

## Financial Due Diligence and Financial Health Monitoring for Independent Training Providers (ITPs).

### 1 Introduction

- 1.1 This document sets out the financial due diligence and financial health monitoring approach employed by WMCA for Independent Training Providers (ITPs) who are in receipt of devolved WMCA Adult Education Budget (AEB) for the 2020/21 funding year. This document should be read alongside your Contract Agreement and the [AEB Provider Payment & Performance Management Framework 20/21](#).
- 1.2 We will use our approach to funding to make sure learning provision is of a high quality. We will use your ongoing track record to assess your ability to deliver education and training to the required standard. The standards include Ofsted grades, in-year performance, minimum standards, financial health, financial management and control, and delivery against your contract, where this information is available.
- 1.3 We test financial health to gain comfort that providers are financially resilient and to enable us to work collaboratively with providers to put in place early intervention to ensure that learning will continue to be delivered and address the potential risk of failure.
- 1.4 **It is mandatory for all providers to submit the information requested by the deadlines set and we expect that this information is provided in full. Failure to meet deadlines may result in the withholding of payment and/or result in serious breach of contract related financial probity.**
- 1.5 This guidance has been updated in November 2020 and will be reviewed again before November 2021 at the latest. If you have this guidance in a saved offline or hard copy format, you are advised to check on the WMCA website to ensure you are using the most up-to-date version of the publication.

### 2 Approach and monitoring

#### Current ITPs

- 2.1 The due diligence follows the academic year – i.e. August to July. For 20-21 this is August 2020 to July 2021. Return data is on a cumulative basis. For example, for the August 2020 data return, profit and loss data is for the month of August only, with the balance sheet date at 31 August 2020. For the September 2020 data return, profit and loss data is for the months of August and September, with the balance sheet date at 30 September 2020 etc.
- 2.2 All providers will be rated using the following metrics;
  - Credit score
  - Current ratio\*

- Reliance on WMCA income\*
  - Gearing\*
  - Operating margin\*
  - Cashflow change\*
- \* detailed in Appendix 2

- 2.3 WMCA has sent out a return (excel worksheet) to be completed by all current ITPs relating to August 2020 initially. It was requested that the worksheet needed to be completed and returned within 2 weeks.
- 2.4 All returns must be filled in on an accruals basis and show all income relating to the month(s) in question
- 2.5 We may use external sources of information to inform our decision on your allocated rating – for example, Companies House and credit reference agencies.
- 2.6 Each metric has been weighted and scored and all ITPs have been allocated a risk rating. We reserve the right to moderate the automatically calculated score and if this happens we will communicate the rationale to yourselves.
- 2.7 This rating will inform our risk based approach to provider management (Section 4) and the frequency of ongoing review (Section 5).

Providers are automatically scored as ‘Inadequate’ if any of the following conditions are met;

- No credit score
  - Negative operating margin/loss making
  - Negative cash position
  - No/insufficient information provided in a timely manner (including if the information appears incomplete, or contains errors)
  - Other factual evidence which indicates the financial health is different from the calculated score for example (but not limited to);
    - A court ruling which has financial consequences
    - Loss of a material contract or area of provision
    - A contingent liability which crystallises
    - Recall of debt by bank/investor
    - Loss of key personnel
    - Cessation of trading
- 2.8 Returns will need to be completed regularly, depending on the risk rating. If a provider has a higher risk rating, we will need to monitor the financial health more closely, therefore they will be required to submit more frequent returns and this will be communicated to ITPs via their Compliance Officer. See Appendix 1 for send out and submission deadlines for 2020-21 and Section 3 for the frequency of reviews according to gradings.

## **Future ITPs**

2.9 Organisations applying through any of our Procurement rounds must follow the guidance published with the round they are applying to.

2.10 Once ITPs are on-boarded they will be required to submit the next applicable return (excel worksheet) and will be given an initial grading. They will then follow the above 'Current ITP' process and will be required to submit returns going forward as appropriate.

## **Year end validity check**

2.11 At the year end point of August 21 (and annually thereafter), we will require the latest set of statutory financial statements. We will then perform validity checks to ensure that the data submitted throughout the year is reasonable and in line with our expectations. Any significant discrepancies may result in future withholding of payment and/or management of reduction of allocation. It is not limited to termination of contact and may lead to serious breach related to financial probity.

2.12 Financial statements submitted to us must be full accounts (not abbreviated/abridged), and audited, where appropriate. If only abbreviated accounts are submitted to Companies House, you must still submit your full statutory accounts to us. They must include as a minimum;

- A balance sheet
- A profit and loss account
- Commentary and relevant notes to the accounts

The accounts must be full, not just extracts/selected pages.

2.13 If your organisation is part of a wider group of companies (or is classed as a subsidiary) you must also submit full financial statements for the ultimate parent company (in the UK).

2.14 If you do not have a UK parent company, you are not required to submit overseas parent company accounts.

2.15 If financial statements are not submitted to us within the given timeframes, you will be graded as 'Inadequate' and we may withhold your payments going forward.

2.16 If financial statements are qualified you will be graded as 'Inadequate'.

2.17 If Companies House shows your organisation has entered liquidation, insolvency, become dormant or has a CVA (Company Voluntary Arrangement) against it you will be graded as 'Inadequate' and this will be monitored throughout the year.

2.18 If Companies House shows your accounts are overdue then you will be graded as 'Inadequate' and this will be monitored throughout the year.

2.19 If the group/parent financial statements indicate that their financial position could significantly impact on the ITP then we may moderate the rating accordingly.

### 3 Reporting

3.1 Initial ratings will be communicated to ITPs via letter and will include the initial risk rating and brief explanation of this decision. It will also include how often the returns will need to be submitted and details of the next return submission due.

3.2 WMCA will hold an internal review on a quarterly basis to review the 'Inadequate' rated ITPs in more detail and may be in touch to discuss this with relevant ITPs further.

3.3 Every 6 months, WMCA will re-rate all ITPs and consider whether the risk ratings will need to be adjusted and this will be communicated to all ITPs.

### 4 Grading

4.1 Based on the scoring of the metrics (and other data where applicable), ITPs will be rated as one of the following;

- Outstanding
- Good
- Satisfactory
- Inadequate

These scores inform the frequency of ongoing monitoring.

4.2 **Outstanding** rated providers will be required to submit returns every **6 months**

**Good** rated providers will be required to submit returns every **4 months**

**Satisfactory** rated providers will be required to submit returns every **2 months**

**Inadequate** rated providers will be required to submit returns every **month**

#### 4.3 Financial health descriptions

##### Outstanding

An organisation that appears to have robust finances to fulfil its contractual obligations and to respond successfully to opportunities or adverse circumstances. Normally an organisation with Outstanding/Good indicators for profitability, solvency and gearing.

##### Good

An organisation that appears to have sufficiently robust finances to fulfil its contractual obligations, and to respond successfully to most opportunities or adverse circumstances. Normally an organisation with at least two Good indicators for profitability, solvency and gearing.

### **Satisfactory**

An organisation that appears to have sufficient resources to fulfil its contractual obligations, but also appears likely to have limited capacity to respond successfully to opportunities or adverse circumstances. Normally an organisation with at least two Satisfactory indicators for profitability, solvency and gearing.

### **Inadequate**

An organisation that is in financial difficulty and very likely to be dependent on the goodwill and/or financial support of others. There is a significant risk of organisations in this group not being able to fulfil contractual obligations because of weak financial health. Normally an organisation with at least two inadequate indicators for profitability, solvency and gearing.

## **5 Risk Based Approach to Provider Management**

We will use your financial health rating to inform the WMCA's risk-based approach to provider management as set out in the Payment and Performance Management Framework available [here](#).

In addition, inadequate financials will also be considered at contractual renewal points, and in year performance management points which may lead to a decrease in allocation to manage risk and/or impact on any in year flexibility or growth requests.

## Appendix 1

<b>Month of data</b>	<b>Data send out</b>	<b>Deadline</b>
<b>Dec-20</b>	15-Jan-21	<b>29-Jan-21</b>
<b>Jan-21</b>	12-Feb-21	<b>26-Feb-21</b>
<b>Feb-21</b>	12-Mar-21	<b>26-Mar-21</b>
<b>Mar-21</b>	09-Apr-21	<b>23-Apr-21</b>
<b>Apr-21</b>	14-May-21	<b>28-May-21</b>
<b>May-21</b>	11-Jun-21	<b>25-Jun-21</b>
<b>Jun-21</b>	09-Jul-21	<b>23-Jul-21</b>
<b>Jul-21</b>	13-Aug-21	<b>27-Aug-21</b>
<b>Aug-21</b>	10-Sep-21	<b>24-Sep-21</b>
<b>Sep-21</b>	08-Oct-21	<b>22-Oct-21</b>
<b>Oct-21</b>	12-Nov-21	<b>26-Nov-21</b>

## Appendix 2

<b>Metric</b>	<b>Definition</b>
<b>Current ratio</b>	Current Assets / Current Liabilities
<b>Reliance on WMCA income</b>	WMCA Revenue / Total Revenue
<b>Gearing</b>	Total Debt / Total Equity  Total debt includes short-term borrowing and long-term debt. To include bonds, bank loans, overdrafts, pension obligations, finance leases and director loans.
<b>Operating margin</b>	Operating surplus/(deficit) / Total Revenue
<b>Cashflow change</b>	(Current month cash-previous month cash) / (previous month cash)