



Department
for Education

Schools' costs

2020 to 2021

January 2021

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Summary

This note provides an update of the average cost pressures faced by mainstream schools to help school leaders, governors, academy trustees, researchers and others understand the drivers of cost increases in England at the national level in 2020-21.

Expiry or review date

Annual updates are planned.

Main points

We estimate that the funding that goes specifically to mainstream schools has risen by 6.5 per cent in 2020-21 compared to 2019-20, while the underlying costs of mainstream schools are increasing by 4.8 per cent in 2020-21, on average, at the national level.

By comparing the 6.5 per cent increase in funding with the 4.8 per cent increase in costs, we see that mainstream schools' expenditure, nationally and overall, could increase a further 1.7 per cent in 2020-21, before facing a net pressure, or by around £675 million in cash terms. As set out below, this excludes additional costs and funding relating to COVID-19. Being an average, this estimate of the cost increases faced by schools in 2020-21 will vary from school to school. Appropriate use of this additional money will vary by school at the discretion of headteachers and school leaders.

This year, schools have faced additional costs as a result of the coronavirus (COVID-19) outbreak. The government has provided additional funding, on top of existing budgets, to cover unavoidable costs incurred between March and July 2020 due to the COVID-19 outbreak that could not be met from schools' budgets. The government has also provided dedicated funding to support catch-up and access to remote education; a COVID-19 workforce fund for schools and colleges that faced high staff absences between 1 November and the end of the autumn 2020 term; and additional funding to support rapid testing in schools. The response to the COVID-19 outbreak is ongoing and the figures presented in this note exclude both additional costs and additional funding relating to schools' response to the COVID-19 outbreak.

Introduction

1. This technical note provides school leaders and others with analysis of the cost increases that mainstream schools are expected to face over the financial year, 2020-21. This will help them understand broadly how and why costs have changed since 2019-20. The cost pressures covered in this note relate primarily to schools' expenditure on the activities supported by their core funding allocations.

2. This year schools have faced additional costs as a result of the COVID-19 outbreak. The government has provided additional funding to cover unavoidable costs incurred between March and July 2020 due to the COVID-19 outbreak that could not be met from their budgets. The government is also providing £1 billion of funding to support children and young people to catch up on lost time in education; a COVID-19 workforce fund for schools and colleges that faced high staff absences between 1 November and the end of the autumn 2020 term; additional funding to support rapid testing in schools; and investment in remote education. The response to the coronavirus outbreak is ongoing and the figures presented in this note exclude additional costs and additional funding relating to schools' response to the COVID-19 outbreak.

3. Cost increases should be seen in the wider context of funding for schools. A three-year settlement for schools funding was announced at the 2019 Spending Round, covering the financial years 2020-21 to 2022-23. Including additional funding to cover higher employer contribution rates to the teachers' pension scheme, core schools funding is £47.6 billion in 2020-21, and will reach £49.8 billion in 2021-22 and £52.2 billion in 2022-23, compared with £44.4 billion in 2019-20.¹ The cash terms increase in 2020-21 is 7.2 per cent compared to 2019-20.

4. Our estimate of cost increases covers primary and secondary schools (local authority maintained schools, academies and free schools, with pupils in reception to year 11) in England. This is a national level estimate of the average cost increases being faced by schools in 2020-21 which will vary from school to school.

5. The approach taken to determine cost increases due to cost and demographic pressures is as follows:

- We calculate the proportions of teaching staff, non-teaching staff and non-staff expenditure in 2018-19 using the latest published data.
- We estimate the growth in each category of expenditure in financial year 2020-21 due to cost pressures (price inflation), and due to changes by academic year of staff and pupil numbers.

¹ Department for Education (2021), *School funding: between financial years 2010 to 2011 and 2021 to 2022*, <https://explore-education-statistics.service.gov.uk/find-statistics/school-funding-statistics/2020-21>.

- We consider the effect on teaching staff expenditure of the teachers' pay awards in academic years 2019/20 and 2020/21 (which overlap the financial year 2020-21), the change in Teachers' Pension Scheme employer contribution rate in 2019/20 (which overlaps the financial year 2020-21), and the forecast change in the overall number of teachers, driven by pupil numbers.
- For non-teaching staff, we include the increased costs due to the 2020-21 pay agreement, the National Living Wage (NLW) award and changes to Local Government Pension Scheme (LGPS) employer contributions. The costs are assumed to increase with staff numbers, which we set to be the same as the increase in teacher numbers.
- We assume that costs faced by schools on items other than pay bill related costs ("non-staff costs") will change in line with inflation, as measured by the GDP deflator, and with the change in pupil numbers.
- We combine the cost increases, weighted by the proportion of spending in each category, to obtain the total increase in costs.

6. While price inflation experienced by individual schools may be different, the GDP deflator is commonly used to indicate price changes in public sector expenditure. However, as a result of the impact of the COVID-19 pandemic, the latest GDP deflators of 6.8 per cent for 2020-21 and -2.8 per cent for 2021-22 are atypical.² For this reason, in the report accompanying the latest official statistics report on schools' funding,³ we only describe the combined effect of the GDP deflators over the two-year period. For the analysis in this note, to be consistent with the overall treatment of the deflator in our statistical report, we obtained an average of the GDP deflator across the two years 2020-21 and 2021-22 to smooth the effect of the atypical data. The average of 1.9 per cent a year was used to represent non-staff expenditure inflation in 2020-21.

7. The next section presents the results of the analysis. Subsequent sections detail the methodology we have used to produce the estimates of cost increases and discuss uncertainties and limitations of the analysis.

² HM Treasury (2021), *GDP deflators at market prices, and money GDP December 2020 (Quarterly National Accounts)*, <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>

³ Department for Education (2021), *School funding: between financial years 2010 to 2011 and 2021 to 2022*, <https://explore-education-statistics.service.gov.uk/find-statistics/school-funding-statistics/2020-21>.

Analysis

8. We consider the cost increases that schools face this financial year, which is the first year of the Department for Education's three year school funding settlement agreed at the 2019 Spending Round. The estimated increases are averaged across all schools in England without accounting for any financial impacts or additional funding due to the COVID-19 outbreak. There are several other factors that could lead to differences between the forecasts and eventual increases in the costs considered here, as set out at the end of this note.

9. The implications of the forecasts 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.

10. The three primary categories of expenditure examined, with respective proportions of the total in 2018-19 (the latest full year for which we have data), are: teaching staff (53 per cent), non-teaching staff (28 per cent) and non-staff (19 per cent). We assume that future non-staff costs grow in line with changes to pupil numbers, and that staff costs scale with the number of teachers, driven by increases in pupil numbers.

11. This financial year, 2020-21, schools are facing cost pressures (i.e. price inflation) on:

- 1) Teachers' pay bill (pay award; and part of the 2019 pension contribution rate increase);
- 2) Pay bill for non-teaching staff (pay awards, including the NLW increase; and LGPS employer contribution rate increase); and
- 3) Non-staff spending.

12. Overall, the cost pressures are determined primarily by expenditure on staff.

13. The cost pressures on each of the main expenditure categories are set out in the table below. The teachers' pay-related figure includes the effects of the increase in the teachers' pension employer contribution rate (in academic year 2019/20) which overlaps with the financial year 2020-21. The cost pressure on non-staff expenditure, the GDP deflator, is an average of the deflator over 2020-21 and 2021-22, as explained earlier.

Expenditure category	2020-21
Teacher pay expenditure, per teacher	5.3%
Non-teaching staff expenditure, per staff member ⁴	2.4%
Non-staff expenditure, per pupil	1.9%

Table 1: Cost pressures per expenditure category in 2020-21 compared to 2019-20.

14. We can also look at the cost pressures on a common, per-pupil basis, and weight them by the sizes of the spending categories, as set out in the table below.

Expenditure category	2020-21
Teacher pay expenditure, per pupil (weighted)	2.6%
Non-teaching staff expenditure, per pupil (weighted)	0.5%
Non-staff expenditure, per pupil (weighted)	0.4%
Overall per-pupil cost pressure (sum of the above)	3.5%

Table 2: Weighted per-pupil cost pressures by expenditure category and overall in 2020-21 compared to 2019-20.

15. To judge the impact of the cost increases on schools' finances, we compare them against the growth in schools' funding in 2020-21. Taking account of the cost pressures and the changes to pupil and teacher numbers, we estimate they will cause the costs faced by mainstream schools to increase by 4.3 per cent in 2020-21. To this we add an additional 0.5 per cent due to increases in expenditure on special educational needs provision in mainstream settings. This yields an increase in the identified costs of 4.8 per cent in 2020-21.

16. We have published a time series of total schools' core funding, which shows an increase of 7.2 per cent in 2020-21 compared to 2019-20.⁵ However, for the purposes of our comparison here, we focus on the subset of that core funding which goes specifically to mainstream schools. In 2020-21, that covers:

- Schools block funding;
- Pupil premium grant (deprivation and service elements);
- Teachers' pay grant and teachers' pension employer contribution grant and supplementary fund (we make an adjustment to exclude funding that is allocated using early years and post-16 pupil numbers);

⁴ This is the cost pressure averaged over all non-teaching staff, including those earning the National Living Wage.

⁵ Department for Education (2021), *School funding: between financial years 2010 to 2011 and 2021 to 2022*, <https://explore-education-statistics.service.gov.uk/find-statistics/school-funding-statistics/2020-21>.

- High needs funding (we exclude funding that is retained by local authorities for central activities, or does not go to mainstream schools);
- Free school meals supplementary grant.

17. On that basis, the core funding going to mainstream schools in 2020-21 increased by 6.5 per cent compared to 2019-20. (The largest difference between this and total core funding is a higher proportional increase in funding going to high needs providers that is included in the total core funding.)

18. By comparing the 6.5 per cent increase in funding with the 4.8 per cent increase in costs identified above, we see that mainstream schools could raise their expenditure a further 1.7 per cent in 2020-21, on average nationally and overall, before they would face a net pressure, or by around £675 million. As mentioned in the introduction, this analysis excludes additional costs and funding relating to COVID-19. Appropriate use of this additional money will vary by school at the discretion of headteachers and school leaders.

Methodology

19. The estimation of cost pressures follows the same basic methodology set out in the technical note of January 2019.⁶ Cost pressures are applied in either April (e.g. non-teaching staff pay awards) or September (e.g. teachers' pay awards) when the pressures first occur. Pay bill inflation for teachers and non-teaching staff in 2020-21 includes the latest pay settlements and pressures due to higher employer contribution rates to pension schemes.

20. We set the proportions of expenditure by category using the latest published data (2018-19). The expenditure in each category was then projected to 2020-21 by applying the relevant cost pressures, and staff and pupil number changes.

21. Staff costs are assumed to scale with the number of primary and secondary teachers needed in mainstream schools, which are themselves driven by forecast changes in pupil numbers. Teacher and pupil number projections are based on the latest published teacher supply model outputs.⁷

22. The costs of providing educational services to pupils with special educational needs have increased in recent years. This additional pressure has been estimated for 2020-21 as a further 0.5 per cent increase in the costs of mainstream schools.

Teachers' pay

23. Following recommendations by the school teachers' review body in July 2020,⁸ the government raised the starting salary for new teachers by 5.5 per cent and increased the upper and lower boundaries of the pay ranges for all other teachers by 2.75 per cent in September 2020. These pay rises are equivalent to a 3.1 per cent increase in the teachers' pay bill.⁹ The pay award in September 2019 is estimated to have increased the pay bill by 2.9 per cent, which has been adjusted to account for outturn pay bill growth which includes effects from pay progression and workforce composition changes.

⁶ Department for Education (2019), *Schools' costs 2018-19 to 2019-20*, <https://www.gov.uk/government/publications/schools-costs-technical-note>

⁷ Department for Education (2019), *TSM and initial teacher training allocations: 2020 to 2021*, <https://www.gov.uk/government/statistics/tsm-and-initial-teacher-training-allocations-2020-to-2021>

⁸ School Teachers' Review Body (2020), *School Teachers' Review Body 30th report: 2020*, <https://www.gov.uk/government/publications/school-teachers-review-body-30th-report-2020>

⁹ Department for Education (2020), *Teachers set for biggest pay rise in fifteen years*, <https://www.gov.uk/government/news/teachers-set-for-biggest-pay-rise-in-fifteen-years>

24. The teachers' pension employer contribution rate rose from 16.5 per cent to 23.7 per cent in September 2019.¹⁰ This increase in rates is equivalent to a 5.5 per cent increase in the teachers' pay bill in the academic year 2019/20, which overlaps with the financial year 2020-21. The teachers' pension employer contribution grant covers these increased costs.¹¹

Non-teaching staff pay

25. In August 2020, agreement was reached between the employers and trade unions on rates of pay for local government services employees, including most non-teaching staff in schools, for the financial year 2020-21. New pay scales were set out in circulars from the National Joint Council for Local Government Services¹² and the Greater London Provincial Council.¹³ All staff not on the NLW were assumed to get the agreed flat 2.75 per cent pay award. For staff on NLW pay, we used the published 2020-21 rate.¹⁴

26. The LGPS undergoes triennial valuations and accompanying adjustments to employer contribution rates. From the 2019 valuation report,¹⁵ covering the years 2020-21 to 2022-23, we used the average total contribution rate (22.9 per cent), a flat primary rate (18.6 per cent) and the total amounts of secondary contributions expected from employers (£1.3 billion, £1.2 billion and £1.2 billion) to estimate a total contribution rate in 2020-21 of 23.1 per cent. Applying the same analysis to the 2016 valuation report,¹⁶ we find that the total rate in 2019-20 was 23.6 per cent. The reduction in the rate of 0.5 per cent of payroll in 2020-21 corresponds to a pay bill cost pressure in 2020-21 of around -0.4 per cent.

¹⁰ Department for Education (2020), *Pension grants for schools, local authorities and music education hub*, <https://www.gov.uk/government/publications/teachers-pension-employer-contribution-grant-tpecg/pension-grant-methodology>

¹¹ Department for Education (2020), *Teachers' pension grant: 2020 to 2021 allocations*, <https://www.gov.uk/government/publications/teachers-pension-grant-2020-to-2021-allocations>

¹² National Joint Council for Local Government Services (2020), *LOCAL GOVERNMENT SERVICES' PAY AGREEMENT 2020-21*, <https://www.local.gov.uk/sites/default/files/documents/LGS%20Pay%202020-21.pdf>

¹³ Greater London Provincial Council (2020), *GLPC CIRCULAR 1/2020*, <https://www.unison.org.uk/content/uploads/2020/10/2020-GLPC-Circular-London-Pay-Arrangements-2020.pdf>

¹⁴ GOV.UK (2020), *National Minimum Wage and National Living Wage rates*, <https://www.gov.uk/national-minimum-wage-rates>

¹⁵ LGPS Scheme Advisory Board (2020), *2019 valuations – detail report*, <http://www.lgpsboard.org/index.php/2019-valuations-report>

¹⁶ LGPS Scheme Advisory Board (2017), *2016 valuations – detail report*, <http://www.lgpsboard.org/index.php/2016-valuations-report>

Non-staff expenditure

27. While price inflation experienced by individual schools may be different, the GDP deflator is commonly used to indicate price changes in public sector expenditure. However, as a result of the impact of the COVID-19 pandemic, the latest GDP deflators of 6.8 per cent for 2020-21 and -2.8 per cent for 2021-22 are atypical.¹⁷ For this reason, in the report accompanying the latest official statistics report on schools' funding,¹⁸ we only describe the combined effect of the GDP deflators over the two-year period. For the analysis in this note, to be consistent with the overall treatment of the deflator in our statistical report, we obtained an average of the GDP deflator across the two years 2020-21 and 2021-22 to smooth the effect of the atypical data. The average of 1.9 per cent a year was used to represent non-staff expenditure inflation in 2020-21.

¹⁷ HM Treasury (2021), *GDP deflators at market prices, and money GDP December 2020 (Quarterly National Accounts)*, <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>

¹⁸ Department for Education (2021), *School funding: between financial years 2010 to 2011 and 2021 to 2022*, <https://explore-education-statistics.service.gov.uk/find-statistics/school-funding-statistics/2020-21>.

Data quality, limitations of analysis and key assumptions

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

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

30. Estimates of the effects of teachers' pay awards also carry an inherent uncertainty given the flexibility that schools and academies have to make decisions on pay.

31. 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;
- Additional costs and funding due to COVID-19;
- Potential for significant changes to the composition of the workforce, as recruitment and retention trends are affected by COVID-19 and the economic downturn.

32. The estimates of cost increases are intended to be updated annually. The analysis uses the latest data, and assumptions and methodology are reviewed and refined before each update.

33. The cost increases presented are averages across 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.

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



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Reference: DfE-00015-2021



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