



# Implications of government policy on VAT for Independent Schools

## Update for Parents

### Q1.

Is it a given that Labour will definitely impose VAT on school fees?

### A.

In short, no. But it looks very likely that they will win an outright majority in the General Election on 4 July, and it appears equally likely that they will seek to follow through with what is a major manifesto pledge. What we do not know is how and when it will be applied. Equally, they do not necessarily have to impose VAT at the rate of 20% and it is possible (though not overly likely) that they apply a lower rate. There is still very little detailed information available, so schools and parents are having to calculate the likely outcomes, and inevitably there has been an element of speculation due to the uncertainty.

### Q2.

Please can Hurst solidify its position as the other private schools are starting to do. As parents we can't budget or make long term decisions until we know how much of the VAT they will be passing on.

### A.

It is very difficult to be precise until full details of the proposed introduction of VAT have been announced by the Labour Party. At this stage, the sector is unclear as to when VAT is to be introduced, what rate VAT may be introduced at and whether VAT will be applied retrospectively.

As covered in previous communication, if VAT is introduced on school fees, the College will need to become registered for VAT and will be able to claim back VAT paid on goods and services procured. This saving will allow the College to reduce the net of tax fees charged, with the headline rate of VAT applied to the reduced amount. The expectation is that in schools who adopt this approach (which is likely to be the majority of independent schools) the overall impact on parents will likely be a net fee increase of about 16-17%, assuming a headline rate of VAT at 20%. Hurstpierpoint College is expecting to fall in line with the sector average in this regard.

### Q3.

Is Hurst planning a support system for families who won't be able to make immediate adjustments to the new system or will they just be asked to leave? We need to know what this support looks like and how to access it.

### A.

We are very aware that the introduction of VAT on fees may lead to some families having to question whether or not they can continue to afford to send their child to independent school. None of us wants any child's education to be adversely affected by this move and we will do what we can to support families in need of special consideration. The Head of College has already written to parents to invite those with significant concerns about their ability to pay fees to contact the CFO/Bursar. At present, a small number of families have done so. The CFO/Bursar can be contacted using the following e-mail address: [bursar@hppc.co.uk](mailto:bursar@hppc.co.uk).

### Q4.

Should my child receive a Scholarship Award after I have paid in advance will I receive a refund now or at the end of the term of the FIA?

### A.

As with the College's well-established FIA scheme, any material changes, including the provision of a Scholarship, would be treated as a credit on the account and applied against any future Extras, with any overall credit refunded at the end of the period. In exceptional circumstances, parents can apply to the College's Director of Finance for a refund, and these would be treated on a case-by-case basis.

### Q5.

Would the fees paid in advance be fully refunded if a child had to leave for any reason?

### A.

Yes, any relevant Fees In Advance payment, less any notice period payment (as agreed) and outstanding extras not covered by the FIA payment, would be refunded upon the departure of the pupil from the College.

## Q6.

I have spoken to my accountant, and they inform me that it is perfectly legal for the School to raise an invoice by the 3rd July 2024 for the full amount of the school fees and for me to then arrange with the school to pay it off in monthly instalments as per normal (all with no VAT). Is this true?

## A.

This advice does not appear to be in line with current guidance. The legal and accountancy advice that we have received is quite clear that VAT crystallises at the point that the payment is made, not the point the invoice is generated. Therefore, only payments made to the College prior to any change in VAT legislation are likely to be treated under the current VAT arrangements. That said, the lack of clarity from the Labour Party over what form the legislation might take means that no-one knows for sure what format this will take.

## Q7.

What is the financial relationship with the Hurst Educational Trust? I know the original reasoning was to 'do the right thing' as well as to maintain charitable status. My concern is that Hurst won't be retaining charitable status and we have now signed up so many schools some of which are no longer local (the most recent signings are Horsham and Crawley), that Hurst Parent Fees are being spent on supporting schools that are not local to us. I would prefer the trust to concentrate on local schools and supporting existing Hurst families.

## A.

The College Governors have long planned to set up a Multi-Academy Trust; it is important to note there was never any intention that this was a vehicle set up to maintain the College's charitable status. The introduction of the Trust came from a desire that the College should work more collaboratively with schools within the local community for the benefit of pupils and staff both within the College and the schools within the Trust. As Multi-Academy Trusts have been the direction of travel for some time, setting up a Trust was the natural way to achieve the College's intention of working collaboratively with other local schools and we achieved this by partnering with the Diocese of Chichester, aligning with the College's Christian Foundation as a Woodard school. The positive impact on staff and pupils within both the College and the local Trust schools has been significant and certainly greater than the financial cost to the College.

The Trust has been in existence for over two years, and currently comprises five local schools (Ditchling (St Margaret's) C of E Primary School, Albourne C of E Primary School, St Wilfrid's C of E Primary School, Bolnore Village Primary School and St Peter's C of E Primary School, Henfield. Schools within the Multi-Academy Trust are state funded and pay a membership fee of 3% of their government funding directly to the Hurst Education Trust. This covers many of the direct costs of running the Trust,

with Hurst contributing further support which mainly comes in the form of staff time and transport costs. The direct cost to the College is approximately 0.3% of the College's total income. As the Trust grows by taking on more schools, it becomes more self-sustaining due to the increased income from the member schools. This means that the Trust will require less input from the College both in terms of the operational leadership and running, but also the direct costs to the College, both of which are forecast to fall significantly in the next 1-3 years.

## Q8.

Is there a risk to pupil numbers and the viability of the Prep School?

## A.

Nationally the sector recognises that the impact of the introduction of VAT is more likely to be felt within Prep schools (and particularly day Prep schools). Fortunately, our JPS and SPS numbers are very strong, and we are full at almost every entry point, with waiting lists for most year groups. The intake for Reception for 2024 will be at its highest level in many years and the medium term appears to be buoyant, despite the current circumstances providing some prospective parents with a level of anxiousness. As an all-through College, parents know that by entering their child into the JPS they do not have uncertainty of having to apply for a place in the Senior School whereas children from other local Prep Schools have to apply for heavily oversubscribed places. This undoubtedly helps us to ensure healthy numbers in the JPS. In any case, the fact that we are so oversubscribed in the Senior School means that we are fortunate that our overall numbers lead to financial security for the College as a whole.

## Q9.

Some educational services such as after school care are zero rated and therefore exempt from VAT. Will Hurst itemise our fees so we only pay VAT on VATable items?

## A.

The advice received by the College is that itemising elements is unlikely to mitigate any VAT charge. This is because the provision of boarding at Hurst (by way of a prime example) is too closely linked to the provision of independent education – we would not accommodate pupils at the College who did not study at Hurst. Naturally, if this advice were to change, the College would make every effort to minimise the impact on parents.

## Q10.

What will happen about extras such as Learning Support? If this is also subject to VAT, is there an option to pay for that in advance?

**A.**

The College is only able to quote for fees in advance. This is because any extras, including learning support, transport and other miscellaneous costs, cannot be quantified until they have taken place.

## Q11.

Can the College offset the VAT rebate from the ongoing construction programmes?

**A.**

At the point of writing this answer, it is not yet clear whether the College may benefit from any VAT rebate on prior construction projects. The Labour Party have previously indicated that independent schools will not be able to recover such previously paid VAT, although current legislation suggests that this would be possible. Given the uncertainty, we are not able to factor this into any planning at this stage.

## Q12.

Shouldn't Hurst be reducing its profit by lowering fees?

**A.**

The College is a registered charity so we do not generate any profit, though we do seek to maintain an annual surplus which is reinvested in the College. The primary focus of the surplus is to develop the campus, with the aim of maximising the experience for the pupils. Unlike some other independent schools we do not have a large historical endowment, so major capital projects (such as the swimming pool which is being built at the moment) are reliant on this surplus being invested annually to continue to improve the College's facilities. In addition to the clearly visible projects, several million pounds have recently been spent on refurbishing and upgrading boarding facilities and other ancillary areas of the College which whilst less obvious, are very important in providing the experience that our pupils – and our parents – expect.

## Q13.

How does the Fees in Advance align the discount for advance payment (3% per annum) with the interest that the school will earn on the deposit?

**A.**

The Fees In Advance scheme was drafted by lawyers acting on instructions from the Woodard Group. We recognise that the discount available, at 3% annualised, is currently lower than the current cash savings rate, but savings rates are due to fall significantly in the coming years and the College is certainly not looking to profit from the cash deposits. Of course, many parents would pay 40 or 45% tax on any interest generated if they were to invest the cash themselves.

## Q14.

Why hasn't the private school sector put up some kind of fight?

**A.**

As with most independent schools, Hurstpierpoint College is a Charity and therefore governed by strict rules concerning actions that we are permitted to take. However, the various bodies that represent the independent schools' sector, including HMC, IAPS, ISC and ISBA, are very actively campaigning on behalf of the wider sector. Independent school parents make up a significant proportion of the electorate so one way to lobby Labour is to liaise with parliamentary candidates, and of course the deciding factor will come at the ballot box on 4 July.

## Q15.

Please could you clarify clause 26 of the FIA scheme? It suggests that if any tax benefit is withdrawn from the College then any shortfall in tax will be charged at the end of each term.

**A.**

If a Labour government were to legislate that VAT will be retrospectively applied to any payments made to the College prior to 4 July 2024, the College would be required to seek VAT from parents. It is intended that this would be charged termly as the provision of education for that term becomes due, rather than as one lump sum.

## Q16.

We are still waiting for quotes for the Fees in Advance Scheme and responses to the questions we asked. When can we expect a response?

**A.**

The College has received around 800 requests for quotes for the Fees In Advance scheme. As each quote must be prepared individually, together with corresponding paperwork produced, there is unfortunately a delay in our ability to respond as quickly as we would like. We have drafted in additional support, and all quote requests made to the College will be sent out in good time to allow parents to make a payment prior to the date of the General Election, should they wish to do so.

## Q17.

Other schools have clearly communicated that they will be reducing fees by a specific figure in order to partially offset the impact of VAT – why have Hurst not done the same?

**A.**

The work to determine the likely 'passthrough' rate (the net effect on parents after the College has taken into account VAT savings and applied VAT to the reduced fees) has already been completed, however, until the Labour Party confirm details of the proposed policy, rather than the current media headlines and soundbites, the College does not wish to mislead parents by providing information that may subsequently prove incorrect.

The expectation is that in schools who adopt this approach, which is likely to be the majority, the overall impact on parents will likely be a fee increase felt by parents of about 16-17%, assuming a headline rate of VAT at 20%. Hurstpierpoint College is expecting to fall in line with the sector average in this regard.

## Q18.

What happens if future annual fee inflation varies (up or down) from the quoted figure of 4%?

### A.

The Fees In Advance quotes already factor in annual fees inflation of 4%. Should this differ, a top up payment (or credit) will be applied.

## Q19.

Is there any update from the school as to the view as to whether any advance fees already paid would be subject to VAT retrospectively if a change of law were introduced after advance fees had been paid?

### A.

As we understand the situation and have been advised, the tax point is crystallised at the point the payment is made. That means that, subject to any retrospective application of VAT (which we have been advised is highly unlikely to be subject to a period prior to the General Election) any payments already made will be subject to VAT rules in place at the time the payment is made.

## Q20.

Are there any protections such as an Escrow account to ensure that the money paid for fees is safeguarded and could be returned in the event that the school were to get into financial difficulty?

### A.

Any payments made in advance will form part of the College's general reserves and as such, are not ringfenced or held in any form of escrow. This is in common with most similar schemes made available by other independent schools, and mirrors the College's long-standing FIA scheme arrangements.

Parents are invited to undertake their own due diligence of the College's financial position, should they so wish. The College's accounts can be viewed via the Companies House or Charity Commission websites.

## Q21.

What happens if HMRC interpret the Fees in Advance Scheme as a tax avoidance exercise and decide to claw back VAT?

### A.

It is not possible to provide any firm assurances on areas outside the control of the College, and therefore parents are invited to make their own assessment of any such arrangements prior to deciding whether to participate.

The Scheme has been drafted at Group level by lawyers working on behalf of The Woodard Group of schools, which includes other local independent schools. In the event that the scheme were not to meet with approval from HMRC then the contract indicates that parents will be charged for the relevant VAT payment that the school will need to pay to the government.

## Q22.

Have Hurst looked at working in collaboration with schools in the same area, to review suppliers? If we give a supplier more volume, we are more inclined to receive a discounted price which can be passed on to the parents.

### A.

The College is a member of the Woodard Group of schools, which together with the Woodard Academies Trust, is one of the largest educational charities in the UK. Several significant procurement activities have taken place either as a Group or with a number of other schools within the Group, in addition to separate procurement activities undertaken directly by the College. One of our recent major financial projects has been to re-tender the contracts for our suppliers (such as cleaning and catering) which will help us to keep our costs as low as possible without compromising on quality.

## Q23.

I'd like you to just clarify the response to Q15. I presume you mean any payments in advance made prior to 4 July 2024. It's implicit in the Question I think as we are discussing clause 26 of the FIA - but when I first read the Answer I thought the suggestion was Labour might ask parents to pay VAT on fees paid for previous school years too.

### A.

Yes, this relates to payments in advance made prior to 4 July 2024.

## Q24.

Please can you explain the 3% reduction for FIA. The letter I received states a discount of 3% applied to each term's fees. There is no mention of this being annualised. As an example, does this mean that the reduction in term 1 is exactly the same % as the reduction applied to term 6?

## A.

The discount is annualised, so will increase over time. An example is shown below for a payment in advance for one academic year:

Example: Fees in Advance Scheme (FIA)				
Future term	Headline fees	Less any Advance payment discount	Discount Percentage	Fees to be prepaid under the Scheme
Michaelmas Term 2024	£10,220.00	-	-	£10,220.00
Lent Term 2025	£10,220.00	(£101.18)	1%	£10,118.82
Summer Term 2025	£10,220.00	(£202.36)	2%	£10,017.64
Michaelmas Term 2025	£10,628.80	(£318.86)	3%	£10,309.94
Lent Term 2026	£10,628.80	(£424.09)	4%	£10,204.71
Summer Term 2026	£10,628.80	(£529.31)	5%	£10,099.49
Michaelmas Term 2026	£11,053.95	(£663.24)	6%	£10,390.71
Lent Term 2027	£11,053.95	(£772.67)	7%	£10,281.28
Summer Term 2027	£11,053.95	(£882.11)	8%	£10,171.85
<b>Amount of the Advance Payment</b>	<b>£95,708.26</b>	<b>(£3,893.82)</b>	-	<b>£91,814.44</b>

## Q25.

Can we ask for fees in advance to be reimbursed if VAT wasn't imposed (e.g. if Labour do not win), or if it were to come in at a lesser rate? We would understand if fees for 2024/25 had to be upheld, but could we be refunded future years?

If I join the FIA scheme and it proves to have no VAT benefit, would I be able to withdraw my advance fees and revert to termly payment? It seems that I can only do this if I remove my children from college.

If it turns out that VAT is payable on any sum paid to the FIA scheme before the 4th July, would it be possible to have the FIA sum reimbursed? We will be raiding our long term savings to make the FIA payment and so if no VAT is saved, we would ideally want to reinvest the money. If the answer to the above is negative then it would be interesting to know why. If it is due to the work involved then an admin fee may be the answer.

## A.

The balance of any funds held within the FIA scheme can only be withdrawn if a child leaves the College or by exceptional circumstances only. The FIA scheme, which has existed for many years and not as a response to the implication of VAT, is not a tax avoidance scheme, and parents shouldn't use it to hedge against the possible introduction of VAT in the short-term. There is a discount provided for using the scheme in any case, and quite aside from any possible VAT mitigation, parents would need to offset this benefit against any financing costs or loss of investment income elsewhere to determine whether the scheme is a worthwhile investment. Of course, we will always be happy to discuss specific personal circumstances with all parents on a case-by-case basis if required.

## Q26.

Will the school be ringfencing these funds? I would encourage them to consider this for fees paid more than 2 years in advance.

## A.

Whilst accounted for separately within our statutory accounts, the funds paid under the College's FIA scheme form part of the College's general reserves and are available to be used by the College to supplement the College's cash flow position, which in some circumstances can save the College from having to resort to borrowing.

It is our understanding that most school FIA schemes operate in this way. To provide some comfort and reassurance, the College has had an FIA scheme in place for many years, operating in this way, and it is common for parents to deposit significant sums to fund multiple years of tuition.

Parents are invited to carry out their own due diligence of the College's financial position; our externally audited

financial accounts are available on our website, the Charity Commission's website and via Companies House.

## Q27.

It would be helpful for many parents paying fees by monthly direct debit for fees to be charged on the 1st of every month (as opposed to the 28th) over 12 months (as opposed to 10 months).

## A.

When the current direct debit scheme was launched, the feedback from parents was that the majority preferred the end of the month. It may be this could be revisited in the future (albeit it would initially require two payments in one month to 'catch up'). The College is keen to avoid adding additional cost that would be required if more administration time is needed to process multiple DD runs in a given month. We do understand that this is in line with most other independent schools.

The DD scheme is set to 10 months to ensure that parents on the scheme do not fall into arrears and be seen to provide a credit solution to parents, which would add significant extra technicalities.

## Q28.

Will the likely 16-17% fee rise due to the introduction of VAT be in addition to the already announced increase of 6%?

## A.

The inflationary increase, announced prior to Easter, takes into account the inflation the College has (and will) suffer on its operating costs. The College has tried to keep this figure as low as possible, whilst still being in a position to provide an excellent all-round pupil experience. As one of the first schools locally to publish the fee structure for 2024-25, we are pleased that we appear not to be an outlier and in line with what would appear to be the sector average.

The likely 16-17% increase, as a result of VAT, is provided as a guide at this stage. Please do be assured that the College is and will continue to review its expenditure and will do everything we can to keep future cost increases as low as possible, whilst not reducing the quality of education or pupil experience.

## Q29.

You state an expected net fee increase of 16-17% based on 20% VAT. Is this likely to be introduced on a sliding scale over a few years or in full from the start? I hear other schools have suggested they will pass on at approximately 5% increments each year.

## A.

Most independent schools that we are aware of, and the sector more generally, have indicated that the rate of 16-17% will be used. We are aware of a small number who have opted to spread the amount over a longer period. Whilst no firm decisions have been made at this stage, and cannot be until more information is available, we are

very wary of proposing what would be an unsustainable model that would either require future significant fee increases to rebalance the school's position or significant cost cutting exercises that would harm the pupils' education or experience.

### **Q30.**

**Can the interest from investment be beneficial, financially, to the current paying parents and not invested back into the school for future children? With VAT accounts being payable in arrears post submission, can the interest on that year's account be paid back into to parents' accounts?**

#### **A.**

Any returns from the invested funds will form part of the College's overall surplus and will be reinvested into the College, primarily in the College's campus. These suggestions, whilst very understandable, would require the College to substantially increase the administration capacity within the finance team, adding additional costs to the College's overheads that would ultimately negate benefits to parents. This would especially be the case if interest rates fell, which they are currently forecast to do in the medium term.

### **Q31.**

**Will VAT be reduced on the boarding component of fees (i.e. a lower VAT rate on food and accommodation) if it is considered to be a pupil's place of residence? Depending on the child's boarding status, might this reduce VAT in the long run?**

#### **A.**

The advice the College has received to date is that the boarding element is too closely linked to the supply of education to be exempt from VAT. Therefore, itemising the bills in this way would not provide any material benefit. Neither flexi boarding (3 nights per week) nor weekly boarding (5 nights per week) would be sufficient to consider the College the child's permanent place of residence. This may be different for full boarding schools who host overseas pupils for a whole term. There are some elements that may well continue to be zero rated or VAT exempt, however, we do not yet have any firm steer on this and are waiting for further information to be made available.

### **Q32.**

**Being bound by contract of advance, could we pay fees for 2024/25 in advance, then 2025/26 in advance and so on?**

#### **A.**

Parents may contract on a year-by-year basis into the FIA scheme, but as we are advised that the tax point is crystallised at the point the payment is made. Future years' payments would therefore theoretically be subject to VAT applied in line with legislation at the time of making the future payments.

### **Q33.**

**If VAT is imposed mid-way through the financial year, would all VAT be claimed from April 2024 or April 2025?**

#### **A.**

At this stage, we do not know when VAT would be imposed (and as a result, when the College would be able to begin to claim any VAT on goods and services). Some commentators believe that it will be backdated to 1 September 2024, others that there will be a delay in its implementation to 1 September 2025. Equally it may fall to April 2025 to fall in line with the new tax year. We simply don't know. Once the picture becomes clearer, please do be assured that the College will do everything possible to reduce the impact on parents.

### **Q34.**

**As we will be new to the school in Sept 2024 we have not seen how to apply for a quote for fees in advance. How do we do this?**

#### **A.**

New parents should have received several communications, which include details of how to seek further information. Quote requests can be made by e-mail, please, to Valentine Chiketa, the College's Director of Finance. Please make sure you clearly indicate the name of the pupil and the period you want the quote to cover (e.g. just the 2024-25 academic years, or three academic years, etc.).  
[feesinadvance@hppc.co.uk](mailto:feesinadvance@hppc.co.uk)

### **Q35.**

**Could you please reassure us parents that this policy (if implemented) will not result in the school deciding to cut costs on important things, such as after school activities, clubs provisions, and staff. Would you please confirm that any of the above would be communicated to the parents?**

#### **A.**

The College regularly reviews its expenditure to ensure that funds are spent in accordance with the College's priorities, which centre on ensuring that we continue to provide an excellent all-round education and experience for every child at the College. Whilst we are aware that many schools are planning to reduce 'non-essential' spend, we are very focussed on ensuring that the quality of the experience as a Hurst pupil (or parent!) is maintained and, where possible, improved. Mr Mott and Mr Carpenter hosted a Parental Focus Group on Monday 17 July and there was universal agreement that Hurst should not seek to reduce the educational offering. Instead, there is an understanding that the College has been working hard to renegotiate contracts and manage costs as effectively as possible without cutting any corners.