Introduction and background

Independent schools currently educate around 6 per cent of all pupils in the UK. As of January 2018, there were 1,326 schools which were members of Independent Schools Council (ISC) associations, with around 529,000 pupils enrolled (around 85% of all independent school pupils). They are found all over the country, although ISC pupils are more heavily concentrated in the South and East of England. Charitable status is held by 989 of these schools, with an additional 41 also operating on a not-for-profit basis, while 296 operate on a for-profit basis.

This report, prepared by Oxford Economics and commissioned by the ISC, examines the contribution that ISC schools make to the UK economy. It updates the results of a previous study published in 2014. It focusses on 3 key elements of the economic benefit of ISC schools, namely: the sector’s contribution to GDP, jobs and tax revenues; savings to the taxpayer as a result of ISC pupils not taking up a place at a state school; and the contribution of high academic achievement to the country’s long-term GDP growth rate.

Key points

The economic footprint of independent schools

- In order to examine the economic impact of independent schools, there are 3 different elements, namely: ‘direct’ impact related to the activity of the independent schools sector (e.g. academic teaching, boarding and catering); ‘indirect’ impact related to activity in UK supply chains as a result of the sector’s procurement of goods and services; and ‘induced impact’ which is the economic activity supported by staff in independent schools and by those in the supply chain spending their wages.

- For schools that are members of the ISC’s constituent associations, the total contribution to gross value added (GVA) output, through all 3 impact channels, amounted to £11.63 billion in 2017. These schools supported 257,020 jobs and £3.5 billion of taxation. This is equivalent to 0.5 percent of all UK tax and social security revenues collected in that year and would have been enough to fund the annual employment of 108,000 nurses on average full-time pay. The estimated impacts for all independent schools are £13.71 billion of GVA, 302,910 jobs, and £4.12 billion in tax revenues. The jobs contribution is similar to the entire number of registered jobs in the local authority areas of Derby, Northampton, or the London Borough of Kensington and Chelsea.

- The direct GVA contribution made by ISC schools is similar in size to that of the UK’s “water transport” sector (including shipping), the “information services activities” sector (including web search portals as well as news agencies), and the “sports, amusement and recreation activities” sector.

- Tax payments by ISC schools and their staff are estimated to have been £1.59 billion for 2017, and the direct tax contribution of all independent schools was estimated at £1.87 billion. Corporation tax and business rates are low, as most schools in the sector have charitable status. However, taxes on purchases of goods and services are comparatively high as a share of the total cost of those purchases, as VAT paid cannot be reclaimed. National Insurance and income tax payments are also above average, reflecting the above-average salaries of the teaching staff in independent schools.

- Oxford Economics estimates that the total number of directly-employed ISC staff in 2017 amounted to 147,360. Around 45 percent of these staff are teachers, with the remaining 55 percent in non-teaching roles. The number of staff directly employed by ISC schools is similar to the number of registered jobs in the local authority areas of Derby, Northampton, or the London Borough of Kensington and Chelsea.

- It is estimated that 173,670 staff were directly employed across the entire independent school sector in 2017.

- It is estimated that in 2017, the ISC schools’ expenditure on goods and services stimulated a further indirect contribution to GDP through a UK supply chain of £1.15 billion. This supported 28,000 more jobs and generated £270 million in tax revenues.

- Money spent both by the staff in the schools and by those employed in the supply chain is estimated to have supported £4.42 billion of ‘induced’ GDP, 84,000 jobs and £1.65 billion of tax revenues in 2017.

- This means that, for every £100 of GDP generated by the schools themselves, a further £92 was supported elsewhere in the economy—and for every four individuals employed by these schools in 2017, a further three jobs were supported in other sectors.
ISC schools contribute to their local communities in a number of ways, including through partnerships with state schools. Their contribution can take many forms, including: sharing of classrooms and IT; sharing of sports and catering facilities; seconding teaching staff; and sponsoring state academies. By early 2018, 1,137 ISC schools were involved in partnerships with state schools.

A total of 27.8 percent of ISC school pupils receive a school-funded contribution to, or discount on their fees, with 7.6 percent (over 40,000) receiving a means-tested bursary. Around 5,650 pupils qualifying for a means-tested bursary, (1.1 percent of all ISC school pupils), have 100 per cent of their fees funded by the schools. Overall, school contributions to fees reduce the net income of the ISC sector by over £800 million a year.

As of 2018, 10.2 per cent of pupils at independent schools were non-British. In addition to the amount of direct fee and other income which these pupils generate, they affect the economy in other ways. They are more likely to stay in the UK for university. Their contribution to the UK's 'soft power' must also be considered. Many influential global individuals studied in the UK and their experience may well make them more positive towards the UK's interests.

Savings to the taxpayer

The UK government's contribution to the education of pupils attending independent schools is a fraction of the cost of per-pupil provision in state schools.

It is estimated that, for ISC schools, around 180,000 entitled pupils could have attended a state junior school, 267,000 could have attended a state secondary school and 2,000 could have attended a state special school.

Taken together with day-to-day expenditure, it is estimated that the saving to the taxpayer of pupils attending ISC schools came to £3 billion in 2017. This figure can be broken down into: £2.36 billion saving on recurrent spending and £624 million on acquiring land and buildings and on maintenance. The corresponding figure for all independent schools is estimated at £3.5 billion. These figures correspond to 3.4 per cent and 4 per cent respectively on total state spending on education in the UK.

There are modest savings to the taxpayer through the inspection system. Ofsted is not required to undertake inspections of ISC schools as the latter have their own inspection system. In 2016-17, Ofsted inspected 22 per cent of all maintained state schools in England. If Ofsted were to have inspected 22 per cent of ISC schools, the annual cost to the taxpayer would have been £4 million.

A number of education related entitlements are restricted to pupils attending state schools. These include free school transport for pupils living more than a specified distance from their homes. Such spending would be at least a little higher in the absence of independent schools.

The impact of above-average educational outcomes

The educational attainment of a country's pupils is known to be linked to economic performance. One key way in which education attainment is measured is through the OECD's Programme for International Student Assessment (PISA) which tests 15-year-olds on a 3-yearly cycle in reading, science and mathematics. OECD research suggests that, for every 100 point reduction in the average score for mathematics and science, annual GDP growth would be lowered by 1.74 percentage points.

In the latest published PISA results, for 2015, the average across all UK schools was slightly better than the OECD average in mathematics, clearly better in the case of reading, and significantly better in the case of science. In all three cases, independent schools outperformed those in the state sector, thereby raising these overall averages.

According to the above link between PISA scores and GDP, if all ISC school pupils achieved the maths and science scores achieved by state schools, rather than those achieved by independent schools, the UK's average scores across these 2 subjects would be lowered by 3.4 percentage points. This corresponds to a decrease of 0.06 per cent in the UK's annual long-term average rate of GDP growth. If all independent school pupils achieved at the level of their state school counterparts, the decrease would be 0.07 per cent which would knock £1.5 billion off the UK's GDP in the first year of impact.

In the long term, the GDP loss of 0.07 per cent would not be confined to the baseline, but would continue to build year-on-year. If UK independent schools had ceased to exist at the end of 1948, it is estimated that the first year of full impact may have been around 1978. However, the annual growth rate would have been impacted by 0.07 per cent in each year since then. On this basis, the negative annual GDP impact would have been £73 billion in 2017. This is equivalent to 3.6 per cent of the total annual GDP out-turn.

The Higher Education Funding Council for England (HEFCE) set out a number of subjects which are 'strategically important and vulnerable' (SIV). These are science, technology, engineering, mathematics, modern foreign languages and quantitative social sciences.

Science, technology, engineering, and mathematics (STEM subjects) are in high demand by UK employers, as seen by above average employment rates and salaries for graduates in those subjects, when compared with the overall graduate population.

An examination of A level entry patterns shows that the proportions of entries for SIV subjects for independent schools. Furthermore, independent school pupils achieve higher proportions of A and A* grades in these subjects. It is therefore the case, that the existence of independent schools provides an important supply pipeline of graduates with the key skills and knowledge required in a successful economy.