

Dear College Principal / CEO

## RECLASSIFICATION OF THE FURTHER EDUCATION SECTOR IN ENGLAND BY THE OFFICE FOR NATIONAL STATISTICS

I am writing to you following the recent announcement that the Office for National Statistics (ONS) has decided to reclassify colleges and their subsidiaries into the central government sector for financial and accounting purposes.

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. For more information on classification please visit the [ONS webpage](#).

I know you will be keen to understand what this reclassification of colleges and their subsidiaries means for your organisation and subsidiaries, your learners, your local community, and the sector in general. The decision from the ONS is final and in effect from the point of announcement. This means you and your subsidiaries are now treated for financial and accounting purposes as part of the central government sector, with my department as the principal department responsible for ensuring the sector complies with financial and accounting rules. The majority of this is covered under HM Treasury's [managing public money](#) framework and other central government guidance.

Although the managing public money framework is effective from 29 November 2022 there will be significant financial and accounting changes to implement, and so we'll be putting in place transitional arrangements over the next two years, culminating in a sector that complies with all public sector rules by Autumn 2024. ESFA have written to accounting officers to explain how managing public money and other guidance applies. We'll let you know how we'll support you to work as quickly as possible towards complying with the new rules. We recognise that you will need time to fully comply and therefore there will be transitional arrangements in place until August 2024.

We'll begin work to write a new College Financial Handbook. We'll engage with representatives from the sector from the outset, with a view to sharing in draft with colleges and sector bodies in Autumn 2023 for consultation so that you are clear what is expected and build your understanding and support. In parallel, we'll set up the necessary processes and data collection systems to operationalise the new managing public money requirements. The handbook will be finalised for publication in March 2024, ahead of an effective date of August 2024.

There is further information in the full government response document published on gov.uk, setting out how reclassification will affect specific areas. We'll continue to publish comprehensive guidance during the transitional arrangements.

At the outset of the review, we wanted to ensure that if colleges were reclassified, it happened in as seamless a way as possible, maintaining continuity and stability for the sector where possible. We have taken the time to get these changes right; to give you the support that you need as the

transition takes place; and to explore the ways that colleges, learners, employers, and communities might all make the most of this change.

Managing public money is clear that from 29 November 2022 colleges as public sector organisations may borrow from private sector sources only if the transaction delivers value for money for the Exchequer. Because non-government lenders face higher financing costs, in practice it is very unlikely that colleges will be able to satisfy this condition for future private sector borrowing. Any proposals for new private sector commercial borrowing now need DfE approval consent (we'll update college learner grant agreements to include this as a condition of funding).

Over the summer we interviewed FE principals to better understand how they use borrowing and found that it is most frequently used to manage cashflow issues and to invest in improvements to the college estate. Therefore, to help colleges manage their cashflow, we'll address the historical issue of uneven monthly payments from central government, which leave colleges out of pocket by March each year. We'll invest £300 million in bringing forward payments to enable us to smooth out the funding, so we have a new even profile for colleges from 2023 to 2024 for both the 16 to 19 and adult education budgets.

For capital funding, to take into consideration the new limitations on commercial borrowing, we'll be adding £150 million of capital grant funding to FE colleges, and sixth form colleges. This funding will be available to FE colleges and sixth form colleges in Spring 2023.

You will retain many of the flexibilities you currently have, for example, the ability to keep and spend any surpluses. Your day-to-day operations will continue with minimal changes, so your college can maintain a smooth delivery of high-quality education. The changes that will need to be made as set out in our transition plans will be staged progressively, working together with the sector. We want to ensure we use this opportunity to continue to support you to do what you do best, supporting your learners to realise their potential with locally driven initiatives, links to industry, and to play a key leadership role in our skills system.

Regarding financial reporting, colleges will continue to produce their own annual report and accounts as normal for the year ended 31 July 2023. The Department will eventually be required to consolidate the accounts for all FE colleges into one. This means we'll require additional information from colleges. We'll be working with the sector to ensure that the impact of this request is manageable.

We know you will be disappointed that the treatment of VAT hasn't changed upon reclassification. The ability of FE Colleges to recover VAT is not related to their ONS classification. Many public bodies cannot recover the VAT they incur. HMT keep all taxes under review, and any proposals to change the tax system would need to be considered in the context of the broader public finances.

The priorities we set out in the *Skills for Jobs* white paper remain unchanged and reclassification does not alter how we envisage colleges operating at the core of their communities. The aim is for colleges to be at the heart of local skills development and delivery, with the ability to be responsive to the needs of employers and learners working with other providers, local government, and industry. You must continue to have freedom to decide how best to support your learners to realise their potential and secure good quality jobs – with your efforts backed up by a system of accountability that focuses on outcomes.

We have taken the opportunity of reclassification to strengthen our arrangements for, and invest more in, this hugely important sector, which is now more obviously than ever a vital part of the government's skills agenda for the future. My officials will be in touch with you in the coming weeks to set out what reclassification means for you and how we can best support you in the transition. Please do not hesitate to reach out to them if you have any concerns.

Finally, I would like to thank you and your staff for the extraordinary work you do to improve the lives of learners, helping them achieve their ambitions, and the uplift you bring to your local communities.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robert Halfon'.

**Robert Halfon MP**

**Minister for Skills, Apprenticeships and Higher Education**