



Llywodraeth Cymru
Welsh Government

IMPACT ASSESSMENT, DOCUMENT

Consultation on charitable non-domestic rates relief for private schools: integrated impact assessment

An integrated impact assessment (IIA) on the impact of the proposal to withdraw charitable relief from private schools.

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Section 1: what action is the Welsh Government considering and why?

Background

Non-domestic rates contributes over £1.1 billion annually towards the funding of essential public services provided by local government in Wales. The Welsh Government provides over £250 million in permanent non-domestic rates reliefs on an annual basis. Reliefs are targeted to support certain sectors of the tax-base and to contribute to wider Welsh Government goals.

The Welsh Government is considering the eligibility of private schools, which are registered charities, for charitable non-domestic rates relief. Given that the funding provided for reliefs could otherwise be directed to public services, it is vital that they are targeted appropriately. In Wales, private schools are registered as independent (not local authority maintained). Independent schools (whether or not they are registered charities) primarily derive their income from fees paid by parents who can afford to have their children educated privately, rather than in a local authority maintained school. The Welsh Government is, therefore, of the view that providing charitable rates relief to these institutions may not provide value for money for the taxpayer.

Charitable relief

The Local Government Finance Act 1988 (the 1988 Act) provides for charitable rates relief for occupied (80% reduction) and unoccupied (100% reduction) properties, where the ratepayer is a charity or trustee for a charity and other eligibility criteria are met. The relief is funded by the Welsh Government, at a total cost of over £75 million annually. Independent schools which are registered charities currently receive around £1.3 million annually in charitable rates relief.

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The 1988 Act provides that a “charity is an institution or other organisation established for charitable purposes only or any persons administering a trust established for charitable purposes only”. In England and Wales, a ‘charitable purpose’ means a purpose which falls within section 3(1) of the Charities Act 2011 (the 2011 Act) and which is for the public benefit. “The advancement of education” is listed as a charitable purpose. There is no presumption that the advancement of education is for the public benefit.

Independent schools in Wales

As with most organisations operating from non-domestic properties, some independent schools make an important contribution to the funding for local services through their liability for non-domestic rates. However, some independent schools benefit from charitable rates relief. These schools are also entitled to a range of other financial benefits that come with charitable status. They may also act commercially and raise revenue through fees and charges.

There are currently 83 independent schools registered in Wales. Of these, 17 receive charitable rates relief. There are 6,167 pupils at independent schools in receipt of charitable rates relief (around 60% of pupils in all independent schools, [Independent Schools Census 2024](#)). There is some variation in the characteristics of these schools, but all are fee-charging and most select their pupils based on academic ability or religious beliefs. Whilst some have pupils with additional learning needs within their cohort, the proportion of such pupils is much lower than in the rest of the independent schools sector and in the maintained sector.

The Welsh Government has not identified any independent schools in receipt of charitable rates relief which are specially organised to make alternative learning provision. The majority of schools organised in this way are not charities. The non-domestic rates system also includes a full exemption for a property, or parts of a property, to the extent that it consists of property used wholly for the

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provision of facilities for training, or keeping suitably occupied, persons who are disabled or who are or have been suffering from illness. As such, some independent schools with very specialist provision of this type may be exempt from non-domestic rates completely (and will not be affected by a change to charitable rates relief).

The average fees charged per term by independent schools in receipt of charitable rates relief is approximately £3,750, with three terms per year totalling £11,250 (based on fee information published on the websites of affected schools). Higher fees are charged for pupils boarding. Analysis of local authority billing data indicates the total value of charitable rates relief provided to independent schools is approximately £1.3 million, with an average relief for each school of around £75,000. For illustrative purposes, this is broadly equivalent to the average fee income from seven non-boarding pupils, although there are significant variations in the size and fees of each school.

Proposal

The Welsh Government proposes to withdraw charitable rates relief from independent schools, seeking to bring them in line with independent schools which do not have charitable status for the purposes of non-domestic rates. The aim of this proposal is to make additional funding available for local services in Wales, by withdrawing a tax reduction for private education which is paid for from public funds.

Regulations will be required to give effect to the proposal. The Welsh Government proposes for this change to apply from 1 April 2025.

The Welsh Government's approach to this matter is complemented by UK Government plans to withdraw the existing exemption from VAT (which is not devolved) from private schools across the UK and to withdraw charitable rates relief from private schools in England. The Scottish Government has already

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withdrawn charitable rates relief from independent schools.

Consultation

The eligibility of schools for charitable rates relief in Wales was **consulted** upon in 2020. The consultation received 51 responses, with respondents representing individuals, independent schools, maintained schools, local government, and representative bodies. A range of views, some in favour of maintaining current arrangements and others in favour of change, were received. The only majority view arising from the consultation was that public sector institutions should continue to be eligible for rates relief.

Following the consultation, it was confirmed that any policy change in this area would require a proposed approach to be formulated and subject to a further consultation. The Welsh Government is, therefore, consulting on the proposal to withdraw charitable rates relief from independent schools. The consultation provides an opportunity for stakeholders to articulate the possible impacts of the proposal on the education sector.

Section 8: conclusion

How have people most likely to be affected by the proposal been involved in developing it?

Previous engagement with stakeholders, including schools and local government, have been taken into account in developing the proposals. The eligibility of schools for charitable rates relief in Wales was **consulted** upon in 2020 (see Section 1). Relevant stakeholders, including the Welsh Independent Schools' Council, engaged with the consultation. A range of views from stakeholders, some in favour of maintaining current arrangements and others in

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favour of change, were received.

The specific proposal to withdraw charitable rates relief from independent schools in Wales is now being consulted on for a 12-week period from 16 September to 9 December 2024. The consultation will be brought to the attention of relevant stakeholders, including the schools which would be directly impacted.

What are the most significant impacts, positive and negative?

The primary impact of this proposal will be an increase in the non-domestic rates liabilities of the affected independent schools, seeking to bring them in line with other independent schools (which do not have charitable status). The increase in tax liability will vary and it would be for each school to choose how to adapt their business models to meet that cost, as other independent schools already do. Based on total pupil numbers and the average fee for non-boarders, the additional tax liability is estimated to be less than 2% of overall fee income. The Welsh Government, therefore, anticipates that there is limited potential for a material impact on average fees, due to the modest scale of the financial implications.

Some respondents to a previous consultation on this matter stated that there would be a risk of displacement of pupils to maintained schools, if an increase in fees resulted in parents making decisions to remove their children from independent schools. Over the previous two decades, independent schools have generally increased their fees year-on-year above inflation, without reductions in pupil numbers compromising their viability. Schools may also find other ways of fully or partially absorbing their increased liabilities (e.g. reducing surpluses, reserves or non-essential expenditure), rather than increasing fees. As such, identifiable indirect impacts on pupils, as a result of the proposal, are not considered likely to occur.

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The Welsh Government does, however, recognise the potential for small increases in costs for some parents. It is possible that a small number of pupils may move to the maintained sector as a consequence. In that respect, it will not be possible to disentangle the impact of this proposal from that of the UK Government's plans in relation to VAT (which represents a greater financial impact). The number of pupils who may move schools, as a result of proposed changes to tax exemptions, has been estimated by the **Institute for Fiscal Studies** at 3 to 7% over the medium to longer term. This estimate largely relates to VAT changes and the contribution of withdrawing charitable rates relief is expected to be marginal. The related number of pupils represents a very small proportion (less than 0.1%) of the overall maintained school population.

All children of compulsory school age are entitled to a state-funded school place. The Welsh Government is confident that the maintained sector will be able to accommodate any additional pupils. It is recognised that moving schools can be challenging. Local authorities and schools already have processes in place to support pupils who move schools for any reason.

In light of the impacts identified, how will the proposal:

- 1. maximise contribution to our well-being objectives and the seven well-being goals**
- 2. avoid, reduce or mitigate any negative impacts?**

Ensuring that the use of public money to support the private sector is appropriately targeted will support some of the well-being goals for Wales set out in the Well-being of Future Generations (Wales) Act 2015. A reduction in the cost of providing reliefs will make more funding available to local government to

deliver public services that support the communities they serve, including in relation to education and young people.

This proposal makes a contribution towards the well-being goal of a more equal Wales, by withdrawing a tax reduction for private education which is paid for from public funds. This will make more funding available for public services, to help support people to fulfil their potential no matter what their background or circumstances. Any contribution to the development of a skilled and well-educated population will also support the well-being goal of a prosperous Wales.

The Welsh Government has not identified any unintended negative impacts of the proposals which warrant mitigation activities.

How will the impact of the proposal be monitored and evaluated as it progresses and when it concludes?

Data on non-domestic rates will continue to be received from local authorities and the Valuation Office Agency on an annual basis. This will enable the Welsh Government to monitor the number and cost of properties receiving charitable rates relief.

The Welsh Government's annual Independent Schools Census will provide data to monitor numbers of learners in the independent schools directly impacted by this proposal. In relation to the potential for a very small amount of pupil displacement from independent schools, it will not be possible to disentangle the impact of this proposal from that of the UK Government's plans in relation to VAT (which would be expected to have the greater impact). It is also unlikely that minimal displacement would be detectable against normal fluctuations in pupil numbers.

The consultation on this proposal will provide an opportunity to consider any potential impacts that have not already been identified and included within this

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