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The Scottish Parliament
Pàrlamaid na h-Alba

John Swinney MSP
Member of the Scottish Parliament for Perthshire North

Mr Derek Mackay MSP
Cabinet Secretary for Finance & the Constitution
Finance and the Constitution
St. Andrew's House
Regent Road
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Public Engagement Unit
23 MAR 2018
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Our Ref: JS3343CS

21 March 2018

D Derek,

RE: KILGRASTON SCHOOL

I enclose a self explanatory letter that has been sent to me by one of my constituents, Thomas Steuart Forthringham, who is one of the Trustees of Kilgraston School in Perthshire.

Mr Steuart Fothringham has raised with me his concerns over the proposals to enact the suggestions of the Barclay Review in connection with business rates.

I would be grateful if you could consider the issues that are raised by Mr Steuart Fothringham and consider the points that he has made in connection with this matter.

I look forward to hearing from you.

Y ys

Enc

JS

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CORRESPONDENT'S ADDRESS
REDACTED

Mr John Swinney MSP
17-19 Leslie Street
Blairgowrie
Perthshire
PH10 6AH

Monday, 12th of March 2018

Dear Mr Swinney,

KILGRASTON & THE BARCLAY REVIEW

Following a meeting of Trustees at Kilgraston last week, I write to express my concerns about the introduction of full business rates for independent schools.

You will appreciate that there is a great deal of concern being expressed, not only by independent schools, but also by local councils and civil servants. As the Chairman of Trustees at Kilgraston, it would be negligent of me not to express my own as well.

Blurring of charitable status and taxation of charities

The way in which the Government intends to apply full business rates to independent schools, but not other charities, is a matter of concern not only for schools, but for the charitable sector as a whole.

All independent schools in Scotland have had their charitable status tested by the Government and, as far as I know, all of them were able to prove that they are charities, so the introduction of higher taxation levels for schools than for other charities is disturbing.

Does the Government intend to submit other charitable sectors to a charities test? Will they too be subject to full business rates even if they prove their charitable status?

With taxation lines on charities blurred in this manner, for reasons that remain unexplained by the Finance Secretary, one has to wonder to what extent the Government supports the concept of a charitable sector at all? It is no defence to say, as the Finance Secretary did in his letter of the 14th of December to Head Teachers of independent schools, that "other organisations that are not charities undertake commendable and worthwhile activity but do not receive rates relief". If that is the case, then why tax the charitable sector in a different manner at all? After all, there are no charities that provide services that are not also provided by others.

Net revenue raised by Barclay

As the introduction of full business rates for schools was announced by the Finance Secretary rather than you, one imagines that the purpose of them is to raise additional tax revenue. In the case of Kilgraston, we understand that we shall have to pay £170,000 in additional business rates from 2020.

If you look at the school's recent returns on the OSCR website:
https://www.oscr.org.uk/about-charities/search-the-register/charity-details?number=SC029664

and consider that it has little by way of reserves, due to its recent foundation as a Trust in 1999, the comment made in December by the Finance Secretary that schools will simply absorb the additional cost is highly fanciful. In fact the cost will have to be met through increased school fees: in the case of Kilgraston, that will mean a 4-5% rise in fees, at a time when there is already pressure on funding, with the EIS union proposing a 10% increase in teachers' salaries from April this year.

The contention that all parents will simply pay the extra 5% would be like me suggesting that the Government could simply agree to the demands of the EIS union, on the basis that the Government is rich and has billions to spend every year. However, I doubt that the Government will be taking this approach to any negotiations with EIS over teachers' salaries.

Of course a majority of parents will stump up for the extra 5%, but has the Government done any research at all on how many pupils are likely to transfer from independent schools to state schools? Early research by SCIS indicates that the number of pupils likely to move to the state sector as a direct result of the rise in school fees caused by the Barclay Review will cost state schools £30 million a year, which will of course dwarf the amount raised by charging full business rates to independent schools.

You must know better than anyone in Government how tight finances are, and this applies to the private sector as well as the public sector: witness the rate of economic growth in Scotland; the spectre of Brexit; rising interest rates; rising inflation; and so on.

Some schools with more marginal finances than others may end up closing, with the resultant knock-on effect of lost jobs, lost tax and NICs, lost spending in the local economy and, of course, lost business rates, as well as the loss of amenities which are, without exception, offered by independent schools to their local populations.

In all, it is very hard to see what the educational benefit is, either for independent schools or for state schools. It is also hard to see what the financial benefit is, either for councils or for the local economies in which independent schools invest.

Potential effect on the Perth & Kinross economy and education

The implications of Barclay are particularly pertinent to Perth & Kinross, where the independent sector is relatively large. An economic impact report of independent schools in Perth & Kinross, carried out by Scottish Economic Research in 2005, found that independent schools:

- Employed 1.2% of P&K's employees (8.5% in Crieff and 23.5% in Bridge of Earn);
- Paid £14.5 million in salaries;
- Had turnover of £25 million, leading to further turnover of £13.5 million in the Tayside economy;
- Spent £2.5 million directly to firms and contractors in Perth & Kinross;
- Made a wide range of facilities available to local communities.

It also found that the closure of Rannoch School in 2002 resulted in 57 lost jobs, with a further 14 jobs lost indirectly, and most of those people left the area.

Although it is now 2018, the basics of the 2005 report remain the same. Why is the Government so ready to jeopardise local employment and inward investment, especially at a time when our economy is so precarious?

With 6.8% of Scottish independent school pupils based in Perth & Kinross (according to the same 2005 report), a £30 million cost on state schools nationwide (see above) would conceivably translate into additional costs of over £2 million for state schools in Perth & Kinross, at a time when Government and local council funding is already under immense pressure.

In conclusion, as our Education Secretary, and as an MSP for large parts of Perthshire, I would be very interested to know how you think the introduction of full business rates for independent schools in Perth & Kinross will benefit either state or independent education, or indeed the local economy?

Yours sincerely,

Thomas Steuart Fothringham

Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP

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Mr John Swinney MSP
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Your ref: JS3343CS
Our ref: 2018/0011794
24 April 2018

Dear John,

Thank you for your letter of 21 March 2018 on behalf of your constituent Mr Fothringham. I appreciate this subject will be one you are keen to keep a close eye on given your duel role as constituency MSP as well as Cabinet Secretary for Education and Skills.

Firstly I'd like to address any suggestions that the primary purpose of this decision was to raise additional revenue. While every penny of resource is welcome to mitigate the damaging impact of UK Government austerity, the rationale to end the relief for independent schools resulted from the independent Barclay Review of Non-Domestic Rates. The Review concluded that the current position where Independent schools benefit from reduced or zero rates bills while state schools do not was unfair and the inequality should end through the removal of the relief. Many types of organisations undertake commendable and worthwhile activity but do not receive rates relief and all reliefs must be focused in line with priorities.

While no tax decisions are popular, like every other decision in the 2018-19 Budget, the decision to remove this particular relief was taken to create a level playing field and make Scotland's tax system fairer.

This Scottish Government has a proud record of supporting the Third Sector and sees it a key strategic partner in helping us to tackle poverty, reduce inequality and create a fairer and more prosperous Scotland. As explicitly highlighted in the Barclay Review Implementation Plan published alongside the Draft Budget, Independent schools will continue to retain their charitable status and the other benefits will continue to flow to them from that status. Independent special schools will also still be eligible for disability rates relief where they qualify.

I fully understand the concerns raised by Mr Fothringham and his colleagues representing other Independent Schools and I remain committed to engaging with the independent school sector as we finalise the detail of our proposals, subject to which we intend to bring forward primary legislation to deliver this change by 2020 (this being a change to non-domestic rating provision, rather than to charity law). This notice will allow time for those schools affected to plan ahead.

With regard to Mr Fothringham's question over the impact on state schools, as you will be aware, our assessment is that a modest increase in fees due to rates being levied (which would be in addition to the normal annual fee increases) is unlikely to result in significant numbers of parents/ carers moving their children from independent schools to local authority schools. Having engaged with the sector and considered the information presented, we believe that any consequent increase in demand for local authority schools would not be significant.

Finally, there would be merit in informing Mr Fothringham that when developing business rates reliefs I am fully aware that national incentives are not always nuanced enough to fully flex to the needs of every sector and location. That is precisely why in 2014 I created a new power to allow Councils the ability to offer bespoke local business rate relief schemes.

Under section 140 of the Community Empowerment (Scotland) Act 2015, each local Council has wide raging powers to create rates reliefs to reflect local needs. This may apply to a sole business, sector or area and, for example, could be utilised to support independent schools where the council believes the local economic benefit is sufficient to merit such intervention. The relief may be an adaptation of an existing national relief scheme or a unique standalone scheme.

Mr Fothringham may wish to approach the Council to request that they explore all avenues open to them to support his arguments and I emphasise that it is incumbent on the Council to give any such request proper and full consideration.

I hope you find this response helpful.

Yours ever, Derek

DEREK MACKAY

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