

Trends in education and schools spending

IFS Briefing Note BN121

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October 2011

Executive summary

- Public spending on education in the UK grew rapidly during the 2000s. Over the decade between 1999–2000 and 2009–10, it grew by 5.1% per year in real terms, the fastest growth over any decade since the mid-1970s. As a result, it rose from 4.5% of national income in 1999–2000 to reach a high point of 6.4% in 2009–10. Going forwards, we estimate that public spending on education in the UK will fall by 3.5% per year in real terms between 2010–11 and 2014–15. This would represent the largest cut in education spending over any four-year period since at least the 1950s, and would return education spending as a share of national income back to 4.6% by 2014–15.
- Under the previous Labour government, the fastest-growing areas of education spending were capital spending on schools, early years spending and further education spending. Public spending on higher education grew the most slowly.
- All areas of public education spending are expected to see real-terms cuts between 2010–11 and 2014–15, but the severity of cuts will differ. Current spending on schools will see the smallest real-terms cut (about 1% in total). The areas seeing the largest real-terms cuts will be current spending on higher education (40% in total) and capital spending (more than halved). However, reforms to tuition fees will increase total resource spending – via public and private contributions – on higher education. Spending on the early years and youth services is expected to be cut by over 20% in real terms in total. Planned cuts to age 16–19 education spending are likely to be of a similar magnitude.

* The authors are grateful to the Esmée Fairbairn Foundation for funding this work (grant number 11/0357) and to the Economic and Social Research Council (ESRC) for funding through the Centre for the Microeconomic Analysis of Public Policy at IFS (RES-544-28-0001). The authors would also like to thank Carl Emmerson, Paul Johnson and members of the advisory group for their comments and thoughts. The views expressed in this Briefing Note are those of the authors only. Any errors and omissions are the responsibility of the authors.

- The government has chosen to create a Pupil Premium from 2011–12 onwards. This will add somewhat to the already considerable additional money provided for the poorest pupils by the current school funding system. The government has announced a cash-terms freeze in other per-pupil funding. As a result, only the most deprived schools are likely to see real-terms increases in funding per pupil in 2011–12. Compared with economy-wide inflation or an estimate of schools-specific cost inflation, the majority of schools are expected to see real-terms cuts in 2011–12. Although spending on the Pupil Premium will grow to £2.5 billion by 2014–15, given the continued freeze in other per-pupil spending this pattern looks set to continue up to 2014–15.

1. Introduction

Until recently, education spending has enjoyed healthy year-on-year increases, but that is set to change. Along with most areas of government spending, education spending is set to shrink over the current Spending Review period. What will be the size of the total cuts and how will they be shared across different areas of education spending? Somewhat surprisingly, the answers to these questions cannot be easily found in current data published by the government.

In this Briefing Note, we produce new estimates of the likely cuts to overall public spending on education in the UK up to 2014–15. We have also pieced together various published plans for grants and specific components of education spending. This provides the most comprehensive analysis of the pattern of cuts across different areas of education spending published to date. We also analyse which types of schools are likely to see the largest increases in funding and which are likely to see real-terms cuts.

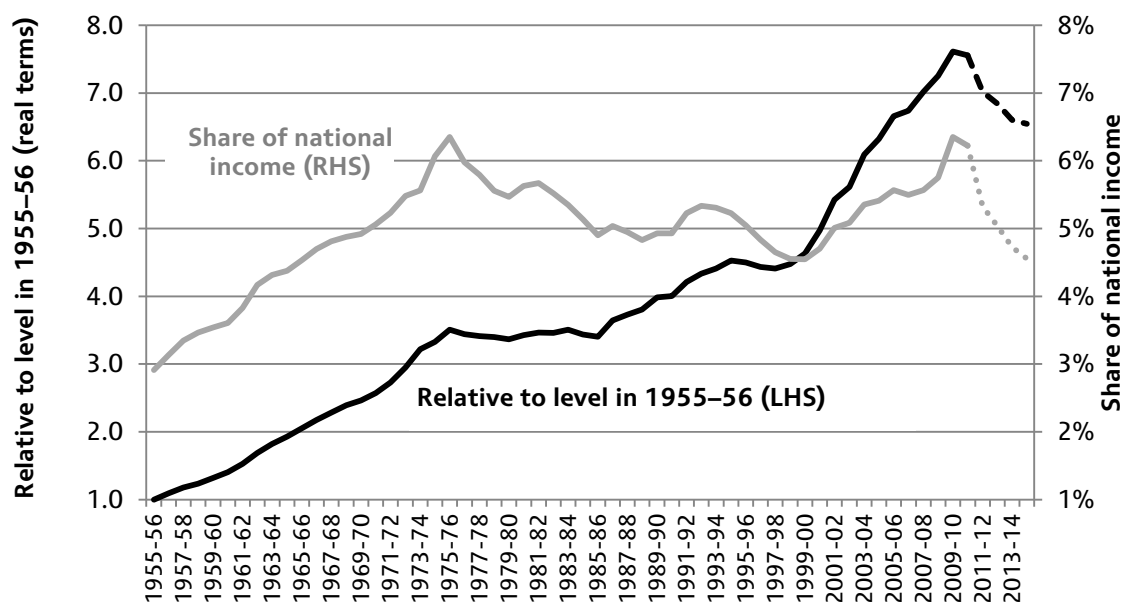
Throughout this Briefing Note, we focus on changes to the financial inputs into the education system rather than the outputs from it, such as young people’s exam results or earnings potential. We are concerned about the level of these inputs, of course, to the extent that they translate into the desired outputs. One would generally expect lower levels of financial inputs to make it tougher to deliver improvements in such outputs. Furthermore, even if there are offsetting improvements in the productivity of the inputs into education, such improvements could well have taken place in the absence of cuts to those financial inputs.

2. UK public education spending

Figure 1 illustrates trends in education spending over a long time frame, from 1955–56 through to 2010–11, as well as our own projections for 2011–12 through to 2014–15. The black line charts real-terms education spending over time (relative to its level in 1955–56), while the grey line

shows education spending as a share of national income. As can be seen, from the mid-1950s onwards the level of education spending grew rapidly, rising from just under 3% of national income to reach a high point of 6.4% in 1975–76.

Figure 1. UK education spending (1955–56 to 2014–15, actual and forecast)



Sources: HM Treasury, *Public Expenditure Statistical Analyses 2011*; previous PESAs; ONS Blue Book; authors' calculations using PESA.

From the mid-1970s through to the mid-1980s, education spending was largely constant in real terms. This was then followed by real-terms growth up until the late 1990s. However, over the period from the mid-1970s through to the late 1990s, there was a gradual decline in education spending as a share of national income, so that it reached around 4.5% of national income by the late 1990s. There are two notable exceptions to this pattern: during the recessions of the early 1980s and early 1990s, education spending temporarily rose as a share of national income as a direct result of the concurrent reductions in national income.

Since the late 1990s, education spending has risen substantially. Between 1999–2000 and 2009–10, education spending rose from 4.5% to 6.4% of national income; it then fell back slightly to 6.2% of national income in 2010–11. During the most recent recession, there was a notable increase in education spending as a share of national income. This partly results from the sharp drop in national income, but it also reflects continued growth in the real-terms level of education spending.

Table 1 gives more detail on the growth in education spending over recent years. Average growth under the previous Labour government stood at 4.2% per year after accounting for economy-wide inflation (henceforth

referred to as ‘real terms’). This is noticeably higher than the growth between 1979 and 1997 (1.5% per year), but only slightly in excess of the long-run historical trend before Labour came to power (3.7% per year). Growth during Labour’s second term in office was even higher, at 6.2% per year. The period from April 2000 to March 2010 saw the highest average real-terms growth (5.1% per year) over any 10-year period since April 1966 to March 1976.

Table 1. Increases in UK education spending

	<i>Average annual real increase</i>
<i>Labour</i>	
Labour years: April 1997 to March 2010	+4.2
Labour 1: April 1997 to March 2001	+2.9
Labour 2: April 2001 to March 2005	+6.2
Labour 3: April 2005 to March 2010	+3.8
<i>Conservative</i>	
April 1979 to March 1997	+1.5
<i>Long-run trend</i>	
April 1956 to March 1997	+3.7
<i>Projected under Spending Review 2010</i>	
April 2010 to March 2015	-3.5

Sources: HM Treasury, *Public Expenditure Statistical Analyses 2011*; previous PESAs; ONS Blue Book; GDP deflators from OBR, *Economic and Fiscal Outlook, March 2011* (<http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>).

Looking ahead, education spending will almost certainly fall in real terms during the period covered by the 2010 Spending Review. Under our calculations,¹ it will fall by 3.5% per year in real terms between 2010–11 and 2014–15, or 13.4% in total over the four years. This would be the largest fall in education spending over a four-year period since at least the 1950s. If these forecasts are realised, then education spending as a share of national income will fall from 6.2% in 2010–11 to 4.6% by 2014–15.²

¹ We assume that central government resource spending and capital spending on education evolve as per plans set out in PESA 2011 (reducing from £30.9bn in 2010–11 to £26.1bn in 2014–15 and from £2.3bn in 2010–11 to £1.7bn in 2014–15, respectively). Resource spending by local authorities in England was £42.0bn in 2010–11 (PESA 2011). We assume this grows at the same rate as grants to local authorities for schools spending set out in PESA 2011 (12.5%), and thus increases to £47.3bn in 2014–15. We make the same assumption for growth in local authority spending in Scotland, Wales and Northern Ireland (totalling £7.4bn in 2010–11); making alternative plausible assumptions makes little qualitative difference to the overall conclusions. We also assume that local authority capital spending (£7.9bn in 2010–11 according to PESA 2011) is cut in line with planned cuts in capital grants for education to local authorities (a cut of 52% between 2010–11 and 2014–15, so falling to £3.8bn). Adding these figures together, we forecast that UK education spending will stand at £87.2bn in 2014–15, compared with £90.5bn in 2010–11.

² This is different from the fall set out in the Office for Budget Responsibility’s Fiscal Sustainability Report Annex Tables (5.2% of GDP in 2014–15). The OBR uses a slightly

This would return it to a level last seen in 1999–2000, which in turn was the lowest level since the mid-1960s.

However, changes in the real-terms level of education spending may not necessarily reflect changes in resources per head if there are also changes in the number of individuals in education over time. Up to the mid-1970s, increases in education spending were spread across a growing school-age population, so the growth in resources per head was slower than the growth in overall spending. Furthermore, the decline in spending from the mid-1970s onwards coincided with a decline in the school-age population. Even though resources were declining as a share of national income, they were spread across fewer pupils. Resources per head would thus have grown at a higher rate than total resources.³

Over the period covered by the 2010 Spending Review, the state-funded school population in England is expected to grow from 6.95 million in 2010–11 to 7.14 million children by 2014–15.⁴ Furthermore, the education leaving age will be gradually increased from 16 to 18 starting in 2013. Once phased in, this will eventually require students to stay in some form of full-time or part-time education or training until the age of 18 (instead of 16 as currently). As a result, the declines in education spending over the next few years will be spread over an increasing population, so that resources per head will probably decline by even more than total spending.

In summary, education spending experienced relatively robust growth during the 2000s. By the end of the decade, education spending as a share of national income stood close to its highest level for at least fifty years. However, over the next four years, almost all of this growth will be reversed. Having grown historically quickly during the 2000s, it is now set to fall historically fast during the early 2010s.

3. Components of education spending

Education spending includes spending on the early years, schools spending, further education (post-16 education outside of schools) and higher education. One can also make a distinction between current or day-

different measure of education spending in order to forecast spending trends in the long term.

³ See figure 4.7 and surrounding text of R. Crawford, C. Emmerson and G. Tetlow (2009), *A Survey of Public Spending in the UK*, IFS Briefing Note 43 (<http://www.ifs.org.uk/publications/1791>).

⁴ Department for Education, *National Pupil Projections: Future Trends in Pupil Numbers* (<http://www.education.gov.uk/rsgateway/DB/STR/d000940/index.shtml>).

to-day spending (e.g. teacher pay and consumables) and capital spending (e.g. investment in new buildings and ICT). In order to illustrate how priorities have changed in recent years, Table 2 shows the average growth across these components of education spending between April 1998 and March 2009 (for England only). This is the most recent, consistent breakdown in spending by sector that is currently available over a long time frame. Schools spending is broken down into current and capital spending, and current spending is detailed separately for under-5s, primary schools and secondary schools.

Table 2. Increases in various components of public spending

	<i>Average annual real increase, April 1998 to March 2009</i>
Education (England only)	5.2
Schools, of which:	5.6
<i>Capital spending</i>	12.9
<i>Current spending, of which:</i>	5.0
Under-5s	6.1
Primary schools	3.9
Secondary schools	5.0
Further education	7.7
Higher education	2.3
Other education spending	5.6

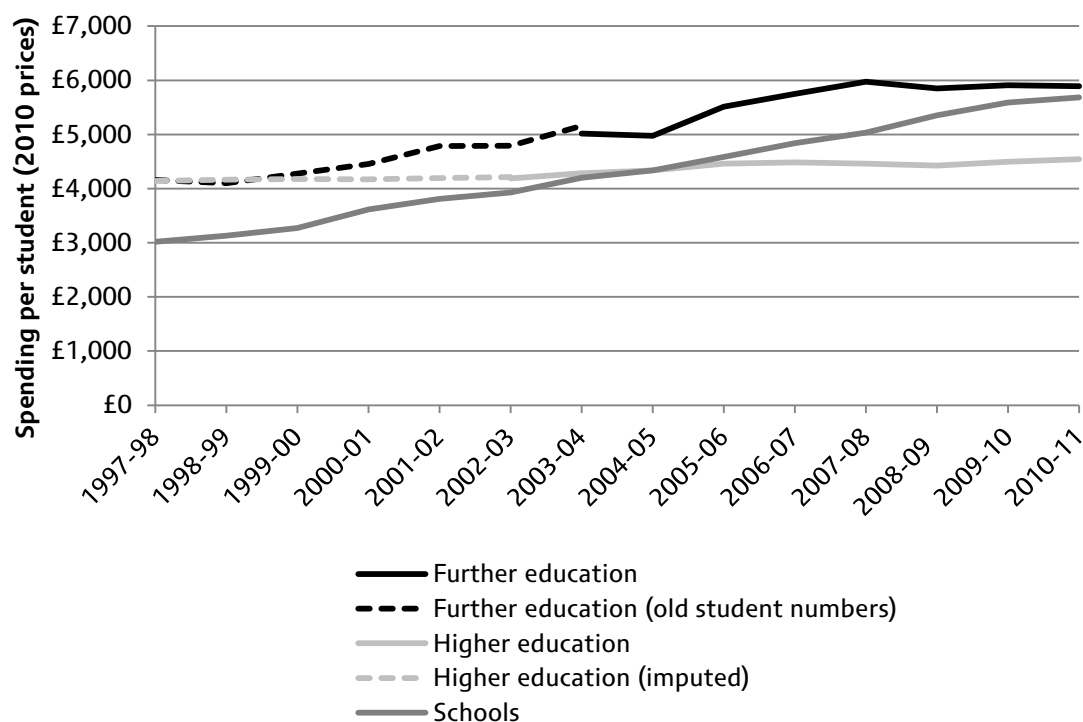
Source: Department for Children, Schools and Families, Departmental Report 2009. Original figures published in 2007–08 prices using March 2009 GDP deflators.

The components that saw the fastest growth over the period were schools capital spending (12.9% per year) and further education spending (7.7% per year). Day-to-day under-5s spending (6.1% per year), ‘other’ education spending (5.6% per year) and day-to-day secondary school spending (5.0% per year) have each grown at a similar rate to total education spending in England over this period (5.2% per year). Average growth in day-to-day primary school spending has been slightly lower, at 3.9% per year. However, higher education spending experienced the lowest growth over this period (2.3% per year).

Given that pupil and student numbers have not been constant over this period, it is also important to examine trends in measures of spending per head across different education sectors. Figure 2 shows the level of day-to-day public spending per head in schools, further education and higher education over time (in 2010 prices). It makes clear the extent to which growth in spending per student has been faster for schools than for other areas of education spending (with higher education public spending per student barely growing at all in real terms). The figure shows that in 1997–98, spending per student in the further education sector (shown by

the black lines) and in the higher education sector (shown by the light grey lines) both stood at a little over £4,000 compared with schools spending per pupil of about £3,000 (in 2010 prices).

Figure 2. Spending per student across different education sectors (1997–98 to 2010–11)



Notes: Schools spending per pupil relates to revenue spending per pupil and excludes capital spending. Further education spending per student relates to funding per full-time-equivalent student; the break in the series reflects a change in the month in which the number of students was measured. Higher education spending per pupil is measured as the level of the teaching grant per DIUS-supported full-time-equivalent student: it excludes research funding, grants and the cost of providing loans. Prior to 2002–03, figures for higher education spending per student are imputed based on the growth in higher education spending per student, including both public spending and private contributions through tuition fees.

Sources: Schools spending per pupil taken from Department for Children, Schools and Families, Departmental Report 2009. Further education (all years) and higher education (2002–03 onwards) spending per student is taken from Department for Innovation, Universities and Skills, Departmental Report 2008. Higher education spending per student (before 2002–03) is based on authors' calculations using Department for Children, Schools and Families, Departmental Report 2007.

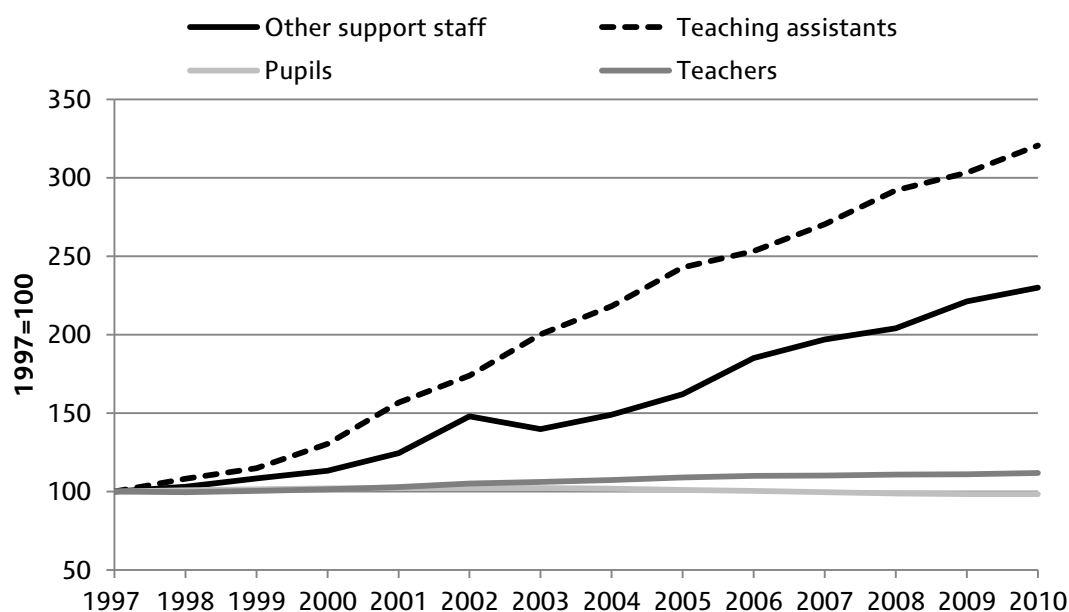
Schools spending per pupil (shown by the dark grey line) grew strongly across this period, at about 5% per year in real terms. Further education spending per student also grew, at about 2.7% per year on average in real terms, suggesting that it probably stood at just under £5,900 in 2010–11. Further education spending per student is thus still likely to be greater than schools spending per pupil in 2010–11, but, due to higher growth in schools spending per pupil, the difference is much smaller than it was in 1997–98.⁵

⁵ It should be noted that schools spending per pupil represents an average across 3- to 19-year-olds. Since more tends to be allocated to older pupils, it is likely that schools spending per sixth-form student is higher in 2010–11 than further education spending per student in the same age range.

In contrast, average growth in higher education spending per student has been much lower, at 0.7% per year in real terms. This means that by 2010–11, higher education spending per pupil will be over £1,000 *lower* than schools spending per pupil, having been over £1,000 *higher* in 1997–98. While spending on higher education grew over this period, so did the total number of students in higher education – at a much faster rate than in schools or further education. The rapid expansion of higher education (which began during the early 1990s) continued during this period as part of the drive to increase access to higher education, particularly among students from non-traditional backgrounds.

It should be noted that we only examine trends in *public* spending per student. In all cases, we thus underestimate the level of total resources per student by the level of private contributions per head. In the specific case of higher education, we will certainly understate the growth in resources per head as a result of successive reforms that have consistently increased the level of private contributions. Total higher education spending per student, including private contributions, has risen faster, and will continue to rise despite the cuts to public higher education funding announced in the 2010 Spending Review (discussed further in Section 4.2). This reflects a conscious policy shift in terms of priorities for public spending, with emphasis in recent years placed on the idea that graduates who benefit financially from higher education should make a greater contribution to its costs.

Figure 3. Changes in the school workforce and pupil numbers over time



Note: Teachers, teaching assistants and other support staff represent the number of full-time equivalents.

Sources: Department for Education and Department for Children, Schools and Families, *School Workforce in England* (2010, 2009, 2007) and *Pupils, Schools and their Characteristics* (2010, 2005).

It is also informative to consider how the levels of education inputs have changed over time. Here we just consider changes to the school workforce over time. In Figure 3, we show the relative growth in the numbers of teachers, teaching assistants and other support staff since 1997 (their respective levels in 1997 are set to 100). We also show the growth in the number of pupils over time.

There has been substantial growth in the numbers of teaching assistants and other support staff, with the former more than tripling from 60,000 in 1997 to reach over 190,000 by 2010. The number of teachers grew by 12% between 1997 and 2010 (rising from 400,000 to 450,000). Since pupil numbers fell slightly over this period, pupil-teacher ratios have also clearly fallen as well. However, given the strong growth in the numbers of other staff at school, the overall pupil-adult ratio will have fallen by even more.

Overall, it is clear that over Labour's period in office, public spending priorities shifted from higher education towards current and capital schools spending, early years and further education. Looking at changes in the school workforce, we observe a 12% growth in the number of teachers over this period. However, the number of teaching assistants more than tripled between 1997 and 2010.

4. Future plans for education spending

Currently, a number of government departments are responsible for education spending. The Department for Education (DfE) is responsible for spending on the early years, schools and further education in England. The Department for Business, Innovation and Skills (BIS) is responsible for higher education and adult skills spending in England. Education spending outside of England is the responsibility of the devolved administrations.

In this section, we focus on DfE spending plans, which comprise the largest component of education spending and about which the greatest amount of information is currently available (although Section 4.2 briefly discusses the spending plans for higher education in England). A detailed comparison of the spending plans of the devolved administrations can be found in chapter 6 of the IFS Green Budget 2011.⁶

⁶ M. Brewer, C. Emmerson and H. Miller (eds) (2011), *The IFS Green Budget: February 2011*, Commentary 117, London: Institute for Fiscal Studies (<http://www.ifs.org.uk/publications/5460>).

4.1 Early years, schools and further education spending in England

Table 3 shows the cash spending plans for the DfE announced by the Chancellor in the 2010 Spending Review. Specifically, it shows the total planned level of the Departmental Expenditure Limit (DEL) broken down by resource and capital spending. This is shown for 2010–11, 2011–12 and 2014–15 (the final year covered by the 2010 Spending Review). The final columns then show the total cash-terms change from 2010–11 to 2014–15 and the total real-terms change (calculated after accounting for economy-wide inflation). For comparative purposes, the bottom half of the table shows the equivalent figures for government spending as a whole.

Table 3. Department for Education spending plans, 2010–11 to 2014–15

	2010–11 (£ billion)	2011–12 (£ billion)	2014–15 (£ billion)	% total change, cash terms	% total change, real terms
DfE					
Resource DEL	51.4	51.5	54.0	5.0%	–5.6%
Capital DEL	7.1	5.1	3.4	–52.6%	–57.4%
Total DEL	58.6	56.5	57.4	–2.0%	–11.9%
All departments					
Resource DEL	346.0	342.3	348.2	0.6%	–9.5%
Capital DEL	50.0	44.5	40.3	–19.4%	–27.6%
Total DEL	375.2	370.7	369.2	–1.6%	–11.5%

Note: Resource and capital DEL spending do not necessarily sum to total due to the effects of depreciation.

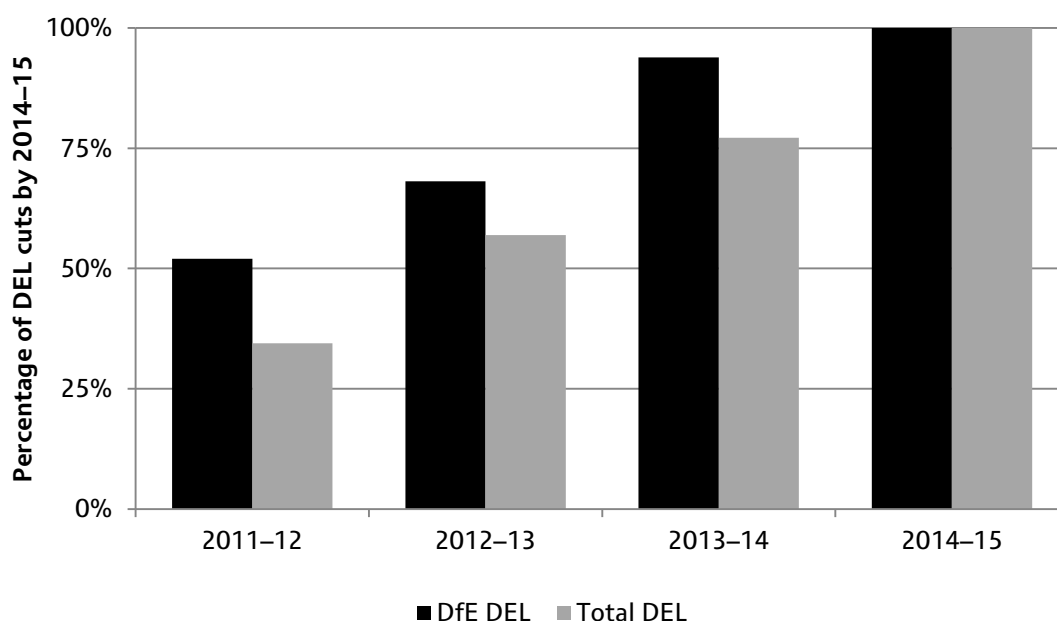
Sources: Cash-terms spending figures from PESA 2011. GDP deflators from OBR, *Economic and Fiscal Outlook, March 2011* (<http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>). Authors' calculations.

In total, DfE is due to see its DEL budget cut by 11.9% in real terms if these plans are delivered. This is slightly higher than the average cut to DELs across government as a whole (11.5%). However, the components of DEL spending are due to be cut at quite different rates from each other and compared with government as a whole. Resource spending within the DfE (e.g. day-to-day spending on teachers' pay and consumables) will fall by 5.6% in real terms between 2010–11 and 2014–15, which is smaller than the cut planned for resource DEL spending across government as a whole (9.5%). In contrast, capital DEL spending within DfE (e.g. investment in school buildings) is due to be cut by nearly 60% in real terms over the next four years, much more than the cut in resource spending and more than twice the average cut in capital DEL spending across government as a whole (27.6%). However, it should be noted that these figures only include conventional public spending on capital projects and exclude any growth in capital spending undertaken via the Private Finance Initiative (PFI).

Overall, the cuts to the DfE's budget are quite close to the average across all government departments, but they are more geared towards capital spending rather than resource spending.

Figure 4 shows the profile of spending cuts to the DfE DEL and total DEL spending as a whole over the next four years. If the real-terms cuts were spread equally over time, then 25% of the cuts would be made by 2011–12, 50% by 2012–13 and so on. However, it is clear that the cuts to the DfE DEL budget are not spread evenly over time: they are relatively front-loaded, with 52% of the total real-terms cut due to be made in 2011–12, compared with just over a third of the total cuts to DEL spending across government as a whole.

Figure 4. Timing of cuts to Department for Education and total DEL spending



Sources: HM Treasury, *Public Expenditure Statistical Analyses 2011*. GDP deflators from OBR, *Economic and Fiscal Outlook, March 2011* (<http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>).

The next key question is how the different components of the DfE’s budget are due to change. Unfortunately, the department is yet to publish exhaustive expenditure plans for the next four years. The last time the DfE – or its predecessor, the Department for Children, Schools and Families (DCSF) – published exhaustive expenditure plans was in Spring 2009.

In Table 4, we collate the most recent spending plans for grants and spending in specific areas published by the DfE (and its predecessor), and by the Young People’s Learning Agency (YPLA), as well as those contained in the Public Expenditure Statistical Analyses (PESA) and the 2010 Spending Review. This is not exhaustive: a noticeable element of DEL resource spending cannot be accounted for by this methodology. However, it nevertheless represents the most comprehensive assessment published to date. This is shown for 2010–11, 2011–12 and, where possible, 2014–15.

Table 4. DfE DEL resource budget, 2010–11 to 2011–12 and to 2014–15

	2010–11 (£ billion)	2011–12 (£ billion)	% change (real terms)	2014–15 (£ billion)	% total change (real terms)
Resource DEL	51.4	51.5	-2.7%	54.0	-5.6%
<i>Of which:</i>					
Early Intervention Grant	2.5	2.2	-13.0%	2.2	-21.7%
Schools spending	37.4	38.0	-1.2%	41.1	-1.2%
Dedicated Schools Grant and Academies	37.4	37.4	–	38.6	-7.3%
Pupil Premium	–	0.625	–	2.5	–
Cancelled education programmes	0.6	0.0	-100%	0.0	–
16–19 education	8.1	8.0	-4.1%	?	–
Further education	4.0	4.0	-2.5%	?	–
Sixth-form funding	2.4	2.4	-2.1%	2.2	-17.6%
Apprenticeships	0.8	0.8	-0.5%	?	–
EMA and 16–19 Bursary	0.6	0.4	-29.4%	?	–
Other spending	0.4	0.4	-3.8%	?	–
Administration	0.5	0.5	-10.9%	0.4	-31.5%
PFI/Other (PESA)	0.5	0.7	28.0%	0.9	55.4%
Remaining	1.8	2.0	–	–	–
<i>Memo: TDA</i>	<i>0.6</i>	<i>?</i>	<i>–</i>	<i>?</i>	<i>–</i>
<i>Memo: CAFCASS</i>	<i>0.1</i>	<i>?</i>	<i>–</i>	<i>?</i>	<i>–</i>
<i>Memo: National College</i>	<i>0.1</i>	<i>?</i>	<i>–</i>	<i>?</i>	<i>–</i>

Sources: Cash-terms spending figures for resource DEL and administration spending taken from PESA 2011. Figures for Early Intervention Grant 2010–11 and 2011–12 taken from Local Government Settlement 2011 key table 2 (<http://www.local.odpm.gov.uk/finance/1112/grant.htm#set1112>); 2014–15 figure taken from PESA 2011. Dedicated Schools Grant and Academies spending in 2010–11 is calculated as the total level of the Dedicated Schools Grant minus recoupment for Academies (as published in the 2011–12 Local Government Settlement) plus General Annual Grant for Academies (as published in the YPLA Annual Report and Accounts 2010–11). Figures for 2011–12 DSG and Academies spending calculated on the basis of a freeze in cash spending per pupil. Figure for total level of DSG and Academies grants in 2014–15 taken from PESA 2011. Pupil Premium for 2011–12 and 2014–15 taken from Spending Review 2010. Figures for 16–19 education spending and support (except Apprenticeships) taken from YPLA Annual Report and Accounts 2010–11 and Annual Plan for 2011–12 (<http://www.ypla.gov.uk/aboutus/report-and-accounts/>). Figures for Apprenticeships spending taken from Funding Statement 2011–12 (http://readingroom.lsc.gov.uk/YPLA/16-19_Funding_Statement.pdf). Figure for sixth-form funding in 2014–15 taken from PESA 2011. PFI/Other spending taken from PESA 2011. Figures for TDA, CAFCASS and National College taken from DCSF Departmental Report 2009. GDP deflators from OBR, *Economic and Fiscal Outlook, March 2011* (<http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>). Authors' calculations.

The plans suggest that current spending on schools will see the smallest real-terms cut (about 1% in total). Spending on the early years and youth services is expected to be cut by over 20% in real terms in total, whilst planned cuts to 16–19 education spending are likely to be of a similar magnitude.

Like many other government departments, the DfE is hoping to deliver some of the required spending cut through sharp reductions in administrative spending within the department. The current plan is to make cuts to administration of about one-third in real terms by 2014–15, with a 10.9% real-terms cut due to take place in 2011–12. However,

departmental administrative spending makes up only a tiny proportion of DfE's total budget, so cuts to other areas of spending will also be required.

Spending on the Early Intervention Grant⁷ – which combines many aspects of Sure Start, early years and youth services – will be cut by 13% in real terms in 2011–12 and cumulatively by 22% by 2014–15, if current spending plans are delivered. This is more than the average cut to resource spending across the department as a whole, and thus early years and youth spending are due to receive a disproportionately large cut.

Schools spending is relatively protected compared with other areas of DfE spending and with other areas of public spending. At the time of the 2010 Spending Review, a small real-terms increase in schools spending was announced. Since then, forecasts for economy-wide inflation in 2011–12 have risen, leading us to now expect a 1.2% real-terms fall in 2011–12. Schools spending is then expected to be frozen in real terms between 2011–12 and 2014–15.

Schools spending has been divided into two components in Table 4: the sum of the Dedicated Schools Grant (incorporating previous specific grants for schools)⁸ and grants to Academies, and the Pupil Premium, which will be targeted specifically on the most disadvantaged pupils. The level of the Dedicated Schools Grant per pupil is set to be frozen in cash terms between 2010–11 and 2014–15; this is a 7.3% real-terms cut over the period. Meanwhile, spending on the Pupil Premium will rise from £625 million in 2011–12 to £2.5 billion by 2014–15.

From 2011–12 onwards, the government has chosen to abolish a number of programmes which accounted for £0.6 billion of education spending in 2010–11. A full list of these programmes is shown in Appendix Table A3.

Spending on 16–19 education is set to fall by 4.1% in real terms in 2011–12. A large amount of this is accounted for by cuts to the Education Maintenance Allowance (EMA), which was closed to new applicants in January 2011. There are also planned cuts to further education and sixth-form funding of more than 2% in real terms in 2011–12. Sixth-form spending is then set to fall by a further 15.8% between 2011–12 and 2014–15; no longer-term spending plans for other areas of further education are currently available.

⁷ A full list of all the previously separate grants incorporated into the Early Intervention Grant is provided in Appendix Table A1.

⁸ A full list of the different grants incorporated into the Dedicated Schools Grant is shown in Appendix Table A2.

It seems clear that spending on the education of 16- to 19-year-olds will receive a disproportionately large cut, as evidenced by planned real-terms cuts to all areas of spending in 2011–12 and expected cuts to sixth-form spending by 2014–15. These cuts will take place at a time when the education leaving age is due to start rising (from 16 to 18) from 2013, which is likely to make the pressures on individual providers even greater.

The government is also planning to increase spending on PFI and some other areas from £0.5 billion in 2010–11 to £0.9 billion by 2014–15. Adding this to the other published figures detailed above accounts for £49.6 billion of spending in 2010–11, out of a total of £51.4 billion that was actually spent. Thus the list of spending items detailed in Table 4 is not exhaustive and it is not known how the other elements of spending will evolve. These other elements include spending by agencies such as the Training and Development Agency (TDA) for schools, the Children and Family Court Advisory and Support Service (CAFCASS) and the National College. For reference, Table 4 shows the spending that was planned for these areas in 2010–11, as published in the 2009 DCSF Departmental Report.

4.2 Plans for higher education spending in England

The 2010 Spending Review also set out the government's plans for public spending on higher education. While the total DEL settlement for the Department for Business, Innovation and Skills is to fall by 25% in cash terms, higher education will bear the brunt: its resource budget will fall by 40%, from £7.1 billion in 2011–12 to £4.2 billion by 2014–15. The bulk of this saving comes from the planned reduction in the teaching grant for universities, which will fall by 80% over this period, in line with the recommendations of the Browne Review of higher education finance.^{9,10}

As mentioned in Section 3, the private contribution to higher education funding (in the form of tuition fees) has risen in recent years and will continue to rise during the Spending Review period. The government's package of reforms announced in 2010 lifted the cap on tuition fees from

⁹ *Securing a Sustainable Future for Higher Education: An Independent Review of Higher Education Funding and Student Finance*, 2010, <http://webarchive.nationalarchives.gov.uk/+/hereview.independent.gov.uk/hereview/>.

¹⁰ Since students borrow loans from the government to pay for tuition, the public cash-flow spending on higher education will also increase to reflect the increase in fee loans issued. This will not affect the government's overall spending or borrowing position as the raising of funds for such loans is scored as a financial transaction in the National Accounts. For public resource spending, what matters is the expected financial cost to the government of the subsidy implied by the loan repayment system. While this subsidy will increase as greater loans are issued, it will be more than offset by reductions in the teaching grant.

the current level of £3,375 for 2011–12 to £9,000 for 2012–13 onwards. Previous work by IFS researchers¹¹ found that universities would need to charge fees of roughly £7,000 in order to make up for the lost public funding. While total fee income in future years is unknown, the estimated average tuition fee for 2012–13 is over £8,000.¹² Therefore, after including private contributions, total higher education funding is set to increase even as the public funding for it falls.

4.3 Summary

Overall, the cuts in education spending will not be shared equally across all components of education spending. The resource budget for schools has been relatively protected: it will see smaller cuts in 2011–12 and throughout the Spending Review period than other areas of education spending. The most substantial cuts are due to be made to higher education and schools capital spending, followed by planned cuts to spending on 16–19 education and to early years and youth services spending. The planned cuts to 16–19 education seem particularly challenging as they will take place at a time when the education leaving age is due to increase from 16 to 18.

Despite the large differences in degrees of change to the components of education spending, there is actually remarkable similarity in the relative priorities adopted by the current coalition government and the previous Labour government. Both have favoured shifting public spending from higher education towards schools spending. However, there are also some differences in other implied priorities. Capital spending was the fastest-growing component of education spending under Labour, but is due to receive the largest cut under the coalition government.¹³ Another difference is the fact that the current government plans to cut day-to-day schools spending by less in real terms than early years spending and further education spending, whereas the previous Labour government increased early years and further education spending more rapidly than it increased day-to-day spending on schools.

¹¹ H. Chowdry, L. Dearden and G. Wyness (2011), *Higher Education Reforms: Progressive but Complicated with an Unwelcome Incentive*, IFS Briefing Note 113 (<http://www.ifs.org.uk/publications/5366>).

¹² Office for Fair Access, <http://www.offa.org.uk/press-releases/universities-and-colleges-to-increase-their-spending-on-access-to-600-million-a-year/>.

¹³ This pattern has also been seen in most other areas of government capital spending – public sector capital spending grew rapidly under the last Labour government and is set to be cut back sharply under the coalition government’s latest spending plans.

5. Changes to school funding in 2011–12 and 2014–15

The new coalition government has chosen to make a number of changes to the way in which school funding is provided in 2011–12, and has further plans for changes over the following three years. Here, we describe these changes and their implications for school funding levels.

The main changes introduced in 2011–12 were streamlining of specific grants and the introduction of a Pupil Premium.

Previously, schools received a large number of specific grants from central government, such as the School Standards Grant. From 2011–12, these have been rolled into the Dedicated Schools Grant to simplify the school funding system. Local authorities will be allowed to take account of schools' previous specific grant allocations when determining their funding in 2011–12, which could prevent some schools from losing large amounts of funding. In the 2010 Spending Review, the government announced that existing spending per pupil (the Dedicated Schools Grant plus specific grants) would be frozen in cash terms in 2011–12.

In addition, the government has implemented a new Pupil Premium, which will provide schools with a fixed extra amount of money for each deprived or otherwise disadvantaged pupil. The current school funding system already weights funding towards deprived pupils, with local authorities using many deprivation factors in their own funding formulae. In previous work,¹⁴ we have shown that extra funding attached to deprived pupils in the current system could be worth as much as £2,000 for deprived pupils at primary schools or £3,000 at secondary schools, resulting in a total level of funding almost double that attached to non-deprived pupils, on average. This work also showed that such deprivation funding grew rapidly from 2005 onwards.

A Pupil Premium could: (i) simplify this system; (ii) weight funding even more towards disadvantaged pupils; and (iii) make school funding levels respond more quickly as the make-up of their student body changes. In the long run, the government has stated that the Pupil Premium should become the primary mechanism for distributing all deprivation funding to schools, and would therefore replace all current deprivation funding.

In 2011–12, the Pupil Premium was originally set at £430 for each pupil eligible for free school meals (FSM), £430 for each child in care and £200

¹⁴ H. Chowdry, E. Greaves and L. Sibieta (2010), *The Pupil Premium: Assessing the Options*, Commentary 113, London: Institute for Fiscal Studies (<http://www.ifs.org.uk/publications/4776>).

for children in service families.¹⁵ These levels assumed substantial growth in the numbers of pupils registered as eligible for FSM (15% total growth between January 2010 and January 2011). The assumed driving force for this growth was the clear financial incentive for schools to ensure that all pupils eligible for FSM are registered as such. This allowance was made to ensure that actual spending did not exceed the budget of £625 million in 2011–12. However, the actual growth in the number of pupils registered as eligible for FSM was much lower than assumed (4.5% at primary schools and 2.1% at secondary schools¹⁶). In response, the government has recently chosen to increase the level of the Pupil Premium this year to £488 for pupils eligible for FSM and each child in care.¹⁷ Looking ahead, the Pupil Premium will be gradually expanded over time, with a total budget of £2.5 billion available in 2014–15 as set out in the 2010 Spending Review.

We now analyse the implications of these policy decisions for the budgets of schools across England.¹⁸ Figure 5 shows the proportions of primary (black) and secondary (grey) schools facing cash-terms changes in their budget of a given value or less. In 2011–12, economy-wide inflation as measured by the GDP deflator is currently forecast at 2.9%¹⁹ (indicated by the vertical black line in the figure). This is a well-known, standard measure of inflation that is useful for comparisons across different areas of public spending and for judging the cost of resources to the taxpayer (it also excludes the impact of the increase in VAT in January 2011).

¹⁵ Department for Education, ‘School funding announcement 2011–12’ (<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolrevenuefunding/settlement2012pupilpremium/a0070252/school-funding-announcement-2011-12>).

¹⁶ Department for Education, ‘Schools, pupils and their characteristics, January 2011’ (<http://www.education.gov.uk/rsgateway/DB/SFR/s001012/index.shtml>).

¹⁷ <http://www.education.gov.uk/inthenews/inthenews/a00199131/schools-to-get-even-more-pupil-premium-cash-this-year>.

¹⁸ We assume that all existing funding is frozen in per-pupil terms and then a Pupil Premium of £488 is added for each child receiving FSM. We assume that almost all school characteristics are fixed at their 2010–11 levels; the two exceptions are that we allow the number of pupils eligible for FSM to grow as per the growth that occurred between January 2010 and January 2011, and that we allow the total number of pupils in both primary and secondary schools to grow at the national average rate over the same period. We have not modelled the Pupil Premium for children in care or in service families, as these data are not publicly available for individual schools.

¹⁹ OBR, *Economic and Fiscal Outlook, March 2011* (<http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/>).

Figure 5. Change in school funding levels in cash terms in 2011–12

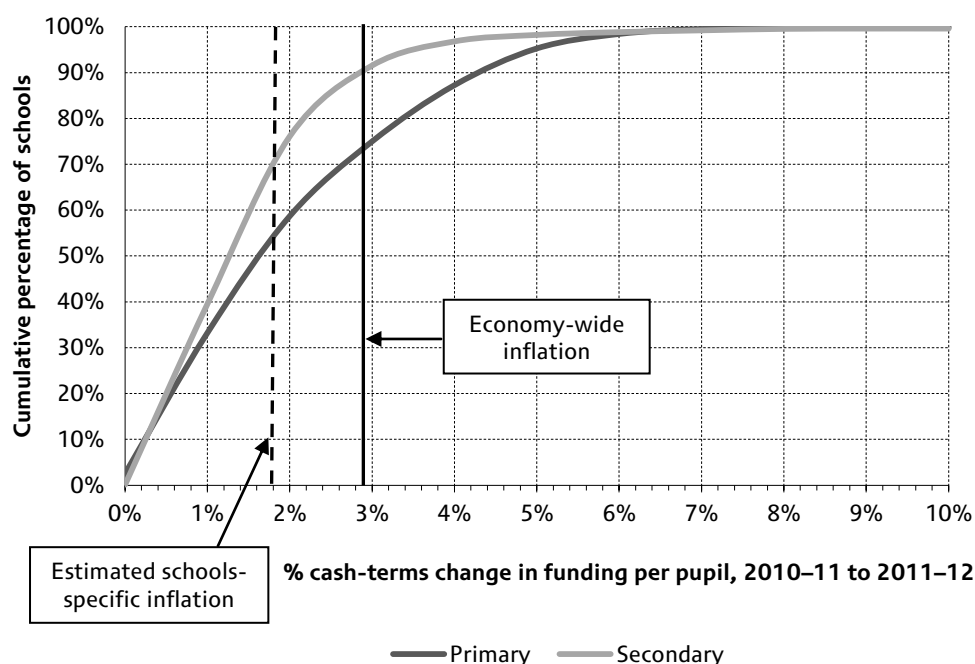


Figure 5 shows that almost three-quarters of primary schools and around 90% of secondary schools will see cash-terms increases in their budgets of less than 2.9% – in other words, a real-terms cut using this measure of inflation. Moreover, around 30% of primary schools will see increases in their budget of 2 percentage points less than economy-wide inflation, as will nearly 40% of secondary schools. At the other end of the scale, only 5% of primary schools and 2% of secondary schools will see cash-terms increases of 2 percentage points above economy-wide inflation (a real-terms increase).

However, the costs of inputs that schools need to use may not increase at the same rate as average inflation in the economy. In particular, the June 2010 Emergency Budget imposed a cash-terms pay freeze across the public sector in 2011–12 and 2012–13 (except for workers earning less than £21,000). Teachers’ pay is set for academic years, not financial years, and was actually increased by 2.3% in September 2010 (the final year of a three-year settlement). This means that, despite the pay freeze, teachers’ salary levels will be 1% higher in 2011–12 than in 2010–11. Combining the assumptions about public sector pay and economy-wide inflation for non-pay costs produced by the Office for Budget Responsibility (OBR),²⁰ we estimate that schools-specific costs will have increased by 1.8% in

²⁰ OBR, *Economic and Fiscal Outlook, March 2011*, fiscal supplementary table 2.21 (http://budgetresponsibility.independent.gov.uk/pubs/obr_fiscal_supplementary_table_s1.xls).

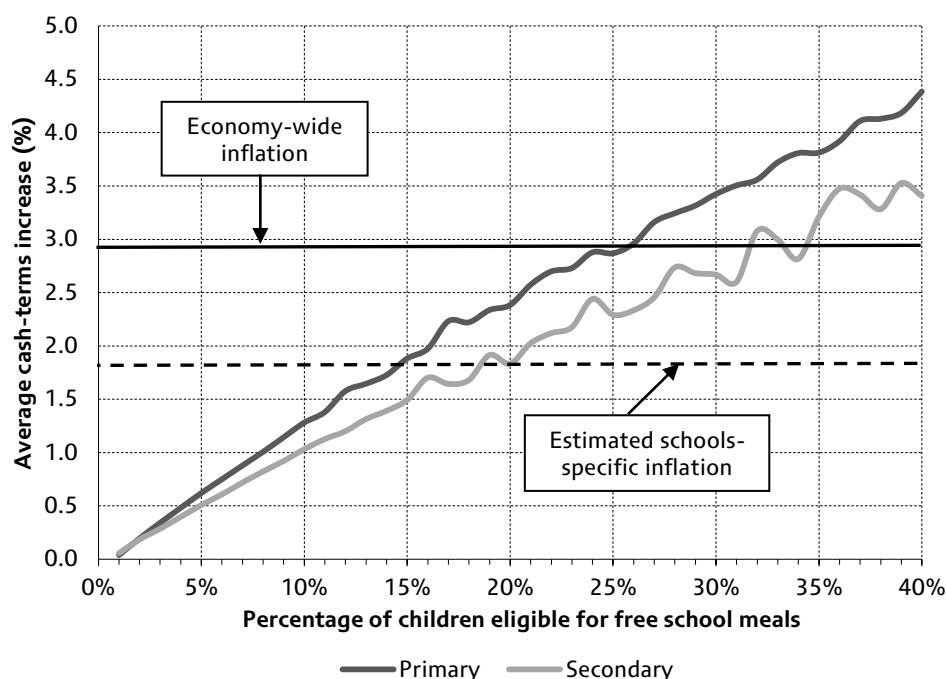
2011–12.²¹ This is shown by the dashed black line in Figure 5. About 55% of primary schools and 70% of secondary schools would see their budgets increase by less than this threshold. In other words, with this estimate of inflation, their cash budgets in 2011–12 would not be sufficiently large to allow them to purchase the same set of inputs as they did in 2010–11.²²

In either case, the pattern of cash-terms increases is entirely driven by the implementation of the Pupil Premium. Schools with a higher proportion of pupils eligible for FSM will see a larger cash-terms increase in funding. This is demonstrated in Figure 6, which shows the average cash-terms increase in funding for primary schools and secondary schools as the proportion of children eligible for FSM increases. The proportionate rise in funding generally increases amongst both primary and secondary schools as this measure of school deprivation increases. Indeed, primary schools with more than 25% of children eligible for FSM are on average expected to see funding increases above the level of economy-wide inflation. When we consider our measure of schools-specific inflation, we see that primary schools with 15% or more children eligible for FSM are expected on average to see real-terms increases judged against this measure. Only secondary schools with more than a third of pupils eligible for FSM are likely to see increases in funding above the level of economy-wide inflation, while those with more than 20% of pupils eligible for FSM are likely to see an increase in funding above our estimate of schools-specific cost inflation in 2011–12.

²¹ We assume that school costs are broken down into three components based on the values presented in Section 251 Outturn Summary Table 2009–10: teacher pay (53%), other pay (25%) and non-pay costs (22%). Combining the 2.3% increase in teacher pay levels in September 2010 with the pay freeze implemented from September 2011 gives a value of 0.96% for teacher salary pressure. To this we add the OBR's estimates of the effects of pay drift, National Insurance and employer pension contributions across the public sector as a whole (0.7%). This gives an estimate of 1.7% for the increase in teacher pay per head. We assume that other pay costs increase in line with the OBR's estimate of the pay bill per head across the public sector (1.2%). We assume that non-pay costs increase in line with economy-wide inflation (2.9%). The weighted average of these three values gives the value of 1.8% as our estimate of schools-specific cost inflation.

²² It should be noted that in the case of both the deflators shown here, one does not necessarily hold the quality of resources constant. For instance, the lower level of the schools-specific deflator largely reflects a public sector pay freeze. Although this will lower immediate resource pressures on schools, it may also lower the quality of education resources holding all else constant (e.g. it may become more difficult to recruit and retain high-quality teachers).

Figure 6. Average change in school funding levels in 2011–12 by proportion of pupils eligible for FSM



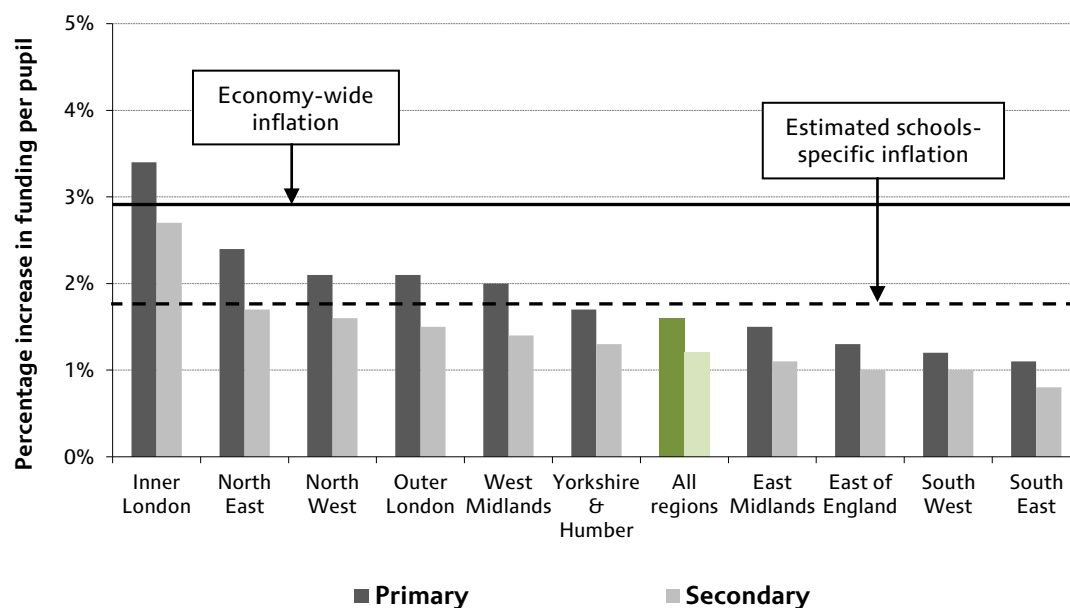
Funding per pupil is currently lower in absolute terms in primary schools than in secondary schools. Thus, since the Pupil Premium is a fixed cash amount per pupil, it represents a larger relative increase in funding for primary schools. So, primary schools will see a larger proportionate increase in funding than secondary schools, even amongst those with similar proportions of children eligible for FSM.

More generally, for a given level of pupils eligible for FSM, the proportionate increase in funding will be larger for schools with lower initial levels of funding per pupil. This also applies to schools across different regions. For example, schools in London have higher levels of funding, on average, than schools outside London: teacher salary scales are higher in London to compensate for a higher cost of living. Amongst schools with similar proportions eligible for FSM, the Pupil Premium will lead to a lower relative increase for schools in London than for those outside London. However, as is shown below, this effect will almost certainly be dominated by differences in the proportion of children eligible for FSM – and therefore the Pupil Premium – across each region.

Figure 7 shows the average (median) change in funding per pupil across different regions of England (separating the inner and outer London regions). The relative increase in funding is actually highest for schools in inner London, because they have the highest proportion of children eligible for FSM. At the other end of the scale, the South East, South West and East of England have the lowest proportions of children eligible for FSM and the lowest median increases. The median increase in funding

across primary schools and secondary schools is below economy-wide inflation in all regions (apart from primary schools in inner London). However, primary schools across London, the North East, the North West and the West Midlands, and secondary schools in inner London, are all expected to see median increases in funding that exceed our estimate of schools-specific cost inflation. All other regions are expected to see median increases in funding below our estimate of schools-specific cost inflation.

Figure 7. Median change in school funding levels in 2011–12 by region

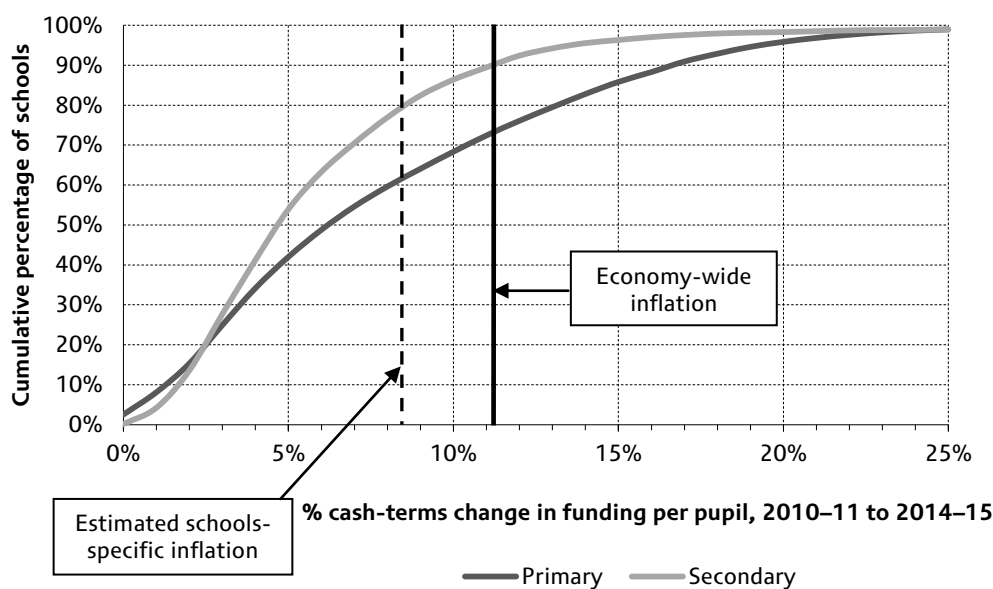


Any changes in the pupil composition of schools would also mean further changes in budgets as a result of local authority fair-funding formulae. These would lead to additional changes for individual schools, but are unlikely to change the overall picture demonstrated in Figure 7. Moreover, the government has chosen to retain the Minimum Funding Guarantee, which is set at -1.5% per pupil for 2011–12. What this means is that no school can see a reduction in cash-terms funding per pupil of more than 1.5% compared with 2010–11.

In order to consider the likely changes in school funding up to 2014–15, we assume that the total amount spent on the Pupil Premium is £2.5 billion, as set out in the 2010 Spending Review. This equates to £1,900 for each pupil eligible for FSM in 2014–15 (leaving £110 million for an expanded Pupil Premium for children in care or in service families). We continue to assume that per-pupil funding is frozen in cash terms at current levels and assume no further change in school characteristics between 2011–12 and 2014–15. In particular, we assume there is no further growth in the proportion of pupils eligible for FSM.

Figure 8 shows the proportions of primary and secondary schools expected to see cash-terms funding increases between 2010–11 and 2014–15 of a given value or less. We show the expected rate of cumulative economy-wide inflation over this period (11.2%, shown by the vertical black line) and an estimate of cumulative schools-specific cost inflation (8.4%,²³ shown by the dashed line).

Figure 8. Change in school funding levels in cash terms in 2014–15



We estimate that nearly three-quarters of primary schools would see an increase in funding below economy-wide inflation between 2010–11 and 2014–15, as would 90% of secondary schools. Around two-thirds of primary schools and over 80% of secondary schools would see real-terms cuts, measured against our estimate of schools-specific inflation. About half of primary schools are likely to receive cash-terms increases of at least 5 percentage points below economy-wide inflation, as are over 60% of secondary schools. However, there will be some schools that see budget increases significantly above economy-wide inflation as a result of the Pupil Premium. About 3% of secondary schools will see increases 5 percentage points higher than inflation, as will over 10% of primary schools.

²³ It is more difficult to produce an estimate of schools-specific cost inflation for the period from 2010–11 to 2014–15, as public sector pay is only currently set up to 2012–13. We assume that teacher salary costs are frozen in September 2012, but that all other factors increase in line with OBR estimates of the pay bill per head in 2012–13, 2013–14 and 2014–15. Non-pay costs are assumed to follow the GDP deflator. Under these assumptions, we can estimate that schools-specific costs will increase by 8.4% over this period.

With the level of the Pupil Premium not set for 2014–15 and the government contemplating further reforms to school funding as early as 2013–14, this is naturally a much more speculative exercise. We thus do not repeat our analysis across different school types. However, Figure 8 is informative about the average change across schools. Furthermore, if the Pupil Premium is continually increased, it stands to reason that deprived schools will see larger increases. If it is fixed in absolute terms, the Pupil Premium will also continue to represent a larger proportionate increase for primary schools than for secondary schools.

6. Conclusion

Following the historically large increases in education spending over the 2000s, large cuts to education spending are now planned for the period covered by the 2010 Spending Review. By 2014–15, education spending is expected to fall to its lowest level since the mid-1990s. However, the cuts planned to the DfE’s budget are similar to the average planned across government as a whole.

However, the cuts will not be shared equally across all areas of education spending. The resource budget for schools has been relatively protected. The most substantial cuts will be made to higher education and schools capital spending, followed by planned cuts to 16–19 education spending and to early years and youth services spending.

Despite the difference between the overall rate of growth of education spending delivered by the last Labour government and that expected under the coalition government, there is actually a remarkable similarity in the two governments’ apparent relative priorities. Common to both records on education spending is a shift in public spending away from higher education and towards schools. One key difference is that, while schools capital spending was the fastest-growing component of education spending under Labour, it is due to receive the largest cut under the coalition government.

The government has also chosen to make the school funding system more progressive from 2011–12, by introducing a Pupil Premium targeted at the most disadvantaged children. With overall school funding becoming much tighter – due to a cash freeze in per-pupil funding outside of the Pupil Premium – only the most deprived schools will see real-terms increases in funding per pupil. Whether one considers economy-wide inflation or an estimate of schools-specific cost inflation, the majority of primary and secondary schools are expected to see real-terms cuts in 2011–12.

Looking further ahead, the Pupil Premium will grow as the budget increases to £2.5 billion by 2014–15. However, given the continuation of

the cash-terms freeze in other per-pupil funding, it is again the case that only the most deprived schools would be better off financially than in 2010–11. Under both economy-wide inflation and an estimate of schools-specific cost inflation, the majority of primary and secondary schools are expected to have lower real-terms funding per pupil in 2014–15 than they had in 2010–11. This Briefing Note has not examined the implications of these changes in funding for educational outcomes, but it is unlikely that no impact will be felt. Even if there are offsetting improvements in the productivity of the inputs into education, such improvements could well have taken place in the absence of cuts to those inputs.

Appendix

Table A1. Early Intervention Grant and predecessor grants

	<i>2010–11, old (£ billion)</i>	<i>2010–11, new (£ billion)</i>	<i>2011–12 (£ billion)</i>
Early Intervention Grant	2.483	2.483	2.214
Sure Start Children’s Centres	1.135	–	–
Early Years Sustainability	0.238	–	–
Early Years Workforce	0.196	–	–
Two-Year-Old Offer – Early Learning and Childcare	0.067	–	–
Disabled Children Short Breaks	0.185	–	–
Connexions	0.467	–	–
Think Family	0.094	–	–
Youth Opportunity Fund	0.041	–	–
Youth Crime Action Plan	0.012	–	–
Challenge and Support	0.004	–	–
Children’s Fund	0.132	–	–
Positive Activities for Young People Programme	0.095	–	–
Youth Taskforce	0.004	–	–
Young People Substance Misuse	0.007	–	–
Teenage Pregnancy	0.028	–	–
Key Stage 4 Foundation Learning	0.020	–	–
Targeted Mental Health in Schools Grant	0.028	–	–
Contact Point	0.015	–	–
Children’s Social Care Workforce	0.018	–	–
Intensive Intervention Grant	0.003	–	–
January Guarantee	0.006	–	–
Child Trust Fund	0.001	–	–
DfE Emergency Budget Reduction	–0.311	–	–

Source: DCLG Local Government Settlement 2011–12
<http://www.local.odpm.gov.uk/finance/1112/grant.htm#set1112>.

Table A2. Dedicated Schools Grant and predecessor grants

	2010–11, old (£ billion)	2010–11, new (£ billion)	2011–12 (£ billion)
Total School Spending	37.4	37.4	38.0
Dedicated Schools Grant	31.195	36.374	36.468
School Development Grant (including Specialist Schools)	1.999	–	–
School Standards Grant (including personalisation)	1.619	–	–
Flexibility of Free Entitlement for 3–4 Year Olds	0.340	–	–
National Strategies (Primary and Secondary)	0.277	–	–
Ethnic Minority Achievement	0.204	–	–
Diploma Delivery Grant	0.026	–	–
London Pay Addition Grant	0.028	–	–
School Lunch Grant	0.079	–	–
1-2-1 Tuition (formerly Making Good Progress)	0.251	–	–
Extended Schools – Sustainability	0.190	–	–
Extended Schools – Subsidy	0.167	–	–
Academy Recoupment	–0.765	–0.765	–
Pupil Premium	–	–	0.625
<i>Memo: General Annual Grant to Academies</i>	<i>1.782</i>	<i>1.782</i>	<i>4.9</i>

Note: Figures do not sum for 2011–12 as split between Dedicated Schools Grant and General Annual Grant not yet finalised.
Sources: DCLG Local Government Settlement 2011–12 (<http://www.local.odpm.gov.uk/finance/1112/grant.htm#set1112>);
General Annual Grant to Academies from YPLA Annual Funding Plan 2011–12 (<http://www.ypla.gov.uk/aboutus/report-and-accounts/>).

Table A3. List of abolished education programmes

	2010–11 (£ billion)
Total Planned Spending	0.575
Music Grant	0.082
Assessment for Learning	0.050
Playing for Success	0.013
Prospectus and Common Application Process	0.002
School Travel Advisers	0.007
School Improvement Partners	0.024
Secondary National Strategy – Behaviour and Attendance	0.014
Primary National Strategy – Central Co-ordination	0.030
Secondary National Strategy – Central Co-ordination	0.030
Extended Schools Start Up Costs	0.071
Extended Schools Start Up Costs	0.015
School Intervention	0.015
General Duty on Sustainable Travel to School	0.004
School Development Grant	0.168
Extended Rights for Free Travel	0.029
Designated Teacher Funding	0.003
Choice Advisers	0.006
Education Health Partnerships	0.013

Source: DCLG Local Government Settlement 2011–12
(<http://www.local.odpm.gov.uk/finance/1112/grant.htm#set1112>).