LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

CALL FOR VIEWS ON THE NON-DOMESTIC RATES (SCOTLAND) BILL

SUBMISSION FROM JOHN FERRY

1. Scottish Government’s own figures identify that it costs £6500 per annum per child to be educated in the state system (excluding PFI and certain other costs). Fees will increase as a result of the removal of charitable relief for independent schools. Local authorities will face additional costs of providing education for those pupils: school accommodation, teachers and other facilities. The Financial Memorandum takes no account of this cost.

2. Scotland has a strong reputation for excellence in education. This proposal to remove rates relief puts the independent sector in Scotland at a competitive disadvantage as against schools in England and abroad.

3. The Financial Memorandum makes no reference to the fact that the loss of 1 in 30 pupils from the independent sector in Scotland, either to state schools or boarders relocating to schools outwith Scotland, will cost the Scottish tax payer more than the entire rates increase.

4. Independent schools in Scotland employ teachers, groundsmen and finance staff. They employ local firms of builders, joiners and maintenance teams. If the rates relief is removed, fees for parents will have to increase. If parents cannot afford to pay the fees, they will remove their children from school. Independent schools in Scotland face real challenges, as evidenced by Beaconhurst School in Dunblane closing in recent years. Removing rates relief puts added financial pressure on these schools and puts jobs at risk with implications for the wider Scottish economy, particularly in some of the rural areas. The Financial Memorandum makes no mention of the wider economic implications of the removal of charitable relief for independent schools.

5. Scotland can be proud of the rigour which OSCR applies to the charitable sector in Scotland. It applies and regulates the statutory test for charities set out in the Charities and Trustee Investment (Scotland) Act 2005. The Bill proposes to remove charitable rates relief from independent schools even though they have met the requirements of OSCR. It is hard to understand what is fair about singling out 56 schools from over 24,000 Scottish registered charities. There seems no suggestion that OSCR is failing in its duty as regulator. The Bill will create a sub sector within the charitable sector - for 0.3 per cent of Scottish charities. That this small percentage of regulated charities should somehow not be regarded as “full” charities (despite having met all of the statutory requirements) seems illogical, lacking in transparency and creates, rather than solves, an anomaly.
6. The Barclay Review recommended rates relief for day nurseries on the basis of economic development: that by reducing the rates liability for nurseries, costs would reduce enabling more of the workforce to return to work after starting a family. This is at an estimated cost of £7m. This proposal applies to nurseries, whether profit making or not-for profit. Yet, nurseries which are attached to independent schools will pay 100% rates and private profit-making nurseries will receive 100% relief. This is unfair, and creates an anomaly, contrary to the stated aim, and remit of the Barclay Review.

7. The Barclay Review states at 4.120 that independent schools that are charities benefit from reduced or zero rates bills, whereas council schools do not. The Review (and the Bill) propose that this “anomaly” be removed.

(a) This premise ignores that council owned schools do not in practice pay non-domestic rates. The nominal rates liability is funded by central/local taxation.
(b) The Barclay Review’s remit was to examine non-domestic rates liability only. It was not possible for it to consider any other tax. In removing the “anomaly” regarding relief for non-domestic rates relief through the Bill, there has been no consideration or public debate on other tax anomalies that apply as between council schools and independent schools (for example, in relation to VAT). Council owned schools benefit from a more advantageous VAT position than independent schools.
(c) If the true aim of removing the mandatory non-domestic rates relief for independent schools is about fairness, a full review regarding the tax basis for both types of educational establishment should be conducted, openly, fairly and with due public scrutiny. To proceed with legislation, based on a Report whose sole remit was to consider a single tax in isolation does not correct an anomaly. It risks creating further anomalies and is potentially unfair and undemocratic. If the basis for the removal of rates relief for independent schools which are also charities is to be “fairness”, then to be truly fair, a full review of the full tax basis for both types of schools should be undertaken, openly and with due process.
(d) It seems illogical to argue that independent schools should have the rates relief removed because council schools do not benefit from it, yet to recommend (at paragraph 4.121 of the Barclay Review) that universities should continue to be eligible for charitable relief because their “core functions” are education and research. Independent schools which are also charities (and therefore the entities which are potentially to suffer the loss of rates relief in terms of the Bill) have all met the Office of the Scottish Charity Regulator’s (OSCR) public benefit test, as have the universities. On the one hand, the basis for removal of rates relief for independent schools appears to be that they are schools, because they have a theoretical rates advantage over council schools which should be removed in the interests of fairness, ignoring the charitable status of these schools. Yet, universities with a
similar charitable status and educational purpose are not regarded as an anomaly and are to be allowed to retain charitable relief. This seems illogical and unfair and appears to create, rather than solve an anomaly.

IN CONCLUSION

- The removal of the relief will result in increased fees which many parents cannot afford. Pupils moving from independent schools to council schools will put increased pressure on already stretched Education Authority budgets.
- The removal of even 1 in 30 pupils from the independent sector will cost Scottish taxpayers more than any benefit in removing the relief.
- The removal of the relief puts at risk the wider economic benefits which independent schools bring to Scotland in terms of employment.
- The Barclay Review's remit was to examine non-domestic rates liability only. It was not possible for it to consider any other tax. In removing the “anomaly” regarding relief for non-domestic rates relief through the Bill, there has been no consideration or public debate on other tax anomalies that apply as between council schools and independent schools.

That part of the Bill relating to the removal of the charitable relief for independent schools should not be proceeded with. The costs, both financial and economic outweigh any potential benefit.