The Education Index

May 2025

How funding independent school fees is changing

Introduction

The introduction of 20% VAT on independent school fees came into force from January this year sparking an ongoing debate about the financial impact on parents of pupils at independent schools and the schools themselves.

The Government's own estimate[1] of the impact of VAT on independent school pupil numbers is that around 6% of pupils – the equivalent of around 35,000 students - would leave the independent sector while the Independent Schools Council[2] (ISC) has warned about state schools in some local authorities being oversubscribed as a result.

National Education Union data shows one in five independent schoolteachers have seen redundancies at their schools as a result of cost cutting after the imposition of VAT and the ISC[3] has warned that around 100 independent schools could close over three years.

Premium Credit has been experiencing strong growth[4] in the average amount borrowed and total amount lent through its School Fee Plan (SFP), even before the introduction of VAT, and expects continuing strong growth as parents and schools adjust.

The growing need for school fee planning solutions is clear as they help parents finance their children's independent school fees by spreading the cost rather than paying a lump sum each term. Parents apply to open their account online before the beginning of any term and if the application is approved the parents and the school are notified with the full payment sent to the school at the start of each term.

The vast majority of SFP customers use our service to benefit from spreading the cost of school fees over 12 monthly payments, as opposed to making three payments a year for each term, and not because they cannot afford the fees. Paying monthly for large expenses is the norm, it's convenient and it helps with cashflow.

However, the introduction of VAT on school fees is having an impact both on parents and schools and is the focus of our latest report based on research with independent school headteachers, bursars and finance managers[5+6] as well as current and past independent school parents.

This is our third report[7+8] looking at the financial pressures on schools and past and present independent school parents.

Key findings:

Research with independent school headteachers, bursars and finance managers

- 67% of headteachers, bursars and finance managers interviewed believe school fees will rise slightly faster over the next three years than their historic rate, and a further 15% expect them to rise at a significantly greater rate
- More than three out of four (78%) predict fees will rise faster than their historic rate of between 3% and 4% a year
- On average they estimate 12% of parents are struggling to pay fees
- Nearly two out of three (63%) say they are spending more time chasing parents for payment of fees
- 62% say more parents are paying fees later compared to last year
- Almost all (94%) schools are looking for schemes which enable parents to spread the cost of fees. That compares with 89% last year[9]
- More than four out of five (83%) predict a rise in independent school closures over the next five years
- 82% expect entry standards for schools to fall in response to drops in pupil numbers
- 87% expect to see a rise in pupils leaving for state schools over the next two years
- Almost all (93%) are looking to increase the amount of money they invest to attract the best teachers and enhance their facilities

Research with existing and former independent school parents

- Parents estimate they spend around 12% of their household income on school fees although nearly one in five (17%) say they spend 20% or more
- Around 44% believe paying fees will become tougher in the year ahead, with 57% of them pointing to the impact of VAT while 72% highlight ongoing cost of living pressures
- A fifth of those finding it hard to pay fees are planning to remove their children from independent school while another 48% say they are thinking about doing so
- Nearly one in three independent school parents have contacted schools about paying fees following the imposition of VAT
- More than one in five (21%) rely on relatives to help pay fees with three-quarters (76%) of them turning to their parents
- 50% of current and past independent school parents say the cost of funding fees has forced them to delay retirement
- 29% of parents of under-5s hope to send them to independent school and 28% of current state school parents have considered sending them to independent school

Chasing fees is a major issue for schools

Our research with headteachers, bursars and finance managers at fee-paying independent schools in the UK found 63% are spending more time chasing parents for payment of fees while 62% say more parents are paying their fees later compared to last year.

They estimate that on average 12% of parents are currently struggling to pay fees. However, one in five (20%) estimate the percentage of parents struggling is 15% or more.

Almost all (99%) said they were concerned about a potential rise in some children leaving because parents cannot afford fees including 26% who were very concerned.

Schools estimate that on average around 12% of parents are currently on special repayment terms while another 13% are inquiring about potentially going on special repayment terms such as monthly payments to make cashflow more manageable.

The study last year found 76% of independent school headteachers, bursars and finance managers interviewed said that 10% or more of parents were on special repayment terms allowing them to spread the cost of fees.

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

“Schools need to collect the fees but clearly are being as sympathetic as possible as they also need to strike a balance that enables parents to keep their children in school. That explains the growing interest in ways to help make independent school fees more manageable by spreading the cost into twelve convenient monthly payments.

“It is about convenience and budgeting which is very much the case in most parts of our lives from how we are paid to how we pay bills. Spreading the cost, in much the same way as your insurance and mortgage payments, feels like an obvious step.”

Parents are looking for more flexible payment options

Nearly one in three parents (29%) with children who are educated independently have contacted their schools about how to manage the increased cost of fees in the wake of the introduction of VAT.

Paying fees will become harder in the next 12 months according to 44%, with 57% of those struggling blaming VAT and 72% of them highlighting the ongoing cost of living pressures. Nearly half (49%) questioned say general increases in school fees unconnected to VAT are making it harder to manage fee payments.

Parents estimate they spend around 12% of their household income on school fees although nearly one in five (17%) say they spend 20% or more.

Financial pressures are increasing demand for better ways to manage paying school fees according to the research. Currently around two-fifths (42%) of parents pay fees every term with 18% paying monthly and 8% paying annually. A further 9% pay a lump sum upfront while 22% would not discuss how they pay.

However, two-fifths (41%) of those who do not pay monthly say they would like to be able to do so if it was available. Almost all (95%) who do pay monthly say it is a convenient way to pay fees.

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

“The recent introduction of VAT on independent school fees is inevitably leading to fee increases and financial pressure on parents and schools.

“It is understandable that many parents are contacting schools to discuss how to manage fees and looking for solutions.”

The impact of rising fees on parents

A fifth of parents finding it hard to pay fees are planning to remove their children from independent schools while another 48% say they are thinking about doing so.

More than one in five (21%) rely on relatives to help pay fees with three-quarters (76%) of them turning to their parents.

Rising fees are adding to the financial impact of funding children through independent schools, which can be long-lasting. Around half (50%) of parents and former independent school parents say the cost has forced them to delay retirement. That includes 15% who say their retirement has been delayed by five years or more and 13% who say they will never be able to afford to retire.

The research found 28% of parents and former parents say they took fewer and cheaper holidays in order to pay school fees, while 27% say they work overtime to make extra money and 11% say they have got into debt.

However managing fee payments was already an issue before the imposition of VAT, the research found. Around 41% say they found it difficult before VAT.

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

"The introduction of VAT on independent school fees is a major challenge for some parents and clearly many find it difficult to pay fees in large lump sums every term.

"This is not simply down to the imposition of VAT and demonstrates the need for convenient payment solutions enabling parents to make monthly payments rather than a lump sum each term."

Schools are increasing investment to remain competitive

Nearly half of private school parents believe affording fees will become tougher in the year ahead and they are increasingly looking for ways to make the cost more manageable, our research found.

Our research with headteachers, bursars and finance managers at fee-paying independent schools in the UK shows almost all (93%) questioned are looking to increase investment to attract the best teachers and to enhance facilities.

They admitted investment had been delayed or cancelled over the past three years. Around nine out of 10 (86%) said they had held back because of issues around collecting school fees. Crucially, this was against a backdrop of uncertainty around a possible change of government, coupled with further uncertainty around timing of the imposition of VAT following any change in government.

More than three out of four (78%) say they expect the level of investment in facilities and staff to increase over the next two years including a third (33%) expecting an increase of 10% or more. Around 18% say investment will fall while 4% say it will stay the same.

That has to be paid for however and 78% believe fees will rise faster than their historic rate[10] even without the impact of the introduction of VAT on school fees at the start of the year.

Around one in 10 (9%) said they either will not raise fees or will reduce them at their next fee review in response to the introduction of VAT.

The table below shows the areas in which schools have cut back or cancelled investment over the past three years due to issues with collecting fees. Buying teaching materials and hiring of support staff were the most likely to have been impacted.

Areas of investment	Percentage saying they have delayed investment in past three years
Teaching materials e.g. books	55%
Hiring of support staff	51%
Sports equipment	50%
IT equipment	40%
Hiring of teachers	35%
New facilities e.g. sports facilities	17%

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

"Independent schools are committed to boosting investment in their facilities and the study shows they are planning for the future.

"To be successful schools need to invest and most expect increased investment over the next two years which inevitably comes at a price for parents in the guise of fee increases above historic rates."

But schools are concerned about negative impact on the sector

Independent school headteachers bursars and finance managers are predicting a rise in school closures as the sector adjusts to the introduction of VAT on independent school fees, the study found.

More than four out of five (83%) predict a rise in the number of independent schools closing over the next five years including 17% forecasting a dramatic increase. Around 82% say they expect entry standards to be eased in response to drops in pupil numbers.

Cuts to bursaries and scholarships are less likely. Around half (47%) questioned predict the number and value of scholarships and bursaries will be cut in response to the financial impact of the introduction of VAT including just 7% who expect dramatic cuts.

Around 50% say the number and value of scholarships and bursaries will stay the same while 3% questioned say they will continue to increase the number of scholarships and bursaries on offer.

Nearly nine out of 10 (87%) expect to see a rise in the number of pupils leaving to go to state schools over the next two years with 9% predicting a dramatic increase. So far two-thirds (67%) say 3% or more pupils have left to go to state schools. Around three quarters (74%) questioned say they are aware of cases where parents have removed one child from their school but kept their sibling or siblings at the school.

The table shows actions schools have taken to reduce the impact of VAT on parents and help keep children at independent schools, ranging from cutting spending on equipment to cutting back on scholarships and also increasing scholarships.

Actions taken to reduce the impact of VAT on school fees on parents	Percentage who have done this
Cut spending on equipment	58%
Cut salary increases	42%
Cut headcount	33%
Cut investment in infrastructure	32%
Cut back on bursaries and scholarships	24%
Increase scholarships to help parents	17%

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

"The independent school sector is going through a period of adjustment following the introduction of VAT on school fees.

"Inevitably that creates uncertainty about the future as demonstrated by predictions of school closures and reducing entry standards. Parents potentially may choose to send their children only to independent schools for secondary or prep, allowing huge cost savings. Clearly schools already are seeing pupils leave for the state sector and fear more will leave.

"Schools already work to help parents with school fees but more could look at ways of spreading the cost over 12 convenient monthly payments instead of having to use household cashflow to make three termly payments."

Parent demand remains strong

Demand for independent schools remains strong, the research found, with 29% of parents with children aged under five hoping to send them to independent school and 28% of parents with children currently at state schools saying they have considered sending them to independent school instead.

However, the introduction of 20% VAT on independent school fees is forcing many parents to rethink their plans and readjust their finances to cope with the additional costs.

Around a third (33%) of parents of under-fives considering independent school say the imposition of VAT on fees has had no impact on their plans.

Nearly two out of five (39%) will now only send them at secondary school stage while 6% intend to only send children to independent schools for sixth form. More than one in five (22%) say they now cannot afford to send their children to independent schools.

Up to 28% of state school parents considering independent schools for their children say the imposition of VAT has no impact on their plans but others say they will have to make major financial adjustments, while 14% say they can no longer afford independent schools.

Around 38% of state school parents considering independent schools say they would have to cut back on general spending to afford the VAT increase while 20% say they would look for cheaper independent schools.

Nearly a third (30%) say they would need to get higher paid jobs to pay for independent schools while 13% would cut back on pension contributions.

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

"The introduction of VAT from the start of this year has not dampened demand from many parents who are still keen to send their children to independent schools.

"However, parents are having to rethink at what age their children start independent school and how they pay for the fees. Planning ahead should include looking at whether schools offer smart payment solutions allowing parents to spread the cost of fees into convenient monthly payments."

Demand for monthly fee options is rising

Parents are increasingly looking to spread the cost as fees continue to increase, our data shows.

Average funding for parents through School Fee Plan rose 11% last year to £21,735 and is 19% higher than two years ago. The total lent last year is around 15% higher than in 2022. Total lending increased by 5% last year compared to 2023.

The rise in average funding and total lent came before the introduction of VAT on independent school fees which took effect in January.

The first three months of this year have seen parents and schools adjusting to the change with many schools yet to announce fee rises.

Research with headteachers, bursars and finance managers at independent schools found almost all (94%) are looking for schemes which enable parents to spread the cost of their children's fees. Research last year found 89% were doing so.

Stewart Ward
Director Education Sector & Head of School Fee Plan, Premium Credit said:

"Parents are having to reassess their finances following the introduction of VAT on independent school fees.

"Our data shows the total amount we lent and the average amount borrowed was rising steadily before the introduction of VAT, and is likely to continue to increase, underlining that for many parents, it makes sense to spread the cost over a year rather than in termly payments.

"That applies even if they can afford to make the payments every term as paying monthly fits better with most people's budgets and lifestyles – and is an accepted way of paying for many of life's large payments."

Conclusion

Independent schools and parents – plus would-be independent school parents – are having to adjust their plans now that VAT on school fees is a reality.

For schools there is a balance to be struck between recouping the cost of the VAT and ensuring that their school is still affordable for parents, while parents need to adjust their financial planning to take in the potential impact of a major one-off increase in fees.

The independent school sector in general is going through a major phase of adjustment with both schools and parents having to look at their budgets.

This year's report shows that schools are generally not passing on the full 20% VAT to parents with a range of estimates on how much fees are rising in response. Schools are in general being sympathetic to the financial pressures on parents while parents remain committed to funding their children through independent school.

It is also worth noting that managing independent school fees was a challenge for many parents before the introduction of VAT. For many, it makes sense to spread this expense, even if they can afford to make the payments every term.

For 30 years, School Fee Plan has helped parents finance their children's independent school fees by allowing them to spread the cost rather than paying a lump sum each term. It is a convenient and manageable way for parents to pay for independent school fees and extras such as music tuition and trips.

We are already seeing strong growth in demand and expect that to continue while fees increase and demand for independent schools continues.

CELEBRATING 30 YEARS

About School Fee Plan

Serving 400 schools nationwide for 30 years, School Fee Plan or SFP has provided a compliant monthly payment solution to help schools boost pupil recruitment and retention, streamline administration, and improve cash flow through a simple online application process. Our flexible service is recommended by leading schools and trusted by 200,000 UK parents.

SFP SCHOOL FEE PLAN

THE OPPORTUNITY TO EXCEL

For more information, please visit School Fee Plan.

Sources

(1) Independent school fees — VAT measure - GOV.UK

(2) VAT on fees: ISC CEO comments on findings highlighting capacity challenges in the state sector - ISC

(3) 'The loss of any independent school has a huge impact', warns ISC CEO - ISC

(4) Premium Credit's analysis of its own data

(5) Independent research conducted by Viewsbank online among 512 parents including 155 whose children currently attend or have attended independent schools in the UK between March 28th and March 31st 2025

(6) Premium Credit commissioned market research company Pureprofile to conduct research with 100 head teachers, bursars and finance managers at independent fee paying schools in the UK. The research was conducted online during March 2025

(7) Independent research conducted by Viewsbank online among 885 parents including 197 whose children currently attend or have attended independent schools in the UK between May 24th and 26th 2023

(8) Premium Credit commissioned market research company Pureprofile to conduct research with head teachers, bursars and finance managers at independent fee paying schools in the UK. The research was conducted online during May 2023

(9) Premium Credit commissioned market research company Pureprofile to conduct research with 100 head teachers, bursars and finance managers at independent fee paying schools in the UK. The research was conducted online during March 2024

(10) https://www.schoolfeeschecker.co.uk/blog/school-fees-2023.php estimates fees have risen between 3% and 4% a year since 2016

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