Education & Skills
Funding Agency

College financial planning handbook 2019 (version 3)

Financial outturn requirements for the year 2019 to 2020 and financial planning requirements for the year 2020 to 2021 for sixth-form and further education colleges

December 2020

Contents

Summary

The college financial planning handbook sets out the Education and Skills Funding Agency's (ESFA's) financial planning requirements for sixth-form (SF) and further education (FE) college corporations.

Corporations are entities that operate one or more colleges. They have the legal status of statutory corporations and exempt charities. A college is a charitable activity undertaken by its corporation; it does not have a separate legal identity distinct from that of its corporation.

We publish the college financial planning handbook on behalf of the Secretary of State for Education, in their role as principal regulator of college corporations as exempt charities. Compliance with this handbook is a requirement in corporations' funding agreements with ESFA.

Designated institutions

We use the term corporation to refer to sixth-form and FE corporations, established under the Further and Higher Education Act 1992, where members of the corporation form the governing body. Requirements in this guidance apply equally to institutions designated under section 28 of the same Act as being in the FE sector, to the extent permitted by their legal status and underlying legislation, as well as any institutions with a funding agreement that requires that they follow this guidance.

Validity

This guidance updates and replaces version 2 of the College Financial Planning Handbook for the year 2019 to 2020 issued by ESFA in November 2019 and takes into account the requirements of the updated finance record issued to colleges in November 2020. Since the revised finance record incorporates an outturn statement for the year 2019 to 2020 and a budget forecast plan for the year 2020 to 2021, this guidance relates to both years. It will remain in force until replaced.

Who is this publication for?

This handbook is primarily for use by:

- college principals/accounting officers, chief executives and finance directors
- college governors as charity trustees

This document does not apply to specialist post-16 institutions, non-maintained special schools or independent learning providers. Academy trusts with post-16 provision should refer to the academies financial handbook.

What has changed in this edition?

Plans for college financial returns have had to be revised following the Covid-19 outbreak and the need for more up-to-date information on how the outbreak was impacting on college finances. A cashflow template and financial health calculator was requested in July 2020 and an updated cashflow template and commentary has been requested at the end of November 2020. However, financial health has not been formally assessed since college corporations submitted their finance record for the year 2018 to 2019 and as a result, ESFA has determined that a finance record would be required as part of the financial statement collection for the year 2019 to 2020. As the July 2020 financial health calculator only required a minimum collection of data to monitor the impact of Covid-19 on financial health, the finance record this year will cover both the year 2019 to 2020 and the latest forecast for the year 2020 to 2021. This will enable ESFA to provide college corporations with a final financial health grade for the year 2019 to 2020 based on the audited financial statements and a financial health grade for the year 2020 to 2021.

Corporations in receipt of Restructuring Facility (RF), Exceptional Financial Support (EFS), Solution Funding (SF) and Emergency Funding (EF) loans/grants must also return an Integrated Financial Model for Colleges (IFMC) in accordance with the new monitoring timetable in paragraph 8.

The key changes to the assessment of financial health in this edition (compared with the 2019 edition (Version 2)) are:

- The calculation of sector-specific EBITDA for the performance ratio now also excludes Restructuring Facility related expenditure as detailed in the RF agreement, and
- Additional moderation criteria, recognising the significant impact of Covid-19, where colleges wish to moderate their financial health score from ‘Inadequate’ to ‘Requires improvement’.

Clarification of terms

We use the terms ‘must’ and ‘should’ in this document:

- must – means a funding agreement condition or requirement
- should – identifies minimum good practice for which there is no absolute requirement, but which corporations should apply unless an alternative better suits their circumstances

Further information and feedback

Corporations have access to a range of expertise and advice, including their college association and professional advisers. Corporations can also email ESFA questions using PRA.financialhealth@education.gov.uk or by completing an on-line enquiry form.

Part 1: Submission requirements

Submission of documents

1. College corporations in existence as at 31 July 2020 must submit all of the usual year-end financial statements and documents as set out in Part 1 of the [College Accounts Direction for the year 2019 to 2020] by 31 January 2021, but must also provide:

- a 2-year Excel finance record return, which includes SOCI, balance sheet and cashflow statement as follows
  - actual – year ending 31 July 2020
  - budget – year ending 31 July 2021, comprising of actuals to date and forecast for the remaining period to 31st July 2021

In addition, colleges should submit a commentary which explains the assumptions upon which the forecast year has been completed in the finance record return.

2. The finance record will be imported into a database for the information to be extracted and processed. It is essential therefore that its structural integrity is maintained. ESFA will not accept files that have been structurally changed, for instance with columns, rows or tabs added or removed.

3. We take late submission of financial information very seriously and corporations missing key deadlines risk ESFA intervention, in accordance with [ESFA's policy on college oversight: support and intervention]. It is important corporations inform ESFA at the earliest opportunity, if the deadline of 31 January 2021 may be missed.

Special arrangements

Business combinations

4. Corporations that are merging or dissolving and joining or reconstituting as an academy on or before 31 January 2021 should submit as follows:

- dissolving corporations should submit a 1-year finance record with outturn for the year to 31 July 2020 only, and
- receiving corporations should submit a full 2-year finance record, with outturn for the year 2019 to 2020 and actuals of the continuing corporation and approved budget and forecast of the merged corporation for the year 2020 to 2021.

5. Corporations that are merging or dissolving and joining or reconstituting as an academy between 1 February 2021 and 31 July 2021 should submit as follows:

- dissolving corporations should submit a 2-year finance record with outturn for the year to 31 July 2020, actuals for the period 1 August 2020 to the latest available month and budget and forecast for the remainder of the period to 31 July 2021, and

- receiving corporations should submit a 2-year finance record, with outturn for the year to 31 July 2020 and actuals and forecast of the continuing corporation for the period 1 August 2020 to the planned merger and approved budget and forecast of the merged corporation for the remainder of the year to 31 July 2021.

ESFA flexibilities following merger

6. We may allow up to 18 months for a merged corporation to address any underperformance issues inherited, to stabilise and organise itself and return to financial sustainability. If, during this period, a merged corporation's moderated financial grade is 'inadequate', we may suspend formal intervention action, and the issue and publication of a new notice to improve. We will continue to monitor financial health in line with our published college oversight: support and intervention framework.

This handbook takes into account previously published agency guidance on financial accountability arrangements for colleges planning a merger.

Restructuring Facility, Exceptional Financial Support, Emergency Funding and Solution Funding

7. Corporations in receipt of Restructuring Facility, Exceptional Financial Support, Emergency Funding and Solution Funding must adhere to all funding terms and conditions, and monitoring arrangements. Failure to comply may result in ESFA intervention.

8. The monitoring timetable for those corporations is shown in the table below:

Return date	Return type	Period covered
31 January 2021	IFMC	Actuals to 31 December 2020
31 May 2021	Management Information (Management Accounts, Standalone cash flow forecast)	Actuals to 30 April 2021
13 September 2021	IFMC	Actuals to 31 July 2021

9. The above IFMC Model return schedule is also relevant for corporations in receipt of Emergency Funding irrespective of the terms of the Emergency Funding.

10. Solution Funding refers to any monies provided to colleges through grant and/or loan agreements with ESFA to support mergers, restructuring or other college transactions outside of RF.

Ongoing monitoring

11. Corporations of concern to ESFA, including those under ongoing monitoring, may be required to submit updated versions of their IFMC as well as other relevant information requested by ESFA.

Part 2: Two-year finance record and supporting information

Finance record – outturn year 2019 to 2020

12. The outturn year is historic and must be consistent with the audited financial statements for the year 2019 to 2020. There is no requirement for a supporting commentary on the year 2019 to 2020 as the financial statements should already provide sufficient information.

Finance record – budget forecast year 2020 to 2021

13. The budget forecast for the year 2020 to 2021 should give a realistic view of the corporation's financial performance and position as a group, including its subsidiaries and joint ventures where applicable. It should reflect actual financial performance for the latest available month and forecast performance for the remainder of the year. It must also reflect the cost of implementing the corporation's strategy including income, expenditure, balances and cash flows associated with projected levels of activity.

Supporting commentary

14. The finance record includes an assumptions schedule for colleges to provide their learner number and other assumptions for their 2020 to 2021 forecasts. In addition, Corporations may also submit a comprehensive supporting commentary in relation to the year 2020 to 2021 with the finance record, which could include:

- a summary of the corporation's strategic objectives
- a description of how the finance record is consistent with the corporation's strategic objectives
- explanations for significant year-on-year movements in the statement of comprehensive income and balance sheet
- explanations for significant variances between the estimated outturn for the current year and the original budget
- a summary of how risks to cash flow insolvency have been managed and mitigated
- the contribution made by all areas of material activity, including corporation subsidiaries and joint ventures, where applicable
- how the corporation plans to service its debt and finance its capital projects
- sufficient and relevant evidence to support any request to moderate a financial health autograde of 'inadequate'

Assumptions

15. The college should detail their assumptions underlying the 2020 to 2021 year and explain why the corporation has adopted these assumptions. Annex A provides guidance on the assumptions that could be covered as part of a supporting commentary.

16. We do not provide guidance to corporations on which assumptions to use, though the college financial benchmarking tool and college financial dashboards, which include an analysis of key financial indicators, trends and benchmarks, may be useful references.

Sensitivity analysis

17. As part of their risk management process, corporations should assess their resilience to adverse events that pose a risk to successful delivery of strategic objectives.

18. Corporations may undertake sensitivity analysis, to model various scenarios or consider the impact of specific adverse events. This may include preparing alternative versions of the finance record based on revised assumptions. Where a corporation identifies a material risk to financial viability and/or solvency, they must share these alternative finance records with ESFA.

19. Corporations should notify ESFA where these actions include a rationalisation of provision in any programme area or locality.

Approval of documents

20. The corporation is accountable for ensuring the financial viability of the college, and must regularly assess financial health, resilience and threats to insolvency, considering all relevant information.

21. In submitting the finance record the accounting officer confirms that the financial forecasts and assumptions for the 2020 to 2021 year have been discussed and agreed with members of the corporation that have been given delegated authority to approve them and are consistent with forecast information previously agreed by the corporation. Where the forecast for the year has not been formally signed off by the corporation prior to the submission of the finance record, the accounting officer will share this forecast with the corporation at the earliest possible opportunity.

Resubmissions

22. We may ask corporations to resubmit their finance record if, in our view, the assumptions used or evidence supplied, are not clear and / or do not realistically represent the corporation’s underlying financial position and/or forecasts.

Part 3: Assessing financial health

Financial indicators

23. We will continue to assess the financial health of corporations based on 3 financial indicators for the finance record.

Solvency

24. We currently assess solvency using an adjusted current ratio, this being the ratio between current assets and current liabilities. The ratio excludes:

- proceeds from the sale of fixed assets held for reinvestment
- fixed assets held for sale
- deferred capital grants held as liabilities
- holiday pay accrual

Performance

25. We assess performance using sector-specific EBITDA as a percentage of adjusted income. Sector-specific EBITDA excludes:

- Exceptional Financial Support, Emergency Funding and Restructuring Facility support
- Restructuring Facility related expenditure as detailed in the RF agreement
- any income from capital grants not otherwise held as deferred income
- net return / charge on LGPS pension scheme
- LGPS service costs, curtailments and settlements, which are replaced by employer contributions
- other comprehensive income not included in surplus/(deficit) for the year, for example: gain/(loss) on disposal of fixed assets; share of surplus/(deficit) from joint ventures
- non-exchange transactions and gains on acquisition which are in substance gifts

26. Adjusted (revenue) income excludes:

- any income from capital grants not otherwise held as deferred income
- Restructuring Facility grant
- net return on LGPS pension scheme
- share of surplus/(deficit) from joint ventures
- non-exchange transactions and gains on acquisition which are in substance gifts

Borrowing

27. We assess borrowing as a percentage of adjusted income. Borrowing includes:

- repayable Exceptional Financial Support, Emergency Funding and Restructuring Facility
- bank and other commercial loans
- finance lease obligations
- overdraft liability

Scoring and grading

28. Each indicator is given a score out of 100:

Score	Solvency	Performance	Borrowing
100	>/= 2.0	>/= 10%	= 0
90	>/= 1.8	>/= 9%	< 10%
80	>/= 1.6	>/= 8%	< 20%
70	>/= 1.4	>/= 7%	< 30%
60	>/= 1.2	>/= 6%	< 35%
50	>/= 1.0	>/= 5%	< 40%
40	>/= 0.8	>/= 4%	< 45%
30	>/= 0.7	>/= 3%	< 50%
20	>/= 0.6	>/= 2%	< 55%
10	>/= 0.5	>/= 1%	< 60%
0	< 0.5	< 1%	>/= 60%

29. The total score is translated to a financial health grade:

Score	Grade	Definition
240 – 300	Outstanding	Very robust finances to meet current obligations and respond successfully to opportunities or adverse circumstances
180 – 230	Good	Sufficiently robust finances to meet current obligations and respond successfully to most opportunities or adverse circumstances
120 – 170	Requires improvement	Sufficient resources to meet current obligations but a level of risk to financial health, with limited capacity to respond successfully to opportunities or adverse circumstances, which corporations need to address
</= 110	Inadequate	Financial difficulty and likely to be dependent on the goodwill of others, with a significant risk of not being able to meet current obligations

Intervention

30. We will take intervention action in line with our published college oversight: support and intervention framework: annex A of that framework sets out early intervention triggers and tools, while annex B sets out the same for formal intervention, alongside the associated actions available to ESFA. This may include the issue of a notice to improve where the corporation's moderated financial health grade is 'inadequate'.

Moderation

31. Where a corporation scores zero points for EBITDA its financial health is automatically moderated to no better than 'requires improvement' in the financial planning template.

32. We will moderate a corporation's autoscore to 'inadequate' where Emergency Funding has been given to protect continuity of provision for learners. However, if Emergency Funding has been given due to a material impact from the impact of Covid-19 on the college's finances, then we may allow colleges to request moderation of this autoscore grade if the college meets the criteria set out in the Covid-19 moderation section in Annex B. In addition, ESFA may moderate a corporation's autoscore to 'inadequate' where there is slippage of repayment of Exceptional Financial Support, Restructuring Facility or Emergency Funding against agreed schedules.

33. We can also moderate a corporation's autoscore to 'inadequate' if there is evidence to indicate the financial health is significantly different from the autoscore, for example:

- information is not sufficiently sound or reliable to make a judgement on, such as example assumptions adopted are unrealistic
- a loss or significant reduction of provision
- a significant recovery of funds following a funding audit or investigation; a court ruling; a contingent liability crystallising; delays in asset sales / receipts
- cash generated year-on-year is insufficient to meet debt service obligations
- where assessment remains in dispute or not agreed, after reasonable efforts have been made to clarify and/or seek agreement, we reserve the right to treat a 'no assigned' grade as 'inadequate'

34. Corporations may apply for moderation to 'requires improvement' where their autograde is 'inadequate'. In order to consider any requests for moderation, corporations must provide sufficient and relevant evidence to ESFA:

- against at least one moderation criteria set out in annex B
- that demonstrates the corporation's underlying finances and forecasts are sufficiently robust to support moderation.

Self-assessment

35. Corporations must self-assess, and approve, their financial health grade for both years in the finance record with reference to the moderation section above.

Significant deteriorations

36. As set out in funding agreements, corporations must notify ESFA immediately if, at any time, they become aware of a significant deterioration in their current or forecast financial health, or there is a serious risk of cash flow or balance sheet insolvency.

Annex A: Suggested areas to cover in a supporting commentary

The Annex provides guidance to colleges on areas they could cover if an optional commentary is submitted in support of the finance record forecast for the 2020 to 2021 year. This can detail changes in assumptions and forecasts compared to returns that the college have submitted in July and November 2020

Does the supporting commentary include:	
1	**Forecast and Assumption Changes compared to previous returns**
	Movements in funding, including student numbers and funding per student
	Apprenticeship forecasts
	Adult Education Budget performance, recovery and devolution
	16 to 19 demographics
	Income from ESFA other than the main funding streams, including high needs funding
	Income from other sources, including education contracts, tuition fees, European funds and commercial activities
	Impact of efficiencies and cost reductions, such as estates, curriculum and operations rationalisation
	Sound, costed curriculum plan
	Effective estates strategy, including capital investment, sale of assets, long-term maintenance and routine maintenance costs
	Pension fund contributions, including LGPS and TPS, triennial scheme funding valuations, deficit recovery periods and repayments, future service rates and contributions, government support assumed
	Sub-contractor costs and/or any franchising arrangements
	Details of loans, including consents and covenants
	Assessment of ability to repay borrowings as they fall due
2	**Financial health self-assessment**

	Rationale behind the financial health self-assessment, with reasons for any moderation from the autograde with reference to the moderation criteria

Annex B: Moderation criteria

The criteria below apply only where a corporation's autograde is 'inadequate.' Corporations must submit sufficient and relevant evidence to ESFA against at least one of the criteria below that also demonstrates underlying finances and forecasts are sufficiently robust to support moderation. ESFA reserves the right to seek more information from corporations as required.

Moderation	Criteria	Suggested evidence
Capital projects	Where a corporation is undertaking a significant capital project (where the total project cost is more than either at least £5 million or 25% of total income) provided that: • the project has started its capital life cycle (being the date approved by corporation) • the college's financial health is graded better than 'inadequate' at the time of the detailed project approval • the college will return to a financial health grade of at least 'requires improvement' by the year following project completion • the college performs at least as well (in the opinion of ESFA) as forecast during the intervening years; if a college performs less well than it forecast at the start of the year then ESFA will reflect this in its assessment Where there is a delay in the sale of fixed assets and/or receipt of proceeds that does not put current or future financial health, or solvency at risk. Where a project is mostly or wholly funded by ESFA then we will take this into account in our evaluation.	Project summary Verified value of the project Corporation minutes Pre-project financial health grades Robust projections showing improving financial health Project monitoring reports showing performance against targets Independent project assessments Capacity to manage delays or increased costs Proceeds received after the year end
Bank loan covenants	One or more bank loan covenants are breached for the year with long-term loan obligations reclassified to current liabilities.	A formal letter of waiver or letter of comfort from the bank pertaining to

		the 2019 - 2020 accounts, showing intended actions arising. Where the bank is not able to issue either a waiver or letter of comfort, we may consider moderation where the college can provide a standstill agreement with the bank or recent correspondence with the bank showing their intended actions relating to the college.
Exceptional or restructuring costs	To achieve longer-term financial sustainability, a corporation incurs significant exceptional or restructuring costs in a single year, which will lead to medium-term financial benefits, and an improvement in financial health grade within a year. We reserve the right to judge whether costs are significant and do not represent 'business as usual' expenditure. Where such costs are mostly or wholly funded by ESFA such as using restructuring facility, we will take this into account in our evaluation.	Justification that costs are significant, not business as usual Exceptional costs are in line with FRS 102's definition of extraordinary[1] FR showing drop into inadequate is short-term before returning to an improved grade, without risk to financial health or solvency

[1] Financial Reporting Standard 102 (5.10B)

Cash generation	Where cash generated year-on-year is more than sufficient to meet net current liabilities.	Trend evidence Robust assumptions
Other	Where a corporation can demonstrate that reasonable and planned expenditure or activities has, or will, result in an ‘inadequate’ autoscore over a single year only, which does not reflect the (better) underlying financial position of the college. However, where the planned temporary period is exceeded the grade reverts to ‘inadequate’ and formal intervention may apply.	FR showing drop into ‘inadequate’ is short-term before returning to an improved grade, with no risk to financial health or solvency
Covid-19	Where a corporation can clearly demonstrate that there has been an exceptional loss of income and/or has incurred exceptional expenditure which, net of government Covid-19 related support, has, or will, result in a deterioration to an ‘inadequate’ autoscore. This criterion would only be considered where the autoscore grade does not reflect the (better) underlying financial position of the college, which it is forecasting that it will return to in the subsequent year.	FR, a detailed forecast for the subsequent year and other evidence which demonstrates the exceptional loss of income or additional expenditure (net of government support) was Covid-19 related.

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