School vouchers for England

Harnessing choice and competition for greater quality and equality in education

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The Centre for Market Reform of Education is an education research and policy think tank based at 2 Lord North Street in London, the offices of the Institute of Economic Affairs. Its purpose is to research the potential of more diverse, competitive and entrepreneurial provision in the education sector, and the feasibility of market-led solutions to public policy issues.

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Executive Summary

Background

- The Coalition government's reforms, while well-intended, have failed to introduce significantly greater school choice and competition and thus cannot be expected greatly to improve overall levels of attainment in education. This is largely due to the restrictive requirements for setting up free schools.

- Only 174 free schools had been opened by September 2013, less than one percent of all schools. Restrictions on school premises, interference from local authorities and the political nature of the authorisation process have hampered the opening of more schools.

- The current and successive governments must embark on a policy of increasing school capacity, given the prospect of an ever-increasing population and higher demand for school places.

What should be done

- The free school authorisation process should be simplified, and unecessary bureaucracy associated with the present apparatus cut.

- Stipulations as to the type of school providers that may participate should be scrapped and for-profit operators allowed to participate. This is a vital step to attracting the level of capital investment that the necessary increases to capacity and choice require.

- Most funding already follows pupils, but this should be expanded so that schools are maximally incentivised to attract pupils.

- Proximity based admissions and catchment areas should be abolished, with oversubscribed schools allocating places through lotteries.

- In the context of the above reforms, the government should supply parents with a voucher, redeemable at any state school and participating independent schools.

- League tables, which tell more about pupil ability than pupil progress, should be replaced by the release of all data regarding school performance. The market should decide how to use the data to help parents exercise choice effectively.

- To prevent schools cream-skimming pupils that are more likely to do well, participating schools, state and non-state alike, should not be able to accept or reject pupils on the basis of ability or background.

- The National Funding Formula announced in 2013 should be seen as an opportunity for the government to improve differentiation of funding for schools.

- In future, building on the principle behind the Pupil Premium, funding should be differentiated further to take account of the differing costs associated with educating low attaining pupils from a variety of different socio-economic backgrounds, so incentivising providers to specialise and target areas with high levels of under-achievement.

- Exisiting independent schools should be allowed to accept voucher pupils, provided they commit in advance to the number of places to be made available, discontinue selective entry practices for the pupils concerned,

and allocate places through lotteries in the case of over-subscription. These schools would be likely to be incentivised to participate by the prospect of a more steady income from government.

- Because of the potentially distorting effect they might have on the programme, pressure to permit top-ups fees should be resisted. These could, however, be trialled at a later date, as they may have economic advantages and their segregating effects could foreseeably be limited by careful design.

- A tax credit system, which gives parents tax rebates for opting for fee-charging independent schools, is deemed to be an inferior alternative for four reasons:

  1. Fee-charging independent schools do not consistently outperform state schools and thus shouldn't be privileged as providers.
  2. Tax credits only benefit those who have upfront access to funding for fees; bursary and charity support schemes do not guarantee funding.
  3. Inadequate and inaccessible information for low educated parents results in tax credit schemes not being consistently taken up by disadvantaged groups.
  4. The complex nature of tax systems makes it difficult to issue tax credits. It is unclear at what point and against which bill credits should be issued. Too often, such schemes result in the addition of complex layers of bureaucracy.

1. Introduction

With the 2010 Academies Act, the Conservative-Liberal coalition government embarked on an ambitious reform path to transform the English state-funded education system. By making it easier for schools to convert to Academy status, and new Academies to be set up under the Free Schools programme, the goal was to create an environment in which parental choice, competition, and autonomy together raise standards – in other words, ostensibly, an education market. As Prime Minister David Cameron put it in November 2011, 'It's about changing the structure of education – spreading choice, giving schools more independence, recognising the need for competition so we create real and permanent pressure in the system to encourage schools to drive improvement.'[1]

However, poor policy design has meant free schools have had, and will continue to have, only a very limited impact as a choice reform. Only limited competition could ever have been expected from the policy's introduction because stipulations regarding ownership and governance constrained new providers from entering the market. Initially requirements were otherwise lax and the prospect of being able to set up a new school presented as a 'right', but because approval has been tied to capital funding, strong applications have been vulnerable to political interests from the start. Accordingly the criteria and process of approval have become increasingly opaque; judging panels, for example, were introduced for the second round of applications and tasked with assessing the merits of each application against all others in an effort to identify the strongest proposals. The addition of a procurement

1 David Cameron Speech On Free Schools- Full Text,' *The Huffington Post UK*, November 9, 2011, http://www.huffingtonpost.co.uk/2011/09/09/david-cameron-speech-on-f_n_955264.html.

track (via local authorities) has introduced additional challenges for proposer groups who must now address the concerns and manage the expectations of both local and central government decision-makers. This has the effect of discouraging market initiative to challenge exisiting provision. What we have now is therefore an increasingly niche programme in which basic need and deprivation indices are increasingly decisive. No significant system wide gains can be expected.

Supply-side reform should be demand led, but at present constraints on supply are increasingly frustrating demand. Going forward, the reform priority should be liberalising entry to the free schools market to allow for the introduction of private capital, attract scale providers, and place the onus back upon private and third sector agents to assess local demand and supply, calibrate risk, and allocate investment accordingly.

To allow maximum flexibility and thus entice a diverse range of investors, the government should simultaneously implement a series of demand-side reform measures. Because funding on this model is on a per pupil basis, and directed by parents, it may be more efficiently allocated: instead of tackling deprivation by prioritising areas for infrastructural investment, the government can allocate funding directly to the pupils who need it, wherever they live. Effective implementation would of course require a fundamental rethink of the way admissions work, but provided that funding is enough (i.e. that it is weighted, for example, by means of a differentiated voucher, to those who need it most), and present controls on the point of entry are loosened, it would be likely to stimulate the supply of school places where they are most needed. Schools would be more explicitly accountable to parents for the way voucher funds are spent, so demand-side reform measures have the further advantage of making accountability even more immediate.

Demand-side reform measures come in essentially two forms. This paper considers education tax credits in addition to the more conventional voucher system. Weighing the pros and cons of both measures, it concludes that a voucher programme, broadly, is better suited to England's political and educational environment than education tax credits, particularly in respect of the greater potential of the former in regard to improving educational opportunities for poorer pupils.

Finally, the legislative requirements of implementing a voucher programme and the supporting reforms necessary to ensure its effective functioning are explored. While theoretically persuasive, it is not entirely clear how the different elements

of the reform package proposed will interact in practice. Allowing large-scale pilot schemes in specific regions should thus be the first step towards national implementation. This would make it possible to test the proposals in a scientific manner, tweaking them if necessary. Furthermore, a large-scale pilot may also be more politically palatable compared to implementing a full-scale national reform scheme right away.

Implementation on a national level is also considered. Most features of the reforms, including changes to the admissions code and funding arrangements for existing state schools, would require either simple ministerial action, or minimal changes to secondary legislation. The voucher system proposed is a natural extension of present policy. However, for state-funded vouchers to give pupils the opportunity to go to existing fee-charging independent schools, primary legislation would be required.

In conclusion, it is argued that without this significant transformation of the incentive structure, it is unlikely that educational quality will increase more than marginally. Following the prescriptions laid out in this paper would enable the government to take a significant step forward towards a functioning education market that benefits all pupils, rich and poor alike.

2. The Free Schools Programme and its Limitations

2.1 Supply-side problems

Primary and secondary education has undergone a minor revolution since the 2010 Academies Act. While the free school programme has introduced a degree of choice and competition to the local schools landscape in some areas of the country, the chief gain of the Academies reform has been to increase de jure autonomy among schools that chose or were sponsored to convert to Academy status. The expectation was that the reform would improve standards across all schools in these areas as they competed with one another to attract pupils, and perhaps even further afield as new centres of innovation and excellence emerged to challenge existing practices.

Unfortunately, the limited scale of new school development, and the need to build in extra capacity to meet demographic changes, have conspired to mute the likelihood of any system-wide positive competition effects. Without further comprehensive reform of both the demand and supply of schooling, school choice reforms can only result in minor positive effects at best.[2]

2 Gabriel H. Sahlgren, *Incentivising Excellence: School Choice and Education Quality* (Centre for Market Reform of Education, 2013).

Although the free school programme has expanded the number of schools on offer, supply is still restricted by the availability of capital. After a slow start, 174 free schools had been opened by September 2013,[3] with a further 102 approved for opening in 2014.[4] Relative to the previous rate of new school development over decades, this is impressive, but neverthless represented less than one per cent of all schools based on statistics from January 2013.[5] Because the great majority of all new school premises are purchased or leased by the government, which has also undertaken to meet other start-up costs, new supply must inevitably be limited to what the Department for Education (DfE) capital budget can accommodate.[6]

This would be the case regardless of how convincing the many applications received have been. The process of deciding which schools should be approved is therefore necessarily political. Ultimately, it is more about who you know, and the leverage they can get for you, than the strengths of the proposer group and the merits of the application itself.

The political nature of free school decision-making is strikingly evidenced by the fact that even the support of the New Schools Network (NSN) – a government-funded charity founded for the purpose of helping groups through the process of applying – is not sufficient to guarantee success. Even groups with particularly strong applications that are upgraded to the NSN's 'Development Programme' do not always get approval. In 2012, 84% were approved, while in 2013 only 76% were approved.[7] The approval rates for more mainstream applications through NSN's Universal Service are even lower, receiving considerably less support.

Another problem is that an additional layer of scrutiny has been added to the process for proposers responding to local authority (LA) invitations to tender.

3 'Open Free Schools,' *The Department for Education*, September 3, 2013, https://www.education.gov.uk/emailer/schools/leadership/typesofschools/freeschools/b00222175/open?if=1.

4 'More than 100 Free Schools Applications Approved,' Press Release, Gov.uk, 22 May 2013, https://www.gov.uk/government/news/more-than-100-free-schools-applications-approved.

5 There were 24,328 primary and secondary schools in England in January 2013. 'How Many Schools Are There in England?,' *The Department for Education*, July 22, 2013, http://www.education.gov.uk/emailer/popularquestions/a005553/how-many-schools-are-there-in-england?if=1.

6 The overall cost of maintaining the supporting apparatus, on both DfE and NSN sides of the table, and of preparing the applications themselves (which extends, for applications on the NSN's Development Programme, to covering proposers' market research, or 'local need'), are also relevant here. These costs in effect relate to weeding out all but the strongest applications, a process which under a more liberal establishment regime would be borne by the private and voluntary sectors exclusively in the course of due diligence on investment.

7 http://www.newschoolsnetwork.org. Accessed 21st October 2013.

Having convinced the LA, the preferred supplier's application is then submitted to the DfE for approval, who may ask additional questions and impose additional requirements. They must satisfy both local and central government requirements, making the process of setting up a new school extremely complex and convoluted. Essentially, it dilutes the process of setting up schools to competitive tendering for school development that the LAs do not wish to pursue themselves.

In conclusion then, though free schools have brought a degree of choice and competition to the local school landscape, there are still significant constraints at work, and we should not expect to see any positive, system-wide, competition effect from what has been achieved to date.[8]

2.2 Demand-side challenges

Even had the number of schools on offer been significantly increased, there remain additional constraints on the effective exercise of choice within the English system, which unless they were to be addressed through supporting reforms, would be likely to curb any positive effects that might result.

In an ideal scenario, parents would be able to easily choose between different schools in an area on the basis of the quality of their education. This, in turn, would mean that high-performing schools would attract pupils, and low-perform-

8 This does not mean that there may not be positive 'choice effects' following from the wider academisation of the system – the result of better matches between pupils and schools – or 'school effects', from the simple reallocation of pupils from worse to better schools (Sahlgren, *Incentivising Excellence*, 1–2). As more and more state schools convert to relatively autonomous Academies, these effects could be relevant already. As of October 7th 2013, there were 3,364 Academies open in England, accounting for around 70% of state-funded mainstream secondary schools. This was up from 42% in July 2012, and 21% in July 2011 (*Academies Annual Report: Academic Year 2011 to 2012* (London: Department for Education, 12 June 2013). At present, we know little about the impact of this conversion. The sponsored Academies created under the Blair and Brown governments appear to have had small, but statistically significant, positive effects on children's attainment (though not among the lowest performing pupils) (Stephen Machin and James Vernoit, *Changing School Autonomy: Academy Schools and Their Introduction to England's Education* (London: Centre for the Economics of Education, London School of Economics, April 2011); Stephen Machin and Olmo Silva, *School Structure, School Autonomy and the Tail*, Centre for Economic Performance Special Paper (London: Centre for Economic Performance, London School of Economics, n.d.). but because the Academies that converted after the 2010 Academies Act are vastly different, it is difficult to draw conclusions from this research. It is worth noting, however, that the rapid extension of the Academies conversion programme since 2010 could theoretically improve educational quality through school effects even if the supply of schools remains constrained by political considerations. This is because greater autonomy for schools is associated with improved educational quality (Eric A. Hanushek, Susanne Link, and Ludger Woessmann, 'Does School Autonomy Make Sense Everywhere? Panel Estimates from PISA,' *Journal of Development Economics* 104 (September 2013): 212–232.

ing schools would have incentives to improve the quality of the education they offer to pupils or else face closure as pupils leave.[9] The presence of the latter 'competition effect' is borne out by the cross-national evidence from PISA and TIMMS scores: national private school choice programmes around the world result in the improvement of all schools, rather than simply introducing newer schools offering education superior to the status quo to the exclusive benefit of those attending them.[10] The cross-national evidence also suggests that private-school competition decreases the impact of parental background in the education system, raising equity.[11]

Nevertheless, such research does not always take into account that most systems worldwide suffer from significant flaws; the ability of choice programmes to deliver strong positive competition effects is therefore highly dependent on the rules by which schools must compete with one another.[12] The results of cross-national research therefore most likely represent only the lower-bound positive effects that choice programmes might bring to education. If an English school choice programme is to do better than other countries and make a significant positive impact on educational quality, then it is crucial that it meets the following design conditions.

First, for parents to be discerning in their choice of schools, they must have enough information, and they must have the right information. This is particularly the case with 'hard' measures of quality, relating to educational achievement, as parents themselves are usually better placed to judge 'softer' measures such as their child's happiness, engagement or satisfaction with the school. Overall improvements in educational attainment only results when parents choose better schools and leave worse ones. If parents are misled as to which are the best schools; if the information on offer is insufficient for them to be discerning; or if it is either oversimplified or overcomplicated; then any positive effects will be reduced.

9 Caroline Minter Hoxby, 'School Choice and School Productivity. Could School Choice Be a Tide That Lifts All Boats?,' *NBER* (January 1, 2003): 287–342.

10 Sahlgren, *Incentivising Excellence*.

11 Gabriel H. Sahlgren, *Dis-Location: School Choice, Residential Segregation and Educational Inequality*, Research Report (Centre for Market Reform of Education, 2013), http://www.cmre.org.uk/dislocation.

12 Terry M. Moe, 'Beyond the Free Market: The Structure of School Choice,' Brigham Uniersity of Law Review 2008, no. 2 (2008): 557–592; Sahlgren, *Incentivising Excellence*.

Information about schools must also take account for the diversity of parents' and pupils' preferences. Definitions of 'good' or 'bad' schools are often different, and so school profiles must include a wide range of indicators of good educational quality.[13] Without this appreciation of diverse parental preferences, any competition effects might skew schools' efforts at improvement towards only a particular kind of outcome, while neglecting other types of value to parents and society. Furthermore, a system that appreciates the diversity of parental and student needs is one that will be able to achieve greater positive choice effects as pupils are better matched to the schools they require.

Second, even when parents are informed about their choices, they are not necessarily willing to act upon that information. In the rare cases when parents are disinterested in the education of their children, or do not make an effort to secure the school with the highest educational achievement for them, then positive effects may be undermined. Parental apathy regarding school choice, albeit relatively rare, can also weaken the incentives for schools to improve. Among parents of some of the lowest socio-economic backgrounds, parental apathy is more likely to perpetuate poor schooling because parents are not motivated to choose better schools. It therefore reduces the incentives to improve that those schools might otherwise have. This is borne out by evidence to suggest that, for whatever reason, parents from lower socio-economic backgrounds are more likely to choose primary schools on the basis of proximity rather than quality.[14]

Nevertheless, the presence of an informed minority of scrutinous parents may still substantially benefit all parents. Not all consumers shop around for their goods and services, but all consumers benefit from the effect that results from providers competing with one another to retain the scrutinous minority. A boost in the supply of schools can therefore further mitigate the effects of parental apathy, by making it easier for this minority of choosy parents to move pupils to better schools and by increasing competition among the existing ones. Provided the correct incentives, choice among pupils from more discerning families would thus induce stronger competition effects that would in turn challenge schools catering to pupils from less discerning families to improve.

13 Stephen Gibbons, Stephen Machin, and Olmo Silva, 'Valuing School Quality Using Boundary Discontinuities. CEE DP 132.,' *Centre for the Economics of Education* (NJ1) (January 2012), http://eric.ed.gov/?id=ED529786.

14 Simon Burgess et al., 'Parental Choice of Primary School in England: What Types of School Do Different Types of Family Really Have Available to Them?,' *Policy Studies* 32, no. 5 (September 2011): 531–547, doi:10.1080/01442872.2011.601215.

Third, even when parents are both informed and willing to choose the best schools, the current system deters them from acting upon those informed preferences. Those who cannot afford private schooling or to move house closer to good schools may only choose from the available state-funded schools in their area. Their choices are then further constrained by proximity-based admissions criteria such as distance from the school and catchment areas. These admissions criteria are used by around 93% and 61% of non-grammar primary and secondary schools respectively (including Academies and free schools). Indeed, the most important reason why pupils from less privileged backgrounds are less likely to go to good schools is simply because of where they live.[15] Further criteria may also work against children from lower socio-economic backgrounds, for example where schools prioritise applications based on the presence of siblings in the school (in 97% of non-grammar secondary state schools), on religious grounds (17%), or based on designated 'feeder' schools (38%).[16] More recently, children of parents who are in the armed services have begun to take priority.[17] Clearly these criteria either favour directly, or may be 'played' to the further advantage of, already advantaged middle-class parents.

Siblings, religion, and the military aside, there has until recently been an added risk for parents in demonstrating a preference for good schools that are further away from where they live. Before 2008, the First Preference First system ensured that the parent's first choice of school from a ranked list of three would be considered, with tie-breaking admissions criteria like proximity and catchment areas applied to that first school. Only then would the second and third choice schools be allocated if they failed to get into their first preference school, thus putting them at risk of not getting into a good school at all by not playing it safe with closer schools as their first choice. As Allen, Burgess and McKenna point out, 'this was a problem to the extent that it required strategic action on the part of parents because second and third schools would often be filled by other pupils who ranked it as their first choice'.[18]

15 Simon Burgess and Adam Briggs, 'School Assignment, School Choice and Social Mobility,' *Economics of Education Review* 29, no. 4 (August 2010): 639–649, doi:10.1016/j.econedurev.2009.10.011.

16 Anne West, Eleanor Barham, and Audrey Hind, *Secondary School Admissions in England: Policy and Practice* (London: Education Research Group, London School of Economics and Political Science, March 2009).

17 'Support for Service Children- Schools,' accessed October 3, 2013, http://www.education.gov.uk/schools/pupilsupport/pastoralcare/a00212882/service-children.

18 Rebecca Allen, Simon M. Burgess, and Leigh S. McKenna, 'The Short-Run Impact of Using Lotteries for School Admissions:,' *Transactions of the Institute of British Geographers* 38, no. 1 (2013): 151.

Fortunately, this system was banned under the 2007 School Admissions Code in 2008, to be replaced by an Equal Preferences list of around three unranked schools that would be considered at the same time.[19] This destroyed a significant barrier to competition by requiring less strategic thinking from parents, and allowing a freer choice of schools. Parents under the current system since 2008 are thus able to prioritise good schools rather than making trade-offs that force them to potentially sacrifice applications to better schools in favour of more secure applications to mediocre schools. Nevertheless, the three equally preferred schools that they apply for still use proximity-based criteria to determine which applications are successful in the event of over-subscription. Thus, there are still risks for parents associated with applying for better schools outside of their locality. Indeed, even Equal Preferences lists of around three schools can restrict choice, and thereby competition.[20] There should not be a cap on the expression of preference, except perhaps on health/welfare grounds to prevent children spending too long travelling to and from school.

Proximity-based admissions systems result in the positive effects of choice and competition being reduced. Due to its location, a poor school may remain the default school for a given area. Deterrents inherent to such systems mean that the ability of good schools to attract new pupils is also compromised. This situation does not create strong incentives for either existing or new schools to improve their standard of education. To do so, the movement of pupils between schools and communities must be significantly eased.

19 'School Admissions Code' (Department for Education, February 1, 2012), http://media.education.gov.uk/assets/files/pdf/s/school%20admissions%20code%201%20february%202012.pdf.

20 Caterina Calsamiglia, Guillaume Haeringer, and Flip Klijn, 'Constrained School Choice: An Experimental Study,' *American Economic Review* 100, no. 4 (September 2010): 1860–1874, doi:10.1257/aer.100.4.1860.

3. Demand-side reform to stimulate supply – and supply-side reform to satisfy demand

The demand-side challenges discussed above must be addressed if supply-side reforms are to have a significant positive effect on educational achievement at a system-wide level. Provided the necessary supporting reforms are in place, demand-led reform could accelerate expansion of supply with positive effects for both quality and equity.

To a large degree we already have a de facto voucher, so implementation would be a matter of developing present school funding arrangements. In 2008, at least 75% of primary school and 85% of secondary school funding followed pupils to parents' preferred state schools. Indeed, this represents only the lower bound of the true proportion that follows pupils: many of the additional sources of funding, such as per-pupil funding for those with special educational needs (SEN) represent de facto differentiation of the voucher to account for the higher costs of educating them.[21] Additionally, since 2011, two of the main sources of non-pupil-led funding – the School Standards Grant and the School Development Grant – have

21 Luke Sibieta, Haroon Chowdry, and Alastair Muriel, *Level Playing Field? The Implications of School Funding*, Research Paper (London: CfBT Education Trust, 2008), 56.

been phased out and incorporated into the per-pupil funding system. The current system is therefore one in which funding already largely follows pupils, albeit only to state schools. As argued in the next section, however, replacing today's de facto voucher with an actual voucher is an important change to the current system. Nevertheless, we note that the current practice of per-pupil funding is in essence no different from using a voucher to fund schools. The question is rather which schools should be eligible for the voucher funding and how they should be approved.

As noted in the previous section, there are still significant inhibitors to parents' ability to exercise a free and informed choice of school on the basis of education quality. A more demand-led programme, achieved mainly via supply liberalisation, would make education more equitable, breaking down the barriers to private school entry, and expanding the choices available to families from lower socio-economic backgrounds to bring them in line with families from higher socio-economic backgrounds who can already afford it. It would mean that parents could access good 'out of catchment' state schools without having to move into those catchment areas. Since most schools would be dependent on the voucher for funding, competition in education would increase significantly. Even fee-charging independent schools that do not accept voucher-funded pupils would probably be affected, since they would have to compete with both improving state schools, and fee-charging independent schools that receive voucher-funded pupils.

In order to receive voucher-funded pupils, all schools would have to sign up to minimum criteria. However, these criteria should be kept as minimal as possible. As noted already, greater autonomy for schools often results in their ability to improve educational outcomes. Thus, positive school effects must be ensured through a more liberal establishment regime, which only puts minimum requirements on schools.

3.1 Relieve the free schools programme of its burdens

In essence, our proposal is not a radical change of government policy, but merely a continuation. This is because the free schools policy has already established that new, independently operated schools can be funded in the form of a de facto

voucher. Parents and non-profit groups start schools and the government provides the per-pupil funding. This is a de facto voucher system, but it is strongly circumscribed because of the way free schools are approved and set up. The biggest change from current government policy would thus simply be to liberalise the free schools application process. The current process to apply and be approved as a free school is unnecessarily difficult and complicated. What should be an invitation to establish schools is in reality an invitation to compete to become one of the lucky few schools that are approved after fulfilling onerous criteria, such as having to cater to specific communities. The Swedish case is again important here: it is relatively easy to set up new schools there. This is not tantamount to free establishment, but as long as they meet minimum requirements, which are rather lax, they are very likely to be approved.

The English free schools application process is unnecessary, and Ofsted could take over full responsibility for approving new schools. As things stand, free schools are already put through Ofsted pre-registration inspection against the independent school standards. This inspection considers how well the school is set up to ensure the spiritual, moral, social and cultural development of its pupils, as well as to secure their welfare, health and safety. Inspectors check the school's safeguarding policies as well as health and safety protocols, and ensure that procedures for checking the suitability of staff are appropriate. As also is the case with regular independent schools, thereafter inspections typically take place in the school's second year of opening. If this already rigourous vetting process is not sufficient, Ofsted might undertake the two visits currently made by DfE advisers to assess the standard of education in the school's first and fourth terms – but there is no need for the current elaborate authorisation process.Put plainly, the free schools policy, which was borrowed from Sweden, should be more Swedish.

A natural consequence of the more liberal establishment regime is (1) to allow profit-making schools accepting government money, and (2) the phasing out of capital funding. Allowing for-profit operators to own and run schools is a crucial element to make the programme cost-effective. Profit-making schools can attract capital and have stronger incentives to grow and capitalise on scale economies. The evidence from Sweden suggests that for-profit schools might be essential for this process.[22] Allowing for-profit schools would also be cheaper since these would be forced to find their own funds for upfront capital costs from investors.

22 Sahlgren, *Incentivising Excellence*, 153

Our proposal would require funding for upfront capital costs to be abolished. This is a good thing: the current situation is too expensive to be sustainable. And it would certainly be so if we were to allow a more liberal establishment regime. By providing capital for new schools, the government also removes the market process of exposing bad proposals. Profit-making schools will have to persuade investors that they are likely to succeed in the marketplace, while non-profit schools have to persuade philanthropists and charities that they will do so. The goal should be that all schools' upfront capital costs are funded by third-party organisations, whether private or non-profit. Competition rules should also be neutral with respect to ownership structure, so it is not viable in the long run to continue funding non-profit schools' capital costs only.

By phasing out funding of upfront capital costs and allowing Ofsted to approve new schools, we are essentially proposing to dismantle the current complex and politicised process by which new schools are started in England. This means that perfectly good educators no longer have to be turned away because of a lack of funding. With no funding of upfront capital costs, the free schools application apparatus no longer has to be maintained. Liberalising the application process by allowing all schools that meet minimum requirements and can fund themselves to set up also minimises the risk of a politicised application process, which undermines choice and competition from materialising more than marginally.

A final important liberalisation effort would be to liberalise planning laws and building requirements for schools. Exempting new schools from all local planning investigations would be the 'big bang' approach to stimulate the ability of providers to set up up new schools.[23] At the very least, schools should be exempted from unnecessary building requirements.

3.2 Allowing existing private schools to opt in

By opening fee-charging independent schools signing up to the established criteria to applications from voucher-subsidised pupils, significant spare capacity would be unlocked. A 2011 Adam Smith Institute study calculated this to be in

23 Anna Fazackerley, Rachel Wolf, and Alex Massey, *Blocking the Best: Obstacles to New, Independent State Schools*, Policy Report (London: Policy Exchange and New Schools Network).

the region of 58,000 places.[24] Providing the means whereby these schools could take voucher pupils would also be likely to stimulate their expansion. Essentially, existing schools wishing to open up to this market would simply sign up to the minimum requirements for per-pupil government funding covering the pupils who are funded by the voucher rather than private money. Apart from that, nothing has to change.

24 This excluded those at Special schools and at those exclusively catering for pupils with emotional, social and behavioural difficulties, James Croft, *Profit-Making Free Schools: Unlocking He Potential of England's Proprietorial Schools Sector* (London: Adam Smith Institute, 2011), 48.

4. Supporting reforms necessary

Nevertheless, for these reforms to achieve their potential, a number of other supporting reforms are necessary. The government should:

4.1 Improve information provision

First, in order to achieve measures of school quality that adequately reflect the varying preferences of parents as well as the need for effective competition, a wide choice of measures should be presented to parents. Competition between different information providers would likely result in gradual improvements in the quantity, quality and accessibility of that information for parents.[25] As a first step to this end, the government's expansion of access to anonymised data from the National Pupil Database and other sources is therefore welcome. This should give approved providers the opportunity to study, interpret and render for wider consumption more fine-grained information about school performance. Better raw

25 Sahlgren, *Incentivising Excellence*, 167.

data should enable both existing and new information providers to produce better information metrics. [26]

The government's current proposals to scrap the emphasis on pass rates in league tables, and focus instead on value added scores (the progress of pupils from Key Stage 2 to 4) is also potentially a step in the right direction.[27] The focus on school effectiveness rather than raw statistics (which mostly measure pupil ability) is welcome. However, it is crucial to understand that many schools in the country do not differ significantly from each other on the value added measures. Indeed, only 63% of schools can be separated from one another with confidence.[28] Furthermore, there is very little stability in value added measures – no schools have clearly positive value added scores for five consecutive years. This is most likely because of missing data and measurement errors in test scores, but it means that it is currently very risky to use value added scores as an accountability measure: 'Until their problems have been resolved by further development to handle missing and erroneous data, value-added models should not be used in practice'.[29]

The government should thus be careful when focusing on value added scores for use in league tables. The purpose of competition among information and data providers would be to produce better measures than those currently available. There is no reason why government must provide league tables at all. By providing the data necessary, it can let other groups provide various measures to guide parents' choices. The fact of the matter is that nobody is really sure about what type of information should be produced in the market. That is why competition between information providers, which produces a discovery process, is so crucial.

Liberalising supply would work to open up options for parents. By reforming schools' admissions criteria to sever the link between proximity and school at-

26 Jill Sherman, 'Parents to See Schools' Data on Peer Performance,' *The Times (London)*, November 1, 2013, sec. News, http://www.thetimes.co.uk/tto/news/uk/article3909882.ece.

27 Graeme Paton, 'League Tables Overhauled in 'Coasting Schools' Crackdown,' *Telegraph.co.uk*, October 14, 2013, sec. educationnews, http://www.telegraph.co.uk/education/educationnews/10378164/League-tables-overhauled-in-coasting-schools-crackdown.html.

28 George Leckie and Harvey Goldstein, 'The Limitations of Using School League Tables to Inform School Choice,' *Journal of the Royal Statistical Society: Series A (Statistics in Society)* 172, no. 4 (2009): 835–851, doi:10.1111/j.1467-985X.2009.00597.x.

29 Stephen Gorard, Rita Hordosy, and Nadia Siddiqui, 'How Unstable Are 'School Effects' Assessed by a Value-Added Technique?,' *International Education Studies* 6, no. 1 (November 12, 2012), doi:10.5539/ies.v6n1p1.

tendance, schools coasting on past reputation and enjoying the benefit of having pupils with higher socio-economic profiles would be subjected to competitive pressures from previously out-of-catchment schools.

4.2 Differentiate funding to counteract cream skimming

Great care must be taken to ensure that 'cream skimming' does not occur, whereby schools only choose to admit pupils of already-high attainment, or from higher socio-economic backgrounds. Cream skimming occurs when schools seek to improve their average performance simply through selection of pupils rather than from actually raising the quality of the education that they offer.[30] Cream skimming lessens the pressure on schools to improve and maintain the education they provide to pupils. In theory, if schools focus their efforts on taking on pupils from supportive backgrounds, they do not need to put as much effort into improving the quality of instruction and education. Pupils attending those schools whose performance is mediocre will always be in a minority and will tend to be 'swallowed up' statistically in results tables. Those from lower socio-economic backgrounds will be unlikely to get a look in at all. Without measures to prevent cream skimming, which provide incentives for new schools to improve the education of all pupils, the effect would be more akin to a resource grab, with schools simply trying to attract as many bright kids as possible to boost their place in the league tables. Any choice programme should therefore be designed to prevent this from occurring.

Fortunately, cream skimming can be reduced through the differentiation of funding: because of the greater cost of educating children from disadvantaged backgrounds, this means that the amount of funding contained in any voucher should be dependent on the socio-economic background or academic performance of the child.[31] Levels of funding should reflect the cost of educating a child to a

30 W. Bentley MacLeod and Miguel Urquiola, *Anti-Lemons: School Reputation and Educational Quality*, Working Paper (National Bureau of Economic Research, June 2009), http://www.nber.org/papers/w15112.

31 Dennis Epple and Richard E. Romano, 'Economic Modeling and Analysis of Educational Vouchers,' *Annual Review of Economics* 4 (July 2012): 159–183.

certain level based on their initial human capital.[32] Schools in areas with a high percentage of underprivileged children, receiving a greater level of funding as a result, are thus also in a better position to attract and retain high-quality teachers. Differentiated funding thus creates incentives for schools to take on pupils from disadvantaged backgrounds, while bolstering those schools' abilities to attract high-quality staff.

Happily, such a development would run very much with the grain of government policy. To some extent, this behaviour has been evident for some years in the dynamic supply of local authority funded private schools for pupils with special education needs (SEN) and social, emotional and behavioural difficulties. The principle was also extended before 2010 into mainstream settings to address milder SEN and disadvantages, albeit with considerable delays in how responsive this funding was to changing pupil populations from year to year.[33] However, since 2011, the introduction of the Pupil Premium has increasingly simplified this funding so that schools receive more immediate support to account for the greater costs of educating pupils from less privileged backgrounds.[34] This additional funding is paid to all schools, with Academies receiving it directly from the Education Funding Agency (EFA), while other schools must wait for their local authorities to pass it on in quarterly instalments. However, due to the growing proportion of schools that are Academies, schools are increasingly paid per pupil and given their Pupil Premium directly by the Education Funding Agency rather than through allocations made by local authorities.

The proposed National Funding Formula, announced during the 2013 Comprehensive Spending Review and planned for 2015-6 is an opportunity for the government to improve differentiation of funding for schools.[35] Prior to its introduction, local authorities were able to set their own funding formulas using over 35 different criteria, resulting in the amount of funding per pupil that otherwise identi-

32 Claudio Sapelli, 'The Chilean Voucher System: Some New Results and Research Challenges,' *Cuadernos de Economía* 40, no. 121 (December 2003), doi:10.4067/S0717-68212003012100020.

33 Sibieta, Chowdry, and Muriel, *Level Playing Field? The Implications of School Funding*; Haroon Chowdry, Ellen Greaves, and Luke Sibieta, *The Pupil Premium: Assessing the Options*, IFS Commentary (London: Institute for Fiscal Studies, March 2010).

34 'Pupil Premium- What You Need to Know,' *The Department for Education*, May 22, 2013, http://www.education.gov.uk/schools/pupilsupport/premium/a0076063/pp?if=1; Chowdry, Greaves, and Sibieta, *The Pupil Premium*.

35 Richard Adams, 'George Osborne Promises National Funding Formula for Schools,' *The Guardian*, 26 June 2013: http://www.theguardian.com/education/2013/jun/26/george-osborne-funding-formula-schools.

cal schools received being highly dependent on their location. In a sense, this system resulted in a 'postcode lottery' of school funding. A national formula is intended to introduce more uniformity when it comes to the incentives that schools face, and if applied correctly, could result in school incentives being realigned towards improving educational outcomes for all. It is also aimed at uniformalising funding arrangements for Academies and other maintained schools.

Indeed, on current analyses, it is expected that the introduction of this formula will reduce the number of funding allocation criteria to only ten, involving a basic per-pupil rate, along with additional differentiated per-pupil funding for SEN, FSM, children with need of additional English language education, looked after children, and for pupils on the Income Deprivation Affecting Children Index (IDACI). The aim of the NFF is thus for a more equitable and transparent means of allocating funds to follow pupils.

A National Funding Formula will make it easier for non-state schools to be brought into the new system of generalised voucher funding. Whereas government funding for a non-state school would before have depended on their local authority, a national scheme can set out clear rewards and incentives for new schools or existing fee-charging independent ones to follow It is important to remember that differentiation is about the relative costs to schools of educating pupils in order to create the right incentives: the same effects could be achieved by decreasing funding for pupils from privileged backgrounds,[36] though this would be a politically riskier implementation strategy since it would require more careful calculation of the base costs of educating any child within the present state-funded system. It clearly risks constraining funding to schools, with potentially negative consequences. Not only is funding differentiation more equitable than a flat-rate voucher, but it would also prevent cream skimming from reducing the positive effects of competition. The main point is that it is important to price pupils correctly relative to how other pupils are priced.

In practice, differentiation of vouchers can be done in many different ways. It is unlikely that governments will be able to set relative prices correctly from the beginning. But it is possible to get prices approximately right, and to adjust them in hindsight when it is possible to take into consideration parents' and schools'

36 Sahlgren, *Incentivising Excellence*, 140.

revealed preferences.[37] It is also possible to use the pupil application system to unveil preferences among schools for different types of pupils. This idea is based on the work of Al Roth and Lloyd Shapley, winners of the 2012 Nobel Prize in economics, who developed a school-pupil matching formula to ensure that actors have incentives to state their actual preferences rather than to act strategically. This is based on the same principles as the Equal Preferences application system (discussed in Section 2.1), currently in use in England.

Hoxby has discussed the method as an explicit way of differentiating voucher funding.[38] First, the government sets the value of the voucher and specific add-ons like the Pupil Premium for example for pupils with SEN, FSM, IDACI or additional English language requirements. Initial voucher values could be set by estimating how these pupil categories affect house prices before the changes to the admissions code aproposed below are carried out.

The next step, using a preference system, would be for parents to rank schools they would like their children to attend in order of preference, forming as long a list of schools as they wish. Schools, meanwhile, would be blind to parents' ranking, while ranking pupils in order of preference. If the relative prices between different pupil categories happen to be correct, then schools should be no more likely to prefer pupils from specific categories than others. For example, schools should be indifferent if they enrol a poor pupil or a rich pupil. This could be checked by statistical tests.[39]

If, on the other hand, there is a statistically significant difference between schools' preferences for different groups, then relative prices have been set incorrectly. The coefficient in these statistical tests would also determine how much/less funding certain pupil groups should receive relative to others. Once this is known, the government can adjust the relative voucher value for different pupil categories in accordance with the statistical estimates. We then repeat the procedure where schools rank their applicants, taking into consideration the changes in voucher for each pupil category. If there are still deviations between pupil categories, the

37 Caroline M. Hoxby, *School Choice: The Three Essential Elements and Several Policy Options* (Wellington, New Zealand: New Zealand Association of Economists, Education Forum, August 2006).
38 Caroline M. Hoxby, 'Ideal Vouchers,' Unpublished Manuscript (Harvard University, Cambridge, MA, 2001).
39 The regular minimum levels of statistical significance ($p<0.1$ or $p<0.05$) need not necessarily apply. It depends on just how sure policymakers want to be that schools do not prefer some groups to others.

adjustment and ranking procedure is repeated until the statistical tests find no relative preference for specific pupil groups among schools.

This system is essentially gaming proof in the sense that schools cannot give false preferences because different groups are incorrectly priced from the beginning. This would be the case even if schools could select pupils. If, for example, a school ranks pupils from a certain group highly because they think the current add-on is higher than warranted and want to take advantage of this fact, they will in fact reduce the add-on for this category of pupils with the process described above.

Of course, the method described is just one way of differentiating the voucher, and it should not be viewed as a fully-fledged proposal; it is likely to require a more developed framework, but the main point is to display a potential practical application of the idea behind differentation. As long as relative prices can be adjusted in hindsight to take into account any initial mispricing, then differentiation of the voucher will function effectively.

4.3 Ensure funding follows pupils even more closely

As noted above, funding already largely follows pupils. Nevertheless, funding can still be allocated by local authorities on the basis of fixed capital costs, and in lump sum payments for when tiny schools efficiently serve sparsely populated rural areas. If the positive effects of competition are to be felt, then schools must not be cushioned from any disincentives.[40] In the event of failure, schools must be encouraged to reinvent themselves radically or else face being taken over by new management. There is evidence to suggest that reinvention of failing schools is generally unlikely to succeed, even when they are given additional funds for improvement.[41] The London Challenge is often upheld as a successful turnaround collaboration programme, but there is thus far no rigorous evidence that this is the case. There might have been other changes that contributed to improvements in

40 Caroline M. Hoxby, 'School Choice and School Competition: Evidence from the United States,' *Swedish Economic Policy Review* 10, no. 2 (2003): 9–65.

41 Betheny Gross, T. Kevin Booker, and Dan Goldhaber, 'Boosting Student Achievement: The Effect of Comprehensive School Reform on Student Achievement,' *Educational Evaluation and Policy Analysis* 31, no. 2 (June 1, 2009): 111–126, doi:10.3102/0162373709333886.

London schools at the same time. For example, London has got a lot richer over time in precisely those areas where schools have improved the most.[42] Regardless, pointing at one specific case of school improvement cannot be the basis of a national policy, as indicated by patchier evidence of school improvement following similar programmes in Manchester and the Black Country.[43]

In general, de facto closure of a school accompanied by an overhaul of staff is what usually happens in the rare cases that radical turnarounds do occur.[44] This suggests that removing the artificial supports that prevent schools from failing is important to ensuring their efficient reinvention as institutions capable of raising educational outcomes.[45] Fortunately, government policy seems to be moving in this direction with regards to the capping and gradual phasing out of lump sum grants: 'shared governance, federation and joining an Academy chain are just some solutions which might help small schools to continue to succeed. It would be unfair to allow subsidies to continue to reach schools with a few pupils, at a significant cost to the schools with the majority of pupils.' [46]

4.4 Limit scope for the application of selection criteria and abolish proximity-based tie-break devices

In the long run, with a strong supply-side dynamic in which good schools expand and bad schools contract, the role of tie-break devices is likely to diminish in importance. But in the short run, the proposed programme would require a significant upheaval of the current proximity-based admissions code if parents of all socio-economic backgrounds are to be offered real alternatives when it comes to school choice. The current system favours parents from higher socio-economic

42 Sam Freedman, 'Why Are London Schools Doing so Well?,' October 26, 2013, http://samfreedman1.blogspot.co.uk/2013/10/why-are-londons-schools-doing-so-well.html

43 Merryn Hutchings et al., *Evaluation of the City Challenge Programme*, Research Report (London: Department for Education, Institute for Policy Studies in Education, June 2012).

44 Thomas Dee, *School Turnarounds: Evidence from the 2009 Stimulus*, Working Paper (National Bureau of Economic Research, April 2012), http://www.nber.org/papers/w17990.

45 Rebecca Allen and Simon Burgess, *The Future of Competition and Accountability in Education* (London: 2020 Public Services Trust, 2010).

46 *School Funding Reform: Arrangements for 2013-14* (London: Department for Education, 2012), 9:https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/244364/school_funding_reform_-_final_2013-14_arrangements.pdf.

backgrounds, who can afford to move house into the catchment areas of good schools, which are almost always over-subscribed. As Burgess and Briggs have shown, location is the single most important factor that accounts for why a child from a poor family is only half as likely to attend a good secondary school as a non-poor child.[47] Proximity-based admissions not only ensure that such schools are often able to escape real competitive pressures to improve (because they are able to coast on the advantage of affluent catchments), but they also result in exactly the opposite effect of that intended – highly inequitable access. Lacking adequate measures of

value-added, privileged parents will move closer to schools whose pupils achieve the desired results often without considering how they are achieved.[48]

Supply-side reform is already going some way to rectifying the problems associated with the current proximity-based system. By boosting the number of schools in a given area, the effect of proximity is reduced through increasing capacity, and the possibility of positive competition effects is increased. The current free school programme is improving this situation in some areas by encouraging new schools to set up, but halting state capital funding, lifting restrictions on the type of ownership and governance structures required, cutting admissions requirements, and exempting new schools from planning regulations governing the type of building that may be used for this purpose are all important for diluting the effect of the present proximity-based system. Differentiated funding reform would further this effect and address a predictable tendency for new providers to prefer or prioritise affluent areas.

However, so long as proximity is permitted as a tie-breaking device in the event of oversubscription, this will continue to have a selective effect on the intake of already good schools. But what should the alternative be? Various forms of academic selection practices could be beneficial since they give schools better ability to specialise on certain types of pupils among whom they might have a comparative advantage. Yet there are risks with selection practices as well, for example because they give schools stronger ability and incentives to compete by cream skimming.[49] This is especially the case when information is not good enough, as

47 Burgess and Briggs, 'School Assignment, School Choice and Social Mobility.'
48 Gibbons, Machin, and Silva, 'Valuing School Quality Using Boundary Discontinuities. CEE DP 132.,' 39.
49 MacLeod, W. Bentley, and Miguel Urquiola. *Anti-Lemons: School Reputation and Educational Quality*

is the case today. Furthermore, Chilean research suggests that selection practices often effectively bar pupils in low-performing schools from attending high-quality alternatives nearby, thereby reducing the scope for choice significantly.[50]

A more equitable solution, together with the introduction of differentiated funding, would be to introduce random assignment. Unfortunately, although technically permissive of the practice, the government chose in its recent revision of the Admissions Code, to remove previously open-minded references to its promise as a device for resolving tie-break scenarios (paragraph 2.33 of the previous code) and to ban local authorities from using this method for all schools.[51] Random assignment is in theory the most neutral way of resolving cases of over-subscription, being blind to socio-economic background, and to pupil ability. Were it manadated as the principal means of resolving these situations, it would eliminate the possibility of richer parents having an unfair advantage over pupils from lower socio-economic backgrounds.

This is not to suggest a return to the experience of Brighton and Hove in 2008. In cases of over-subscription for schools, the idea is that the majority of parents' applications are randomly ranked, disregarding catchment areas completely. Brighton and Hove did two random allocations, first to rank applicants who live within catchment areas, and then to rank applicants from outside those zones. The problem was that catchment areas continued to be used, merely replacing proximity as the tiebreaker.

Allen, Burgess and McKenna found that segregation was reduced within these catchment areas, particularly where the catchment areas of rival schools overlapped, but that their retention prevented segregation from being reduced in the area as a whole, at least in the short term.[52] Thus, they concluded that random assignment does work to reduce the barriers to accessing good schools for poor children, but catchment areas must either be carefully determined or abolished outright if the effect is to be seen.

The problem with randomised tie-breaking devices is that they significantly reduce

50 Gregory Elacqua, Matías Martinez, Humberto Santos, and Daniel Urbina, 'School Closures in Chile: Access to Quality Alternatives in a School Choice System', *Estudios de Economía* 39, no 2 (2012): 179–202.

51 Alexander Campbell, 'The changing face of school admissions', http://www.hardwicke.co.uk/insights/articles/the-changing-face-of-school-admissions

52 Allen, Burgess, and McKenna, 'The Short-Run Impact of Using Lotteries for School Admissions.'

some parents' control over the process of ensuring a place for their child. Lotteries tend to be highly unpopular with better-educated and wealthier parents who are the ones most likely to be able successfully to navigate the present system. This is borne out by the findings of a recent Freedom of Information request by The Daily Telegraph: to ameliorate the effect of middle class parents' successful navigation of the system, around one-in-six of the most oversubscribed schools are introducing quotas to ensure equal numbers of high, middle and low-ability pupils.[53] However, if choice and competition are to be harnessed to good effect, rationing supply by socio-economic profile in this way is likely to prove counterproductive. Indeed, it is because of the uncertainty such measures create for the middle classes that one should expect under the proposed scheme there still to be a demand among wealthier parents for non-voucher-funded places at fee-charging independent schools – which might disincline these schools from increasing the enrolment shares of voucher funded pupils and lessen the anticipated socially integrating effect of this reform.

To mitigate the effect of this demand on admissions decisions, like existing state schools that have a proportion of their pupils selected by ability or aptitude, fee-charging independent schools should be required to state up-front the number of voucher-funded pupils they would be willing to accept, and academic selection should not be permitted.

4.5 The price mechanism: a question for the future

It follows from the above that for voucher-funded pupils, top-up fees should also be banned in all schools. There are of course potential disadvantages of this approach. In today's education system, which would continue in the proposed programme, there are both price floors and price ceilings. The government determines the price for each pupil and schools must then compete on that price. This would also be the case in the proposed system, which, firstly, makes pure price competition impossible. Schools have no incentive to lower their fees below the set per-pupil funding level. In a context where the public is heavily invested in ensuring that children are educated to a minimum level because of

53 *The Daily Telegraph,* 6th January 2013 (http://www.telegraph.co.uk/education/education-news/9729674/Top-state-schools-flooded-with-over-1000-applications.html)

positive externalities, there might be little we can do about this. It may simply be unacceptable that parents might choose schools offering cheaper education, compromising quality in the process.

Yet in regular markets, producers can also compete with higher quality in exchange for a higher price. This is not possible either in the proposed system, which may be problematic. With fixed prices, it is difficult to compete by raising quality in a static perspective. Without a price mechanism, parents cannot explicitly show preferences for a higher quality education and signal to schools that they are willing to pay more for it. In a dynamic perspective, however, schools still have incentives to compete by raising quality because otherwise they would not attract more pupils in future.

However, we acknowledge that top-up fees could give even stronger incentives to make the innovations necessary to produce higher quality. In the long-run, schools could also become more efficient in providing that quality, which means that they could lower the top-up fees in order to attract more pupils. Innovations are normally expensive in the beginning, but become cheaper with time. As Friedman argued, those who can pay for top-up fees contribute with resources that in the long run will improve productivity in the entire education system. When the car was invented, only rich people could afford one. These people gave the car industry access to necessary capital, which in turn led to expansions and better technology – which in turn contributed to increased productivity that ensured cheaper cars, which also poorer people could afford. It is possible that top-up fees in education would play a similar role.[54]

One may also ask whether top-up fees are different than private tutoring, the growth of which is a sign that parents are willing to spend considerable sums of money to ensure a better education for their children. This means that more motivated and richer parents already have an advantage, which cannot be eradicated.[55] Even without top-up fees, it is possible for parents to pay extra for their children's education.

54 Milton Friedman (interviewed by Pearl Kane), 'Choice & Freedom: Milton Friedman on Education', http://educationnext.org/choicefreedom/

55 Bray, Mark & Lykins, Chad, 'Shadow education: private tutoring and its implications for policy makers in Asia'. CERC Monograph Series in Comparative and International Education and Development No 9. Manila: Asian Development Bank, 2012); Kim, Sunwoong & Lee, Ju Ho, 'Demand for education and developmental state: private tutoring in South Korea'. Unpublished manuscript (Milwaukee, WI: University of Wisconsin, 2001).

But there are two big differences between private tutoring and allowing top-up fees. First, the risk of perverse cream skimming incentives among schools may increase with top-ups. While the incentives to compete by cream skimming are always prevalent unless parents can separate schools' academic effectiveness from an advantaged pupil composition, the incentives are much stronger when parents can pay extra. This could be solved in future once a better information system has been produced via competition, but in the meantime we are keen not to introduce stronger incentives for competition based on cream skimming.

Another difference between private tutoring and top-up fees is that top-up fees will lead to stronger school segregation, at least in the short run, which might be politically and socially unacceptable in the current context. There is also a value in ensuring that school segregation does not increase too much simply to ensure social cohesion. And, of course, just like academic selection practices, fees limit the choices available among poorer parents in practice.[56]

Finally, we know from competition in other education systems that fixed-price competition sometimes can produce large gains in education quality, so it is clear that a price mechanism in education is not a necessary element for competition to be beneficial. For the above reasons, we thus believe the question of top-up fees should be left for future discussion and if they are introduced be accompanied by mechanisms that limit their segregating effects.

The anticipated effect of banning top-up fees is that it would effect a rationalisation of the independent school market. Assuming that the initial offer of places to voucher-funded pupils would be led by independent schools whose fees are comparable to the amount of per pupil funding received by state-funded schools, it is likely that competitive pressures at work among mid-market schools would incline them to adjust their cost bases and opt for more predictable income from the government.

56 Gregory Elacqua, Matías Martinez, Humberto Santos, and Daniel Urbina, 'School Closures in Chile: Access to Quality Alternatives in a School Choice System'.

4.6 Cover transportation costs

Emphasising random allocation of pupils in cases of over-subscription may cause situations where parents may have to send their pupils farther afield and at a greater cost than at present. It would thus be highly desirable to increase the availability of school buses and for government to cover costs for pupils of lower socio-economic profile. Transportation costs are often a big hurdle for many parents in their school choices. For example, in Denver and Washington D.C., 66% of parents overall and 80% of parents with the lowest incomes claimed that they would choose a better school farther afield if transportation costs were covered.[57] Research suggests that this is key to ensuring that poorer parents have the same opportunities to take advantage of school choice as richer parents.[58]

Transport could be provided in a number of ways. One would be simply to cover the costs of transportation. A better way, however, might be to include the costs in the voucher differentiation method noted above. Pupils who live farther away from the school could have additional add-ons to their voucher to cover the costs of transportation. The advantage with this approach is that the school would then have an incentive to find the most efficient way to provide transportation for those children. If the element covering the cost of transportation were seperable, this would be likely to induce competition in this field too, encouraging the growth of a market in the provision of school transportation.

4.7 Involve parents more in the financial transaction between state and school

One of the oft-repeated theoretical criticisms of state provision levelled by laissez-faire economists is that because parents do not pay for their children's education, they do not appreciate its value, and thus their, and their children's, engagement in it is undermined. And it might be true that third-party payments may well make choice as a mechanism for maintaining and raising quality less effective than it

57 Paul Teske, Jody Fitzpatrick, and Tracey O'Brien, *Drivers of Choice: Parents, Transportation, and School Choice* (Seattle, WA: Center on Reinventing Public Education, University of Washington Bothell, July 2009), http://www.crpe.org/publications/drivers-choice-parents-transportation-and-school-choice.

58 Rajashri Chakrabarti, 'Do Vouchers Lead to Sorting under Random Private-School Selection? Evidence from the Milwaukee Voucher Program', Staff Reports (Federal Reserve Bank of New York, 2009).

might be, warranting more direct involvement of parents in the process of paying schools, if not requiring the actual payment of fees (see Section 4.5 above). In the judgement of the authors of this paper, the mimicking of first-party payments is indeed the most attractive element of the education tax credit alternative to vouchers, as noted below. We know from the insights of behavioural economics that small changes in the framing of decisions can have a substantial impact on choice in many fields.[59] Involving parents in the financial transaction is therefore likely to encourage discernment, simply because it mimics regular market transactions.

The process could be the following. First, parents would be informed of the value of their voucher funding as part of the application process. Second, they would actively submit their vouchers when they make their choices. Third, once children have been assigned to the school they will attend, they would then be reminded about the sum that has been transferred to the school and be asked to confirm with the click of a button. This would be a simple and cheap addition to nudge parents to make more careful choices. The additional costs for the government would also be minimal since it would involve only a minor adjustment to the regular application process.

59 Jay Greene et al., *Expanding Choice in Elementary and Secondary Education: A Report on Rethinking the Federal Role in Education* (Brookings: Brown Center on Education Policy, February 2, 2010).

5. The tax credit alternative

One significant alternative proposal to using the free schools programme as the basis for what is tantamount to a voucher policy is education tax credits, which, as mentioned above, has the advantage of involving parents in the process of paying for their children's education. Essentially the proposal seeks to open up choice by expanding access to fee-charging independent schools. Tax credits allow parents to reclaim the amount that they spend on fees through the tax system. In effect, they are the same as a voucher if the amounts are equivalent: if they are rational, getting money back that they already paid for education should be no different from receiving money up-front to pay for education.[60] However, the education tax credit suffers from a number of structural flaws which makes it an inferior alternative to the voucher programme outlined here.

First, the tax credit proposal is over-confident in the private school effect. While UK fee-charging independent schools historically seem to have increased the chances that pupils gain a higher degree and higher wages,[61] they do not consistently outperform state sector schools on measures of cognitive achievement such as

60 Sahlgren, *Incentivising Excellence*, 132–3.

61 Francis Green et al., 'The Changing Economic Advantage from Private Schools,' *Economica* 79, no. 316 (2012): 658–679, doi:10.1111/j.1468-0335.2011.00908.x.

PISA reading scores.[62] In addition, fee-charging independent schools appear, in the main, to be a less cost-effective means of achieving this outcome than state-funded schools when measured on per-pupil spending.[63] By contrast, under a generalised voucher system, enabling free movement between both types of school can result in positive results for all schools, regardless of ownership.[64] Some evidence also suggests that positive competition effects are also more keenly felt when there is a larger available market of competing providers.[65] The tax credit proposal, and for that matter the Open Access scheme,[66] are simply not ambitious enough. Small, targeted programmes do not create competitive incentives to a significant enough extent to raise education quality at a system-wide level. Thus, the better system would be to open up a choice of both state and fee-charging independent schools, not merely of the latter.[67]

Second, because the education tax credit requires that parents front the funding, it poses significant access issues for those without the means to do this. Fronting the funding against the prospect of later tax relief requires that you pay tax, so those that do not have access to capital, pay enough tax or do not pay tax at all, are least able to take advantage of this choice mechanism. It is impossible to design means-tested eligibility criteria to compensate for this in any absolute sense, which gives rise to a dependency on private philanthropy to make up for shortfall at the margins. In some versions of the tax credit, such as that advanced by Andrew Coulson of the CATO Institute,[68] the 'personal use' element is combined with 'donation credit' element in express recognition of this problem, but it is not a solution. Proponents emphasise that the stimulus to philanthropic solutions would have a socially cohesive effect by building institutional support for school choice (in the form of

62 Jaap Dronkers and S. Avram, *A Cross-National Analysis of the Relations between School Choice and Effectiveness Differences between Private-Independent and Public Schools*, MPRA Paper (University Library of Munich, Germany, 2010), http://ideas.repec.org/p/pra/mprapa/23886.html.

63 Sibieta, Chowdry, and Muriel, *Level Playing Field? The Implications of School Funding*.

64 Martin R. West and Ludger Woessmann, '"Every Catholic Child in a Catholic School": Historical Resistance to State Schooling, Contemporary Private Competition and Student Achievement across Countries' *The Economic Journal* 120, no. 546 (2010): F229–F255, doi:10.1111/j.1468-0297.2010.02375.x.

65 Steve Bradley and Jim Taylor, 'Diversity, Choice and the Quasi-Market: An Empirical Analysis of Secondary Education Policy in England,' *Oxford Bulletin of Economics and Statistics* 72, no. 1 (2010): 1–26, doi:10.1111/j.1468-0084.2009.00572.x.

66 See The Sutton Trust, 'Open Access: Democratising entry to Independent Day Schools', March 2012.

67 Tax credits technically might apply in the state sector, although no such system currently exists. However, given compulsory education laws, it would be difficult to enforce if people cannot pay their fees up front.

68 Andrew J. Coulson, 'Giving Credit Where It's Due: Why Tax Credits are Better than Vouchers', *The Independent Review* (Fall 2002), pp. 277-287.

charities and other organisations founded for the purpose of taking donations and awarding bursaries) but they do not address the fundamental flaw that such a measure cannot guarantee universal access, reliant as it is on donor motivation and preference for educational over other goods.

Third, those of higher socio-economic profile, who are more likely to be tax payers, have an additional advantage over those who have to apply to bursary awarding bodies, because activating choice is more straightforward for the former, who are also more likely to have the time and means to obtain relevant information about their options than poorer parents. The information problem is most onerous for those of lower socio-economic background, who have to find out about different bursary awarding bodies and which schools they serve before they can exercise a choice. This is particularly important since we know that even relatively straightforward tax credit systems in the UK, such as the Working Tax Credit, have resulted in lower take up by certain groups due to lack of information and misconceptions about eligibility. [69]

Finally, tax credits also require a tax system that is straightforward enough to facilitate reimbursement. Where tax credits have been tried, they have often fallen foul of tax complications. How, at what point of the taxation process, indeed, against which tax bill, do you seek to credit the fees which have been paid? At the level of implementation, tax credits generally require additional processes and layers of bureaucracy which undermine any efficiency gains that may otherwise have resulted from their introduction. An added problem is that preferring education for tax relief in this way creates immediate political difficulties for any government who might be inclined to introduce them. Such a measure would set a precedent for other claims for reimbursement based on opting out of the public system.

These structural failings of the tax credit option are inescapable – but do they, as proponents maintain, have the singular benefit of protecting fee-charging independent schools from unecessary regulation. The argument runs that they do and it is because vouchers constitute public money, whereas tax credits do not.[70] Indeed, thus far in the United States, legal distinctions as to what constitutes public funding and what does not have made it easier to pass tax credit legislation

69 Claire McAlpine and Andrew Thomas, *The Triggers and Barriers to the Take-up of Working Tax Credit among Those without Dependent Children*, Research Report (HM Revenue and Customs, October 2008).

70 Andrew J. Coulson, *Do Vouchers and Tax Credits Increase Private School Regulation?*, Working Paper (Washington, D.C.: Cato Institute, October 4, 2010).

than vouchers in the majoriy of states. But the distinction between the two is not substantive: there is little difference between tax revenue spent directly in the form of a voucher and missing out on revenue that might have been collected were it not for the tax credit claim. Regulation follows the need for accountability for how taxpayers' money is spent, though it may take (in the US context) longer to catch up tax credits than vouchers. And in any case, as demonstrated by the contrast between the Swedish system and the English, how regulated the market is is a choice, rather than an inevitability. The current authorisation process for new schools need not be as complicated as it is, especially if pressure on state capital funding is eased through the introduction of private investment.

There are, in conclusion, no really compelling reasons to opt for education tax credits rather than vouchers, and a number of reasons why they ought to be treated with caution. We note that we are in agreement with Milton Friedman, who always made clear that if the choice were between vouchers and tax credits, then he would always prefer vouchers.[71]

71 Greg Forster, 'Did Milton Friedman Support School Choice Tax Credits?' Jay P Greene's Blog http://jaypgreene.com/2008/10/15/did-milton-friedman-support-school-choice-tax-credits/

6. Introduce the voucher first with a large-scale pilot scheme

The design of the choice scheme proposed is guided by theoretical and empirical research, which indicates that well-designed choice programmes can improve education quality. This means that we can be relatively confident that the proposed reform programme will produce positive outcomes. Nevertheless, there are other ways to mix and match specific complementary reforms, which could also have positive effects.[72]

Therefore, before embarking on a national reform programme to introduce the proposed system across the entire country, the proposals should be subjected to a test as part of a large-scale pilot scheme. It is essential that the scheme is large enough to introduce strong incentives for schools to compete. Thus, it should be introduced in one or more of the larger counties in England – the choice of which should be randomised however to ensure that scientific evaluation is possible.

There are various ways of implementing such a programme. One is voluntary: the government could invite counties to apply for voucher status, select some of

72 Ibid.

those counties based on observable pupil and population characteristics, and then hold a lottery. Pupils in counties chosen by the lottery would be the 'treatment group', whereas pupils in counties not chosen would constitute a 'control group'. The feasibility of this approach is dependent on a number of counties applying for voucher status. A second alternative is that the government, with guidance from education economists, designate specific areas to try out vouchers, and other areas as controls in a top-down manner. Regardless, it would be possible to evaluate whether the voucher system had generated positive benefits in the way envisaged.

One remaining problem is of potential self-selection biases due to residential sorting. In other words, there is the risk that parents may move to the counties carrying out the pilot scheme in order to take advantage of the increased levels of school choice there. However, there is a relatively simple solution to this problem: when the choice of counties is announced, the voucher system could apply only to the pupils residing in those counties at the time of the announcement. The only reform that would have to apply to these new arrivals would be any trialled changes to the Admissions Code. There could still be incentives for parents to move there if they expect competition effects to raise school performance regardless of the school in the area that they attend, but this seems unlikely. This would also be possible to analyse retrospectively.

The purpose behind a pilot scheme is to analyse the interplay between the reform proposals. If successful, the scheme should be scaled up to more counties, and eventually to a national scheme. If unsuccessful, it should not. Instead, any problems should be identified, corrected, and analysed. In this way, it would be possible to gain a more thorough understanding of what is needed to obtain the best results from choice programmes.

The call for a pilot may also be more politically palatable than arguing for an immediate large-scale national reform, while also giving politicians the chance to put evidence-based policy into practice.

7. Conclusion

This paper has discussed ways of increasing choice and competition in the English education landscape. It has argued that current government policy is insufficient to do so more than marginally. Because of a restrictive establishment regime, the free schools programme looks more like a government outsourcing procedure than an attempt to stimulate choice and competition en masse.

Nevertheless, the free schools programme is still a good starting point since it has already resolved a main source of contention: that new, privately operated schools should be able to receive government funding. In fact, merely liberalising the free schools programme in the ways described is essentially tantamount to producing a voucher programme. Little has to change to provide the overall architecture, which highlights the continuation of our proposals with current government policy.

But we are also keen to highlight the importance of accompanying reforms to the overall architecture. Evidence worldwide has shown that system design is crucial for the system-wide impact of choice and competition. As the paper has discussed, the implementation of a well-designed choice programme would need the following steps, some of which are already becoming policy:

- Rationalise the free school authoristation process and its supporting aparatus under Ofsted.
- Allow profit-making free schools
- Phase out funding of upfront capital costs
- Liberalise planning laws
- Introduce more systematic differentiation of funding (in addition to covering the cost of transportation)
- Abolish proximity-based admissions systems and catchment areas, and replace them with randomised allocation in the case of over-subscription
- Ensure parents are involved more in the financial transaction between state and school (as part of the application process)
- Ensure parents are given a wide variety of measures to discern school quality
- Allow eligible independent schools to receive public funding via the voucher scheme
- Put rules in place to ensure that voucher funding comes with the condition that non-state schools cannot reject pupils on the basis of ability or background
- Proceed with the implementation of a National Funding Formula as an important complement to the scheme.

In the Appendix, we have also detailed the legislative requirements that would be required. The proposed system should be considered as a whole, rather than with each part in isolation. All steps are part of a reform package that, taken together, would ensure that the positive effects of competition and choice are seen in both private and state schools, and that cream skimming can be eliminated to prevent bias against parents and pupils from less privileged backgrounds.

The suggested system has the potential to improve both the quality and equity of English education. While choice may be present to varying degrees under any

system, the proposed programme has the potential to diminish the link between place of residence and school, which would mostly benefit poorer pupils.

Since it is not entirely clear how all the different reform proposals would interact, we are keen to test our assumptions before embarking on a national reform strategy. For these reasons, we suggest that a large-scale pilot scheme should be the first step. Once this scheme has been evaluated, it is possible to make a more discerning decision if it should be scaled up to the national level.

Current government policy aims to expand choice and competition in the education system, which is a worthwhile goal. But the reform efforts thus far have been insufficient to accomplish it. To create a functioning market, we simply need a more thought-through approach to reform. Our hope is that this paper may provide policymakers with an outline for what such an approach might look like.

Appendix: Legislative requirements

Involving parents more in the financial transaction between state and school would requires no legislative action.

The provision of a wide variety of school quality measures to parents would require no legislative action.

The phasing out of funding upfront capital costs would require no legislative action.

Disbanding the application process for free schools in favour of straightforward Ofsted approval would not require legislative action.

The implementation of a National Funding Formula and the differentiation of funding according to the Pupil Premium are already government policy. Further systematic differentiation would not require legislative action, except in writing up and publishing new School and Early Years Finance (England) Regulations for future years. These Regulations are published annually already.[73] The inclusion of travel costs as an add-on, and putting differentiation into practice in a dynamic manner

73 'The School and Early Years Finance (England) Regulations 2012,' accessed October 10, 2013, http://www.legislation.gov.uk/uksi/2012/2991/contents/made.

with statistical testing (as described in Section 4.2, above) could thus be implemented in this way.

The DfE also has power under Section 84 of the School Standards and Framework Act 1998 to issue The School Admissions Code. In order to abolish the use of proximity and catchment areas in determining admissions, The School Admissions Code would have to be amended to add 'give priority to children on the basis of distance from the school' and 'take into account school catchment areas and other geographical factors' to the list of prohibited admission arrangements under section 1.9. Sections 1.13 and 1.14 would also need to be removed. Sections 1.34 and 1.35 prohibiting the use of randomised allocation as the main admissions criterion by Local Education Authorities would need to be deleted.[74]

Secondary legislation would be required in order to provide a planning application exemption for state-funded schools. So far, The Town and Country Planning (General Permitted Development) (Amendment) (England) Order 2013 has made provision for schools to have a year to operate without planning permission, on land falling within almost any classification, in case of any outstanding planning applications. It has also permitted state-funded schools to be developed on land falling within classes B1 (business), C1 (hotels), C2 (residential institutions), C2A (secure residential institutions) and D2 (assembly and leisure). However, state-funded schools still need to secure planning permission beyond that first year, and must have applied before any development takes place. Furthermore, the new list of permitted classes does not cover all possible buildings or land where the first year of development could have still taken place.

Further secondary legislation would thus be needed to rectify the inconsistencies and further free up the locations available for free schools to set up. It should amend Section 6, Class K of the The Town and Country Planning (General Permitted Development) (Amendment) (England) Order 2013 to include A1 (shops), A2 (financial and professional services), A3 (restaurants and cafes), A4 (drinking establishments), A5 (hot food takeaways), B8 (storage or distribution), C3 (dwelling houses), and C4 (houses in multiple occupation). Section 6, K.2(b)(i) and (ii) should also be omitted, removing potentially troublesome complaints about noise and transport impact, and so restricting planning permission to only check for contamination risks on the site.

74 'School Admissions Code.'

Primary legislation must be enacted to allow Academies and free schools to be profit-making companies, particularly with amendments to the Academies Act 2010, Section 12, subsections 1, 2d and 4, which stipulate Academies' charitable status in relation to the Companies Act 2006 and the Charities Act 1993. However, in order to maintain public support for the change, note that these changes can be made without changing the core requirements for Academies to provide for pupils of different abilities, have a balanced curriculum, and provide for pupils from the school's area (Academies Act 2010, Section 1).

Primary legislation may be required in order to allow public funding to be allocated to independent schools if parents choose them. As part of this legislation, provisions would be required to ensure that voucher-funded pupil places come under the regulation of the School Admissions Code. This would mean that independent schools would be able to offer non-selective voucher-funded places in addition to continuing their selective admissions criteria for fee-paying, non-voucher-funded pupils. It would be essential to stipulate that schools with both voucher and non-voucher pupils would have to state the number of voucher-funded pupils they will accept before the admissions process begins.

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