

## The effects of Putting VAT on Private School Fees

Public debate about levying of VAT on private school fees and removing benefits associated with charitable status, most recently proposed by the Labour Party should it form the next government, has been disrupted by four related misrepresentations which have been propagated in the media in recent weeks.

### **Claim 1: Levying VAT will lead to a 20 per cent rise in fees**

Some of the VAT will be offset through recovery from suppliers. The additional cost to schools and parents combined is estimated to be approximately 15 per cent. This extra cost is unlikely to be all added on to fees. Schools themselves will be able to make some savings, for example by small increases in their class sizes which are currently half those in the state sector.

If parents are obliged to meet two thirds of this additional cost, that means approximately only a 10 per cent rise in fees on top of what they would usually pay. Even if parents pay the whole extra cost, fees rise by only 15 per cent.

### **Claim 2: One in four private school pupils will be forced to leave private schools**

All the subsequent myths stem from this claim, which has been made by some insiders and representatives of private schools. But since it is in the interests of private schools to exaggerate the effects (in order to try to stop the policy being implemented), it is important to examine the evidence on which this claim is based.

To put the 10 or 15 per cent rise in fees in perspective, fees have risen by an average of 7 per cent every year between 2000 and 2010, and by 4 per cent every year between 2010 and 2019. During this time there has been no great change in the proportion of pupils at private schools.

The evidence for the claim that a quarter of children – as many as 135,000 pupils – would switch sectors is obscure. One claimed source is a report by consultants commissioned by the Independent Schools Council. The consultants examined parents' detailed finances in just 21 schools and somehow deduced that a minimum of 91,800 pupils across the country would switch. The study does not report any established statistical methods for this deduction. Also, 21 schools is nowhere near enough to form an accurate view across the whole country.

Another attributed source for this claim is a survey of 16,000 parents by the ISC itself. The survey report doesn't appear to be available and therefore cannot be subject to scrutiny. PEPF has approached the ISC to request information about the survey methodology and full data set, but our request was refused – the ISC claiming that the source was an 'internal document'. The public is entitled, therefore, to treat the claim with considerable scepticism.

Those spreading this myth, or similar statements, never draw on the only available public evidence that is relevant: a study by the Institute for Fiscal Studies (IFS) in 2011.<sup>1</sup> According to their sophisticated statistical study of real-life variations in fees and how the numbers of private school pupils changed, the response to a 10 per cent rise in the fees would be a 2.6 per cent reduction in pupil numbers.

<sup>1</sup> Blundell, R., L. Dearden and L. Sibieta (2010). The demand for private schooling: the impact of price and quality. London, Institute of Fiscal Studies.

Applying that to all the private schools in Britain, this suggests a switch of about 13,000 pupils from private to state schools. Even if the estimates of the IFS were too low by a margin of 100 per cent, that would still only be 26,000 pupils.

What's more, these switches would not happen all at once but take place gradually. The number of pupils disrupted by having to switch schools during the primary or secondary stages of their education would be small.

Thus, using objective, independent analysis, the estimates of the number of displaced pupils put forward by the Independent Schools Council appear to be grossly exaggerated.

### **Claim 3: The large exodus from private schools will lead to a 'scramble for places' in overcrowded state schools, so there will be a very large increase in the number of pupils failing to gain access to the school of their choice**

As explained above, there will not be a large exodus from private schools as a result of the proposed VAT on fees.

In addition, the availability of school places varies a lot across the country. In some boroughs with a high density of private schools, such as the London Borough of Camden, falling rolls mean that there would be spare places for any displaced private school children in primary and secondary schools in the coming years.

There are always problems when allocating pupil places in the state sector. The effect of the proposed VAT on this allocation is likely to be small overall, though complex, and may vary between regions. There could be a few communities where a private school is forced to close, and where local authorities and other private schools in the area find they need to react quickly.

A more specific claim has been that 'disadvantaged' students will no longer be able to get into some schools because those places will be taken by ex-private school students. Predicting school place allocations is extremely difficult, and it's just as likely that ex-private school students won't get into their favoured schools and would have to go to schools further away. The consequences could be more socially mixed state schools, which we would argue is a positive thing for our society.

### **Claim 4: The expense of providing the extra places in the state sector will lead to the policy costing the state rather than bringing in additional money**

The estimate for the gross amount of money that the VAT on fees will bring in is £1.75 billion.

Any estimate of the net amount of money to be raised should take into account the effect of having to fund extra places in the state sector. The claim that the policy would in the end cost the government money is based on the false Claim 2, using the grossly exaggerated figure of 135,000 pupils switching to state schools.

However, if the correct, independently-based estimate of the number of pupils displaced to the state sector is used, the reduction is relatively small, and there will be a net revenue gain of far in excess of £1 billion.