

# Education spending: an engine for levelling-up?

Monday 11th December  
13:00 - 14:30



# Aims and Overview

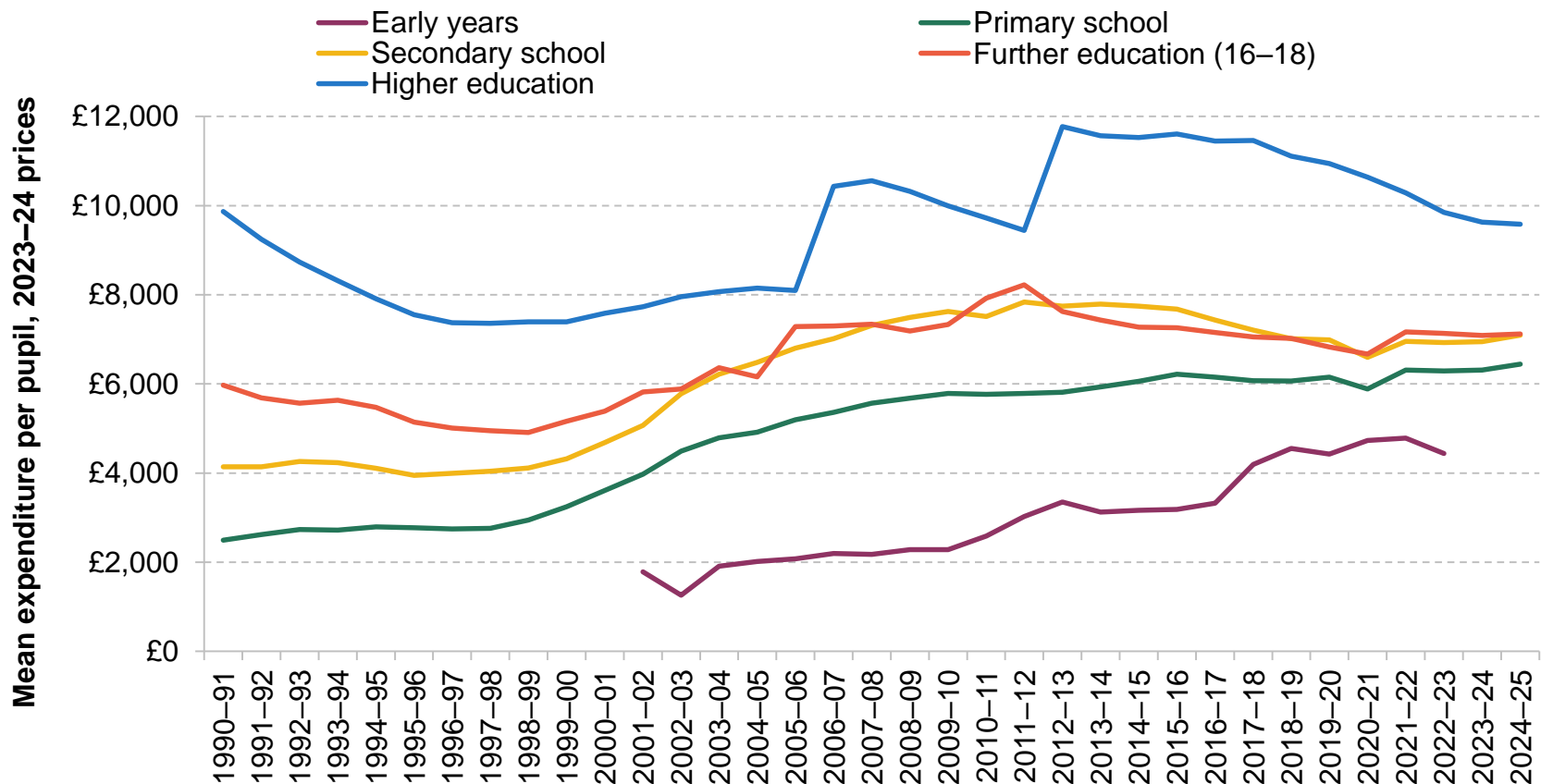
- Aim to provide a clear picture of the levels and changes to spending per student at different phases of education in England over time
- Special focus on support for disadvantaged children and geographical differences
- Dedicated website with all our analysis and latest figures:  
<https://ifs.org.uk/education-spending>

## Key overall conclusions:

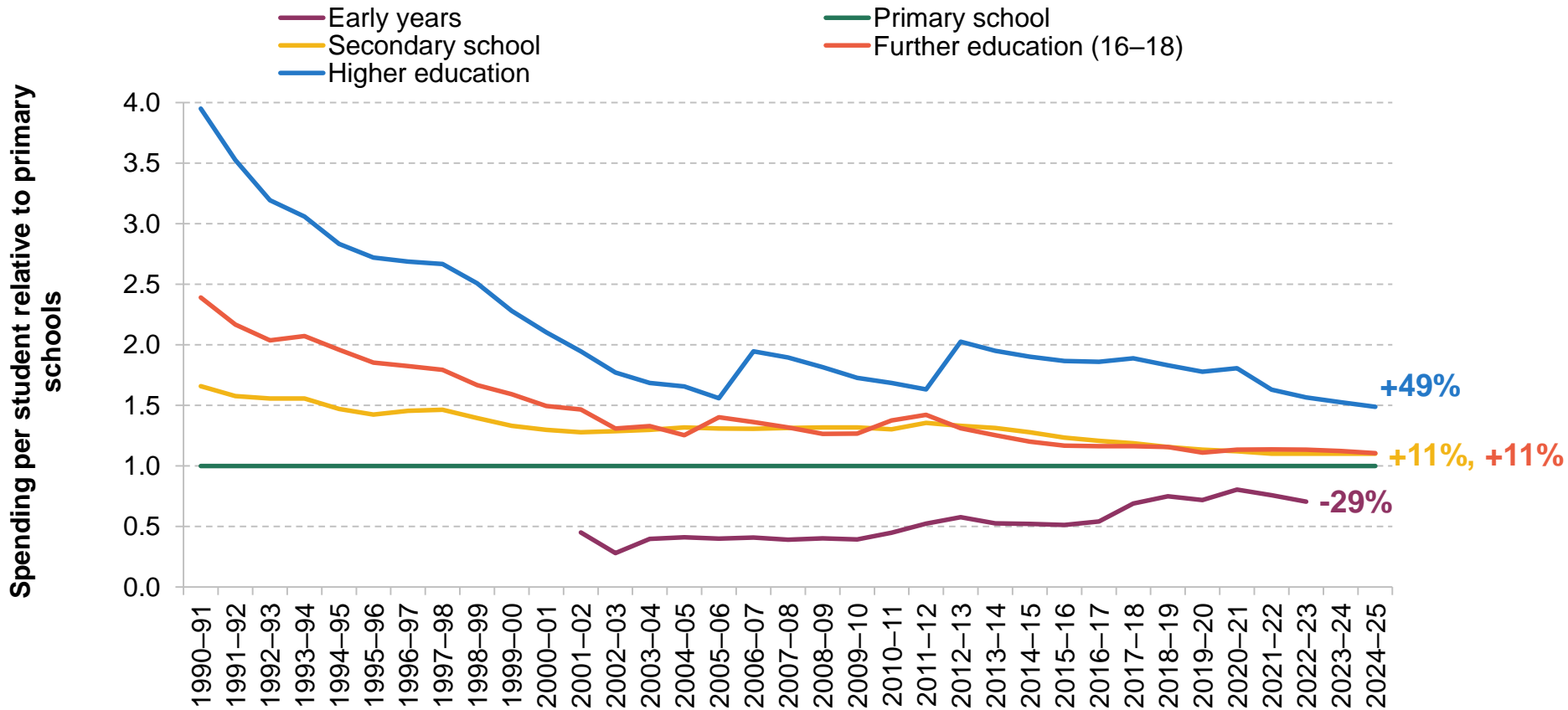
- Increases in costs are eroding the real-terms value of planned spending increases and maintenance support for students
- Support for disadvantaged children is greatest in schools and early years, but has fallen and is getting spread more thinly

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

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



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



Sources and notes: Annual Report 2023, Figure 6.2

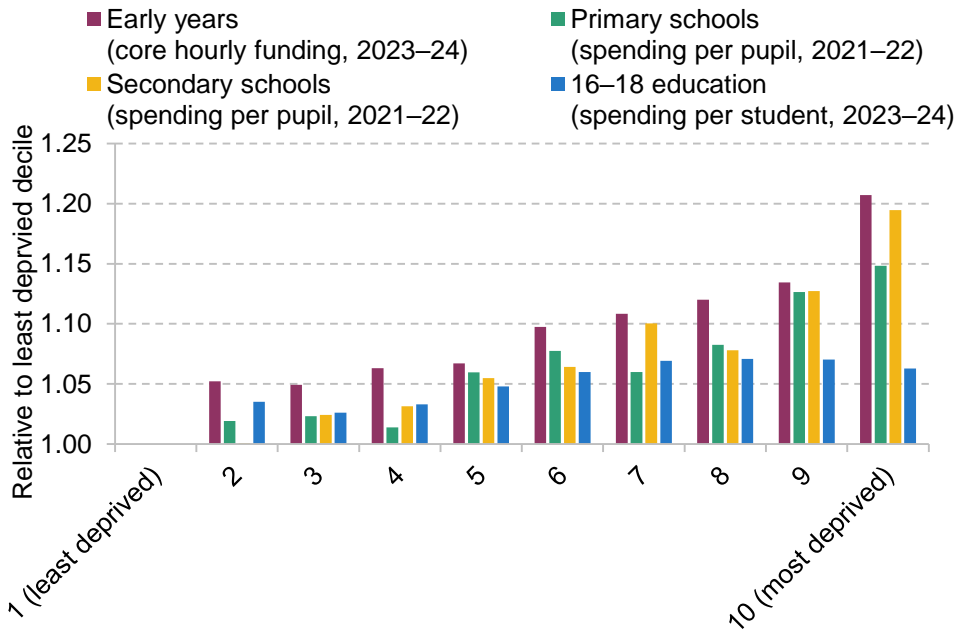


# Extra funding for deprived areas highest in early years and schools

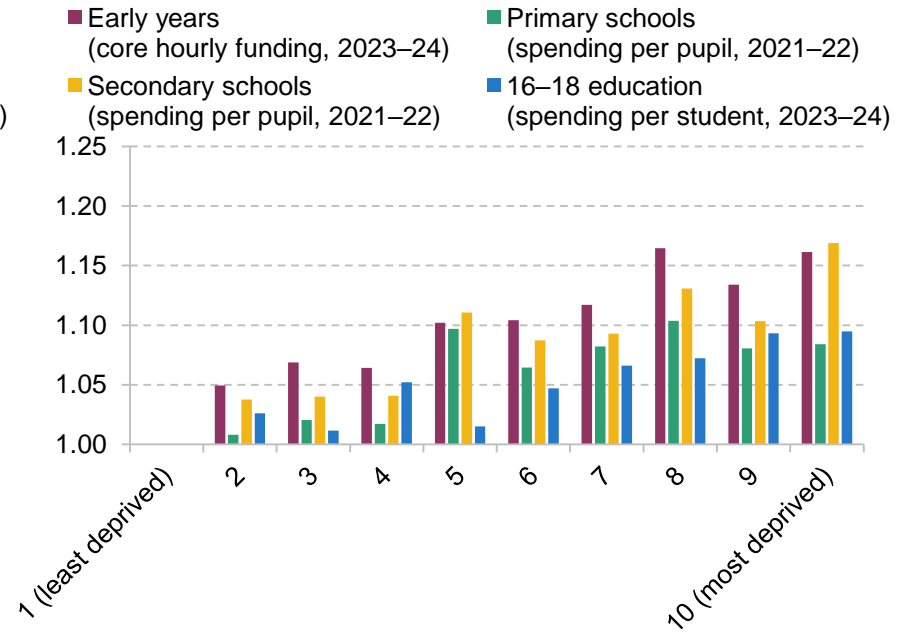


- 15-20% extra for early years & schools in most deprived areas (FSM)
- Extra funding is smaller when we look at IMD
- Extra funding in post-16 education is smaller

FSM Deciles



IMD Deciles





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**Schools**

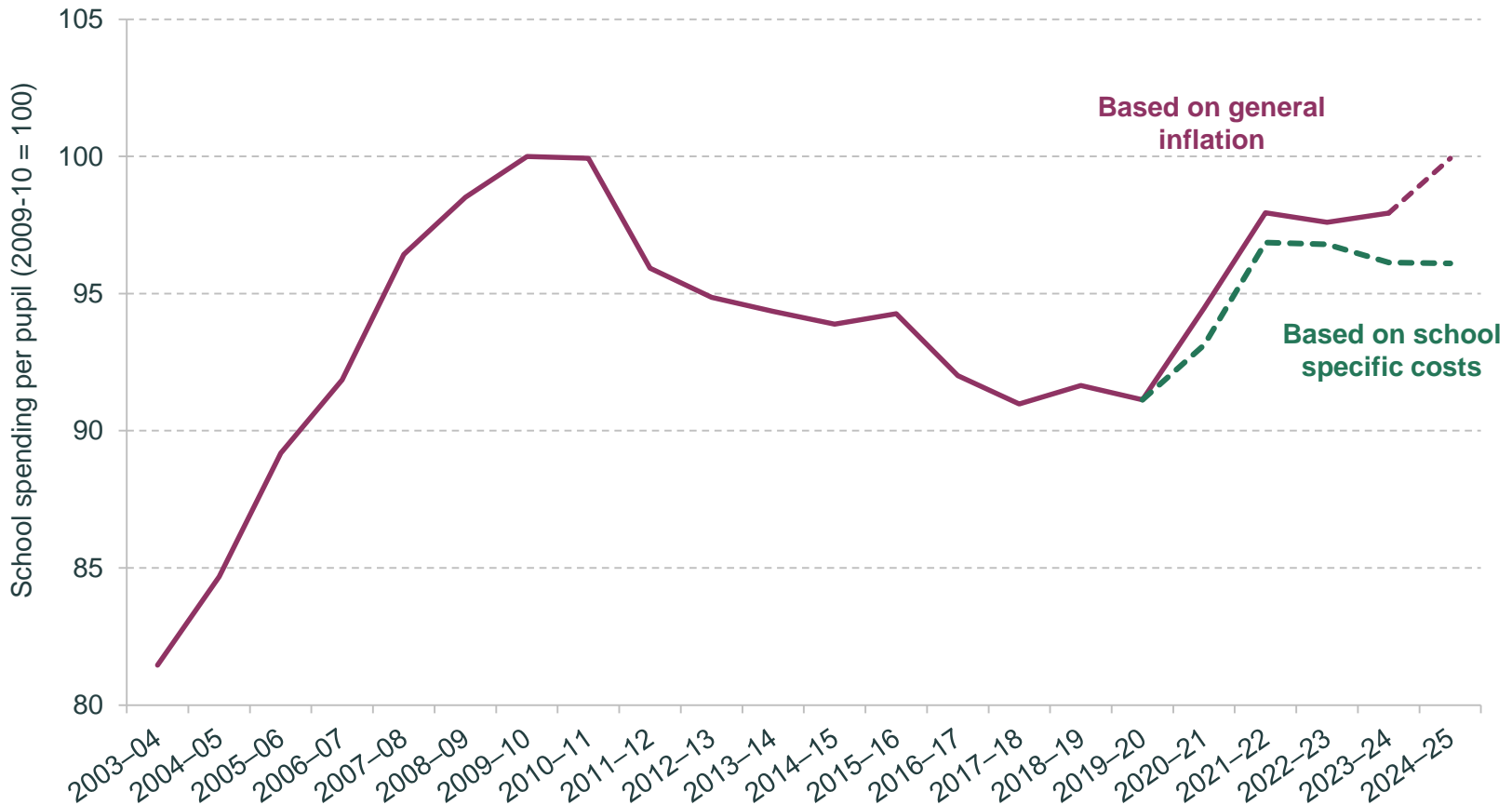
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# Total funding up by £6bn from 2019 to 2024

## 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

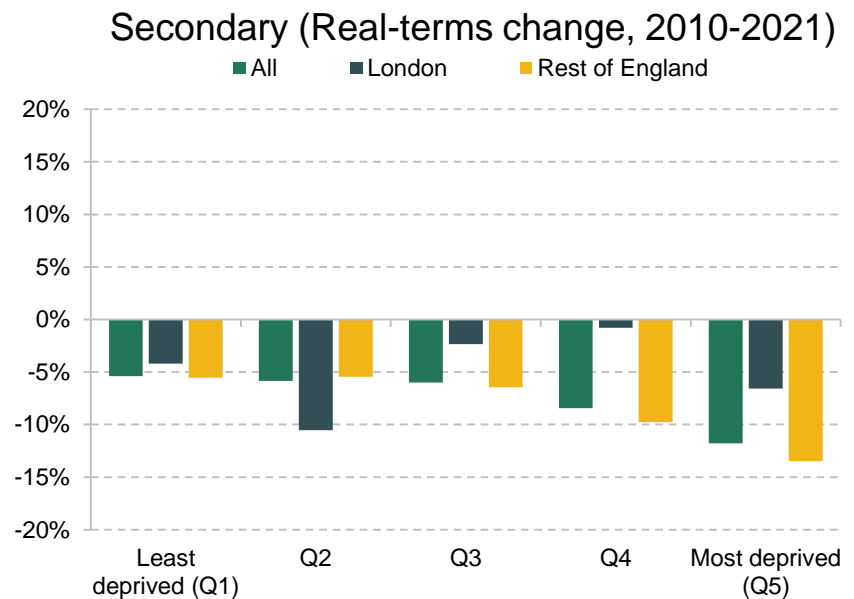
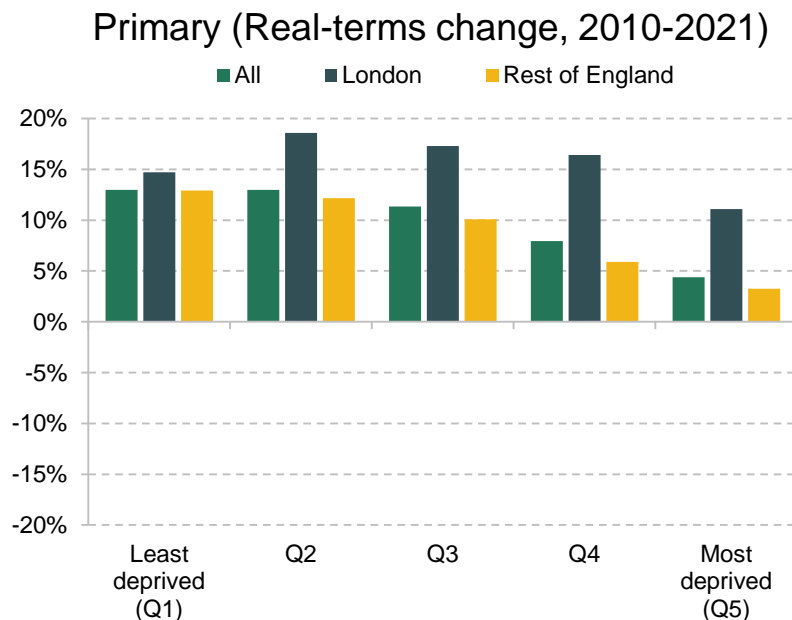
School spending per pupil in England (2009–10 = 100)



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





# 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

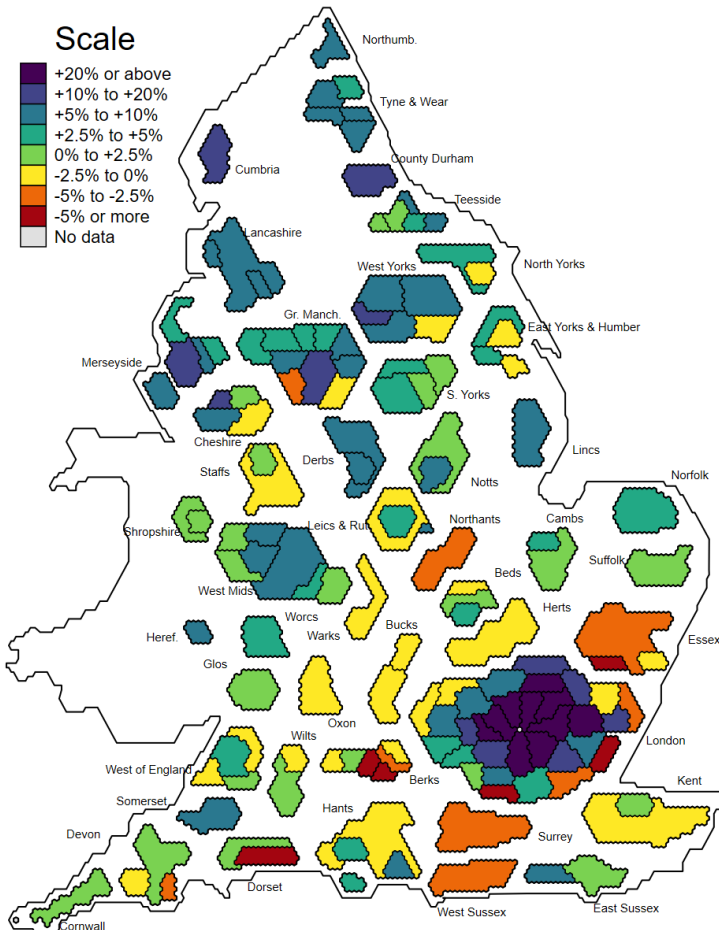
## Why have more disadvantaged schools experienced larger cuts?

- 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

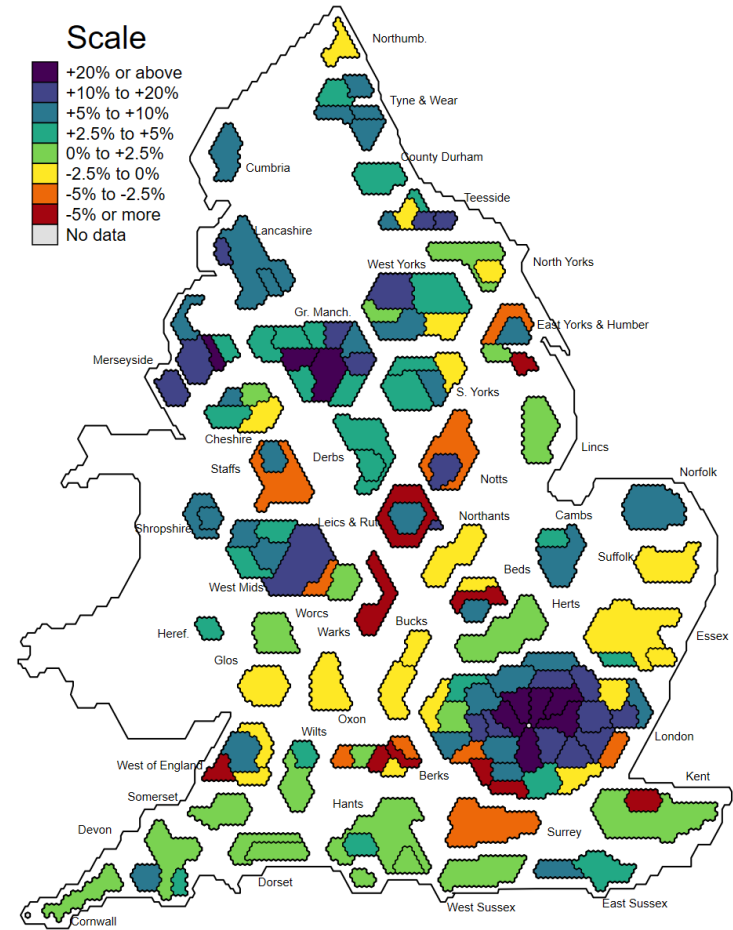
# Spending per pupil highest in more deprived areas and lowest in more affluent in the south and east

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

## **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?



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## Early years

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# Early years education in England

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)

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## 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

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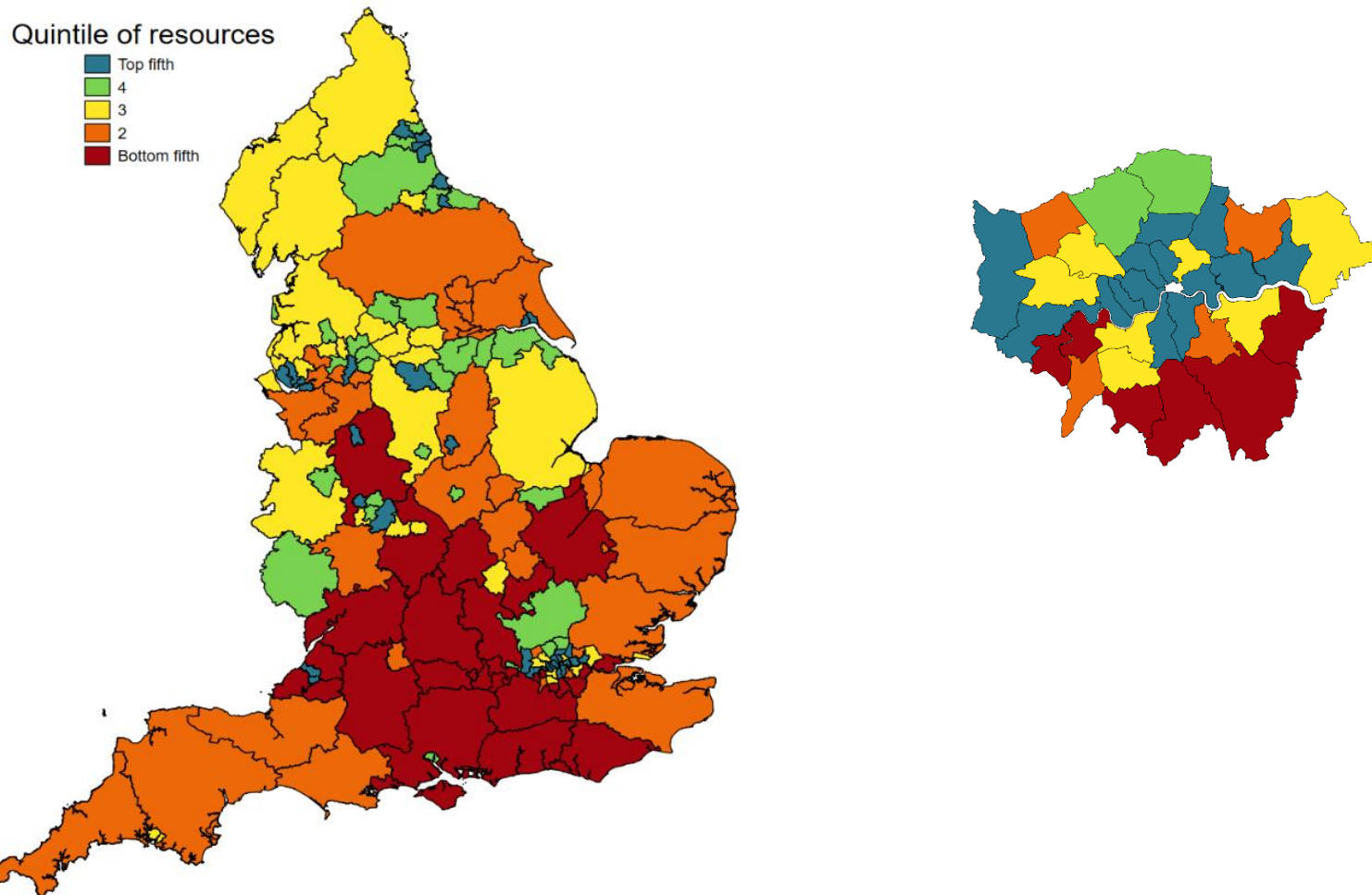
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  - Deprivation
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# Spending roughly follows need

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

England

London



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

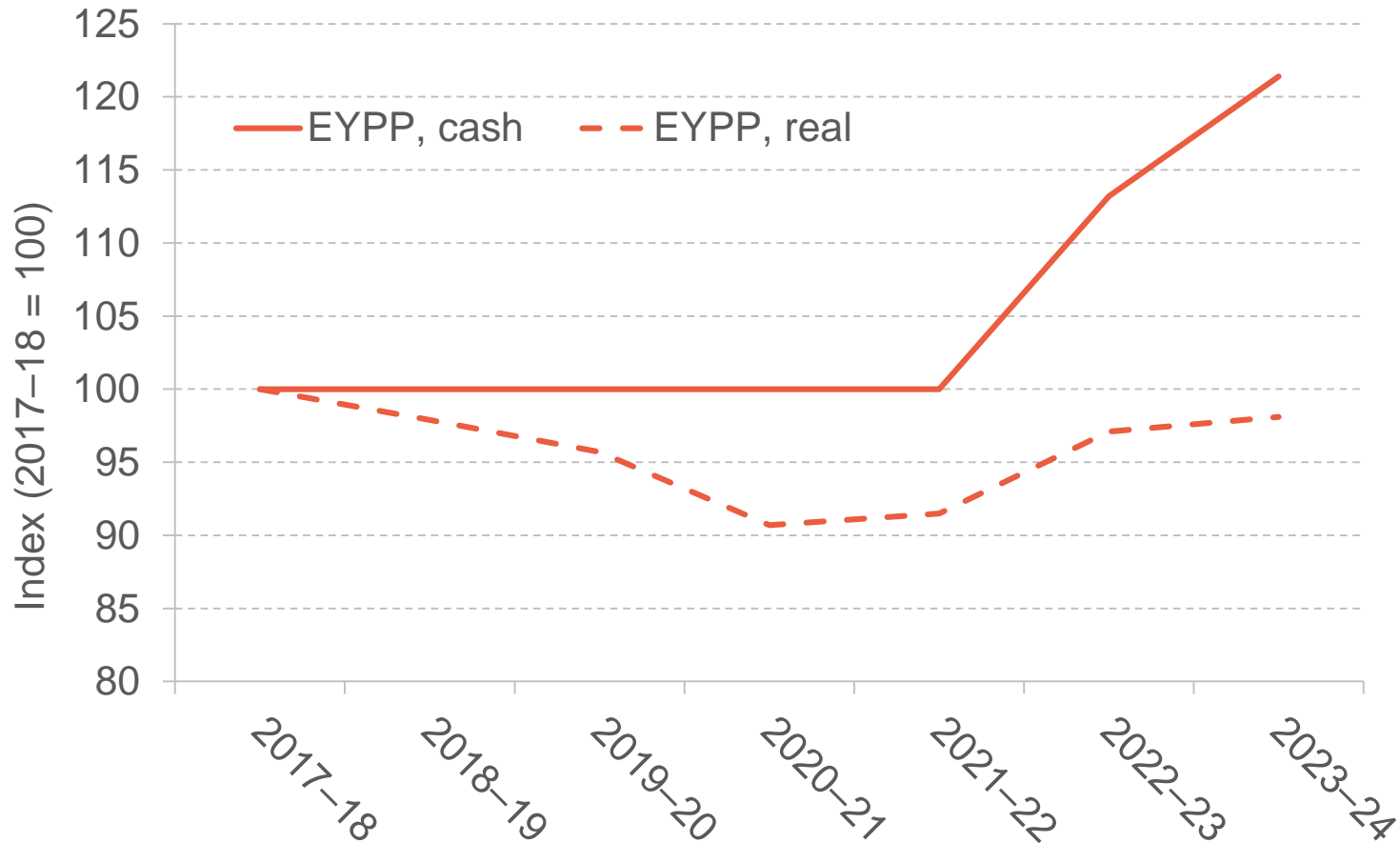
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## Why?

- 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



Note: EYPP: Early Years Pupil Premium. DAF: Disability Access Fund. Uses HM Treasury, [GDP deflators](#), November 2023.

# 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



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## Further Education and Skills

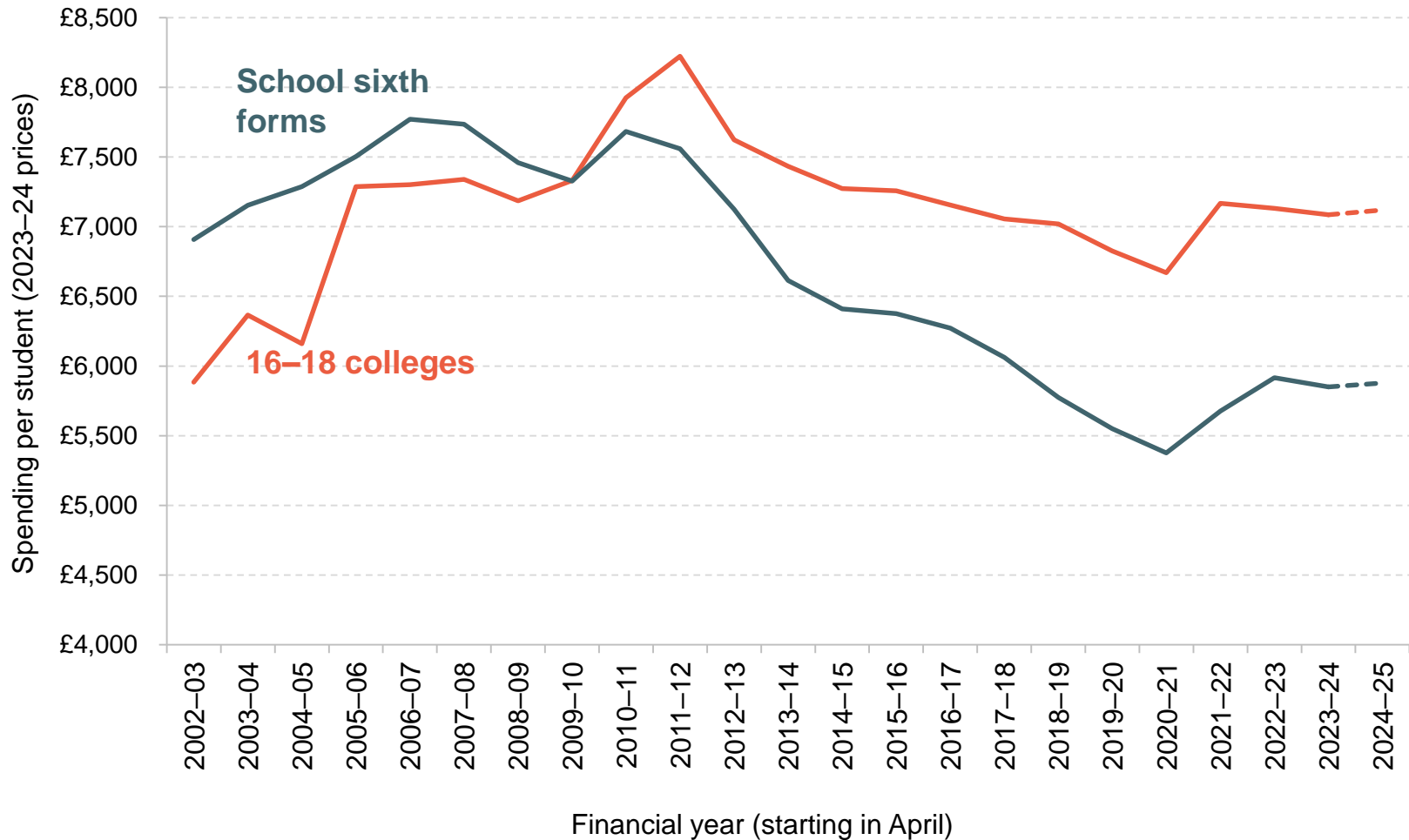
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# Further education spending



- **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

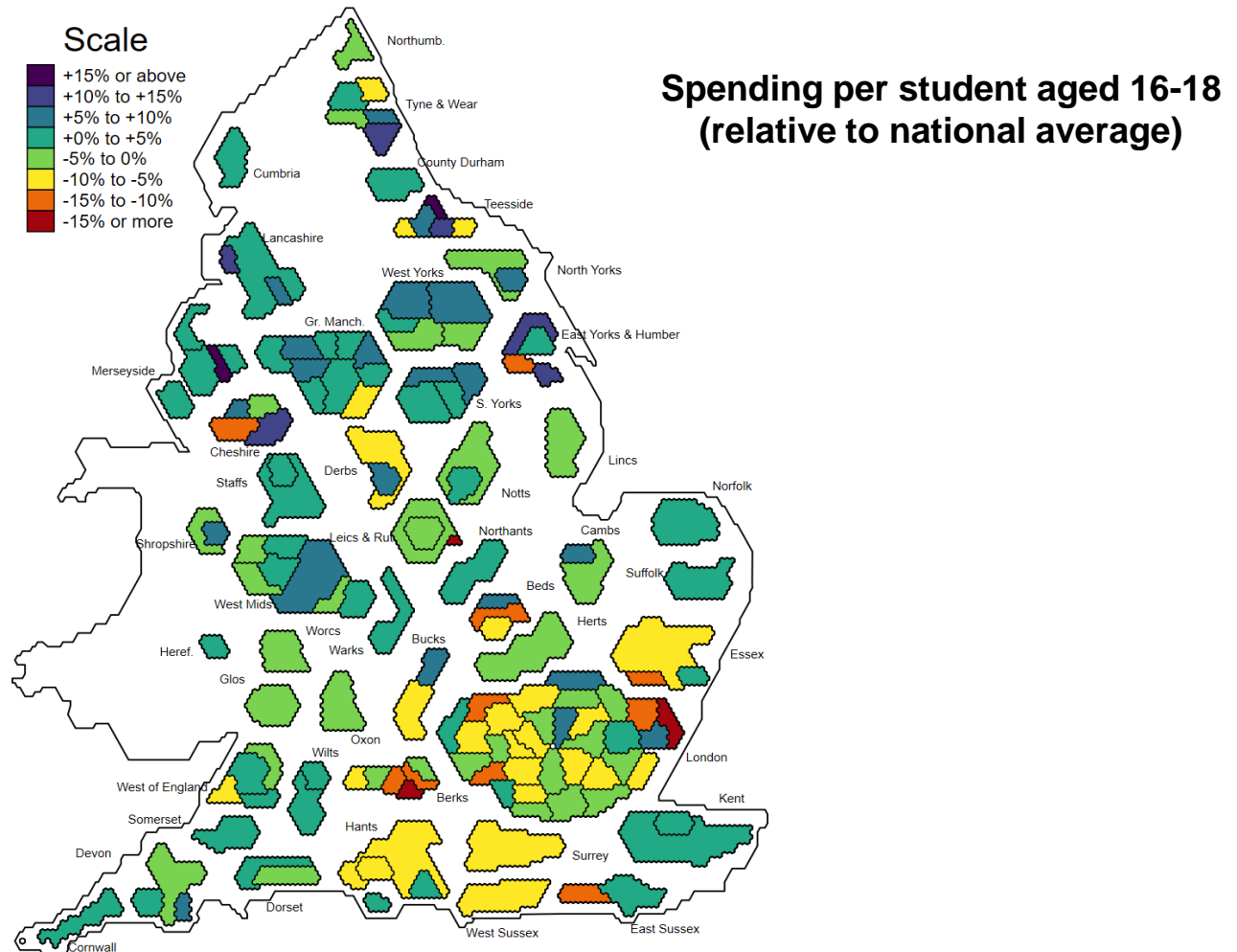
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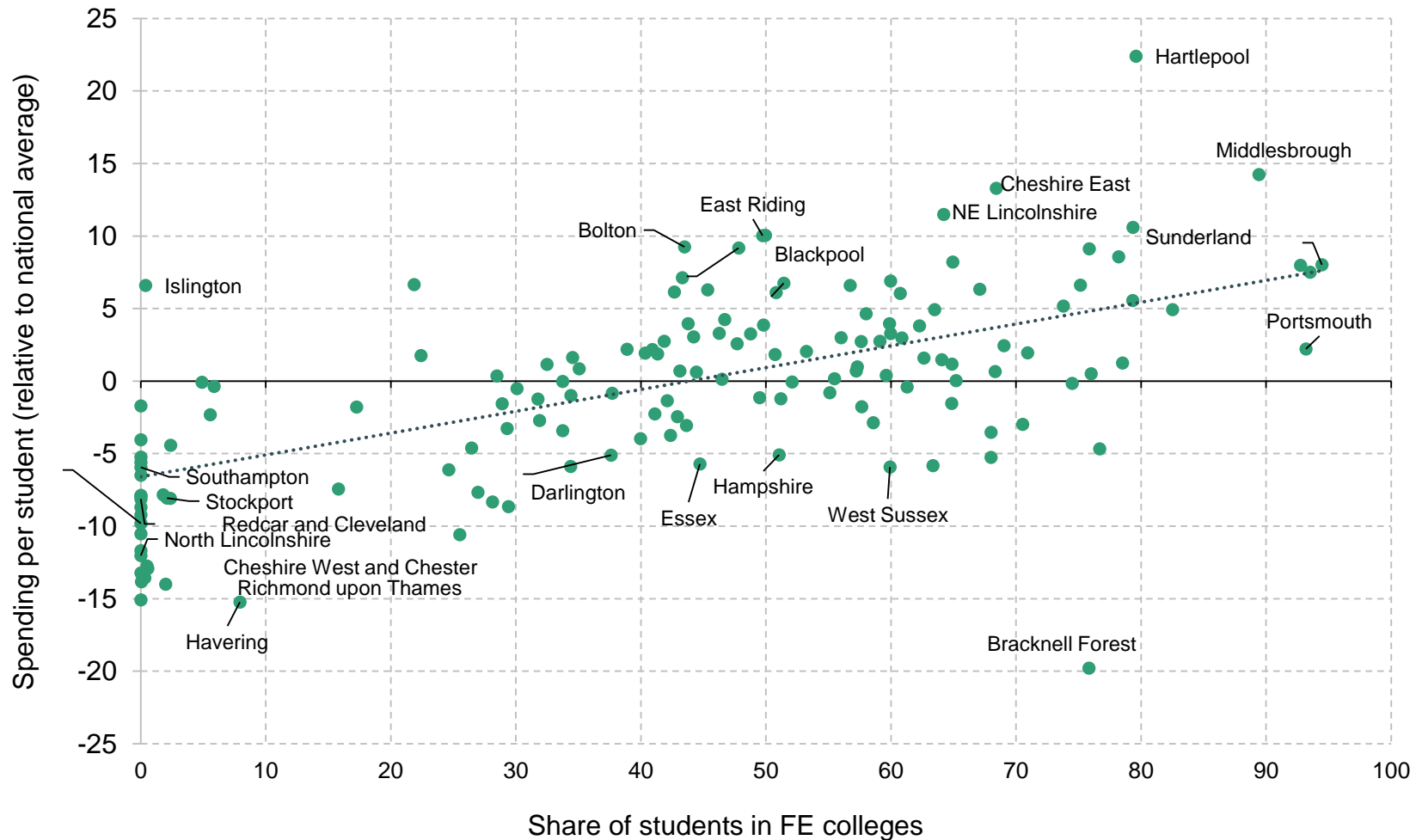
- Real-terms spending on 16-18 education has declined since 2010, with new funding only partially reversing past cuts
- **16-18 spending higher in the North and West Midlands, which is driven by a higher share of students in FE colleges**



# Spending per student tends to be higher in deprived areas outside London



# Higher spending in areas with more students in FE colleges

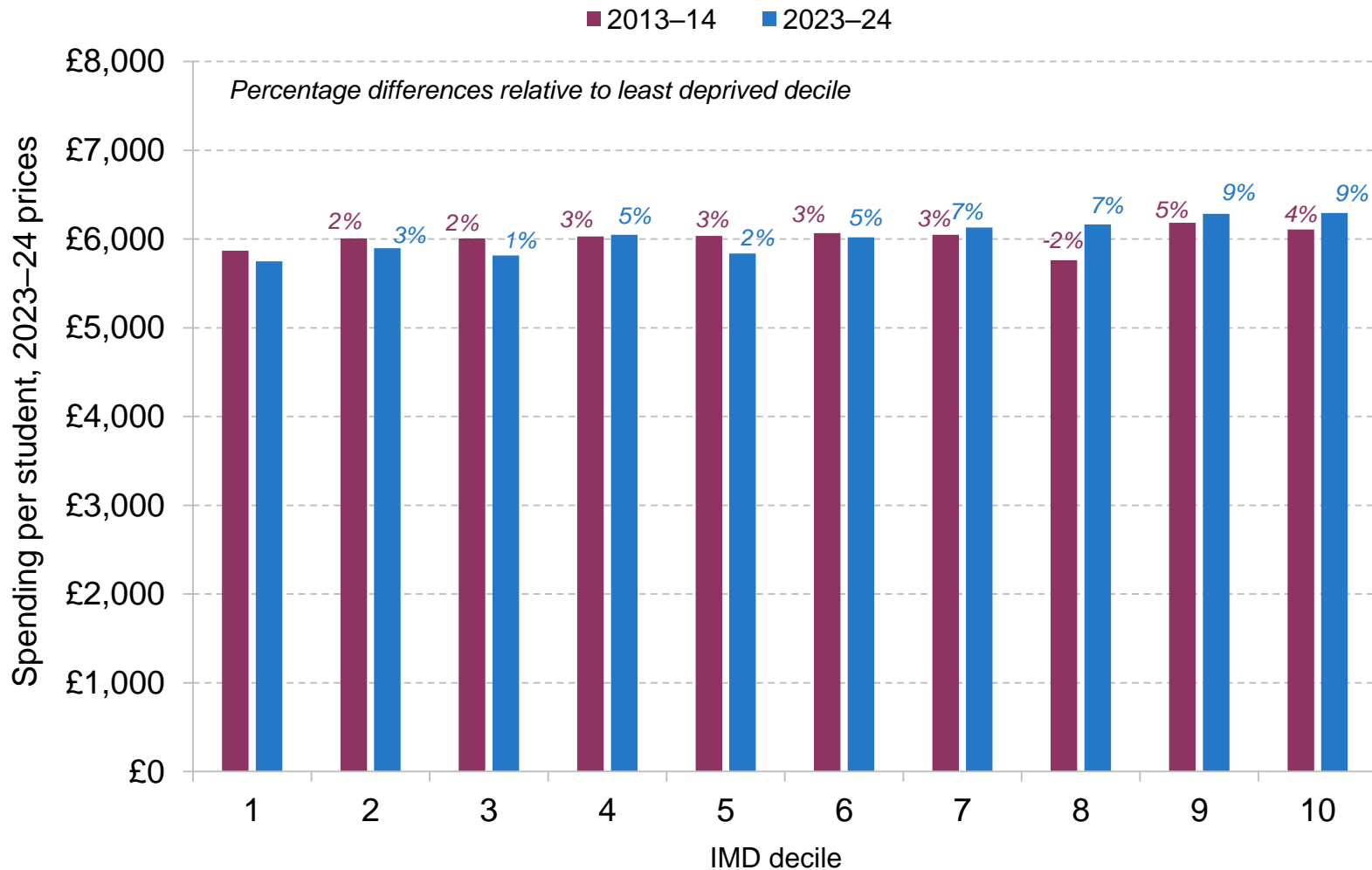


Source: Figure 4.6, 'Annual report on education spending in England: 2023', Drayton et al, IFS Report R290, Before application of area cost adjustments

# 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

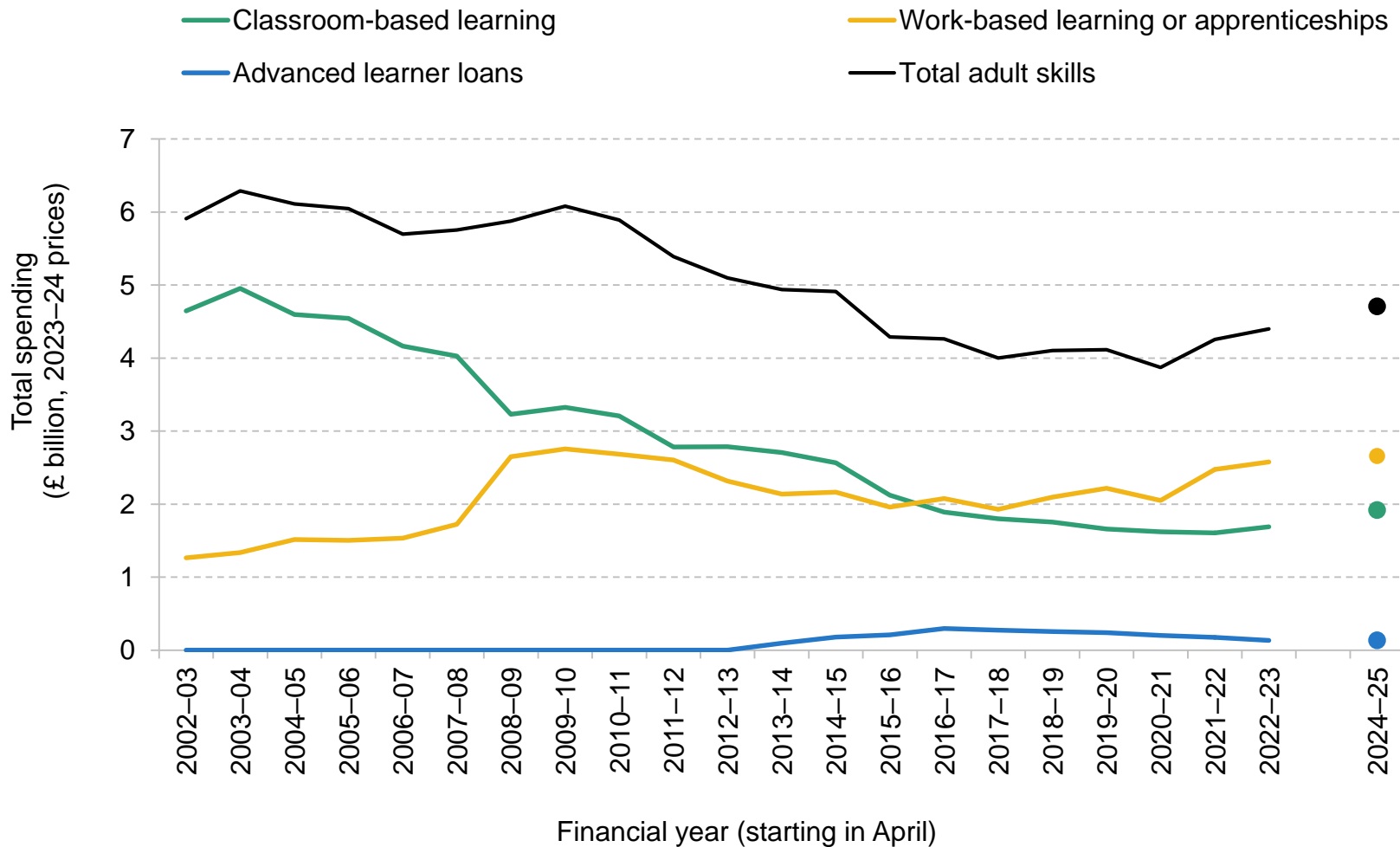


Source: Figure 4.8, 'Annual report on education spending in England: 2023', Drayton et al, IFS Report R290, Before application of area cost adjustments

# Further education spending

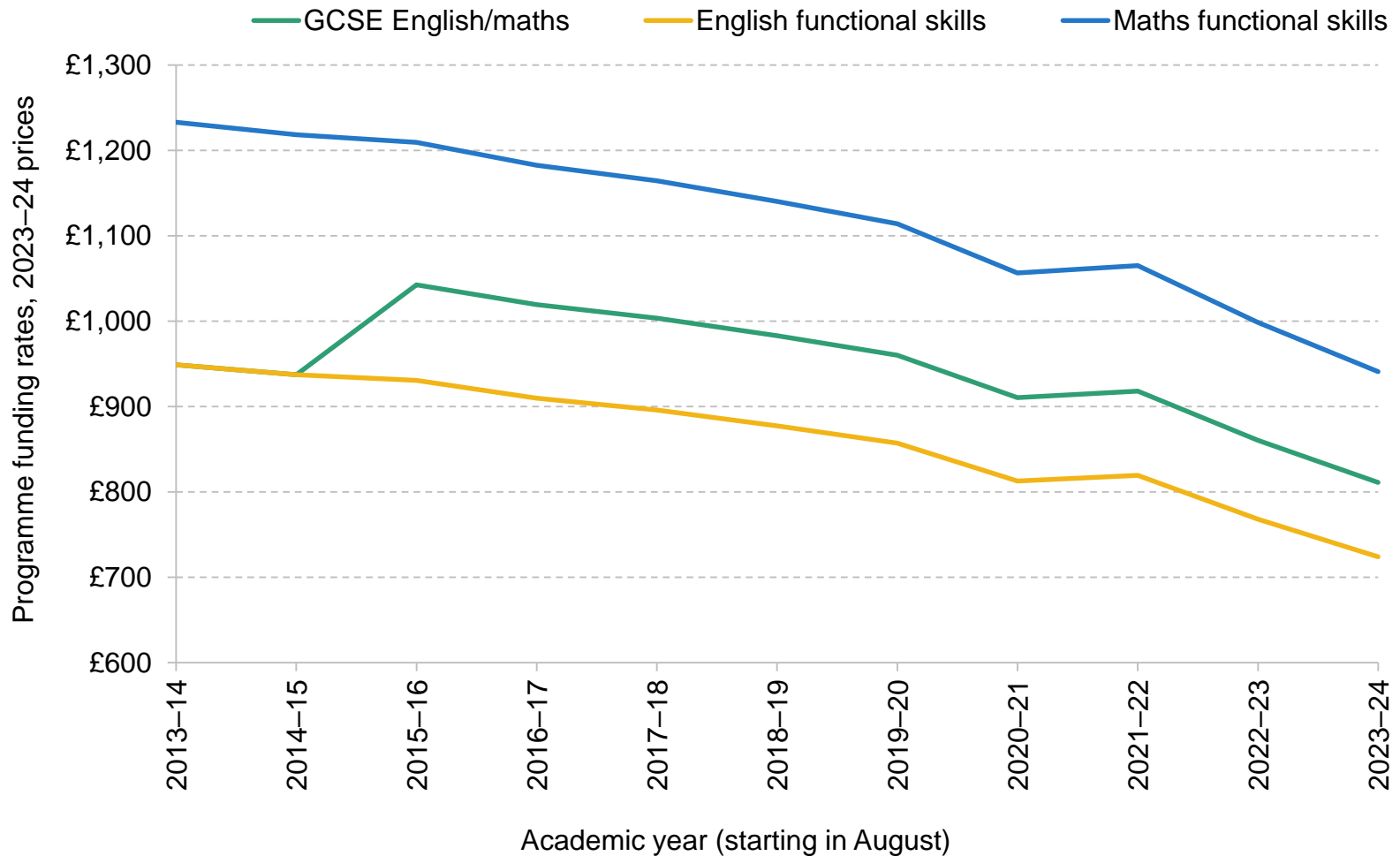
- Real-terms spending on 16-18 education has declined since 2010, with new funding only partially reversing past cuts
- 16-18 spending higher in the North and West Midlands, which is driven by a higher share of students in FE colleges
- The level of extra funding for more disadvantaged areas has increased over time (but is less targetted than schools)
- **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)





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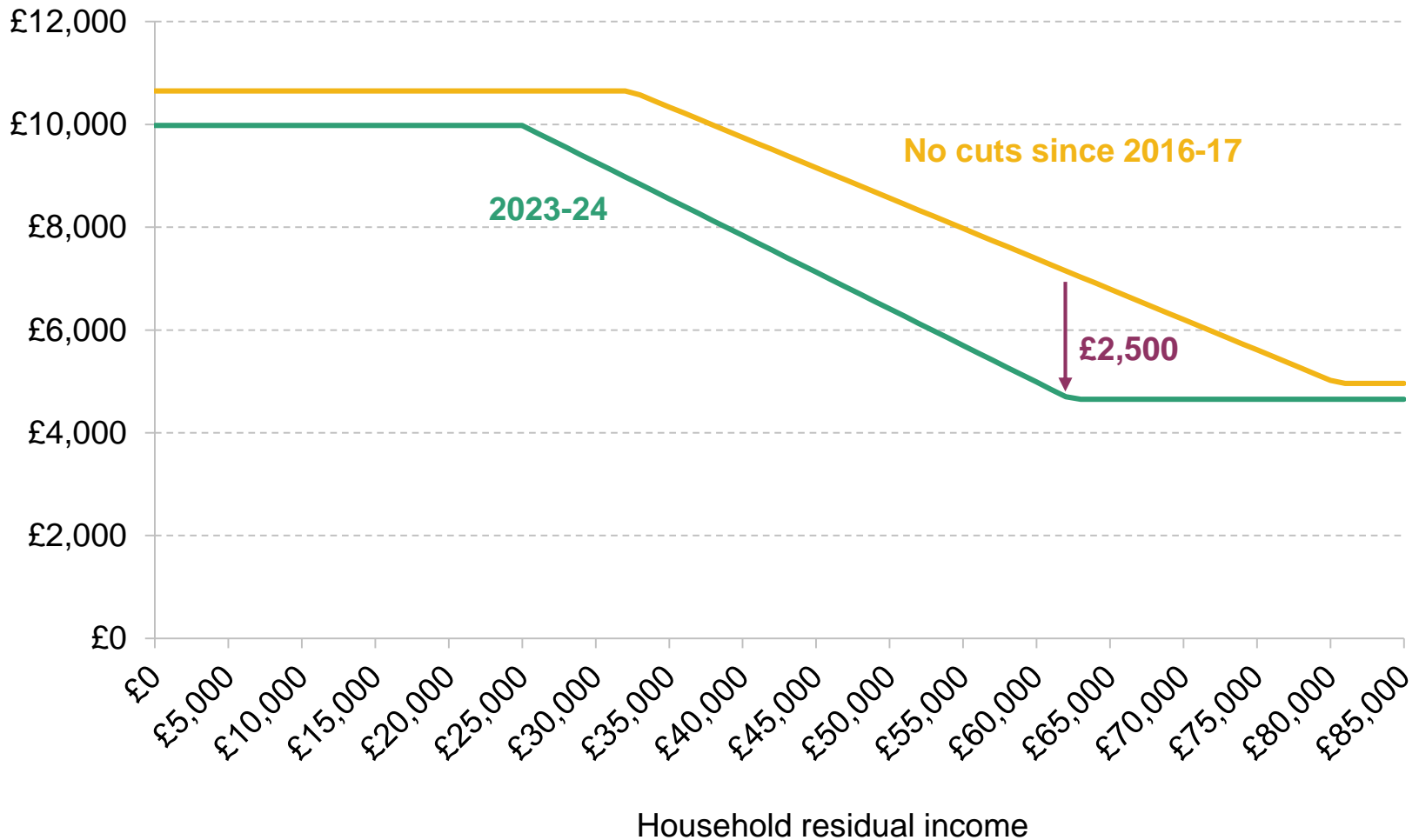
# Higher education

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# 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

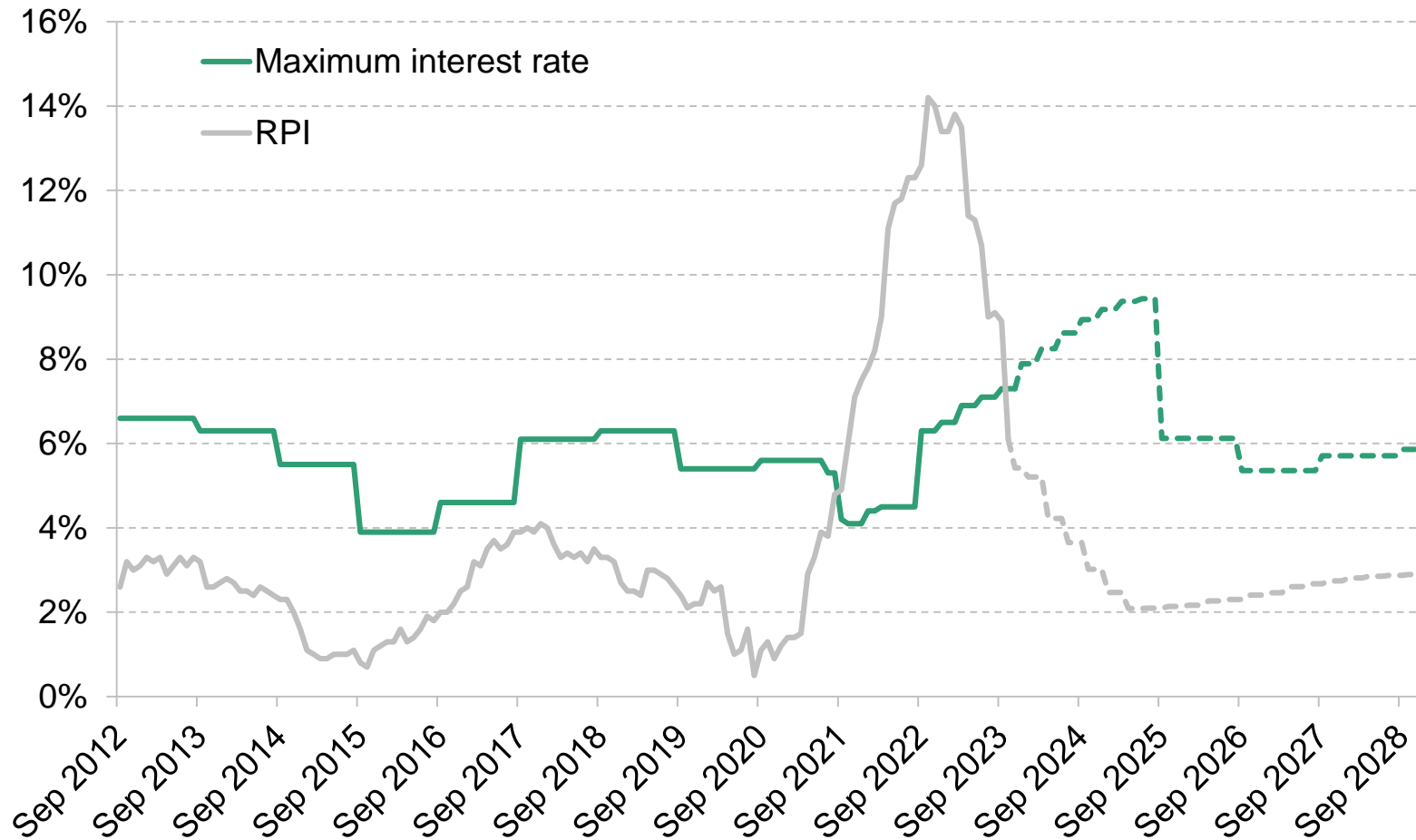


For students living away from home, and attending universities outside London. Figure 5.2.

# 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

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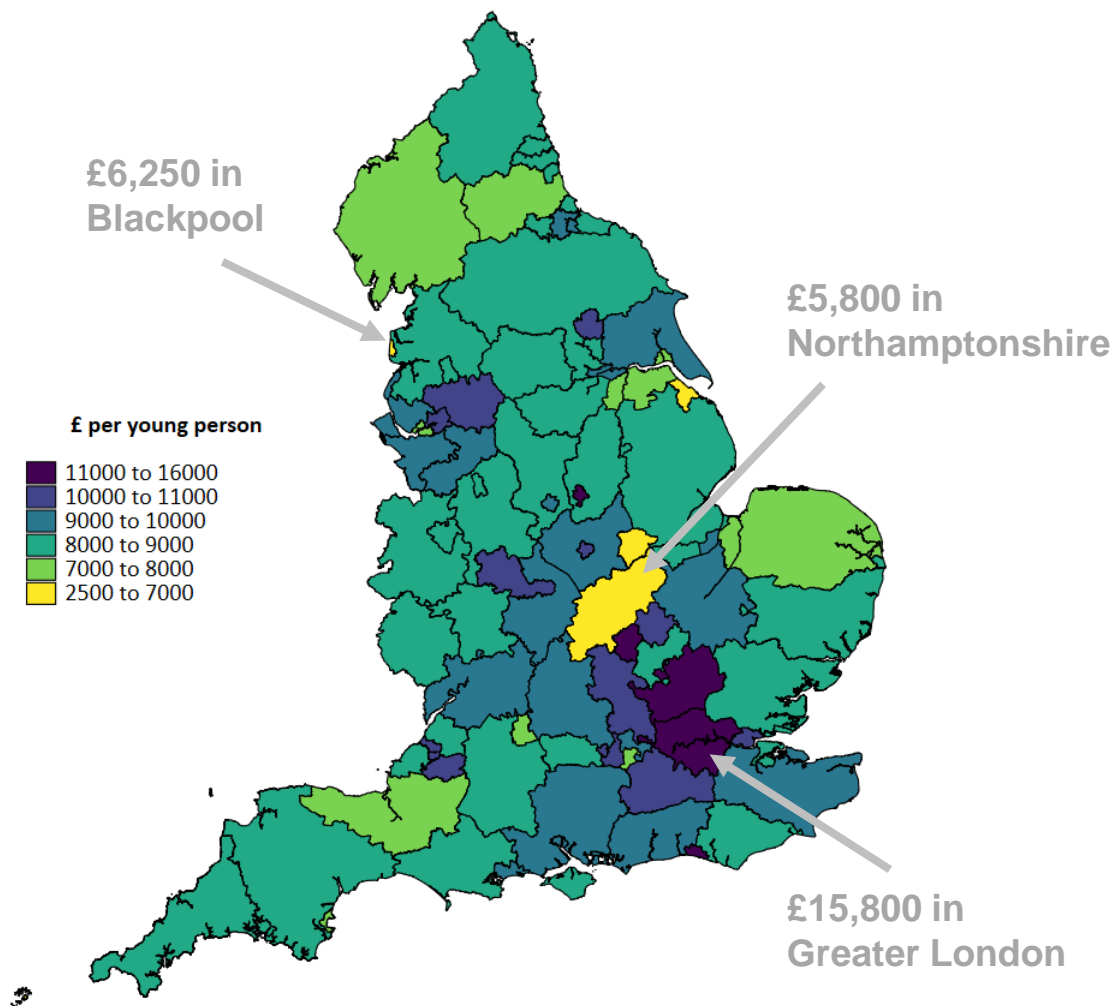


Interest rate on Plan 2 loans (courses started between Sept 2012 and July 2023). Dashed lines are forecasts. Figure 5.3.

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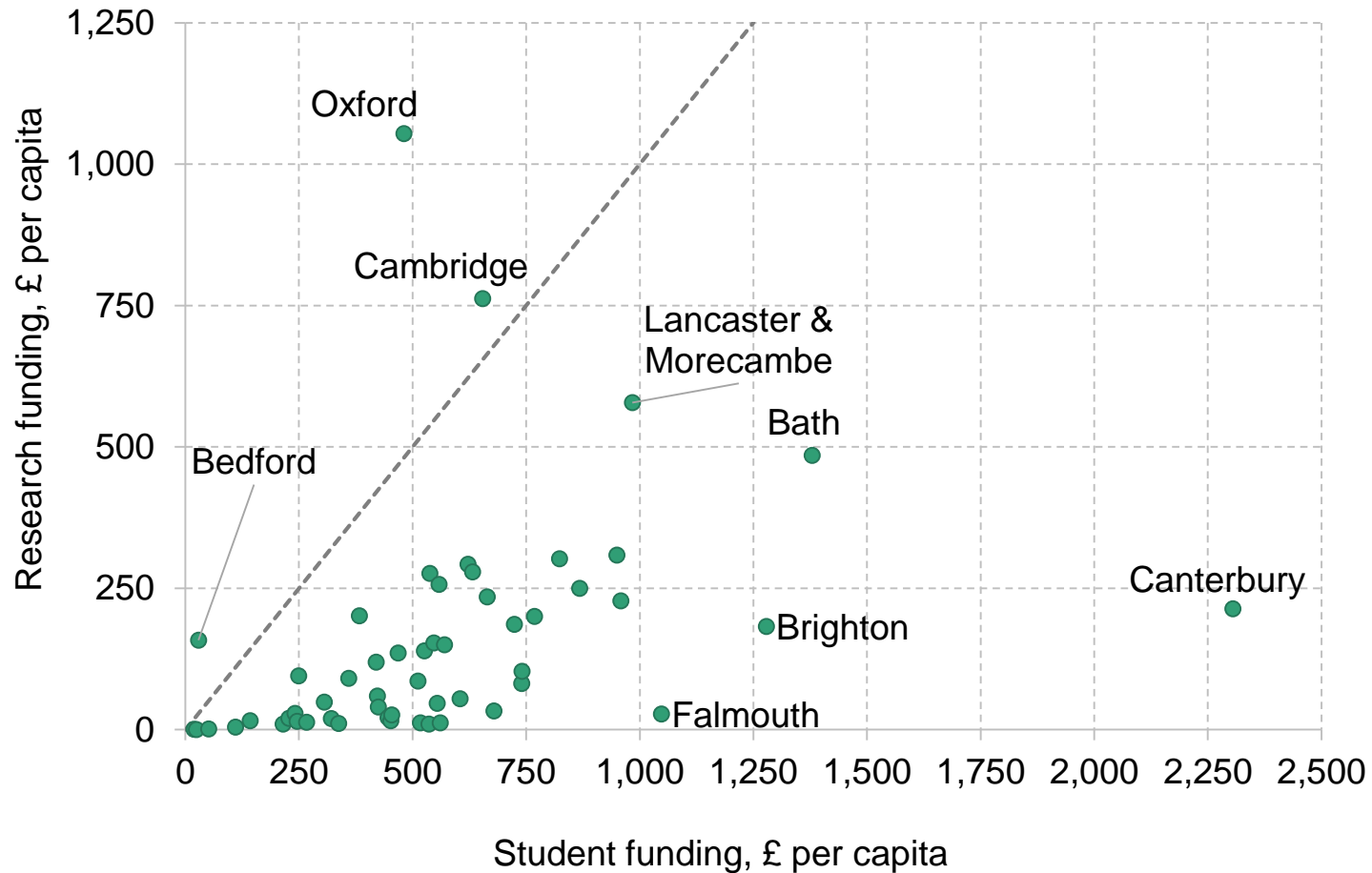
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- Capped at the 'prevailing market rate' (currently 7.5%)
- Lagged calculation means maximum interest rates will keep rising, peaking at 9% in summer 2025, even as inflation falls
- Interest rates don't affect monthly repayments (though they do increase 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 areas. 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.



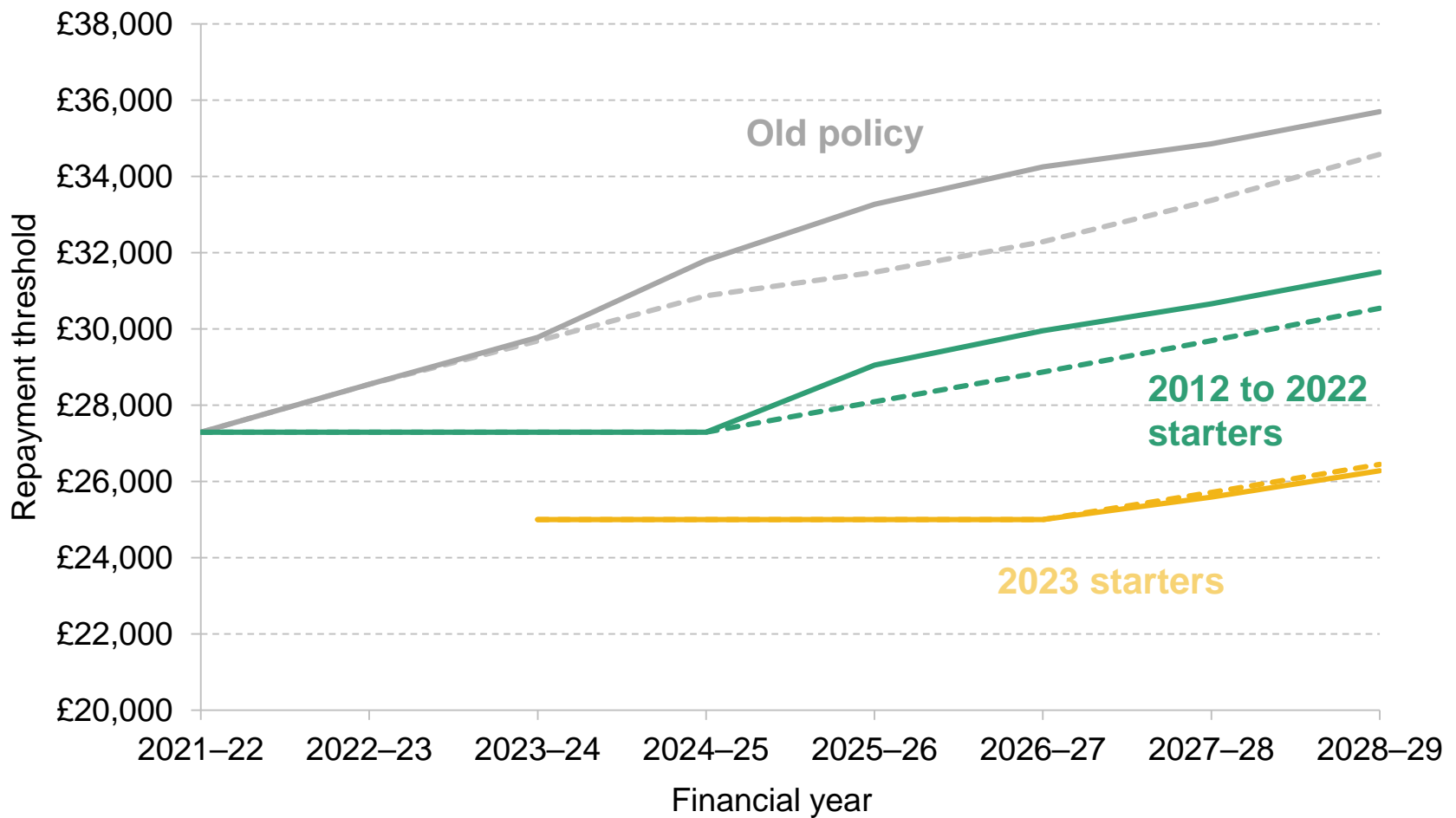


Education  
Spending

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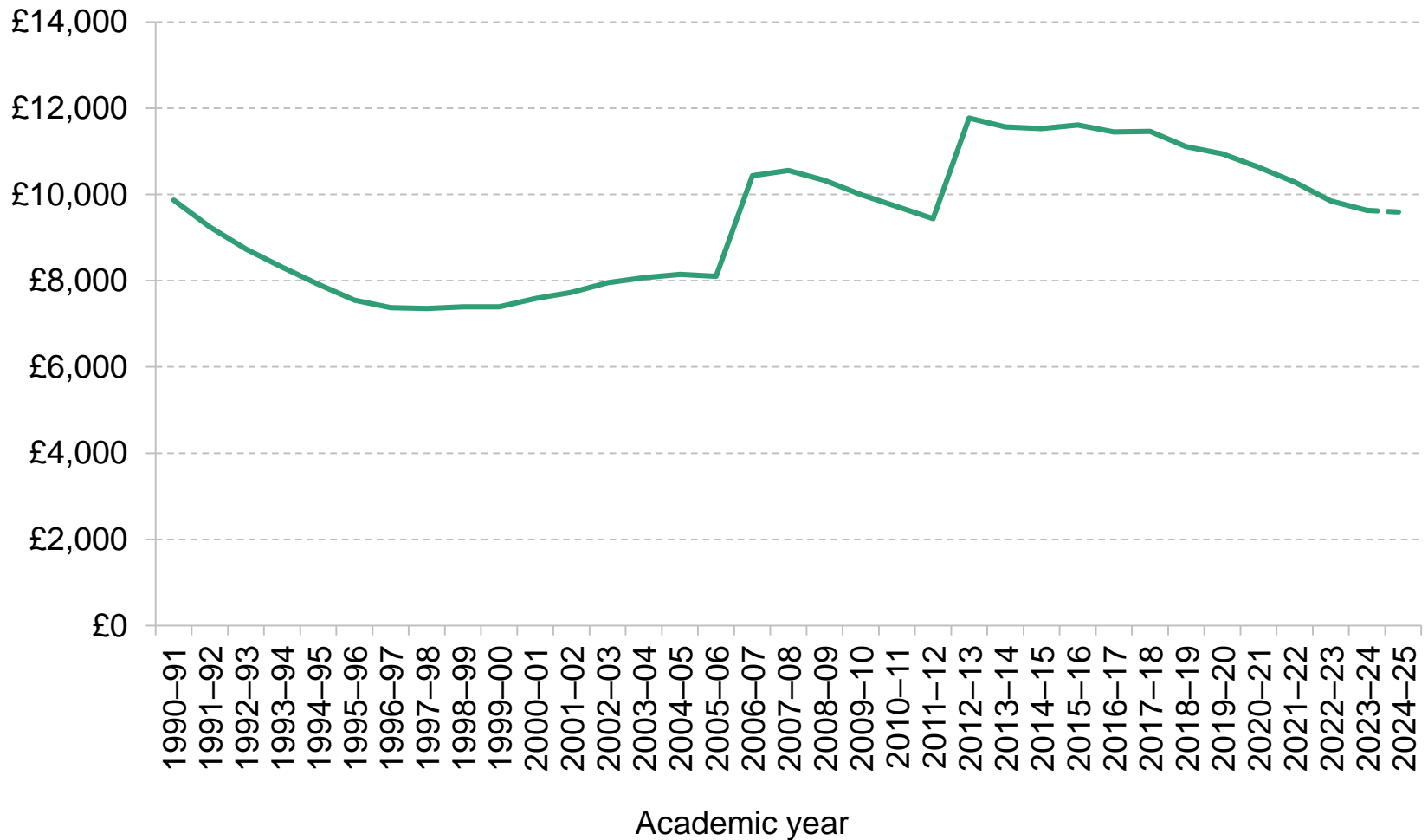
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# Repayment thresholds



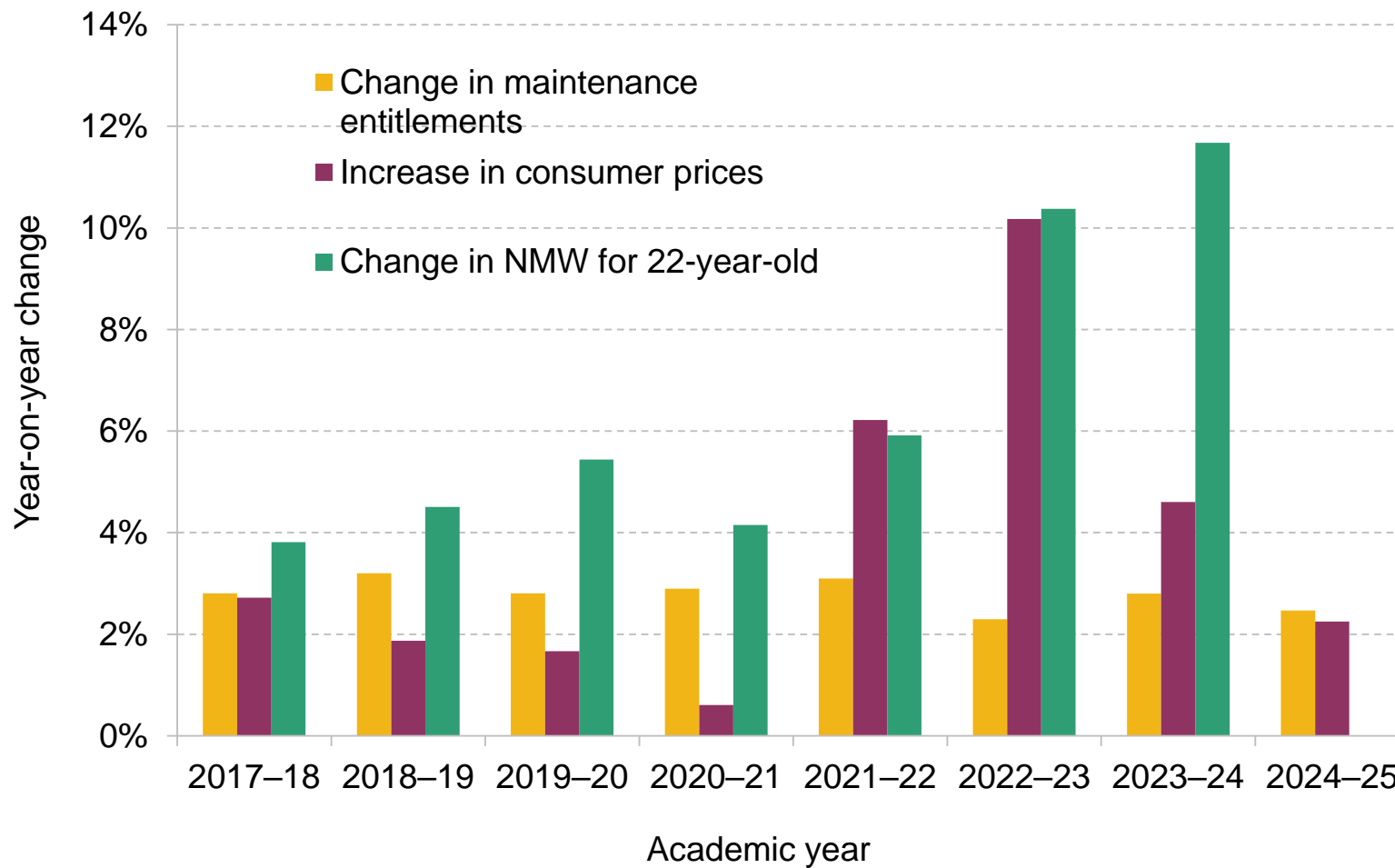
Dashed lines reflect forecasts from October 2021. Solid lines reflect most recent forecasts. Figure 5.4.

# Spending per student



Upfront per-student resources for teaching. Figure 6.1.

# Maintenance support



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