

Hull and East Yorkshire LEP  
Employment & Skills Board – 19<sup>th</sup> December, 2022  
Paper B – ONS Reclassification of Colleges  
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## 1. **Summary**

- 1.1 Following a review into the classification of the statutory further education (FE) sector, the Office for National Statistics (ONS)<sup>1</sup> has decided to reclassify colleges into the public sector.<sup>2</sup>
- 1.2 This paper gives further details and highlights some key points for the Employment & Skills Board to consider.

## 2. **Recommendations**

- 2.1. The Board notes the content of the report and the implications on local Further Education Corporations and Sixth Form Colleges in Hull & East Yorkshire.

## 3. **Report**

- 3.1 Following the passage of the Education Act 2011, the Office for National Statistics (ONS) has reviewed the classification of Further Education Corporations and Sixth Form College Corporations in England.
- 3.2 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.
- 3.3 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.
- 3.4 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

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<sup>1</sup> The ONS is an agency independent of ministers, and periodically reviews the classification of all sectors of the economy for the purposes of national accounts. You can find more information about the classification and how they reached this decision on the [ONS website](#).

<sup>2</sup> <https://www.gov.uk/government/publications/further-education-reclassification>

policy, for this entire period – i.e. these bodies should always have been classified within the General Government sector and had been wrongly classified.

3.5 The government has set out its response which includes investing £300 million of payments before the end of the current financial year to:

- eliminate the current deficit in funding
- move to a profile of funding which better matches need, recognising the challenging environment the sector faces
- providing an additional £150 million of capital grant funding in 2023 to 2024 to support and protect colleges planning to invest in their infrastructure and estate where previously they would have borrowed from commercial lenders
- allowing colleges to retain flexibility on using surpluses and sale of assets ensuring that colleges can continue to invest in their estates, while complying with the managing public money framework
- committing to work in partnership with the sector to develop the future approach to financial reporting, and a new college handbook

3.6 For colleges, this affects:

- **Surpluses** - Colleges will retain the flexibility to carry over and spend their surpluses without needing the DfE's approval.
- **Assets** – Colleges will retain the flexibility to dispose of and retain the proceeds of the sale of any of their assets without needing the DfE's approval.
- **Subsidiary companies** – Colleges will retain the ability to operate their trading subsidiaries as they do now. ONS has however reclassified Colleges' trading subsidiaries (along with Colleges themselves) as being public sector bodies. The full implications of this reclassification and whether Colleges will be able to engage in commercial activity through their subsidiaries to the extent they do now is not yet known.
- **Novel, contentious or repercussive transactions** – Colleges will be required to seek the consent of the DfE before engaging in any transactions of which *“they have no experience, or which are outside of its range of normal business”*. This is likely to cover a wide range of transactions including mergers, joint ventures and the acquisition of companies. It is not yet known what criteria the DfE will use here in assessing whether or not consent can be provided to such a transaction.

- **Managing Public Money** – Colleges will be required to manage their resources in line with the Managing Public Money framework.
- **College Financial Handbook** – The DfE will begin work on a new college financial handbook with input from sector representatives. The handbook will be published for consultation in Autumn 2023, with a final draft to be published in March 2024 ahead of the handbook becoming effective in August 2024.
- **Financial Reporting** – Colleges will continue to provide their own annual report and accounts for the 2023 academic year. From 2024, the DfE will need to consolidate accounts for all Colleges. Further information and guidance on this is to follow.
- **Commercial Borrowing** – The DfE expects that existing debt commitments will continue to be repaid by a College to maturity. Commercial refinancing is however unlikely to be possible under the Managing Public Money framework and the DfE will look to provide funding to Colleges to enable them to repay those debts where lump sums are due at the end of a fixed term. New commercial borrowing will need the prior consent of the DfE. It is not yet known what Colleges are likely to be permitted to borrow money for and whether there is likely to be a Government facility to allow them to do so beyond the capital grant funding mentioned below.
- **Capital Grant Funding** – The DfE will provide an additional £150m of capital grant funding in 2023/24 to support College to invest in their estates. The intention being that this grant funding replaces the commercial borrowing a College would have used to fund capital build projects.
- **Banking** – Colleges are free to continue to use commercial bank account facilities though will be encouraged to switch to the Government Banking Service over time.
- **VAT** – The DfE has confirmed that the ability of Colleges to recover VAT is not related to their ONS classification. It is not clear why Colleges are not being permitted to reclaim VAT in the same way as academy trusts do.
- **Pension Liabilities** – The DfE has advised that no action is required by Colleges in respect of the local government pension scheme.
- **Intervention Regime** – The DfE has not yet commented on the current intervention regime so colleges do not yet know how and whether this will operate and what might happen when a College runs into financial difficulty.



**APPENDIX A – ONS Reclassification of Further Education Corporations and Sixth Form Colleges in England, May 2012**