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Education & Skills
Funding Agency

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Introduction

The purpose of the Education and Skills Funding Agency's (ESFA) early intervention and prevention strategy is to engage with sixth-form colleges (SFC) and general further education colleges (GFEC), where their financial plans, performance indicators or other data sources suggests that there is a risk of failure. This included being in financial difficulty, with a significant risk of not being able to meet obligations. Unless specified we will use the term 'college' to denote both SFCs and GFECs.

We will work with colleges to support them to improve and to implement swift mitigating actions that focus on ensuring a return to sound financial resilience and, where required, improvement in quality. Our aim is to lower the risk of a college entering, or returning, into the scope of formal intervention measures and to achieve a rapid turnaround at a lower cost to public funds, while maintaining high-quality learning delivery to students, adult learners and employers.

We first published the strategy in October 2015. It was updated in December 2016 as a joint Education

Funding Agency (EFA) and Skills Funding Agency (SFA) strategy. Since the EFA and SFA have merged, the ESFA has evaluated the implementation of the Strategy, including gathering extensive feedback from colleges and taken into account the expanded role of the Further Education Commissioner. This update takes account of the resulting changes.

Risk-assessment approach

We will focus our early intervention and prevention support using a risk-based approach. We use our risk-assessment to cross-reference actual and predictive financial and quality data for colleges alongside other soft information.

Key triggers of early intervention and prevention strategy

While we will consider each college's position on a case-by-case basis, some clear triggers will prompt us to contact the college to discuss the position. Where necessary we will expect the college to take action, or already be taking action, to prevent the issue becoming a greater concern.

1. Where there is a significant decline in the financial health score over the last 2 or 3 years.
2. Where the financial health score is a weak 'satisfactory', that is, either:
 - the financial health score is equal to or less than 130 points
 - the total score for the current ratio plus the earnings before interest, taxes, depreciation, and amortisation (EBITDA) ratio is less than or equal to 80 points
3. Either the financial current ratio, gearing ratio or EBITDA ratio is zero.
4. Where our financial forecasting demonstrates that the college is at risk of moving into 'inadequate' financial health in the future unless it takes preventative action. This forecasting could include for example, predictive financial data, cash flow forecasts, demographic/learner number data such as national demographic statistical forecasting, individualised learner record (ILR) returns, funding assumptions and performance data. We will share with the college any work carried out to explain the basis for our proposed action/s.
5. Two consecutive 'requires improvement' grades for overall effectiveness following Ofsted inspection.
6. Other data may also be taken into account, including but not limited to complaints or whistle blowers.

We may also take account of other information, where the calculated triggers above have not been activated and we consider that there is sufficient risk to agency funding. You can find details of how we assess the financial health of colleges in the [financial planning handbook](#). This document also includes information on the scoring process and timetable for submission of information to the agencies.

We will write to a college to explain why we have assessed the college to be at risk and that they have triggered early intervention and prevention support. We will not publish information on colleges in early intervention, but we will share the information with our internal partners within government, such as Ofsted, the FE Commissioner and other government departments.

We will focus early intervention and prevention discussions with colleges around 3 key features:

1. Financial – how well does the college understand its current and future financial position, and what steps is it taking to remedy identified issues?
2. Operational – how does the college identify, monitor, benchmark and respond to financial key performance indicators?
3. Strategic – what steps has the college taken, or have planned, to respond to influences that impact on its capacity to offer appropriate high-quality provision?

To help us understand how a college is dealing with the identified risk, we can request all or some of the following:

- a meeting with the chair and/or the full corporation where we will explain why we have identified that the college is at risk
- management accounts, including commentary, staff costs, staff costs as a percentage in year of turnover and forecast cash flow
- an assessment of the impact of any funding clawback (where appropriate) - for example, for the funding year 2017 to 2018, identifying the impact on budget/cash flow/financial plan and ability to make timely repayments in the funding year 2018 to 2019
- banking terms, including routine renewal dates of arrangements, including overdrafts, loans and any requirements to seek additional financial support
- copies of reports to the college's senior management team and governors - for example, key performance indicators (KPIs), statistical information, other operating measures, indications of corporation review and challenge to these - this includes information on recruitment, retention and achievement of students, learners and apprentices
- a copy of the college's risk plan, including triggers for mitigating actions and the college's approach to timely identification and management of risk
- information about partnerships and subcontracting arrangements, including:
 - income and charging forecasts
 - in-year and forecast volumes
 - costs
 - contributions
 - performance compared to financial plan
- information on planned strategic developments, which may include:
 - federation or merger arrangements with other colleges or training organisations, proposed shared service arrangements
 - corporate reorganisation considerations
- reports from college auditors on the management of the colleges, including financial compliance and health

We reserve the right to ask for any further information that could help us understand why the college is at risk of failure and what the college is doing to reduce that risk under the terms of our funding agreements with colleges.

Our work with colleges

We expect a college to put in place a plan to identifying actions that will lead to the reduction of risk and to

return the college to stability and financial resilience. Each action must be:

- specific - target a clear area for improvement
- measurable - quantify an indicator of progress and achievement
- attributable - specify who will do it.
- realistic - what results can realistically be achieved, given available resources
- time bound - specify when the result(s) will be achieved

We will discuss the actions, and their impact, with the college and we could, based on our assessment, make some of them additional conditions of funding. If we do so, we will write to the college to confirm what action we are taking. We will not publish this letter.

Mitigating actions

We want to work closely with a college and support it to help overcome the issues that have triggered our intervention and to prevent further issues and risks developing. However, where early intervention and prevention dialogue suggests that a college is not taking appropriate action to reduce the risk of failure, we will request that the college take some or all of the following steps:

- consider further actions, in addition to those already in place
- increase financial or quality expertise on the board of governors
- link with other colleges that have proven strengths in the relevant areas
- demonstrate how the college is planning to tackle financial health decline: this may include undertaking a cost scrutiny exercise to identify how to reduce costs and/or bring them within sector norms
- provide additional key data on a regular basis to us, such as monthly management accounts
- review its position in the market and take account of the findings of such a review: this may be done through a Structure and Prospects Appraisal (SPA)

FE Commissioner

In November 2017, DfE published [intervention policy in colleges and expansion of the Further Education Commissioner role](#).

The expanded role for the FE Commissioner will focus on earlier engagement with colleges with significant risks, or that are failing to improve. By engaging with colleges earlier, the FE Commissioner will be able to support leadership teams and governing bodies with recommendations that will enable improvement to be accelerated. All colleges assessed as having triggered early intervention and prevention activity are in the cohort of colleges that could be recommended for a FE Commissioner-led diagnostic assessment.

We work with the FE Commissioner to prioritise those colleges that would benefit from diagnostic support.

The outcomes from a FE Commissioner-led diagnostic assessment could include:

- endorsement of the colleges approach to minimising risks and issues
- requiring further action by the college to strengthen their existing plans
- escalation to formal intervention

The ESFA will continue to work with the college following a diagnostic assessment and monitor the effectiveness of the recommendations and actions in bringing about improvement.

Exiting early intervention and prevention

A college will exit early intervention and prevention as soon as we have evidence that the college no longer meets the triggers. Although we will do this as soon as possible, this may mean that we wait until financial statements are available, rather than relying solely on financial plans. In the case of intervention due only to quality reasons, exit will be triggered by the publication of an improved Ofsted grade.

Escalation

Where the college fails to demonstrate sufficient progress in resolving the issue and demonstrating progress, we may escalate our intervention. This is in line with our funding agreements.

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