2020 Annual Report on Education Spending in England

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03 November 2020

@TheIFS

Economic
and Social
Research Council

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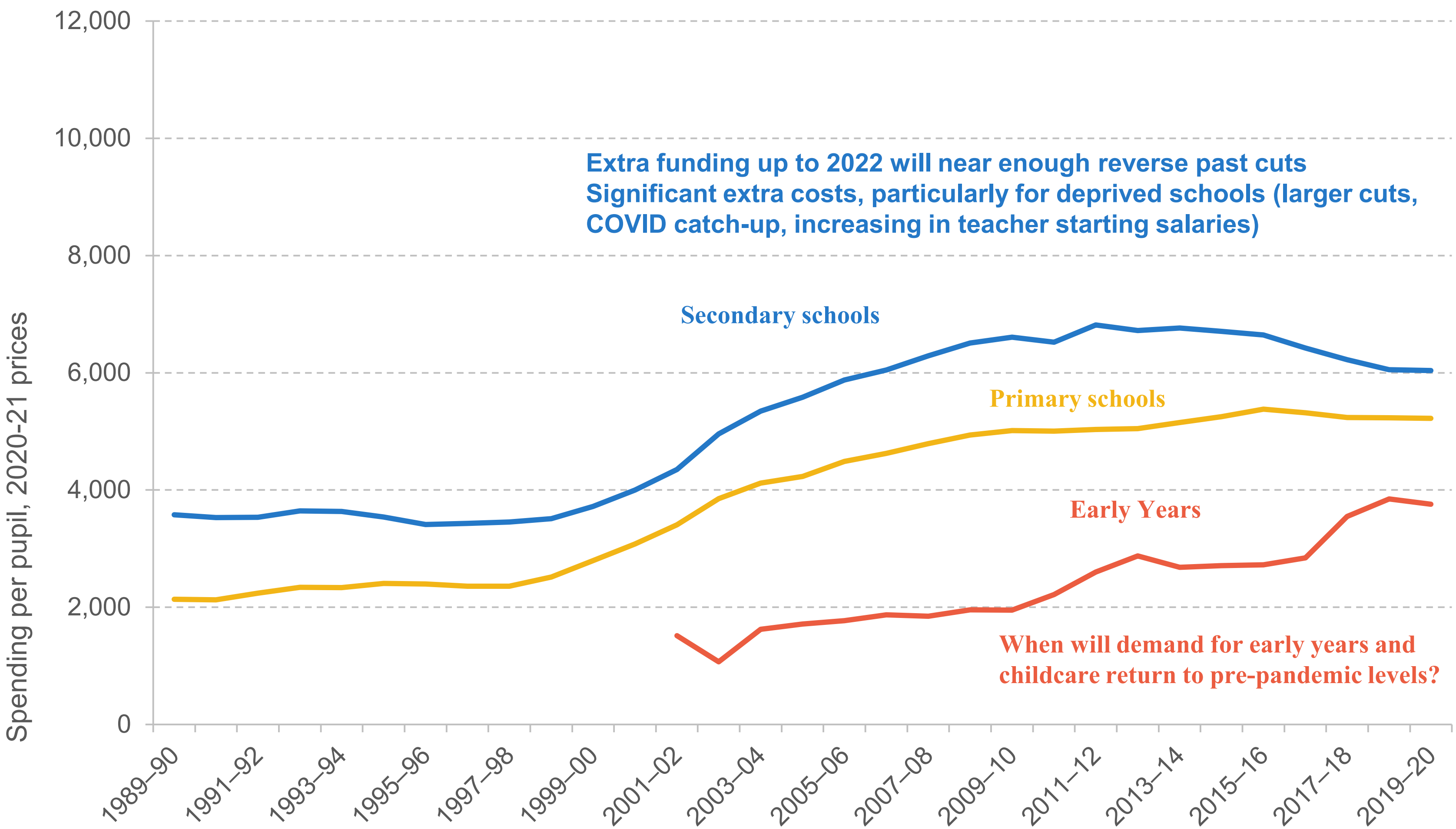
Further education and skills

Economic and Social Research Council

Early years and school spending



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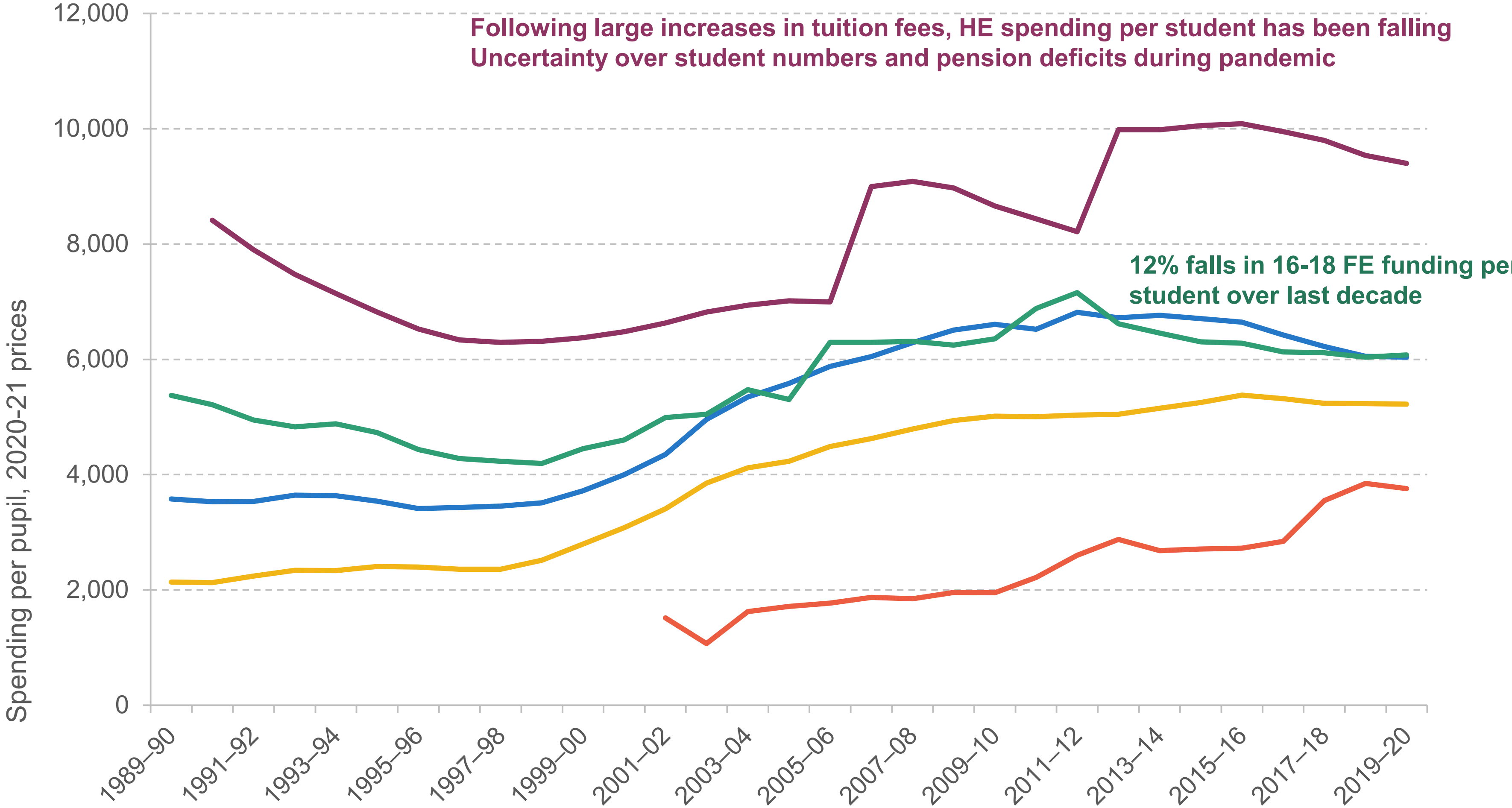
Further and higher education



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Challenges facing further education and sixth forms

- Spending per student aged 16-18 in colleges has fallen 12% in real-terms since 2010 and by 23% in school sixth forms
- One third of colleges in deficit & evidence of narrowing of post-16 curriculum (NAO, 2020)
- **Significant medium terms challenges**
  - Rising student numbers
  - Falling apprenticeship and training opportunities
  - Changes to qualifications and funding
  - COVID catch-up learning
  - Significant reductions in commercial demand for colleges

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Rising student numbers

- Return to Population growth
  - Number of 16-17 year olds fell over previous decade
  - Expected to rise by 13% between 2019 and 2023, with 3% rise in 2020 alone

- Greater numbers of young people getting high GCSE results in 2020
  - 76% of grades at 4 or above in 2020 (67% in 2018 and 2019)
  - Could lead to greater demand for academic programmes

- Number in full-time education likely to rise as in previous recessions

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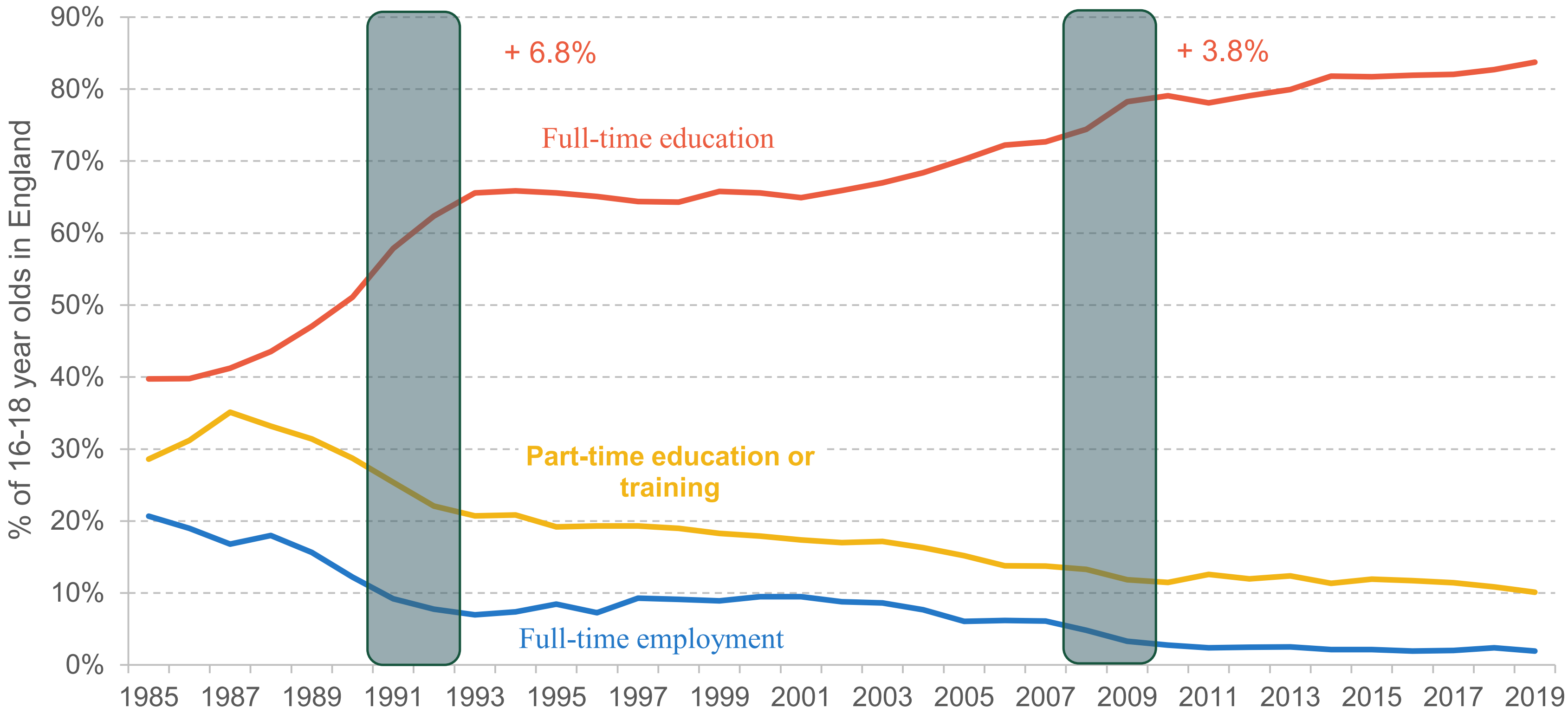
Rises in full-time education during previous recessions

Smaller rise likely this time due to existing high levels of participation, but still potential for part-time education/training to fall



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Reductions in apprenticeship and training opportunities

- Initial surveys showed large impact during lockdown (60% of employers stopped hiring apprenticeships; only 40% continuing as normal)
- Apprenticeships already falling before pandemic
  - Number of adult apprenticeship fell from 710k in 2016-17 to 580k in 2018-19
  - Share of young people (16-18) on apprenticeship fell from high of 6.7% in 2016 to 5.6% in 2019
- Various government measures to boost apprenticeships, training & employment
  - Apprenticeship incentives (£2,000 for taking on under 25s, £1,500 for over 25s)
  - Traineeships for 16-24 year olds (£111m)
  - Kick-start scheme for 16-24 year olds on UC at risk of unemployment (£2bn)
- Is this sufficient to counteract massive effects of economic downturn and social distancing requirements?

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Partial response of funding system to rising student numbers

- Extra £400m in 2019 Spending Review allows for 5% real-terms increase in total 16-18 education funding in 2020-21
  - Plus £101m for extra 18-19 year olds to continue in education this year
- BUT, funding to providers based on 16-18 students in previous year
- Student population already due to rise by 3% before effects of higher GCSE results and reduced training/apprenticeship options
- 15-20% shift from apprenticeship/training to full-time education would lead to 5% rise in total 16-18 student numbers & erode any real-terms increase in spending per student
- Funding system can respond to exceptional rises in student numbers *'subject to affordability'*
- System is not designed for large sector wide growth

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Change to qualifications & funding

- T-levels began to be taught from September 2020
  - Industry placements are clearly much harder to deliver this year
- Government will restore public funding for first full Level 3 courses for all adults aged 19+ from April 2021 as part of National Skills Fund
  - Reflects recommendation from Post-18 Funding Review
- Adult education spending (ex. apprenticeships) fell by 50% or £1.4bn in real-terms between 2009-10 and 2019-20
  - Extra Level 3 funding (<£500m) reverses about one third of this cut
- Further changes for FE and HE expected in White Paper

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Education Spending Report Presentation

@TheIFS

Jack Britton, Institute for Fiscal Studies
Ben Waltmann, Institute for Fiscal Studies

Higher Education

Overview

- This talk focusses on some of the implications of COVID-19 for:
  - Government spending on higher education
  - University finances

- This, like much of work on the longer-term impacts of pandemic, is written under significant uncertainty

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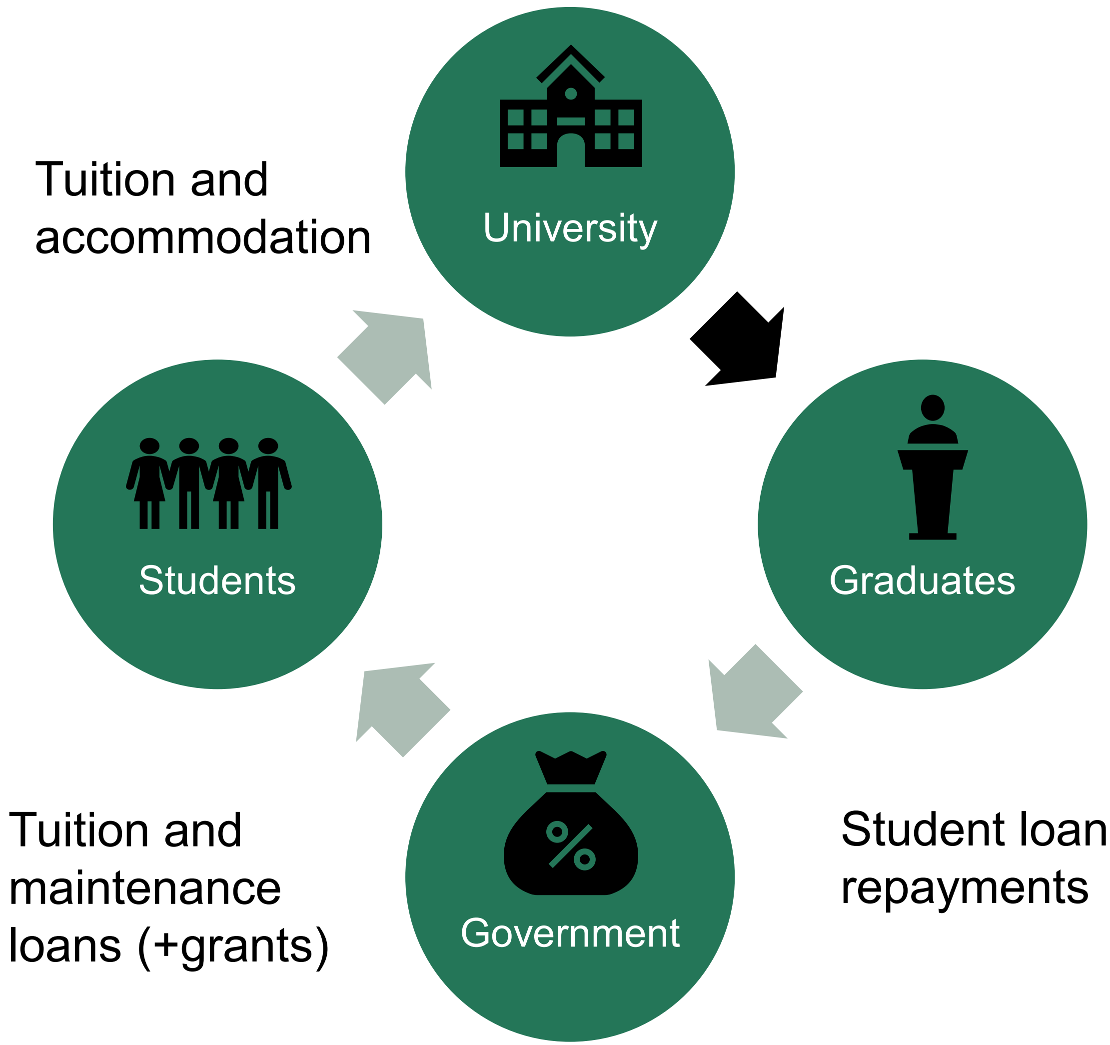

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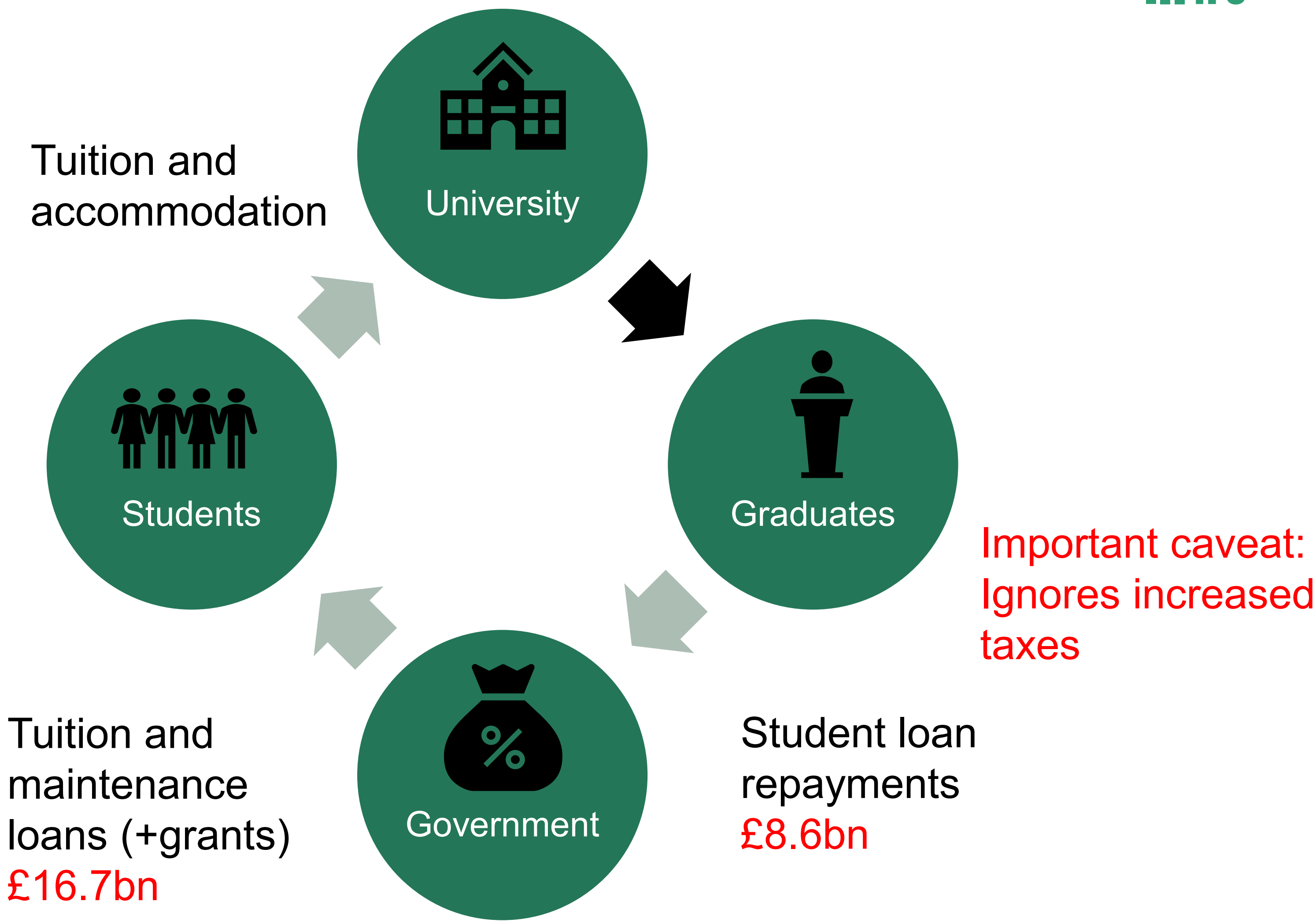

Up front spend – student loan repayments = Long run spend (£8.1bn)

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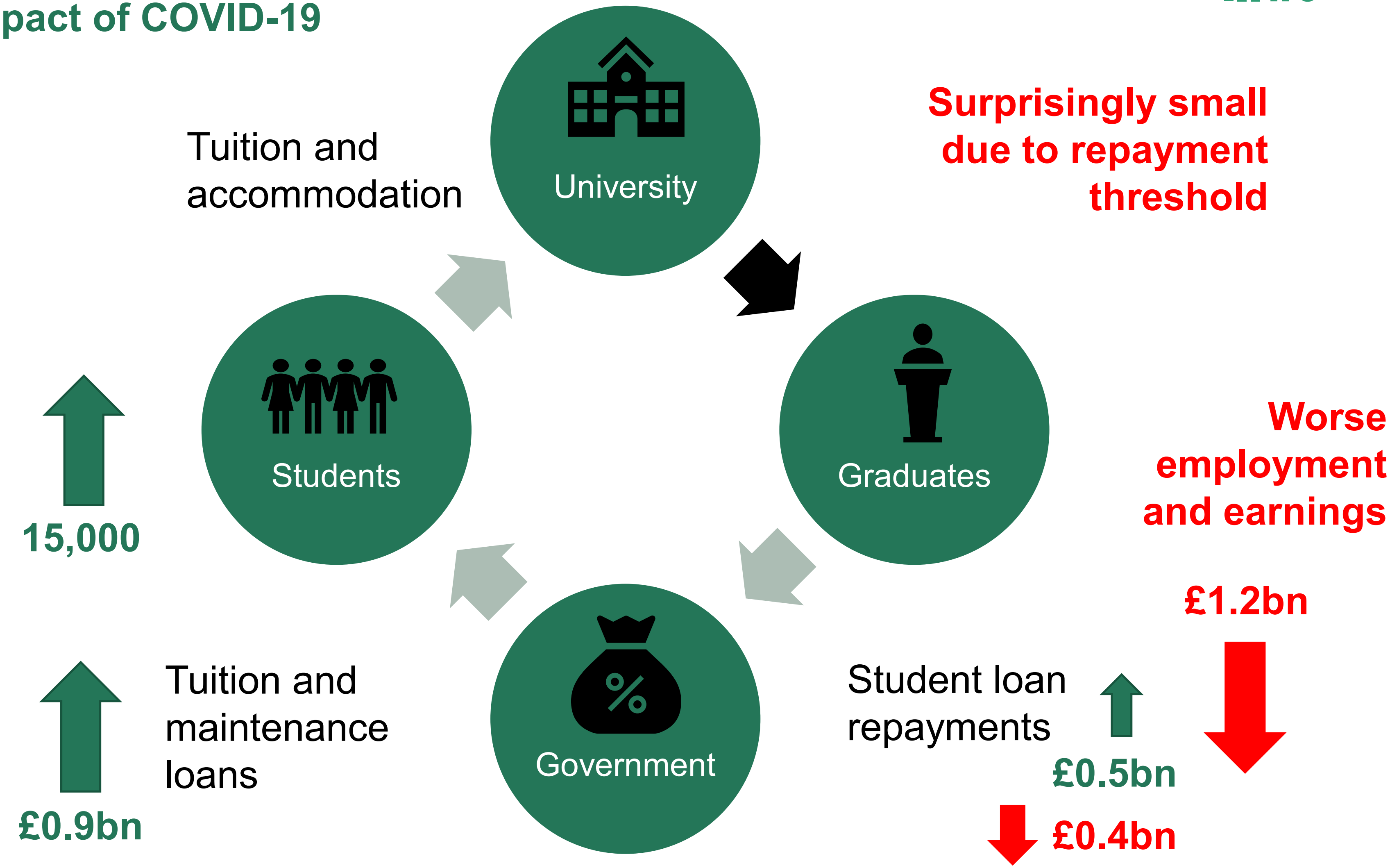
Impact of COVID-19



Total government contribution is £1.6bn more for the 2020 cohort (~20% increase)

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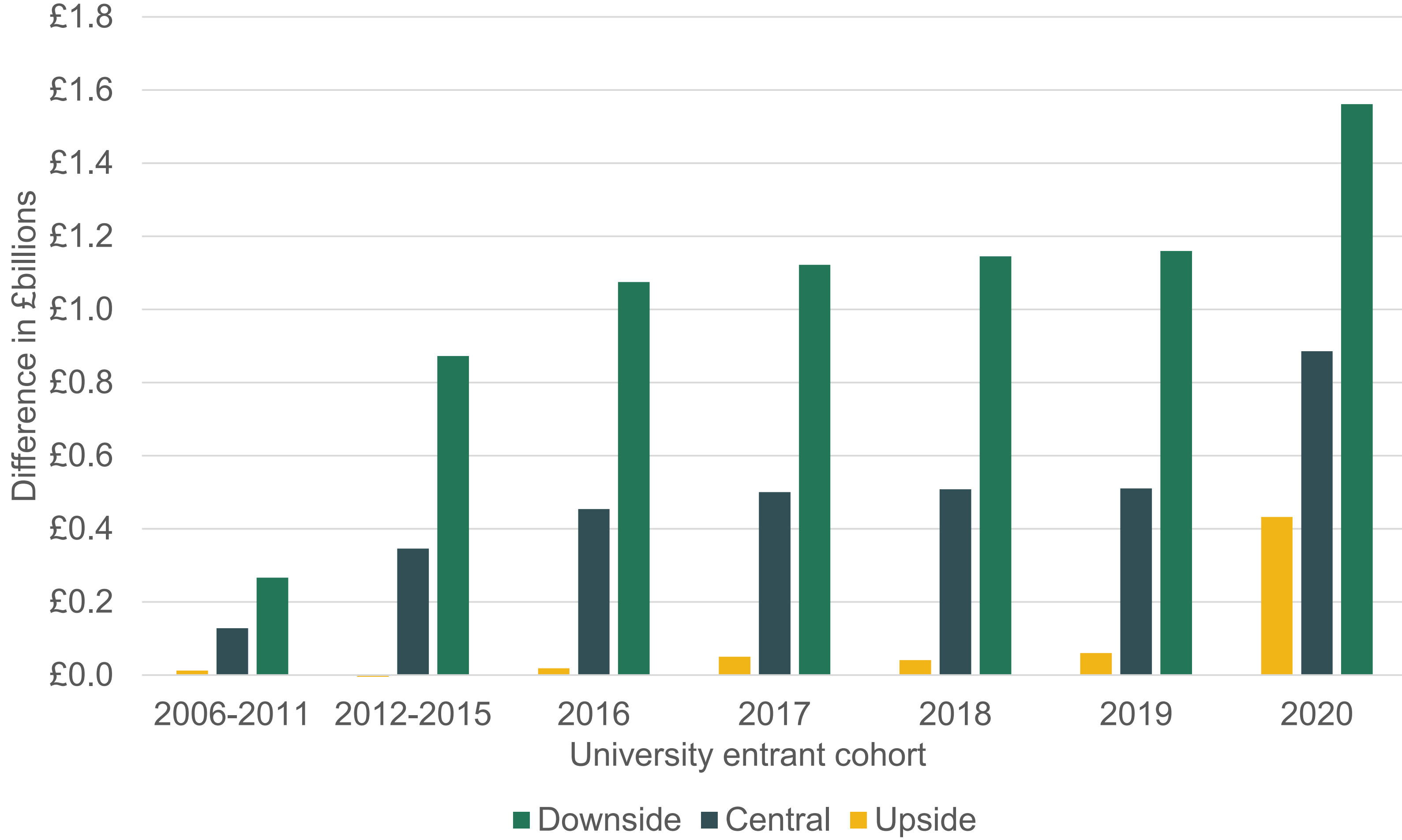
Impact on previous cohorts



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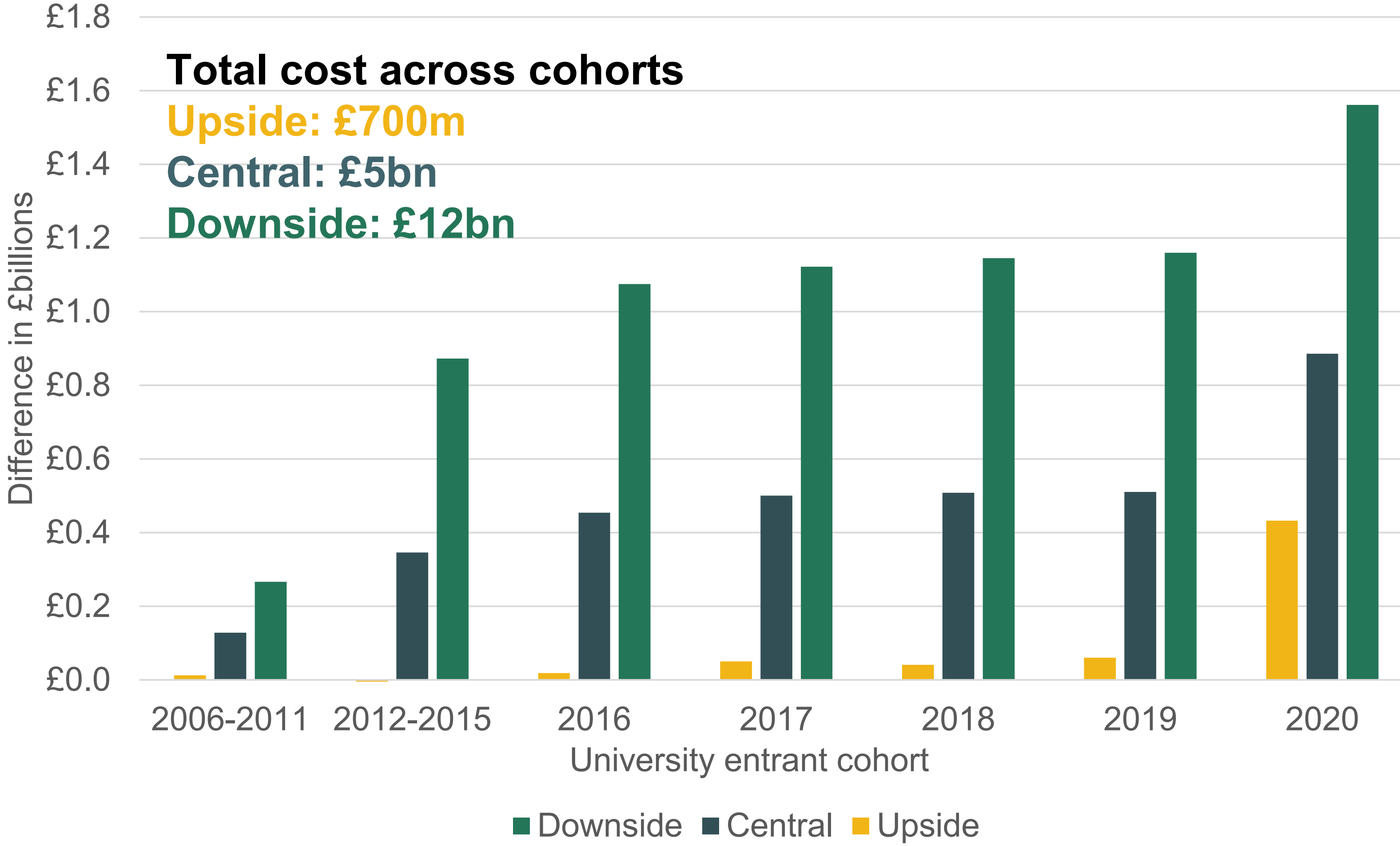
Impact on previous cohorts



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University finances

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University finances

Possible challenges

1. Reduced domestic student numbers
2. Reduced international student numbers
3. Reduced income from accommodation, conferences etc.
4. Reduced returns on assets
5. Increased deficits on pension obligations
    - Many university academics on “Defined Benefit” pensions which often pay a guaranteed fixed percentage of final salary
    - Universities are liable to make up the difference between what is promised in pensions vs. the financial returns on pension contributions

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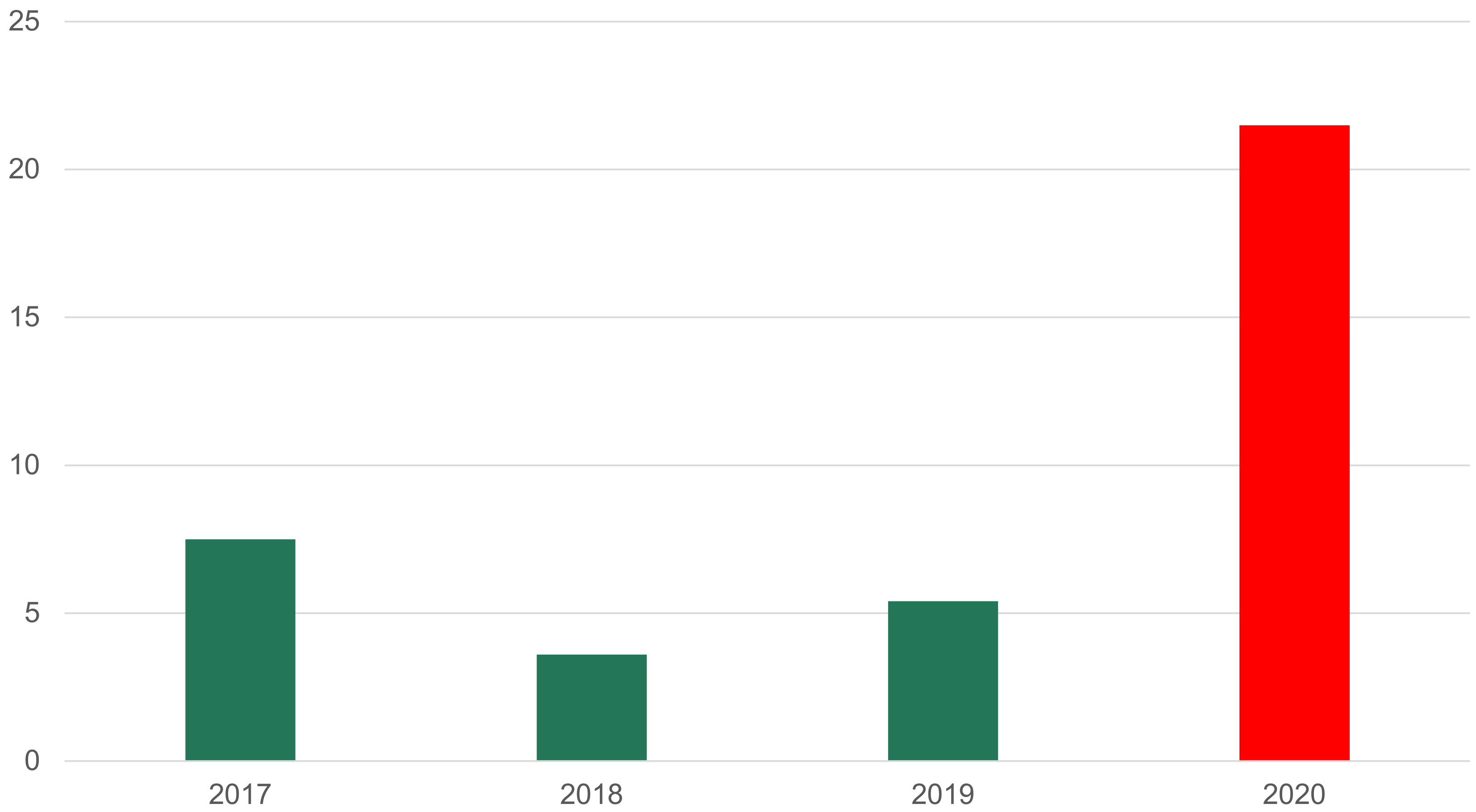
USS Pension Deficit (£bn)



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Overall summary

- COVID-19 has (for now) boosted student numbers and has/will reduce average earnings and hence student loan repayments.
  - Design of student loan system protects government revenues
  - But still estimate increased government costs of around £12bn in the pessimistic OBR growth forecasts.
- For university finances, disaster has been avoided for now as student numbers have held up
  - Exception is university pension obligations which were already in bad shape and are now in terrible shape
  - This raises questions about financial viability of some institutions

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