



2024-0032543

Stephen Morgan MP
Minister for Early Education

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Richard Fuller MP

By email: richard.fuller.mp@parliament.uk

18 November 2024

Dear Richard,

Thank you for your correspondence of 4 October, addressed to the Secretary of State, regarding plans to end the VAT exemption that applies to private school fees.

Education matters, and it is at the heart of our mission to break down barriers to opportunity so that every child gets the best start in life. The government is committed to ensuring that every child has access to high-quality education. To do this, the government is ending tax breaks for private schools in order to raise revenue to fund state education priorities.

As the Chancellor of the Exchequer set out in her Budget statement on 30 October 2024, the 20% standard rate of VAT will apply to all education services, vocational training, and boarding services provided for a charge by private schools from 1 January 2025. This will apply to any fees charged after 29 July 2024 for terms starting after 1 January 2025.

Alongside ending the VAT exemption, where a school in England has charitable status, the government has introduced the Non-Domestic Rating (Multipliers and Private Schools) Bill to remove their eligibility to business rates charitable rate relief. This is intended to take effect from April 2025, subject to Parliamentary passage. Together these reforms will raise around £1.8 billion a year by 2029 to 2030.

Ending tax breaks for private schools is a tough but necessary decision that will secure additional funding to help government deliver its commitments to the 94% of children across the UK who attend state schools, including the over 1 million children in the state sector with special educational needs and disabilities (SEND). The government announced at Budget a £2.3 billion increase to the core schools budget for financial year 2025 to 2026, which increases per pupil funding in real terms. Further details of this policy and its impact are available on the GOV.UK website at: tinyurl.com/5X3BSRSJ and tinyurl.com/P73NP4D2.

The government expects the impacts of these changes on the private and state sectors to be small. Charging VAT at the standard rate of 20% does not mean that schools must increase fees by 20%. Whilst it will be for individual schools to consider how they manage this cost based on their individual circumstances, the government expects private schools to take steps to minimise fee increases. There are various ways in which a school may choose to do this, including reducing their surpluses or reserves and cutting back on non-essential expenditure. They can also reclaim input VAT on their expenditure. On average, the government expects fees to rise by 10%.

We estimate that there will ultimately be 37,000 fewer pupils in the private sector as a result of the changes to VAT (as pupils either leave the sector, or do not join in the first place). This represents 6% of private school pupils. Of those leaving the private sector, 35,000 pupils are expected to move to state schools. This represents less than 0.5% of all state school pupils.

The government expects the revenue costs of pupils entering the state sector as a result of these tax measures to steadily increase to a peak of around £0.3 billion per annum after several years. The costings for the VAT and business rates measures have been scrutinised and certified by the independent Office for Budget Responsibility.

As stated, the impact on the state education system as a whole is expected to be very small. The government estimates that 35,000 more pupils will enter the state sector as a result of this policy. However, these movements will take place over several years, and only 3,000 pupils are estimated to move in 2024 to 2025. The total of 35,000 pupils is less than 0.5% of all state school pupils.

The government understands that moving schools can feel challenging. However, local authorities (LAs) and schools do already have processes in place to support pupils moving between schools, and children move between the private sector and the state-funded sector every year.

On the concerns you mentioned regarding centrally delivered mainstream projects, these are under review. In some cases, such as where we have already identified that there is clear evidence of need for places in that area or where the construction contract has been signed, we may have already determined that a project should proceed. We are contacting relevant trusts and LAs to confirm these.

The government's priority is to ensure children thrive in whichever type of school they are in – including free schools. Because capacity varies from place to place, the department will continue to open planned new schools where they are needed and represent value for money.

We recognise the significant planning and effort that trusts and LAs have invested in their projects, and we understand that this review may raise questions and concerns. As we progress, we will aim to prioritise decision-making based on the urgency of delivery issues wherever possible. This process will be ongoing throughout the autumn, and we will let LAs and trusts know when a decision has been made.

As outlined above, the statutory duty to provide sufficient school places sits with LAs. We provide capital funding through the Basic Need grant to support LAs to meet their statutory duty to provide sufficient school places. Bedford Borough Council will receive just over £42.6 million to support it create school places needed over the current and next two academic years, up to and including September 2026.

Our Pupil Place Planning Advisor team engages with councils on a regular basis to review their plans for creating additional places and to consider alternatives where necessary. When LAs are experiencing difficulties, we support them to find solutions as quickly as possible. Where LAs are failing in their duty, the government will intervene.

Allocations are based on LAs' own pupil forecasts and school capacity data. We also include the expected capacity of centrally delivered free schools set to be open by the September following the announcement of funding. To date, we have adjusted allocations to take account of places provided in free schools opening up to September 2023, meaning the amount Bedford Borough Council will receive has not been adjusted downward to reflect places provided by St Neots Academy. Further Basic Need allocations are subject to the Spending Review.

Thank you for taking the time to write. I hope that this response is useful.

Yours sincerely,

A handwritten signature in blue ink that reads "Stephen Morgan". The signature is written in a cursive style with a long horizontal line underneath the name.

Stephen Morgan MP
Minister for Early Education