Department for Education

Schools' costs

2018-19 to 2019-20

February 2018

Contents

Summary

This note is to help the School Teachers' Review Body (STRB), school leaders, governors and academy trusts, researchers and others understand costs for schools in England at the national level over the next two years.

Expiry or review date

Annual updates are planned.

Main points

The Department announced plans to increase core funding for schools on 17 July 2017.[1] An additional £1.3 billion for schools and high needs will be provided across 2018-19 and 2019-20, over and above previous spending plans. At the national level, total core schools and high needs funding over the period will increase at 3.1 per cent on a per pupil basis. This slightly exceeds the latest forecast for the rate of inflation, which is 2.9 per cent over the same period.[2]

Within this new total, implementation of the new national funding formula (NFF) from April 2018 will help schools to have maximum impact in improving outcomes for pupils, by directing resources to where they are most needed and by creating greater certainty and transparency in the funding system to allow schools to plan ahead.[3]

Overall, we know there is considerable scope for schools to improve their efficiency and use of resources – and the government is committed to supporting the sector to do so. For example, our high-level analysis indicates that if the 25% of schools spending the highest amounts on each category of non-staff expenditure were instead spending at the level of the rest, this could save over £1 billion that could be spent on improving teaching.[4] The Department will continue work to deliver the ambitious initiatives set out in the Schools' Buying Strategy (published in January 2017), to help schools deliver the best value for money from their non-staff expenditure and secure these savings.

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[1] Department for Education (2017), *£1.3bn for core schools budget delivers rise in per pupil funding*, https://www.gov.uk/government/news/13bn-for-core-schools-budget-delivers-rise-in-per-pupil-funding.

[2] Inflation measured using GDP deflators: HM Treasury (2017), *GDP deflators at market prices, and money GDP November 2017 (Autumn Budget 2017)*, https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-november-2017-autumn-budget-2017.

[3] Department for Education (2017), *Justine Greening statement on national funding formula,* https://www.gov.uk/government/speeches/justine-greening-statement-on-national-funding-formula.

[4] Department for Education (2017), *The national funding formula for schools and high needs,* https://www.gov.uk/government/publications/national-funding-formula-for-schools-and-high-needs.

In terms of future financial pressures, we estimate that schools will see increases in National Living and Minimum Wages (NLW/NMW) and non-staff costs of 0.3 per cent of their overall expenditure in 2018-19 and 0.4 per cent in 2019-20, or 0.7 per cent over the two years. The figures are primarily driven by the impacts of non-staff cost increases.[5]

We assume the costs associated with staffing numbers will increase in line with published figures from the Teacher Supply Model,[6] driven by increases in pupil numbers. Our analysis demonstrates that, nationally and overall, costs could rise a further 2.2% and 1.4% in 2018-19 and 2019-20, respectively, before schools would face real terms pressures. This assumes that the costs are staff-related (i.e. they scale with teacher numbers), thereby representing a theoretical absolute upper bound to the impact on schools' budgets above which increases in teachers' and school support staff's pay would lead to real terms per pupil pressures for schools

However, there are other activities and priorities schools could choose to spend money on, and schools will need to prioritise their spending on teachers' pay against other needs, such as school improvement, teacher CPD, pastoral support and teaching resources.

For context, we also present, in an annex, the effects of the introduction of the apprenticeship levy and of the removal of the Education Service Grant general rate of funding. These relate mostly to 2017-18 and are therefore presented separately.

[5] Note that the analysis does not take account of any future variations to employer rates for the Local Government Pension Scheme and Teachers' Pension Scheme, as the variations were not known at the time.

[6] Department for Education (2017), *Teacher supply model 2018 to 2019: SFR88/2017*, https://www.gov.uk/government/statistics/tsm-and-initial-teacher-training-allocations-2018-to-2019

Introduction

1. This technical note provides the School Teachers' Review Body (STRB), schools and others with analysis of the cost pressures that schools are expected to face over the next two years. This will help them plan their expenditure strategically, including understanding where costs are set to rise. In this note, we update the Department's analysis of forecast cost pressures that was published as part of the National Audit Office's report on schools' financial sustainability.[7]

2. The cost pressures examined here should be seen in the context of new funding to schools.

- Since the NAO's 2016 report, further funding has been made available for schools and high needs, with an additional £416 million in 2018-19 and £884 million in 2019-20 on top of existing spending plans, meaning that core funding for schools and high needs will rise from almost £41 billion in 2017-18 to £42.4 billion in 2018-19, and £43.5 billion in 2019-20. This will ensure that per pupil funding through the schools block and high needs block is protected in real terms over 2018-19 and 2019-20.[8]

- Implementation of the NFF[9] from April 2018 will help schools to have maximum impact in improving educational outcomes for pupils and to better manage cost pressures, by directing resources to where they are most needed and by creating greater certainty and transparency in the funding system. The move to the NFF will affect schools differently; according to their individual and local circumstances, schools will see changes to their funding that vary from the national level changes.

3. Our estimate of cost pressures covers primary and secondary schools (local authority maintained schools, academies and free schools, with pupils in reception to year 11) and special schools (maintained special schools, special academies and free schools, pupil referral units, alternative provision academies and free schools) in England. This is a national level estimate of the cost pressures faced by schools in the remaining financial years of the government's 2015 Spending Review period: 2018-19 and 2019-20. We start from a base of the current financial year, 2017-18.

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[7] National Audit Office (2016), *Financial sustainability of schools*, https://www.nao.org.uk/report/financial-sustainability-in-schools/.

[8] Department for Education (2017), *£1.3bn for core schools budget delivers rise in per pupil funding*, https://www.gov.uk/government/news/13bn-for-core-schools-budget-delivers-rise-in-per-pupil-funding.

[9] Department for Education (2017), *The national funding formula for schools and high needs,* https://www.gov.uk/government/publications/national-funding-formula-for-schools-and-high-needs.

4. The broad approach to the calculation is:

- We estimate the split between teaching staff, non-teaching staff and non-staff expenditure in 2017-18. The spending split is based on the latest financial outturn data available.
- We forecast the future new cost drivers in these areas of expenditure for 2018-19 and 2019-20.
- We considered the impact on non-teaching staff expenditure of rises in the National Living Wage and National Minimum Wage.
- We assumed non-staff expenditure will change in line with inflation, as measured by the GDP deflator.

5. We have not included the impact of pay awards on staff expenditure, as they are subject to future consultation and negotiation, and in particular the recommendations of the STRB for teachers' pay. We are not aware of any planned changes to National Insurance (NI) contributions, and we are not able to assess any effects of future variations to employer rates for the Local Government Pension Scheme and Teachers' Pension Scheme at this time.[10] [11]

6. While the cost pressures are estimated at a national level, they will vary from school to school.

7. The apprenticeship levy was introduced in 2017-18 and we estimate there will be no new pressure due to the levy in 2018-19 or 2019-20, as the levy rate of 0.5 per cent remains constant from 2017-18 to 2019-20. Please see annex A for our estimate of the impact of the introduction of the apprenticeship levy in 2017-18.

8. Annex A also covers our estimate of the impact of the removal of the Education Services Grant (ESG) general rate of funding from September 2017.

9. The next section describes the methodology we have used to produce these cost pressure estimates in detail. Subsequent sections present the results of our analysis and highlight the robustness and limitations of the figures.

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[10] The latest valuations of Local Government Pension Scheme (LGPS) funds, just published on the LGPS Advisory Board website (http://www.lgpsboard.org/index.php/fund-valuations-2016), were too late to be included in this analysis, but will be included in future updates.

[11] Results of the latest Teachers' Pension Scheme valuation are not yet known; any changes are not expected to take effect until 1 April 2019. http://researchbriefings.files.parliament.uk/documents/SN06731/SN06731.pdf.

Methodology

Cost increases

10. We have considered a range of pressures by category of expenditure. The three broad categories, with respective proportions of total expenditure in 2017-18, are: teaching staff (52 per cent), non-teaching staff (28 per cent) and non-staff (21 per cent). We estimated the 2017-18 expenditure split using published schools' financial returns for 2015-16 financial and academic years,[12] [13] and projecting this forward.

11. The expenditure proportions change over time due to different cost and demographic pressures in each category of spending. To project these expenditures forward, we assume that non-staff costs grow in line with pupil number increases[14] and that staff costs increase in proportion to the growth in teacher number from the Teacher Supply Model,[15] which is also driven by increases in pupil numbers.

12. In this note we present cost increases in 2018-19 and 2019-20 due to:

- Increases in NLW and NMW rates, affecting a subset of non-teaching staff; and
- Price inflation on non-staff expenditure

13. Overall, cost increases are determined primarily by increases in the pay bill of staff on rates above the NMW and NLW, because they account for the majority of expenditure. For these staff, future pay awards are subject to recommendations from the School Teachers' Review Body and negotiations with the National Joint Council for Local Government Services. We do not want to pre-empt national pay award decisions. Therefore, the effects of pay increases for these staff are omitted from this analysis.

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[12] Department for Education (2016), *LA and school expenditure: 2015 to 2016 financial year*, https://www.gov.uk/government/statistics/la-and-school-expenditure-2015-to-2016-financial-year.

[13] Department for Education (2017), *Income and expenditure in academies in England: 2015 to 2016*, https://www.gov.uk/government/statistics/income-and-expenditure-in-academies-in-england-2015-to-2016.

[14] Department for Education (2017), *National pupil projections: July 2017*, https://www.gov.uk/government/statistics/national-pupil-projections-july-2017

[15] Department for Education (2017), *Teacher supply model 2018 to 2019: SFR88/2017*, https://www.gov.uk/government/statistics/tsm-and-initial-teacher-training-allocations-2018-to-2019

Pay bill increases

14. The Office for Budget Responsibility (OBR) forecasts NLW rates for ages 25 years and over and NMW rates for 21-24 year olds.[16] For example, the NLW rose by 4.2 per cent in April 2017, will rise by 4.4 per cent in 2018 and is forecast to rise by 4.5 per cent in 2019. We assumed that future NMW awards for staff aged 20 years and under would grow at the same rate as for 21-24 year olds.[17]

15. Pay and hours data for support staff from the 2016 Schools Workforce Census were used to estimate hourly wages. For each future year, the proportion of the wages[18] affected by NLW and NMW awards was estimated and the appropriate NLW/NMW increase was applied to that proportion of expenditure on non-teaching staff.

Price inflation on non-staff expenditure

16. We assumed the costs of non-staff expenditure to rise in line with the GDP deflator forecast. The most recent forecast was published in November 2017.[19]

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[16] Office for Budget Responsibility (2017), *November 2017 Economic and fiscal outlook – supplementary economy tables, Table 1.19*, http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-november-2017/

[17] GOV.UK (2017), *National Minimum Wage and National Living Wage rates*, https://www.gov.uk/national-minimum-wage-rates.

[18] Wages are used as a proxy for expenditure on staff pay, including National Insurance and pension contributions for example.

[19] HM Treasury (2017), *GDP deflators at market prices, and money GDP November 2017 (Autumn Budget 2017)*, https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-november-2017-autumn-budget-2017.

Analysis

17. We estimate that schools will see increases in NLW/NMW and non-staff costs of 0.3 per cent of their overall expenditure in 2018-19 and 0.4 per cent in 2019-20, with a cumulative increase of 0.7 per cent over the two years (Table 1).

18. The figures are primarily driven by the impacts of non-staff cost increases of 0.3 per cent a year, and 0.6 per cent over the two years. These pressures are slightly lower than in the previous analysis due to a reduction in the GDP deflators.

Financial year:	**2018-19**	**2019-20**	**2018-20 cumulative**
Year on year cost increases	**0.3%**	**0.4%**	**0.7%**
Of which:			
Annual NLW and NMW pay award pressures	0.0%	0.1%	0.1%
Inflationary pressures on non-staff spending	0.3%	0.3%	0.6%

Table 1: Estimates of cost increases as percentages of schools' expenditure by financial year.

19. As a result of the additional funding announced on 17 July, total core schools and high needs funding over 2018-19 and 2019-20 will increase by 3.1 per cent on a per pupil basis. For the purposes of this analysis, we compare the cost pressures against the increase in funding that goes specifically to schools (covering core funding less central funding; the pupil premium; and part of the high needs block). That funding is forecast to increase by 2.9 per cent on a per-pupil basis. This is in line with inflation measured by the GDP deflator, which is also forecast to total 2.9 per cent over this period.[20]

20. We assume the costs associated with staffing numbers will increase in line with published figures from the Teacher Supply Model,[21] driven by increases in pupil numbers.

21. Nationally and overall, costs could rise a further 2.2% and 1.4% in 2018-19 and 2019-20, respectively, before schools would face real terms pressures. This assumes that the costs are staff-related, thereby representing a theoretical absolute upper bound

[20] The GDP deflator is forecast to be 1.48% in 2018-19 and 1.41% in 2019-20: HM Treasury (2017), *GDP deflators at market prices, and money GDP November 2017 (Autumn Budget 2017)*, https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-november-2017-autumn-budget-2017.

[21] Department for Education (2017), *Teacher supply model 2018 to 2019: SFR88/2017*, https://www.gov.uk/government/statistics/tsm-and-initial-teacher-training-allocations-2018-to-2019

to the impact on schools' budgets above which increases in teachers' and school support staff's pay would lead to real terms per pupil pressures for schools. However, there are a wide range of other activities and priorities that schools could choose to spend money on. Teachers' pay is the single largest item in a school budget and typically represents around 50% of school expenditure. Schools will need to prioritise spending on teachers' pay against other needs, such as school improvement, teacher CPD, pastoral support and teaching resources.

22. These figures are averages across expenditure by all schools in England. The implications for individual schools will depend on various factors, including the characteristics and number of their staff and pupils, their approaches to procurement and the conditions and types of their buildings. All schools need to understand and plan for their own situation.

Data quality, limitations of analysis and key assumptions

23. The data used to estimate cost pressures come from a variety of sources, referenced throughout the note, which have their own sets of assumptions and vary in quality.

24. Note that due to rounding, the sum of individual figures quoted in the text does not always precisely equal the total shown.

25. There is a greater level of uncertainty for non-teaching staff expenditure, where less published information is available.

26. Factors which could contribute to differences between estimates and eventual outturn include changes in:

- Pupil numbers
- Forecast inflation
- Pressures, including those that cannot yet be accounted for due to lack of information at this time
- Government policies affecting schools

27. The estimates of cost pressures will be updated annually. The analysis will use the latest data, and assumptions and methodology will be reviewed and refined before each update.

28. The cost pressures in Table 1 are averages across expenditure made by all schools in England and should not be read as pertaining to individual schools. All schools need to understand and plan for their own situation.

Annex A: Impact of the introduction of the apprenticeship levy and the removal of the ESG general rate

29. We have included the apprenticeship levy and ESG in this technical note for context. We have presented them separately given they relate mostly to 2017-18, although there are impacts from ESG in 2018-19 and 2019-20.

Apprenticeship levy

30. The government introduced the apprenticeship levy in April 2017 in order to fund a step change in apprenticeship numbers and quality. The levy is a tax of 0.5 per cent on all employers' pay bills, subject to an allowance of £15,000. This means in practice that only those employers with pay bills in excess of £3 million actually pay the levy. Levy paying employers can access funds to invest in apprenticeship training via a digital apprenticeship service account. The funds available in each employer's apprenticeship service account are calculated by taking into account various factors which currently include how much levy the employer pays, how many employees the employer has in England and the allocation of a government top-up. Currently, every employer is able to access, for apprenticeship training, at least as much as it pays into the levy.

31. We estimated the cost pressure on schools due to the introduction of the apprenticeship levy using published 2015-16 financial and academic year expenditure on staff in schools and academies.[22] [23] The factor that determines whether schools meet the criteria for paying the levy and how much they might contribute is the size of the employer pay bill. For academies, the trust is the employer. The employer in Foundation and Voluntary-Aided schools is the governing body. The local authority is the employer in Community and Voluntary-Controlled schools and Pupil Referral Units. Each employer is responsible for payment of the apprenticeship levy for the schools where they employ the staff. Each employer with a total pay bill of over £3 million will pay the levy and advise its schools on whether they need to take account of the apprenticeship levy in their annual budgets.[24]

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[22] Department for Education (2016), *School level total income and expenditure (CFR) data 2015-2016*, https://www.compare-school-performance.service.gov.uk/download-data?currentstep=datatypes&regiontype=all&la=0&downloadYear=2015-2016&datatypes=spendperpupilfull.

[23] Department for Education (2017), *Income and expenditure in academies in England: 2015 to 2016*, https://www.gov.uk/government/statistics/income-and-expenditure-in-academies-in-england-2015-to-2016

[24] Department for Education (2016), *Apprenticeship funding from May 2017*, https://www.gov.uk/government/publications/apprenticeship-funding-from-may-2017.

32. We estimated that around half of single school academy trusts, around 90 per cent of multi academy trusts and 10 per cent of Foundation and Voluntary-Aided schools might be affected by the levy. We assumed that all Community, Voluntary-Controlled schools and Pupil Referral Units are within scope.

33. As a final step, we adjusted the overall levy payment to take account of academy conversions and new free schools to September 2017.[25] We estimated that over 16,000 schools (three quarters of the total) will pay a combined apprenticeship levy of around £110 million.

34. Schools are encouraged to use funds in their apprenticeship service accounts to pay for the training and assessment costs of apprentices they employ – and we would expect schools to benefit at a similar level to the costs of the levy. Indeed, the government provides a 10 per cent top-up to employers' apprenticeship service funds, so that it is possible to receive more funding than is paid by way of the levy.[26] Local authorities are expected to work closely with schools contributing to the levy to ensure they can access funding for apprenticeship training.

35. School employers, liable to pay the levy, will pay it from April 2017, seen as a step-increase in annual expenditure on pay (and commensurate potential benefits) of 0.4 per cent in 2017-18. There will be no increase to the cost pressure due to apprenticeship levy in 2018-19 and 2019-20, as the levy will remain at 0.5 per cent of the employer's total pay bill.

Removal of the Education Services Grant general rate

36. The government removed the ESG general rate of funding from September 2017. This difficult decision was made during the 2015 Spending Review in order to protect core schools funding. The general funding rate was delivered to local authorities and academies for the duties that local authorities hold in relation to maintained schools and academies deliver for themselves. This rate was £87 per pupil in 2015-16 and £77 per pupil in 2016-17. Academies were paid by academic year. Local authorities received payments by financial year.

37. Funding previously delivered through the ESG retained duties rate (£15 per pupil) will continue to be paid to local authorities to cover the duties they hold in relation to

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[25] Department for Education (2017), *Open academies and academy projects in development*, https://www.gov.uk/government/publications/open-academies-and-academy-projects-in-development; *Free schools: open schools and successful applications*, https://www.gov.uk/government/publications/free-schools-open-schools-and-successful-applications.

[26] Department for Education (2017), *Apprenticeship funding: how it will work*, https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work.

pupils in both maintained schools and academies. From 2018-19, this funding will be delivered to local authorities through the central school services block.

38. Maintained schools and academies are treated separately in the following analysis, as set out below.

Local authority maintained schools

39. The government provided transitional funding to local authorities in the first part of 2017-18 (to end-August) of £130 million. Following the end of this ESG transitional grant, local authorities are able to retain a portion of their maintained schools' Dedicated Schools Grant (DSG) in order to pay for the duties previously paid for by the ESG general funding rate, at a rate agreed with their local schools forum. Local authorities are estimated to have retained a further £38 million from maintained schools for the 7 months of the 2017-18 financial year from September 2017. These charges vary by local authority, with some local authorities choosing to charge nothing.

40. In the absence of knowing how much funding local authorities are planning to retain for ESG general rate duties in 2018-19 and 2019-20 we have estimated a range. To create the low end of this range, we have assumed that local authorities would continue to retain funding (and therefore pass the pressure on to maintained schools) at the same annual rate as they retained in 2017-18. To create the high end, we have assumed that local authorities would retain funding at rate that is equivalent to the 2017-18 ESG transitional grant and retention combined. These estimates, set out in Table 2 below, take into account growth in pupil numbers and an anticipated fall in maintained school numbers due to ongoing conversions to academy status.

Financial year:	**2017-18**	**2018-19**	**2019-20**
Estimate of cumulative pressure on maintained schools due to Education Services Grant changes – low, £million	38	60	57
Year on year pressure – low, £million	*38*	*22*	*-3*
Estimate of cumulative pressure on maintained schools due to Education Services Grant changes - high, £million	38	155	146
Year on year pressure – high, £million	*38*	*117*	*-9*

Table 2: Estimate of funding pressures on local authority maintained schools, due to local authorities retaining schools block funding for ESG general rate duties between 2017-18 and 2019-20.

Academies

41. To estimate the impact of the removal of the general funding rate for academies, we forecast the ESG funding that would have been provided in future years had the rate remained at the £77 level that applied in 2016-17, together with expected pupil growth and ongoing conversions to academy status. This pressure was then set against the protection that academies have against reductions in ESG funding to obtain a net pressure.

42. We determined that the removal of the general rate means that academies may see a net cost pressure of £105 million in 2017-18 (£175 million ESG pressure minus the £70 million in ESG funding protection). We estimate further year on year pressures of £172 million in 2018-19 and £75 million in 2019-20, respectively, due to the growth in pupil and academy numbers and falls in protection payments. The net pressures are set out in Table 3 below.

Financial year:	**2017-18**	**2018-19**	**2019-20**
Estimate of cumulative net pressure on academies due to Education Services Grant changes, £million	105	278	353
Year on year pressure, £million	*105*	*172*	*75*

Table 3: Estimate of funding pressure on academies due to the removal of ESG general rate funding between 2017-18 and 2019-20.

School improvement funding grants

43. Instead of ESG, there are now separate funding streams for school improvement. Around a third of the ESG general rate for maintained schools was planned to be spent by local authorities on school improvement in 2015-16, and academies are likely to have spent a similar proportion on improvement. New, more targeted funding of £50 million has been announced for local authorities to monitor maintained school performance, broker improvement support, and intervene where appropriate, together with a further £140 million for a new Strategic School Improvement Fund targeted at the academies and maintained schools most in need of support.[27] This funding offsets the pressures outlined above, while delivering support in a more targeted way.

[27] Department for Education (2016), *New funding for school improvement*, https://www.gov.uk/government/news/new-funding-for-school-improvement--2.

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