

Customers not Bureaucrats

**Identifying and getting real value for money
in state education**

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1. The real source of better value

Introducing his Comprehensive Spending Review on 15th July 2002, Gordon Brown remarked that “for more given in resources, more is required in results”. It is a theme that is, quite rightly, constantly repeated by ministers. There are no blank cheques.

Yet the CSR itself shows that what the government says, and what it does, are not the same thing. A cheque for £15 billion, the amount of extra funding committed to education in the CSR, may not be blank, but it is as near as dammit.

It comes, indeed, with strings attached: but not the right strings. The Chancellor seems to think that value for money entails handing out funding that is encumbered with careful instructions from Whitehall. In fact, value for money means, and requires, the opposite. For if the government was genuinely looking at getting as many bangs as possible for its fifteen billion bucks, it would instead look at the very structure of the education system (the same applies to other public services) — who delivers education; and, critically, how.

This paper makes a series of recommendations as to how consumer choice can be introduced into the system. It is predicated on two assertions: first, that empowering the parent (and, thus, the pupil too) is a good thing in itself, leading to higher standards, responsiveness and satisfaction (I dealt with these issues in an earlier ASI report, *A Class Act*); and secondly, that the independent sector is demonstrably more efficient in its delivery of education.

To paraphrase Mr Brown: for more given in resources, still more is given in results.

2. Seeking out success

A historic day for choice

Thursday 27th June 2002 may well go down in history as the most important day in Twenty-first Century education. By 5 votes to 4, the US Supreme Court decided, in its ruling in *Zelman, Superintendent of Public Instruction of Ohio v. Simmons-Harris*, that education vouchers were legal.

The story of the Cleveland voucher scheme is complicated. In essence, the Ohio state supreme court had declared it unconstitutional on the grounds that vouchers could be used to spend taxpayers' money in religious schools. Such arguments, and the implacable opposition of the education establishment, stalled similar school choice projects elsewhere. Now that the US Supreme Court has ruled in favour of vouchers, however, the idea is likely to take off, with a host of schemes likely to emerge. And a golden rule of public policy is that what happens in the US happens some five years later in the UK.

Vouchers are now firmly on the political and educational agenda.

The confusion about choice

'Vouchers' are, of course, a shorthand. They do not need to take the form of a physical piece of paper. A tax credit which can be used for education is a voucher. Vouchers are merely one example of school choice — giving parents, rather than bureaucrats, the power in education; and, critically, giving less well off parents the same power to choose as those whose control stems from the ability to open their cheque books.

As Professor Harry Brighouse wrote in *The Independent* in April:

The left's approach to issues of parental choice in education is confused. The left correctly sees the principle of educational equality as a vital principle to guide educational provision. The principle of educational equality says, among other things, that it is unjust for inequalities of prospects for educational attainment to be influenced by the socio-economic class backgrounds of children.

However, parental choice is not necessarily inimical to greater equality of educational opportunity; in fact, there are strong reasons why the left should embrace it. It stimulates parental involvement in a child's schooling, which in turn enhances the achievement of children. Schools are more responsive to the demands of parents if they are vulnerable to the choices of parents — parents need a realistic option of exit to back up their exercise of voice.

That competition drives up standards is one of the basic assumptions of pro-marketeters, and there's some evidence for it from studies within the private sector and also, more strikingly, within choice schemes in the public sector.

Today, around a fifth of the UK adult population are functionally illiterate and innumerate. With educational achievement the single most important factor in promoting social mobility, it is no wonder that today (just as in the pre-war years) where you are born predicts with depressing accuracy where you will end up on the social scale. That is getting worse, not better, as almost every parent who can afford to leaves the state sector and further entrenches our educational apartheid.

Learning from success

All governments struggle to improve the system. The current one is making more effort than most, and it would be churlish to deny its good intentions, and indeed the potentially beneficial impact of some of its ideas, such as City Academies and Specialist Schools. But the truth is that no government makes more than a marginal difference — at least, a marginal *positive* difference. We need to learn instead from the one thriving sector, the independent sector; but also to acknowledge that it is profoundly wrong that only the wealthy are allowed to choose how and where their children are educated.

Of course we already have a fully functioning system of parental choice in the UK. It is small, and is called the private sector; and the power to choose takes the form of a chequebook. Within the state sector, the power to choose takes the (still more insidious) form of a mortgage: if you can afford to move to a nice suburban catchment area, fine. If you can't, you must take what you're given. (Or turn to your chequebook for private tutoring, as some of our highest placed politicians are happy to do.)

The government is full of ideas for different types of schools, none of them the 'bog standard comprehensive'. But one of the more ludicrous educational rows of recent years was the recent fracas over a City Academy and faith school, Emmanuel College, Gateshead. Here is a school with a 97% success rate for its pupils in gaining 5 good GCSEs. And what is the reaction of the establishment? Close it! Rarely has there been a clearer illustration of the absence of the views of the parent in education circles.

For all the good intentions, the government's new school initiatives have one crucial failing: they are all created by central diktat on the idea that government knows best what types of school to allocate and where. But if ever there has been an appropriate use for the left's favourite word, 'empowerment', it should surely be in education. The central question that opponents of choice must answer is this: *Why should those parents and children who can't afford school fees or the cost of a house in a decent catchment area be the only ones who are denied a real choice?*

Choice benefits the poorest most

In Britain, of course, the idea that choice is a progressive notion is still hard to accept. Despite the advocacy for over twenty years of Professor Julian Le Grand at the LSE and a small band of others, few on the left, or indeed in the centre, are other than dismissive. How different it is elsewhere.

For many years, Joe Lieberman, Al Gore's running mate in the 2000 US Presidential election, fought a lonely battle in support of school choice amongst his fellow Democrats and progressives. Now he is beginning to see the fruit of his work. Last year, Robert Reich, Bill Clinton's former Labor Secretary, and a guru of many Third Wayers, wrote in the *Wall Street Journal* that: "The only way to begin to decouple poor kids from lousy schools is to give poor kids additional resources, along with vouchers enabling them and their parents to choose how to use them".

What is striking about the US debate is that the most powerful support comes from the poverty lobby— and especially from black advocacy groups. The Joint Center for Economic and Political Studies, an African-American think tank, for instance, found in a poll in December 2000 that 60 per cent of African-Americans support vouchers, and over 75 per cent of blacks under 35. The Black Alliance for Educational Options, an umbrella group for black poverty groups, began a pro-voucher campaign, the autumn of 2000.

The global spread of education choice

Choice is not some weird academic creed, but a practical means by which schools are being improved across the globe.

Of the various forms which school choice takes, the UK government seems most interested in the idea of Charter Schools (see Section 3). These provide a fascinating example of how support for school choice is not linked to any one political, social or demographic group — its proponents in the United States are poor, middle-class, and rich; black, white, and Hispanic; Republican, Democrat, and independent.

There are today some 2000 Charter Schools in the US, where they first took off as a means of encouraging diversity and choice within the state school system, based on the principle that state education needed to be expanded to offer more choices to pupils and parents. (For more detailed descriptions of Charter Schools, and of other examples of choice-based policies, see Pollard, *A Class Act*, ASI, 2001.)

It is fascinating to see how, in the United States, changes in public policy have generally been instigated by the popular support of grass-roots activists for education reform. The continuous growth of these movements has been fostered by concerned business people, charitable foundations and non-profit groups, teachers, civil rights activists, politicians, and hundreds of thousands of parents.

But for all the developing strength of Charter Schools, ideas of school choice are not confined to Charter Schools. Support for voucher programmes grows daily and they are springing up all the time. It would be wrong to overstate the numbers — the idea is still in its infancy — but although the number of state-funded voucher pupils is less than 20,000, there may soon be hundreds of thousands. The Supreme Court decision on 27th June will now open the gates to many other schemes.

A well-founded and promising strategy

What is clear is that school choice is not some new-fangled policy idea concocted by policy wonks with no grounding in practicalities, but rather an idea with a history of

success across the globe, which offers the promise of — as the Adam Smith Institute’s Better Education Project synopsis puts it — “ deliverable change, opening the education system to innovative approaches that are more in tune with our post-industrial world, more able to deliver a customized service to each child, and under constant incentive adopt best practice.”

The fundamental of choice-based policies is that, in order to give parents real power — the power of the cheque book — those who want it are given a sum roughly equivalent to the money spent on sending their child to a state-run school. That can then be spent either at an existing independent school or, more likely, at a new school, that will have emerged to cater for these voucher-enabled pupils. They thus combine state funding with genuine parental choice. But how do we get there?

3. Practical steps towards choice

Step 1: Abolish the surplus places rule

Since the pre-requisite of any policy designed to promote choice is a variety of supply — and, critically, of new suppliers entering the market — there is one key step which has to be taken, and which currently undermines any possibility of choice and genuine innovation: abolition of the surplus places rule.

The surplus places rule means that (with some limited exceptions) no new school can be established in an area where there is existing spare capacity. Thus, even within the existing system, successful schools become oversubscribed and are prohibited from spreading the benefits of their success by expanding or starting new schools in the locality. Instead, those children for whom the school cannot find a place are sent to schools which, however bad they are, have spare places (which is, of course, usually precisely because they are bad schools). As Chris Lambert puts it in *Access to Achievement* (ASI, 2002): “It is like the state banning a busy restaurant from laying extra tables because there are spare places in an unpopular one next door.”

Real choice and innovation is dependent upon allowing new schools (and replicas of existing, successful schools) to open and offer their services to parents.

Step 2: Allow Charter Schools to start up

As Chris Lambert points out, “amidst all the evaluation of state and private sector schooling, the ideology and the perceptions, it seems refreshing to point out that you don’t actually have to send our child to school at all. The government is quite happy for you to take responsibility for your children’s schooling and educate them yourself, and some 140,000 pupils (1.5% of all UK children of school age) are currently taught at home.”

Indeed. And this has major welcome implications for the establishment of a UK version of Charter Schools. The Education Act (1996) requires that:

The parent of every child of compulsory school age shall cause him to receive efficient full-time education suitable to his age, ability and aptitude, and to any special educational needs he may have, either by regular attendance at school or otherwise.

Parents who choose to educate their children outside of the state system are freed from many of the regulations to which state schools and their staff have to conform. Home educators do not, for instance, have to:

- have premises equipped to any particular standard;
- have any specific qualifications; cover the same syllabus as any school;
- adopt the National Curriculum;

- observe school hours, days or terms;
- give formal lessons;
- match age-specific school standards; or
- have regular contact with the LEA.

It is but a tiny step from this individual right (which has been present since the 1944 Education Act) to the introduction of Charter Schools. If, after all, there is no objection to *individual* parents taking responsibility for the education of their own children, why should there be an objection to *groups* of parents doing the same thing? In theory, of course that is what private schools do. But they are fee-paying, and the inequity of the education system is that such an option is only available to the well-off.

A pilot Charter School scheme could easily be established, where groups of parents in a locality are empowered to establish their own schools — or, as would certainly happen, to allow others to do so on their behalf — and funded at the same per capita rate the children would have in the state system.

There is a myth that such schools are more expensive than state schools. In fact, some 200,000 private school places currently have fee levels equal to the cost of educating pupils in the state sector (Lambert, *Access to Achievement*, ASI 2002).

Charter Schools are essentially tuition-free independent schools: they have the same inherent success motivation (if they fail, they will not get any pupils, and will not have their charter renewed). Some US states provide start-up grants, on-going technical assistance, or both; others do not.

Almost all Charter Schools are non-selective, and have no say whatsoever in which pupils are admitted. They are the exact opposite of cherry-pickers: if they tend to specialise it is precisely to focus on and attract those failing students whose parents want an alternative to the existing schools.

And, critically, they introduce a new variety of providers, allowing innovation to enter the system, and introducing the ethos of the independent sector of success as the sole criteria of existence. According to research conducted by the Center for School Change at the University of Minnesota, students at the twenty Charter Schools in Minnesota made performance gains of 1.3 to 2 years in various subjects.

In the District of Columbia one in ten of all pupils attends a Charter School; in Kansas City, Missouri it is nearly one in seven; and in Arizona one in five of all schools are Charter Schools.

Step 3: Do the sums!

None of this can happen, of course, without ascertaining the financial costs. We need to know the precise figures so that the funding arrangements for Charter Schools can be fixed and potential providers can begin to see what they might be able to offer. But we also need the figures so that we can see just how efficient, or otherwise, the existing arrangements are.

But despite the complications involved in the establishment of per capita spending figures for the state system, it is already possible to make some calculations, which destroy some of the myths.

It is clear, for example, that although per capita spending in existing private schools is higher than in state schools, a pound spent in a typical private school delivers more education — more ‘bangs to the buck’ — than a pound spent in the state sector. Although state schools are cheaper, private ones are more efficiently run, are more cost-effective, and deliver better value for money. For every pound spent, private schools deliver more.

The fact that spending per pupil is higher in most private schools means that policy makers usually see no need to dig any deeper. They dismiss private schools as a different species: cash rich and profligate. But they are wrong.

Take one measure — the pupil:teacher ratio. The ratio in state primary schools is 22.5 pupils per teacher, compared to only 10.5 per teacher in the independent sector. For secondary schools, the state school ratio is 16.9 pupils per teacher, and the independent school ratio only 12 pupils per teacher. With a higher per capita budget, independent schools of course do better in maintaining lower pupil:teacher ratios. But dig beneath the surface, and a different picture emerges.

Just how much bang for the buck?

While it is possible still to debate relative ‘outputs’ (what the education system actually delivers to pupils in terms of attainment), the respective ‘inputs’ (the amount of money and the numbers of staff per pupil) are all available.

The total state education budget (in England) is £42 billion, of which the primary and secondary schools budget (ie excluding higher education and other non-school expenditures) is £26.5 billion. This translates into the following **costs per pupil**:

State primary	£3735	Independent primary	£5602 (ie 50% more)
State secondary	£4855	Independent secondary	£6364 (ie 32% more)

But look now at one measure of educational quality (certainly a measure that parents actively seek out and so seem to value), the **pupil:teacher ratios**:

State primary	22.5:1	Independent primary	10.5:1 (ie 114% better)
State secondary	16.9:1	Independent secondary	12.0:1 (ie 41% better)

Thus while the costs of private primary schools average 50% more than state-school costs, their pupil:teacher ratio is more than 100% better. And while the costs of private secondary schools are 32% more, their pupil:teacher ratios are 41% better.

In other words, a pound spent in a private school buys more teacher for each pupil than a pound spent in a state school. This may be much of the reason why private schools, on average, achieve better examination scores too.

If state and independent schools were equally efficient, and the difference was simply that the independent schools had more money to spend, then, with the independent sector's pupil:teacher ratio being almost twice as good as that of state schools overall, you would expect that their costs would be twice the level of the state sector.

But they aren't. The cost per pupil in state schools is £3735 in primary schools and £4855 in secondary schools, compared to £5602 and £6364 respectively in independent schools — only 50% more at primary level, and 32% more at secondary level. In terms of pupils per teacher, however, the independents are over 100% more favourable at primary level, and 41% more favourable.

(In fact, things are worse. The Chancellor's calculation of spending per pupil at £4900 understates the true position. The Treasury convention leaves out of account some capital costs, and the proportionate allocation of central overhead and capital expenditure (see Appendix 2). Adding these in raises the true, comparable figure to £5600 — almost identical to the cost levels of independent schools.)

Step 4: Devolve the budgets

The independent sector spends its pounds more efficiently. Why? Because it doesn't have a burdensome bureaucracy and, put simply, it is better able to manage its money. The fact that if a school doesn't perform it will lose its funding — its pupils — means there are inbuilt incentives, as in any such business, to control costs, to innovate and to target customers' needs.

Take a look at the state education budget to see the exact opposite. Total state spending on primary and secondary schools in England is £27 billion, of which schools get under £18 billion directly. The Department for Education and Skills and Local Education Authorities spend the other £9 billion on their behalf. That's a third of the budget.

Yes, much of that money is spent on vital support services: it is not all waste. But the critical point about private schools is not simply how much money they get; it is who spends it — and how. The fee income of private schools goes straight to the schools themselves to spend as they think best. But before any of our tax contributions find their way into the state-school classroom, a third of it has already been siphoned elsewhere.

And yet private schools achieve envious levels of success without the need for all the state system's bureaucracy — the officials of the Department and 150 LEAs, the Qualifications and Curriculum Authority, the Teacher Training Agency, and hosts of other central initiatives, panels, and review bodies.

If efficiency were indeed the watchword, a first step would be to give state schools the same freedom to manage their affairs as independent schools — and to subject them to the same discipline by opening up the sector to competition.

The majority of the new money introduced in the CSR was in fact targeted directly at schools, bypassing LEAs, and this was a welcome development. But in the context of the overall school budget, this was but a pinprick.

The key issues:

- **Getting the money to the classroom** — If the money currently spent by the Department for Education and by Local Education Authorities (on behalf of schools) was actually given to the schools to spend, their budgets would increase by more than £600 per pupil or nearly 15%.
- **Empowering school managers** — If this extra £600 per pupil was given to the schools to spend, they would be able to address their own priorities, with the incentive to innovate and seek more effective and efficient ways of using the budget.
- **Parental choice** — The cause of private schools' relative efficiency is no secret: they compete. It is competition which drives up standards, and the parental power of exit which ensures innovation and efficiency.

Step 5: A money back guarantee

Offer a 'money back guarantee' to children in failing schools. If they have been stuck in a sink school for two years, give them a voucher which they can spend where they like.

In Florida, where just such a money back guarantee is offered (see A Class Act for details), some 50 schools in the 2000-2001 academic year were forced to offer a voucher — and 95 percent of pupils taking advantage of it were black, ninety per cent of them being poor enough to qualify for free school lunches.

Such a guarantee is no more than a tool, but it introduces the critical notion of exit, and instils a certain discipline and competitive pressure on schools which have traditionally had a perverse incentive to fail (since the worse a school's record, the more finding it usually attracts). The impact in Florida has been quick, and obvious: school standards are now rising across the board.

Step 6: The voucher

The voucher — or 'education cheque', as Stuart Sexton calls it (Sexton, *The Education Cheque*, ASI 2002), is the logical extension of genuine school choice.

The precise form and details need to be thrashed out: should, for instance, topping up be allowed, or prohibited? (Sexton provides a thoroughgoing analysis of the mechanics.) At root, however, it should represent the average cost of education in the state system, and be spendable in any school — including, of course, existing state schools. Good schools have nothing to fear; on the contrary, they will prosper even more under a system which gives parents the real power.

4. Growing evidence, clear way forward

Time to cross the Rubicon of choice

The Rubicon which has to be crossed is the notion of tax funding being attached not to the school but to the pupil, so that parents can exercise genuine choice.

It is a notion which is clearly moving in to the mainstream. The US Supreme Court ruling on the Cleveland voucher scheme is a landmark, and will eventually have beneficial effects for children on both sides of the Atlantic. But in the UK the more immediate driver will be the widening discrepancy between the public's expectations as a result of the enormous and increased levels of funding, and the government's failure to deliver real improvements in today's state-provided education model. The reality is that central government initiatives at best have a marginally positive impact, not a transforming effect.

Ending our educational apartheid

The principle of equality in educational prospects is the touchstone in any system. But the evidence shows that only the better-off can exercise choice, either by going private or moving to a better area. Thus we have an educational apartheid which gets worse by the day. Extending choice to all will not merely be socially just: it will also stimulate parental involvement, make schools more responsive to the "real" customers, and provide the stimulus of competition.

Our costly state sector

Some might believe that offering parents choice in education is an expensive option. After all, independent schools fees seem much higher than the amount we spend per pupil in the state sector. Could a choice policy ever be well-funded enough to extend access to independent schools to all parents?

In fact, we must dig below the headline figures to reach the true story. Independent schools are indeed generally more expensive than state schools, though there are perhaps 200,000 state school places offered at much the same headline cost. But when the true costs of overheads, borrowing, and capital costs are added, per-pupil spending in the state sector becomes much nearer to that in the private sector. But then pupil:teacher ratios are very much better in the private sector, particularly at primary school level. The private sector gets more bang for its buck — just what the Chancellor is trying to achieve.

The evidence is stacking up

There is now abundant evidence across the globe of the success of the merit of choice. In the US, it is the poverty lobby that is the most vocal in its advocacy. In Scandinavia the state education budget follows the pupils and in New Zealand a scheme focuses on low income families.

Practical steps towards choice and better value

- Abolish the surplus places rule
- Allow Charter school start-ups
- Do the sums!
- Devolve the budgets
- Offer a money back guarantee
- Introduce the voucher

Comparing education costs

A report by Tenon Economics

Maurice Fitzpatrick, Head of Economics at Tenon (a national Professional Services Organisation) and a prominent commentator on fiscal and economic issues, has prepared this analysis from data available from official and independent sector sources as noted in the relevant Appendixes. Tenon's role has been to compute the underlying numbers based on official data, and does not imply its endorsement of any of the views expressed above.

School costs: School Year 2001/02 (ie. school year to July 2002)

1. Average cost of primary education in the state sector is **£3735** (per Appendix 1) compared with **£5602** in the independent sector (Appendix 8).
2. Average cost of secondary education per pupil is **£4855** in the state sector (Appendix 1), compared with **£6364** in the independent sector (Appendix 8).
3. The average cost of independent education is thus approximately **40% higher** on average than the average cost of state education, per pupil.

Pupil:teacher ratios

4. According to Appendix 7, the average pupil:teacher ratio is around half in the independent sector as compared to the level in the public sector.

Bang for the buck

5. As a result, and other things being equal, one might have expected the average independent sector education cost per pupil to be around double the average cost per pupil in the state sector. *Prima facie* this is the level of extra spend that would be required to halve the pupil:teacher ratio in the independent sector as compared to the state sector. The fact that the average education cost per pupil in the independent sector is only around 40% higher than the average cost in the public sector suggests that (at least on the basis of the figures contained in this report) the independent sector is getting more bang for its buck.

APPENDIX 1: Estimated cost per pupil per annum in state sector, England, School Year 2001/02, primary and secondary

Two thirds of the school year 2001/02 (i.e. year to July 2002) falls in the financial year (FY) 2001/02 i.e. year to 31 March 2002, and one third of the 2001/02 school year falls in the FY 2002/03. We therefore make the following adjustment to arrive at the effective budget levels per pupil:

Primary

2/3 x £3668	=£2445	Appendix 1A
1/3 x £3869	=£1290	Appendix 1B

£3735

Secondary

2/3 x £4768	=£3178	Appendix 1A
1/3 x £5030	=£1677	Appendix 1B

£4855

APPENDIX 1A: Estimated cost per pupil per annum in state sector, England, financial year 2001/02, primary and secondary

Total budget for primary and secondary schools: £27.0 billion (Appendix 2)
÷ 6.4 million pupils (Appendix 6) = **£4218 per pupil.**

On the basis of:

- (i) roughly equal number of primary and secondary class sizes (Appendix 6);
and
- (ii) the DfES estimate that secondary education is roughly 1.3 times the cost of primary education,

this would equal to c.**£3668 per pupil** for primary schools and c.**£4768 per pupil** for secondary schools.

APPENDIX 1B: Estimated cost per pupil per annum in state sector, England, financial year 2002/03, primary and secondary

In FY 2001/02, this was £3668 for primary and £4768 for secondary (Appendix 1A). Total UK education spending in 2001/02 was £50.9 billion (FSBR, April 2002, page 227). In 2002/03 this is projected to increase by 5.5% to £53.7 billion (*ibid*)

To arrive at equivalent figures for primary and secondary state education costs for FY 2002/03, increase each of the £3668 and £4768 by 5.5% to **£3869** and **£5030** respectively.

APPENDIX 2: Approximate cost of primary (5+)/secondary schools in England, 2001/02

This is estimated as follows:

	<u>£bn</u>	<u>Source</u>
Primary Schools)		
Secondary Schools)	23.70	Appendix 3
Allocation of		
(i) Admin/inspection/misc and pensions	1.86	Appendix 4
(ii) Cost of capital/depreciation	1.20	Appendix 5
Total primary (5+) and secondary, 2001/02	<u>26.76</u>	(say £27bn)

Source: DfES

APPENDIX 3: Approximate outturn education spending 2001/02

Total UK education spending, 2001/02 (page 223 of April 2002 Budget *Red Book*), was £50.9 billion.

Of this, £42.1 billion (c.83%) was for England, as follows:

	<u>£bn</u>	
Primary schools (5 and over)		
Secondary schools	23.70	(1)
Under 5's	3.10	
Schools total (excluding Special Schools)	<u>26.80</u>	
Further education	4.50	
Higher education	5.40	
Student support	1.30	
Special schools	1.00	
	<u>39.00</u>	(2)
Admin/inspection/misc	1.40	(3)
Pensions	1.70	(4)
Total England spend	<u>42.10</u>	

APPENDIX 4: Allocation of admin/inspection/misc costs, England

Budget cost of £1.4 billion (Note 3),
 Plus allocation of pensions £1.7 billion (Note 4)
 = c.£3.1 billion in aggregate

£23.7 billion (Note 1) ÷ £39.0 billion (Note 2) = 60%
 60% of £3.1 billion = **£1.86 billion**

APPENDIX 5: Estimate of the cost of capital of depreciation on UK state education assets, not included in the figures as set out in appendix 3, 2001/02

This is £2.5 billion : source HM Treasury

Of this 83% (Appendix 3) is allocated to England, ie (say) £2.0 billion.

Of this £2.0 billion, 60% (Appendix 4) is allocated to primary (5+) and secondary education, ie **£1.2 billion.**

APPENDIX 6: England pupil numbers, state sector (s per DfES 2001 Annual Report, Annex Q)

Secondary	2.9m
Primary (5 and over)	3.5m
	<hr/>
	6.4m

APPENDIX 7: England pupil:teacher ratios

State schools: DfES advise that the pupil:teacher ratio at January 2002 was as follows:

Primary	22.5:1
Secondary	16.9:1 (excluding 6 th form)

Independent schools: The position in the independent sector on pupil:teacher ratio in early 2002 is, according to ISC is:

Primary	10.5:1
Secondary	12:1 (including 6 th form but weighted to count each 6 th former as 2: this takes into account the fact that typically the pupil:teacher ratio (PTR) in 6 th forms is around half that of the typical pre 6 th form secondary school class PTR).

On the basis that primary and secondary pupil numbers are broadly equal (see Appendix 6 for position in the state sector), compute a rounded average pupil:teacher ratios for each of the state and private sector as follows:

State	$(22.5 + 16.9) \div 2 = 19.7$: say 20
Independent	$(10.5 + 12.0) \div 2 = 11.25$: say 11

APPENDIX 8: Private sector education costs, School Year 2001/02 ie year to July 2002

Mean costs of independent day school education

Year to Aug 2001	<u>Primary (5-13)</u> £4703	<u>Secondary (11-18)</u> £5413
Average fee increase (to Aug 02)	8.3 per cent	6.9 per cent
Derived cost 2001-02	£5093	£5786

Mean fee rates for independent day schools

To arrive at *fee rates* the following additions must be made:

1. an allowance for depreciation of the built estate (normally 2 per cent of value);
2. a margin over costs, anywhere from break-even (for a school battling to survive) to 10 per cent (for a very successful school).

Using an uplift of 10% to take these additions into account, gives the following mean *fee rates*:

Year to Aug 2002	<u>Primary (5-13)</u>	<u>Secondary (11-18)</u>
	£5602	£6364

(The figures on independent school costs have been derived from the Haysmacintyre Independent Schools Cost Survey 2002, with standard additions for capital depreciation and operating margin, and then uprated by the ISCis survey of average fee increases to produce the current year (2001-02). Haysmacintyre are the leading auditors and advisers to the independent education sector.)