



David Hughes CBE
Chief Executive

Rt Hon Gillian Keegan MP
Minister of State
Department for Education
Sanctuary Buildings, Great Smith Street
London SW1P 3BT

23 February 2023

Via email: Sec-OF-STATE.PS@education.gov.uk

Dear Gillian,

I am writing to raise my deep concerns about the financial health of the college sector and to ask you to increase college funding by £400m for the next academic year. Without that cash increase, colleges will need to make decisions this year which will damage their capacity to deliver the skills needed for the economic growth and levelling up your government wants to see.

I am sure your own officials have carried out their own analysis of the financial position of colleges and on college pay. I would urge you to publish this analysis to help the college sector make more informed strategic decisions.

Our own analysis shows that there are a number of factors (set out in Annex A) leading to a perfect financial storm. Colleges will have to continue to restrict pay awards to levels which will further widen the gap to school teacher and industry pay. Even with that restriction, many will have to make large-scale redundancies, increase class sizes, close down campuses and restrict or pull out completely of some skills shortage areas. I have written to the Chancellor with a detailed evidence-based paper making the case for additional spending on further education between 2023 and 2025 and set out our priority recommendations for urgent action in Annex B.

Colleges showed between 2016 and 2020 that they can successfully navigate tough financial challenges, but the scale of the problem now requires your urgent attention. As public sector institutions, the sector has few places to turn now other than to DfE as its funder, lender and regulator.



There are no easy cuts to make in colleges, they have already cut to the bone. I look forward to your response.

Yours sincerely

A handwritten signature in black ink that reads "David Hughes". The signature is written in a cursive style with a horizontal line under the name.

David Hughes CBE
Chief Executive

cc.

Robert Halfon
Susan Acland-Hood
David Withey
Amanda Spielman

Annex A – Financial pressures facing colleges in 2023.

In our assessment, colleges face the following financial issues:

- Lower than expected enrolments of 16-to-18-year-olds and of adults on higher education courses resulting from both the continuing preference for academic courses and for going into jobs rather than into education. This is an average position for the sector but ESFA has collected data from every college in December 2022 so it is possible to investigate in more detail.
- Considerable doubts about autumn 2023 enrolments with the labour market pull likely to remain strong, T level implementation problems, uncertainty over the apprenticeship budget and the impact of inflation on people's decisions to study all being drag factors.
- High and rising costs, which continue to outstrip the assumptions made in government funding. The budget for FE assumes 2.2% inflation in 16-18 education and 0% in everything else whilst the AoC pay award recommendation was for 2.5% and more for those on lower incomes. Extra pressures include c20% of college staff on the national minimum wage qualifying for a 10% rise in April 2023; many colleges paying more than the AoC recommendation to address their staff recruitment and retention challenges; costs of key supplies and services much higher; energy around three times the amount they paid before 2020; exam fees continuing to rise at 5-10% a year; higher pension contributions in April 2023 because local government administrators that there is a college insolvency risk; and inflation above 10%.
- Additional costs and wasted expenditure for the significant group of colleges who have been trapped by the mid-year decision to require ESFA approval for any borrowing.

Annex B – Recommended actions to address college financial challenges.

Our recommended actions include:

1. **Funding rates** – DfE should raise 2023-4 funding rates in line with inflation, recognising that prices are higher than when the three-years budgets were set in October 2021. This would cost c£400m.
2. **Pensions** – DfE should act as guarantor for colleges in the Local Government Pension Scheme to help bring down contribution rates, reducing costs for colleges at no costs to the government.
3. **Borrowing approvals** – DfE should suspend its recently introduced controls on college borrowing to allow time for officials to develop the policy and process for the new DfE loan scheme, including the recruitment of sufficient staff to administer a new approval process with a view to introducing a new system with effect from 1 August 2023.
4. **Restructuring support** – DfE needs to make available a restructuring fund (mainly loans but also grants) to assist financially weak colleges with the upfront costs of large scale redundancies, campus closures or mergers with other colleges in cases where the college cannot fund this action itself.
5. **Financial health assessment** – DfE or ESFA should publish an assessment of college financial health, taking into account financial and student number data and the likely impact of known events, for example the impact of Level 3 reforms on student numbers or the current minimum wage trajectory on future costs.
6. **College pay analysis** – DfE or ESFA should publish a sister document to the submission made to the STRB for colleges, recognising that inadequate pay and the pay gap to schools and industry has led to even tougher recruitment and retention problems for colleges than for schools.