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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Douglas Ross MSP
Convener
Education, Children and Young People Committee
The Scottish Parliament
Edinburgh
EH99 1SP

14 January 2026

Dear Douglas,

Thank you for your letter of 24 November about VAT on Private School Fees and education spending.

Firstly, I am sorry not to be able to attend the Committee hearing in person. However, I am happy to set out the impact the policy has had on education spending, both in terms of the impacts of pupil movements on education spending and the funding increases this tax change enables.

Taking pupil movements first, the UK Government has always recognised that following the imposition of VAT, some parents may not be willing or able to pay higher fees. We have estimated, and stand by those estimates, that in the long-term steady state 37,000 pupils will leave or never enter the UK private school sector, and 35,000 of those will move into state schools. Based on average 2024-25 per-pupil funding in England, the Government expects the revenue costs of pupils entering the state sector as a result of the VAT policy across the UK and business rates policy in England to steadily increase to a peak of around £0.3 billion per annum after several years. This is in the context of a policy that raises around £1.8 billion per annum by 2029-30, and thus has a significant positive net impact on the Exchequer.

More broadly, VAT on private school fees will help deliver the Government's commitments relating to education and young people. As set out above, VAT on private school fees is expected to raise around £1.8 billion a year. But VAT receipts are not hypothecated, so it is not possible to identify specific additional spending resulting from the policy. Nevertheless, funding for the Department for Education has increased.

At the most recent spending review, the Chancellor confirmed that the Department for Education will receive a real terms increase in day to day spending, with an overall Resource Departmental Expenditure Limit increase of £6.4 billion over the SR period (2023-24 to 2028-29), bringing DfE's total budget to £109 billion in 2028-29.

The Barnett formula applied in the normal way, as set out in the Statement of Funding Policy, to changes in the Department for Education's budgets at Spending Review 2025. Indeed, the Spending Review 2025 provided the Scottish Government with their largest spending review settlements in real terms since devolution in 1998. This includes an additional £2.9 billion per year on average through the operation of the Barnett formula, with £2.4 billion resource between 2026-27 and 2028-29 and £510 million capital between 2026-27 and 2029-30. Budget 2025 confirmed a further £510 million resource and £310 million capital through the Barnett formula on top of the record Spending Review settlements. This means the Scottish Government continue to receive at least 20 per cent more per person than equivalent UK Government spending in the rest of the UK.

A full breakdown of changes to the Scottish Government's block grant at Spending Review 2025 can be found in the October 2025 publication of the Block Grant Transparency report.

Finally, I would like to thank you and the rest of the Committee for the work you do to support the education of children and young people in Scotland. I hope this response is helpful.

Yours sincerely,

DAN TOMLINSON MP
EXCHEQUER SECRETARY TO THE TREASURY