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School spending and costs: the coming crunch

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Key findings

- 1 Planned reversal of past school spending cuts.** Between 2009–10 and 2019–20, spending per pupil in England fell by 9% in real terms. Additional funding in the 2019 and 2021 Spending Reviews was due to restore spending per pupil back to 2010 levels based on inflation measured by the GDP deflator.
- 2 Actual costs faced by schools growing faster.** We estimate that the actual costs faced by schools, such as teacher and support staff pay, will grow by 20% between 2019–20 and 2024–25. This is above the 14% expected growth in the GDP deflator, which is still subject to the persistent effects of the pandemic.
- 3 School costs to increase by 6% in 2022–23, but look just about affordable.** We estimate that teacher pay costs will rise by 4% in 2022–23, including the effects of last year’s pay freeze, the 5.4% average increase in September 2022 and the new Health and Social Care Levy. Local government employers have offered support staff pay rises of 4%–10.5% in 2022–23. This implies increases in the average cost of support staff of at least 9%. Rising energy and food prices are driving an increase in CPI inflation, now expected at 8% for 2022–23, which seems likely to further increase non-staff costs. However, growth in funding per pupil is relatively high this year (7.7%) and is still likely to be above growth in school costs (6%).
- 4 Cost increases won’t be felt equally.** A large amount of the extra funding this year has been allocated to meet rising demands on the high-needs budget. The expected growth in total mainstream funding per pupil (6.8%) is only just above expected growth in costs (6%). Schools that rely more on support staff, such as special schools, will also likely see faster growth in costs.
- 5 Future real-terms cuts.** We project that school costs will grow by 4% in 2023–24, which is above expected growth in school funding per pupil (3%). In 2024–25, growth in school funding per pupil is only just above projected cost growth.
- 6 No return to 2010 real-terms levels.** Faster growth in school costs will reduce the purchasing power of school budgets. After accounting for growth in the specific costs faced by schools, we estimate that school spending per pupil will remain 3% below 2010 level in real terms.

1. Introduction

Following a period of real-terms cuts to school spending per pupil in England, the government has set out plans to increase school funding per pupil at both the 2019 and 2021 Spending Reviews. Indeed, the Chancellor stated that the 2021 Spending Review would ‘restore per pupil funding to 2010 levels in real terms’.¹ This settlement would also allow the government to deliver on a manifesto commitment to increase teacher starting salaries to £30,000 by the end of the parliament.

At the end of July 2022, the government confirmed the school funding settlement for 2023–24, which is line with plans in the 2021 Spending Review. The Department for Education also accepted the recommendations of the School Teachers’ Review Body (STRB) for teacher pay in England in 2022, which included slightly higher increases than planned for most teachers. Local government employers also published their pay offer for local government workers, which are relevant for teaching assistants and other support staff in schools. This included proposed pay increases of over 10% for low-paid workers down to about 4% for more highly paid workers. Rising levels of inflation will also have an impact on school costs, particularly given that a large part of the increase has been driven by rising energy and food prices, which constitute a large element of schools’ non-staff costs.

Normally, real-terms changes in public spending are assessed based on economy-wide inflation as captured by the GDP deflator, and this usually provides an accurate picture over the long run. However, the pandemic and its aftermath have led to a high level of volatility in the GDP deflator. This includes an apparent sudden rise in inflation of nearly 6% in 2020–21 and negative inflation of –0.2% in 2021–22. The 4% expected growth in the GDP deflator in 2022–23 is also well below expected CPI inflation of 8%. These differences are driven by the often fiendishly complicated ways public sector output is captured in the national accounts. They are also significantly out of line with actual cost pressures likely to have been faced by schools in the short run.

In this briefing note, we set out the planned changes to teacher pay. We then assess how changes to teacher pay, support staff pay and non-staff costs are likely to affect the growth in school costs. We also provide updated projections for school spending per pupil through to the end of this parliament, based on this estimated measure of school costs.

¹ Autumn Budget and Spending Review 2021 Speech as delivered by Chancellor Rishi Sunak, <https://www.gov.uk/government/speeches/autumn-budget-and-spending-review-2021-speech>.

2. Teacher pay

Following on from a pay freeze in 2021, the government accepted the STRB's recommendations for teacher salaries in 2022.² From September 2022, teacher starting salaries will rise by 9% to reach £28,000 (outside London). This represents a further step towards the government's manifesto commitment of teacher starting salaries of £30,000, which seems likely to be delivered in September 2023. Early career teachers on lower points of the pay scale will see salary increases of 6%–8%. Most teachers are on the upper parts of the pay scales and will see salary rises of 5% in 2022, which is higher than initial proposals for a 3% rise.³

With inflation running at 8%–9% this year, most teachers are still likely to see real-terms cuts to pay this year. As shown in Figure 1, most teachers on the upper parts of the pay scale will see real-terms cuts of around 3% in 2022. For early career teachers, pay rises are likely to just about match expected levels of inflation, whilst new teachers are likely to see a 1% real-terms rise.

Adding these to past changes, salaries for most teachers in 2022 will be about 12% lower in real terms (i.e. after adjusting for inflation) than in 2010. Early career teachers will have seen cuts of 6%–8% since 2010 and teacher starting salaries will still be over 3% lower in real terms than in 2010. This includes the effect of pay freezes in 2010–12 and in 2021, as well as more recent, faster increases in teacher pay at the bottom of the salary scales.

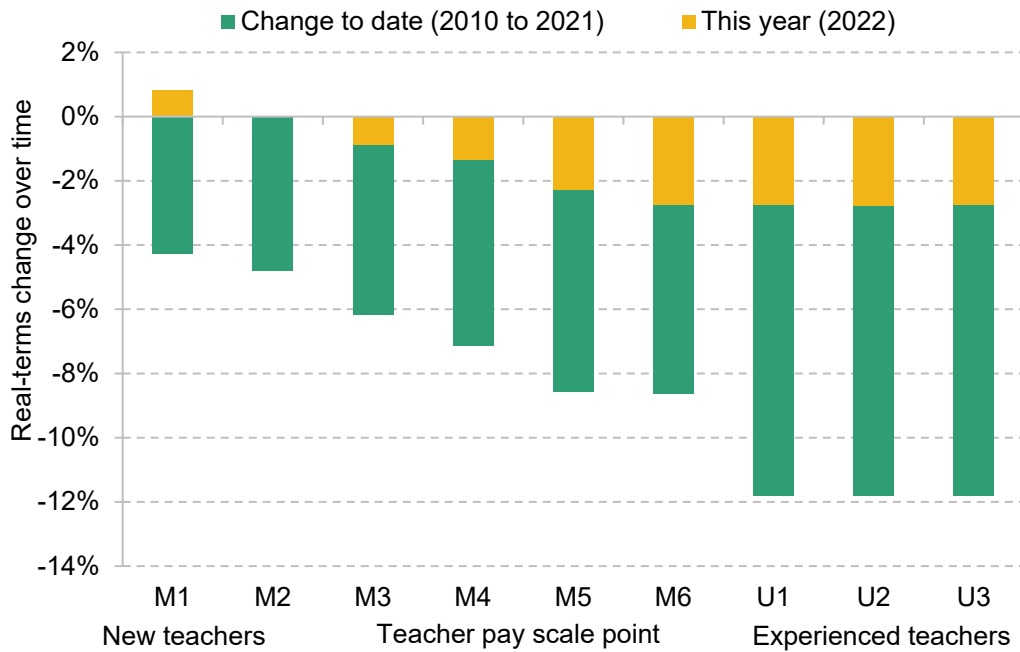
The STRB also recommended salary rises of 3% for most teachers in 2023, with higher increases at the bottom of the pay scale in order to deliver £30,000 starting salaries (all subject to a review of economic and labour market conditions at the time). This is again above initial government proposals of 2% for most teachers. The government decided not to make any announcements for 2023 until closer to the time. Instead, it made the decision to re-run the process to produce updated recommendations based on the latest economic and labour market conditions. On the one hand, this is understandable given the uncertain economic and fiscal situation, and could allow for more real-terms certainty given the volatility of inflation. On the other hand, it makes financial planning more difficult for schools, particularly as a 3% pay award would be above the current expected school per-pupil funding growth of 2% in 2023–24.

² See Department for Education Press Release, 19 July 2022, <https://www.gov.uk/government/news/government-delivers-landmark-rises-to-teachers-salaries> and School Teachers' Review Body 32nd report: 2022, <https://www.gov.uk/government/publications/school-teachers-review-body-32nd-report-2022>.

³ See Government Evidence to the STRB, March 2022, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1058855/STRB_Written_Evidence_2022.pdf.

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Figure 1. Real-terms changes over time in teacher salary points since 2010: actual and forecast CPIH inflation



Note: Years refer to financial years starting each April.

Source: Teacher pay scales taken from School teachers' pay and conditions document 2010 (<https://www.gov.uk/government/publications/school-teachers-pay-and-conditions>) and proposed scales from the STRB report: 2022 (<https://www.gov.uk/government/publications/school-teachers-review-body-32nd-report-2022>). Real-terms value calculated based on the average value of the CPIH index (<https://www.ons.gov.uk/datasets/cpih01/editions/time-series/versions/11>) in the relevant financial year (e.g. 2014–15 for September 2014). Forecasts for 2022–23 from Office for Budget Responsibility's Economic and fiscal outlook – March 2022 (CPI only; <https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/>).

3. School costs

These increases in teacher pay will clearly increase school costs, as will the rising cost of energy and food. In Figure 2, we estimate the growth in school costs over time between 2019–20 and 2024–25, broken down by the broad components and in total.

Teachers

The cost of teachers represents about 54% of school spending and is therefore the main driver of school costs over time. In 2020–21, there was a more than 5% rise in the cost of each teacher. This reflects salary rises and the increase in employer pension contributions (for which schools received explicit extra funding). The pay freeze in September 2021 led to a much slower rise in teacher pay per head of just over 1%. Teacher pay per head is then estimated to grow by 4% in 2022–23 (including the effect of the new Health and Social Care Levy) and by 4.5% in 2023–24. For both September 2022 and 2023, we assume that teacher salaries increase in line with STRB recommendations in their 2022 report.⁴

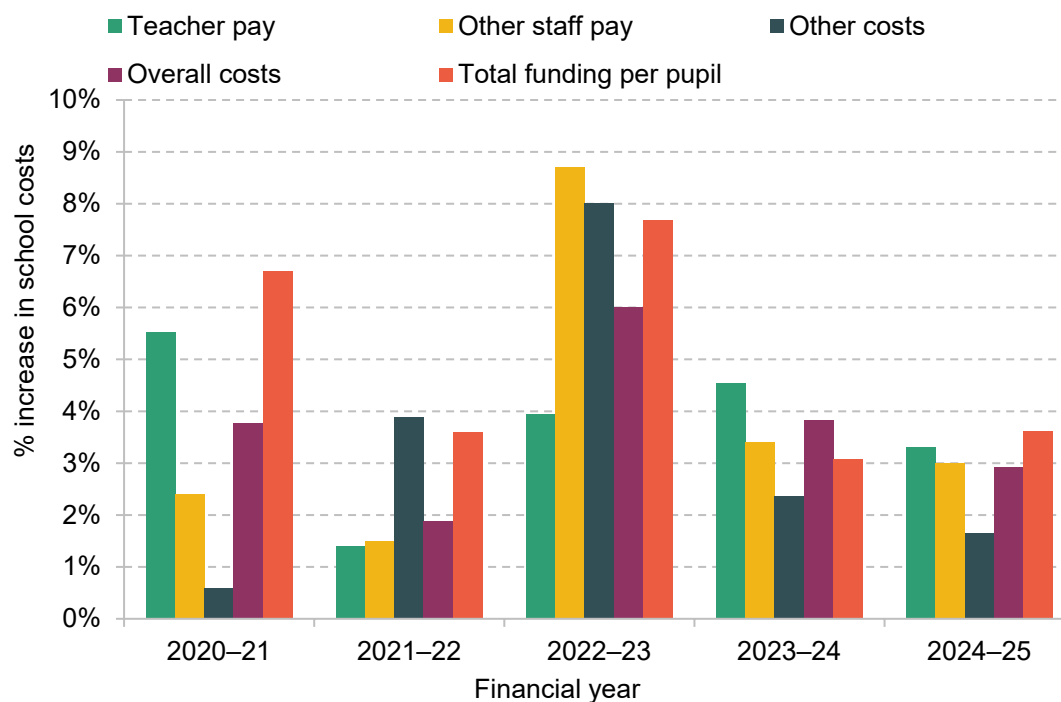
Note that teacher pay awards apply from September each year and are therefore effectively spread across two financial years (e.g. increases in teacher pay per head for 2022–23 include the effects of a pay freeze for the first five months and the 5.4% increase in teacher pay per head from September onwards).

Teacher pay per head is then projected to grow by 3.6% in 2024–25. This mainly reflects an assumed pay award of 3% for September 2024, which matches the STRB recommendation for most teachers in September 2023. This is slightly above the Office for Budget Responsibility's forecast for average earning growth of 2.6% for 2024–25, but is below their assumption for long-run growth in average earnings of 3.8%.⁵

⁴ School Teachers' Review Body 32nd report: 2022, <https://www.gov.uk/government/publications/school-teachers-review-body-32nd-report-2022>.

⁵ Office for Budget Responsibility, Economic and fiscal outlook – March 2022 (<https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/>); Office for Budget Responsibility, Fiscal risks and sustainability – July 2022 (<https://obr.uk/frs/fiscal-risks-and-sustainability-july-2022/>).

Figure 2. Estimated growth in school costs over time by component and in total



Note: Years refer to financial years starting each April. Figures for teacher pay per head are based on a weighted average of paybill per head growth of 2.75% in September 2019, 3.1% in September 2020, 0% in September 2021, 5.4% in September 2022, 3.5% in September 2023 and an assumed 3% in September 2024. Assumed pay drift of 0.1% for all years, except 2023–24 when it is estimated as 0.25%. Increases in teacher costs include the rise in employer pension contributions from September 2019 and the new Health and Social Care Levy from April 2022.

Source: Figures taken from or estimated from Department for Education, School Costs Note: 2020 to 2021 and 2021 to 2024 (<https://www.gov.uk/government/publications/schools-costs-technical-note>) and STRB Recommendations for 2022 and 2023 (<https://www.gov.uk/government/publications/school-teachers-review-body-32nd-report-2022>). Increases in costs of other staff pay per head taken from School Costs Note: 2020 to 2021 and 2021 to 2024 (<https://www.gov.uk/government/publications/schools-costs-technical-note>) plus an assumed average pay award of 8% in 2022–23 (based on proposed pay awards for 2022–23, <https://local.gov.uk/our-support/workforce-and-hr-support/local-government-services/green-book-payscales-and-other-7>, and average gross teaching assistant salaries (<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14>), and 3% in 2023–24 and 2024–25. Other costs assumed to grow in line with CPI inflation

Other staff

The cost of employing other staff takes up a further 28% of school budgets. Other staff includes teaching assistants, one-to-one support attached to pupils with special educational needs, cooks, technicians, premises staff and administrative staff. Growth in the per head costs of other staff was closer to 2% in 2020–21 and 2021–22. This is much less than the growth in teacher costs, largely because changes in employer pension contributions were less pronounced than they were for teachers.

For 2022–23, local government employers have recently offered a pay rise of £1,925 for all pay grades, which equates to 10.5% for the lowest-paid workers and 4% for the highest pay grades.⁶ This will directly affect the pay of support staff at local authority maintained schools and will be an important point of reference for Academies too. Without detailed information on the actual distribution of staff across pay grades, it is not possible to produce a precise estimate of the expected resultant increase in pay per head. We instead assume that the average increase will be at least 8% on the basis that the average gross salary of teaching assistants (the most common form of support staff) is under £20,000 and quite low down the pay scales as a result.⁷ There is, however, a degree of uncertainty about the true figure. Combined with the new Health and Social Care Levy, we estimate that other staff pay per head will grow by 8.7%, a substantial increase. This will be a significant pressure on school budgets and it will be felt more acutely by schools that rely more on support staff, such as special schools.

For 2023–24 and 2024–25, we assume 3% pay awards for support staff, in line with our assumptions for most teachers.

⁶ Local Government Association, Emp circular 25 July – local government pay 2022, <https://local.gov.uk/our-support/workforce-and-hr-support/local-government-services/green-book-payscale-and-other-7>.

⁷ See the Office for National Statistics dataset, Earnings and hours worked, all employees: ASHE Table 14, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashtable14>.

Non-staff costs

Non-staff costs take up a further 18% of school budgets, which includes learning resources, catering supplies, energy, administrative supplies and various services supplied to schools. We assume that these rise in line with overall CPI inflation. Partly due to the effects of the pandemic, CPI inflation was close to zero in 2020–21. Inflation then began to rise during 2021–22, reflecting fast increases in food and energy prices from late 2021 onwards. CPI inflation is then forecast to average around 8% in 2022–23, before falling back to 4% in 2023–24 and to 3% in 2024–25. The main drivers of rising inflation have been rapid increases in energy and food prices. Given that catering and energy take up about a quarter of non-staff costs for schools, there are very good reasons to believe that these pressures will weigh extremely heavily on school budgets.

Overall costs and funding

Cumulatively everything together, in Figure 2, the final two bars for each year compare the estimated growth in total school costs and total growth in school funding per pupil. In both 2020–21 and 2021–22, school funding per pupil grew by more than school costs. This implies increases in the purchasing power of school budgets and real-terms increases in funding per pupil.

For 2022–23, we estimate that school costs are likely to grow by 6%, which is still below growth in the total school funding per pupil of 7.7%. In this sense, expected cost increases look just about affordable for schools in 2022–23. However, there are a number of sources of uncertainty and the picture is likely to be very different across different types of schools. Schools that employ larger number of inexperienced teachers will see faster increases in teacher pay per head. Schools that rely more on support staff, such as special schools, will also see faster increases in costs due to the relatively high pay offer for support staff. Indeed, if the actual growth in average support staff salaries were 9% (instead of 8%), then overall school costs would grow by 6.3%.

Next year (2023–24) looks more problematic, with costs estimated to increase at a faster rate (4%) than school costs (3%). For 2024–25, our assumptions imply that funding per pupil will only grow by slightly more than school costs.

4. Real-terms trends in school spending per pupil

The natural follow-on question is how this growth in school costs affects likely trends in school spending per pupil. Figure 3 answers this question by showing trends in school spending per pupil back to 2003–04 and updated projections for school spending per pupil through to 2024–25, and then showing how this growth differs when we account for the likely growth in school costs calculated above.

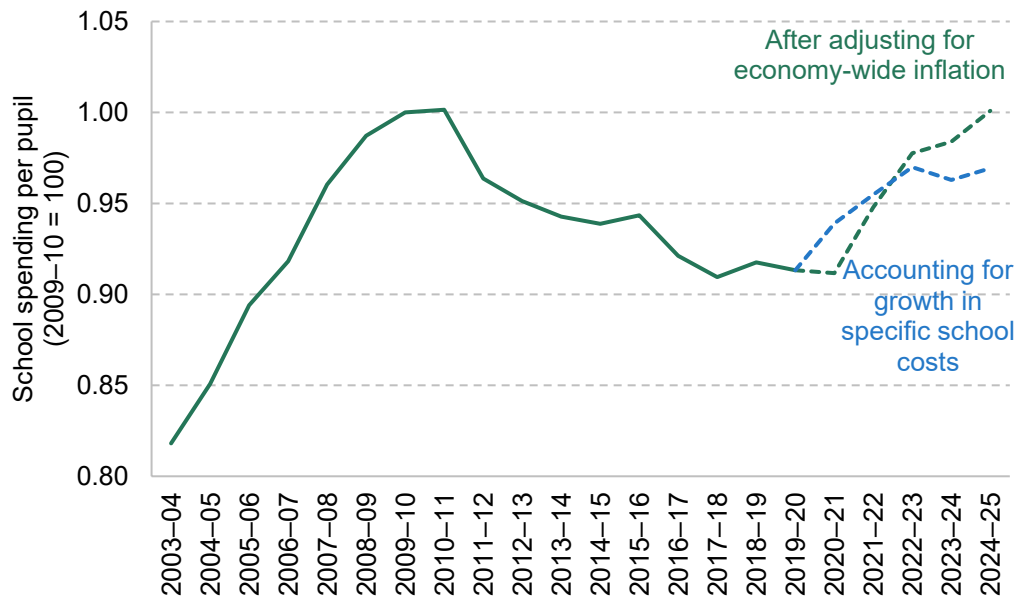
Throughout the 2000s, there was buoyant growth in school spending per pupil, with an average real-terms growth of over 3% per year from 2003–04 to 2009–10. Following a high point in 2009–10, spending per pupil then declined by 9% in real terms in the decade up to 2019–20. Importantly, we see that overall real-terms trends in spending per pupil look extremely similar when we use economy-wide inflation or a separate measure of actual school costs.⁸

Following on from the 2019 and 2021 Spending Reviews, spending per pupil was expected to grow in real terms through to 2024–25 and to return to about the same level in real terms as in 2010. Based on the latest projections for pupil numbers and economy-wide inflation, Figure 3 shows that this picture is largely unchanged. Whilst expected growth in pupil numbers has reduced, economy-wide inflation has increased slightly.

These figures are based on economy-wide inflation as captured by the GDP deflator. This is the most widely used measure for assessing real-terms trends in spending on public services and it normally provides an accurate picture. However, the pandemic and its aftermath have led to a high level of volatility in the GDP deflator. This can be seen in Figure 3, with an apparent sudden rise in inflation in 2020–21 driving a small real-terms cut in spending per pupil, and negative inflation in 2021–22 apparently driving a big real-terms rise. The 4% expected growth in the GDP deflator in 2022–23 is also well below expected CPI inflation of 8%. These differences are driven by the often fiendishly complicated ways public sector output is captured in the national accounts.

⁸ Britton, J., Farquharson, C., Sibieta, L., Tahir, I. and Waltmann, B. (2020), 2020 annual report on education spending in England, Institute for Fiscal Studies (IFS), Report 183, <https://ifs.org.uk/publications/15150>.

Figure 3. Real-terms trends in school spending per pupil, based on economy-wide inflation and specific school costs



Note: See Figure 2 for calculation of specific school costs. Core spending per pupil excludes the effect of compensation for higher employer pension contributions and the Health and Social Care Levy. Series account for specific school costs including both in the spending total and in the effective measure of inflation.

Source: Farquharson, C., Sibieta, L., Tahir, I. and Waltmann, B. (2021), 2021 annual report on education spending in England, Institute for Fiscal Studies (IFS) Report R204 (<https://ifs.org.uk/publications/15858>); HM Treasury, GDP deflators, June 2022 (<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2022-quarterly-national-accounts>); Department for Education, National Pupil Projections 2022 (<https://explore-education-statistics.service.gov.uk/find-statistics/national-pupil-projections>).

To provide additional context, Figure 3 therefore shows the expected trends in school spending per pupil when we account for the growth in specific school costs calculated in Figure 2. This provides a smoother (and probably more accurate) picture of the real-terms trends in core school spending per pupil during the pandemic. It also indicates real-terms growth of school spending of just over 1.6% in 2022–23, even after accounting for teacher pay changes and rising school costs this year.

The problem comes in future years. For 2023–24, likely growth in school costs would imply a 1% real-terms cut in spending per pupil and further stagnation in 2024–25. This would leave school spending per pupil about 3% lower in real terms than in 2010. Importantly, our previous analysis shows that overall growth in the GDP deflator and school costs from 2009–10 to 2019–20 was extremely similar.⁹ It therefore seems reasonable to say that, based on current projections

⁹ Britton, J., Farquharson, C., Sibieta, L., Tahir, I. and Waltmann, B. (2020), 2020 annual report on education spending in England, Institute for Fiscal Studies (IFS), Report 183, <https://ifs.org.uk/publications/15150>.

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and spending plans, the resources and staff that schools can buy will be about 3% lower in 2024–25 than in 2009–10.

There is also a high level of pressure on the high-needs component of the schools budget. The number of pupils with statements of special educational needs (or an education and healthcare plan) has risen by about 50% since 2015, with growth of 9% in 2022 alone.¹⁰ Partly in response to this, a large part of the planned rise in the schools budget is focused on the high-needs budget, with a nearly 14% rise pencilled in for 2022–23 and 6% for 2023–24.¹¹ Mainstream funding per pupil in the schools budget is due to grow by 5.8% in 2022–23 (or by 6.8% from all sources).¹² With specific school costs expected to grow by 6% in 2022–23, this makes the overall settlement look even tighter in 2022–23.

The picture for 2023–24 looks much more challenging, with 1.8% growth in mainstream funding per pupil in the schools budget (or 2.8% across all sources).¹³ With school costs growing by 4%, this adds to the picture of expected real-terms cuts to school budgets on current trends and spending plans for 2023–24.

¹⁰ Department for Education, Special educational needs in England: January 2022, <https://www.gov.uk/government/statistics/special-educational-needs-in-england-january-2022>.

¹¹ Education and Skills Funding Agency, Dedicated schools grant (DSG): 2022 to 2023, <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2022-to-2023>; School Funding Update, Statement made on 19 July 2022, <https://questions-statements.parliament.uk/written-statements/detail/2022-07-19/hcws225>.

¹² Department for Education, Schools' costs: technical note, <https://www.gov.uk/government/publications/schools-costs-technical-note>.

¹³ School Funding Update, Statement made on 19 July 2022, <https://questions-statements.parliament.uk/written-statements/detail/2022-07-19/hcws225>.

5. Conclusion

Increases in teacher pay for September 2022 will add to school costs this year, as will rising food and energy rises. These rises look just about affordable within the context of a £4 billion increase in the total schools budget, equivalent to a 6.8% increase in mainstream school funding per pupil.

The potential problems come next year in 2023–24. After accounting for growth in specific school costs, we estimate that school spending per pupil will fall by about 1% in real terms in that year and continue to stagnate in 2024–25. This will leave school resources and purchasing power about 3% lower in 2024–25 than it was in 2009–10, a very significant squeeze on school resources in historical terms.

The big fiscal choice for policymakers this autumn is therefore whether or not to provide more funding to public services to compensate for rising costs and the significant challenges they face. It will be that much harder for schools to meaningfully contribute to levelling-up ambitions when they face real-terms cuts from next year onwards.