



Implications of government policy on VAT for Independent Schools

Update for Parents

by Darren Carpenter, Chief Financial Officer

With a General Election expected during the course of this year, to be held by January 2025 at the very latest, the College has begun to receive an increasing number of enquiries from parents and prospective parents as to the likely impact on College fees. We are also being asked what the College's plans are to consider ways in which the introduction of VAT might be mitigated.

Q. What is the current situation (in January 2024) with Labour's VAT pledge, if they win the next election, and what does it mean for Hurst?

A. The Labour Party has confirmed that shortly after entering office, it intends to impose VAT on independent school fees and bring an end to the charitable relief on business rates which presently benefits most independent schools. As yet, no detailed policy information has been made available, and therefore the independent schools sector has had to make a number of assumptions as part of our planning for this change. It is important to stress that thinking will develop and evolve as more details of this proposed policy are made available.

The first of Labour's proposals is that independent schools will lose business rates relief, which in Hurst's case, would increase costs by nearly half a million pounds per year. However, the removal of this relief, already introduced in Scotland, has been mooted for several years and we have been making a provision for this removal in the College's financial projections for some time.

The second proposal is that VAT will be applied to school fees, and this is the measure that will clearly have the most significant impact on the independent sector. Having said that, it is highly unlikely that schools will choose to raise fees by the full headline rate for various reasons, one of which is that we will be able to recover VAT on our general expenses (e.g. catering and cleaning contracts, building projects, transport etc). This means that we will be able to offset any VAT we can recover in order to help mitigate the headline impact on parents. As you would expect, we are scrutinising our budgets to do what we can to keep costs under control, so whilst it is too early to give precise figures we want to reassure you that we will do what we can to reduce the impact on parents.

Q. Can Hurst minimise the implications of VAT?

A. A number of parents have enquired as to whether there may be other ways to minimise the implications of VAT, such as by paying fees before any legislation is passed by a future Labour government. Indeed, we are aware that several independent schools have promoted their Fees In Advance (FIA) schemes as a possible way to mitigate the likely introduction of VAT. The College does already have an FIA scheme, but the existing scheme is unlikely to provide the desired benefit, as funds are deposited in the College's general reserves and drawn down termly when the fees become due. We are in the process of seeking specialist advice on providing a FIA scheme to parents that would enable the College to invoice for several terms (or years) up front. However, it is important to recognise that the introduction of VAT is likely to include anti-forestalling measures, and this may mean that VAT could still be recovered on these invoices at a later date as already mooted by the Labour Party. We understand the current regulations do not provide for this ability, but as the Labour Party have said themselves, the proposed introduction of VAT is based on ideology, we expect that a number of avenues independent schools could explore to limit the impact to parents will be closed.

Q. What does this mean for Hurst's future?

A. The independent school sector has recently been through a somewhat turbulent time. Hurst continues to be a strong school and we have hugely appreciated the support and loyalty shown by parents throughout this challenging time. We are confident that, with the support of parents, the College will continue to provide an excellent all-round educational experience despite any proposed changes in government policy.

As more details become available and our plans evolve, we will update this document to keep parents informed.

Darren Carpenter
Chief Financial Officer