Department
for Education

College financial planning handbook 2025

Financial outturn requirements for the year 2024 to 2025 and financial planning requirements for the years 2025 to 2026 and 2026 to 2027 for further education and sixth form college corporations

May 2025

Contents

Summary

The College Financial Planning Handbook (handbook/CFPH) sets out the Department for Education's (DfE)'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 DfE and 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.[1]

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 DfE.

Status

This handbook replaces the CFPH for the year 2023 to 2024, issued by ESFA in May 2024. It takes into account the requirements of the College Financial Forecasting Return (CFFR), issued to colleges in May 2025. The CFFR incorporates an outturn statement for the year 2024 to 2025 and budget forecast plans for the years 2025 to 2026 and 2026 to 2027. This handbook will remain in force until replaced.

[1] The provisions of this handbook also apply to any entity funded by DfE which conducts or controls a designated institution unless that designated institution itself is required to submit a CFFR to DfE.

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 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 2025 edition of the CFFR updates the version launched in May 2024 and is a multi-year financial model, which will enable DfE to provide colleges with a predicted financial health grade for the years 2024 to 2025 and 2025 to 2026. It enables both DfE and colleges to take a “real-time” and predictive approach to financial health.

Formal assessment of college financial health

The formal assessment of college financial health for the financial year 2024 to 2025 in the form of a financial health grade, will 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 2024 edition:

- References to the Education and Skills Funding Agency, which closed on 31 March 2025, have been removed and replaced with references to the Department for Education (DfE), as appropriate.
- The proposed financial health methodology (Annex B of the 2024 edition) has been withdrawn and all references to it in the CFPH removed.
- It has been clarified that the accounting officer’s declaration within the CFFR cover sheet confirms that the college board of governors has approved the forecast financial health grades and summary outputs of the CFFR (Paragraph 25).

- Content about automatic moderation of financial health grades previously included in paragraphs 37 and 40 (May 2024 edition) has been moved to the section describing how the total score awarded for financial health is translated to a financial health grade (Paragraph 33).

- It has been clarified that, where colleges are in a group structure with a Registered Higher Education Provider as their parent body, colleges must ensure that any support they receive complies with the requirements of the College Financial Handbook (Paragraph 37).

- The former Annex C (May 2024 edition) has been reframed as an annex covering the moderation criteria that colleges may use to request moderation of an auto grade, and the former paragraph 39 (May 2024 edition) has been moved into it (Annex B).

- A new annex has been created to capture certain circumstances where DfE may moderate an auto grade to 'inadequate', and the former paragraphs 40 and 41 (May 2024 edition) have been moved into it (Annex C).

The primary purpose of this edition is to allow colleges to complete their CFFR for the financial years 2024 to 2025, 2025 to 2026 and 2026 to 2027.

Detailed information on each sheet in the CFFR and instructions on completing the fields required is given in the College Financial Forecasting Return: User Guide.

Information on the submission of the Finance Record for the year 2024 to 2025 is provided in the current college accounts direction for the year 2024 to 2025, which has been published by DfE 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 questions via the online Customer Help Portal.

Part 1: Submission requirements

Submission of documents

1. Colleges, in existence on 31 July 2025, must submit a 3-year CFFR by 31 July 2025, which includes an income & expenditure account, balance sheet and cashflow statement, as follows:

- outturn – year ending 31 July 2025, comprising:
  - actuals - period from 1 August 2024 to 30 April 2025 (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 2025 to 31 July 2025. Cumulative year to date figures are acceptable, up to and including March 2025.*
  - forecast - period from the end of the period for which actuals have been provided to 31 July 2025
- budget – year ending 31 July 2026
- forecast – year ending 31 July 2027

Additionally, colleges may submit annual forecasts for each year from 1 August 2027 to 31 July 2034, 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. DfE 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 DfE, 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 2025 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. DfE takes late submission of financial information very seriously and colleges missing key deadlines risk DfE intervention, in accordance with DfE's policy on college oversight: support and intervention. Colleges must inform DfE at the earliest opportunity if they may miss the deadline of 31 July 2025.

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 2025 should submit as follows:

- dissolving colleges should submit a 1-year CFFR with actuals and forecast for the year to 31 July 2025 only, and

- receiving colleges should submit a full 3-year CFFR, with actuals and forecast for the year 2024 to 2025 and approved budget and forecast of the merged college for the years 2025 to 2026 and 2026 to 2027.

7. Colleges that are planning to merge or dissolve and joining or reconstituting as an academy trust after 31 July 2025 should submit as follows:

- dissolving colleges should submit a 2-year CFFR with actuals and forecast for the year 2024 to 2025, and approved budget and forecast for the year 2025 to 2026, and

- receiving colleges should submit a 3-year CFFR, with actuals and forecast of the continuing college for the year 2024 to 2025 and approved budget and forecast of the merged college for the years 2025 to 2026 and 2026 to 2027.

DfE 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[2]

9. Insolvency funding refers to any monies provided to colleges through grant and/or loan agreements with DfE or 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 DfE 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 or loans through the Capital Loan Scheme, must adhere to all funding terms and conditions. The DfE may request further supporting information and explanations as reasonably required.

[2] The legacy programmes are Exceptional Financial Support (EFS) and Restructuring Facility (RF)

Conversion of a commercial loan to a DfE loan

13. When a college is planning to request the refinancing of a commercial loan to a DfE loan, as a requirement of Managing Public Money, the conversion will be recorded on the CFFR in line with the guidance in the current User Guide (repeated below).

> When a college is planning to request the refinancing of a commercial loan to a DfE loan, 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 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 or financial health compared to what would have been the case had the funding 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 DfE on an ongoing basis.

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

College financial forecasting return – current year 2024 to 2025

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 2025 (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 2025, 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 2025 to 2026 and 2026 to 2027

17. The budget forecasts for the years 2025 to 2026 and 2026 to 2027 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 2025 to 2026 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 2025 to 2026 and 2026 to 2027 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 auto grade.

Assumptions

19. The college should detail its assumptions underlying the 2025 to 2026 and 2026 to 2027 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 DfE 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 or solvency of the college, it must share a version of the CFFR modelling that scenario with DfE, ensuring that this is submitted as 'additional evidence' when using the online submissions portal.

23. Colleges should notify DfE 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 board of governors has approved the forecast financial health grades and summary outputs of 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 or do not realistically represent the college's underlying financial position or forecasts.

Part 3: Assessing financial health

27. We formally assess the financial health of colleges based on three financial indicators: solvency, performance, and borrowing. The detail of each indicator is set out below. The Finance Record for the year 2024 to 2025 will also support this financial health scoring method (used for the financial health assessment of colleges' 2024 to 2025 accounts).

Financial ratios and financial health scoring method

Solvency

28. We assess solvency using an adjusted current ratio, this being the ratio between current assets and current liabilities. The ratio excludes[3]:

- any cash held as restricted cash, including 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[4]
- deferred capital grants recognised as liabilities
- holiday pay accrual

Performance

29. 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
- Restructuring Facility / Solutions Funding related expenditure as detailed in the agreement with DfE or ESFA

[3] 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.

[4] There is a *'restricted cash'* line on the *'Balance Sheet'* tab of the CFFR template for this purpose.

- 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.

30. 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

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

- DfE/ESFA loans[5]
- repayable Exceptional Financial Support, Emergency Funding, Exceptional Restructuring Funding and Restructuring Facility

[5] New DfE borrowing, either refinancing or capital related loans, are included within this ratio.

- bank and other commercial loans
- finance lease obligations
- overdraft liability.

Scoring and grading

32. 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%

33. For each of the college financial years in scope, the CFFR template will translate the total score out of 300 into a financial health grade (the auto grade), as set out in the table below, subject to the following - where a college:

1) scores zero points for EBITDA, then its financial health auto grade is no better than ‘requires improvement’, or

2) receives Emergency Funding from DfE, then its financial health auto grade is ‘inadequate’

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

Self-assessment

34. Colleges must self-assess, and approve, their financial health grade for all three years in the CFFR with reference to the moderation section below / in Annex B. Since the July 2023 CFFR template was published, the CFFR has defaulted the self-assessed financial health grade to the auto grade, as it does in the Finance Record. Colleges are required to self-assess their financial health by either retaining the default auto grade or selecting an alternative grade. Where colleges select a grade other than the auto grade, they must provide narrative to support that grade in the relevant text box on the CFFR template (similarly narrative is required, where colleges select an alternative grade in the Finance Record).

Moderation

35. In certain circumstances (see Annex B), colleges may request moderation of an auto grade in the CFFR or Finance Record.

36. In certain circumstances (see Annex C), DfE may moderate an auto grade to ‘inadequate’ in the CFFR or Finance Record.

37. Colleges, that are in a group structure with a Registered Higher Education Provider as their parent body, may apply for moderation of their auto grade or DfE may wish to moderate the grade, taking into consideration the subsidiary / parent relationship. Additional moderation procedures will apply, and considerations will include (but are not

limited to) the financial health of the parent body, the pattern of any financial support provided[6] and the nature of the relationship and / or transactions between the bodies. DfE will moderate the auto grade by assessing both the underlying financial health of the college and its medium to long term sustainability.

38. In addition, and in exceptional circumstances, DfE may moderate a college's auto grade, if there is evidence that this grade does not reflect the underlying financial position of the college. Such circumstances will be very limited.

39. In each circumstance, DfE may require the college to provide bespoke information to inform its decision.

Intervention

40. DfE will take intervention action in line with the published, extant college oversight: support and intervention framework. The framework sets out intervention triggers and processes, alongside the associated actions available.

Significant deteriorations

41. 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.

[6] Colleges must ensure that any support they receive complies with the requirements of the College Financial Handbook.

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 2025 to 2026 and 2026 to 2027. This can detail changes in assumptions and forecasts compared to returns that the college 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 or DfE 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 or the financial health auto 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 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 auto grade with reference to the moderation criteria.
3	**Reclassification of the statutory FE sector[7] in England**
	Reclassification related matters / factors, if any, germane to understanding the college/college group's financial plan such as: • Changes in the borrowing/debt profile, particularly any plans the college/college group has to convert an existing commercial loan to a DfE loan during the life of the financial plan (including the assumptions used, the accounting treatment in the CFFR, and information on early repayment fees). • 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)).

[7] 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: Moderation criteria - college moderation of the auto grade from 'inadequate'

Colleges may apply for moderation to 'requires improvement', where their auto grade is 'inadequate'. In order for DfE to consider requests for moderation, colleges must submit sufficient and relevant evidence to DfE against at least one of the criteria below that also demonstrates underlying finances and forecasts are sufficiently robust to support moderation. DfE reserves the right to seek more information from colleges as required.

Moderation	Criteria	Suggested evidence
Capital projects	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: • the project has started its capital life cycle (being the date approved by the college) • 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 DfE) as forecast during the intervening years - if a college performs less well than it forecast at the start of the year then DfE will reflect this in its assessment. Where there is a delay in the sale of fixed assets 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 DfE, then we will take this into account in our evaluation.	Project summary Verified value of the project College 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

Moderation	Criteria	Suggested evidence
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.
Moderation	**Criteria**	**Suggested evidence**
Reclassification of long-term liabilities to short-term	Colleges may apply for moderation if their financial health grade is affected by an existing commercial loan needing to be refinanced by the 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 as short-term in the year-end balance sheet, resulting in a lower financial health grade.

Moderation	Criteria	Suggested evidence
Exceptional or restructuring costs	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 the 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 DfE such as using Exceptional Restructuring Funding, we will take this into account in our evaluation.	Justification that costs are significant and not business as usual. Exceptional costs are in line with FRS 102's definition of extraordinary[8] CFFR showing drop into 'inadequate' is short-term before returning to an improved grade, without risk to financial health or solvency.
Moderation	**Criteria**	**Suggested evidence**
Cash generation	Where cash generated year-on-year from operations is more than sufficient to meet net current liabilities.	Trend evidence Robust assumptions
Moderation	**Criteria**	**Suggested evidence**
Other	Where a college can demonstrate that reasonable and planned expenditure or activities has, or will, result in a deterioration to an 'inadequate' auto grade over a single year only, which does not reflect the (better) underlying viability of the college. However, where the planned temporary period is exceeded, the grade reverts to 'inadequate' and intervention will apply.	CFFR showing drop into 'inadequate' is for a single year before returning to an improved grade, with no risk to financial health or solvency.

[8] Financial Reporting Standard 102 (5.10B)

Annex C: Moderation criteria - Department for Education moderation of auto grade to ‘inadequate’

1. DfE may moderate a college’s auto grade to ‘inadequate’ in the following circumstances. DfE reserves the right to seek more information from colleges as required.

Amendment to repayment schedule or breach of agreements

2. DfE may moderate a college’s auto 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)

Financial health significantly different from auto grade

3. DfE may moderate a college's auto grade to ‘inadequate’ if there is evidence to indicate the financial health is significantly different from the auto grade, 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’

Department for Education

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