



If you were unable to attend the forum and/or have any further questions please do not hesitate to email Guy Ayling, Head Master at headmaster@mountkelly.com

Panel Members

Guy Ayling, Head Master

Ian McQueen, Chair of Governors

Andrew Main, School Governor

Duncan Swift, School Governor

Question 1

There are a lot of things that are tax deductible. Why are those things that are tax deductible not being taken off our bills? And if, at a later date you find out how much is recoverable, and we all know some of it is, will that be passed on to us as parents at a later date? I see lots of extras on my bill which shouldn't have VAT on them.

Duncan Swift: We don't have the detail to what extent tax deductions or input VAT on cost is recoverable against the output VAT that's being put on fees. With a VAT change of the sort that's being imposed on the independent school sector it normally takes the Treasury and HMRC 12 to 18 months to work out the points of detail. Here we've got them trying to do it, with an announcement on 29 July and an imposition date of the 1 January. They are rushing it, they're not sure, there are doubters in the Treasury and HMRC that this is workable. But whilst there are those doubts and those uncertainties, what it means for the School is we have to assume at the moment that none of the input VAT is recoverable.

Guy Ayling: We took some advice from Ernst & Young last week over tax. They said they did not know what the detail is and whether you can reclaim your VAT on depreciation going forward, or on capital spend going backwards. There is one thing that we do know we should be able to reclaim on and that is around food.

But, until we know exactly what we can do, it would be imprudent not to charge 20%. We've also got business rates relief coming down the line that could be equivalent to up to 4%, so, what we're talking about as a business is effectively up to 24% addition to costs. So that 4% could equate to an additional £3-400k and it might be the case that it is against this cost that we put any reclaims.

I've often said to parents, this is about sharing the burden, even though VAT is a consumer tax, ultimately, and I'm on record as saying that whether it's now or further down the line, parents as consumers basically have to pay this. We do have business rates coming down the line and this might be the bit that we seek to share through reclaiming VAT.

Duncan Swift: The board of governors is alert to your question, that if we can provide a lower fee increase in the future because of recoveries - whether it's VAT or anything else - then we will seek to do so. This School has historically kept its fees low by comparison with its peers, providers of education in the southwest of England. I sense within the boardroom that there is no intention to change that ethos; the imposition of the increased VAT has been forced upon the School and the governors.

There's total uncertainty as to what falls under that VAT regime and what doesn't. Until the entire independent school sector in the UK gets clarity on that we can't give you any certainty.

Question 2

Does that mean you are going to add 20% across the board on everything, including transport? Surely the legislation around VAT should be adhered to until you're told any different? Transport is not vatable, so why would a school be made to pay it? If it turns out that you can make areas VAT exempt, will there be a refund to parents for fees that we've already paid?

Guy Ayling: At the moment, we're anticipating that nothing is exempt. Some things will be, but of course we have to wait.

The legislation around VAT at the moment doesn't tax education, so that's changing, as might other supply lines in our business; and the Government has, at the moment, said that nothing is exempt, but they don't understand all the different supply lines that we have and we have to wait for the detail.

We're not going to charge you VAT on anything that we don't have to, but we don't know what that is at the moment.

Duncan Swift: There are no specific rules and guidelines for the independent schools sector, so until it's been interpreted and issued as rules and guidelines by Treasury and HMRC, sometime between now and the 1 January, we don't know.

Guy Ayling: Hopefully we'll know in the budget, and when we get the detail on the budget and the exact detail of what we charge VAT on, this will be reflected in your bills.

There is no suggestion that we want to charge you VAT on things that we shouldn't be charging VAT for; I think that's probably fraudulent and we don't want to do that. But let's be absolutely straight about it, the lion's share of the fees that you pay will be vatable because that covers your teaching, boarding and all of those things.

Question 3

Is boarding vatable?

Guy Ayling: They've certainly said they're going to tax boarding. In the early days we were hoping that there would be disaggregation of supply lines and that boarding would be one of those because it's not central to the education, it facilitates education. This is what worries me about transport. Transport does sit slightly out of the field, but it is something that is similar to boarding; it's not central to the education, it's a facilitator. So, it worries me that they might tax it. Again, we have to wait.

Question 4

At the moment is the School in a position to register for VAT?

Duncan Swift: The School is already VAT registered in relation to some of its previous trading enterprises. This is fortunate because some schools that would not previously be registered, are having problems getting registration because HMRC are trying to work out what is the entity that should be registered. We have clarity with Mount Kelly and are now simply waiting for the rules and guidelines as to precisely what is going to be vatable and crucially a guide on what isn't.

Question 5

Have you been given timeline on when you will expect these guidelines?

Andrew Main: The only timeline which has been given is the 30 October, which is the announcement, with the budget, of the actual outline of the legislation with the Office for Budget Responsibility (OBR) opinion and the Treasury opinion on the legislation. And as far as rates being introduced, that is supposed to come on 1 April next year, so within this academic year.

Question 6

I have calculated that the business rates are not likely to be more than £150 [per pupil] per term, but I'd like to have a conversation with someone about whether Mount House is separately assessed. I know the rateable value is £407,500, but it says Kelly, which may mean that Mount House is separately assessed as a separate business.

Guy Ayling: If you extrapolate our current payments after relief, it might be between £3-400k, if you take what we're paying at the moment with 80% relief. But it does have to be reassessed. It's prudent, though, to assume the worst at this stage, certainly as far as planning for the business is concerned.

Andrew Main: I would say that so far West Devon Council has not given us guidance, yet.

There is detail to work through, for example, is our swimming pool going to be treated differently to Meadowlands as it's open to the public? We don't know that. So, we don't know the full answer yet.

Ian McQueen: I think the bottom line on all of this is that, as a school, all we actually want to do is stand still in the sense that if there was no imposition of VAT, no rates revaluation coming down the line or rates coming on for the first time, or no loss of our charitable status, we are not wishing to impose anything that adds a profit to us or take advantage of what the government's doing. What we don't know is how we can get to that complete level playing field. At the moment we know about the 20% VAT. We don't know exactly how it's going to turn out. We don't know what the mitigations are in terms of what we can claim back.

Everything you've said is correct, but the end result is the school doesn't want to charge you anything more than the situation that is being imposed upon us so we can create a level playing field. What we can't do is absorb it. And as you probably know, schools like Eton are financially much better off than us - 20% VAT straight away, they were one of the first out of the stocks - so we're not alone.

So, let's say that whatever the calculation is, it will be the right calculation at some point. But whatever we do will be based on the facts and the evidence. Nothing more, nothing less.

Question 7

What's the plan for consulting and communicating with parents moving forward?

Guy Ayling: You will know as quickly as we can once we know the details. And of course, one of the bookends is the issuing of bills; many schools are issuing their bills in the first week of December, so we've got a really tight turnaround, to know exactly what we're doing. But, when we've got something to communicate, we will certainly be communicating it, for better or worse.

Question 8

Will sporting programmes be vatable?

Andrew Main: There is still confusion. The technical paper that was issued said sports within an independent school will be vatable. But there is no clarification on the VAT situation at all and it's so complex.

Obviously, on 30 October the government will have to tell us what they think it is and we will seek professional advice, so please don't expect anything on 1 November; it's going to take some time for us to digest what it is and what the effects will be. If anybody wants to look at our accounts from the Charities Commission House, and anyone can, you will see that on 70-80% of our input costs, which are salaries, we can't claim back VAT.

Guy Ayling: We're currently looking at the Music Teachers Federation. If a school employs a music teacher and charges for the lesson, that is vatable we think. If there's a peripatetic music teacher who's not employed by the school, but runs their own business and are self-employed and they're not VAT registered, they won't be adding VAT. So, you've immediately created a situation where schools that are delivering the music lessons themselves - and we do some of that - their music lessons are more expensive than the ones that are being delivered by the self-employed. Now, we could say that that is a model for sport. If schools were to outsource their sport, then it might not be vatable, but we're into the world of completely restructuring our provision, which is a huge undertaking. I wouldn't say it's beyond us and we're considering how we need to restructure our business in the future to ensure that we're as efficient as we can be. But that's the type of dilemma, or confusion, that exists, possibly in sport as well as music.

Duncan Swift: HMRC is still making up the targeted anti-avoidance rules, to close loopholes that they anticipate schools and parents might wish to pursue to reduce the VAT take.

But everything you've heard so far this evening reflects that you've got a government that is doing a rush job on a substantial tax regime change. And we don't have the detail. And going to the point of letting you know what the effect is when we find out the rules and regulations, we have a financial model, and we are running everything through that financial model to assess the impact upon the School's sustainability. Now, we're not questioning that sustainability, but what I am saying is we need to make sure that we've got the rules and regulations interpreted correctly; the numbers coming out of it are reliable so we will give it to you with certainty and that we're not going to be changing our minds because we missed something in what is a rushed in position that will have an adverse impact upon you.

Question 9

When you talk about the school, do you mean the school in total? There are concerns about the Prep suffering massively from an education and boarding point of view.

Duncan Swift: We're into the territory of having to be alert to every possible eventuality that might occur as a consequence of the VAT position, but it's too early to say what those consequences are.

Question 10

In the letter about the last fee rise it was softened by the implication that you would look at this alongside any VAT issues and possibly not impose the full VAT amount based on this.

Guy Ayling: I think in that letter I said that the fee increase was reflecting the cost to serve and I was separating it from VAT. The work that we're doing on the finance at the moment suggests that a lot of our fee increases have lagged behind inflation.

I know the last was quite a toppy fee increase but it was really inflationary driven. I can remember the governor meeting when we agreed that the fee increase that we were discussing did not factor in VAT.

Ian McQueen: It's a key point because had we followed some other schools and - we always look at our competitors and we see where we stand - we were content in one sense to know that we were offering an education that had a lower fee level. So, if we got any attrition, it wasn't on the basis that we were too high on fees. But that comes with a cost. So, when we get hit like this and are trying to go out there and help parents, we are not in the position that some of the schools are because effectively you could say we've under charged. Now, I know you wouldn't say that, but if you look across the piste, we can say that that had we done things slightly differently, we might be in a better position to absorb something.

And the truth is, we're not in any position to absorb anything, and continue to give the quality of education that we do.

Question 11

Are you expecting to see students from more expensive independent schools moving to Mount Kelly?

Guy Ayling: We're really not sure, and nobody does know what the true elasticity of demand is in the sector. The Institute for Fiscal Studies say 3% fall out minimum, Baines Cutler say 25%. That's fallout from the sector without being replaced. To answer your question, we do know that our fees, boarding fees plus 20%, are still cheaper than the current fees of a lot of schools without any VAT uplift. So does that impact, for example, on our marketing strategy? I suspect it will. In other words, we perhaps need to start pushing ourselves into other parts of the country where we are very competitive even after VAT.

Question 12

Have you seen any effect on enrolment this term, following the VAT announcement?

Guy Ayling: We started the year at 595 which is where we were last year.

It's easy to know how many children you lose when you've got them. We don't know how many children we lost who might have come, had it not been for VAT. We might have been at 610, or something like that, but we just don't know that. What will be the fallout in January? I think at the moment it's about half a dozen, but I'm working with four dozen families around VAT distress. So, we'll probably have a smaller roll in January.

I'll be upfront with you though as I think the real pain is going to be in September next year. And some of the more right-thinking analysts have been saying for some time, that the real pain in the independent sector is going to be in years three-five.

Question 13

What legal proceedings can be taken to stop this?

NB. Some audio lost here regarding legal proceedings and children being forced to go to different religious group schools.

Guy Ayling: Last week the main independent school Heads' association (and we are a member) voted in favour of contributing to the funds for a sector wide legal challenge. My understanding is that it could only delay it and not overturn and, I think the fact that it was in the manifesto gives it some legal protections and there's only so much you can do with primary legislation, but I am no expert. The overall strategy of those who oppose it is to tie the government up in knots and there may be legal avenues to do this.

Question 14

The European Court of Human Rights law states that you can't tax education, so surely, they don't have a leg to stand on?

Guy Ayling: I think it is clause 2 of protocol 1 which says that you cannot deny education and the anti VAT people will say you are restricting it by imposing VAT. But I suspect Labour will argue they are not denying it, just taxing it. They may say also that by charging fees in the first place, we are guilty of restricting it ourselves. Many feel such a case does have legs though.

Question 15

What are the implications for Mount Kelly and the local community and all the charitable and enrichment work the school does? Some schools have said they will cut the community work they do. Will Mount Kelly's relationship change?

Guy Ayling: I swing between wanting to take my ball home and realising that that's stupid. What I mean is that I think we've tried very hard, always, throughout our history, and it's particularly important to me, to be responsible members of our community and contribute. Our community will defend us if they believe we are valid and valuable. And we been on a propaganda offensive, to push the Mount Kelly contribution piece. Our professional associations have advised us not to take our balls home, that we have to have a relationship with the government post VAT, which explains why some of these associations have been very light footed in their dealings with the government when some members would want them to be a little bit more combative; they're looking beyond VAT. It's almost as if VAT is going to happen therefore, we have to protect our relationship because there are other things that they could do – though not sure what.

But if I look at the big picture, the picture in Westminster, and come down to Tavistock, we realise that we can't just get up and leave Tavistock and go somewhere else, we are in this town with or without VAT and I don't want to make enemies. I was reminded by the head of

the Chamber of Commerce in Tavistock that many people in Tavistock did not vote Labour, they are very supportive and I want to find a way for us to carry on doing our bit.

Andrew Main: We were invited to speak to the Tavistock Town Council, which Guy did, and they have asked us to come back in April next year to explain where we are and our position. And we are doing the same with West Devon Council and Devon County Council over the next few months. We have also been in contact with most MPs in Devon because we think the tentacles of the school reach outside Tavistock to explain what we think the effects will be on the whole of Devon. We want to build on these relationships.

Guy Ayling: We need to maintain our relationship with West Devon Borough Council and their planning department. We've got to keep our eye on future developments that we want to deliver at the School and we can't afford to fall out with these people over a tax.

Question 16

Is there, or should there be, a better coordination of various lobbying efforts to put the parent point of view across in the strongest terms?

Guy Ayling: We could look back and say there could, or should, have been more done around this. At the time I wrote to you in May, just before the elections, I put in the various opportunities of things parents could do and I felt, at the time, that I did as much as I could do; perhaps I should have done more.

But, do you know, interestingly, I have very few conversations with parents about VAT. Nobody has bent my ear about it and that's interesting and we have been trying to interpret that. It could be interpreted in several ways!

Question 17

Has there ever been any discussion about a universal agreement for all schools to charge 20%?

Duncan Swift: It's not something that any enterprise or business can discuss as they would fall foul of price fixing and we would be fined.

Guy Ayling: There's a broad range of responses because there's a broad range of schools. So, each school has to make its own decisions. There's also, and I discovered this at a conference, a broad range of motive as well. It is like herding cats. Heads never speak with one voice because we are all ultimately competing with each other; it can be very secretive. We collaborated during the pandemic and we share dismay over VAT, but one Head said to me that they are only passing on 12% to undercut competitors in the hope of gaining 30 pupils from them and that will negate the cost of absorbing the 8%. I was staggered because I wouldn't even have the wit to think of doing something like that. When you've got that sort of breadth of motive and in my opinion, some of the motive is not entirely wholesome, you

don't get the sector speaking as one. And who is absolutely absent, in all of the opposition to this, is the big private schools who have not said a thing.

Parent: They are mainly in the south east anyway, competing against each other against a very wealthy London client base. You serve the community here and you're very exposed geographically, so you have no choice but to add the 20%.

Guy Ayling: Yes. We don't have that base; I've often thought rural schools don't necessarily have the competitors that they have in the southeast, but we don't necessarily have the demographic either. So, you're right, and I sense that all the London schools are looking at each other and weaponising VAT.

Question 18

It's not just the school that will suffer it will be the wider community, don't you think this will affect the traders in the local area?

Guy Ayling: Absolutely, the last time I walked down our High Street there were nine empty shops and I made the point to both the local and Devon Chamber of Commerce - if you take 10-15% off current economic impact the maths is there. The Devon Chamber of Commerce took it up on our behalf with the British Chamber of Commerce and said 'look Mount Kelly have got these figures, what can we do about it to support them' and they completely stonewalled us. They said 'we do not necessarily accept that a reduction in pupil numbers will lead to a reduction in spend'. I was staggered by that and I did say to them that if any other industry got 20% put onto them, they would be fighting.

They did come back to us and said they were concerned about the timing of it, but still did not think that was enough. Again, I suspect they are protecting their own relationship with central government.

Question 19

In terms of marketing, how are you looking to increase pupil numbers? Are you looking for national and international pupils?

Guy Ayling: Domestically I think what we said before about standing up against some of the schools where we really do compete well and I think we've got to be seen in the south east. I'm going to get myself around more, the Channel Islands, Prep schools, much of which we would do anyway. In terms of the overseas market, it has often been seen as a cash cow. They pay full fees, but over the last 10-15 years the international market has become much savvier. Parents know they can shop around and it's a buyers' market.

One of the consequences, and I actually think this is an intended consequence, because I think our government is quite cynical about it, is that we are going to become very uncompetitive in the global market and this might suit a certain political agenda. We are already competing with really good schools in New Zealand, Australia, and Canada has some of the best

independent schools in the world. So, now we're less competitive. Going overseas is not an easy, silver bullet, especially not now. But there are some very interesting emerging markets overseas including Mexico and a few in Southeast Asia, and we looking at those. But, the burgeoning middle classes in those countries are looking at the global map now. But we will do well to hold where we are at now; we are about 16% from overseas

Question 20

Overall, are you trying to get more pupils in?

Guy Ayling: Absolutely, we do that anyway, but it is more pressing given VAT. But where those pupils are going to come from is what we are spending a lot of time thinking about.

Question 21

Have you done an assessment on what will happen to student numbers, or do you not know at the moment?

Andrew Main: There has been some work done on this, but the full effect won't be felt for two to three years. Some of the early thinking is that people may still turn to the independent sector, but for certain bites of their education rather than going all the way through; so there could be some changes in that approach, which will change our offering and we are working on that at the moment and have some fairly exciting ideas.

For example, the university market in the US now allows students to have intellectual property rights of their own; pupils in sport can earn money while they are at university; so, it's competitive to get top sports people into university. This year it was a \$1.5 billion market, which is increasing to \$2.5 billion in the next financial year. Our university system cannot compete with this. We are one stage in the education process, and we are seeing more kids from here going to US universities and preparing children for that as part of the offering may be possible.

Guy Ayling: We are modelling on numbers and not just declining numbers, but also growth. We do think that there will be winners and losers in this one. I'm not one for weaponising VAT, but we are going into this storm with a more watertight ship than many schools are.

Question 22

Will the school be reducing scholarships and bursaries?

We have been reducing those year on year, contrary to myths that abound, because of course your concession rate to a large degree determines your income. A school of 500 full fee payers

is probably going to make more money than 600 non full fee payers; year on year we have driven down our concession rate. We were higher than most schools and are now moving back towards the average. It remains to be seen if we can maintain our numbers in the School and keep driving down our concession rates, because more parents are going to need more assistance conceivably. So therefore, there are decisions that we have to make.

One of the discussions Heads are having, is, is this a flushing out moment? Now, I'm a teacher and I love having kids in all classrooms, but long term are we better concentrating on driving down the concession rate, even if that's at the expense of pupil numbers? We have to be careful with pupil numbers because yes, you can be fantastically profitable with a school of 250, there's no doubt about it; but all of your children play in teams and it is much more difficult to have the team if you are relentlessly pushing down concession rates at the expense of numbers. It's a challenge but we have to try and find where that sweet point is.

Question 23

Isn't the cost of retaining a pupil less than finding a new student? The cost of finding new students must be higher.

Guy Ayling: A really interesting point about the cost of retaining vs recruiting. We are doing a piece of work about why parents stay at this school and we're doing a piece of marketing in the coming months so we can really get into the areas that we might tweak in order to retain pupils. So, it's all about the quality of the experience, and what accounts for loyalty. We have a template and now we need to feed in some market research as we know a small investment in this area could retain X% of pupils, to save us from recruiting which as you say is more expensive.

Question 24

An important concession is that to children of alumni. It may well be your largest, is that secure? And if you were to take it away, would it be only for the incoming pupils rather than those who are already here?

Guy Ayling: It's not the largest concession. Lots of schools are abandoning their big concessions for alumni, but you can still just about convince me that a former pupil should get money off the product they bought 25 years ago – just about. The school I went to withdrew its former pupil concessions; that was fine though because I had no intention of sending my boys there!

I think taking away awards from pupils who are already in the system is rarely the right thing to do. I think we have a moral obligation to see a child through once we've made the decision to take them on. And that's also something that, to a large extent, drives my discussions around VAT stress. You know, this is, in the life of the school, a very short-term period for some of these children and it's about getting them through, and we feel we have a moral obligation to do that.