



Skills Funding
Agency

Skills Funding Agency: Early Intervention Strategy

November 2015

Of interest to colleges and other training organisations

Early Intervention Strategy

The purpose of the Skills Funding Agency's (SFA) Early Intervention Strategy is to engage with general further education (GFE) colleges where examination of their financial plans (or other ongoing indicators) suggests that they are at risk of failure.

This early engagement will facilitate swift mitigating action that focuses on ensuring financial resilience and stability. It should reduce the risk of a college falling into the scope of formal intervention measures and achieve more rapid turnarounds at a lower cost to public funds.

Risk-assessment Approach

We target early intervention using a risk-based approach and work with the Education Funding Agency to align our risk-assessment tools and indicators.

We use our risk-assessment approach to cross-reference financial and quality data for GFEs alongside any other soft information. We will consider for early or formal intervention GFEs that trigger key thresholds.

Formal Intervention: Key Thresholds

Colleges will be subject to the SFA's formal Notice of Concern regime if they are already in formal intervention measures or are moved into them for any reason. For example, inadequate financial health or controls, overall Ofsted grade 'inadequate', or below Minimum Standards. This may include cases referred to the FE Commissioner and those in 'Administered Status'. For further details, please refer to the published intervention policy.

Area Reviews and Formal Intervention

Where intervention occurs in parallel with, or immediately precedes, a review of the relevant area, then we will assess the college in intervention in the usual way. However, we will place it in the context of the wider analysis of local economy, employment opportunities and overall curriculum offer.

Where a college is in intervention measures, additional funding levers and (in exceptional circumstances) legislative controls will be made available. These will

ensure the end outcome for the college best meets the needs of local learners, employers and the wider community.

Where an individual college's intervention is completed in advance of the wider area undergoing an area review, the Commissioner's recommendations to ministers will always take account of the future of the area. For further information, please refer to the document [Reviewing post-16 education and training institutions](#).

Early Intervention: Key Triggers

While we will consider each college's position separately, there are some clear triggers where we will intervene early and take preventive action:

- Where there is a sequential decline in the GFE's financial health score over a three-year period, resulting in the current rating of 'satisfactory'. For example, moving from 'outstanding' to 'good' to 'satisfactory' over three years.
- Where there is a significant decline in financial health in one year from 'outstanding' to 'satisfactory'.
- Where the financial health score is a weak 'satisfactory' (that is, equal to or less than 120 points and/or current and performance ratios are less than or equal to 80 points).
- Where our forecasting demonstrates that the college is at risk of moving into 'inadequate' within two years, unless they take preventive action. This forecasting could include financial data, demographic/learner number data such as national demographic statistical forecasting, individualised learner record (ILR) returns, funding assumptions and so on. We will share with the college any work carried out to explain the basis for our proposed action/s.
- Where a college's mid-year forecasts prove subsequently to have been significantly optimistic.

- Where Ofsted has awarded two sequential 'requires improvement' (RI) grades. Poor Ofsted outcomes tend to impact on learner recruitment, so we would examine this threshold in conjunction with financial health.

The focus of the **early intervention dialogue** with colleges is around three key dimensions:

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

To support this dialogue the SFA will request all/some of the following (the list is not exhaustive):

- Monthly management accounts, including commentary, actual staff costs and as a % in year of turnover, and forecast cash flow.
- An assessment of the impact of any funding clawback profile (where appropriate). For example, for the funding year 2014 to 2015, identifying the impact on budget/cash flow/financial plan and ability to make timely repayments in the funding year 2015 to 2016.
- Banking terms, including routine renewal date/s of arrangements including overdrafts, loan/s and requirements to seek additional support in the funding year.

- Copies of reports to the college's senior management team and/or corporation. For example, key performance indicators (KPIs), dashboards, other operating measures, indications of corporation review and challenge to these.
- A copy of the college's risk plan, including triggers for mitigating actions (approach to timely identification and management of risk).
- Information about partnerships/subcontracting arrangements: in-year/forecast volumes, costs/contributions, performance compared to financial plan.
- Information on planned strategic developments, which may include federation arrangements with other colleges or training organisations, including through locally initiated area review. It also includes information about proposed shared service arrangements and corporate reorganisation considerations, including mergers.

Mitigating Actions

Where early intervention dialogue suggests that a college is not taking appropriate action to reduce the risk of failure, the SFA will take some or all of the following steps:

- Request a meeting with the chair and/or the full corporation to escalate the issues identified.
- Request that the college increases financial or quality expertise on the board of governors, or undertake informal twinning with another college which has proven strengths in the relevant areas.
- Request that the college demonstrates how they are 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.

- Request additional key data on a regular basis such as monthly management accounts.
- Ask the college to review its position in the market – which may be done through an area review, and to take account of its findings.
- Apply specific conditions to the college’s funding agreement.
- Implement, or request that the college implements, an increased audit regime to provide assurance.
- Issue a management letter requiring the college to review its financial plan.
- Escalation to formal Intervention, to include an FE Commissioner assessment and potentially placement into ‘Administered Status’, and/or subject to ‘Financial Prospects Assessment’ and early escalation to area review.



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