Education & Skills
Funding Agency

College financial planning handbook 2019 (version 2)

Financial planning requirements for sixth-form and further education colleges

November 2019

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Summary

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

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.

Validity

This guidance updates and replaces the College Financial Planning Handbook issued by ESFA in April 2019 and takes into account the requirements of the new Integrated Financial Model for colleges (IFMC) issued to colleges in November 2019. 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?

This edition describes the change in the arrangements for the submission of financial plans by corporations, following the introduction of the new IFMC. The IFMC has been introduced to enable better decision making and help facilitate the prevention of college financial distress. The new model means that from 2020 4 previous finance returns will be consolidated within one single return with multiple uses.

The return has been developed to replace the longstanding biannual returns - the December College Finance Record and the July College Financial Plan, as well as the Cashflow Against Debt Servicing (CFADS) return and the cash flow template introduced earlier in 2019. These returns will be discontinued with effect from 2020. Nevertheless, the College Finance Record for the year ended 31 July 2019 will still need to be submitted by 31 December 2019. From 2020 financial health will only be routinely assessed once a year.

Corporations need to be aware that although the introduction of the new model does mean that most corporations should from now only have to complete a single annual financial return, colleges in Early Intervention or Formal Intervention, in receipt of Restructuring Facility loans or otherwise demonstrate a material financial risk may be asked to submit returns on a more frequent basis. Corporations in receipt of Restructuring Facility loans/grants must return in accordance with the new monitoring timetable in paragraph 10.

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 Financial.MODEL@education.gov.uk or by completing an on-line enquiry form. The ESFA has issued guidance, Integrated Financial Model Guidance for Colleges, to colleges containing more detailed user guidance on how to complete the IFMC.

We are grateful to the individuals and organisations that have made suggestions or observations about this document. We are constantly striving to improve how we communicate. If you have suggestions for future editions, please contact ESFA.

Part 1: Submission requirements

Submission of documents

1. College corporations in existence as at 28 February 2020 must submit the following documents to ESFA by 28 February 2020:

- 4-year Excel IFMC return, which includes budget and cash flow as follows
  - outturn – year ending 31 July 2019
  - budget – year ending 31 July 2020, broken down into
    - actuals – period 1 August 2019 to 30 November 2019
    - forecast – period 1 December 2019 to 31 July 2020
  - forecast – year ending 31 July 2021
  - forecast – year ending 31 July 2022
- detailed commentary which explains the assumptions upon which the IFMC has been completed

2. ESFA will publish separately the submission requirements for the IFMC and commentary. The IFMC itself 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 28 February 2020 may be missed.

Special arrangements

Business combinations

4. Corporations that are merging or dissolving and joining or reconstituting as an academy on or before 28 February 2020:

- dissolving corporations should submit a 1-year template with outturn to the year to 31 July 2019 only
- receiving corporations should submit a full 4-year template, with outturn and actuals of the continuing corporation and approved budget and forecast of the merged corporation, including a 36-month cash flow forecast

5. Corporations that are merging or dissolving and joining or reconstituting as an academy between 29 February 2020 and 31 July 2020:

- dissolving corporations should submit a 2-year template with outturn to the year to 31 July 2019, actuals for the period 1 August 2019 to 30 November 2019 and budget for the period 1 December 2019 to 31 July 2020
- receiving corporations should submit a full 4-year template, with outturn and actuals of the continuing corporation and approved budget and forecast of the merged corporation, including a 36-month cash flow forecast

6. Corporations likely to dissolve after 1 August 2020 should submit a full 4-year template. In cases where a planned dissolution is postponed or cancelled then ESFA must be informed immediately and a full 4-year plan submitted.

ESFA flexibilities following merger

7. We may allow up to 18 months for a merged corporation to address any underperformance issues inherited, to stabilise, 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.

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

Strategic recovery plan

9. We may, exceptionally, give approval to a corporation to submit a 3-year plan with actuals, budget and approved forecast, where it is developing a strategic recovery plan and cannot provide a reliable 4-year plan.

Restructuring facility

10. The introduction of the IFMC means that the previous CFADS return for corporations in receipt of restructuring facility is withdrawn. The new Restructuring Facility monitoring timetable is shown in the table below:

IFMC Model return month	Period covered
28 February 2020	Actuals to November 2019
30 April 2020	Actuals to 31 March 2020
14 September 2020	Actuals to 31 July 2020

11. Corporations in receipt of Restructuring Facility must adhere to all funding terms and conditions, and monitoring arrangements, and risk ESFA intervention for any breaches.

Ongoing monitoring

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

Part 2: The Integrated Financial Model for colleges and supporting commentary

Integrated Financial Model for Colleges

The IFMC must give a realistic view of the corporation's financial performance and position as a group, including its subsidiaries and joint ventures where applicable. 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. Separate guidance, Integrated Financial Model Guidance for Colleges, on how to complete the model has been issued to Colleges.

Supporting commentary

12. Corporations must submit a comprehensive supporting commentary with the IFM, to include:

- a summary of the corporation's strategic objectives
- a description of how the IFM 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

13. The supporting commentary must include the detailed assumptions underlying the IFM and explain why the corporation has adopted these assumptions. The financial planning checklist (annex A) offers prompts on the assumptions to be covered.

14. 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

15. 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.

16. 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 IFMC based on revised assumptions. Where a corporation identifies a material risk to financial viability and/or solvency, they must share these alternative IFMCs with ESFA.

17. The supporting commentary must include detail of:

- sensitivity analysis undertaken
- level of flexibility applied and/or specific revisions to assumptions
- the corporation's assessment of the risk to financial viability and solvency
- plans to mitigate risks should they arise

18. The following list is not exhaustive and corporations need to apply their own judgement, mitigating actions may include:

- additional in-year financial monitoring, with a clear process of escalating concerns
- ensuring a flexible cost base
- negotiating further cost savings
- ceasing any loss-making activities
- making better use of assets to generate income and/or savings

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. The corporation must approve the IFMC.

21. In submitting the IFMC the accounting officer confirms that the corporation has approved the IFMC using assumptions which support the corporation's strategic objectives. The accounting officer also confirms that the supporting commentary has been prepared with due regard to the financial planning checklist (see Annex A).

Resubmissions

22. We may ask corporations to resubmit their IFMC 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 (due 31 December) and the new IFMC (due 28 February 2020).

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
- 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 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. 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 C
- 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 each year of the IFM period, 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: Financial planning checklist

The executive leadership of corporations should share the completed checklist with their governing body to provide assurance that they have considered relevant matters. It does not need to be submitted to ESFA. Accounting officers are, however, asked to confirm that the supporting commentary has been prepared with due regard to the checklist.

	Does the supporting commentary include:	Yes / No / N/A
1. Strategic and financial objectives		
	Detailed financial objectives (see annex B)	
	Corporation's assessment of performance against financial objectives, and any actions taken and/or planned	
	Strengths / weaknesses of the financial position and the extent to which it may be vulnerable to adverse variances, including those arising from its subsidiaries and joint ventures, where applicable	
	Risks and opportunities from key activities e.g. overseas ventures; restructuring; subcontracting	
	Preventing cash flow and balance sheet insolvency	
2. Detailed assumptions		
	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	
	Confirmation that only the administrative contribution in relation to bursary funding has been included in the model as income	
	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	

	Future staffing plans, pay awards, employers' national insurance contributions, and impact on staffing 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	
	Incremental pay, and any gains resulting from staff losses at the high end of the scale being replaced by staff at the lower end	
	General inflation rate, plus any variation from the general inflation rate for specific items of income or expenditure	
	Interest rates	
	Sub-contractor costs and/or any franchising arrangements	
	Transfers to and from restricted reserves	
3. 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	
4. Primary financial statements		
	Explanation for significant year-on-year movements	
	Explanation for significant variances between the estimated outturn for the current year and the original budget	
5. Income, expenditure, cash flow forecast, assets and liabilities		
	Detail on the sources of grant income and the underlying assumptions of learner numbers, including any forecast growth	
	The nature of any repayment of European Social Funding	
	Sources of income from franchising provision	
	Detail of all income-generating activities and the contribution made net of expenditure	
	Provisions included in expenditure	
	Options appraisals and significant asset purchases and disposals	
	Explanation for significant year-on-year movements	

	Cash flow and financial planning templates materially reconcile, and key differences explained	
	Details of loans, including consents and covenants	
	Assessment of ability to repay borrowings as they fall due	
6. Sensitivity analysis		
	Detail of the sensitivity analysis undertaken and outcomes	
	Detail of plans to mitigate risks should they arise	

Annex B: Example financial objectives

- Maintain a sound financial base (solvency and liquidity) as measured by:
  a) general reserve of XX% of income by 31 July 20XX and YY% by 31 July 20XX
  b) cash days of XX or more at all times
  c) break-even position by 31 July 20XX and operating surplus by 31 July 20XX
  d) cash inflow from operating activities by 31 July 20XX
  e) borrowing reduced to XX% of general reserves by 31 July 20XX and YY% by 31 July 20XX
  f) current ratio of more than XX by 31 July 20XX
- Improve financial management by producing integrated management accounts each month, incorporating an income and expenditure account, balance sheet, 12-month rolling cash-flow forecast, capital expenditure, financial performance indicators, staffing information and funding information (including plans)
- Strengthen procedures for testing the desirability and affordability of proposals which have a financial implication by 31 July 20XX
- Introduce post-implementation review to assess the success or otherwise of major investments (building, IT, staffing, marketing etc.) exceeding £XX by 31 July 20XX
- Maintain the confidence of ESFA, suppliers and professional advisers by:
  a) providing financial and non-financial returns on time and in the agreed format
  b) ensuring all returns requiring certification are unqualified and submitted on time
  c) adhering to the college corporation policy to pay suppliers within XX days of receipt of invoice
- Raise awareness of financial issues by:
  a) providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the corporation's financial procedures
  b) providing adequate information to ensure that staff, management and governors are kept up-to-date with the financial position of the college
- Improve the college estate and equipment by:
  a) generating sufficient funds to ensure that the corporation can undertake its specified programme of planned maintenance
  b) generating sufficient funds to ensure that the corporation can invest in new technology and equipment required to support learning and administration
  c) ensuring adequate procedures and controls are in place to protect assets from loss, theft and neglect

Annex C: 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 showing

Moderation	Criteria	Suggested evidence
		intended actions arising
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] IFM showing drop into inadequate is short-term before returning to an improved grade, without risk to financial health or solvency
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.	IFM showing drop into 'inadequate' is short-term before returning to an improved grade, with no risk to financial health or solvency

[1] Financial Reporting Standard 102 (5.10B)

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