



ONS Reclassification of Colleges

This note provides information on ONS reclassification of colleges. It starts by explaining the background to the decision to reclassify colleges and the implications of these changes for Scottish publicly funded colleges. It then summarises the actions taken in England to avoid ONS reclassification and notes the decision in Scotland not to take similar action.

Background to ONS reclassification

The Office for National Statistics (ONS) is the body responsible for classifying all institutional sectors and their financial transactions into the relevant section of the UK National Accounts so as to report on expenditure, revenues, borrowing and debt in each category.

Under current rules, it is a legal requirement for European Union countries to compile statistical returns on the basis of the European System of Accounts 1995 (ESA95). The UK's National Accounts are produced by the ONS on that basis.¹

Following the creation in England and Wales on 1 April 2010 of sixth form college corporations, which on being established were classified by the ONS as public bodies, the ONS took the decision to review the classification of all colleges in the UK. The key issue examined by the ONS in reviewing the classification of colleges was the extent of 'public sector powers' held by government Ministers and their public agencies (e.g. the Scottish Funding Council).

The ONS took the view that the arrangements in place meant that colleges were not (as previously classified) operating as private "non-profit institutions serving households"² but rather as "general government" public sector bodies.

This decision was made on the basis of the controls held by Ministers over corporate policy within colleges. A number of public sector controls were identified as important, with borrowing seen as the most important. The issue was that colleges required government consent in order to borrow funds. In addition, government had control over governance arrangements and powers to close or merge colleges. UK Ministers accepted the basis of the ONS decision.³

UK Ministers required the implementation of reclassification with effect from 1 April 2014 (the start of financial year 2014-15).

Implications of ONS reclassification

¹ [Link to ONS content on classification process used in UK National Auditing](#)

² "Non-profit institutions serving households" is how third sector organisations are classified. In National Accounts, these are part of the private rather than the public sector.

³ [Link to SFC briefing on reclassification of incorporated colleges - questions and answers](#)

Reclassification has had significant implications for colleges in Scotland. Fundamental changes to the budgeting, reporting and accounting practices have been needed to align colleges with the accounting practices that apply to non-departmental government departments. For example⁴:

- Resource and capital expenditure is now accounted for through Scottish Government spending. As there is an annual ceiling placed on each area of government expenditure, colleges have to control their expenditure so it does not exceed pre-set limits.
- Even if expenditure is financed from incorporated colleges' own reserves or borrowing, it is still included as part of overall government expenditure. Any expenditure has to have an equivalent amount allocated from the Scottish Government budget ("budget cover") - even though the Scottish Government would not have to pay for or fund the expenditure.
- However, where expenditure is financed from colleges' other /commercial income, budget cover is not required.
- From 1 April 2014, colleges can no longer carry forward surplus funds to future years. All reserves at the end of the year would need to be transferred to an arms-length foundation separate from the college.

Legislative change in England

Following the decision by ONS in 2010 to reclassify colleges as central government bodies, the UK government passed new legislation removing public sector controls over colleges in England.

The Education Act 2011 received Royal Assent on 15 November 2011. Schedule 12 of the Act entitled '[Further Education Institutions – Amendments](#)' is the key section of the legislation. It amends both the Further and Higher Education Act 1992 and the Apprentices, Skills, Children and Learning Act 2009 in respect of the powers held by the public sector in England over further education and sixth form college corporations.⁵

One of the main changes with this legislation is the removal of requirement on colleges to gain the consent of the relevant government body for any borrowing they wish to undertake. The Act also removes a number of other public sector controls over further education institutions. For example:

- The Secretary of State's right to modify, revoke or replace the instruments and articles of further education corporations in England has been removed, with these powers now held by colleges in England.
- The right of the Secretary of State to dissolve a further education college has been removed.
- The power of the Chief Executive of skills funding to appoint up to two additional members of the governing body of a further education college corporation has been removed.

⁴ [Link to SFC briefing on reclassification of incorporated colleges - questions and answers](#)

⁵ www.ons.gov.uk/ons/dcp171766_266962.pdf

Although the public sector continues to retain some powers in respect of colleges, these powers are limited to situations where an institution is being mismanaged or is performing poorly. In these limited circumstances the Secretary of State can replace the governing body of the college.

ONS view the remaining powers as reserve or step-in powers. As such they do not provide the public sector with control over the general corporate policy of further education and sixth form college corporations in England. Were such powers ever to be exercised then it would result in the public sector taking control of the institution in question.

Having carefully considered the changes brought about by the Education Act 2011, ONS has concluded that the changes are sufficient to remove the public sector control of general corporate policy of these bodies in England, resulting in their reclassification outside of the public sector. The relevant sections of the Act came into force on 1 April 2012 and consequently these bodies were reclassified to the private sector from that date.

This decision to reclassify further education and sixth form colleges in England does not affect the classification of colleges in Scotland, Wales and Northern Ireland, which remain classified as public bodies.

Response in Scotland

In response to the ONS reclassification decision, the Scottish Government did not pursue any changes to legislation to remove colleges in Scotland from the changes to accounting practices that were to be introduced from 1 April 2014. A number of briefings and notes were produced by the SFC to communicate the changes resulting from reclassification to colleges.⁶

Rather, the view was that the current level of government control over colleges was at an appropriate level:

“Scottish Ministers are clear that those controls, as enhanced by the [Post-16 Education (Scotland) 2013 Act], are the right solution for Scotland and are appropriate given the very significant public investment in colleges.”⁷

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⁶ [Link to SFC webpage with communications on ONS reclassification](#)

⁷ [Link to SFC paper for college chairs and principals on ONS reclassification](#)