



Association
of Colleges

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The Department for Education budget after 2015

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The Department for Education budget after 2015

A report from the Association of Colleges – May 2014

Headlines

1. The Department for Education (DfE) will face a large budget shortfall after 2015 because there will be:
 - More people of school age.
 - Increased teacher pay and pension contributions.
 - Costs associated with new policies.
2. **We estimate that this shortfall will be £600 million in 2015-16, rising to £4.6 billion by 2018-19.**
3. HM Treasury has scheduled an average 17% real-terms spending cut to Government departments between 2015 and 2019 and there is currently no commitment to protect the schools or education budget. The school budget (for 4 to 16-year-olds) has been ring-fenced by the Coalition Government between 2010 and 2015.
4. In this paper, we estimate the quantifiable additional costs to fall upon DfE at £4.6 billion by 2018-19 (8% of the budget) or a total of £12 billion for the four year period from 2015-16 to 2018-19.

Table 1: Quantifiable additional costs in DfE budget, with 2014-15 as the baseline

£ million	2014-15	2015-16	2016-17	2017-18	2018-19
Additional pupils	-	464	973	1,727	2,576
High needs	-	50	101	152	203
Teacher pensions	-	130	339	350	360
National insurance	-	-	522	537	553
National funding formula	-	-	350	350	350
Infant free school meals	-	-	755	755	755
		594	2,939	3,719	4,594

5. Our estimate is conservative because we have not included the fact that the extra pupils will be in more expensive secondary schools rather than primary schools nor have we estimated the costs associated with

closing schools, introducing a new national curriculum or ensuring everyone reaches GCSE standard in maths and English by the age of 18.

6. If DfE does not tackle this issue early or systematically, there is a risk that ministers after the 2015 General Election will make damaging short-term savings and also that there will be further cuts to 16-18 spending which has borne the brunt of recent education spending cuts.
7. AoC asks, again, for Treasury and DfE to take decisions on education spending on a rational basis, assessing relative need, rather than protecting the budget for educating 11 to 15-year-olds and not 16 to 18-year-olds.

Why we have produced this paper

8. The Association of Colleges represents and promotes further education and sixth form colleges. Between them colleges educate over 900,000 young people aged 14 to 19 and receive £3.8 billion from DfE. Colleges have a direct interest in contributing to the public debate about future funding for all children and young people.
9. Although we consider that more could be done to improve efficiency in the education system, we are also keen that there is an open discussion about the extent to which funding pressures will accelerate post-2015. The purpose of this paper is to open up the debate by considering the various pressures on the DfE budget and the likely changes after 2015. Our focus is mainly on revenue spending rather than capital spending.

Government spending plans

10. DfE revenue spending makes up one-sixth of total departmental expenditure in 2014-15 which is the money allocated by HM Treasury for health, transport, the police and other public services¹. Each department has an expenditure limit (DEL) which represents its annual budget for revenue spending. The UK government budget is updated two or three times a year in statements by the Chancellor of the Exchequer. After the 2010 election George Osborne set out a four year spending plan running from 2010-11 to 2014-15. This involved a reduction of about 2% in total DEL and a significant redistribution of spending towards the NHS, schools and overseas aid (all of which were defined as protected parts of the budget). Government spending on other public services was cut both in real-terms and in cash terms but,

¹ Calculations from departmental expenditure limits in 2014 budget

in some areas like transport or the Home office the spending cut was balanced by increased fees (for example higher rail fares or visa fees).

11. In the last 18 months, the Chancellor has used successive Budget spending statements to set spending plans for the 2015-16 financial year and to mark out longer-term plans which now run to 2018-19. The planned cuts to departmental expenditure are significantly larger than those achieved over this Parliament. Whereas the total departmental expenditure limit has fallen by £5 billion between 2009-10 and 2014-15², the plans for the next four years are for a £26 billion reduction. In the latest announcement, the 2014 Budget, the Treasury sets out plans for a 9% cut in departmental expenditure between 2014-15 and 2018-19. Using forecasts from the Office of Budget Responsibility for trends in future costs (“the GDP deflator”), this 9% cut translates into a 17% cut in real-terms. Table 2 summarises the figures.

Table 2: Government plans for revenue departmental expenditure limit³

£ billion	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
DEL	315.9	317.8	312.5	302.5	292.1	289.1
% cash	-0.2	+0.6	-1.7	-3.2	-3.5	-1.1
% real-terms	-2.5	-1.0	-3.3	-5.0	-5.4	-3.1

12. There will be no decision on individual departmental budgets until after the next General Election in May 2015 and it is not yet clear what the process will be. The most likely scenario is a Budget in June 2015 followed by a spending review in autumn 2015 which will set individual departmental budgets for a three or four year period from 2016-17.

13. Whatever happens, there will be great competition for funds and great pressure on DfE to reduce rather than increase education spending.

The DfE budget

14. DfE spending has risen slowly but consistently since its creation, originally as the Department for Children, Schools and Families, in 2007.

² Comparing figures in total DEL in successive budget statements

³ 2014 Budget, Table D.4. page 109 with GDP deflators from page 106

Table 2 shows revenue departmental expenditure (RDEL) between 2008-9 and 2015-16⁴.

Table 3: DfE revenue departmental expenditure

£ billion	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Budget	2014-15 Budget	2015-16 Budget
RDEL	46.6	49.4	51.3	51.2	51.4	51.7	53.5	53.5

15. Spending has risen in the last 15 years and this has allowed schools, colleges and nurseries to:

- deal with rising numbers of pupils/students.
- increase both the number and pay of teachers.
- employ additional support staff (for example to deal with pupils with higher needs).
- invest in new facilities.

16. DfE's budget is difficult to disentangle but an important trend to note has been the rising share of the budget spent on, and by, schools. In 2010 the Coalition Government put a ring-fence around school spending. In his speech announcing the results of the 2010 spending review, Chancellor of the Exchequer, George Osborne, made the following statement:

"There will be a real increase in the money for schools, not just next year or the year after - as the last government once promised - but for each of the next four years. The schools budget will rise from £35 billion to £39 billion. Even as pupil numbers greatly increase, we will ensure that the cash funding per pupil does not fall."⁵

17. Table 4 shows the amount spent within the ring-fence either via Dedicated Schools Grant (DSG) or on the Pupil Premium. DfE's Education Funding Agency (EFA) allocates DSG to each local authority but then removes money due to academies. The academy recoupment in 2013-14 was £8 billion. DfE introduced a new school funding formula

⁴ Resource Departmental Expenditure Limit excluding depreciation. Figures from DfE accounts 2012-13, page 74 plus 2014 Budget, page 61

⁵ House of Commons Hansard, 20 Oct 2010: Column 964

in 2013-14 which explains the slight jump in spending via DSG in that year.

18. Spending on the education of 16 to 18-year-olds has fallen which is partly explained by a slight fall in the number of young people but which also results from policy decisions. Following the 2010 Spending Review, DfE abolished Education Maintenance Allowances⁶ and cut funding per student, in stages, from 2011 onwards. Spending on 16 to 18-year-olds is allocated to schools, colleges and for apprenticeships on an academic year basis which partly explains the volatility in spending.

Table 4: DfE expenditure analysed by main budget lines

£ billion	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Budget	2014-15 Budget
Dedicated Schools Grant ⁷	36.3	36.5	36.8	38.1	38.7
Pupil Premium	0	0.6	1.1	1.8	2.5
16-18 ⁸	7.7	7.6	7.1	7.3	7.0
Other	7.0	6.5	6.4	4.5	5.3
Total	51.3	51.2	51.4	51.7	53.5
% of RDEL within ring-fence	71%	71%	72%	77%	77%

Demographic issues

Pupil numbers

19. Pupil numbers in state-funded primary and secondary schools have been rising since 2010 at about 1% a year, but this growth is now accelerating. DfE reported just fewer than seven million pupils in the four to 16-year-old age group in 2010. DfE's pupil number projections show that there will be 7.2 million pupils in this age group in 2015 and 7.9 million by 2020⁹.

⁶ Ibid

⁷ DSG figures taken from successive DfE school spending announcements

⁸ 16-18 spending figures for 2010-11 to 2012-13 taken from AoC analysis of YPLA and EFA annual accounts. For 2013-14 and 2014-15, the source is the March EFA 16-18 funding letters

⁹ National Pupil Number Projections, March 2013, Table 1.

<https://www.gov.uk/government/publications/national-pupil-projections-future-trends-in-pupil-numbers-march-2013>

Table 5: DfE pupil number projections*

Thousands	2013	2014	2015	2016	2017	2018	2019	2020
Primary	4,207	4,309	4,407	4,486	4,582	4,672	4,737	4,782
Secondary	2,778	2,731	2,721	2,731	2,770	2,832	2,922	3,008
Special	81	81	83	84	85	88	90	92
Alternative	22	21	21	21	21	21	21	22
Total	7,087	7,142	7,230	7,322	7,458	7,612	7,771	7,904
% change	1.0%	0.8%	1.2%	1.3%	1.9%	2.1%	2.1%	1.7%

*Excludes pupils aged over 16

20. The changing school population is an additional challenge for DfE.

Secondary school pupil numbers have fallen in recent years but will start rising from 2015. Average funding per pupil is currently higher in secondary schools than primary schools which will add further pressure on DfE and on local authorities when they set local budgets¹⁰. We have not estimated a figure for these costs but in Table 6 we show the additional money needed in the DSG to maintain cash funding per place at 2014-15 levels.

Table 6: Additional funding required to maintain cash funding per place at 2014-15 levels

£ million	2014-15	2015-16	2016-17	2017-18	2018-19
Additional pupil costs (AoC estimate)	0	464	973	1,727	2,576

School closure costs

21. DfE has opened 174 new schools since 2010 with more in the pipeline.

DfE reports that £5 billion has been spent on new school places in the five years to 2015 and has announced £2.3 billion more for a two-year period to 2017. Some of these places are in existing schools but there are also new schools opening to meet rising numbers and to provide choice. In due course and in some parts of the country, there will be school closures either because pupil numbers are falling again or as a result of competition between schools. Increased competition for pupils will result in cases where schools fail to recruit enough pupils to be viable. This will create difficult choices plus costs for the education budget. The free school programme, academy conversions and newly

¹⁰ DfE's Fairer Schools Funding consultation suggests basic funding per Key Stage 4 pupil in the new national funding formula will be 58% higher than funding per primary pupil (£4529 compared to £2845)

sponsored academies have all been developed in a climate of spending growth (in the late 2000s) and now of pupil number growth. A culture of expansion has framed policy towards academies and free schools which possibly explains why the National Audit Office (NAO) came to the conclusion that the “primary factor in decision-making has been opening schools at pace rather than maximising value for money”¹¹.

22. The arrangements for handling school closures in future are not fully tested. Local government still has a responsibility for managing maintained schools whereas the Education Funding Agency (EFA) oversees academies. DfE has experience in closing academies but these have been one-off cases so we do not yet know the full consequences in terms of redundancy or redeployment costs, in taking buildings out of use or in ensuring continuity for pupils. One troublesome issue has been pension liabilities related to school support staff. Schools employ more than 200,000 support staff, many of whom are members of the Local Government Pension Scheme (LGPS). As the employers of their staff, academies are responsible for costs and liabilities. In July 2013, DfE acted to deal with one issue by guaranteeing LGPS liabilities for staff working in academies that close and estimated a contingent liability of £14 million by 2020¹². This may prove to be insufficient. Any squeeze on individual school budgets after 2015 is more likely to affect teaching assistants and support staff than teachers. If so, this will also have consequences for future LGPS liabilities because local government pension funds tend to charge higher contributions to those employers with a falling number of active members.

Special education needs

23. DfE will allocate £5.1 billion to special education needs via the high needs block of the DSG in 2014-15. This amounts to almost 10% of the DfE revenue budget. The money helps councils, schools and colleges meet the additional needs of people aged up to 25. The number of children with statements of special education needs is rising slightly but has remained at 2.8% of total pupil numbers¹³. The normal education cost pressures apply in this area but there are also reasons to expect future increases.

¹¹ Paragraph 19, National Audit Office report, *Establishing Free Schools*, December 2013

¹² House of Commons Hansard 2 July 2013, c43WS, DfE written ministerial statement

¹³ DfE Special Education Needs in England, January 2013, SFR 30/2013

Table 7: DfE spending on high needs pupils via Dedicated Schools Grant¹⁴

£ million	2012-13	2013-14	2014-15
High needs block in DSG	4,837	4,966	5,092
		+2.5%	+2.5%

24. The Government is reforming the assessment, support and funding of special education needs via sections 19 to 81 of the Children and Families Act 2014 which includes new assessment arrangements (Education, Health and Care Plan), a new code of practice and new responsibility on councils to commission places¹⁵. As the new law, rules and assessment arrangements take effect, this will add to pressure on the budget.

25. Better provision above the age of 16 could also increase demand. The NAO report *Oversight of special education for young people aged 16 to 25* noted that 30% of those with statements are currently not in education, employment or training at the age 18 compared with 13% of those without statements¹⁶. Few could disagree with the need to improve this situation but doing so will increase costs to DfE. The new system is likely to sustain pressures towards more spending. A fair assumption might be that the high need block will need to rise by an additional 1% a year.

Table 8: Estimate of additional high needs funding required

£ million	2014-15	2015-16	2016-17	2017-18	2018-19
Additional high needs costs (AoC estimate)	0	50	101	152	203

Staffing issues

Teachers and their pay

26. At the last count in 2013, schools employed 1.3 million people who accounted for 922,000 full-time equivalent (FTE) posts. Schools had 451,000 FTE teaching posts and 243,000 FTE teaching assistant posts¹⁷.

¹⁴ DSG figures taken from successive DfE school spending announcements

¹⁵ Children and Families Act 2014, www.legislation.gov.uk

¹⁶ Page 4, National Audit Office report, *Oversight of special education for young people*, November 2011

¹⁷ Statistical First Release, School Workforce in England, November 2013. Published 10 April 2014

The school workforce has grown by around 25% in the last eight years which is in line with rising pupil numbers and in response to extra spending. The average primary school and secondary school spend 79% and 78% of their income on pay respectively.¹⁸

27. Teachers benefitted from a three-year pay deal between 2008 and 2011 which increased salary scales by 7.6%, but this was followed by a pay freeze between 2011 and 2013 and a 1% pay rise in 2013¹⁹. The School Teachers Pay Review Body (STRB) is considering a 1% pay recommendation for 2014. STRB reported in 2013 that 40% of teachers are at the top of the pay scale²⁰.

28. Since 2013 decisions on pay progression rest with schools' governing bodies who are expected to make decisions on performance rather than length of service. There will be a number of factors creating upward pressure on teacher pay in the next few years. 96% of current teachers have degree-level qualifications or better and there are about 30,000 new recruits each year. Starting salaries are in the low £20,000s²¹. If the economy continues to recover and unemployment continues to fall, it may prove difficult both to retain and recruit teachers. Although DfE and governing bodies will take action to control the total pay bill, this will not be straightforward.

Teachers Pensions

29. The decision to increase employer contributions to public sector pension schemes was made just before the 2014 Budget on the basis of Government Actuary Department valuations which have not yet been published (as of 31 March). The NHS pension rate will be 14.3%, the teachers' rate 16.4% and the Civil Service rate around 20%²². Table 9 shows how much the Treasury says it will save in its 2014 Budget scorecard.

¹⁸ DfE Review of Efficiency in the School System, June 2013, Annex C

¹⁹ Figures from Schools Teachers Pay Review Body reports

²⁰ Paragraph 3.1, School Teachers Pay Review Body report, June 2013

²¹ Figures from Schools Teachers Pay Review Body reports

²² Information on TPS increase is on TPS website.

Table 9**Additional costs associated with additional employer pension contributions**

£ million	2014-15	2015-16	2016-17	2017-18	2018-19
Across public sector	0	725	985	1,015	1,045
TPS employers (AoC estimate)	0	282	484	500	515
Cost to schools (AoC estimate)	0	130	339	350	360

30. Schools, colleges and new universities (former polytechnics) will see a rise in their contributions from 14.1% to 16.4% in September 2015. Added to the employer National Insurance rise, there will be a 5% rise in the cost of employing a teacher in 2015-16.²³

31. Additional employer contributions to teacher pensions will cost Teachers' Pension Scheme (TPS) employers around £500 million in a full year of operation. DfE is not responsible for the finances of some TPS employers, for example universities and private schools, and has a shared responsibility with the Department for Business, Innovation and Skills for further education colleges (who obtain almost 50% of their funding from DfE). Nevertheless DfE-funded institutions will bear costs of nearly £400 million.

National Insurance (NI)

32. The start of the single state pension in 2016 sees the end of contracting-out for members of defined benefit pensions (mainly public sector employees). This means an extra 1.2% in NI for teachers and support staff and an extra 3.4% for schools and other institutions. The total money raised by this increase will be £5 billion of which £3.3 billion will be met by employers. Table 10 sets out how the cost to schools and other DfE-funded employers, including colleges, will be about £800 million.

²³ AoC calculations: the employer on-cost for a TPS member will be 27% in August 2015 and 32% in April 2016

Table 10: Additional National Insurance costs following end of contracting out²⁴

£ million	2014-15	2015-16	2016-17	2017-18	2018-19
Additional NI revenue	0	0	5,145	5,010	4,975
Public sector employees	0	0	1,365	1,350	1,335
Public sector employers	0	0	3,325	3,285	3,245
TPS employers (AoC estimate)	0	0	745	767	790
Cost to schools (AoC estimate)	0	0	522	537	553

33. These costs are difficult to avoid because they are charged on pay. The Government has acted to help employers with private sector defined schemes by allowing them to vary benefits to reflect the introduction of the single state pension. The situation is different in the public sector. Following its negotiations with the TUC over the 2015 reforms, the Government promised to make no changes to public sector pension schemes for 25 years after 2015.

Policy costs

New curriculum and qualifications

34. Between now and 2017, DfE will oversee the introduction of a new national curriculum for primary and secondary schools, new GCSEs, new A Levels and new vocational qualifications (Tech levels). Unlike previous reforms, these new curricula and qualifications are being introduced with relatively little central support. Instead the regulator, Ofqual, is devising specifications which are then being converted into qualifications by awarding bodies (formerly known as exam boards).

35. Despite the fact that many of the changes involve a shift from coursework and modular assessment to final exams and that awarding bodies have invested in new technology, there is a risk that development costs will be shifted onto schools and colleges. In 2013 Ofqual estimated that GCSE and A Level exam fees cost education institutions £300 million²⁵. There is little to prevent fees rising further and faster. Research commissioned for the previous qualification

²⁴ Figures in Table 10 taken from 2013 and 2014 Budget book except for two lines reported as AoC estimates

²⁵ Page 4, Ofqual Annual Qualifications Market Report, September 2013

regulator, QCA, estimated that the administration costs of qualifications effectively resulted in exam fees doubling. A bigger, hidden cost will be the time spent by teachers changing lesson plans and developing new materials. To take one example, Ofqual's consultation on new A Levels suggests that teaching hours per A Level subject should be set at 360 over two years, rather than 300²⁶.

National school funding formula

36. DfE ministers have raised expectations that a national school funding formula will be introduced after 2015, but the steps taken for 2014-15 have been more modest. DfE's *Fairer School Funding* consultation paper outlines a national formula that will be used to calculate entitlement for each school²⁷. The formula assigns costs to five pupil characteristics (age, deprivation, care status, low prior attainment, English as a second language) and three school characteristics (a lump sum, a small school factor, an area cost).

37. DfE intends to use the formula to calculate minimum funding levels for each local authority and then to distribute £350 million to the lowest funded via DSG. The 160 local authorities would then be free to allocate funds to the 20,000 schools via their formula in the way they currently do.

38. This is, therefore, a small step towards a national formula but avoids any of the difficult issues associated with redistributing funds from the councils or schools currently with high levels of funding. There is no guarantee that DfE will have the £350 million for more than one year but expectations have been raised among the areas described as lower funded, both that the money will continue and that this will be the first stage in a journey. The decision in the immediate future to persist with local government decision-making about school formulae limits the administrative savings that will come from this reform. EFA will continue to recoup funds from councils so that it funds the 6,000 academies directly.

Sixth form education

39. The Government has ambitious goals for the education of 16 to 18-year-olds. There is a drive to improve standards and tackle issues highlighted both by Ofsted and in Alison Wolf's review of vocational education.

²⁶ Comparing old and new A Level specifications

²⁷ Department for Education, *Fairer School Funding* consultation, March 2014

Government has taken steps to ensure that every young person acquires a basic level of maths and English by the age of 18, if they did not do so by 16. The social mobility strategy sets a target to help more young people from poorer families enter selective universities²⁸ Other policies aim to reduce the number of young people becoming unemployed and increasing the number of apprentices aged between 16 and 18. There are various cost pressures in 16 to 18 education which are not properly acknowledged in the current funding arrangements.

40. At the academic end of educating 16 to 18-year-olds, state funding levels fall well behind those in independent schools. The EFA provides an average of around £4,500 per 16 to 18-year-old in school or college but assumes that a full-time student who already has GCSEs and who lives in an average residential area outside London can be taught for a cost of £4,000. Supplements are only available for area costs in the south east, for sixth formers in the most disadvantaged postcodes or for those taking more expensive vocational courses, for example engineering or construction. By contrast, sixth form fees in independent schools average £13,341 which is about three times as high and which increased by 2% in 2013²⁹
41. There are different costs associated with extending participation to all young people aged 16 and 17. When Parliament passed the Education and Skills Act in 2008, which makes participation compulsory for 16 and 17-year-olds, the impact assessment suggested this would cost an additional £774 million. Most (£583 million) of these costs were for teaching costs of additional students but calculations were made on the assumption that people currently outside education would be more expensive to teach or support because of their previous negative experience at school and their lower achievement by the age of 16. £99 million for students was earmarked for those with special educational needs and £38 million for administration³⁰. The legislation was passed when budgets were rising and DFE spending on 16 to 18 education did rise between 2008 and 2010. However total 16 to 18-year-old numbers fell slightly in 2011-12 and 2012-13 and 16-18 spending fell. The policy to raise participation was also based on population data which turned

²⁸ Cabinet Office Social Mobility indicators <https://www.gov.uk/government/publications/social-mobility-indicators/social-mobility-indicators/>. The target is to narrow the gap in progression by A Level students to the top third of Universities ranked by UCAS tariff score. Between 2007 and 2011, the gap widened.

²⁹ Independent Schools Council Census 2013

³⁰ Impact assessment for Education and Skills Act 2008 quoted in AoC paper *Sticks and Carrots*

out to be too low. The 2011 census shows that the 16-18 population is larger than expected which means more work will be needed to ensure young people do not drop out.³¹

42. A third area of cost pressures relate to the implementation of higher quality study programmes for young people as part of the Wolf report published in 2011. From 2013-14 onwards colleges and schools are expected to ensure that all young people are on broad and balanced study programmes and that if they are taking vocational courses, this should include a substantial qualification and work experience. Any young person who does not achieve GCSEs in Maths or English at grade C by the age of 16 is expected to take a maths and English course until they do. Colleges have introduced study programmes in 2013-14 and are now bearing higher costs relating to these changes. There is a reasonable expectation that EFA will cover these costs in 2015-16 via its funding system but a risk that there is insufficient money.

43. There are now signs of considerable financial strain in the post-16 education sector. Colleges and schools are both taking steps to close courses, freeze pay and cut staffing numbers. Funding for educating 16 to 18-year-olds follows student numbers so the picture is mixed with some institutions securing higher budgets as a result of enrolment growth. Nevertheless funding per student continues to be cut. The 2010 Spending Review required DfE to reduce non-school budgets by 12% in real terms over the period to 2015³² and this has been achieved by the abolition of Education Maintenance Allowances, the use of cash limited budgets with no inflation element and cuts to course funding by up to 3% each year (post-2011). A further 17.5% cut has been made to the funding of full-time 18-year-old students taking their core funding to £3,300³³. The funding gap between pre-16 and post-16 education is 22%³⁴.

³¹ Revised population numbers reduced the percentage recorded as participating by 2-3% depending which measure is used
<http://webarchive.nationalarchives.gov.uk/20130401151655/http://media.education.gov.uk/assets/files/pdf/m/sfr12-2012.pdf>

³² DfE statement on 2010 spending review

³³ Information on funding for 18-year-olds contained in successive EFA letters to institutions

³⁴ Figures quoted calculated in joint ASCL, SFCA and AoC letter on 16-18 funding

Early education³⁵

44. Over the last ten years there has been a gradual extension in the extent to which DfE funds early education. DfE started to fund free nursery education for three-year-olds in 2004; increased the qualifying hours by 20% to 15 hours a week in 2010; started pilots for two-year-olds in 2009 and started to fund two-year-olds eligible for free school meals in 2013. DfE funding for early years is routed via the DSG and is therefore protected by the school budget ring-fence. Spending via DSG is shown in table 11.

Table 11
Spending on early years via Dedicated Schools Grant

£ billion	2012-13	2013-14	2014-15
Three & four-year-olds	2,118	2,118	2,118
Two-year-olds	524	755	755

45. The money available supports around 864,000 children calculated as 494,000 full-time equivalent places³⁶. The extension of early years support to two-year-olds supports 285,000 children. There are policy proposals from the Liberal Democrats and the Labour Party to extend the entitlement either in terms of age (to one-year-olds) or in terms of hours offered to three and four-year-olds. Any funding depends on post-general election spending decisions.

Universal Free School Meals for infants

46. Primary schools are now required by law (Section 102 of the Children and Families Act 2014) to offer free meals to reception, Year 1 and Year 2 children. This policy was announced by the Deputy Prime Minister in September 2013³⁷ and is supported by funding from the Treasury allocated in the 2013 Autumn Statement shown in table 12. DfE has promised to pay schools £2.30 per meal per pupil (using estimates from the school census) plus some transitional funding and £150 million in capital funding³⁸. DfE has promised funds for schools in 2015-16 along similar lines but without the transitional elements. Funding for subsequent years depends on post-election spending decisions and

³⁵ IFS green budget, chapter 8 for explanation of the development of policy in this area

³⁶ Figures taken from DSG allocation spreadsheets issued by DfE

³⁷ Deputy Prime Minister speech to the Lib Dem Party Conference, 17 September 2013

³⁸ Department for Education, Universal Free School Meals for Infants, March 2014

there will also be costs associated with the start of universal credit which will be paid to a larger number of low income families. DfE has also estimated that extending entitlement to free school meals to all families in receipt of universal credit will cost up to an extra £750 million per year³⁹. DfE states that this is lower than previous estimates because of the implementation of the universal infant free school meals policy from September 2014 but this, in turn, assumes guaranteed funding for the new entitlement.

Table 12
Funds allocated for Universal Infant Free School Meals by Treasury

£ billion	2013-14	2014-15	2015-16	2016-17
UIFSM	0	640	755	0

47. In addition, DfE has promised to provide funds to ensure disadvantaged 16 to 18-year-olds in colleges have the same access to free meals as sixth formers in schools. £46 million is being made available as a new grant in 2014-15.

Ofsted

48. Ofsted's budget is £150 million but has fallen slightly in recent years⁴⁰ as a result of changes in inspection methods and less frequent visits to high performing institutions. Ofsted has an opportunity to make further savings in 2015 when its six year contracts with inspection providers come up for renewal and a new inspection framework is due, but there will continue to be pressure for the inspectors to do more to tackle areas of weakness.

49. Ofsted also has a direct impact on spending by schools and colleges because the inspection system creates a need to spend money on teaching, staff development and additional managers to secure better inspection grades. Although Ofsted has a remit in law to consider the "efficient and effective use of resources"⁴¹, inspectors do not take the different level of resources into account when making judgements on the quality of provision. This creates a pressure towards spending

³⁹ House of Commons Hansard, 31 March 2014, Col. 418W

⁴⁰ Information on Ofsted budget and its external contracts taken from annual accounts

⁴¹ Education and Inspections Act 2006, section 118 (1)(d)

additional money which is good for the current set of pupils but which could make the work of reducing costs in future harder.

Financial management

Budget management

50. DfE's accounts have been qualified for the last two years (2011-12 and 2012-13)⁴² which is a result of the complex work involved in consolidating the accounts of thousands of academies. The National Audit Office qualifies the accounts from several departments each year so DfE is not unusual but the audit report in January 2014 identifies some particular difficulties for the department in managing its budget. In his audit opinion, the Comptroller and Auditor General said that DfE "did not know until December, almost nine months after the end of the financial year end, whether or not it had remained within its control totals" (fortunately it had). He added that DfE will "always be at the risk of an unpredicted overspend if, for example, academies spend their reserves more quickly than forecast" but that academy cash reserves stood at £1.9 billion on 31 March 2013 with DfE having "no influence over the size or use of these reserves"⁴³.

Department for Education and Education Funding Agency

51. Action has been taken to reduce administration costs in both DfE and EFA. The plan for DfE, set out in their 2012 internal review, is to reduce costs by 50% between 2010 and 2015⁴⁴. EFA is part of DfE and contributes to this target. Between 2012-13 and 2015-16, EFA's administration budget will reduce from £53 million to £45 million (less than 0.1% of programme costs) despite the pressure created by a rising number of academies (increasing by around 1,000 a year) and the work associated with new free schools, special education need reform and the school building programme. NAO's recent report on EFA gave a positive verdict on EFA's performance but identifies a risk that the agency may become overloaded and find it difficult to manage its budget effectively. This is another pressure for the future.

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⁴² Department for Education accounts, page 91

⁴³ National Audit Office report, Comptroller and Auditor General's Report on the Department for Education financial statements 2012-13, January 2014

⁴⁴ Department for Education Review, 2012