Thirty-Eighth Report of Session 2019-21

Department for Education

Managing colleges' financial sustainability

Introduction from the Committee

At April 2020, there were 242 colleges in England, comprising 192 further education (FE) colleges and 50 sixth-form colleges. Colleges educate and train 1.7 million adults and young people each year, many from disadvantaged groups or deprived areas.

Colleges in England received income totaling £6.5 billion in 2018/19, of which £5.1 billion (78%) was public funding. Most of this public funding was provided via the Education and Skills Funding Agency (the ESFA), an executive agency of the Department for Education (the Department). Colleges are autonomous bodies and make decisions independently of government; for example, government does not have the power to appoint or remove college staff, and colleges may make financial surpluses or deficits. The Department is responsible for the regulatory framework and policy governing post-16 education and training and is ultimately accountable for securing value for money from the public funding provided to colleges. It gains assurance mainly through the ESFA, which monitors colleges and intervenes where it has serious concerns, and the FE Commissioner, who acts as an independent adviser to the Secretary of State. In addition, Ofsted provides independent assurance about the quality of colleges' education and training provision.

Based on a report by the National Audit Office, the Committee took evidence on 26 November 2020 from the Department and the ESFA on managing the financial sustainability of colleges. The Committee published its report on 27 January 2021. This is the government response to the Committee's report.

Relevant reports

- NAO report: *Financial sustainability of colleges in England* – Session 2019-21 (HC 728)
- PAC report: *Managing colleges' financial sustainability* – Session 2019-21 (HC 692)

Government responses to the Committee

1: PAC conclusion: *For too long, the Department has lacked a proper integrated vision for the college sector.*

1: PAC recommendation: *The Department should make clear when it expects to set out funding commitments to support reforms proposed in the forthcoming White Paper.*

1.1 The government agrees with the Committee's recommendation.

Recommendation Implemented

1.2 The Department for Education's (the department) budgets for post-16 education and skills were outlined by the Chancellor of the Exchequer at the 2020 Spending Review, with further detail provided in the *Skills for Jobs White Paper*. The department will address post 2021-22 budgets at the 2021 Spending Review.

1.3 Funding rates for funding for 16-19 year olds in 2021-22 have now been published, confirming that the increased rates seen in 2020-21 will be maintained even though there has been an increase in student numbers over and above demographic projections and therefore there will be an increase in 2021-22 academic year funding allocations to institutions.

1.4 As regards capital, the government has already committed a £1.5 billion investment to upgrade further education colleges, with an initial £200 million allocated to further education colleges and designated institutions in September 2020 for immediate repairs and condition improvement. The remaining £1.3 billion will be invested over the next five years up to 2025-26. As part of this, the first bidding round for the *Further Education Capital Transformation Fund* was launched on 21 January 2021.

1.5 A total of £268 million has been committed for capital funding so far to support providers to deliver T Levels. Project approval for Wave 2 (2021 delivery) has begun, and the department will confirm allocations to all 2021 providers for specialist equipment later this year. £135 million will be made available for Wave 3 (2022 delivery), with applications for building work due to arrive by 26 March 2021 for decisions to providers by summer 2021, and specialist equipment allocations sent out in early 2022.

1.6 To support those post 16 providers who will find themselves with a pressing need for additional capacity in the academic year 2022-23 in order to meet the demographic increase in 16-18 year olds in their area, the government has committed £83 million capital funding in financial year 2021-22. More details on the Post 16 Capacity fund will be made available in the coming months.

2: PAC conclusion: *Rising pension costs are putting significant pressure on college finances.*

2: PAC recommendation*: The Department should write to us, within three months, setting out what it has done to assess pension cost pressures on colleges, and how it has taken account of these in its funding decisions.*

2.1 The government agrees with the Committee's recommendation.

Recommendation Implemented

2.2 A *letter was provided to the Committee* on 18 February 2021 setting out what the department has done to assess pension cost pressures and how it has taken account of these in its funding decisions

3: PAC conclusion: *It is clearly iniquitous that sixth-form colleges have to pay VAT while post-16 academies and sixth forms do not.*

3: PAC recommendation: *The Department should work with HM Treasury to assess the merits of making the rules on VAT consistent for schools and colleges.*

3.1 The government agrees with the Committee's recommendation.

Target implementation date: August 2021

3.2 State and academy education providers are typically engaged in 'non-business' activity as there is no charge for the education provided – this means there is no taxable supply made and value added tax (VAT) is not chargeable. Most of these said providers are covered by the Education Act 2011.

3.3 The meaning of 'business' is concerned with making supplies to other persons for any form of payment or consideration. Educational suppliers who engage in the provision of education (for example, higher or further education) for a charge are deemed to be 'in business' for VAT purposes - the sales of goods and services are taxed in the normal way. Education providers must register for VAT, if the taxable supplies go beyond the VAT threshold, in a similar manner as other businesses.

3.4 The department's Tax and Expenses Team will engage with its Customer Relationship Manager at Her Majesty's Revenue and Customs (HMRC) to explore the potential routes and efficacy of taking forward the Committee's recommendation. The department will also engage HMRC/HM Treasury (HMT) to gauge ministers' appetite for changing or implementing legislation to level-up across the education provider base.

4: PAC conclusion: *Successful implementation of the new T-level qualifications risks being delayed by a lack of work placements.*

4: PAC recommendation: ***The Department should write to the Committee before the start of the next academic year setting out what up-to-date assurance it has that there will be enough work placements for T levels. This should cover what impact the COVID-19 pandemic has had on the availability of placements and plans to incorporate virtual placements.***

4.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

4.2 It is crucial that industry placements are high-quality to ensure that students have a successful T Level experience.

4.3 The department is monitoring the challenges that the COVID-19 pandemic is having on the delivery of industry placements. The first cohort of T Levels is relatively small, with approximately 1,300 students. The department has introduced some temporary flexibilities to placements to support their delivery, which includes reducing the number of minimum placement hours required for students on the Early Years Educator Occupational Specialism. The department has invested over £165 million since the 2018-19 academic year to help providers build capacity to deliver placements and is providing dedicated support to providers to help them source placements. The department has also implemented a package of support for employers, where they can access advice, workshops and webinars, and is running a pilot to test what financial support employers need to deliver placements. The department will continue to work closely with providers and employers to ensure it understands the delivery challenges and how to overcome them.

4.4 The department will write to the Committee in July 2021 to set out what assurances it has that there will be enough industry placements for T Levels; what impact the COVID-19 pandemic has had on the availability of placements; and what further support the department will put in place to ensure there are enough high-quality placements available for students.

5: PAC conclusion: ***The Department's funding decisions are based on previous years' student numbers, which risk holding back colleges that are growing.***

5: PAC recommendation: ***The Department should consider a change to the formula for funding colleges which takes account of real time or more recent information about student numbers. It should report back to us by the summer about how funding could be delivered that better reflects colleges' real time position.***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: June 2021

5.2 Each year, the department looks at in-year recruitment by providers of students aged 16-19 years and, subject to affordability, provides top-up 'in year growth' funding to help those that have seen a particularly large increase relative to their funding allocation. This helps with the additional in-year costs of supporting extra students, typically at 50% of the normal funding rate. However, to ensure institutions do not need to cut back in-year, there is no downward adjustment in-year if there is a shortfall in student recruitment.

5.3 In this academic year 2020-21, there has been a significant recruitment of students over and above not only allocations but also what had been expected from increased numbers of young people in the population. It seems likely this is due to the COVID-19 pandemic.

5.4 In response, the department has lowered the thresholds for the in-year growth exercise, to recognise the funding pressures that many institutions are facing in 2020-21 academic year. Institutions with significant levels of growth will receive the same level of growth funding this year (academic year 2020-21) as they would have under last year's process (in academic year 2019-20), but this year institutions with more modest levels of over-delivery will also receive some growth funds.

5.5 By end February 2021, institutions eligible were notified of an updated allocation based on the student numbers they reported at the start of December 2020.

5.6 For 19+ funding, the department agrees that funding could be delivered better, and this is set out in the *Skills White Paper*. As such, the department is currently developing a consultation on how a change to the formula for funding colleges could help reduce burdens, improve stability and increase high-value provision. The policies under development are being tested with the sector, and the department is considering the advantages, disadvantages and possibilities of a system based on real time activity.

6: PAC conclusion: ***The Department's, the ESFA's and the Further Education Commissioner's approach to intervention takes too long, costs too much and is not effective in making colleges more sustainable.***

6: PAC recommendation: ***The Department should set out within three months what actions it plans to take to improve its intervention arrangements, and how it will assess the success of these actions.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: May 2021

6.2 The department will consult with sector stakeholders to review and publish an update to its *college oversight: support and intervention policy* in May 2021. This will set out the Education and Skills Funding Agency's role as Regulator for the department, in respect of securing compliance and taking intervention action, and address the recommendations made the Committee, and those identified in *the Independent Review of College Financial Oversight* conducted by Dame Mary Ney DBE, published in July 2020. The Committee will be provided with a copy of the updated policy.

7: PAC conclusion: ***Students are losing out as colleges cut mental health and other support services in response to financial pressures.***

7: PAC recommendation: ***The Department should undertake research into the extent to which college support services are meeting students' needs, including canvassing the views of students themselves. In its Treasury Minute response, we expect the Department to give a firm commitment to taking this action, and details of the timetable for the research.***

7.1 The government agrees with the Committee's recommendation.

Target implementation date: August 2021

7.2 The department will be conducting a survey looking at the experiences of Further Education learners during the COVID-19 pandemic outbreak for the 2020-21 academic year. This survey will be run on a national scale, to provide greater insight into the pandemic impacts. It will focus on areas including pastoral support and quality of teaching in addition to remote learning, lost learning and apprentices' experiences with their employer and training provider.

7.3 The survey will enable learners to feed back to the department on their experience, which will help inform future policy development.

7.4 The department is currently working with the contractors on the design of the questionnaire. It will be finalised in March 2021 before being piloted. Fieldwork will take place in the summer term of 2021 and the survey results will be published as soon as possible after that.