

Letter to Nadhim Zahawi
Secretary of State
Department for Education

Dear Secretary of State

I am writing to you to highlight the enormous funding pressures colleges are under as we enter into our annual negotiations on staff pay with the unions later this week.

Our consultations with college leaders last week have shown that there is a considerable gap between what is affordable for colleges and the cost of living rises being experienced by staff. In a sector which has suffered from a decade of neglect and large funding cuts through the 2010s, this gap will heighten the difficulties of recruiting and retaining staff already being experienced in every college. Your recent analysis of pay in schools underlined the impact of pay differentials on staffing. The only difference in colleges is that college lecturers already lag a long way behind school teachers and experts in industry on pay, so the impact is worse.

I have written to you previously outlining the serious risk this situation represents for your ambitious plans for the role of colleges in delivering T Levels, increasing apprenticeship delivery, the growth in adult Level 3 and the introduction of HTQs. We are at a point now where colleges are being constrained in their abilities to deliver on skills shortages because pay is a long way from being high enough to attract enough skilled people who can earn far more in industry and schools. For many, even maintaining capacity in key industry areas looks unlikely now.

DFE funding decisions for 2022-3 assume 2% inflation for 16-18 courses and 0% for everything else (AEB, apprenticeships and HE) which is some way off the current 9% inflation and even the forecast by the Bank of England of above 5% throughout the 2022-3 academic year. Alongside pay pressures, colleges have to deal with increases in National Insurance Contributions, the National Minimum Wage, pension contributions, utility bills and other costs.

The cost of living crisis is affecting every part of our economy and society, but I would urge you to formally ask Treasury for additional 2022-3 funding given that SR21 was carried out on very different assumptions. The modest inflationary rise in the 16-18 budget and the stagnant other budgets looked challenging last year when they were set, but now look almost impossible for many colleges.

I would also ask you to review other policies which could be adjusted to reduce the financial risks for colleges which, in turn, could help them make a better pay settlement. For instance:

- how the business case processes can be designed to allow more leeway for 2021-2 and 2022-3 AEB and 2022-3 T level shortfalls because colleges risk clawback on both;
- more flexibility on the extra 40 funded hours in 2022-3 which are eating into the funding available, and which are also more challenging to deliver given the widespread difficulties in recruiting and retaining teaching staff;

- suspending intervention action on ESFA financial health assessments and the FE commissioner 65% staff cost benchmark because those measures will severely constrain colleges from making better pay offers to staff;
- a cost increase sharing mechanism for approved DFE capital projects (currently 100% of extra costs fall to the college) because of the large inflationary increases in construction materials and labour costs;
- offering an income guarantee for colleges where the grade inflation in last summer's exams led to more young people staying in school sixth forms. This impacts through the lagged system on income from the autumn, just when we expect those student numbers to bounce back. The lagged system was not designed for such unique circumstances and needs to be amended for next academic year;
- considering a rate increase on AEB, learning from the approach taken in London by the GLA with its devolved powers. The AEB funding rates have not increased for over a decade;
- considering a rate premium on priority courses and qualifications, including in skills shortage areas such as construction, engineering, digital and health where colleges have the most difficulties in recruiting skilled staff and for T Levels, HTQs and other courses which the Government wishes to see grow.

As always, I look forward to discussing these challenges and ideas with you and your team.

Yours sincerely

David Hughes

Cc AoC members

Paul Kett

FE unions