

Reclassification of Further Education Corporations and Sixth Form Colleges in England, May 2012

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Abstract

Article explaining the decision to reclassify, for National Accounts purposes, Further Education Corporations and Sixth Form College Corporations in England from the General Government sector to the Non-Profit Institutions Serving Households (NPISH) sector from 1 April 2012.

Executive Summary

Following the passage of the Education Act 2011, ONS has reviewed the classification of Further Education Corporations and Sixth Form College Corporations in England. This review has resulted in these bodies being reclassified to the Non-Profit Institutions Serving Households (NPISH) sector, from 1 April 2012.

ONS had reclassified these bodies, retrospectively, into the General Government sector, in October 2010, alongside similar bodies in Wales, Scotland and Northern Ireland. These bodies remain classified to Central Government.

In October 2010 ONS announced that it had reclassified Further Education Corporations in England and Wales, Sixth Form College Corporations (which only exist in England), Colleges of Further Education in Scotland and Institutions of Further Education in Northern Ireland from the Non-Profit Institutions Serving Households (NPISH) sector, where they had been incorrectly classified since the early 1990s, to the General Government sector.

These reclassifications arose from the discovery of public sector controls over these institutions, sufficient to result in ONS concluding that the public sector had control of these bodies' general corporate policy.

Following this decision, the Government has passed new legislation, the Education Act 2011, to amend the powers over Further Education Corporations in England and Sixth Form College Corporations.

ONS has judged that these changes, which came into force on 1 April 2012, are sufficient to remove public sector control, and therefore these institutions are reclassified as NPISH bodies from this point.

Government powers over Further Education Corporations in Wales, Colleges of Further Education in Scotland and Institutions of Further Education in Northern Ireland remain unchanged, and so these institutions remain classified within the General Government sector, in the Central Government sub-sector.

The decision was authorised by Peter Patterson, the Chair of the National Accounts Classification Committee.

The Context of National Accounts Classification Decisions

The National Accounts provide a framework for describing what is happening in national economies.

All institutional units operating within an economy are classified to an institutional sector and all transactions between the sectors of the economy are also categorised as part of the National Accounts framework. Work on classification of sectors and transactions is a key input in the production of National Accounts.

This is particularly relevant in the area of public expenditure, revenues, borrowing and debt. This applies both domestically, and within the European Union. For example, in the European Union statistics based on the European System of Accounts 1995 (ESA95) are used in:

- The Maastricht Treaty Excessive Deficit Procedure measures, particularly of government debt and deficit, where they determine the convergence criteria for monetary union for non-members, and performance against the Growth and Stability Pact for eurozone members; and
- The measurement of Gross National Income (GNI), one of the main determinants of member states' contributions to the European Union's budget.

It is a legal requirement for European Union countries to compile specified statistical returns on the basis of ESA95. The United Kingdom National Accounts are produced by the Office for National Statistics (ONS) on this basis. Further guidance is contained in Eurostat's Manual on Government Deficit and Debt, and additional clarification is contained in the System of National Accounts (SNA) 1993.

In the UK, since 1997 the fiscal policy frameworks have also been based on the National Accounts. Fiscal policy objectives are in terms of statistics based on National Accounts aggregates. This means that key fiscal targets are dependent on National Accounts definitions and classifications.

Classification decisions for National Accounts purposes are taken under the ONS's published classification process, with the involvement of an internal advisory committee, the National Accounts Classification Committee (NACC).

Background to Education in the UK

The UK Education system is devolved. Historically, although England and Wales had a similar system, Scotland and Northern Ireland systems were run separately. Following devolution, Education in Wales was devolved to the Welsh Assembly Government.

Consequently, there are now four different education systems, with different legislative arrangements in England, Wales, Scotland and Northern Ireland.

For example, Further Education Corporations (FECs) were created in England and Wales under the Further and Higher Education Act 1992, but this Act did not create FECs in Scotland or Northern Ireland. Another example are the various new types of schools created in England in recent years, such as Academies or Free Schools. These only exist in England, not elsewhere.

Education Institutions and National Accounts Classifications

Notwithstanding the differences, other than independent / private schools, the majority of pre-16 education institutions in the UK are classified in the general government sector. Private schools, which charge fees to parents, are classified in the National Accounts as Private Non-Financial Corporations.

Primary and Secondary schools are divided into a number of different types of school. Most of these are classified as Local Government schools, (such as Community or Foundation Schools) as they are controlled by the Local Education Authority. However there are an increasing number of Central Government schools in England (such as Academies, Free Schools and City Technology Colleges), that are directly controlled by the Department for Education.

Universities are, in general, classified outside of the public sector, as Non-Profit Institutions Serving Households (NPISH). Although Universities receive considerable public funding, they have other sources of funding and have a high degree of autonomy, such that they are judged to not be controlled by Government.

Further Education and Sixth Form Colleges, known by slightly different names in England, Wales, Scotland and Northern Ireland, bridge the gap between Schools and University, as well as offering adult education. In the remainder of this article, we will refer to these bodies as Further Education Colleges.

Following the adoption by the UK of ESA 95 in 1998, all these Further Education Colleges were classified in the NPISH sector.

However, following a review, in October 2010 ONS reclassified Further Education Colleges in the UK to the general government sector from the NPISH sector. The reclassification was due to the realisation that previous Government legislation included public sector controls over the institutions sufficient to warrant a reclassification from the NPISH sector into the government sector.

This decision applied retrospectively to cover the period for which they should have been classified within the general government sector, from April 1993 in England, Scotland and Wales and 1989 in Northern Ireland.

The 2010 Classification Decision

The decision to classify Further Education Colleges in the UK in the general government sector was taken in October 2010, however the decision applied retrospectively from April 1993 in England, Wales and Scotland and 1989 in Northern Ireland.

The reclassification reflected the public sector controls held by the public sector over the Further Education Colleges' general corporate policy, for this entire period – i.e. these bodies should always have been classified within the General Government sector, and had been wrongly classified.

A number of different public sector controls were identified, but one of the most important related to borrowing by Further Education Colleges. In all cases, government consent was required for any Further Education College to borrow. Other public sector controls included controls over things like the governance arrangements and the public sector also had the ability to close or merge Further Education Colleges.

An article explaining these decisions in greater detail was published in October 2010 and can be found on the [ONS Website](#).

Legislative Changes

Following the decision to classify Further Education Colleges in the general government sector in 2010, the UK Government has passed new legislation removing public sector controls over the Further Education Colleges in England.

The Education Act 2011 received Royal Assent on 15 November 2011. Schedule 12 of the Act entitled 'Further Education Institutions – Amendments' is the key section of the legislation. It amends both the Further and Higher Education Act 1992 and the Apprentice, Skills, Children and Learning Act 2009 in respect of the powers held by the public sector in England over Further Education Corporations and Sixth Form College Corporations.

One of the main changes removes the requirement for Further Education Corporations in England and Sixth Form College Corporations to gain the consent of the relevant government body for any borrowing they wish to undertake.

The Act also removed a number of other public sector controls over further education institutions. The Secretary of State's right to modify, revoke or replace the instruments and articles of Further Education Corporations in England has been removed and the power to do so given to the colleges themselves. The right of the Secretary of State to dissolve a Further education college has been removed.

The power of the Chief Executive of Skills Funding to appoint up to two additional members of the governing body of a FE corporation has been removed, as have the corresponding powers for the relevant local authority in respect of Sixth Form College Corporations.

Although the public sector continues to retain some powers in respect of FECs and SFCCs, these powers are limited to situations where an institution is being mismanaged or is performing poorly.

In these limited circumstances the Secretary of State can replace the governing body of the Further Education College of Sixth Form College Corporation, or give directions to the governors.

ONS view these remaining powers as reserve or step-in powers. As such they do not provide the public sector with control over the general corporate policy of FECs and SFCCs. However, were such powers ever to be exercised then it would result in the public sector taking control of the institution in question.

Having carefully considered the changes in the Act, ONS has concluded that the changes are sufficient to remove the public sector control of general corporate policy of FECs and SFCCs in England, resulting in their reclassification outside of the public sector.

The relevant sections of the Act came into force on 1 April 2012 and consequently Further Education Corporations in England and Sixth Form College Corporations were reclassified to the NPISH sector as of 1 April 2012.

This decision to reclassify Further Education Corporations and Sixth Form College Corporations in England to the NPISH sector as of April 2012 does not affect the classification of the bodies in Wales, Scotland and Northern Ireland which remain classified in the central government sector, pending any legislative changes affecting these institutions.

Implementing the Decision

Changing the classification of Further Education Corporations and Sixth Form College Corporations from General Government to NPISH affects a number of ONS statistics, including the National Accounts, Public Sector Finances, Public Sector Employment and other statistics where a private sector / public sector split is provided, such as Labour Market Statistics.

In the 2010 article, we noted the impact of the original decision to reclassify Further Education Colleges across the UK from NPISH to Government in various ONS statistical outputs.

The 2010 reclassification was mainly implemented in the employment and earnings statistics produced by ONS.

- **Public Sector Employment** - The 2010 reclassification increased public sector employment, and was reflected in the 2010 fourth quarter Statistical Bulletin, which was released in March 2011. Employment estimates were made for FE Colleges back to 1993, resulting in a revision to the entire time series. This new reclassification will be reflected in the 2012 second quarter Public Sector Employment Statistical Bulletin, which will be published in September 2012. As this is a point in time reclassification there will be no revision to the time series based on this change.
- **Labour Market Statistics** – The Labour Market Statistics Bulletin includes a breakdown of employment within the public and private sector, and this too has reflected the 2010 reclassification, on the same basis as the changes in the Public Sector Employment Bulletin, and this latest decision will therefore also be reflected in the Labour Market Statistics Bulletin, also published in September 2012.

- **Earnings** – ONS publish three main sets of statistics on earnings broken down into the public and private sector. These are: Average Weekly Earnings (AWE), published monthly as part of the Labour Market Statistics release; the experimental Index of Labour Costs per Hour (ILCH), published quarterly; and the Annual Survey of Hours and Earnings (ASHE), published annually. The 2010 reclassification was implemented in all three of these measures, but not retrospectively (so the historic time series for these statistics was left unchanged). Changes were reflected in AWE and ILCH from 2010, and this latest decision will be reflected in AWE in June 2012, and reflected in the Q2 2012 ILCH. Due to the timing with which ASHE records are matched against the IDBR in order to obtain the legal status of employers, the 2010 reclassification did not take effect until the 2011 ASHE, and will continue to be reflected in the 2012 ASHE. The subsequent reclassification back into the private sector will be reflected on the 2013 ASHE. The 2010 decision has not yet been implemented in either National Accounts, or in Public Sector Finances.

ONS has concluded it would be unhelpful to revise Public Sector Finances in isolation, given the changes required to the time series back to 1993 (and 1989 in the case of Northern Ireland) and the impact on both the General Government and NPISH sectors. Consequently ONS has decided to implement the 2010 decision (and any subsequent classification decisions, should the Welsh, Scottish or Northern Irish Governments legislate in a similar way to the Education Act 2011) as part of the broader project of alignment between the National Accounts and Public Sector Finances. The earliest these changes will take place will be Blue Book 2013.

As stated in the 2010 article, the impact of continuing to exclude Further Education Colleges from the main fiscal aggregates is limited:

- Public Sector Current Budget (PSCB) would be largely unaffected. Expenditure funded by Government is already captured, and fees received directly by the colleges is offset against expenditure in the public finances.
- Public Sector Net Debt (PSND) would be slightly higher, if Further Education Colleges were included within the public sector, as the FE sector has some debt, though the amounts are not significant in relation to public debt as a whole.
- Public Sector Net Investment would be likely to rise. The FE sector has undergone considerable expansion in recent years, and capital formation by FE institutions would previously have been treated as capital formation by the private sector. Again, this is expected to be small in the context of total PSNI.

Further Information

Further information on ONS classifications and the NACC can be found on the [National Statistics website](#).

Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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