Education & Skills Funding Agency

College financial planning handbook 2021

Financial outturn requirements for the year 2020 to 2021 and financial planning requirements for the years 2021 to 2022 and 2022 to 2023 for sixth-form and further education college corporations

May 2021

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.

Status

This handbook updates and replaces version 3 of the College Financial Planning Handbook for the year 2019 to 2020 issued by ESFA in December 2020 and takes into account the requirements of the College Financial Forecasting Return (CFFR) issued to colleges in May 2021. The CFFR incorporates an outturn statement for the year 2020 to 2021 and budget forecast plans for the years 2021 to 2022 and 2022 to 2023. This handbook 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.

Why are colleges being asked to complete the new College Financial Forecasting Return?

The CFFR supercedes the original Integrated Financial Model for Colleges (IFMC), which was published in November 2020, as a multi-year financial model. Since the launch of the IFMC, feedback has been collected that has enabled ESFA to refine and improve it. The new CFFR has been built in close consultation with a group of college corporations that range in size and type and is designed to be a useful tool for finance directors and their teams.

Plans for college financial returns also 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, especially in relation to cashflows and financial health. ESFA asked that a finance record be submitted as part of the financial statement collection for the year 2019 to 2020 and for the first time the finance record included a forecast for 2020 to 2021. The finance record allowed ESFA to provide college corporations with a predicted financial health grade for the year 2020 to 2021, as well as a final financial health grade for 2019 to 2020, based on the audited financial statements.

The launch of the CFFR builds on the multi-year approach integral to the original IFMC, as well as capturing financial data to determine each college's financial health grade, as has been the case with the finance record. The new CFFR will better place ESFA and colleges to take a "real-time" and predictive approach to financial health. ESFA will continue to require a single-year finance record with the outturn for the year 2020 to 2021 for submission with the financial statements for the year 2020 to 2021 and further information on this finance record will be provided later in 2021.

The formal assessment of college financial health at the end of the year 2020 to 2021 will continue to be based on the finance record and the existing three financial ratios. ESFA is consulting with the sector on proposals to possibly introduce updated financial ratios in the future, as set out in Annex_B of this publication. These proposed ratios are included within the CFFR and will be included in the December 2021 finance record, thereby allowing ESFA to assess the potential impact of the ratios and colleges to identify how they would score, if the proposed ratios are introduced.

What has changed in this edition?

Version 3 of the 2019 edition of the College Financial Handbook, which was published in December 2020, was introduced primarily to assist college corporations in completing and returning their finance records for the year 2019 to 2020. The core purpose of this edition is to allow college corporations to complete their CFFR for the years 2020 to 2021, 2021 to

2022 and 2022 to 2023. Further information on the completion of the finance record for the year 2020 to 2021 will be provided later in 2021.

The most substantive changes in this edition are:

- the re-introduction of a 3-year financial return, including forecast outturn for the current year
- the inclusion of proposed updated financial ratios and financial health scoring method, which may be used to calculate financial health scores and therefore used to determine financial health grades for colleges in the future

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 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.

For additional support, webinars will be scheduled for colleges to attend. These sessions are designed to provide further information and guidance, including questions and answers.

Corporations can also email ESFA questions by completing an on-line enquiry form.

Part 1: Submission requirements

Submission of documents

1. College corporations, in existence as at 31 July 2021, must submit a 3-year CFFR by 31 July 2021, which includes an income & expenditure account, balance sheet and cashflow statement, as follows:

- outturn – year ending 31 July 2021, comprising:
  - actuals - period from 1 August 2020 to 30 April 2021 (or a later month if possible)
  - forecast - period from the end of the period for which actuals have been provided to 31 July 2021
- budget – year ending 31 July 2022
- forecast – year ending 31 July 2023

Additionally, college corporations may submit annual forecasts for each year from 1 August 2023 to 31 July 2030, though this is not a requirement. College corporations also should submit a commentary which explains the assumptions upon which the forecast years have been completed in the CFFR return.

2. The CFFR 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 completed in an incorrect version of the CFFR, those which have been structurally changed, or those where any protected elements have been altered, for instance columns or rows added or removed. Tabs should also not be removed or renamed. However, college corporations may add supplementary tabs where this will help them to complete the required information.

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 July 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 July 2021 should submit as follows:

- dissolving corporations should submit a 1-year CFFR with actuals and forecast for the year to 31 July 2021 only, and
- receiving corporations should submit a full 3-year CFFR, with actuals and

forecast for the year 2020 to 2021 and approved budget and forecast of the merged corporation for the years 2021 to 2022 and 2022 to 2023.

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

- dissolving corporations should submit a 2-year CFFR with actuals and forecast for the year 2020 to 2021, and approved budget and forecast for the year 2021 to 2022, and
- receiving corporations should submit a 3-year CFFR, with actuals and forecast of the continuing corporation for the year 2020 to 2021 and approved budget and forecast of the merged corporation for the years 2021 to 2022 and 2022 to 2023.

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 Exceptional Restructuring Funding

7. Corporations in receipt of Restructuring Facility, Exceptional Financial Support, Emergency Funding and Exceptional Restructuring 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 May 2021	Management Information (Management Accounts, Standalone cash flow forecast)	Actuals to 30 April 2021

13 September 2021	Financial model to be confirmed	Actuals to 31 July 2021

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

10. Exceptional Restructuring 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 the Restructuring Facility.

Ongoing monitoring

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

Part 2: Three-year college financial forecasting return and supporting information

College financial forecasting return – current year 2020 to 2021

12. The actuals and forecast for the current year should reflect the corporation's financial performance as a group, including its subsidiaries and joint ventures where applicable (taking into account the requirements of paragraphs 4 and 5 above, where appropriate). It will be substantively based on actual transactions, though with an element of forecasting to year end. The CFFR should reflect actual financial performance to at least 30 April 2021 (later if possible) and forecast performance for the remainder of the year. There is only a requirement to include the current year in the supporting commentary when there is relevant information concerning solvency, the possible breach of loan covenants or anything else that might influence the audit opinion in relation to going concern for the current year. Likewise, if the projected outturn for the current year differs materially from that set out in the finance return submitted to ESFA earlier in 2021 an explanation must be provided.

College financial forecasting returns– budget forecast years 2021 to 2022 and 2022 to 2023

13. The budget forecasts for the years 2021 to 2022 and 2022 to 2023 should give a realistic view of the corporation's expected financial performance and position as a group, including its subsidiaries and joint ventures where applicable (taking into account the requirements of paragraphs 4 and 5 above, where appropriate). 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 CFFR includes a schedule for colleges to provide their learner numbers and full-time equivalent staff numbers for their 2021 to 2022 forecasts. College corporations will record non-current asset transactions, such as large asset sales or purchases or large forecast loan capital repayments, on an event basis in the CFFR itself. In addition, corporations may also submit a comprehensive supporting commentary in relation to the years 2021 to 2022 and 2022 to 2023 with the CFFR, which must, as a minimum, include:

- a summary of the corporation's strategic objectives
- a description of how the CFFR 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 corporation should detail its assumptions underlying the 2021 to 2022 and 2022 to 2023 years 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. If sensitivity analysis has been undertaken, college corporations must include details of it as part of the accompanying commentary. This must include any changes in assumptions modelled, the corporation's assessment of the risk to financial viability and solvency, and any plans to mitigate risk. If the college corporation identifies a material risk to financial viability and/or solvency of the corporation, it must share a version of the CFFR modelling that scenario 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.

The accounting officer’s declaration within the cover sheet confirms that the corporation has approved the CFFR and that it supports 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) and the opening cash balances have been reconciled to bank statements.

Resubmissions

21. We may ask corporations to resubmit their CFFR 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

22. We will continue to formally assess the financial health of corporations based on three financial indicators taken from the finance record. ESFA is consulting with the sector on proposals to introduce updated financial ratios and financial health scores, with a view to developing further a new financial health assessment methodology, which may be introduced in the future. The CFFR allows college corporations to assess themselves using both the existing and the possible updated financial ratios and financial health scoring method, the detail of each being set out below. The finance record for the year 2020 to 2021 will also support both the existing and the new financial health scoring methods.

Existing financial ratios and financial health scoring method

Solvency

23. We currently assess solvency using an adjusted current ratio, this being the ratio between current assets and current liabilities. The ratio excludes[1]:

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

Performance

24. 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

[1] This section previously stated that fixed assets held for sale would be excluded from the total of current assets. However, the concept of fixed assets held for sale, which was recognised under International Financial Reporting Standard, does not exist under Financial Reporting Standard 102. Any such assets should be held as fixed assets until sold or otherwise disposed of.

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

25. 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

26. 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

27. 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%

28. 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

Potential updated financial ratios and financial health scoring method

29. The updated financial ratios and financial health scoring method, which may be used to develop further a new financial health assessment methodology in the future, are set out at Annex B below.

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. The moderation process is unchanged between existing and new financial health scoring methods. 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 or from '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 C. 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 all three years in the CFFR 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 years 2021 to 2022 and 2022 to 2023. This can detail changes in assumptions and forecasts compared to returns that the college corporation has previously submitted.

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
	A comparison of the financial health assessments using the existing and new financial health scoring method, and the reasons for any differences in score or grade. (This will assist ESFA to develop further a new financial health assessment methodology, which may be used in the future.)

Annex B: Development of updated financial ratios and financial health scoring method

This Annex sets out the updated financial ratios and financial health scoring method, which may be used to develop further a new financial health assessment methodology in the future.

The updated financial health scoring method involves replacing one of the three existing ratios. The ratios for solvency (adjusted current ratio) and performance (EBITDA) would remain. However, the ratio for borrowing would be replaced by one for financing, debt service cover, which would identify and measure the ability of the corporation to invest in its college(s). Some colleges have little or no borrowing and therefore the cash generation ratio would also be applied. The college points score would be based on the lower of the points scored against each of these two financing ratios:

- debt service cover: the ratio of income to debt repayments (capital and interest)
- cash generated from operations: cash as a percentage of adjusted income

The two financing ratios are effectively alternative ways to measure financing capacity, and therefore only one of them (the lower) would be taken to contribute to the overall score, depending on points scored. The cash generation ratio is designed to apply where debt levels are low or zero. This recognises that not all college corporations have debt, but that such college corporations nevertheless need to generate cash to invest in business and meet other commitments such as any pension deficit.

Also, there would be a minor adjustment to the way in which the solvency ratio would be scored, with the current ratio scale increased slightly for the points score 10 to 40 to reflect the risk posed by having a current ratio of less than 1.0.

To summarise, the adjustments to the financial health scoring method would be as follows:

Consideration	Ratio	Comments
Performance	EBITDA	Retained
Solvency	Adjusted current ratio	Retained, with a minor adjustment to scoring.

Financing	Debt servicing cover ratio	For colleges with debt: assesses the ability to afford current debt levels and continue to invest in the college
	Cash generated from operations	For colleges with no or low debt: identifies the ability to continue to invest in the college

Scoring and grading

As is the case under the existing financial health scoring method, each indicator would be given a score out of 100:

Score	Solvency (adjusted current ratio)	Performance (EBITDA)	Debt service cover (cash)	Cash generated from operations
100	>/= 2.0	>/= 10%	>/= 2.75	>/= 5.0%
90	>/= 1.8	>/= 9%	>/= 2.5	>/= 4.5%
80	>/= 1.6	>/= 8%	>/= 2.25	>/= 4.0%
70	>/= 1.4	>/= 7%	>/= 2.0	>/= 3.5%
60	>/= 1.2	>/= 6%	>/= 1.75	>/= 3.0%
50	>/= 1.0	>/= 5%	>/= 1.5	>/= 2.5%
40	>/= 0.9	>/= 4%	>/= 1.25	>/= 2.0%
30	>/= 0.8	>/= 3%	>/= 1.0	>/= 1.5%
20	>/= 0.7	>/= 2%	>/= 0.9	>/= 1.0%
10	>/= 0.6	>/= 1%	>/= 0.8	>/= 0.5%
0	< 0.6	< 1%	< 0.8	< 0.5%

The total score would be translated to a financial health grade on the same basis as is the case under the existing financial health assessment methodology.

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 was 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 financial year which is being assessed, 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 results in a decrease in grade, but 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[2] FR showing drop into inadequate is short-term before returning to an improved grade, without risk to

[2] Financial Reporting Standard 102 (5.10B)

		financial health or solvency
Cash generation	Where cash generated year-on-year from operations 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 a deterioration to 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 for a single year 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 short-term 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 a subsequent year.	CFFR, 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.

Education & Skills Funding Agency

About this publication:

enquiries www.education.gov.uk/contactus
download www.gov.uk/government/publications