Harnessing the private sector makes sense for UK's education system

Feb 28 2012

Newresearch from Policy Exchange suggests that the government should involve the private sector into a profit-sharing model with the state-funded school system. **James Groves** *argues that creating 'social enterprise' schools would likely improve average pupil performance and create more good school places more quickly than any other alternative.*

England's schools face an enormous challenge in the coming years. Roughly half of 16 year olds continue to leave school without at least 5 good GCSEs. 20 per cent leave with more or less no good qualifications and hence very poor employment prospects. We have many outstanding state schools, increasing numbers of which have become academies. Yet, an even larger percentage remain mediocre or are performing poorly. Unsurprisingly, where they have the means to do so, parents are avoiding our poorest schools – 50 per cent of all surplus places are within the poorest 25 per cent of schools. Meanwhile, our best schools are full to capacity and beyond.

Adding to this dilemma is a mini-baby boom resulting in the need for 540,000 more primary school places in the years leading up to 2018. Yet, at the same time we have seen significant cuts to the government's commitment to capital spending on new school buildings.

The government is pursuing innovative reforms – free schools are a case in point. Yet, they must continue to push the boundaries of the status quo if the situation in our schools is to be addressed. We need more good school places more quickly than ever before.

In our recently published report, *Social Enterprise Schools*, we argue one alternative for the government is to harness the private sector into a potential profit-sharing model for the state-funded school system. Ideological and political opposition to for-profit schooling remains deeply rooted. Yet our report stresses that it need not be a binary choice between for-profit and not-for profit schools. If policy makers feel unable to introduce private provision, social enterprise schools may be a halfway house

Private companies, potentially in partnership with teachers, could be encouraged to run state schools as profit-making enterprises under a "John Lewis-style" business model. By means of a series of pilots, schools would be allowed to distribute 50 per cent of any school surplus as a dividend to shareholders on an annual basis. The remaining 50 per cent would have to be reinvested in the school. The idea is controversial but it makes sense in light of the challenges outlined above.

Why so? In the first instance, harnessing the private sector would enable us to create more good school places, more quickly. Too many parents and children currently have too little choice when it comes to getting into a good school. Last year in England, 17 per cent of pupils did not get into their first preference school and 3.5 per cent did not get any of their preferred schools. In London, 34 per cent did not get their first preference and 6 per cent got no offer from any preferred school. Choice requires having spare school places in the right places and in good schools. Having spare schools places means taking the risk that you might not fill them. The public sector can't afford that risk. The private sector can.

Evidence from Swedish researchers demonstrates that for-profit free schools there expanded rapidly during the past ten years despite the overall number of pupils in the country falling. Other than its own philanthropic driven volition, a highly performing, popular not-for profit school really has no incentive to expand. Long waiting lists ensue. Introduce some element of profit making and you begin to break this obstacle down.

And what of the difficulty to reach? In essence the same principle applies. For-profit charter school providers in America have demonstrated that they are willing to go wherever there is greatest demand – and that more often than not is in areas of high deprivation. The percentage of Edison students from low-income families grew from 57 per cent in 1998–99 to 78 per cent in 2003–04. In 2003–04, African American children made up 66 per cent of Edison pupils, Hispanic 19 per cent and only 13 per cent were Caucasian.

Secondly, while harnessing the private sector is not guaranteed to drive performance up dramatically, nor can we infer that it has a detrimental impact. In actual fact, free schools in Sweden and charter schools in the USA have demonstrated that they can consistently achieve higher standards than mainstream public schools. If some element of for-profit provision means the establishment of more of these schools in a shorter space of time then the arguments in favour are harder to dispute.

While the evidence on for-profit providers outgunning not-for-profits on performance remains thin on the ground, some is beginning to emerge. For-profit charter schools in Boston have managed to raise mathematics scores by more than half a standard deviation per year in middle school compared to not-for profits. No research has been able to demonstrate that for-profit free or charter schools present any higher risk of presiding over declining standards than not for-profits or municipal schools.

Thirdly, to remain wedded to ideological opposition to private provision ignores the fact that there is already substantial private provision within the state education system. Despite opposition to for-profit providers being allowed to run mainstream schools for 4–16 year olds, private companies already provide education to many of the most vulnerable children. There is profit making provision in nursery education, for children with special needs, and pupils in alternative provision and Pupil Referral Units. For-profits run 87 per cent of Middlesbrough's nursery education, 31 per cent of Brent's special educational needs provision and 74 per cent of North Lincolnshire's alternative provision. The full extent of such provision is quite simply poorly understood.

Despite such a case, the educational establishment and general public remain reluctant to readily accept the idea of profit making in free schools. Social enterprise providers will therefore have to accept a greater burden of proof and may, initially at least, have to live with tight regulation. To avoid accusations of 'creaming off' the best pupils, our report makes two clear recommendations. Social Enterprise School pilots should only be allowed to operate within areas of greater deprivation and ensure that enrolment initially includes at least 20 per cent of students eligible for free school meals and hence the pupil premium. In addition, a performance test should apply with operators receiving no share of any surplus unless a certain proportion of their pupils made the expected level of progress.

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