



## Welsh Parliament, Finance Committee

Cyngor Ysgolion Annibynnol Cymru / Welsh Independent Schools Council

# Call for information – Welsh Government draft budget proposals for 2022-23

## *Submission of the Welsh Independent Schools Council (WISC)*

A Welsh language version will follow in due course.

### Summary

1. The Welsh Independent Schools Council (WISC) represents 65 independent schools, 20 of which have charitable status. We have been supported in this submission by the Independent Schools Council (ISC) who represent and collect data on schools across the UK.
2. We are responding primarily to Question 6 in the Committee's Annex 2 (*"Do you have any specific comments on any of the areas identified below, particularly in light of the COVID-19 situation and how these should be reflected in the 2022-23 budget?"*) In particular, our response addresses the sub-question *"How the Welsh Government should use taxation powers."*
3. We are also responding in the context of Welsh Government policy proposals to remove mandatory non-domestic rates (NDR) relief from charitable independent schools. The Welsh Government held a [consultation on the removal of NDR relief](#) from charitable independent schools (and some other charities) between January and May 2020). The Welsh Government's response in [the summary](#) was that they *"will consider the responses to this consultation in full. Any specific policy proposals will be subject to further consultation,"*. In the absence of any further update, we consider this a policy still under consideration by the Welsh Government.
4. In light of this, we are responding to this consultation to repeat aspects of the submission we made in our 2020 evidence to the Welsh Government: the removal of mandatory NDR relief from qualifying independent school charities in Wales **risks a net financial loss to the Welsh Government and taxpayer**. The increase in children taking up state school places is likely to cause the increased costs to outweigh any additional tax revenue. In our comparisons, we continue to rely on the revenue predicted by the Welsh Government in their consultation, where they suggested that £1.4 million would be raised through the removal of NDR relief.
5. As well as risking a financial loss to the Welsh Government, the removal of charitable relief would cause fee rises in independent schools. Ultimately, this would limit Welsh parent's school choice - which would be particularly serious for families who have chosen independent schools to meet a special educational need, or a desire for particular religious/philosophical education.
6. While we are primarily responding on behalf of our member schools, we are aware that there are 79 independent schools in Wales, at least 23 of which have charitable status. We hope that the Welsh Government does not include any such proposals in their draft budget but want the Committee to be well prepared to scrutinise such a policy if it is proposed. We would be happy to answer any further questions the Committee might have, you can contact Emma Verrier [REDACTED], WISC CEO.

### Context

7. Welsh Government figures show at least 9,800 pupils attend independent schools in Wales.<sup>1</sup> ISC figures show that at least 5,500 of these pupils are currently on roll at WISC charitable independent schools. The removal of NDR relief would affect at least 23 of the 79 independent schools in Wales (approximately 30%) but would have a disproportionate impact on pupils – affecting approximately 57% of pupils educated independently in Wales.
8. WISC charitable independent schools are diverse in terms of size, geography, and educational offering. They are present in 9 local authority areas, and range in size from fewer than 10 pupils to more than 1,200. Educational specialisms include special educational needs, musical education, religious ethos, and educational philosophy (e.g. Steiner schools). All independent schools contribute savings to Welsh education budget, through state-funded places not being taken up.
9. Charitable independent schools in Wales presently receive the same mandatory relief from NDR as every other charity in Wales, comply with all relevant charity law, and are subject to the same regulation by the Charity Commission. They are a fully integrated, and equal, part of the charitable sector. The removal of the charitable reliefs for only limited types of charity (independent schools) would create a two-tier charity sector in Wales, creating artificial distinctions between charities and unfair treatment of one group of charities.
10. Charitable independent schools, like all charities, undertake public benefit work. It is the responsibility of every school, and its charitable trustees, to determine what public benefit activity is most useful. This is in line with every other regulated charity, and annual reports are provided to the Charity Commission and are published on their website.
11. Most often, this public benefit work takes the form of partnerships with local state schools or community groups, or bursaries which widen access to independent schools. In the last academic year for which data is available (2020/21), more than 600 pupils in WISC charitable independent schools received means-tested fee assistance –allowing them to attend a school they would otherwise not be able to access. In that academic year, this means-tested fee assistance amounted to at least £5.1 million of means-tested support provided by WISC charitable schools alone – more than three times the gross value which the removal of non-domestic relief is projected to raise.
12. Charitable reliefs are not a ‘reward’ for public benefit activity, but a tax benefit to allow every charitable institution to devote as much money as possible to their charitable activities. Similarly, charitable independent schools do not perform public benefit activity to ‘justify’ their charitable reliefs, but because it is part of their identity as charities.

### **Financial effects of the policy**

13. Instead of providing £1.4 million in funding for services, removal of charitable reliefs would mean increased expenditure by the Welsh Government, and a net loss in revenue. Many charitable independent schools in Wales could not absorb the five-fold increase in NDR and would have to consider fee increases. As well as making schools less accessible for parents, this would inevitably reduce demand, and lead to children taking up places in the state education system.

<sup>1</sup> *Number of pupils by local authority, region and age group*, Welsh Government (September 2021). <https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Independent-Schools/Pupils/number-by-localauthorityregion-agegroup>. Accessed 15/11/2021.

14. Therefore, any proposal to remove charitable reliefs also relates to the Committee’s question on how resources should be prioritised in sectors such as education which need to “catch up.” Removal of charitable reliefs would move Welsh Government resources from children and schools which need them most to paying for places of children currently independently educated.
15. Analysis by ISC shows that even a movement of 5% of pupils from charitable independent schools would almost entirely use up the predicted revenue from the policy, leaving approximately only £37,145 net income nationally (See paragraph 21 below). As this does not model the need for capital expenditure (for instance, teacher recruitment or school extension), it is likely the removal of NDR relief would represent a net loss to the Welsh taxpayer.
16. It should be remembered that the provision of charitable NDR relief, valued by the Welsh Government at £1.4 million, is part of the operational model of WISC charitable independent schools. These schools provide at least 5,500 school places, saving the Welsh Government at least £27.2 million from the education budget.
17. This means that the annual saving to the Welsh education budget from charitable independent schools is almost 20 times greater than the projected (gross) income from the removal of NDR relief.<sup>2</sup>

*Effects of fee rises*

18. Schools are likely to have to offset the increased costs of NDR through fee rises, which would have the immediate effect of making the benefits of charitable independent schools less accessible for Welsh children.
19. Pre-existing tight margins, and the impact of COVID on school budgets, mean that schools would have limited headroom to absorb increased costs themselves, and would need to pass them on.
20. At the same time, the wider effects of the pandemic on family budgets is expected to have reduced parents’ ability to afford increased fees. Thus, fee rises, while necessary, would also lead to movement of children away from charitable independent schools – reducing the amount of money they save the Welsh Government.
21. To demonstrate the financial risk posed by this policy, we have modelled different scenarios of fee increase, pupil movement, and the resulting effect on the Welsh education budget:

<b>Pupil Movement %</b>	<b>Cost to Education Budget</b>	<b>Net income raised from removal of mandatory NDR relief (as percentage of gross projected income)</b>
2.5%	£681,427.18	£718,572.83 (51.3%)
5%	£1,362,854.35	£37,145.65 (2.7%)
10%	£2,725,708.70	<b>-£1,325,708.70 (-94.7%)</b>
20%	£5,451,417.40	<b>-£4,051,417.40 (-289.4%)</b>

**Figure 1<sup>3</sup>**

<sup>2</sup> Analysis by ISC has found that the cost of educating every pupil presently in Welsh charitable independent schools would be at least £27,257,087, which is 19.5 times the projected gross income of £1.4 million.

<sup>3</sup> ISC combined the local authority per-pupil spending figures by local authority with the number of pupils at charitable independent schools in that local authority area. This produced the projected additional cost

22. In practice, as this modelling has ignored any capital costs (such as classroom expansion, buying of additional learning resources, or training and employing new teachers) involved in educating an additional 280 pupils annually (approximately 5% pupil movement), it is likely that removal of NDR relief would come at a net cost to the Welsh Government.

### Potential school closures

23. As well as their financial benefit to the Welsh education budget, charitable reliefs are an established part of the financial landscape which schools have used to develop their business models – their removal would inevitably cause consequences for the schools affected.

24. Charitable independent schools frequently operate with tight financial margins, always reinvesting any surplus into charitable activities. Removal of the mandatory relief would amount to a five-fold increase, and this would inevitably risk closure among institutions which operate on tight margins.

25. Therefore, not every charitable independent school could afford to continue operating with the loss of 5% of pupils. While we cannot speculate on commercially sensitive information, Charity Commission data for the 2020 financial year showed that at least 5 WISC charitable independent schools had expenditure greater than their fee income.<sup>4</sup> We do know that all WISC schools, including charitable WISC schools, will be facing significant financial pressures even without a five-fold increase in NDR. Schools' costs will be compounded by the 43% rise in the cost of the Teacher's Pension Scheme (TPS), the health and social care levy rise in National Insurance, and the continuing effects of the pandemic. If these costs were added to by a five-fold increase in NDR, schools may be forced to close.

26. If these 5 schools were forced to close, with 100% of pupils entering the maintained sector, the total additional cost to the Welsh education budget would be £10.4 million (or approximately seven-and-a-half times the projected income of the policy).<sup>5</sup> In total, this would mean the policy would have a net cost to the Welsh education budget of at least £9 million.<sup>6</sup>

### Wider economic and employment effects

27. In addition to being charities, and educational institutions, charitable independent schools are centres of employment – both through direct staff employment and employment directly supported in their supply chains. More than 800 teachers are directly employed by charitable independent schools across Wales, alongside support staff and jobs in the supply chain.

28. Research undertaken by Oxford Economics, on behalf of ISC, found that independent schools in Wales (both charitable and non-charitable) directly contributed £87 million to the Welsh economy and contributing £22 million in taxation.<sup>7</sup>

29. While it isn't possible to localise these figures to individual schools, it is known that particular independent schools in more rural locations are significant local employers, and supporters of

of educating every pupil in a local authority school - ££27,257,087. 5% of this figure, therefore the cost of educating 5% of pupils, is £1,362,854.35 The local authority figures reference is: *Delegated schools budgets by authority*, Welsh Government (July 2021). <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Delegated-School-Budgets/delegatedschoolbudgets-by-authority>. Accessed 16/11/2021.

<sup>4</sup> This number may be higher, as at least four additional WISC charitable independent schools are part of larger charitable trusts, meaning individual financial data is not available.

<sup>5</sup> This is calculated by summing the modelled cost of educating 100% of the pupils in those schools which had an expenditure greater than their fee income in 2020 with the cost of educating 5% of the pupils in schools which had a fee income greater than their expenditure in 2020.

<sup>6</sup> £1,400,000 - £10,368,240.65 = net loss of £8,968,240.65

<sup>7</sup> *The impact of independent schools on the UK economy*, Oxford Economics (October 2018), 44 (Fig. 45).

local businesses. Were these schools to fail, the hardship would occur in communities and business least able to find alternative sources of income. We expect that this hardship will only be magnified by the economic impacts of COVID-19.

30. Therefore, WISC strongly believes it is in the best financial interest of the Welsh Government to maintain charitable NDR relief for independent schools, and safeguard these schools survival, rather than risk incurring a net loss to the education budget.

### **Educational & social effects of the policy**

31. Although we recognise that the Committee's work is primarily financial, there would be wider educational and social impacts which we think are relevant for the Committee's strategic scrutiny of the draft budget. Independent schools in Wales are part of the education system – and provide public benefit to other schools through partnership, and to pupils in need through bursaries and scholarships.
32. While charitable independent schools will continue to provide as much public benefit as possible, the level of bursary provision would have to adapt were there to be a five-fold increase in NDR. Given the nature of means-tested bursary support, it is highly likely that the pupils receiving it will be unable to continue at a charitable independent school if the level of support has to be reduced, or if fees increase. This will both increase movement away from the independent sector (increasing costs to the Welsh government, and decreasing the net gain of the policy), and make charitable independent schools more exclusive institutions. Charitable independent schools would not welcome this change, which would limit social mobility, and reduce their ability to undertake charitable public benefit activities.
33. Presently, there is a high level of public benefit work – in the academic year 2020/21, Welsh charitable independent schools distributed at least £5.1 million (3.5 times the projected gross income of the policy) in means-tested fee assistance to more than 600 pupils. This means-tested assistance is targeted at those people who need it most, providing the benefits of independent school to pupils who would not otherwise be able to access it. While these are the pupils who may benefit most from independent education, they are also those most likely to be unable to continue to access this education if costs rise, or if bursary funds have to be reduced.
34. However, the link between NDR relief and public benefit activity cannot be overlooked – the money which could be used to finance public benefit activities may have to be diverted to finance payment of NDR. It is unrealistic to expect that levels of public benefit will remain stable, while NDR increase five-fold.
35. Even among schools which can financially survive the five-fold increase in NDR there will be significant pressure to reduce costs. This is because all charitable trustees have a legal duty to ensure that the charity remains financially viable. This cost reduction would have to be at the discretion of the trustees but may include reduced public benefit activity in the form of reduced independent-state school partnerships, or smaller bursary funds. This would not be the preference of schools but would be a natural result of the charity having less money available to undertake their activities.

### **Conclusions**

36. The removal of charitable business rate reliefs from independent schools in Wales would have unwanted financial, educational, and social consequences. It will cause unnecessary increases in Welsh Government spending – money which could be better directed to educational catch up. These increases are likely to exceed the gross revenue of the policy and represent a net loss to the Welsh Government and taxpayer.

37. At the same time, the policy would serve to make independent schools less accessible to Welsh parents, threaten school closures, and risk the employment of teachers and support staff in these schools. Where schools did remain open, they would have fewer resources available to provide public benefit via fee assistance and partnership working.
38. We believe the Welsh Government should not include any policy on the removal of mandatory NDR relief from charitable independent schools in the draft budget, and that they should use the opportunity to formally end consideration of this policy. We would be pleased to answer any further questions from the Committee, or to contribute further information once the draft budget is under scrutiny.

**22<sup>nd</sup> November 2021**