



Dame Meg Hillier
Chair of the Committee of Public Accounts
House of Commons
London SW1A 0AA

28 April 2023

Dear Chair

Whole of Government Accounts and further education

I am writing to alert you to an issue which is causing consternation amongst the finance directors of colleges across the country.

As you will know, in November 2022, the Office for National Statistics reclassified English colleges as public sector, prompting a raft of changes which are already causing additional and nugatory work for civil servants and college staff.

There is one area of work which will cause enormous disruption which I want to draw your attention to. The reclassification requires college accounts to be consolidated into those of the Department for Education. This is a big accountancy project because there are 228 college corporations and their finances are complex. As part of this, there are discussions within government about changing the college year-end from 31 July to 31 March and we have been told by officials that this could happen because "Parliament wants this".

I realise there are many important issues on the agenda of your committee but I am writing to the Education, Public Accounts and Treasury committee chairs to register concerns about why it would be a bad idea to change the college year-end in 2025-6 to 31 March 2026 without some wider reforms. Rather than assume that Parliament wants this change, I am keen that your committee is able to decide whether it is something it wants.

The context to this issue is as follows:

- Under the 2000 Government Resources and Accounts Act, HM Treasury prepares a Whole of Government Accounts (WGA) encompassing 10,000 public sector bodies including government departments, councils, the NHS, schools and other organisations. All public sector organisations in the WGA have a 31 March year end with the exception of academy schools whose year-end is 31 August. In the most recent WGA report, the National Audit Office asked HMT to "*re-engage with the Department for Education to develop a plan and timetable to resolve the assurance gap that results from non-coterminous year ends*".

- Although the NAO recommendation concerned academies, the recent reclassification of colleges has prompted officials to discuss implementing the consolidation of their finances on the basis of a 31 March year end.
- Changing the year-end for colleges would be a disastrous move for the management of public funds within the sector because it would take the accounting year out of line with the academic year, staffing and DfE funding cycle; make it impossible for colleges to close their accounts precisely, resulting in audit qualifications; confuse college leaders, college governors and DfE regulators about the financial position of institutions at a time when they are already vulnerable and require an upsurge in college spending on accountants in the next 24 months to minimise the consequences.
- So far, there has been universal opposition to a 31 March year-end change from anyone within the college sector who has considered the issue, whether they work in finance roles, serve on governing bodies, are auditors of colleges or work in government finance roles. There are also issues relating to £1 billion in bank loans held by colleges. The bank covenants assume a 31 July year-end and any attempts to rewrite would incur additional costs in fees but with the risk that the banks declare the loan in default, transferring this liability to government.
- This is an England-only issue. Colleges in Scotland were reclassified as public sector entities in the 2010s. The Scottish government initially introduced a 31 March year end through a one-off 8 month accounting year but this caused chaos so they moved back to a 31 July year end.
- Colleges in England already operate at a disadvantage in relation to schools because of the government spending and policy decisions. Moving the college financial year end to 31 March while leaving the school year end as it is would compound these problems, increase the outflow of college finance staff to schools, add to the challenges faced by colleges at a time when their focus should be on developing technical education and tackling skills shortages and for what benefit? So that HMT can say to NAO in 2026 “sorry that we’re still ignoring your recommendation on schools but look what we’ve done about colleges”.
- There are ways in which DfE and HM Treasury could make a 31 March year-end work in education but, in our view, this would need to be a project that:
 - Covered schools, colleges and all other public sector education organisations with a July or August year-end at the same time.

- Involved a shift in the funding cycle away from 12-month allocations to 2 or 3 year grants as a way to avoid 31 March income verification issues.
- Is underpinned by increased spending on accountants, auditors and IT systems. Major reform programmes done on the cheap rarely succeed.
- Is scheduled on an achievable timetable. The election timetable means that it is unlikely there will be another multi-year spending review timetable until 2026-7 onwards. A possible target would be a shift to a school and college March year end in 2029 with the review involving three years of sustained accountancy investment to deliver this job.

Everyone involved with college finance has pride in the way in which college staff make limited funds go further to meet the needs of their students, employers and communities. There is concern about a hasty and ill thought through approach to consolidating college accounts into the Department for Education and a particular fear that a March 2026 year end change will result in delayed accounts, mass audit qualifications, wrecked college finances, diverted effort and bad publicity for colleges. This would inevitably have a knock-on effect for government accounting and for the integrity of the DfE accounts.

I hope you take this as seriously as we do and we would be happy to provide more information on request.

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, Association of Colleges