



Education & Skills  
Funding Agency

# **College financial planning handbook 2024**

**Financial outturn requirements for the  
year 2023 to 2024 and financial planning  
requirements for the years 2024 to 2025  
and 2025 to 2026 for further education and  
sixth form college corporations**

**May 2024**

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## Summary

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

We publish the CFPH 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' accountability agreements with ESFA.

## Corporations, colleges and designated institutions

We use the term corporation to refer to sixth form and FE corporations, established under the provisions of the [Further and Higher Education Act 1992](#), where members of the corporation form the governing body.

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.

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, as well as any institutions with an accountability agreement that requires that they follow this handbook.<sup>1</sup>

Hereinafter, we use the term 'college' to refer to corporations, designated institutions, and entities conducting or controlling a designated institution unless that designated institution itself is required to submit accounts to ESFA.

## Status

This handbook replaces the CFPH for the year 2022 to 2023, issued by ESFA in May 2023. It takes into account the requirements of the College Financial Forecasting Return (CFFR), issued to colleges in May 2024. The CFFR incorporates an outturn statement for the year 2023 to 2024 and budget forecast plans for the years 2024 to 2025 and 2025 to 2026. This handbook will remain in force until replaced.

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<sup>1</sup> The provisions of this handbook also apply to any entity funded by ESFA which conducts or controls a designated institution unless that designated institution itself is required to submit a CFFR to ESFA.

## 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 training providers, who should refer to the [ESFA financial health assessment guidance](#). Academy trusts with post-16 provision should refer to the [Academy Trust Handbook](#).

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

The May 2024 edition of the CFFR updates the version launched in May 2023 and is a multi-year financial model, which will enable ESFA to provide colleges with a predicted financial health grade for the years 2023 to 2024 and 2024 to 2025. It enables both ESFA and colleges to take a “real-time” and predictive approach to financial health.

The formal assessment of college financial health at the end of the year 2023 to 2024 will continue to be based on the Finance Record and the established 3 financial ratios, set out in this handbook.

## What has changed in this edition?

There are a small number of substantive changes in this edition compared with the May 2023 edition, which are detailed below:

- College financial data service will now use DfE sign-in rather than IDAMS to log in. ([Paragraph 3](#)).
- The section dealing with restructuring funding has been renamed as “*Insolvency Budget including legacy programmes*” ([Paragraph 9 -11](#)).
- Guidance has been added on monitoring of Refinancing Loans and the Capital Loan Scheme ([Paragraph 12](#)).
- Guidance has been added on the early receipt of significant capital funding ([Paragraph 14](#)).
- Further guidance has been added to the ‘Moderation’ section at [paragraphs 39](#) and 40.

- References to the Covid-19 moderation criteria have been removed ([Paragraph 40](#), and [Annex C](#)).

The primary purpose of this edition is to allow colleges to complete their CFFR for the financial years 2023 to 2024, 2024 to 2025 and 2025 to 2026. Information on the submission of the Finance Record for the year 2023 to 2024 is provided in the current [college accounts direction](#) for the year 2023 to 2024, which has been published by ESFA on Gov.UK.

## Clarification of terms

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

- must – means an accountability or funding agreement condition or requirement
- should – identifies minimum good practice for which there is no requirement, but which colleges should apply unless an alternative better suit their circumstances.

## Further information and feedback

Colleges have access to a range of expertise and advice, including their college association and professional advisers.

Colleges can also email ESFA questions via the online [Customer Help Portal](#).

# Part 1: Submission requirements

## Submission of documents

1. Colleges, in existence on 31 July 2024, must submit a 3-year CFFR by 31 July 2024, which includes an income & expenditure account, balance sheet and cashflow statement, as follows:

- outturn – year ending 31 July 2024, comprising:
  - actuals - period from 1 August 2023 to 30 April 2024 (or a later month if possible). *Please note that colleges submitting year-to-date figures must ensure that monthly figures are provided from 1 April 2024 to 31 July 2024. Cumulative year to date figures are acceptable up to and including March 2024.*
  - forecast - period from the end of the period for which actuals have been provided to 31 July 2024
- budget – year ending 31 July 2025
- forecast – year ending 31 July 2026

Additionally, colleges may submit annual forecasts for each year from 1 August 2026 to 31 July 2033, though this is not a requirement. Colleges must also 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, colleges may add supplementary tabs where this will help them to complete the required information. Only colleges that are subject to enhanced financial monitoring by ESFA, because they have been in receipt of Restructuring Facility, Exceptional Financial Support, Emergency Funding and Exceptional Restructuring Funding, are required to complete the 5 tabs at the end of the “Monitoring Guide” tab. All other colleges may leave these tabs uncompleted. The tabs are:

- Direct CF (*i.e. Direct cashflow*)
- Cash Profile
- I&E Summary (*i.e. Income and expenditure summary*)

- I&E variances (*i.e. Income and expenditure variances*)
  - Cash summary.
3. The 2024 CFFR and associated documents must be submitted through the [College Financial Data \(CFD\) service](#). This will require a [DfE sign-in](#) account to login.
4. We take late submission of financial information very seriously and colleges missing key deadlines risk ESFA intervention, in accordance with [DfE's policy on college oversight: support and intervention](#). It is important colleges inform ESFA at the earliest opportunity, if the deadline of 31 July 2024 may be missed.

## Special arrangements

### Business combinations

5. The CFFR has not been constructed to accommodate college dissolution or mergers in-year. However, colleges in either of these situations can use the CFFR to set out their financial planning assumptions as follows.
6. Colleges that are merging or dissolving and joining or reconstituting as, or as part of, an academy trust on or before 31 July 2024 should submit as follows:
- dissolving colleges should submit a 1-year CFFR with actuals and forecast for the year to 31 July 2024 only, and
  - receiving colleges should submit a full 3-year CFFR, with actuals and forecast for the year 2023 to 2024 and approved budget and forecast of the merged college for the years 2024 to 2025 and 2025 to 2026.
7. Colleges that are planning to merge or dissolve and joining or reconstituting as an academy trust after 31 July 2024 should submit as follows:
- dissolving colleges should submit a 2-year CFFR with actuals and forecast for the year 2023 to 2024, and approved budget and forecast for the year 2024 to 2025, and
  - receiving colleges should submit a 3-year CFFR, with actuals and forecast of the continuing college for the year 2023 to 2024 and approved budget and forecast of the merged college for the years 2024 to 2025 and 2025 to 2026.

## ESFA flexibilities following merger

8. We may allow up to 18 months for a merged college to address any underperformance issues inherited, to stabilise and organise itself and return to financial sustainability. If, during this period, a merged college's moderated financial health 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 the published [college oversight: support and intervention](#) framework.

This handbook takes into account previously published DfE guidance on [financial accountability arrangements for colleges planning a merger](#).

## Insolvency Budget including legacy programmes<sup>2</sup>

9. Insolvency funding refers to any monies provided to colleges through grant and/or loan agreements with ESFA to provide emergency funding, support mergers, restructuring or other college transactions who are at risk of or who are technically insolvent.

10. Colleges in receipt of Insolvency Budget (including legacy programmes) must adhere to all funding terms and conditions, as well as monitoring arrangements. Failure to comply may result in intervention. For monitoring purposes, colleges in receipt of such funding must complete the 5 tabs at the end of the CFFR template after the "Monitoring Guide" tab, which other colleges may leave uncompleted.

11. The monitoring timetable for colleges in receipt of insolvency funding is aligned with the sector-wide July submission. In addition to requirements set out in paragraph 10 above, colleges will be required to submit supplemental information, which will be specified closer to the time via email (the end of July each year). The ESFA reserves the right to request monitoring data outside these times to help manage risk.

## Refinancing Loans and Capital Loan Scheme

12. Colleges in receipt of refinancing and/or loans through the Capital Loan Scheme, must adhere to all funding terms and conditions. The ESFA/ DfE may request further supporting information and explanations as reasonably required.

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<sup>2</sup> The legacy programmes are Exceptional Financial Support (EFS) and Restructuring Facility (RF)



## Reclassification – conversion to ESFA/DfE loans

13. When a college is planning to request a refinancing of a commercial loan to an ESFA/DfE loan, the conversion must be recorded on the CFFR in line with the guidance in the current User Guide (repeated below).

When a college is planning to request a refinancing of a commercial loan to a DfE/ESFA loan, as a requirement of Managing Public Money, the conversion should be recorded on the loans sheet as two separate transactions:

- The value of the settlement of the original commercial loan should be entered in the appropriate Early Repayment row (e.g., for Loan 1, it would be in the relevant column of row 60, with date of repayment entered in K13)
- The college should then record a new DfE/ESFA loan, **with the same start date as the end date of the commercial loan**, regardless of when funds are actually expected to be received.

Thus, the CFFR will record the transfer as two separate loans.

## Capital funding received ahead of spend and held as cash

14. Where colleges have received capital funding in advance, which forms part of their cash balance, they should use the restricted cash field in the CFFR (and FR) to record that unspent capital cash balance to the extent that this has not already been included in **current** liabilities. Colleges must highlight in the CFFR commentary the impact this has on the college's cash position and/or financial health compared to what would have been the case if it had not been received in advance. Colleges must account for this funding in their financial statements in line with the appropriate accounting treatment as set out in section 17 of the [Further and Higher Education SORP](#) and section 24 of [FRS 102](#).

## Ongoing monitoring

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

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

### **College financial forecasting return – current year 2023 to 2024**

16. The actuals and forecast for the current year should reflect the college's financial performance as a group, including its subsidiaries and joint ventures where applicable (taking into account the requirements of paragraphs 6 and 7 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 2024 (later if possible) and forecast performance for the remainder of the year. Colleges may input cumulative year to date actuals up to and including March 2024, but must submit actuals / forecasts on a monthly basis from April onwards. 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.

### **College financial forecasting returns– budget forecast years 2024 to 2025 and 2025 to 2026**

17. The budget forecasts for the years 2024 to 2025 and 2025 to 2026 should give a realistic view of the college's expected financial performance and position as a group, including its subsidiaries and joint ventures where applicable (taking into account the requirements of paragraphs 5 to 7 above, where appropriate). It must also reflect the cost of implementing the college's strategy including income, expenditure, balances and cash flows associated with projected levels of activity.

### **Supporting commentary**

18. The CFFR includes a schedule for colleges to provide their learner numbers and full-time equivalent staff numbers for their 2024 to 2025 forecasts. Colleges 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, colleges must also submit a comprehensive supporting commentary in relation to the years 2024 to 2025 and 2025 to 2026 with the CFFR, which must, as a minimum, include:

- a summary of the college's strategic objectives
- a description of how the CFFR is consistent with the college'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 college subsidiaries and joint ventures, where applicable
- how the college plans to service its debt and finance its capital projects
- any other significant matters / factors, such as reclassification related matters
- sufficient and relevant evidence to support any request to moderate a financial health autoscore grade of 'inadequate'.

## Assumptions

19. The college should detail its assumptions underlying the 2024 to 2025 and 2025 to 2026 years and explain why the college has adopted these assumptions. [Annex A](#) provides guidance on the assumptions that could be covered as part of the supporting commentary.

20. We do not provide guidance to colleges 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. However, we expect that the financial information provided to ESFA aligns fully with that used in the college's own management accounts and reflects the approved budget. Optimism bias, especially in terms of capital receipts, should be avoided. Neither should colleges flat profile income or expenditure when there is information available that would permit realistic month-on-month analysis.

## Sensitivity analysis

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

22. Colleges may undertake sensitivity analysis, to model various scenarios or consider the impact of specific adverse events. If sensitivity analysis has been undertaken, colleges must include details of it, as part of the accompanying commentary.

This must include any changes in assumptions modelled, the college's assessment of the risk to financial viability and solvency, and any plans to mitigate risk. If the college identifies a material risk to financial viability and/or solvency of the college, it must share a version of the CFFR modelling that scenario with ESFA, ensuring that this is submitted as 'additional evidence' when using the online submissions portal.

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

## **Approval of documents**

24. The college is accountable for ensuring its financial viability, and must regularly assess financial health, resilience and threats to insolvency, considering all relevant information.

25. The accounting officer's declaration within the cover sheet confirms that the college has approved the CFFR and that it supports the college'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**

26. We may ask colleges to resubmit their CFFR if, in our view, the assumptions used or evidence supplied, are not clear and/or do not realistically represent the college's underlying financial position and/or forecasts.

## Part 3: Assessing financial health

27. We will continue to formally assess the financial health of colleges based on three financial indicators. ESFA had been 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. However, this work is currently paused following reclassification.

28. The CFFR allows colleges 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 2023 to 2024 will also support both the existing and the potential financial health scoring methods.

### Existing financial ratios and financial health scoring method

#### Solvency

29. We assess solvency using an adjusted current ratio, this being the ratio between current assets and current liabilities. The ratio excludes<sup>3</sup>:

- proceeds from the sale of fixed assets held for reinvestment. The net proceeds must be accounted for as restricted cash unless the college has received DfE consent to use the funds for other purposes<sup>4</sup>
- deferred capital grants recognised as liabilities
- holiday pay accrual

#### Performance

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

- Exceptional Financial Support, Emergency Funding, Restructuring Facility Support and Exceptional Restructuring Funding including Solutions Funding

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<sup>3</sup> Earlier editions of this guidance 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.

<sup>4</sup> There is a 'restricted cash' line on the 'Balance Sheet' tab of the CFFR template for this purpose.

- Restructuring Facility / Solutions Funding related expenditure as detailed in the agreement with ESFA
- 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
- movement in the holiday pay accrual.

31. Adjusted (revenue) income excludes:

- any income from capital grants not otherwise held as deferred income
- Restructuring Facility / Solutions Funding 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**

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

- ESFA/DfE loans<sup>5</sup>

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<sup>5</sup> New DfE borrowing, either refinancing or capital related loans, are included within this ratio.

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

## Scoring and grading

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

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

34. 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 colleges 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

35. The updated financial ratios and financial health scoring method, which could be used to develop further a new financial health assessment methodology in the future, are set out at [Annex B](#). There are no changes to the relevant information provided in the 2023 edition of the handbook and ESFA continue to analyse the results generated from these ratios.

## Intervention

36. We will take intervention action in line with the published, extant [college oversight: support and intervention](#) framework. The framework sets out intervention triggers and tools, alongside the associated actions available. This includes the issue of a [notice to improve](#) where the college's moderated financial health grade is 'inadequate'.

## Moderation

37. Where a college scores zero points for EBITDA, its financial health is automatically moderated to no better than 'requires improvement' in the CFFR template.



38. Colleges may apply for moderation to 'requires improvement' where their autoscore grade is 'inadequate'. In order to consider any requests for moderation, colleges must provide sufficient and relevant evidence to ESFA:

- against at least one moderation criteria set out in [Annex C](#)
- that demonstrates the college's underlying finances and forecasts are sufficiently robust to support moderation.

39. Colleges may also apply for moderation if their financial health grade is affected by an existing commercial loan needing to be refinanced by the ESFA/DfE. To support their request, the college will need to demonstrate that the timing of this process has led to the long-term liabilities on the commercial loan being reclassified to short-term in the year-end balance sheet, causing a decline in their financial health grade.

40. ESFA will automatically moderate a college's autoscore grade to 'inadequate', where Emergency Funding has been given. In addition, ESFA may moderate a college's autoscore grade to 'inadequate' where a repayment schedule has been amended, or a college is in breach of agreements including but not limited to the following:

- Exceptional Financial Support
- Restructuring Facility
- Emergency Funding
- College Capital Loan
- Reclassification Refinancing
- Exceptional Restructuring Funding
- Repayment Plan (over a year)

41. ESFA may also moderate a college's autoscore grade 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 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 an 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'.

42. In exceptional circumstances ESFA may moderate a college's autoscore grade, if there is evidence that this grade does not reflect the underlying financial position of the college. Such circumstances will be very limited and ESFA may require the college to provide bespoke information.

43. Colleges, that are in a group structure with a higher education institution as their parent body, may apply for moderation of their autoscore grade or ESFA may wish to moderate the grade, taking into consideration the subsidiary / parent relationship. Special moderation procedures will apply, and considerations will include (but are not limited to) the financial health of the parent body, any financial guarantees or letters of comfort provided by the parent body, the pattern of any financial support provided and the nature of the relationship and / or transactions between the bodies. ESFA will moderate the autoscore grade by assessing both the underlying financial health of the college and its medium to long term sustainability. ESFA may require the college to provide bespoke information.

## **Self-assessment**

44. Colleges must self-assess, and approve, their financial health grade for all three years in the CFFR with reference to the moderation section above. Since the July 2023 CFFR template was published the CFFR has defaulted the self-assessed financial health to the autoscore grade, as it does in the Finance Record. Colleges are able to overwrite the default grade, if required, and must provide narrative to support any change to the autoscore grade in the relevant text box on the CFFR template.

## **Significant deteriorations**

45. As set out in accountability and funding agreements, colleges must notify their DfE Place Based Team contacts 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 the supporting commentary

This Annex provides guidance to colleges on areas they could cover in their commentary, which must be submitted in support of their CFFR forecasts for the years 2024 to 2025 and 2025 to 2026. This can detail changes in assumptions and forecasts compared to returns that the college has previously submitted.

<b>Does the supporting commentary include:</b>	
<b>1</b>	<b>Forecast and assumption changes compared to previous returns</b>
	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 any capital funding received in advance on the college's cash position and/or the automated financial health grade.
	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.

<b>2</b>	<b>Financial health self-assessment</b>
	Rationale behind the financial health self-assessment, with reasons for any moderation from the autoscore grade with reference to the moderation criteria.
<b>3</b>	<b>Reclassification of the statutory FE sector<sup>6</sup> in England</b>
	<p>Reclassification related matters / factors, if any, germane to understanding the college/college group's financial plan such as:</p> <ul style="list-style-type: none"> <li>• Changes in the borrowing/debt profile, particularly any plans the college/college group has to convert an existing commercial loan to a DfE/ESFA loan during the life of the financial plan (including the assumptions used, the accounting treatment in the CFFR, and information on early repayment fees).</li> <li>• Actual or planned asset disposals during the life of the financial plan (including what the proceeds will be used for, the accounting treatment in the CFFR, and the approval(s) sought / outcome(s)).</li> </ul>

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<sup>6</sup> Further education colleges, sixth form colleges and designated institutions established or designated under the provisions of the Further and Higher Education Act 1992.

## **Annex B: Development of updated financial ratios and financial health scoring method (paused following reclassification of the sector)**

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 retaining two of the three existing ratios. The ratios for solvency (adjusted current ratio) and performance (EBITDA) would remain, but the ratio for borrowing would be dropped. The scores for solvency and performance are uplifted by a factor of 1.5 to give individual scores for each out of 150 and a total financial health score out of 300.

The new methodology also involves the introduction of two new limiting factors for financing:

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

The two financing limiting factors are alternative ways to measure financing capacity. They will be applied as limiting factors as follows:

- debt service cover: less than 1.0
- cash generated from operations: negative.

If either or both of these limiting factors apply, then the autoscore financial health grade will not be higher than “requires improvement”.

Also, as set out in the 2021 edition of this handbook, there is a minor adjustment to the way in which the solvency ratio is scored, compared to the extant financial health approach, 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	Adjusted debt servicing cover ratio	A limiting factor if less than 1.0
	Adjusted cash generated from operations	A limiting factor if negative

These new measures were first set out in the 2021 edition of this handbook and incorporated into the 2021 CFFR. Under that approach the two financing ratios were treated as “scoring” ratios in their own right. However, since then ESFA has discussed their application with the sector and reviewed the data. As a result, we are changing how the ratios are applied moving from being scored to acting as limiting factors.

## Scoring and grading

As is the case under the existing financial health scoring method, each indicator would be given its own score, but out of 150 rather than 100. Since only two ratios would be scored, the financial health grade would still be based on a total possible score of 300:

Score	Solvency (Adjusted current ratio)	Performance (EBITDA)
150	$\geq 2.0$	$\geq 10\%$
135	$\geq 1.8$	$\geq 9\%$
120	$\geq 1.6$	$\geq 8\%$
105	$\geq 1.4$	$\geq 7\%$
90	$\geq 1.2$	$\geq 6\%$
75	$\geq 1.0$	$\geq 5\%$
60	$\geq 0.9$	$\geq 4\%$
45	$\geq 0.8$	$\geq 3\%$
30	$\geq 0.7$	$\geq 2\%$
15	$\geq 0.6$	$\geq 1\%$
0	$< 0.6$	$< 1\%$

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, but the following limiting factors would also be applied:

Financing limiting factors:

Debt service cover (cash)	Cash generated from operations	Limiting factor applies Y/N
$\geq 1.0$	$\geq 0.0\%$	N
$< 1.0$	$< 0.0\%$	Y

## Annex C: Moderation criteria

The criteria below apply only where a college's autoscore grade is 'inadequate.' Colleges 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 colleges as required.

Moderation	Criteria	Suggested evidence
Capital projects	<p>Where a college 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:</p> <ul style="list-style-type: none"> <li>• the project has started its capital life cycle (being the date approved by the college)</li> <li>• the college's financial health was graded better than 'inadequate' at the time of the detailed project approval</li> <li>• the college will return to a financial health grade of at least 'requires improvement' by the year following project completion</li> <li>• 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.</li> </ul> <p>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.</p> <p>Where a project is mostly or wholly funded by ESFA, then we will take this into account in our evaluation.</p>	<p>Project summary</p> <p>Verified value of the project</p> <p>College minutes</p> <p>Pre-project financial health grades</p> <p>Robust projections showing improving financial health.</p> <p>Project monitoring reports showing performance against targets.</p> <p>Independent project assessments</p> <p>Capacity to manage delays or increased costs.</p> <p>Proceeds received after the year end</p>
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



		<p>the financial year which is being assessed, showing intended actions arising.</p> <p>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.</p>
<p>Exceptional or restructuring costs</p>	<p>To achieve longer-term financial sustainability, a college 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.</p> <p>We reserve the right to judge whether costs are significant and do not represent 'business as usual' expenditure.</p> <p>Where such costs are mostly or wholly funded by ESFA such as using restructuring facility, we will take this into account in our evaluation.</p>	<p>Justification that costs are significant, not business as usual.</p> <p>Exceptional costs are in line with FRS 102's definition of extraordinary<sup>7</sup></p> <p>FR showing drop into inadequate is short-term before returning to an improved grade, without risk to</p>

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<sup>7</sup> [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	<p>Where a college can demonstrate that reasonable and planned expenditure or activities has, or will, result in a deterioration to an 'inadequate' autoscore grade over a single year only, which does not reflect the (better) underlying financial position of the college.</p> <p>However, where the planned temporary period is exceeded, the grade reverts to 'inadequate' and formal intervention will apply.</p>	FR showing drop into 'inadequate' is for a single year before returning to an improved grade, with no risk to financial health or solvency.



Education & Skills  
Funding Agency

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