



17 March 2025

Agenda Item: 7

REPORT OF THE CABINET MEMBER FOR EDUCATION AND SPECIAL EDUCATIONAL NEEDS AND DISABILITIES

IMPACT OF THE INTRODUCTION OF VAT ON INDEPENDENT SCHOOL FEES

Purpose of the Report

1. To consider the implications of the introduction of VAT on independent school fees on the statutory duty of the Council to ensure a sufficiency of statutory school places in Nottinghamshire.

Information

2. On 29 July 2024, the Chancellor announced that as of 1 January 2025, all education services and vocational training supplied by a private school, or a connected person, for a charge will be subject to VAT at the standard rate of 20%. Boarding services provided by a private school, or a connected person, will also be subject to VAT at 20%.
3. It has also been announced that fees invoiced or paid on or after 29 July 2024 that relate to the school terms after 1 January 2025 will be subject to the standard rate of VAT at the beginning of that term.
4. School fees paid before 29 July 2024 will follow the VAT treatment in force at the time of the normal tax point for these supplies, where the fee rate for the relevant term has been set and was known at the time of payment.
5. Education provided by private schools to individuals where local authorities fund the schooling because of Educational, Health and Care Plans (EHCPs) will also be subject to VAT at 20% from 1 January 2025. HMRC have confirmed local authorities will be able to recover this VAT charged by private schools as section 33 bodies.
6. The draft legislation also confirms that both nursery fees for pre-school age children and supplies of closely related goods/services to education remain exempt from VAT.

Context

7. Excluding Private Schools in neighbouring local authorities and those providing Specialist Provision, there are six Private fee paying schools based in Nottinghamshire with approximately 1,304 pupils in attendance.

8. There are widely varying assumptions made about the potential impact of VAT on independent school fees.
9. There are various ways that a school could minimise their VAT liability, and also their ability to put up fees depends on the level of price sensitivity in their share of the market.
10. There are likely to be marked differences between schools (depending on their market sector), locations (depending on the perceived attractiveness of local state-funded alternatives) and year groups (lower impact for children already at school, and increasingly lower as the child moves closer to exam years, as families are less willing to risk disruption; higher impact for primary school ages). In the short run, the effect might be particularly small as few parents might opt to take their children out of a school part-way through primary or secondary school. The effect might be larger over the medium to long term.
11. One indication that the demand for independent schools has a low sensitivity to prices is that demand for private schooling in the UK has hardly changed over the last 10 or 20 years, despite a 20% real-terms rise in fees since 2010–11 and a 55% real-terms rise since 2003–04 ([IFS, 2023](#))
12. The Institute for Fiscal Studies ([July 2023](#)) concluded that an effective VAT rate of 15% (after schools have taken actions to reduce liability) would lead to a 3–7% reduction in private school attendance.
13. If there is an increased demand for state school places resulting from an introduction of VAT, the Council does not have the data to fully quantify whether the current state school capacity would be sufficient to meet any increased demand from families choosing state schools rather than independent schools.

Number of Vacant State School Places

14. Numbers of vacant state school places shown in **Table 1** (see paragraph 22) are based on a comparison between:
 - (i) The total number of places that schools make available each year to applicants. This is known as the Published Admission Number (PAN)
 - (ii) The number of pupils on roll by year group, as per statutory school censuses
15. The data does not show the number of additional school places that the Council and schools are planning to make available over the next few years, particularly in secondary schools. However, those places are intended to address current projected demand, which does not include / reflect the potential impact of pupils transferring from independent schools to state ones.
16. The current data indicates that the key pressure points would be in Years 7, 8 and 9 if there was an increase in the number of children transferring from the independent sector.

Independent school pupils in Nottinghamshire schools

17. Data on independent school pupils is provided by the Department for Education (DfE) at school level each January (2024 has been used in the table below). The table below is based on those pupils attending independent mainstream schools located in the Nottinghamshire Local Authority area.
18. The Council does not receive the same level of data on pupils in independent schools as it does for pupils in state schools. The DfE published sources are limited and do not show where pupils attending independent schools live.
19. One Nottinghamshire independent school for example accepts boarders and therefore these pupils' home local authorities could possibly be further away than Nottinghamshire. If the parents of those pupils decide to remove their children from those schools, they may seek alternative places in state schools other than in Nottinghamshire.
20. Equally, there could be Nottinghamshire resident pupils who may be attending independent schools outside the County. These pupils will not be included as the table is based on independent schools located in the County. Some Nottinghamshire resident parents are likely to have sent their children to independent schools based in Nottingham City (such as the High School and Nottingham Girls' High School). If those parents decided to remove their children from those schools, they may seek alternative places in Nottinghamshire state schools instead.
21. If pupils do switch from independent to state school, it is not obvious which state schools would be affected. The DfE data is provided by year of age which, of course, does not exactly match national curriculum year.
22. The table is based on those full-time pupils attending independent mainstream schools and excludes those pupils attending independent special provision settings. This is different to the methodology used in another local authority example that was reviewed which includes this cohort. It was decided to exclude this cohort in the Council's statistics as specialist places are funded by the state rather than by parents and are therefore less likely to be as price sensitive. It has also been publicised that specialist provision commissioned for pupils with an EHCP will be VAT exempt. Also, both the Council and parents are less likely to want to move pupils with such high levels of need and potential vulnerabilities.

Table 1 – Potential impact of the introduction of VAT on independent school fees in Nottinghamshire, based on place availability (PAN)

Year Group	No. vacant state school places, based on PAN			Pupil age	No. pupils in Nottinghamshire independent schools (Jan 24)	Proportions of independent school pupils					
	May-23	May-24	Oct-24			5%	10%	15%	20%	30%	50%
Recep	1,852	1,750	1,988	4	64	3	6	10	13	19	32
Year 1	1,204	1,545	1,644	5	70	4	7	11	14	21	35
Year 2	1,030	965	1,491	6	66	3	7	10	13	20	33
Year 3	978	821	1,001	7	84	4	8	13	17	25	42
Year 4	995	830	829	8	79	4	8	12	16	24	40
Year 5	773	823	785	9	73	4	7	11	15	22	37
Year 6	474	674	823	10	79	4	8	12	16	24	40
Year 7	0	0	0	11	92	5	9	14	18	28	46
Year 8	0	0	0	12	105	5	11	16	21	32	53
Year 9	132	52	0	13	85	4	9	13	17	26	43
Year 10	213	339	366	14	74	4	7	11	15	22	37
Year 11	581	393	624	15	91	5	9	14	18	27	46
TOTAL	8,232	8,192	9,551		962	48	96	144	192	289	481

Assumptions have been made that:

- The total number of PANs offered in Yr R will also apply in Yrs 1 & 2
- The total number of PANs offered in Yr 3 will also apply in Yrs 4-6
- The total number of PANs offered in Yr 7 will also apply in Yrs 8-11

23. To supplement the nationally recognised data referred to above, the Council undertook an additional research exercise by requesting information from all independent schools in Nottinghamshire and some of those in neighbouring authorities. The schools were asked to provide data on the number of pupils per year group that were living in postcodes that are wholly or partly in Nottinghamshire.
24. Only four responses were received, and it is therefore difficult to extrapolate the findings from such a small sample. Also, the sample is not considered particularly representative, as three of the four schools who replied are based in Nottingham City rather than Nottinghamshire. Nevertheless, the sample confirmed the Council's previous assumption that the majority of a school's pupils tend to be recruited from nearby postcodes. In other words, parents who elect to send their children to schools in the private sector overwhelmingly choose local independent schools. An exception to this could be boarding schools, one of which is located in Nottinghamshire and has 75 boarders who could come from further afield.
25. The additional research, particularly with reference to the responses from the three Nottingham City schools, also confirmed assumptions that Nottinghamshire resident pupils would be attending independent schools in other local authority areas. 600

Nottinghamshire resident pupils attend these three city schools (most in the secondary phase), with an additional 800 attending from postcode areas which overlap with both Nottinghamshire and other local authority areas. This assumption could be extended further to other neighbouring independent schools that are located just outside the Nottinghamshire boundary but within reasonable commuting distance for parents. The attached map (**Appendix 1**) shows independent schools within 15 miles of the Nottinghamshire boundary.

Conclusion

26. The Nottinghamshire School Admissions Service has established a report to identify fluctuations in the regular pattern of in year admission applications in order to monitor the likely impact of changes to VAT arrangements for Private Schools.

Table 2 – Recent transfers to state education from the independent sector

	Ashfield	Bassetlaw	Broxtowe	Gedling	Mansfield	Newark and Sherwood	Rushcliffe	Total
2022	3	4	1	4	7	12	5	36
2023	3	4	0	2	3	9	5	26
2024 - 2025	0	0	0	10	3	8	5	26
Total	6	8	1	16	13	29	15	88

27. As of January 2025 there has not been a significant increase in pupils transferring back into state education but that position will now be regularly reviewed by officers on a termly basis.

RECOMMENDATION/S

- 1) That the Children and Families Select Committee continue to be kept up to date on the number of pupils transferring from the private sector to public sector education so that the impact of the introduction of VAT on independent school fees can continue to be monitored.

Councillor Ben Bradley

Cabinet Member for Education and Special Educational Needs & Disabilities

For any enquiries about this report please contact:

Karen Hughman
 Group Manager, Education Access and Partnership
 T: 0115 9772572
 E: karen.hughman@nottscc.gov.uk

Constitutional Comments (KK 06/03/25)

28. The proposal in this report is within the remit of the Children and Families Select Committee.

Financial Comments (SS 06/03/25)

29. There will be no financial implications with Independent Schools charging VAT, as the council can claim the VAT back. The Local Authority will show the net costs of any provision in the financial accounts.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None.

Electoral Division(s) and Member(s) Affected

All.

CFS0039