Institute for Fiscal Studies

IFS Report R339

Bruno Moura
Imran Tahir

The state of college finances in England

Economic and Social Research Council

The state of college finances in England

Bruno Moura
Imran Tahir

Copy-edited by Judith Payne

Published by **The Institute for Fiscal Studies**

ISBN 978-1-80103-206-3

The authors would like to thank Christine Farquharson, Julian Gravatt, Midhat Haque, Paul Johnson, Andrew McKendrick, Kate Ogden, Luke Sibieta and analysts at the Department for Education for useful comments and suggestions. The authors gratefully acknowledge the support of the ESRC Centre for the Microeconomic Analysis of Public Policy (ES/T014334/1).

Executive summary

In this report, we analyse the financial health and challenges facing colleges in England. This covers all further education colleges, including sixth form colleges. There are currently 218 colleges in England, which offer a wide range of academic and vocational programmes to both young people and adults. In the 2023/24 academic year, colleges educated 1.6 million learners, including 925,000 adults and 661,000 16- to 18-year-olds.

Key findings

1. **In 2022/23, colleges in England generated £6.9 billion in income and spent £6.5 billion** (in today's prices), leaving a sector-wide surplus of almost £400 million. **Since 2010/11, both income and expenditure have fallen by almost a third.** This decline has largely been driven by cuts to public funding, which accounts for 83% of college income. **Between 2010/11 and 2022/23, total funding for all 16–19 education has fallen by almost a quarter, while funding for adult skills has been cut by over half.**

2. **The financial health of colleges deteriorated sharply in the early 2010s**, with the proportion of colleges in deficit rising from 16% in 2010/11 to 54% by 2015/16. While there has been some improvement since then, **37% of colleges were still operating in deficit in 2022/23**. Persistent financial strain remains a major concern, with 44% of these colleges having reported deficits for at least the last three consecutive years.

3. **Colleges have consistently been in a worse financial position than universities.** In 2015/16, over half of colleges had in-year deficits compared with just 8% of English universities. Although the gap has narrowed, a much higher share of colleges (37%) than of universities (just over 20%) reported deficits in 2022/23.

4. According to the Education and Skills Funding Agency's financial health scores, **one in five colleges were rated as either 'inadequate' or 'requiring improvement' in 2022/23**. Colleges rated 'requiring improvement' face financial risks with limited capacity to adapt, while those rated 'inadequate' are at significant risk of being unable to meet their current obligations without external support.

5. Almost 60% of college funding is allocated to 16–19 education, and the population of 16- and 17-year-olds in England is projected to grow by an additional 110,000 (or 8%) between 2023 and 2028. Simply to maintain current per-pupil funding levels, **the government would need to increase total funding across colleges and school sixth forms by £400 million by 2028**.

6. **Almost half of college teachers leave the profession within three years of starting, partly due to the widening pay gap between college and school teachers.** In 2023/24, the median salary for school teachers was approximately £44,000, compared with £38,000 for full-time college teachers – a gap of £5,500 or 15%. This gap is set to increase to nearly £7,000 or 18% in 2024/25.

1. Introduction

The government has placed economic growth at the heart of its agenda, with a key part of this strategy focused on improving workforce skills. Since the election, several skills-related policies have been announced, including the establishment of Skills England and plans to reform the apprenticeship levy into a broader growth and skills levy. The success of any of these initiatives, however, will depend on the capacity of colleges to deliver high-quality education and training that meet the evolving needs of the economy.

There are currently 218 colleges in England which offer a wide range of academic and vocational programmes to both young people and adults. They provide qualifications ranging from BTECs and A levels to basic skills and advanced vocational qualifications. In the 2024/25 academic year, colleges educated 1.6 million learners, including 925,000 adults and 661,000 students aged 16–18 – around a third of this age group (Association of Colleges, 2024a). Colleges therefore play a critical role in developing the skills of today's and tomorrow's workforce.

Despite their important role, the financial health of colleges has been a long-standing concern, with many institutions facing potential closure, mergers or conversion to academies over the past two decades. As a result, the number of colleges has significantly declined from 348 in 2010 to 218 today. Reports by the National Audit Office in both 2015 and 2020 have highlighted the sector's financial vulnerability, with the more recent report warning that 'the financial health of the college sector remains fragile'.

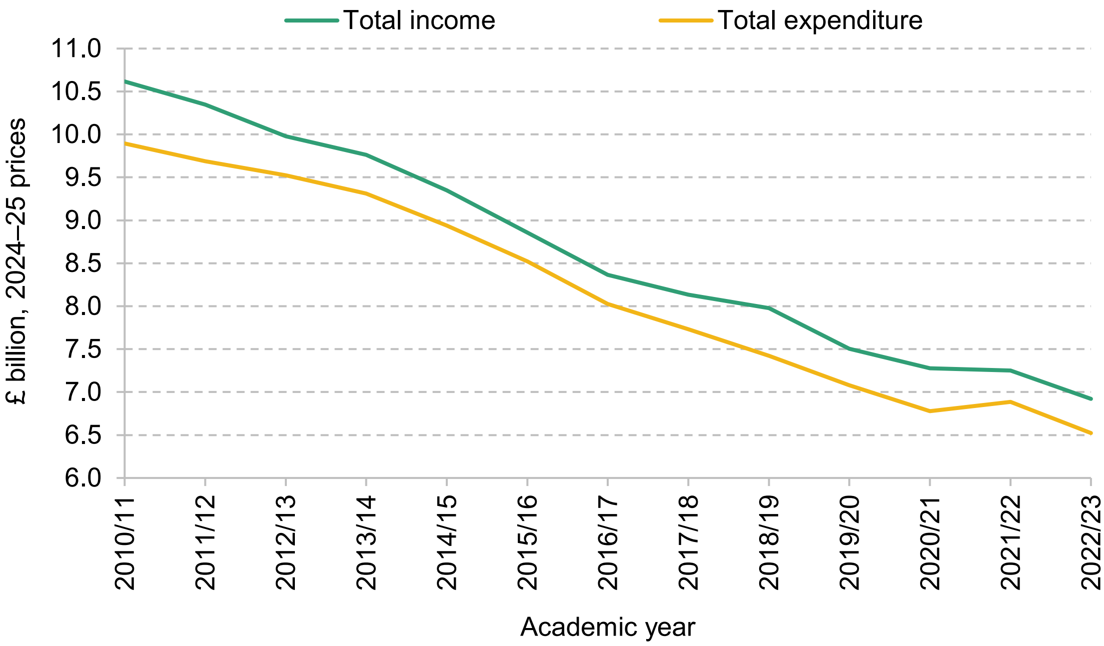
These financial challenges have far-reaching implications not only for college balance sheets but also for the availability and quality of the education that colleges can offer. The closure of colleges often limits the availability of education and training opportunities. Furthermore, many colleges have implemented cost-cutting measures in response to financial pressures, including reducing the number of courses offered and scaling back capital investment (National Audit Office, 2020).

This report examines the long-term financial health of colleges in England, using financial data from the annual accounts of all colleges between 2010/11 and 2022/23, collected by the Education and Skills Funding Agency (ESFA) and its predecessors. Section 2 sets out how overall levels of income and expenditure have evolved across colleges, Section 3 analyses the financial health of colleges, Section 4 considers two key future challenges facing colleges and Section 5 concludes.

2. What has happened to income and expenditure?

In the 2022/23 academic year – the most recent year for which data are available – the total income of the English college sector was £6.9 billion (adjusted to today's prices). The majority of this income came from public funding allocated for course delivery, alongside some private income sources, which we break down later in this section. In the same period, total expenditure across the sector reached £6.5 billion, resulting in an overall sector-wide surplus of nearly £400 million. It is important to note that these figures and the ones that follow focus on income and expenditure flows that reflect the cash position of colleges rather than accounting adjustments. We therefore exclude other movements that are typically used to reach an operating surplus/deficit, including the release of capital grants, depreciation and 'pension cost adjustments' (which are largely one-off changes linked to the projected costs of pension liabilities). Additionally, 26 (out of 228) colleges did not report their income or expenditure in 2022/23.

Figure 1. Total income and total expenditure across English colleges



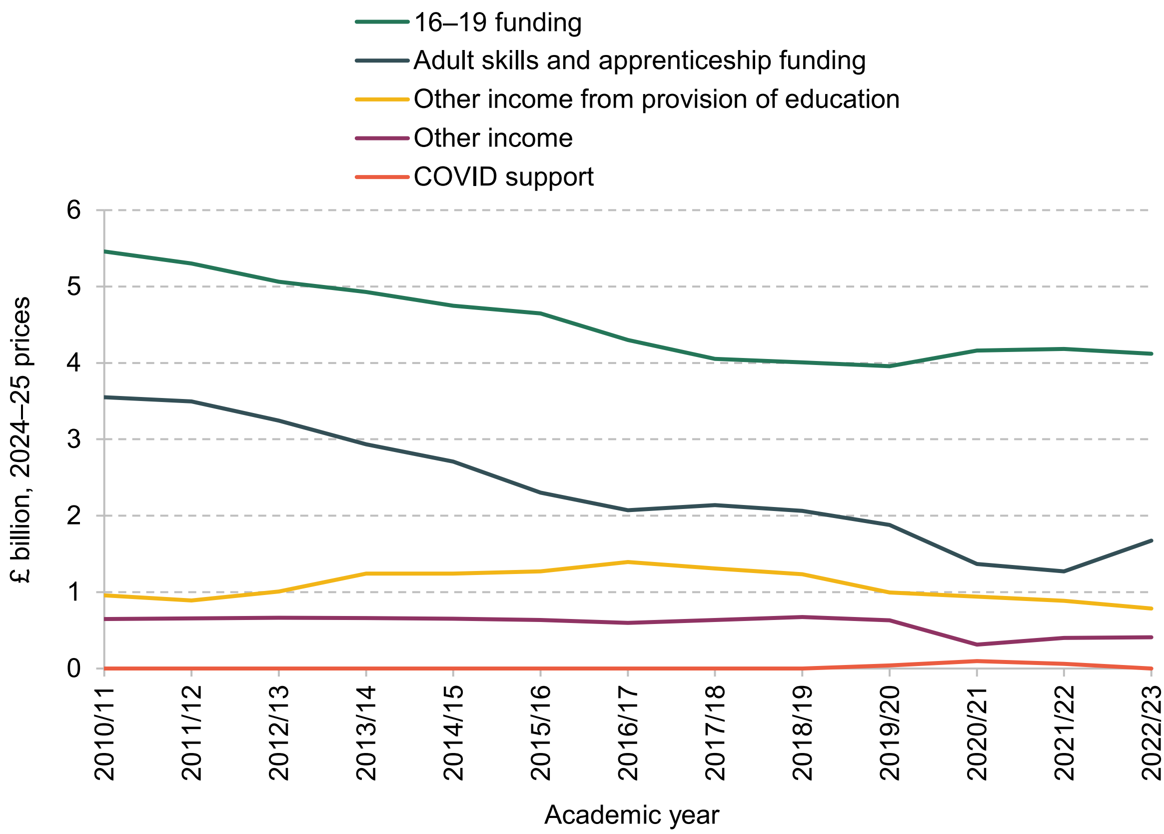
Note: For the 2022/23 academic year, income and expenditure data are only available for 202 out of the 228 colleges.

Source: Authors' calculations using ESFA college accounts data and HM Treasury GDP deflators, September 2024.

As shown in Figure 1, both income and expenditure have been on a downward trend since 2010/11. Over this period, the total income and expenditure of colleges have both fallen by around a third in real terms. In general, expenditure has followed income closely, but the gap between total income and expenditure has narrowed over the period. In 2010/11, the overall surplus was £700 million, but this has now fallen to £400 million. As a proportion of total income though, the level of surplus has remained relatively stable over the period.

The main driver behind the decline in income has been a fall in public funding. This is illustrated in Figure 2, which shows the level of income from different funding sources since 2010/11. While colleges receive income from a variety of sources, the two main streams are public funding for 16–19 education and adult skills funding, which together account for 83% of total income.

Figure 2. Income by funding source across English colleges



Note: For the 2022/23 academic year, income data are only available for 202 out of the 228 colleges. '16–19 funding' is public funding for programmes and other financial support provided for 16–19 education. 'Adult skills and apprenticeship funding' includes public funding through the Education and Skills Funding Agency (and predecessors) for adult (19+) education and apprenticeships for all ages. 'Other income from provision of education' covers private funding of college education whether by employers or the students themselves. 'Other income' contains commercial, endowment and investment income. 'COVID support' is COVID-related funding provided to colleges.

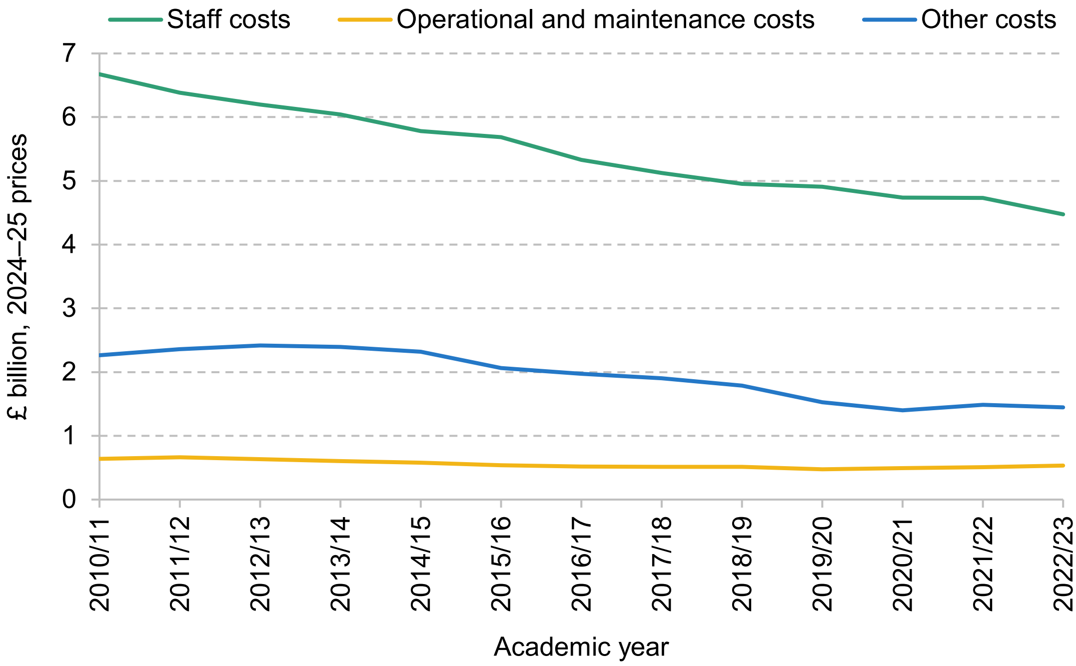
Source: Authors' calculations using ESFA college accounts data and HM Treasury GDP deflators, September 2024.

Between 2010/11 and 2019/20, the total funding received by colleges for 16–19 education fell by 28%. This decline is partly due to demographic changes: the number of 16- and 17-year-olds in England fell by 8.5% or almost 115,000 between 2010 and 2018 (the low point in the population size of this age group), reducing demand for further education and, consequently, the associated funding. The decline in funding for adult education has been even more pronounced, with public funding almost halving over the same period. This has been driven by the introduction of stricter eligibility criteria for funding entitlements and a freeze in funding rates for adult education courses since 2013/14 (Drayton et al., 2023).

In recent years, governments have allocated additional funding to both 16–19 education and adult skills. In the 2019 and 2020 spending rounds, an additional £700 million was allocated to colleges and sixth forms through to 2021–22, followed by a further £1.6 billion up to 2024–25 in the 2021 Spending Review. Additionally, the government earmarked £900 million in day-to-day funding for adult education for 2024–25, relative to 2019–20, as part of the 2021 Spending Review. These allocations have resulted in real-terms increases in both 16–19 and adult skills funding. However, funding remains significantly below peak levels. The sharper reduction in adult skills funding has also shifted the balance of college income, with a larger proportion now coming from 16–19 education. In 2022/23, 16–19 funding accounted for 59% of college income, up from 51% in 2010/11.

On the expenditure side, Figure 3 shows that there have been significant real-terms cuts. The largest expenditure category is staff costs, which consistently account for around 70% of total college expenditure. Between 2010/11 and 2022/23, spending on staff fell by approximately £2.2 billion, a reduction of nearly one-third. This fall has been driven both by reductions in the total number of college staff and by real-terms cuts to pay levels. While there is no comprehensive source of evidence on the size of the college workforce over time, estimates available for the wider further education workforce provide some insight. In 2012/13, the further education workforce was estimated to be around 230,000 staff (Education and Training Foundation, 2014); this number had fallen to around 200,000 a decade later (Department for Education, 2024). There has been less movement in operational and maintenance costs, reflecting the lower scope to reduce these costs.

Figure 3. Expenditure by funding source across English colleges



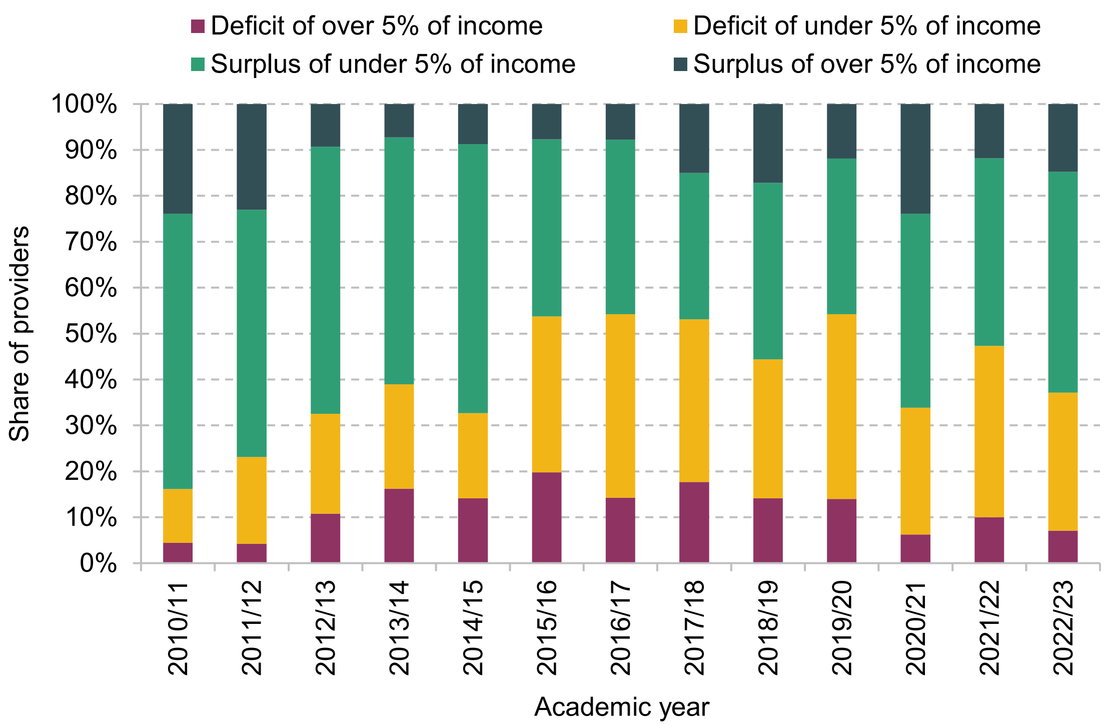
Note: For the 2022/23 academic year, expenditure data are only available for 202 out of the 228 colleges. 'Staff costs' is expenditure on both teaching and non-teaching staff. 'Operational and maintenance costs' covers expenditure associated with operating and maintaining colleges. 'Other costs' is all other non-staff and non-operational-and-maintenance costs. These expenditure figures exclude depreciation and pension cost adjustments.

Source: Authors' calculations using ESFA college accounts data and HM Treasury GDP deflators, September 2024.

3. What is the financial health of colleges in England?

Having looked at the overall level of income and expenditure in the sector, we now turn to assessing the financial health of individual colleges. A key indicator is whether a college is operating in surplus (where income exceeds expenditure) or deficit in a given academic year. A deficit in a single year does not necessarily indicate financial distress, as institutions may rely on reserves or other financial strategies to cover shortfalls. However, sustained deficits over consecutive years can signal deeper financial issues, raising concerns about the long-term viability of both individual colleges and the sector as a whole.

Figure 4. Distribution of deficits and surpluses across English colleges



Note: Share of providers is weighted by provider income.

Source: Authors' calculations using ESFA college accounts data.

As illustrated in Figure 4, the financial health of the college sector worsened in the early 2010s. In 2010/11, only 16% of colleges (weighted by income) were operating in deficit. By 2015/16, this proportion had more than tripled, with 54% of institutions reporting deficits, and nearly one in five colleges showing deficits exceeding 5% of their income. In response to this trend, the government initiated a series of 37 area reviews of post-16 education and training between September 2015 and March 2017, which resulted in 57 college mergers. In addition, as part of the area review programme, sixth form colleges have been allowed to convert to academies. The number of sixth form colleges has declined from 93 in 2015/16 to 44 in 2022/23.

Despite these efforts, there does not appear to have been a significant change in the overall picture of surpluses. This aligns with findings from a report by Popov and Cattoretti (2019), commissioned by the Department for Education, on the impact of earlier mergers (between 2005 and 2015) which found no statistically significant effect on various financial performance measures, including profit margins and income ratios. The report also found no significant effect of mergers on student outcomes.

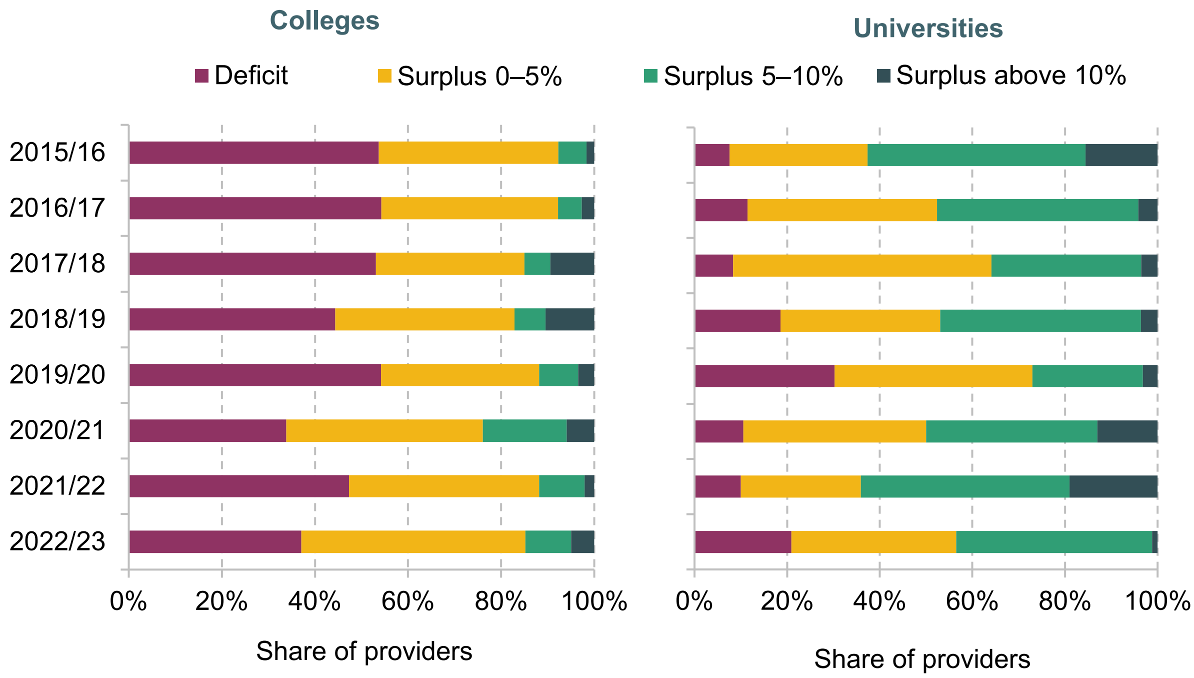
In the 2020/21 academic year, the proportion of colleges operating in deficit fell largely due to responses to the pandemic. As colleges moved to online teaching and reduced their use of on-campus facilities, expenditures fell, and some planned spending was deferred, contributing to a boost in cash reserves and an improvement in the sector balance sheet. Following the pandemic, the proportion of colleges in deficit has increased but remains below the levels seen in the mid 2010s. Yet the share of institutions in deficit remains significant: 37% of colleges reported deficits in the most recent year, with 7% posting deficits greater than 5% of their total income.

Notably, persistent deficits were a common feature among these institutions. Of the 75 colleges reporting a deficit in the 2022/23 academic year, 33 had been operating in deficit for at least the previous three consecutive academic years, highlighting the sustained financial strain faced by many colleges.

The ongoing financial challenges faced by English universities has been widely documented (Ogden and Waltmann, 2024). In Figure 5, we compare the distribution of deficits and surpluses in colleges with that in universities, for the periods where data are available for both types of institutions. Although this comparison has limitations – universities are typically larger institutions and have different funding streams – it provides context for understanding the financial pressures in the college sector.

Throughout the period shown, colleges have consistently been in a worse financial position, with a significantly higher proportion of them reporting deficits in each year. This disparity was particularly stark in 2015/16, when over half of colleges recorded in-year deficits, compared with just 8% of English universities. Although the gap has narrowed recently – partly due to improvements in college finances and the lowest sector-wide surplus for universities since 2015/16 – it remains substantial. In 2022/23, 37% of colleges reported in-year deficits, compared with just over 20% of universities. Meanwhile, 15% of colleges posted surpluses of at least 5% in contrast to 43% of universities, underscoring the financial strain in the college sector.

Figure 5. Distribution of deficits and surpluses in English colleges and universities



Note: Share of providers is weighted by provider income.

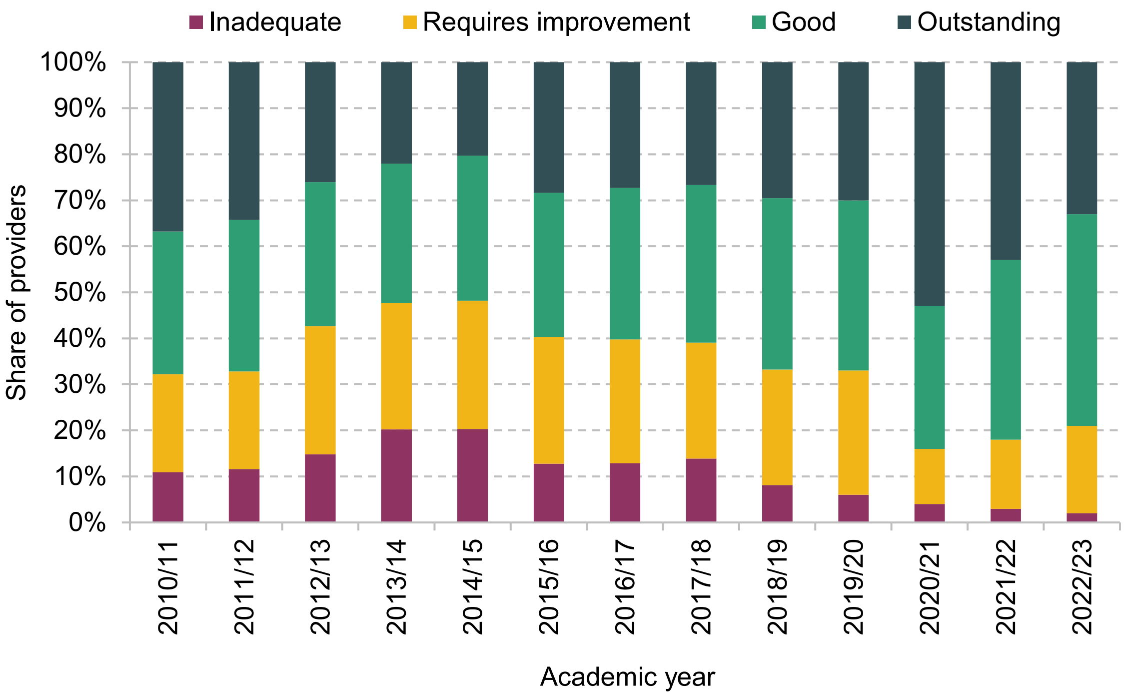
Source: Authors' calculations using ESFA college accounts data and figure 3a from Ogden and Waltmann (2024).

As an alternative measure of financial health, Figure 6 presents the distribution of financial health ratings based on a measure defined by the Education and Skills Funding Agency. This measure provides a more holistic view of college financial performance by incorporating three indicators: (i) solvency – the ratio between current assets and current liabilities; (ii) the earnings ratio – education-related earnings as a share of adjusted income; and (iii) the borrowing ratio – borrowing as a share of adjusted income.

Based on these indicators, a score (ranging from 0 to 300) is calculated, and colleges are classified into one of four financial health categories each year. These categories range from 'inadequate', where a college faces 'financial difficulty and [is] likely to be dependent on the goodwill of others, with a significant risk of not being able to meet current obligations', to 'outstanding', where institutions have 'very robust finances to meet current obligations and respond successfully to opportunities or adverse circumstances'.

Figure 6 shows a similar pattern to Figure 4 in terms of deteriorating financial health in the early 2010s. Between 2015/16 and 2017/18, the financial health of colleges remained relatively stable, with around 40% of colleges rated as either inadequate or in need of improvement. Post 2017/18, there has been an improvement in college finances, with a marked improvement in the financial health of colleges following the pandemic. This reflects a strong increase in solvency and a decline in the borrowing ratio. Despite this improvement, a significant share of institutions remain vulnerable. In 2022/23, one in five colleges were rated as either ‘inadequate’ or ‘requiring improvement’. The latter category includes colleges that have sufficient resources to meet current obligations but face financial risks and have limited capacity to respond to new opportunities or adverse circumstances. This proportion has been gradually increasing over the past three years, which means that an increasing share of colleges are in a financially vulnerable position.

Figure 6. Distribution of financial health ratings of colleges in England



Note: Financial health ratings calculated following the scoring system set out in Education and Skills Funding Agency (2024).

Source: Authors’ calculations using ESFA college accounts data.

4. What are the key challenges to college finances?

The financial sustainability of colleges in the coming years will be shaped by several emerging challenges that are set to intensify cost pressures across the sector. Two key challenges stand out as particularly significant: (i) the rising number of 16- and 17-year-olds in England, which will increase demand for places and resources; and (ii) ongoing issues with the recruitment and retention of the college workforce.

The growing number of young people in further education

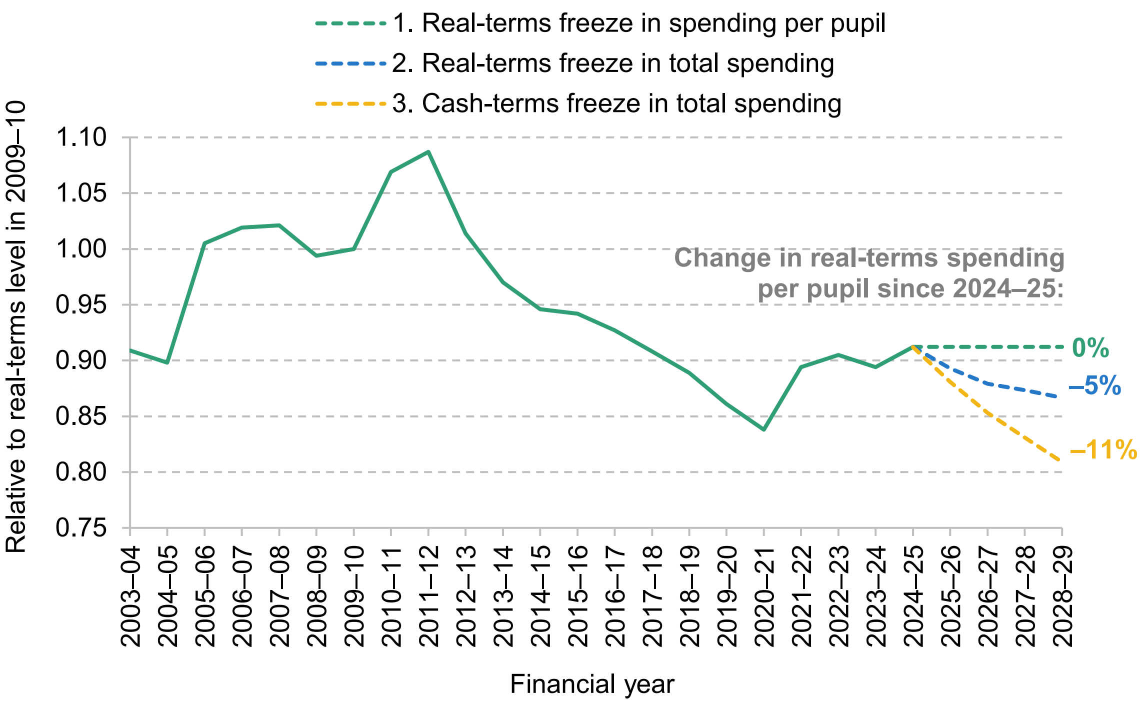
Almost 60% of college funding is allocated to 16–19 education, with an even higher proportion in sixth form colleges, making the size of this age group a critical factor to college finances. Since 2017, the number of 16- and 17-year-olds in England has been increasing and this trend is set to continue. The population of 16- and 17-year-olds is projected to grow by an additional 110,000 (or 8%) between 2023 and 2028. As a result, additional investment will be needed to keep per-student funding levels constant.

In Figure 7, we show the implications of three potential paths for future spending on 16–19 education: (i) maintaining spending per pupil in real terms at the current level; (ii) freezing the total further education budget in real terms at the current level; and (iii) freezing the total further education budget in cash terms at the current level. When we refer to further education spending here, we mean the funding allocated to both colleges and school sixth forms to provide 16–19 education (it is not possible to isolate the funding allocated to colleges alone).

To maintain spending per pupil at the 2024–25 level in real terms (the green line), the government would need to increase total funding by an additional £400 million (in today's prices) by 2028. The additional funding would accommodate the 8% growth in the number of students in colleges and sixth forms by 2028. This would keep spending per pupil constant in real terms at its current level, which would still be around 9% lower than in 2009–10.

An alternative scenario is the government freezing the budget for further education at the current level in real terms (the blue line). The growth in the number of 16- and 17-year-olds means that fixing the budget in real terms would result in spending per pupil falling by around 5% in real terms between 2024–25 and 2028–29. Overall, spending per pupil would be around 13% lower in real terms than in 2009–10.

Figure 7. Projecting outcomes for 16–19 education spending per pupil after 2024 under three scenarios (2009–10 = 1)



Source: Figure 2 from Sibieta and Tahir (2024).

Lastly, if the government kept total spending the same in cash terms (the yellow line), spending per pupil would fall by 11% in real terms by 2028–29. This would leave spending per pupil 19% lower in real terms than in 2009–10.

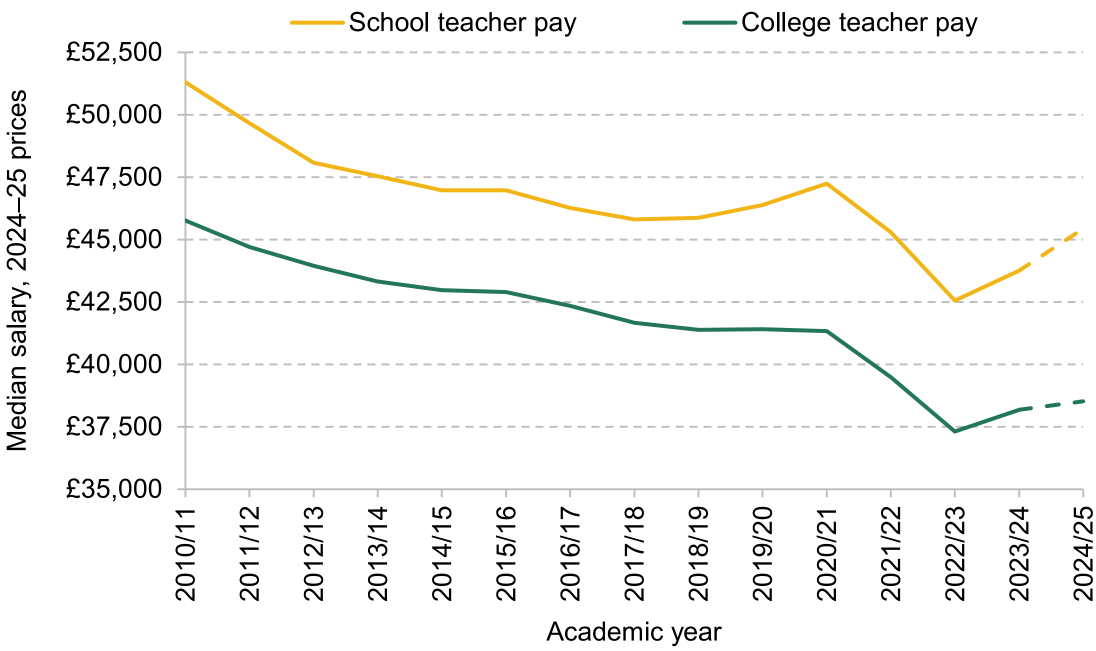
The expected growth in student numbers means that providing no additional funding would lead to sharp cuts in per-pupil spending in the next few years, and even maintaining existing per-pupil spending levels would require significant additional funding.

The remuneration of college staff

One of the most pressing challenges within colleges is the recruitment and retention of staff. Almost half of college teachers leave the profession within three years of starting (Sibieta and Tahir, 2023). A key factor contributing to this is the pay disparity between college staff and other teaching professionals. This is illustrated by Figure 8, which shows the median salaries of full-time college and school teachers in England over time.

In 2010/11, the median salary (in today's prices) was around £51,000 for a school teacher and around £46,000 for a college teacher – a gap of about 12% in terms of college teacher pay. Since 2010, both school teachers and college teachers have seen their pay fall in real terms. There were particularly sharp declines in 2021/22 and 2022/23 as high inflation eroded salary levels in real terms. But the fall has been sharper for college teachers. Between 2010/11 and 2023/24, the median salary for school teachers fell by 15%, while the median salary for college teachers fell by 17%. The median salary for school teachers is currently around £44,000 and that for college teachers is around £38,000. The gap in median salary between school and college teachers is now around £5,500 or 15%.

Figure 8. Median salary for college and school teachers in England (actual between 2010/11 and 2023/24 and forecast for 2024/25)



Note: Median nominal salary for college teachers is available between 2010–11 and 2019–20 from table 1.1 in Department for Education's further education college workforce analysis: tables; for 2020–21 to 2024–25, we project median salaries using the University and College Union's English FE pay scales. Median nominal salary for school teachers is available between 2010–11 and 2023–24 from Department for Education's school workforce in England; we forecast 2024–25 based on School Teachers' Review Body pay recommendations. Real-terms values between 2010–11 and 2023–24 are calculated based on average value of CPIH index in the relevant academic year. Forecasts for 2024–25 inflation (CPI only) taken from Office for Budget Responsibility's economic and fiscal outlook – March 2024.

Source: Update of figure 4 from Sibieta and Tahir (2023).

The existing pay gap is set to widen, with school teachers set to receive a 5.5% pay increase this academic year while the Association of Colleges (2024b) has recommended a 2.5% increase or £750 – whichever is higher – for college staff this academic year. As a result, the forecast salary gap in the 2024/25 academic year is set to increase to almost £7,000 or 18% – the largest salary gap on record. Unlike for schools, no additional government funding has been made available to fund salary increases for college teachers, which means that any pay increase will have to be funded from existing college budgets.

5. Conclusion

The financial health of colleges in England has fluctuated since 2010. There was a sharp deterioration in the early 2010s, with the number of colleges in deficit more than trebling between 2010/11 and 2015/16. Since then, the finances of colleges have stabilised, with a marked improvement following the pandemic. Despite this progress, a significant proportion of colleges continue to face financial difficulties. Colleges have also consistently lagged behind universities in terms of financial health, and one in five colleges are still rated as 'inadequate' or 'requires improvement' under the ESFA's measures of financial health.

There are also significant challenges that will test the finances of colleges in the future. By 2028, there will be an additional 110,000 young people in England, many of whom will be educated in colleges. Simply to maintain the current level of funding per student, the government would need to increase total funding by £400 million. There are also acute issues with the recruitment and retention of college teachers, which have likely been exacerbated by the significant and growing pay gap between college staff and those in other education settings. Aside from these challenges, the new government has outlined plans for significant policy changes which will affect colleges, including the establishment of Skills England and reforms to the apprenticeship levy.

The October 2024 Budget will play a crucial role in shaping the financial trajectory of the college sector. With the pressures of rising student numbers, workforce challenges and ongoing policy reforms, the sector is at an important point. How the government reconciles the needs of colleges with broader fiscal commitments remains to be seen – the outcome will be key to determining the capacity of colleges to meet these challenges.

References

Association of Colleges, 2024a. College key facts. https://www.aoc.co.uk/about/college-key-facts.

Association of Colleges, 2024b. AoC pay recommendation 2024/25. https://www.aoc.co.uk/news-campaigns-parliament/aoc-newsroom/aoc-pay-recommendation-2024-25.

Department for Education, 2024. Further education workforce. https://explore-education-statistics.service.gov.uk/find-statistics/further-education-workforce.

Drayton, E., Farquharson, C., Ogden, K., Sibieta, L., Tahir, I. and Waltmann, B., 2023. Annual report on education spending in England: 2023. Institute for Fiscal Studies, Report R290, https://ifs.org.uk/publications/annual-report-education-spending-england-2023.

Education and Skills Funding Agency, 2024. College financial planning handbook 2024. https://www.gov.uk/government/publications/financial-planning-handbook.

Education and Training Foundation, 2014. FE workforce data reports 2012-13. https://www.et-foundation.co.uk/fe-workforce-data-reports-2012-13/.

National Audit Office, 2015. Overseeing financial sustainability in the further education sector. https://www.nao.org.uk/reports/oversight-of-financial-sustainability-in-the-further-education-sector/.

National Audit Office, 2020. Financial sustainability of colleges in England. https://www.nao.org.uk/reports/financial-sustainability-of-colleges-in-england/.

Ogden, K. and Waltmann, B., 2024. Higher education finances: how have they fared, and what options will an incoming government have? Institute for Fiscal Studies, Report R325, https://ifs.org.uk/publications/higher-education-finances-how-have-they-fared-and-what-options-will-incoming.

Popov, D. and Cattoretti, G., 2019. The impact of college mergers in further education. Department for Education, https://www.gov.uk/government/publications/the-impact-of-college-mergers-in-further-education.

Sibieta, L. and Tahir, I., 2023. What has happened to college teacher pay in England? Institute for Fiscal Studies, Report R254, https://ifs.org.uk/publications/what-has-happened-college-teacher-pay-england.

Sibieta, L. and Tahir, I., 2024. The uncertain course for school and college funding over the next parliament. Institute for Fiscal Studies, Commentary, https://ifs.org.uk/articles/uncertain-course-school-and-college-funding-over-next-parliament.