

# **Education in the 2025 Spending Review: impossible choices?**

**Wednesday 8th January  
10:30 - 12:00**

 **IFS**

# Aims and Overview

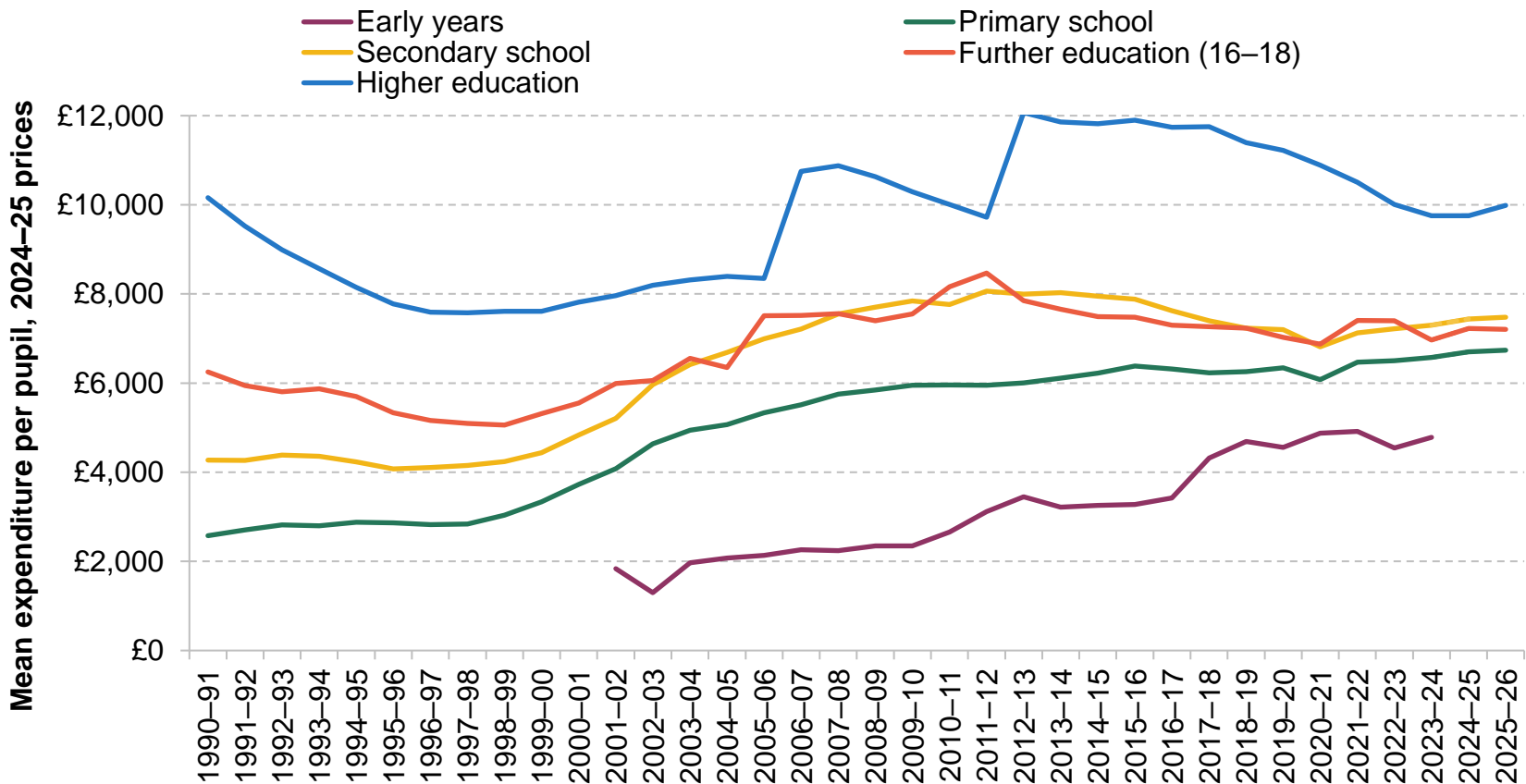
- Aim to provide a clear picture of the levels and changes to spending per student at different phases of education in England over time
- Special focus on choices in this year's spending review
- Dedicated website with all our analysis and latest figures:  
<https://ifs.org.uk/education-spending>

## Key context:

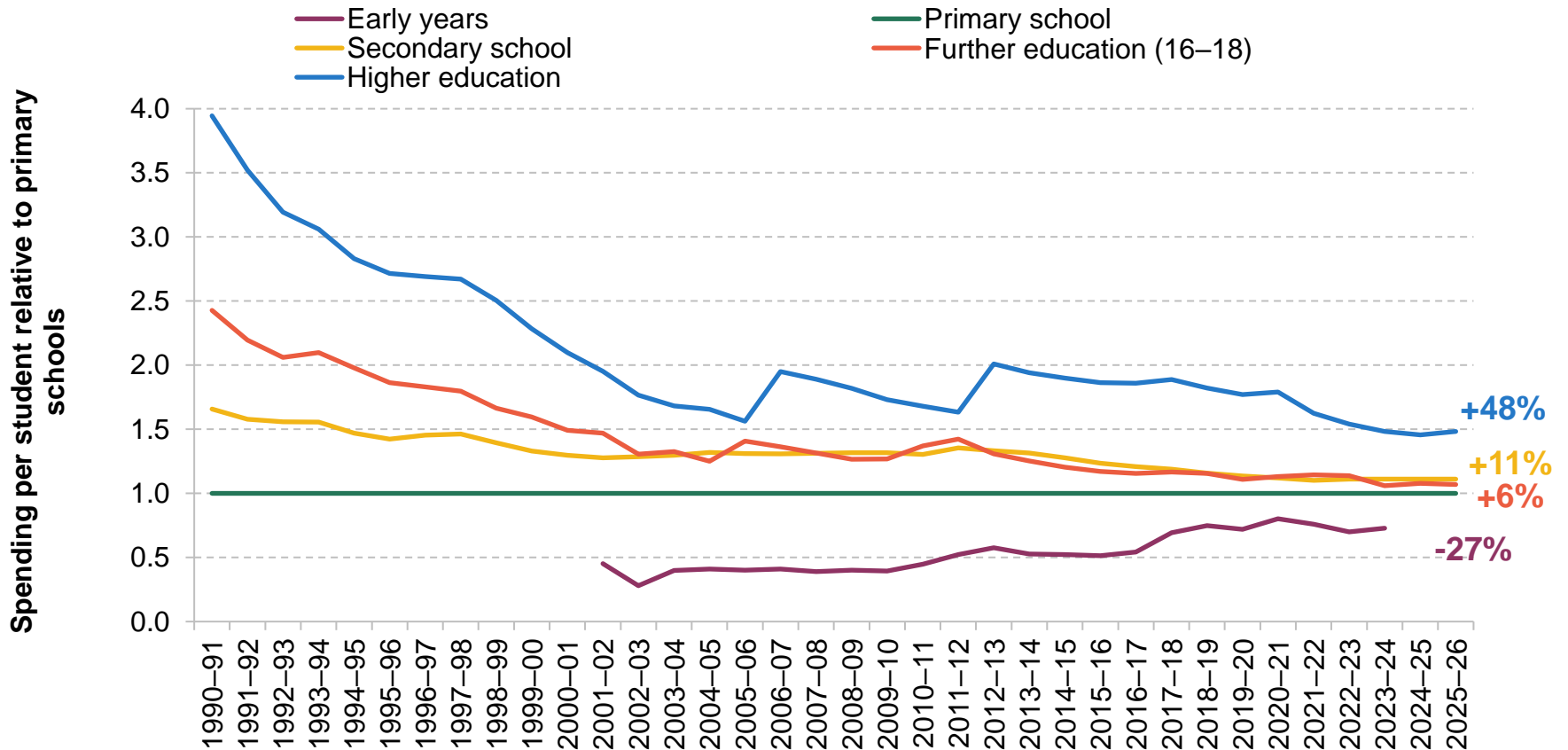
- Boosts to education spending since 2019, with further increases for schools and colleges set out in 2024 Autumn Budget
- Large ongoing expansion of early years entitlement
- Tight picture on public finances implies most departments, including education, will need to find savings of 1-2% per year after 2025

# Falls in spending per student across most IFS stages of education since 2010

Early years is main exception, with further planned rises up to 2028  
 Decline in HE spend per student arrested by inflation-linked rise in fees for 2025



# Much smaller differences in spending per student by age over time



Sources and notes: Annual Report 2023, Figure 6.2



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# Schools

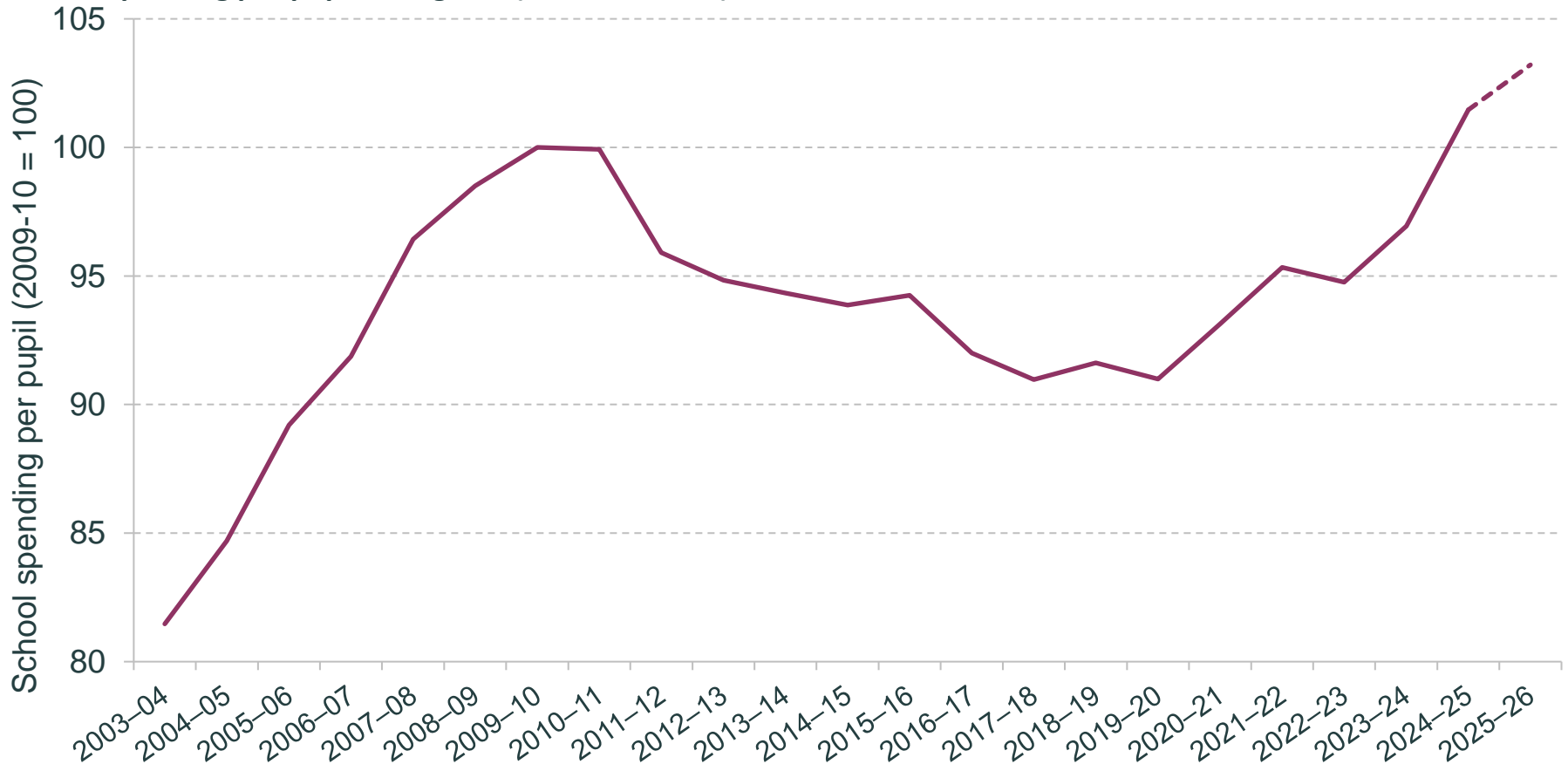
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# Total funding up by £8bn from 2019 to 2024

## Spending per pupil above 2010 levels

Autumn Budget provided for a further 1.6% real-terms increase in spending per pupil for 2025-26

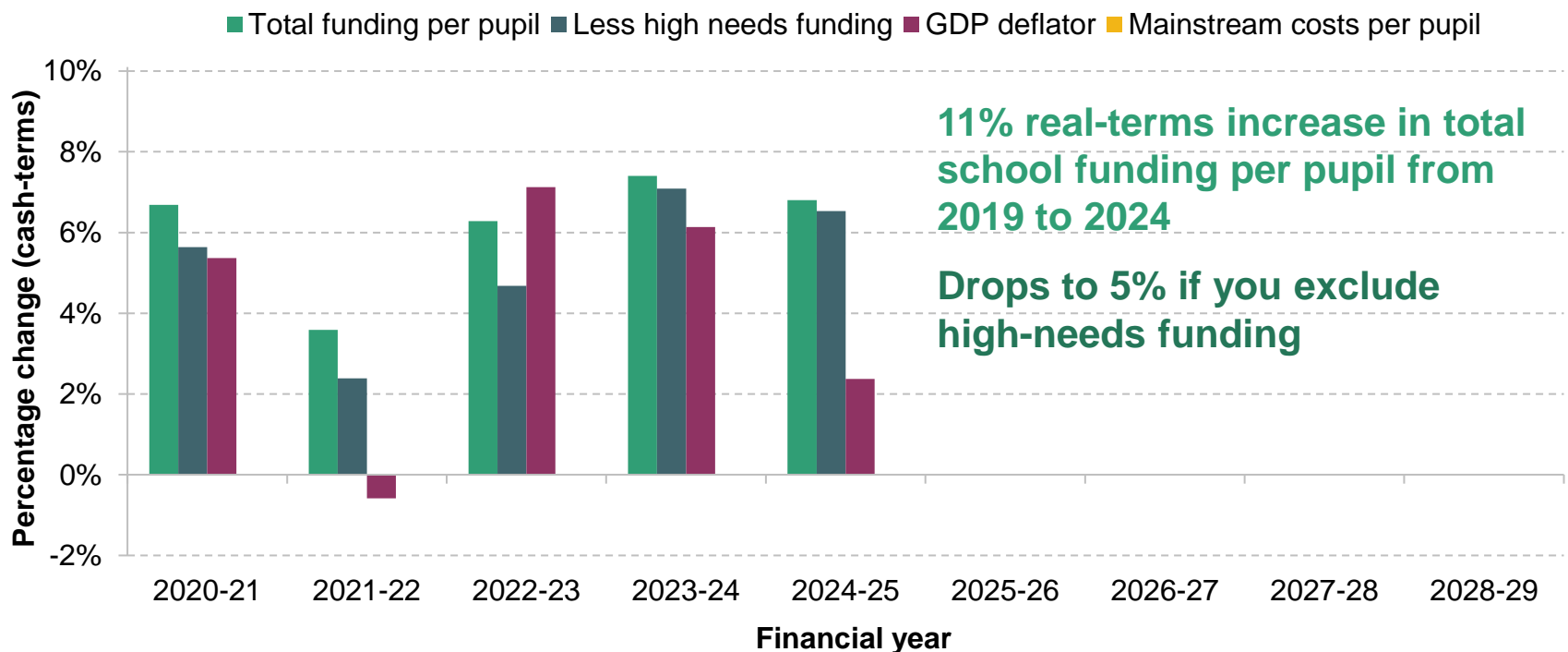
School spending per pupil in England (2009-10 = 100)



Sources and notes: Annual Report 2024-25, Figure 3.2.

# Half of school funding rise since 2019 absorbed by special educational needs

- 71% increase in number of pupils with Education, Health and Care Plans (EHCPs) between 2018 and 2024
- 59% or £4bn real-terms increase in high-needs funding between 2015 and 2024, with most of rise since 2019

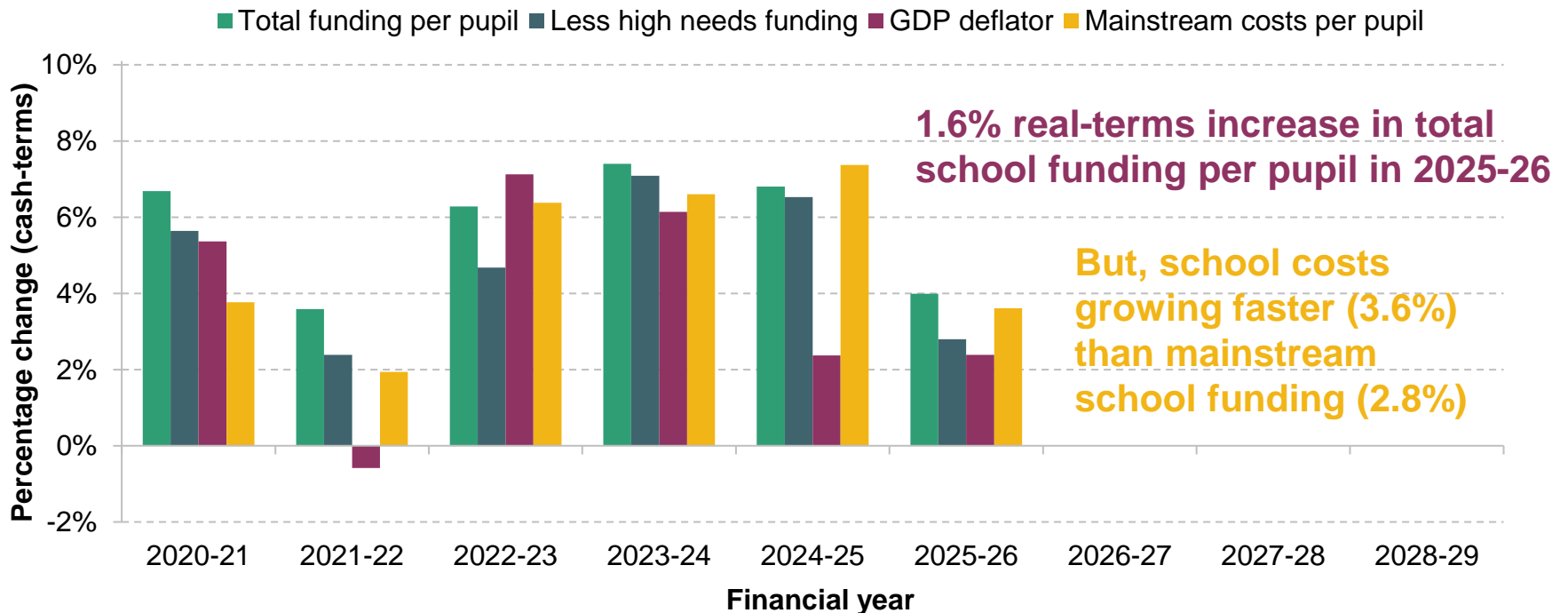


Sources and notes: Annual Report 2024-25, Figure 3.5

# School costs rising faster than overall inflation in recent years

**2024-25:** High school cost growth (7.4%) driven by higher employer pension contributions & 5.5% teacher pay rise for Sept 2024

**2025-26:** Cost growth driven by full effect of 5.5% pay rise from Sept 2024 and pay offer of 2.8% from Sept 2025



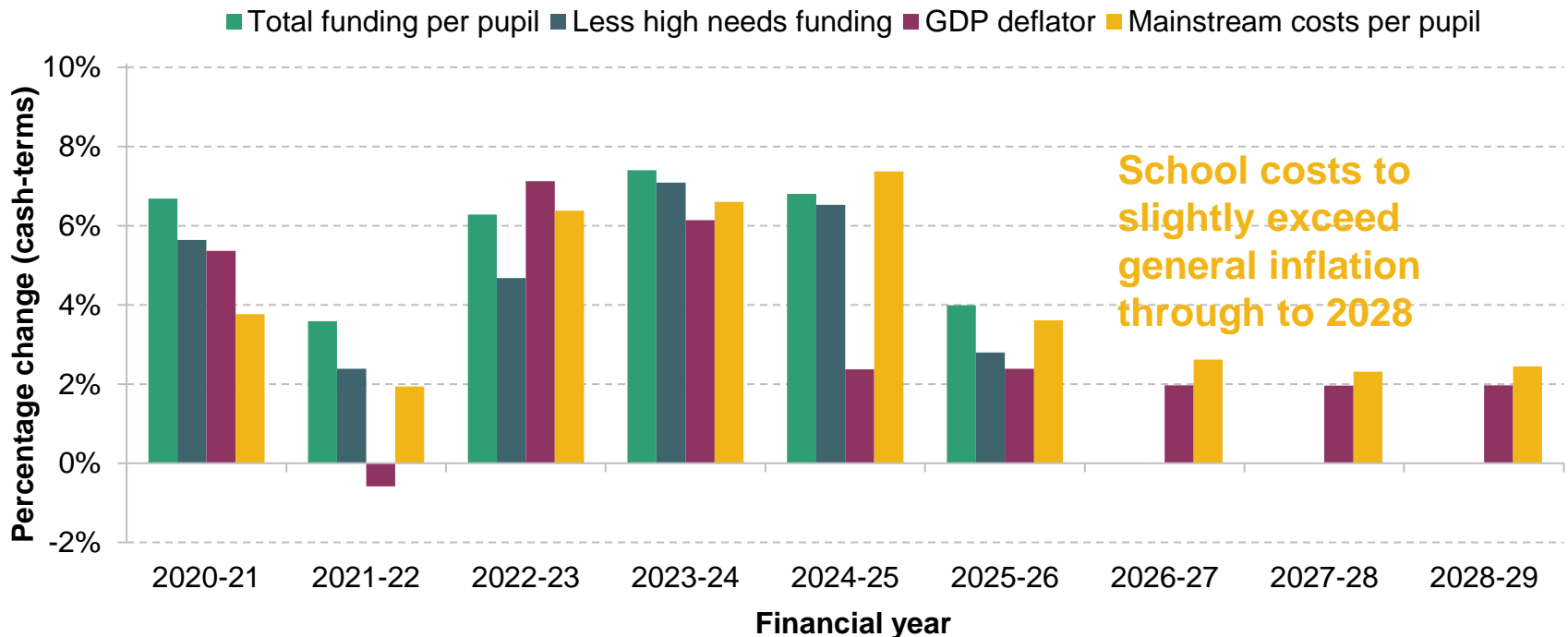
Sources and notes: Annual Report 2024-25, Figure 3.5



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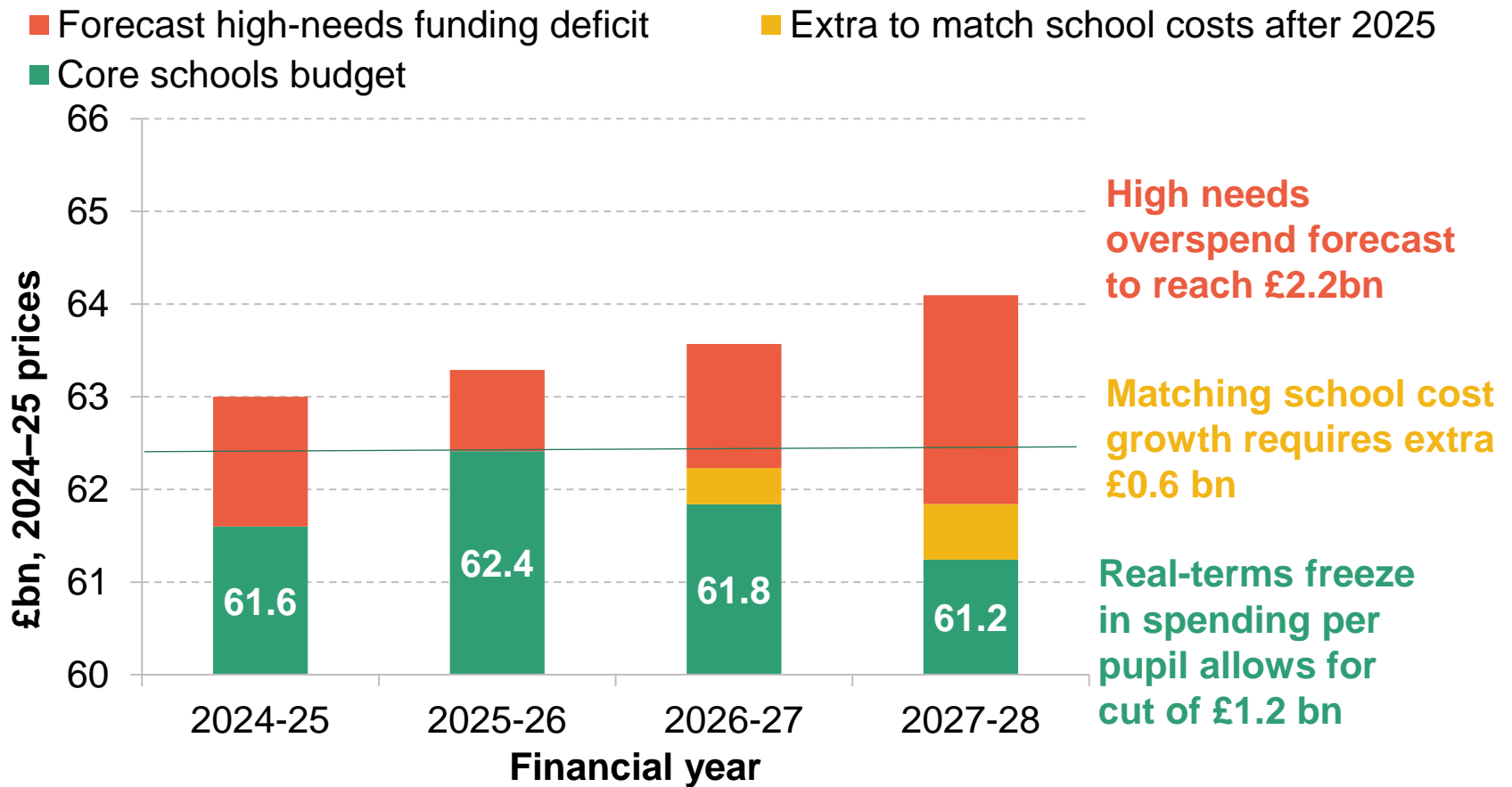
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# Limited options for making savings in the schools budget due to rising SEN costs

Accumulated SEN deficits already £3.4bn in 2024-25. This is forecast to reach £8bn in 2027-28 without reform or extra funding



## Overall increases to school funding

- £8bn increase in school funding since 2019 has reversed past cuts
- £2.3bn rise in school funding in 2025-26 allows for 1.6% real-terms increase in total school funding per pupil

## Rises quickly absorbed by growth in costs

- About half of the increase in school funding since 2018 has been absorbed by rising costs of special educational needs provision
- Schools probably can't afford the 2.8% pay offer proposed for September 2025 without making efficiency savings

## Limited scope to make savings in the next spending review

- 2% fall in pupil numbers could allow for £1.2 billion saving
- But, spending on special educational needs provision is forecast to rise by over £2bn without reforms to the system



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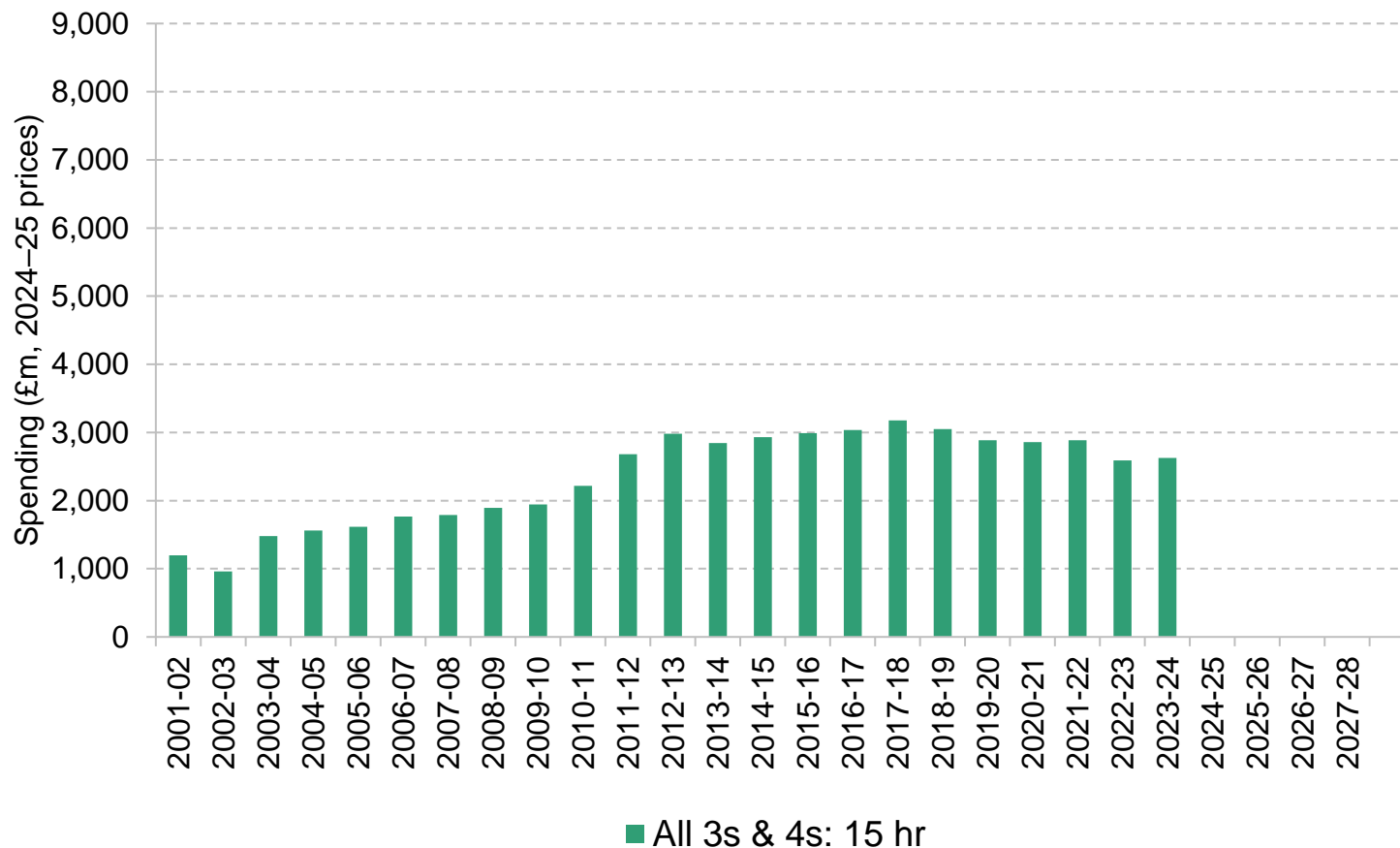
# Early years spending

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# Early years education in England

Largest group of programmes is the “free entitlement” to a funded childcare place

## Total spending on free entitlement hours in England (£ million, real)

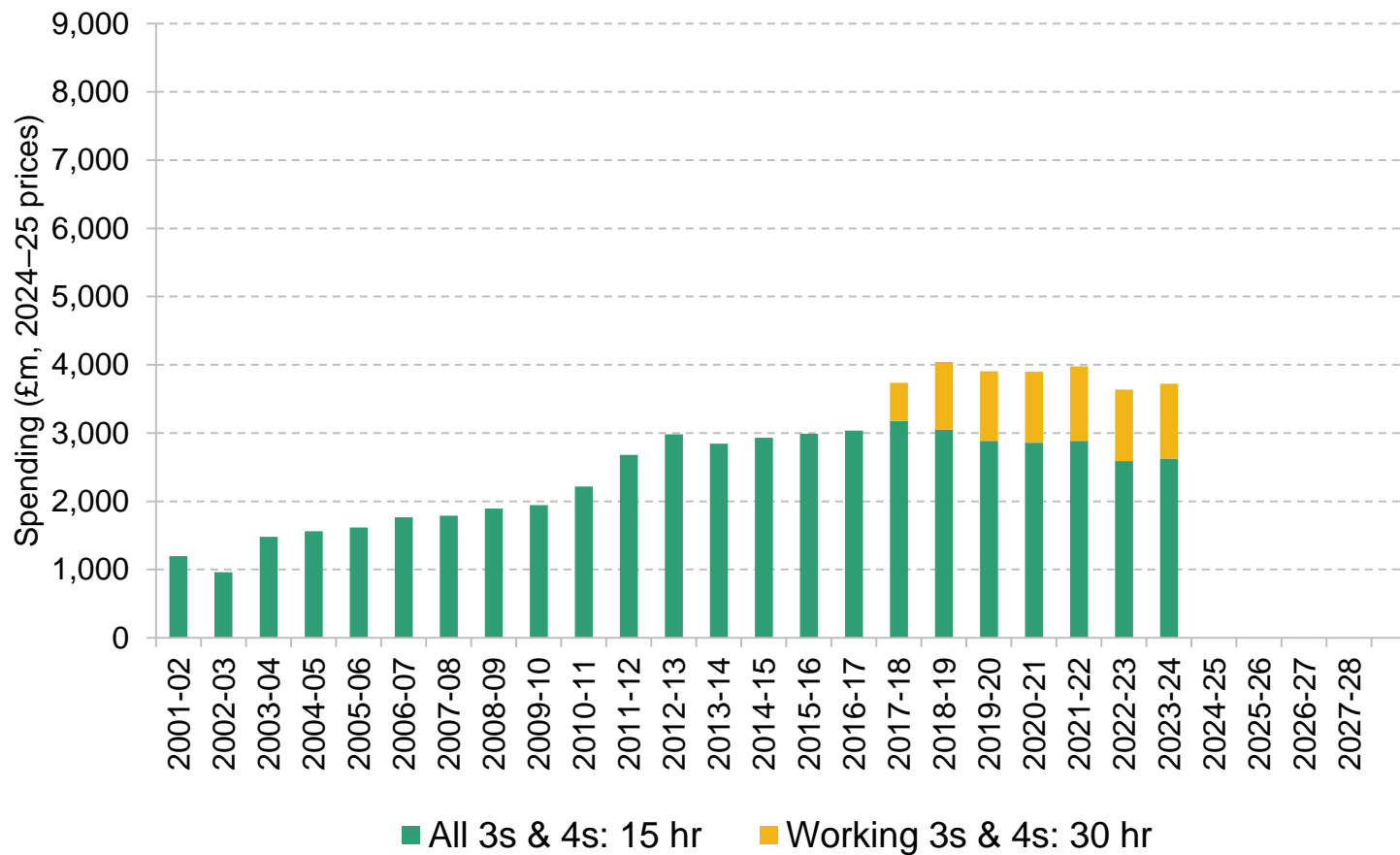


Note: Weekly hours during term time. The 2-year-old disadvantaged offer was initially piloted in a small number of areas in 2012, before being rolled out nationally in 2013. Because our data on total spending do not split out the universal and extended entitlements, we allocate total spending proportional to their budgets from the Dedicated Schools Grant (DSG). From 2024–25 onwards, we use DSG budget for core funding.

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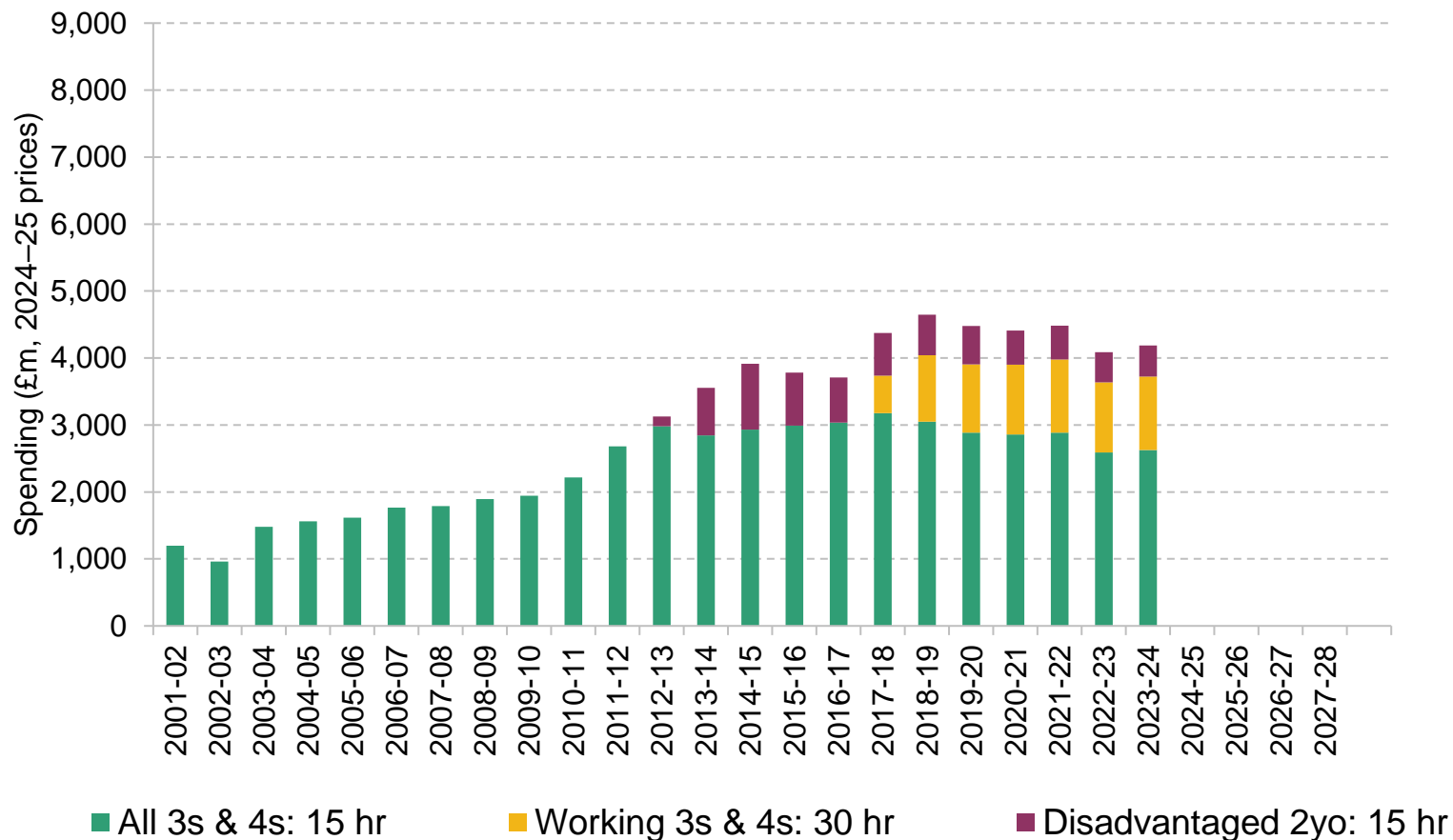


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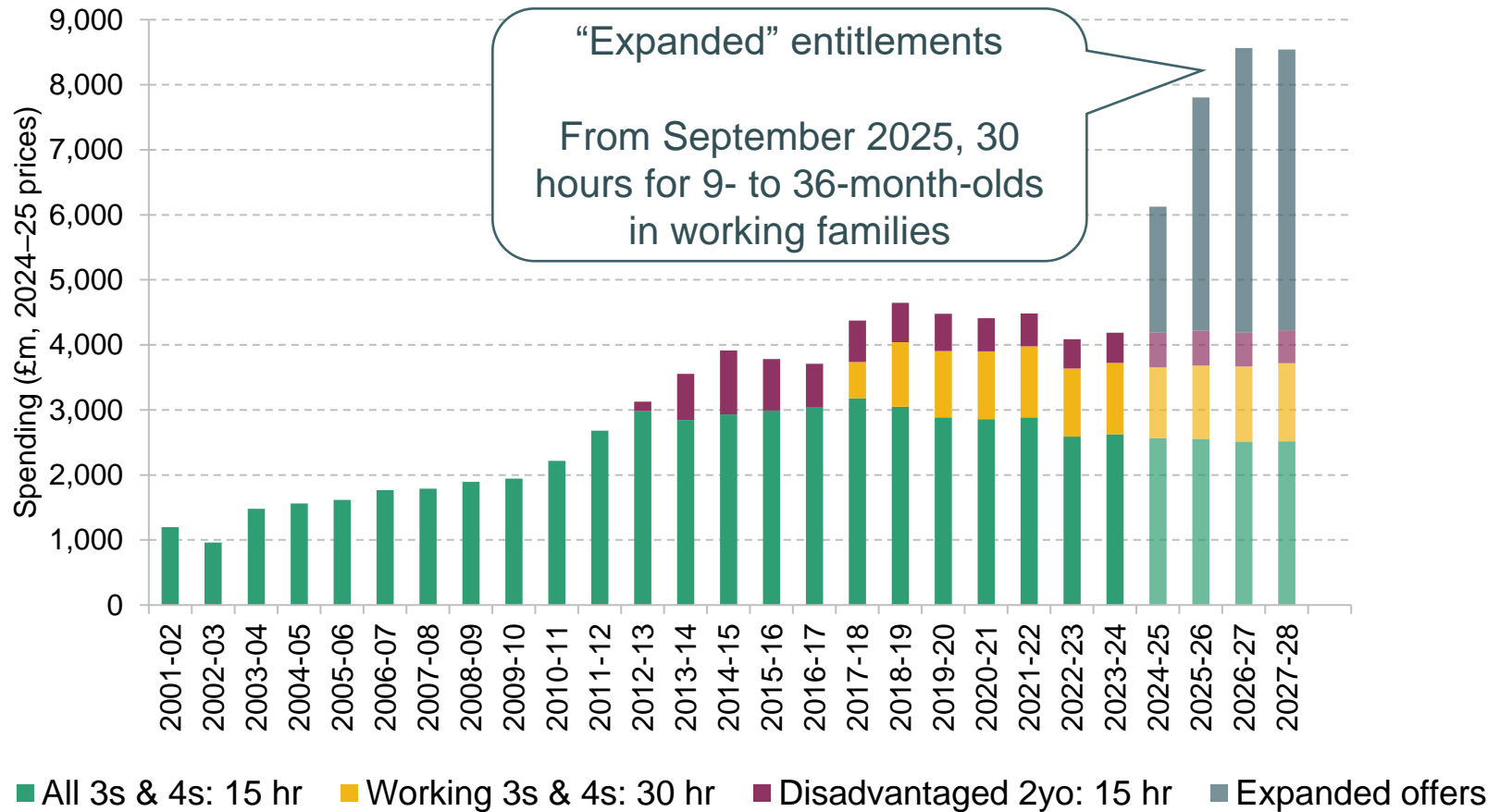
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# Budget 2023: Biggest-ever boost to funding

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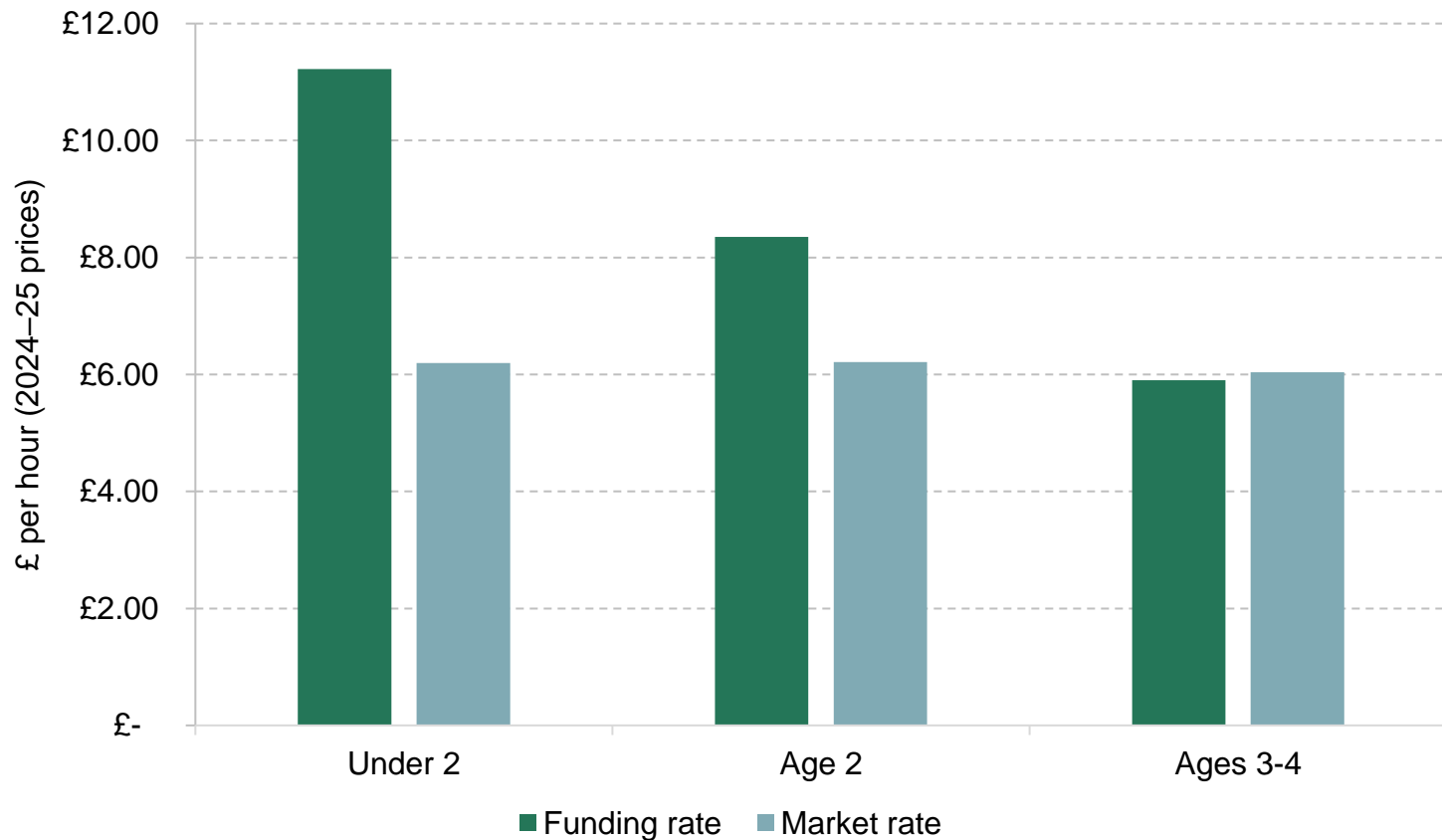
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# Core funding and cost pressures

Large increases in funding rates for 2024-25, tilted towards younger children

Free entitlement funding rates and market prices in 2024 (£, real)

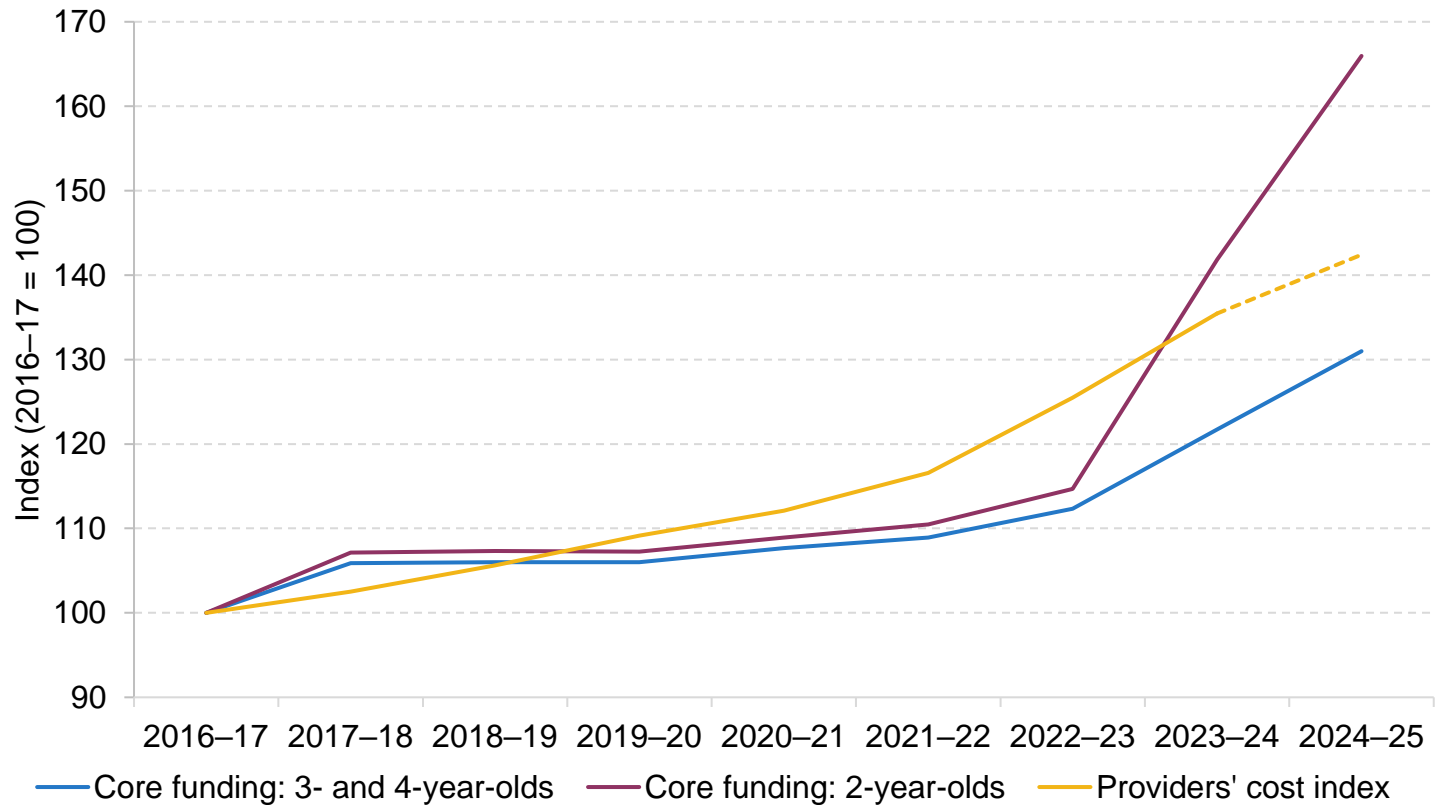


Source: Market from the Department for Education 2023 Survey of Childcare and Early Years Providers ('SCEYP' survey) in today's prices. Funding rate rates are retrieved from the Dedicated Schools Grant 2024-25.

# Core funding and cost pressures

But follows a period of rapid growth in provider costs

### Growth in core hourly funding and providers' costs, indexed to 2016–17



Source: Funding rates drawn from the Early Years block of the Dedicated Schools Grant. Providers' cost index is a weighted average of changes in costs to delivering childcare, including staff wages, energy and rent.

# Recent policy changes

- Capital funding for 3,000 additional school-based nurseries
  - Increase capacity (represents one fifth of places) and may improve quality
  - But does less to boost supply in short run and risks around geographic mismatch
- Changes to employers' NICs and minimum wage in Budget 2024 particularly affect lower earning workers
  - Impacts depend on number of staff, wages, and whether eligible for more generous employment allowance (EA)

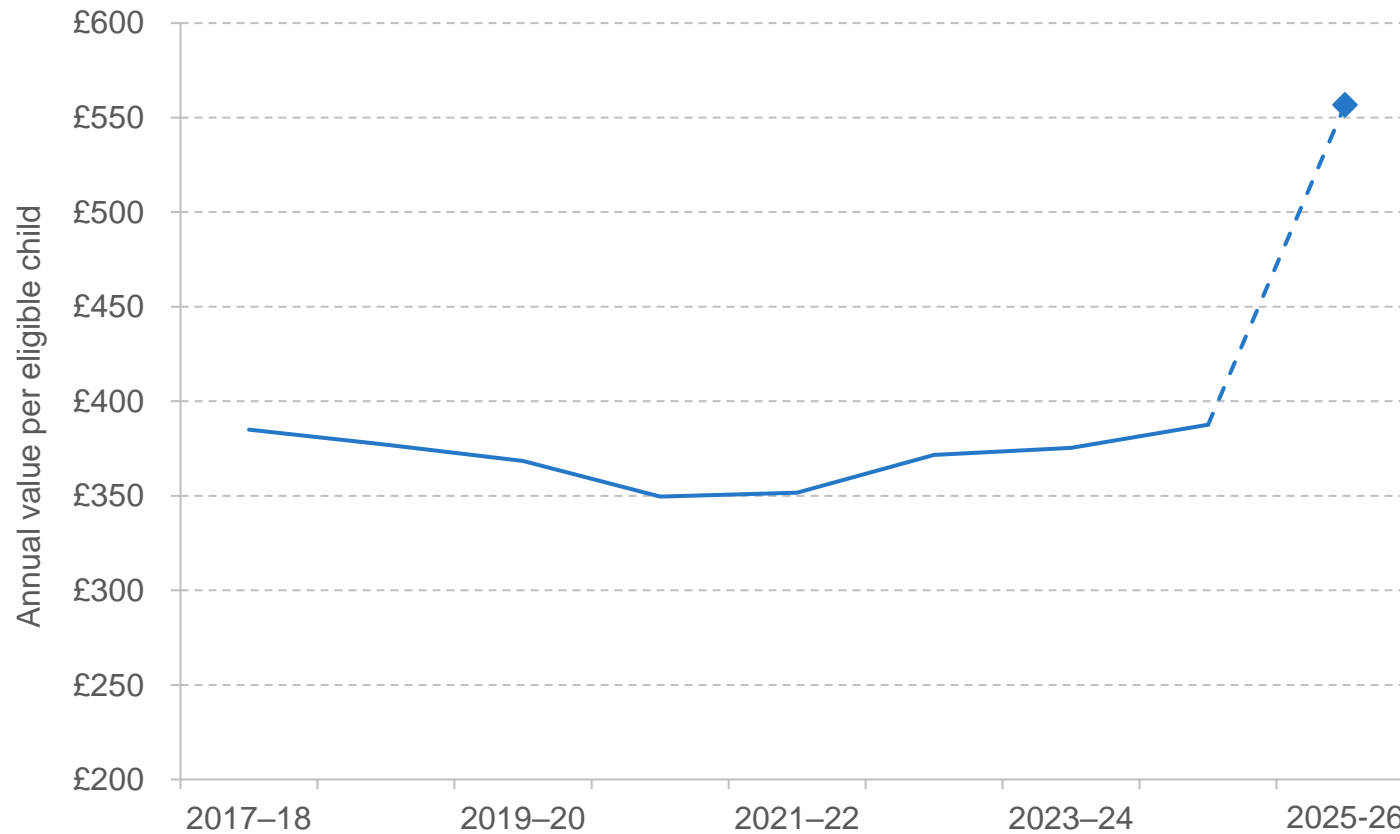
If eligible for EA:

- a setting with six or fewer employees on median earnings (£33,000) would benefit from the changes to NICs
- providers employing more staff would lose out

# Record rise in EYPP next year

In 2025-26, Early Years Pupil Premium (EYPP) will rise by 44% in real-terms

## Real funding for Early Years Pupil Premium (EYPP)



Note: Uses HM Treasury GDP deflators (HM Treasury, 2024). The EYPP offers top-up funding for childcare providers looking after children from disadvantaged backgrounds.

# Summary



- Early years has seen significant growth in total spending – and this is set to continue
- Hourly funding rates rose substantially this year and last
  - Average rate for under-2s (£11.22) almost twice existing market prices
- Provider costs (especially staffing and energy) have risen faster than broader measures of inflation
  - Average rate for 3- and 4-year-olds worth 15% less in 2024 than 2012, accounting for provider-specific costs
- Rise in EYPP next year represents major increase in real resources for disadvantaged children



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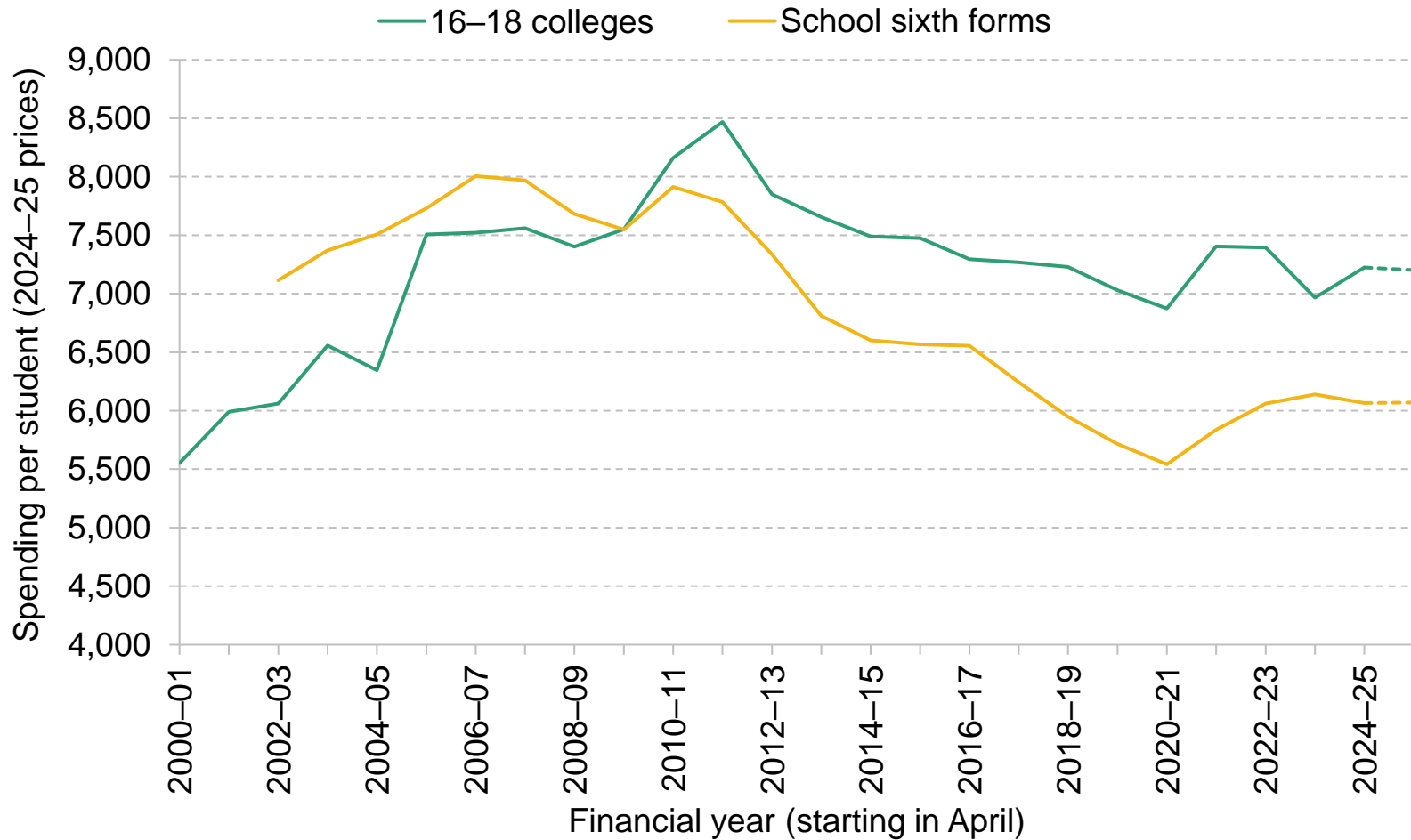
# Further Education and Skills

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# 16-18 education spending

- **1.6 million 16-18 year olds currently in education and training**
- **Large real-terms decline in funding per pupil since 2010**
  - Between 2010-11 and 2019-20: 14% for colleges and 28% for school sixth forms
- **Additional funding has only partially reversed previous cuts**
  - £2.3 billion extra between 2019 and 2024
  - £300m at Autumn Budget → only enough to maintain per-pupil funding levels for 2025-26

# By 2024-25: college spending 11% lower and sixth form spending 23% lower than 2010-11



Sources and notes: Annual Report 2024-24, Figure 4.2

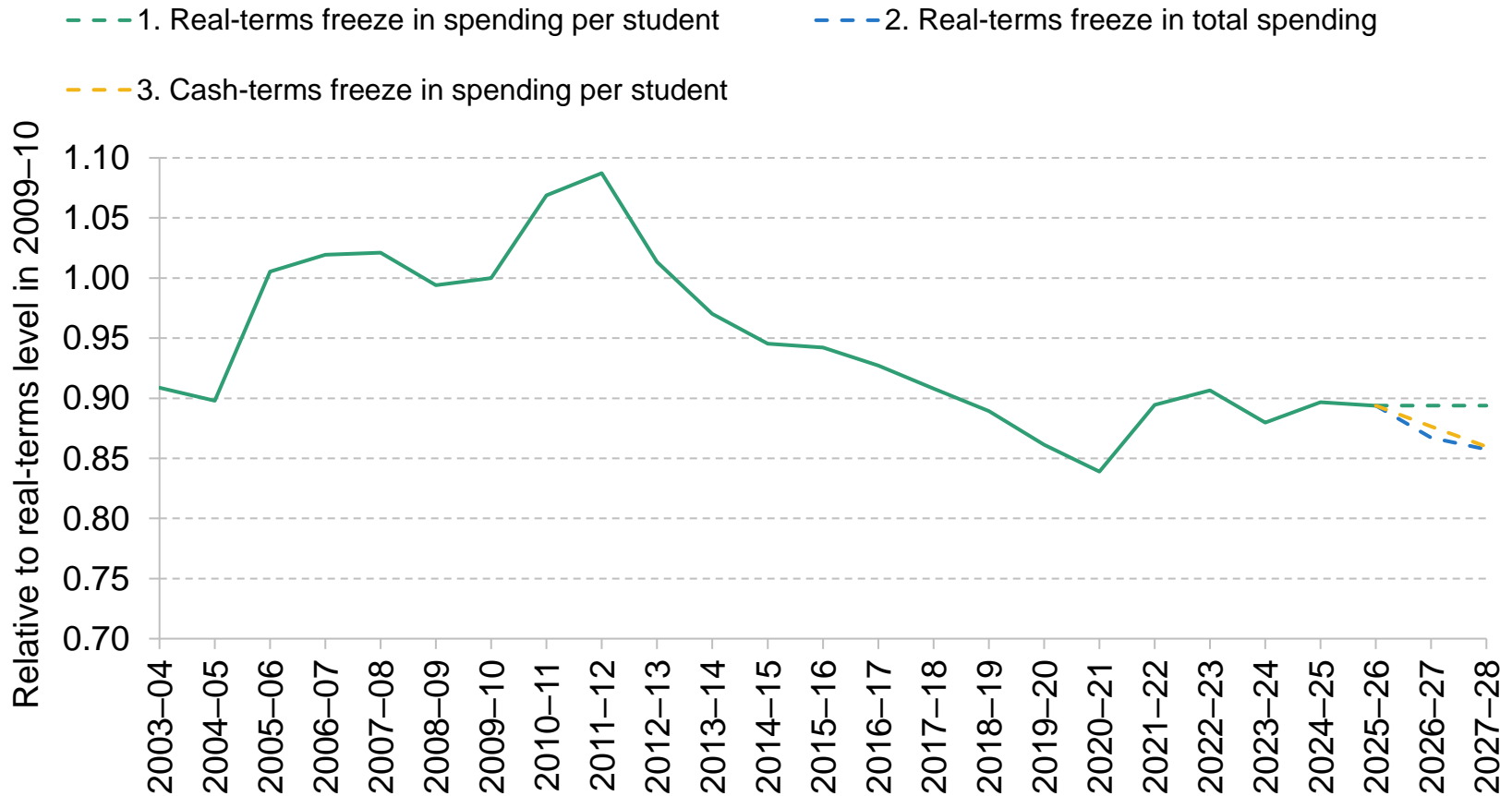


# Demographic change increasing pressure on FE providers



- **Rising 16-18 population putting pressure on resources**
  - Between 2018 to 2024: ↑ 230,000 (13%)
  - By 2028: ↑ 110,000 (5%)
- **The underlying financial position of colleges is precarious, though it has improved since 2018**
  - Colleges in deficit rose from 16% in 2010 to over half by 2018
  - 37% colleges in deficit as of 2022-23 (latest data)

# Additional £200m by 2027-28 to keep spending per pupil constant; spending freeze would equate to a 4% fall in spending per pupil



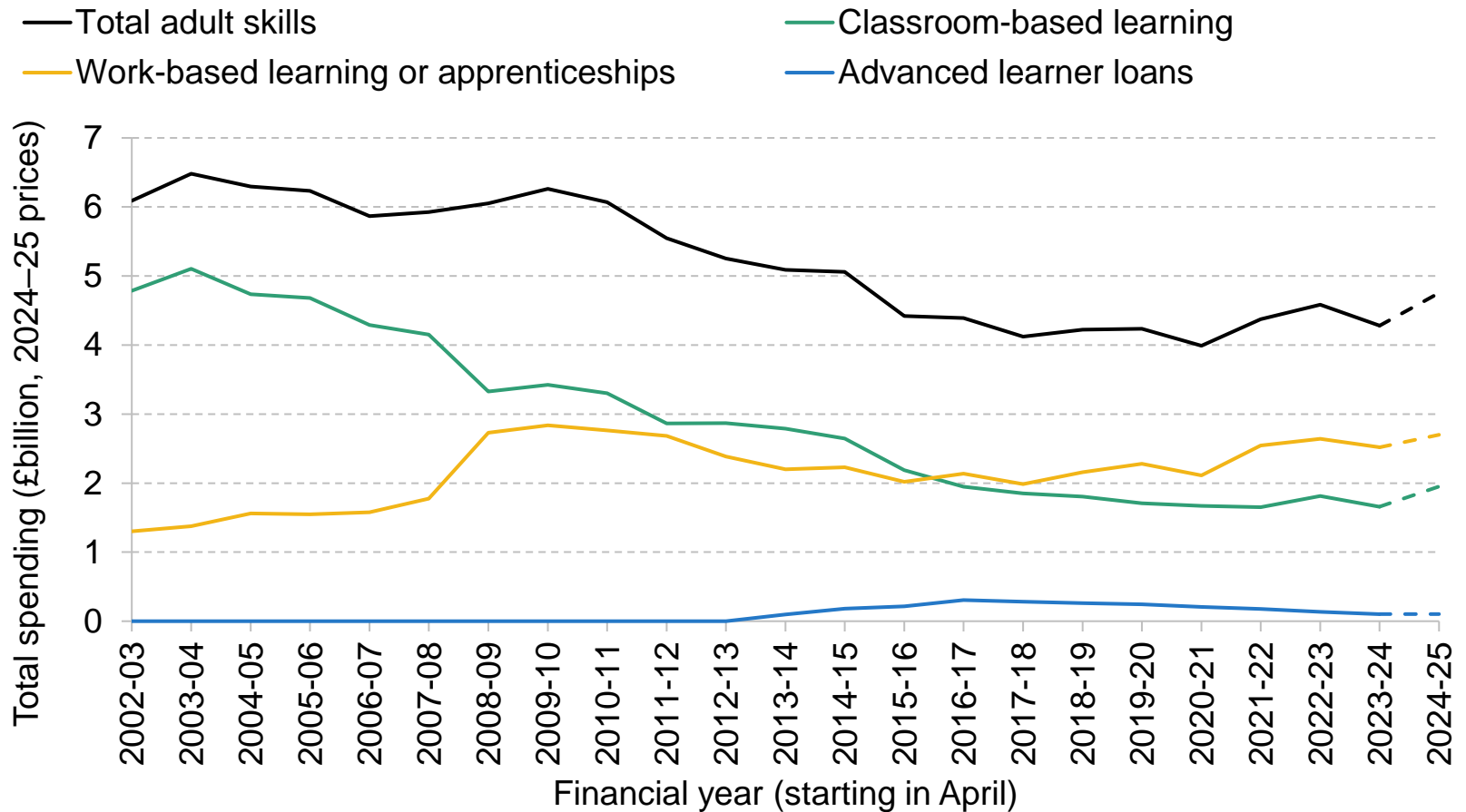
Sources and notes: Annual Report 2024-24, Figure 4.3

# Adult education and skills spending



- **Large real-terms cuts to adult education funding**
  - Total spending 23% below 2009-10
  - Classroom-based spending cut by 40% since 2009-10

# By 2024-25: total public spending on adult skills 23% lower than in 2009-10



Sources and notes: Annual Report 2024-24, Figure 4.6

# Adult education and skills spending



- **Large real-terms cuts to adult education funding**
  - Total spending 23% below 2009-10 levels
  - Classroom-based spending cut by 40% since 2009-10
- **Two factors behind the decline in classroom-based funding**
  - AEB funding rates frozen in cash-terms between 2013-14 and 2023-24 – only changed in 2024/25
  - Long-term decline in participation (60% down since early 2000s)
- **Apprenticeship budget increasingly directed to higher levels**
  - Share spent on higher apprenticeships trebled since 2017
  - Big questions about how the apprenticeship levy is used

# FE and Skills – summary and challenges ahead



- FE seen the largest cuts to spending since 2010 with recent funding only partially reversing previous cuts
- Many FE colleges and providers are struggling financially – 37% of FE colleges are currently in deficit
- The number of 16-18 year olds is set to rise further and there are other big cost pressures (i.e. workforce retention issues)
- The policy churn in this sector shows no sign of abating
  - Apprenticeship levy; LLE; Level 3 qualifications; Skills England



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# Higher education

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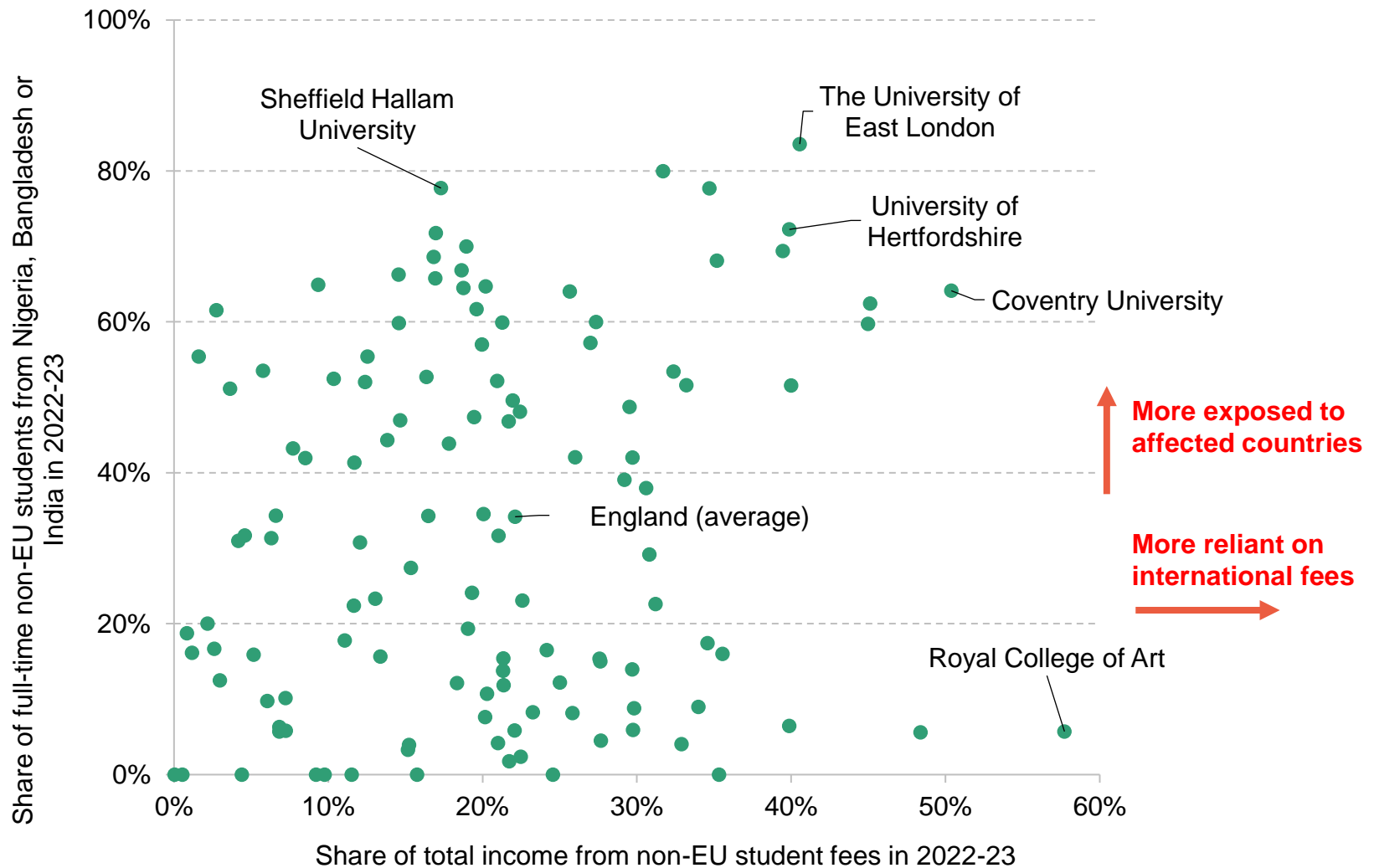
# Concern about declining resources for teaching undergraduates



- **Since 2012, per-student resources for teaching undergraduate students have been eroded**
  - Freeze in tuition fee cap, and grants not keeping pace
  - Universities more reliant on income from international students
- **Fifth of universities in deficit in 2022-23 and finances likely to have deteriorated since**
  - Slower growth in UK student numbers than forecast – and shift to high-tariff, research intensive universities
  - Sharp drop in student visa applications (-14% since 2022)
    - Nigeria (-62%), Bangladesh (-61%), India (-27%)



# Some universities more exposed



# Government has responded by increasing tuition fees

- **Government announced first rise in tuition fee cap since 2017**
  - Fee cap will rise 3.1% (by RPIX) to £9,535 in 2025-26
  - Likely to arrest decline in real-terms per-student resources
- **Graduates will repay around three-quarters of increase in loans**
  - ~80% will repay student loans for slightly longer, in their 40s
- **Remaining ¼ of additional loans will eventually be written off**
  - Cheaper for taxpayer to fund HE through loans than grants
  - Changes to fiscal rules have increased relative appeal of loans

# Has this secured university finances?

- Increase in fee cap avoids real-terms cut of £350-400 million
- Employer NICs change will add ~£430 million to staff costs
- **OfS estimate that without significant mitigating action, seven-in-ten universities will be in deficit in 2025-26**
  - Many making cuts and redundancies or closing courses
- **University finances likely to remain a headache**
  - Will tuition fee rise be a one-off?
  - How will teaching grants evolve? (2025-26 set in March)

# Large real-terms cuts to living cost support not reversed



- Living cost support will also increase by 3.1% (RPIX) in 2025-26
- **No reversal of real-terms cuts seen in recent years**
  - Loans were increased each year in line with *forecast* inflation – and not revisited when inflation turned out higher
  - 3.1% cash increase will leave the poorest entitled to £1,125 (10%) less in real-terms than equivalent students in 2020-21
- **Long-running freeze in parental earnings threshold has also made system less generous over time**
  - Lower threshold frozen at £25,000 since 2008–09 – while average nominal earnings up ~60%
  - If further freeze, real-terms fall in support for many in 2025-26

# Summary



- Increase in tuition fees likely to arrest real-terms decline in per-student resources for HE
- But university finances likely to remain challenging, and decisions still to be made
- Continuity in policy on student support, with recent real-terms cuts left in place (and potentially further cuts to come)



Education  
Spending

8<sup>th</sup> January  
2025

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