Education spending: an engine for levelling-up?

Monday 11th December
13:00 - 14:30
Aims and Overview

▪ Aim to provide a clear picture of the levels and changes to spending per student at different phases of education in England over time

▪ Special focus on support for disadvantaged children and geographical differences

▪ Dedicated website with all our analysis and latest figures:

  https://ifs.org.uk/education-spending

Key overall conclusions:

▪ Increases in costs are eroding the real-terms value of planned spending increases and maintenance support for students

▪ Support for disadvantaged children is greatest in schools and early years, but has fallen and is getting spread more thinly
Falls in spending per student across most stages of education since 2010

Early years is main exception, HE spend per student back to 1990 levels

Sources and notes: Annual Report 2023, Figure 6.2
Much smaller differences in spending per student by age over time

Sources and notes: Annual Report 2023, Figure 6.2
Extra funding for deprived areas highest in early years and schools

- 15-20% extra for early years & schools in most deprived areas (FSM)
- Extra funding is smaller when we look at IMD
- Extra funding in post-16 education is smaller

Sources and notes: Annual Report 2023, Figure 7.1
Schools
Total funding up by £6bn from 2019 to 2024.

Spending per pupil back to 2010 levels

But purchasing power of school budgets likely to be 4% lower due to increased staff salaries and other costs

Sources and notes: Annual Report 2023, Figure 3.2.
Schools with more deprived pupils have seen bigger cuts over time

- Mainly driven by bigger cuts for deprived areas outside London
- Smaller cuts in London reflects falling deprivation over time
- Increases in funding for primary schools partly reflects transfers of responsibility and funding from local authorities

Sources and notes: Annual Report 2023, Figure 6.2
Reduced support for deprived pupils in the school funding system

National Funding Formula from 2018

- Fixed amount for pupils (ever) eligible for FSM, living in poor areas (IDACI) and with low prior attainment
- Local authorities can still tweak the formula for schools in their areas

Pupil Premium from 2010

- Fixed extra amount for pupils ever eligible for FSM

Why have more disadvantaged schools experienced larger cuts?

- 14% real-terms reduction in value of Pupil Premium since 2014
- Introduction of statutory minimum funding levels in 2020 mainly benefited schools in more affluent areas
- In 2018, National Funding Formula set deprivation funding factors below what local authorities were previously providing
- Government also shifted money from deprivation towards low prior attainment
- NET result: lowering of extra funding for more deprived schools
Spending per pupil highest in more deprived areas and lowest in more affluent in the south and east

Some apparent anomalies: secondary spending per pupil only 5% above national average in Newcastle, Sunderland & Hartlepool, despite high levels of deprivation

Primary (Relative to national average)

Secondary (Relative to national average)

Sources and notes: Annual Report 2022, Figure 3.12
Challenges ahead: schools

Rising costs lowering purchasing power of school budgets

- Extra funding only just about compensates schools for extra costs in 2024
- Increases in National Living Wage may push up costs of support staff further

Rising educational inequalities since pandemic

- Disadvantaged pupils have seen larger fall in educational attainment since pandemic
- Government has boosted support for pupils for deprived backgrounds, but is the overall level sufficient?
- Schools picking up costs of hardship, gaps in social services & mental health support

Falling pupil rolls

- Pupil numbers expected to fall by 600k or 8% between 2024 and 2030
- Will the cost of running a school fall at the same rate?
Early years
Largest group of programmes is the “free entitlement” to a funded childcare place:

- all 3- and 4-year-olds part-time place (15-hour)
- 3s and 4s in working families full-time place (30-hour)
- disadvantaged 2-year-olds part-time place (15 hour)
Early years education in England

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- disadvantaged 2-year-olds part-time place (15 hour)

National picture

- Total free entitlement spending risen almost every year between mid 2000s and 2018
- In most recent years, driven by expansion of additional entitlements
- Growth in hourly spend also
How is funding shared?

- Childcare provision inherently local ➔ geographic allocation matters
- Can help reduce socio-economic inequalities ➔ funding for disadvantaged children matters
How is funding shared?

- Funding distributed according to Early Years National Funding Formula
- Local authorities receive flat hourly funding rate, plus additional funding based on need and local costs:
  - Deprivation
  - Disability
  - Additional language needs
  - Area costs
- Additional funding through Early Years Pupil Premium and Disability Access Fund
How is funding shared?

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  - Deprivation
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  - Additional language needs
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- Additional funding through Early Years Pupil Premium and Disability Access Fund
Spending roughly follows need

Geographic distribution of funding for 3- and 4-year-olds, 2023

Note: 3- and 4-year-old hourly funding rate from EYNFF, net of area cost adjustment and inclusive of EYPP and DAF
But deprivation funding spread more thinly over time

- Resources in most deprived fifth of areas 12% higher compared to most affluent fifth
- But this is spread more thinly today
But deprivation funding spread more thinly over time

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- But this is spread more thinly today

**Why?**

- Funding for deprivation constant as a share of total funding under EY national funding formula
- Recent years have seen rises in number of FSM children
  - Deprivation uplift *today* worth **38%** of core funding rate; previously **60%** in 2017
- No clear rationale for funding system that doesn’t respond to the number of deprived children
And EY pupil premium freeze

Index (2017–18 = 100)

- EYPP, cash
- EYPP, real

Looking ahead

- New entitlements: 30hr entitlement gradually extended to all children aged over 9 months whose parents are in work
- Planned expenditure on funded childcare hours set to **double** over the next four years
- Rise in average core hourly funding rates this year and next:
  - Funding rates for 2s comfortably above current market prices
  - Rate rises for 3s and 4s relatively less generous

And once provider costs accounted for, core resources per hour for 3s and 4s could remain **12% lower** in 2024 than in 2012

More important is how rates are set and revised going forward – low frequency of rates updating historically e.g. EY pupil premium
Further Education and Skills
Further education spending

- Real-terms spending on 16-18 education has declined since 2010, with new funding only partially reversing past cuts.
By 2024-25: college spending 10% lower and sixth form spending 23% lower than 2010-11

Source: Figure 4.2, ‘Annual report on education spending in England: 2023’, Drayton et al, IFS Report R290
Further education spending

- Real-terms spending on 16-18 education has declined since 2010, with new funding only partially reversing past cuts

- 16-18 spending higher in the North and West Midlands, which is driven by a higher share of students in FE colleges
Spending per student tends to be higher in deprived areas outside London

Source: Figure 4.5, 'Annual report on education spending in England: 2023', Drayton et al, IFS Report R290, Before application of area cost adjustments

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Higher spending in areas with more students in FE colleges

Source: Figure 4.6, 'Annual report on education spending in England: 2023', Drayton et al, IFS Report R290, Before application of area cost adjustments
Further education spending

- Real-terms spending on 16-18 education has declined since 2010, with new funding only partially reversing past cuts.

- 16-18 spending higher in the North and West Midlands, which is driven by a higher share of students in FE colleges.

- The level of extra funding for more disadvantaged areas has increased over time (but is less targetted than schools).
Extra funding for the most disadvantaged areas increased from 4-5% to 9% over the last decade.

Percentage differences relative to least deprived decile

Source: Figure 4.8, ‘Annual report on education spending in England: 2023’, Drayton et al, IFS Report R290, Before application of area cost adjustments
Further education spending

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- 16-18 spending higher in the North and West Midlands, which is driven by a higher share of students in FE colleges.

- The level of extra funding for more disadvantaged areas has increased over time (but is less targetted than schools).

- Real-terms spending on adult (19+) education has declined since 2010, with new funding only partially reversing past cuts.
By 2024-25: total public spending on adult skills 23% lower than in 2009-10

Source: Figure 4.9, 'Annual report on education spending in England: 2023', Drayton et al, IFS Report R290, Before application of area cost adjustments
Funding rates for most adult courses fallen by more than 20% since 2013

Source: Figure 4.11, ‘Annual report on education spending in England: 2023’, Drayton et al, IFS Report R290, Before application of area cost adjustments
Challenges ahead: further education

- FE has seen the largest spending cuts in the decade after 2010

- Rising costs and pupil numbers
  - 16-18 year old population expected to grow by 3% per year from 2019 to 2024

- Ongoing qualifications reform
  - Roll-out of T Levels and the potential introduction of Advanced British Standard
  - New adult skill qualifications, Multiply and skills bootcamps

- Continued uncertainty about elements of the adult education funding system
  - Questions about the Apprenticeship Levy
  - Implementation of the Lifelong Learning Entitlement (LLE)
Higher education
High inflation continues to reshape the student finance system

- Real-value of tuition fees will have fallen by 13% due to cash freeze from 2021-22 to 2024-25 (twice the fall govt expected)
  - HE spending per student back to 2011 levels (before increase in tuition fees)
- Living cost support is increased with *forecast* inflation, and errors never corrected → entitlements cut 11% since 2020-21
  - Real-terms cut of £1,288 per year for poorest
- Generosity of the system has also been gradually eroded by a freeze in the parental earnings thresholds
Generosity of maintenance system has been steadily eroded

For students living away from home, and attending universities outside London. Figure 5.2.
Borrowers have been protected, but interest rate set to keep on rising

- Interest rates on (pre-2023) student loans set at RPI to RPI + 3%
- Capped at the ‘prevailing market rate’ (currently 7.5%)
- Lagged calculation means maximum interest rates will keep rising, peaking at 9% in summer 2025, even as inflation falls
Borrowers have been protected, but interest rate set to keep on rising.

Interest rate on Plan 2 loans (courses started between Sept 2012 and July 2023). Dashed lines are forecasts. Figure 5.3.
Borrowers have been protected, but interest rate set to keep on rising

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- Capped at the ‘prevailing market rate’ (currently 7.5%)
- Lagged calculation means maximum interest rates will keep rising, peaking at 9% in summer 2025, even as inflation falls
- Interest rates don’t affect monthly repayments (though they do increase the length of time someone might repay)
- The repayment threshold has also been frozen at £27,295 since 2021-22
  - By 2024-25, many graduates will be repaying £400 more a year than without the freeze
Based on where students come from, those with higher participation benefit from higher HE spending.

Each student allocated average per-student funding (OfS grants, tuition fee and maintenance loans) at the university they attended. Per person aged 15 to 17 from that area. Figure 5.5 (b).
The economic benefits (by where the £ is spent) are more concentrated

Funding by TTWA, based on registered location of HE providers. Per capita (all ages). Figure 5.8.
Repayment thresholds

Dashed lines reflect forecasts from October 2021. Solid lines reflect most recent forecasts. Figure 5.4.
Spending per student

Upfront per student resources for teaching. Figure 6.1.
Maintenance support

Note: 2024-25 figures are forecasts. Figure 5.1.