

Impacts of VAT on fees for Welsh Independent Schools

Analysis by the Welsh Independent Schools Council (WISC)

The Welsh Independent Schools Council (WISC) is the representative body for independent schools in Wales, representing 69 independent schools, both mainstream and specialist providers. We are affiliated with the Independent Schools Council, the representative voice for independent schools across the UK.¹

Executive Summary

- Labour's proposed VAT on parent's independent school fees would have a significant impact on Wales's state education system, economy, and Welsh parents.
- Analysis of schools' operations by WISC has show that as many as 19 schools could close as parents have to withdraw children in the face of 20% VAT.
- Up to 6,500 pupils would have to move in the worst-case scenario – leaving the Welsh government with an £80 million funding gap, with £45 million lost from general taxation owing to closed schools and £35 million additional expenditure in state schools.
- The policy will see Welsh VAT receipts spent on English education policies. UK Labour's spending allocations leave no money for Barnett uplifts, meaning Wales would face either unfunded Barnett commitment, or additional strain on Welsh state schools without any additional funding to relieve this pressure.

Introduction

1. This paper sets out the position of Welsh independent schools in relation to the Labour policy of "*ending the tax breaks private schools enjoy.*" The policy as announced consists of the charging of 20% VAT on parents' fees, and the removal of charitable tax reliefs. This report is focused primarily on the effects of VAT on fees, though the removal of charitable reliefs is expected to place additional burdens on charitable schools and exacerbate the issues we describe below.
2. WISC has serious concerns about the VAT policy and its impact, which are shared by independent schools and their representative associations across the UK:
 - **It will negatively impact the financial viability of parents who have chosen a local independent school for their children, and of smaller schools.** The imposition of 20% VAT will make fees unaffordable for many families, particularly in a cost-of-living

¹ WISC is an affiliate member of the Independent Schools Council (ISC). The ISC represents seven professional associations and (through them) more than 1,400 independent schools across the UK. These schools educate more than half-a-million pupils each year. The ISC associations are: Association of Governing Bodies of Independent Schools (AGBIS), Girls' Schools' Association (GSA), HMC (The Heads Conference), Independent Association of Prep Schools (IAPS), Independent Schools Association (ISA), Independent Schools Bursars' Association (ISBA), and the Society of Heads. Alongside WISC, the ISC affiliates are: Boarding Schools Association (BSA), Council of British International Schools (COBIS), and Scottish Council of Independent Schools (SCIS).

crisis. It will be hard working parents – striving to do the best for their children by sending them to their local independent school – who will be the hardest hit.

- **It will put more pressure on the state sector and not raise predicted amounts of funding.** Pupil movement into state schools will increase competition for the best schools and make it harder for all parents to access the school they want. Furthermore, each child who moves out of an independent school represents a double blow to the policy's costings – a loss of revenue from their VAT, and an increased cost to the state education budget.
- **It fails to recognise the positive economic contribution of independent schools and their public benefit work.** Independent schools are already working in partnership with their friends and colleagues in the state sector – as well as widening access through means-tested bursaries. The 2023 ISC Census shows that there are more than 8,700 partnerships between state and independent schools in the UK, and almost half a billion pounds have been given this year in means-tested fee assistance by schools.

3. Our analysis shows that these impacts will be acutely felt in Welsh schools:

- Welsh independent schools are particularly vulnerable to closure if they lose even a small number of pupils. This would have a severe impact on parents, on the Welsh state school system, and on employment and economic conditions in the communities' independent schools are based in.
- Furthermore, the policy risks leaving the Welsh Government with unfunded promises of Barnett uplifts – as we are aware that UK Labour have already attributed all the anticipated spending in England.

To demonstrate the potential impacts of the policy, this report models three scenarios for pupil movement and sets out the consequences this would have on both state and independent education in Wales. These scenarios are based on a WISC survey of all members, undertaken in the first quarter of 2023. Schools were asked to report their current rolls, the number of pupils receiving fee assistance, and the number of pupils they could afford to lose before becoming unviable.

4. VAT on fees is a reserved matter to the UK Government. However, given the impact the policy will have on Wales, we would urge you to share these findings with your UK colleagues in the shadow Treasury and Education teams.
5. We would be very happy to meet you to discuss any part of this report or the concerns we raise. Please contact Emma Verrier, WISC CEO, at emma.verrier@welshisc.co.uk, 07791 891593 for any further information.

Welsh Context & Concerns

6. WISC represents 69 Welsh independent schools, 35 of which are 'mainstream' independent schools and 34 of which provide specialist SEND or Alternative provision. The Welsh

Government records 10,035 pupils at any Welsh independent school in the 2021/22 school year, the schools surveyed for this report educate at least 7,921 (79%) of these pupils.²

7. To undertake this analysis, WISC sent a survey to the 35 mainstream schools, with 30 able to provide some data, and 20 of those schools providing information on their economic impact. This found that these schools:
 - Contribute £187 million to the economy each year – at least £107 million of which is in their local authority areas.
 - Support more than 4,500 jobs directly and indirectly – including almost 3,000 in their local authority areas.
 - Support more than £60 million in tax payments and save the Welsh taxpayer a further £42 million by educating pupils otherwise entitled to a state school place.
8. The nature of Welsh independent schools means they will suffer a disproportionate impact compared to the rest of the UK, with the policy posing particular problems for the Welsh economy and rural communities.

Size of schools

9. Independent schools across the UK are smaller than often imagined – and this is particularly the case in Wales. The average ISC school across the UK educates 397 pupils, whereas the average size of a mainstream (non-Special/Alternative provision) WISC school is 317 pupils.³
10. WISC schools are not schools with large financial endowments, but mostly small schools operating on tight margins. Tax change would come on top of existing financial challenges – whether inflationary costs, higher interest rates, the lingering effects of Covid, or limited parental catchment areas. Our findings below show that WISC schools face significant financial risk, and small levels of pupil movement could close large numbers of schools. To underline this point, one WISC school was forced to close between the opening of the members survey and its conclusion 6 weeks later.

Specialist provision

11. Additionally, WISC represents a number of small schools providing particularly specialised education – both for special educational needs, and religious/philosophical education valued by the parents who choose them. These include 5 religious schools (1 Presbyterian, 2 Plymouth Brethren, and 2 Muslim schools), 2 Steiner schools and 1 Montessori school.
12. These schools are vital to the diversity of the Welsh education system – they offer parents approaches which cannot be found in the state system. The right of parents to choose this education for their children is enshrined in Article 2 of the First Protocol of the [European Convention on Human Rights](#) (incorporated into domestic law by the [Human Rights Act 1998](#)): *“the State shall respect the right of parents to ensure such education and teaching in conformity*

² Welsh Government, *Pupil Level Annual School Census (PLASC)*, August 2022.
<https://stats.wales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Independent-Schools/Pupils/number-by-assemblyconstituencyregion-agegroup>

³ ISC Census 2023, 9. Analysis of WISC figures undertaken as part of this research.

with their own religious and philosophical convictions.” The loss of these schools in particular would restrict parental choices.

Geographic location

13. Many WISC schools are in rural areas – and frequently the only local independent school in the vicinity. This means that almost all the children who leave WISC schools due to tax changes will need to make use of a state-funded place immediately. This would apply whether parents could no longer afford fees or because of their school closing.
14. Furthermore, many WISC schools make significant contributions to rural economies and communities through the direct employment of staff and work with their supply chains (see para 7 above). School closures in particular would be acutely felt in these rural areas.

Impacts of Labour’s tax proposals on Welsh independent schools

15. To better understand the strain this is likely to put on the Welsh school system, and the Welsh taxpayer, we have modelled three scenarios for parental affordability and pupil movement after VAT is applied. These scenarios draw directly from information we have gathered from our member schools (See Appendix 1 for methodology).
16. Our analysis shows the number of pupils who would need state school places either because their parents could no longer afford fees or because their school had closed. Additionally, use of the ISC Economic impact tool allows us to calculate:
 - The jobs at risk due to school closures.
 - The tax revenue lost from closures.
 - The additional cost to the Welsh taxpayer to educate new pupils.

Scenarios modelled

17. We present three different scenarios for potential pupil movement arising from the imposition of 20% on parents fees:

Scenario 1: 36% of parents finding fees unaffordable and withdrawing their children. This is drawn directly from a recent ISC survey of 16,000 parents from more than 300 independent schools that asked how parents would respond to the imposition of 20% VAT. In response, 18% of parents answered that they would *‘have to withdraw’* their children from their independent school, and a further 36% answered that they would *‘find affording my child’s school fees very difficult. I would try to keep my child in the school, but I am not confident I would be able to do so’*. As a sensible midway, our 36% figure includes all the parents who would have to withdraw and half of those who said they would find it very difficult.

Scenario 2: 25% of parents finding fees unaffordable. This is based on the 2018 Baines-Cutler report into the effect of VAT.⁴ This was a whole UK study and found that it was likely 134,000 pupils (then 25.4% of ISC pupils) would have to leave the sector within 5 years of VAT being applied to fees. The report used real affordability data from parents to predict likely behaviour. This was, as the report notes, *“the only detailed project which has looked at the potential impact of VAT-on-fees and it is the only one to use data from real schools and parents.”*

⁴ <https://www.isc.co.uk/media/5926/isc-vat-full-report-1018-for-circulation.pdf>

Scenario 3: The 10% unaffordability scenario functions as an ‘optimistic’ view of pupil movement – but the evidence is that even this restrained level of pupil movement would cause serious problems for the Welsh education system, economy, and taxpayer.

18. Based on these scenarios our analysis finds:

Pupil losses	Scenario 1 (36%)	Scenario 2 (25%)	Scenario 3 (10%)
Initial pupil movement	2,851	1,982	796
School closures this initial pupil movement causes	19 schools	18 schools	12 schools
Additional movement caused by school closures	3,688	4,254	2,949
Total movement to state sector	6,539	6,236	3,745
Economic impact	Scenario 1 (36%)	Scenario 2 (25%)	Scenario 3 (10%)
Job losses	3,285	3,200	2,119
Welsh tax revenue lost	£44.95 million	£44 million	£27 million
Additional cost to taxpayer of school places	£35.2 million	£35 million	£26 million
VAT not collected	£21.8 million	£20.8 million	£12.5 million

In each scenario, these numbers are an approximate **minimum**, as we collected economic data from 20 of WISC’s 35 mainstream schools.

Additionally, this analysis has focused on mainstream schools – the 34 specialist schools have not been surveyed, but are smaller than our mainstream schools, and would face more severe challenges from the VAT policy.

19. Any of these scenarios would represent a significant and immediate problem for Welsh state education. In particular:

- At worst, more than **6,500 pupils** would need to be accommodated in Welsh state schools (across all year groups, not just at transition points), and more than £35 million in additional funding would be needed just to keep per-pupil funding at current levels.
- **At least 12 schools would close** in any scenario considered. It is important to note that this rises rapidly to 18, with 25% unaffordability. The Welsh independent school sector is such that the movement of even a small number of additional pupils from certain schools would cause disproportionate increases in closures.
- Only **10% of families in WISC schools - fewer than 800 families** – would need to be priced out to cause substantial movement from the sector, and the closure of 12 schools – representing centres of employment and economic activity.
- In every scenario a **greater proportion of pupils leave their independent school because it has closed**, than because their family cannot directly afford VAT.

20. Furthermore, this educational impact would come alongside an economic and budgetary shock – at least 2,000, and likely more than 3,200 jobs would be at risk as these schools, and their supply chains, wound up or shrank. These jobs would frequently be in rural communities – and may represent whole businesses reliant on the trade of one or more independent schools.
21. The Welsh Government response to the employment problem would be hampered by an approximately **£80 million hole in government finances** in the worst-case scenario – with almost £45 million in lost revenue, and £35 million needed for pupil funding. This is a shortfall the UK Government would not be able to assist with through receipts from the policy – as we discuss below, all predicted revenues from the policy have already been attributed to spending in England.

Devolved Implications

22. Having outlined the likely impacts of the policy, we are additionally concerned that the proposed tax changes sit in a ‘blind-spot’ between reserved and devolved policies – meaning that the Welsh state school system risks unintended damage from the proceeds of a reserved tax being spent in England.
23. The VAT element of the proposed policy – by far the largest financial element of the policy – is, of course, reserved to the UK Government. This means that the rate and extent of the policy will be set by the Treasury for the whole of the UK, and that all VAT receipts from the policy raised in Wales will be paid directly to the Treasury.
24. The stated aim of the policy is to use this revenue to improve state education – and WISC supports a well-funded and high-quality state school system. However, education policy is, of course, fully devolved. This means that Welsh VAT receipts will be used by the Department for Education solely on policies in England. This is despite the negative impacts of the policy (increased state school costs due to pupil movement, loss of income and employment from school closures) being borne by the Welsh taxpayer.
25. Barnett formula funding is the standard method by which this would be corrected, with equivalent proportional funding provided to Wales in line with England-only spending. However, our understanding is that the whole of the predicted £1.7 billion predicted revenue has already been allocated by the UK Labour Party for England-only uses – meaning there will be no additional revenue raised to cover the Barnett uplifts.
26. According to UK Labour announcements, £576 million will be allocated to the Department for Health (DHSC) for mental health support,⁵ and a further £1.207 billion has been attributed to Department for Education (DfE) policies including teacher recruitment and training.
27. According to the Barnett formula, the DHSC spending would have a Comparability Index of 99.5%, and the DfE spending of 100%.⁶ Using the above figures, and the Wales-to-England population proportion of 5.6%, the Barnett uplifts should be:

⁵ Wes Streeting, House of Commons speech, 16/05/22, Hansard vol. 714, col 509.
<https://hansard.parliament.uk/HoC%20Debate/2022-05-16/debates/D9101E0E-FF5E-4AE5-B987-DB4673129252/web/#contribution-9740AE5E-25A3-41FD-B7FD-B0720912D7C1>

⁶ House of Commons Library, The Barnett Formula and fiscal devolution, July 2022.

$£576 \text{ million} \times 0.995 \times 0.056 = \text{£}32.1 \text{ million}$

Department of Health spending

$£1.207 \text{ billion} \times 1 \times 0.056 = \text{£}67.6 \text{ million}$

Department for Education spending

Amounting to **£99.7 million** in Barnett uplift owed to Wales as a result of the England-only policies announced alongside the proposed tax changes.

28. Separately, there would need to be equivalent uplifts for Scottish Government (**£54.6 million** in DHSC, and **£116.7 million** in DfE spending) and the Northern Ireland Executive (**£19.2 million** in DHSC and **£40.4 million** in DfE spending). In total, it is estimated that the Barnett uplifts for the already-announced policies would amount to **£330 million**.
29. This is not money that the UK Labour Party have budgeted for, and it could not come from Wales's VAT receipts arising from the policy, as these have all been attributed to English education policies. It seems either that there would be un-funded Barnett commitments to the Welsh taxpayer, or the policy would place additional strain on the Welsh state education system without any additional funding to relieve this pressure.

Conclusions

30. It is clear that the proposed VAT on fees policy would risk significant pupil movement away from Welsh independent schools. Only 10% of families in WISC schools - fewer than 800 families - would need to be priced out to cause substantial movement from the sector, and the closure of 12 schools - representing centres of employment and economic activity. These closures would then cause the movement of almost 3,000 additional pupils into state-funded places.
31. We appreciate that the central policy is a reserved matter, and one the Welsh Government cannot directly affect. However, we hope that we have established the seriousness of the risk to the Welsh state school system, economy, and Welsh Government finances. On this basis, we ask you to raise our concerns with UK colleagues - both at an official level, and with the UK Labour Party. We would be happy to assist with these approaches if you require further details.
32. We draw particular attention to the unintended operation of devolution mechanisms in this proposal. It should be a concern to all that a reserved tax will fund spending in England only, and that no budgetary provision has been made for the other UK nations. Again, we would ask that you raise this as a matter of urgency, for the good of the whole Welsh education system.
33. If you have any further questions, or would like further information, please contact: Emma Verrier, WISC CEO, emma.verrier@welshisc.co.uk, 07791 891593.

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Appendix 1 – Methodology

34. The scenarios we have presented are based on a survey of WISC member schools undertaken in the first quarter of 2023. This survey asked schools how many pupils they had on roll, how many were on fee assistance, and how many pupils the schools judged they could lose before becoming commercially unviable. In this latter case, we know that head teachers and school bursars have already been preparing pupil projections in response to financial pressures, and we are confident that the answers therefore represent the best estimate of the financial health of WISC schools.
35. At the time, the survey was sent to the 36 mainstream schools in WISC membership. Reflecting the already perilous state of Welsh independent schools, one school closed during the course of the survey. Of the remaining 35 schools, 30 submitted data to the survey, allowing the analysis to be undertaken and conclusions to be drawn that are a **minimum** assessment of the impact.
36. Further, schools were asked to complete the ISC/Oxford Economics economic impact tool. 20 schools did so and submitted this data to WISC.

This tool, designed by Oxford Economics, and provided to all ISC schools across the UK, used detailed local modelling to allow schools to measure: their economic contribution (GVA, or Gross Value Added) to the UK economy and their local economy; the number of jobs they support through their supply chains (in addition to their own employment); the tax that they support through their own payments, their employees, and through their supply chains; and the saving they represent to the taxpayer through providing places to pupils otherwise entitled to a taxpayer-funded place.

37. While results are presented in amalgamated form to preserve schools' anonymity, all results were fully modelled for each school that expects to close in each scenario – so we have not taken estimates or averages of the impact of school closures, but directly calculated from data provided by each school.
38. Each scenario is based on a potential level of pupil/parental affordability – drawn from research by the ISC and separately by Baines-Cutler, as well as a representative example of 10% movement to show the depth of the risk to Welsh independent schools. Using this predicted unaffordability, combined with schools' answers on unviability, we have been able to calculate the number of schools that will close in each scenario. Additionally, we have calculated the number of additional pupils who will leave the independent sector owing to these school closures.
39. Using schools' answers to the economic impact tool, we are then further able to calculate the economic, employment, and tax implications of those particular schools closing. Finally, assuming 20% VAT, we have been able to use the number of pupils leaving independent schools (and paying no VAT) to calculate the loss of predicted revenue from UK Labour figures – giving them less to fund promised policies and the necessary Barnett uplifts.