

Army Families Federation (AFF) response to HM Treasury technical consultation on Applying VAT to Private School Fees and Removing the Business Rates Charitable Rates Relief for Private Schools

Introduction

1. The Army Families Federation (AFF) is an independent charity which endeavours to improve the quality of family life for Army personnel and their families and support them in the UK and overseas. AFF provides advice and information directly to personnel and their families, as well as engaging with both the Army, Ministry of Defence (MOD) and Government to ensure Army personnel and families' views and issues are represented in policy.
2. We welcome the opportunity to provide a response to the proposals set out by HM Treasury. AFF has collated a substantial and wide range of evidence from serving Army personnel and their families. We are providing a response to question 2 of the technical consultation, noting our concerns with the impact analysis and providing evidence on how this intended policy will disadvantage Service children and potentially adversely impact the operational effectiveness of the Army.
3. It is disappointing that this submission has to cover some of the issues raised in as much detail as it does. The Government has provided no information to Armed Forces personnel - more than six weeks after the announcement that VAT on school fees would be applied mid-way through the academic year - on how it intends to address this legislative change within the context of the Continuity of Education Allowance (CEA). As discussed below, CEA provides some serving families with the ability to give their children educational stability, while Service personnel are assigned to multiple locations, in the UK and overseas, in support of UK Defence.

Background

4. The Army is a highly mobile Service. Army personnel and their families can be regularly assigned between locations in England, the devolved nations and various overseas locations - moving every two years on average.
5. As a result, Service children's education may be disrupted due to multiple school moves, and/or moving between different education systems, as well as the recurring challenge of finding a school place in a timely fashion on arrival in a new location and/or one which meets the needs of the child/ren. This is particularly an issue for children with special educational needs, as Service families face significant difficulties in obtaining Education Health and Care Plans (ECHPs) due to not being in one place for long enough to 'go through the system'.

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6. For Service parents who choose to mitigate these issues using independent boarding schools, the MOD provides Continuity of Education Allowance (CEA¹). The allowance funds up to 92% of fees and requires parents at a private school to contribute a minimum 10%. As of April 2023, there were 4,210 Service children covered by CEA funding².
7. It is important to note that not all Army personnel are eligible for CEA as there are strict eligibility criteria, which mean the allowance is only available to those Serving personnel who are most mobile whose children will be impacted most by frequent school moves.
8. Some Service families choose to mitigate this disruption by using independent day schools. These families are not generally eligible for CEA and are known as self-funding. There is limited official data on the number of Service families self-funding. However, AFF ran a short one-week poll to understand the reasons Army personnel self-fund and we received 313 survey responses. 22.08% of respondents told us they were not eligible for CEA as their child is too young, however some of these respondents told us they were planning for the future as a mobile family; and for continuity of education purposes would claim CEA at the same school when the child was old enough to be eligible. Families (including those dual-serving) also responded that they elected to self-fund for the wrap-around childcare services or flexi-boarding their chosen school provides, which provides the family flexibility required for operational effectiveness of the serving person. The evidence provided suggests that if these options become unaffordable to families, this will seriously affect Army retention rates.
9. Army personnel and families first raised their concerns to us in November 2023 regarding the Labour proposed policy to implement VAT on private schools. We raised this at the time to the MOD and again pre-election in June 2024 and were advised:

“The Ministry of Defence recognises the unique circumstances faced by our serving personnel and that frequent mobility can disrupt children’s education. The Continuity of Education Allowance (CEA) helps by providing the children of serving personnel with a stable education that wouldn’t otherwise be available in the state-maintained day school sector, due to their family’s mobility. There are currently no plans by the current Government to increase private school fees by 20%, through changes to VAT exemptions for education. Should the position of the Government of the day change in the future, the MOD will assess the potential impact on CEA and on Armed Forces personnel claiming the allowance.”

10. Whilst the intention of the policy has been known for some time, our evidence shows there was an assumption that an exemption would apply to all Service families. The Secretary of State for Education (Bridget Phillipson, at the time, Shadow SofS), stated in January 2024 in response to an intervention in the House

¹ [Microsoft Word - 20240701-JSP 752 v59 Jul 24 \(publishing.service.gov.uk\)](#)

² [Written questions and answers - Written questions, answers and statements - UK Parliament](#)

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of Commons from Caroline Dineage MP³, ‘*There are ways in which they [the VAT rules] can be carefully drawn to ensure that exemptions apply where they should. I join her in paying tribute to the Armed Forces – she need not be concerned about what we are discussing today.*’

11. The Government response to the technical guidance released on 29 July 2024 only notes⁴, ‘*The Government will closely monitor the impact for those Service personnel who claim Continuity of Education Allowance (CEA)*’ and states that the upcoming spending review is the right time to consider any changes to the scheme. It should be noted that the planned spending review is not due to report before December 2024, and that the Strategic Defence Review is due to report no earlier than June 2025. As an aside, we have not been able to obtain any indication of the mechanism by which the Government is currently monitoring the impact on Service personnel and their families.
12. In addition to the survey noted above, we have seen an enquiry increase of more than 100% since the release of the technical guidance, with Army families raising their concerns on with how this policy will negatively impact them. In total, AFF has a combined evidence collection of approximately 440 responses and will provide you with a comprehensive overview of all the concerns further in this consultation response.

Question 2: Does this definition inadvertently capture any organisations that this policy does not intend to capture?

Continuity of Education process

13. As discussed above, CEA is an allowance that is available to all Serving personnel who meet the strict eligibility criteria and are the most mobile. The Army is the biggest claimant of CEA with more than 2,000 Army personnel in receipt, with slightly more other ranks personnel than officers claiming. This is because Army personnel and families are highly mobile, as the Army needs to regularly assign Service personnel to locations both in the UK and overseas to be both operationally effective and fulfil Defence commitments.
14. CEA is capped and is paid directly to the serving parent three times a year to help support towards payment of fees. The current CEA Board rate for Junior is capped at £7,489 and for Senior £9,080. It is extremely important to note the school contract is between the parent and the school, and not between the MOD and the school. It is categorised as a tax-free allowance to the family, and not a direct payment to the school. It is not the same process as local authorities directly funding places in independent schools.
15. Those claiming CEA at a private independent boarding school must make a minimum 10% parental contribution and 8% if their children go to state boarding schools. Those claiming CEA and whose children have Special Educational Needs and Disability (SEND) may also be able to access CEA SENA, which in some

³ [Fair Taxation of Schools and Education Standards Commi - Hansard - UK Parliament](#)

⁴ [Technical Note - DIGITAL.pdf \(publishing.service.gov.uk\)](#)

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certain circumstances will pay 100% of the fees up to a capped rate without a parental contribution.

16. Whilst incentivisation of the state boarding school rate is a positive for those who wish to send a child to a state boarding school, and the Government has exempted state boarding schools from VAT within the policy, it cannot be the solution for all mobile Army families. Many families have told us that they have investigated state boarding options when trying to find a suitable place for their child but there is very limited capacity in the sector and extremely limited provision for those in junior years.
 - Army children at primary school age are still impacted by multiple school moves when moving frequently on assignment between primary schools, often missing or revisiting the same parts of the curriculum. The primary phase of education years are the building blocks to give children the base to be able to embark on their secondary preparation.
17. Many state boarding schools are not located near to where a guardian (friend/family) live and who could support them. Guardians are required to mitigate circumstances when a child can't remain at boarding school due to welfare, illness or exclusion or is unable to travel to their parents in an overseas location due to security/travel restrictions or unplanned eventualities. COVID-19 had a significant impact within the Armed Forces boarding community and evidenced the necessity for a guardian for each child.
18. CEA is reviewed annually by the MOD, normally around 1 August each year; and it was last reviewed on 1 July 2024. When the MOD calculates the rate, it looks at the average fee increases across a percentage of schools, to help determine how much CEA will increase that year. CEA increased on average by 8.35% for those receiving the junior school rate and 6.24% for the senior school rate over the last two years.
 - Whilst the MOD has a process which could support an earlier re-calculation of CEA, at the time of writing - more than six weeks since the Chancellor announced that VAT would be charged on school fees - there has been no formal communication from the MOD on what it plans to do. This is deeply concerning for Army families as the annual re-calculation cycle does not align with the January 2025 implementation of VAT on private schools.
 - It is important to note that the CEA process looks at an average of schools, so if VAT is passed along by schools at differing rates, this will not cover all the VAT costs even with a future recalculation. Additionally, families have also provided us with evidence that even if a CEA re-calculation was to be conducted earlier, this would still mean an unaffordable increase in their own minimum parental contribution.

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The proposed policy does not currently take into account the third-party relationship between the MOD, which provides CEA directly to Service personnel, and schools. In accordance with the Income Tax (Earnings and Pensions) Act 2003 Section 297C⁵, CEA is a non-taxable allowance which is paid to Serving personnel. There is no direct contractual relationship between the MOD and the schools used by Service personnel, whereby the VAT could be waived though the principle that Government departments do not charge each other VAT. Under current plans, VAT will now be added to the parent's bill given to them by the school, which they must meet in full, and then claim a proportion from the MOD as CEA. As the entire bill has the VAT applied, a non-taxable military allowance will now be driven upwards as a result of the application of a tax by another Government department. We are concerned that, without an equivalent increase in funding for the MOD to meet this VAT bill (in practice, if not law), this additional cost of CEA will be to the detriment of the MOD's service provision in other areas of family support.

Army families' key concern is affordability

19. **The overriding concern of all Army families who contacted us (both CEA claimants and self-funders) is the inability to be able to afford an increase in school fees making it financially unsustainable for their child to remain in a private school, without an exemption being put in place to support Service children.**
20. We have received a wide range of evidence from all ranks with children at a broad range of schools, all of which demonstrates the extreme severity of the financial impact.
21. Most independent schools acknowledge the contribution of the Armed Forces, and many provide high levels of discounts or bursaries already. Army parents have told us that when considering which boarding school to choose, they make these decisions based on long-term affordability.
22. Some families have reported that the extra amount they will need to pay, if VAT is applied, will exceed 30% additional cost to their net family income, although this may be increased for those with more than one child at a school. It is important to recognise that an Army family's household income may fluctuate more than a less mobile civilian family, as a spouse/partner may move jobs more frequently or be unable to work in certain overseas locations.
23. One family with three children told us they currently utilised a school where they already receive an Armed Forces discount, so they only pay 10% of their school's fees alongside CEA. Currently they pay £11,718 per year (covering all three children) as their 10% personal contribution alongside CEA. They stated they now face estimated additional VAT costs of £18,687 per year, as a result of which their total personal contribution will now be £30,405 a year. Whilst this

⁵ [Income Tax \(Earnings and Pensions\) Act 2003 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2003/18/section/297C)

is one case, we received significant evidence from other families which demonstrated the drastic increase and totally unaffordable increase in costs.

24. **Nearly 70% of Army families who shared evidence with us stated that if there is no exemption or financial mitigation to cover the full costs of the VAT increase, they will now consider leaving the Army.** The AFF Army Life survey 2022⁶ evidenced the critical importance of CEA for Service children. *‘Those families who claimed the Continuity of Education Allowance felt this was a critical element of the package that had enabled the serving person’s retention, citing its necessity in providing educational stability for highly mobile and dual serving families.’*
25. Families are reporting that an increase in fees would make it financially unsustainable for their child to remain in a private school. Many private schools require at least one term’s notice for a child to leave, meaning that some families need to give notice immediately in September 2024 before the January 2025 VAT uplift comes into force or they will have a personal liability for the term’s fees. As discussed below, this is simply not practical for some Army families, particularly those overseas.

Insufficient impact analysis for Army personnel and Service children

26. The impact analysis conducted by HM Treasury insufficiently considers the needs and complexity of Army personnel, their families and Service children. The technical consultation para 4.8 states, *‘The Government recognises that these policy changes may lead to increased costs for some parents and carers, and that some pupils may subsequently move into the state education sector’*, whilst para 4.9 cites, *‘All children of compulsory school age are entitled to a state funded school place if they need one’*.
27. Therefore, this impact analysis does not recognise the unique challenges that our Service children face and, whilst we absolutely acknowledge they are entitled to a state-funded school place, it is **simply not possible** in some overseas locations, and we have provided comprehensive evidence of the challenges that must be considered below.

Concerns on the impact on Army children

28. Service children may often have a fractured educational history because of the mobile nature of Army life, and it is not uncommon for Army children to move schools every two years.
29. Previous AFF studies⁷ have identified that Service personnel are highly likely to leave the Army due to the negative bearing the demands of service life have on their child. Families mention the impact of making lasting friendships, succeeding at school, as well as having a detrimental effect on their child’s mental health and emotional wellbeing. Many families have stated that boarding school has been the only solution to help mitigate these experiences on their

⁶ [2022-AFF-Your-Army-Life-Survey-Command-Brief-FINAL.pdf](#)

⁷ [AFF_Listening_to_our_Service_Children_Survey_Command_Brief_FINAL.pdf](#)

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child's overall happiness as well as giving them a chance of success in their academic endeavours.

30. Additionally, a key recommendation from the Haythornthwaite Review for Armed Forces incentivisation published in 2023⁸ states that one of the key conversations that career managers need to have with personnel to prevent departure from the Services is around key stages in family life, such as “children reaching major exam age”. Looking at the evidence already provided, this recommendation is incompatible with this policy implementation as it will incentivise personnel to leave if they are mobile and unable to access or afford continuity of education for their children this vital stage.
31. For families who have chosen to mitigate this disruption through using independent schools, moving back into the state system - and staying in the Army - will result in significant and recurring disruption for their children. This will not allow them to retain their continuous education, resulting in disadvantage when compared to their civilian peers.
32. Army families may be assigned to many locations across the UK and overseas. It is important to differentiate between a deployment and an assignment; a deployment would require a serving person to go overseas without their family who would remain in the UK, whereas an assignment means the family would accompany them to the overseas location and live there.
33. Those already based overseas may find themselves in the position where they can no longer afford the fees. In these cases, it will cause significant difficulties if they need to withdraw their child from an independent school as they will not have a UK base, and many overseas locations do not have suitable schools available based on the needs or the age of the child. Children need to have an Education Supportability Review before being allowed to accompany the serving person, and if they were using a UK school by utilising CEA, this would not have been a consideration when moving on assignment for the family.
34. In some overseas locations there is no access to English speaking alternative state provision. This could then affect the ability for a Service person to remain assigned in the overseas location, impacting the operational effectiveness of the Army.
35. It will also impact those in the process of going overseas. One Army family claiming CEA, who are very shortly due to be assigned overseas to a location with no educational provision, told us,

“We received a letter from our child’s school today informing us of a 20% increase in school fees. We cannot afford it. We have been posted and promoted through 22 years of Army service. We have just moved into our 19th Army quarter. Our children have been resilient and patient, sacrificing stability and ‘normal’ life to support our family unit. My child had three primary schools in their first year of school. If I have to withdraw the children and take them with us, there is no education provision where I am moving them to, and they cannot accompany us to

⁸ [Agency and Agility: Incentivising people in a new era \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

this location. If I have to pull them out and ‘go firm’ our home is in Scotland, and it is a completely different education system. I believe that families should be together as much as possible so this will be another enforced separation (he has just been away for 12 months on a deployment plus five operational tours). The British Government needs to support us in our endeavours and forcing us to remove our children from their current educational establishment in their GCSE and A-level years respectively seems like a cruel and ill-considered act. In the light of all of the stress the children are under, I cannot face explaining to them why they cannot continue to attend their school.”

36. Children who are already in critical stages of education (such as examination years) could face further disruption as each school follows different examination specifications. There are further complexities if a move in/out of a devolved nation applies, e.g. those assigned in Scotland may have a child in boarding school in England, where the examination system is different.
37. We have received substantial evidence from families whose children have SEND but who do not have an EHCP or equivalent because of the complexity of the process. This can impact Service children more due to frequent moves between local authorities, so parents have utilised independent education to mitigate against this as well as mobility.
38. If a Service child had to leave their private school and move to a state school, initially they may not have the necessary supporting documentation i.e. EHCP or equivalent to evidence the support they would require in state school. This process, although mandated in the SEND Code of Practice 0-25 in England, often takes far longer to complete.
39. An added complication following an admission to state school is any subsequent move for Service reasons could significantly impact on any statutory assessment process being undertaken, particularly if this is to a devolved nation which have different processes.
40. An Army family whose child has an EHCP with their current private school as the named school, and who are not being funded by the local authority as they are claiming CEA, told us,

“My son seems to be falling into a very grey zone. He has special needs... and is enrolled in a specialist SP school... This means the military pay 100% of his fees through SENA CEA. We have moved five times since 2021, each time to a new county which means a new local authority for every move. We have therefore had to transfer our child’s EHCP five times in the last three years, which is a significant admin process. And that is without asking for funding!! My child has had an EHCP for years that has their named school. This should, technically, exempt us from VAT. However, the wording of the policy seems to be that local authorities, who pay the private fees for children who require a place at a specialist school, can claim the VAT back. We decided to go down the CEA route to provide stability. Our child has a high level of need, and we fully believe that this level of need would be agreed by a local authority and ultimately, they would support our child’s need at the named school. However, we also know that this would be a significant fight and would likely proceed to tribunal before it

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would be authorised. This would also take a significant amount of time, and we would not be able to pay the fees while going through the process.”

41. Based on the evidence we have received, we suggest that many Army families who are currently using independent schools will not be able to immediately move into state provision, and/or will be unable to mitigate the challenges of their mobile working requirements through state provision. As a result, some *will* choose to leave the Armed Forces.

Conclusion

42. AFF believes it is imperative that Service children’s education is not disrupted by this policy, and that the unique needs of all Army families are urgently considered by the Government to prevent disadvantage as a result of Service life.
43. Since CEA provides continuity of education for Service children, it allows serving personnel to remain mobile and thus be operationally effective. As our evidence shows, 70% of Army families who shared their concerns with us will potentially leave the Army. We can therefore raise to this Consultation that any failure to mitigate the effect of this policy will lead to disincentivising Service personnel to remain in the Army, at a time when retention is already a critical concern for the MOD.
44. We believe the Government needs to ensure that an exemption is put in place for all Service children, before this policy is implemented or until the spending review occurs next year. Alternatively, that the MOD is given additional funds and can reformulate the CEA calculation mechanism to ensure that the full costs of VAT are not passed along to CEA claimants from January 2025.
45. We hope that the government will consider the substantial evidence we have provided by Army families and make sure technical amendments to the VAT legislation are put in place to ensure no Service children are disadvantaged or delay policy implementation until the measures can be found.

Collette Musgrave, Chief Executive

Claire Hallam, Money and Allowances Specialist

Rachel Smith, Head of Policy

E-mail: contact@aff.org.uk

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