independent schools do now. The only exception would be that the independent schools can set the level of their fees (subject of course to market forces), whereas the maintained schools would still be subject to the value of the education cheque, unless of course they were permitted to charge top-ups.

A necessary step towards the education cheque would be for all schools to be granted full managerial control, including financial control. And it would, in any case, be of great benefit in terms of improving financial controls, efficiency, and responsiveness to parental choice.

The ideal would be to work towards an education cheque which covered all income needs, including capital expenditure. It follows that the current maintained schools would be able to borrow from the banks, just as the independent schools now do. This may require some strengthening of their governance arrangements.

Paying schools

The introduction of the education cheque would replace current methods of funding maintained schools. Instead of funds from the Department of Education coming through (and adjusted by) the local authorities, each school would receive cash directly from the Treasury in return for the education cheques brought to them by parents. Thus, schools would collect the education cheques from the parents, pass them to the Treasury and receive the money equivalent to the value of the cheques. That value would include any enhanced value on some cheques to cover special needs.

Most independent-school parents pay each year's fees in three instalments at the start of each term. Likewise, the Treasury could pay schools three times a year on the basis of the volume of education cheques they collect. Or, just as some parents pay monthly on standing orders, so the Treasury could send a monthly payment to each school. It matters little: but clearly there would need to be a transition arrangement to cover the income a school needed before the first education cheques are collected and redeemed.

Status of schools

All schools in the UK have to be registered in order to function legally, and such registration is subject to initial and continuing OFSTED approval. The education cheque would be spendable at any registered school.

It would be desirable if all the current maintained schools were granted the equivalent of charitable status. That is easily done and was done for the grant maintained schools.

Independent schools

The independent schools would be invited to join the scheme, that is to accept the education cheque as part payment or full payment of school fees, but an independent school could refuse to participate, and refuse to accept the education cheque.

If we wanted all or most of the independent schools to participate, then we would need to give some guarantee that having joined, the rug would not be pulled from under them by a government subsequently cancelling the education cheque or reducing its value to an unacceptably low level.

The independent schools and their pupils were badly hit when the Assisted Places Scheme was withdrawn by the present government. They would be very wary of committing themselves to another scheme if there were a risk of leaving so many parents in the lurch again at a later date.

The answer here might be a national review tribunal, perhaps akin to those which set public-sector pay, which is independent of government but empowered to make decisions (in this case, the minimum size of the education cheque) which nevertheless bind it.

Phased introduction

To be successful, an education cheque scheme needs to be introduced with care and to a well thought out timescale understood and agreed by all participants. Acceptable solutions to the questions raised in this paper, and no doubt to many others, need to be agreed before proceeding. Current systems of funding need to be modified in anticipation of the system. Thus all schools need to become self-managing, and all schools funded on a per-pupil basis.

Conclusion

It would be perfectly possible to introduce a universal education cheque, but it cannot be done overnight. Nor can it be done without first resolving the many complexities involved. Such technical complexities can be solved only once political decisions have been taken on each.

Those who have advocated similar proposals in the past have spoilt their case by pretending that there are no details to be resolved, suggesting that it could be introduced immediately, with no preparation. Meanwhile, those who are philosophically opposed to choice in education have spoilt their case by hiding behind so called 'technical impossibilities'.

Neither is correct. There are serious questions; but they can be resolved. What we need now is an intelligent assessment and resolution of the issues, such as those outlined in this paper — and no doubt many others that will arise during the course of the debate on the education cheque.

ABOUT THE BETTER EDUCATION PROJECT

This report is one in a series of ten policy papers to be published this year as part of the work of the Adam Smith Institute's Better Education project.

The aim of the project is to define practicable policies — ones which can be made real within a single Parliament — for maximising educational outcomes, based on the principles of competition and choice, and targeted at delivering better quality, value for money, efficiency, access, responsiveness, and inclusion.

In a wide-ranging research and discussion programme involving key figures in education in both public and private sectors, in the UK and overseas, the project will calibrate options politically and commercially as part of a process to widen and deepen public debate. Working through the details of these options, the ultimate goal is to develop practicable proposals that can and will be implemented.

The project team is led by Dr Eamonn Butler (Director) and Matthew Young (Special Projects Director).

THE EDUCATION CHEQUE

In this report, Stuart Sexton argues that we can and should create a market in schools — meaning that parents should be able to seek the most appropriate schools for their children, and that schools themselves have the incentive to meet this demand, both in quantity and in quality.

But to achieve this match between provision and customer demand, we will need to change the way in which education is funded. The Treasury must empower parents by putting the money for education into their pockets in the form of an *Education Cheque*.

Thus the government still pays for schools, and schools still get taxpayers' money: but it arrives bottom-up, from the users of the service, not top down from the Whitehall and local-government bureaucracies who currently control it.

Sexton — Director of the Education Unit and former Special Adviser at the Department of Education — says that this system will free schools to manage themselves, taking charge of their finances and capital spending, their staff management and pay negotiations.

It will promote the benefits of greater innovation and diversity in the delivery of education, driving up the quality of schools and responding to parents and pupils as customers.

But the transition will be complicated, and it will not be quick. There are many difficult issues, some of them detailed and technical, some political, but none of them insuperable. An intelligent assessment and resolution of these problems, leading to a well thought out implementation strategy will yield substantial gains in the efficiency and quality of education services in the UK.

This report is part of the Adam Smith Institute's Better Education project. The project is committed to work out the details of ideas such as these, using diversity and innovation to improve educational achievement within any given budget.

For more information about the project, visit www.adamsmith.org.