

### **Statement from Baines Cutler concerning VAT on School Fees**

Since the start of the election campaign there has been considerable media interest in relation to Labour's proposal to charge VAT on school fees. Our firm's name has come up many times and the research we have carried out has been quoted on many occasions. This brief statement seeks to set the record straight on what our research has and has not said.

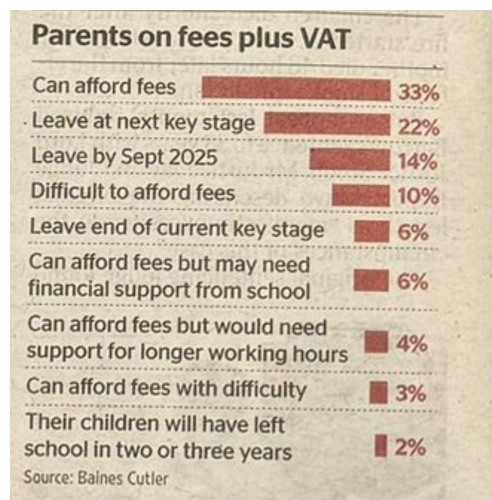
Unlike most other organisations now commenting on VAT, Baines Cutler (and its predecessor firms) has worked in the sector for over thirty years and has conducted the sector's main financial benchmarking survey for 28 years, a survey which has 75% sector participation. We therefore know the sector's finances better than anyone.

When the issue of VAT was first proposed by Labour we were commissioned by the Independent Schools Council to prepare a report for them looking at the potential impact of VAT on the sector. This 2018 report can be found at: <https://www.bainescutler.com/media/2umbzz1c/isc-vat-full-report-1018-for-circulation.pdf>. It was drawn from surveys of tens of thousands of parents in around 150 schools and we took great care to ensure that the schools we used for detailed analysis were representative of the sector as a whole. That report concluded that 10.7% of pupils were likely to be withdrawn by the end of the first year of VAT being introduced, with a further 6.4% drop-off over the next four years. There might well be additional drop-offs (for example as bursary schemes were withdrawn, or other pupils chose to leave even if they didn't have to), but these were less clear.

Whilst time has moved on since then, not least with Covid and the cost-of-living crisis, we stand fully behind this research and its conclusions, which remain the only report on this subject based on real schools, parents and their finances. This is especially relevant in relation to the IFS's 2018 and 2023's reports, which although we respect the IFS as an organisation, contain no data from any actual school or parent, being simply theoretical desk-top exercises. Education of one's children is a highly personal and emotive issue, in which factors other than simple economics come to bear. We know this and have sought to factor this into all our work, it is harder for those who don't work in the sector to do so.

Since the pandemic, we have continued to survey school finances annually, and have additionally been commissioned by over 80 independent schools to conduct parental surveys, for use by their senior management and governors to model and understand the potential impact of VAT on their parents and schools. In May 2024 we published some consolidated findings from these surveys (based on returns covering 35,000 pupils) to provide information to the sector to manage the threat of VAT.

The findings from these latter surveys illustrate the complexity of the subject, and the nuances of parental choice, best seen in the table alongside published in the Times on 1 June 2024. This illustrates well the difficult choices facing parents – do all they can to keep their children in until the next key stage, leave now and face both the upset to their children and the lottery of finding a state school place, stay in and hope bursary support will not be withdrawn etc. Much of the debate has been framed as a simple stay/leave choice, but our work shows just how false this is. Indeed, the real issue for the sector is not how many children leave (after all every child will leave in due course!) but how many leave early, and the extent to which both they and “natural leavers” are replaced by new parents. It is the attraction of the sector to new parents if VAT is levied which is in our view the greatest concern.



We view these observations as helpful and useful contributors to the debate. In light of recent reporting in the media we wish to clarify that our latest research was developed to provide schools with a figure against which to do their financial modelling, unlike our 2018 report which was developed explicitly to model pupil number drop-off.

For a wider view of the impact of VAT we draw attention to our paper “12 things you didn’t know about VAT on school fees”, issued in March 2024 <https://www.bainescutler.com/media/ghfdakvz/12-things-you-didn-t-know-about-vat-website-version.pdf#>

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