

Article

Economic statistics sector classification – classification update and forward work plan: November 2022

The forward work plan sets out the units and transactions that we expect to assess and classify in the coming 12 to 18 months.

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Notice

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Updates have been made to the Index and Central Government worksheets in the Public Sector Classification Guide for November 2022, to reflect the changes to the further education sector in England, as detailed in our Latest Update worksheet, and classification update on the article page.

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1 . Introduction

Our economic statistics are produced in accordance with international rules and guidance. Central to this are the rules set out in the [United Nations System of National Accounts \(SNA\) 2008](#), the [European System of Accounts \(ESA\) 2010](#), and the accompanying [Manual on Government Deficit and Debt \(MGDD\) 2019](#). These include rules on classifying statistical units (organisations or bodies) and the transactions they engage in. A summary of these, and our approach to their application, can be found on our [Economic statistics classification web page](#).

Our [Forward work plan \(XLS, 120.8 KB\)](#) sets out the organisations and transactions that we expect to assess and classify in the next 12 to 18 months. Please note that classification priorities can change quickly, and the expected dates of completion are only indicative at the time of publication. There is high demand for classification assessments, and we progress many active cases at the same time, with new cases often arising. These include confidential assessments of government and devolved administration policy proposals, as explained in our [classification process](#).

We do not announce or discuss such policy proposal assessments, to give policymakers the space to develop policy. When a policy is implemented, we will publish a classification decision. You can read our [Public Sector Classification Guide \(XLS, 3.0 MB\)](#) for more information.

Therefore, the forward work plan does not cover all cases that will arise over the next 12 to 18 months; cases that are likely to have a smaller statistical and policy impact will be assessed as resources allow. The cases scheduled in this article have been prioritised because of the impact they will have on important statistics and their importance to public policy.

2 . Future developments

There is one addition to the forward work plan this month: the Electricity Generator Levy announced in the [Autumn Statement](#). There is one deletion, further education colleges, sixth form college corporations, and designated institutions in England, which are included in the classification update below.

3 . Classification update: reclassification of further education corporations, sixth form college corporations and designated institutions in England

As advertised in our forward work plan, the Office for National Statistics (ONS) has been conducting a review of the classification status of further education corporations (FECs), designated institutions (DIs) and sixth form college corporations (SFCCs) in England.

This review was prompted by the passage of the [Skills and Post-16 Education Act](#) on 28 April 2022, and by updates to the [Further and Higher Education Act 1992](#) (FHEA 1992), since the last classification review in 2012. The review has also taken account of changes to international statistical guidance over this period.

In this release, we have published the decision arising from this review: these further education institutions will be reclassified from the non-profit institutions serving households (NPISH) sector to the central government sector. This comes into effect, retrospectively, from 1 April 1993 for FECs and DIs, and from 1 April 2012 for SFCCs. This section provides some context for this review and explains our decision.

Please note that this review relates to the further education (FE) sector in England only.

Background to previous further education classification decisions

The 2010 classification decision

The Apprenticeships, Skills, Children and Learning Act 2009 created 93 sixth form college corporations on 1 April 2010, which were classified to the local government sub-sector. While reaching this decision, ONS reviewed the existing classification of other further education institutions in England and Wales using the latest international guidance. On 13 October 2010, further education colleges (FECs) in the UK were reclassified from the non-profit institution's serving households sector to the general government sector. This decision applied, retrospectively, from April 1993 in England, Wales, and Scotland, and from 1989 in Northern Ireland.

This decision reflected the controls held by the government over further education corporations' general corporate policies in this period. Several controls were identified, including controls over governance arrangements, but the important controls were:

- government consent was required for any FEC to borrow
- the government had the ability to close or merge FECs

These features are considered strong indicators of public sector control. An article explaining these decisions in greater detail was published on 13 October 2010 and can now be found in the [National Archives](#).

The 2012 classification decision

The passage of new legislation in the form of the Education Act 2011 prompted another classification review of the further education sector in 2012. This review recognised that some public sector controls -- including over borrowing -- had been removed by this new legislation. Schedule 12 of the Education Act 2011, "Further Education Institutions -- Amendments" sets out these changes: it amended both the FHEA 1992 Act and the Apprenticeships, Skills, Children and Learning Act 2009 in respect of the powers held by the government in England over FECs and SFCCs (created on 1 April 2010).

The 2012 review acknowledged that the government retained some powers in respect to FECs and SFCCs. These powers were limited to specific situations where an institution was being mismanaged or performing poorly. At that time, the ONS considered these remaining powers as reserve, or step-in, powers. They related to limited circumstances, and only if the Secretary of State exercised these powers would it result in the government taking control of a particular institution.

The ONS concluded that the changes were sufficient to remove public sector control of general corporate policy of FECs and SFCCs in England. As a result, they were reclassified from the public sector to the NPISH sector from 1 April 2012, when the relevant sections of the Education Act 2011 came into force.

An article explaining these decisions in greater detail was published on 31 May 2012 and can now be found in the [National Archives](#).

The 2022 classification review

The 2022 classification review follows the passage of the Skills and Post-16 Education Bill. This legislation places new requirements on, and establishes new controls over, further education institutions in England.

The new legislation also enhances pre-existing government step-in powers. Sections 56A and 56E of the FHEA 1992 were in existence at the time of the 2012 review. They legislate that the Secretary of State for Education can intervene in the governance of an FEC, SFCC or DI in England, in instances of "mismanagement" which is not further defined in the legislation. The presence of this intervention power indicates that the Secretary of State has the legislative powers to appoint and/or remove members of the relevant institution's governing body. However, in 2012, this was not considered to constitute public sector control unless exercised.

Section 23 of the [Skills and Post-16 Education Act 2022](#) extends Section 56A and 56E (FHEA 1992) and adds an intervention power for failure to meet local needs. In instances where the education or training provided by the institution does not adequately meet local needs, and considering any approved Local Skills Improvement Plan, the Secretary of State can intervene and give directions to the governing body. This includes making a structural change, such as a merger.

This type of legislative requirement is not present for other education providers and was deemed to be beyond the respect of standards and teaching programmes (see MGDD 2019, 1.2.3.2, paragraph 41).

Changes to international statistical guidance and recent casework

In addition to legislative changes, the 2022 classification review has also considered changes in international statistical guidance since the last FE sector review. These changes provide further clarity on the consideration of classification issues, which are included in the [Manual on Government Deficit and Debt \(MGDD\) 2019](#).

One specific change in guidance which affected our review is the extent to which step-in powers are considered an indicator of control. MGDD 2019, section 1.2.3.1, paragraph 25 states: "Usually, an entity operates within the framework, the general policy or programme, that has been set for it and once that is established there is usually no need for its owner (or controlling entity) to intervene and correct the economic operations. The absence of such apparent interventions does not entail that control over the entity has not been established. Rather the concept of control is not related to actual interventions as such, but to the extent that power (or rights) to determine the general policy can be exercised, whether or not that power is actually used."

The guidance now clarifies that it is the existence and scope of intervention powers that indicates public sector control, not whether they are used in practice.

Consistent with this revision, more recent classifications casework has considered step-in powers on grounds of "mismanagement", providing a body of precedent to consider. The relevant FE legislation contains this term, which enables step-in powers in a broad range of circumstances, without specific prescription.

Therefore, in line with more recent classification assessments and the latest international guidance, the existence of an intervention power for mismanagement is deemed to be public sector control, if the extent of the intervention power determines corporate policy.

Explaining the 2022 further education sector in England classification decision

The important factors determining the outcome of the 2022 classification review are:

- the updated international guidance, which states that it is the existence and scope of intervention, or step-in powers, in legislation, which is an indicator of public sector control, not whether the intervention power is used
- the use of the term "mismanagement" is considered to enable step-in powers in a broad range of circumstances, without specific prescription; it provides the legal framework for the Secretary of State to intervene in an FE institution to appoint and/or remove members of the relevant institution's governing body
- the [Skills and Post-16 Education Act 2022](#) extending Section 56A and 56E (FHEA 1992) to add an intervention power for failure to meet local needs; where the Secretary of State determines that there has been such a failure, they would be able to exercise their powers, including the ability to make changes to the governing body, and to issue directions, which can include structural changes, such as a merger

As these factors apply to all providers in England, the FE sector in England, as a whole, is under public sector control.

Also included as part of this review were the subsidiary companies of the FECs. Individual consideration was given to identified FECs or DIs which received atypical funding. A detailed analysis concluded that most of these companies do not meet the criteria to be institutional units for statistical purposes; or, if they do, they receive the majority of their funding from grants from the government. This means that in either situation they would be classified to the central government sub-sector, from 1 April 1993.

Effective classification dates

The dates for the reclassification of the distinct types of FE organisations vary according to legislation.

FECs in England were formally established via Statutory Instrument on 1 April 1993, and DIs were created through [The Education \(Designated Institutions in Further Education\) Order 1993](#), effective from 1 April 1993.

SFCCs in England came into existence on 1 April 2010, the date of [The Initial Sixth Form College Corporation Designation \(England\) Order 2010](#). From this date, SFCCs were classified to the local government sub-sector because of local authority control over borrowing. However, The Education Act 2011 amended the relevant sections of the FHEA 1992, removing government control over borrowing for FECs, SFCCs and DIs.

From this date, local authority control ceased. SFCCs in England (as a whole) are now classified to the central government sub-sector from 1 April 2012, the date on which Section 49, Schedule 12 of the Education Act 2011 came into force through [The Education Act 2011 \(commencement No. 3 and Transitional Savings Provisions\) Order 2012](#).

Impact on fiscal measures

The overall impact on the important fiscal statistics of the public sector finances will be assessed in due course. The impact on public sector net borrowing is expected to be small, because the majority of the FE sector's revenue is currently recorded within government expenditure (grants). The impact on the balance sheet has not yet been assessed. Further analysis of the FE sector's data will inform this impact, and this will be further explained in the public sector finances and national accounts in due course.

Additional information

Scottish colleges of further education and Northern Ireland institutions of further education remain classified to the central government sub-sector, effective from 1 April 1993 and 11 June 2005, respectively, and Welsh FECs to the NPISH sector from 27 April 2014.

4 . Cite this article

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