# WEST MIDLANDS COMBINED AUTHORITY

Financial Due Diligence and Financial Health Monitoring for Independent Training Providers (ITPs) and Voluntary, Faith Community, and Social Enterprise (VCFSE) organisations

(For the funding year 1 August 2026 onwards)

*This document outlines the Financial Due Diligence requirements applicable to all Independent Training Providers ("ITPs") and Voluntary, Community, Faith and Social Enterprise ("VCFSE") organisations receiving ASF funding under WMCA Skills Programme Funding Rules. Providers must read this document in conjunction with the relevant funding rules, contractual documentation and associated guidance. Where programme-specific requirements are stipulated within funding rules, contracts or guidance, those requirements must also be complied with.*

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# Section 1 - Introduction and Purpose

## *1. Introduction*

The West Midlands Combined Authority (WMCA) is responsible for ensuring that Adult Skills Programme funding is invested in organisations that have financial capacity, resilience and governance arrangements necessary to deliver high-quality provision for learners and employers.

This document sets out financial due diligence and financial health monitoring approach employed by WMCA for all Independent Training Provider(s) ("ITPs") and Voluntary, Community, Faith and Social Enterprise ("VCFSE") organisations who receive Adult Skills Funding and are bound by the Adult Skills Programme funding rules.

WMCA reserves the right to review and amend this Financial Due Diligence and Financial Health Monitoring Policy from time to time to reflect (amongst other things) changes in legislation, funding requirements, regulatory guidance, organisational policy or risk management requirements.

This document should be read alongside Your Contract / Agreement, the Contracts for Service and VCFSE Operational Plan and other operational guidance (where applicable), which can be accessed via Our website.

The purpose of this Financial Due Diligence and Financial Health Monitoring Policy is to:

- provide assurance that publicly funded provision is being delivered by financially stable organisations;
- identify emerging financial risks at an early stage and enable timely intervention where appropriate;
- support providers to understand and improve their financial resilience;
- protect learners by reducing the risk of disruption to training caused by provider financial failure;
- ensure funding allocations remain proportionate to an organisation's financial capacity and risk profile.

WMCA's approach is intended to be proportionate. Financial health assessments form part of WMCA's risk-based assurance framework. Whilst the policy supports financial resilience and continuous improvement, certain minimum financial standards apply to protect learners and public funds.

The policy combines financial due diligence, ongoing financial monitoring and risk-based provider management. This enables WMCA to work collaboratively with providers, supporting continuous improvement while ensuring that risks to learners, delivery and public investment are managed appropriately.

It is mandatory for all providers to submit the information set out in this document by the deadlines set out in the monitoring section. We expect that this information is provided in full.

Failure to meet deadlines may result in the withholding of payment and/or constitute a breach of contract related to financial probity.

This guidance has been updated in October 2026 and may be reviewed again. 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.

Guidance and support on Financial due diligence, and financial health self-service tool is available to support providers of Adult Skills Funding, to assess their own financial risk and eligibility for WMCA funding. This enables providers to have greater awareness and proactive management of their financial health.

## *2. Understanding the Terminology*

The terms 'We', 'Our' and 'Us' refers to the West Midlands Combined Authority (WMCA).

When we refer to 'You', Your', or 'Providers', this includes VCFSE organisations and Independent Training Providers who receive Adult Skills Funds (ASF), including previous Free Courses for Jobs (FCFJ) and/or Skills Bootcamps from Us to deliver education and training to WMCA residents.

We will use the generic terms "You', 'Your' or 'Provider' unless the requirements only apply to a specific Provider type.

We use the terms 'individual', 'resident' and 'learner' to cover those whose provision is funded by Us.

# Section 2 – Approach and Monitoring

## *3. Approach Purpose*

WMCA undertakes financial due diligence and financial health assessments to ensure providers have the financial capacity and resilience to deliver high-quality provision, protect learners and safeguard public funding. Financial health assessments form part of WMCA's wider risk-based approach to provider management.

Financial due diligence and financial health monitoring will be completed for all ITPs and VCFSE providers in receipt of WMCA Adult Skills Fund, (ASF)

Assessment Process

Financial due diligence and financial health assessments will be undertaken:

- during the tender process and prior to contract award;
- at the start of each academic year for existing providers; and
- during the contract period when new financial information becomes available.

Only full audited financial statements are eligible (not abbreviated/abridged), including the Balance Sheet and Statement of Profit and Loss.

The WMCA requires a minimum of two years of financial accounts. 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.

- Balance sheet;
- A profit and loss account; and
- Commentary and relevant notes to the accounts.

Please note; If You do not have a UK parent company, you are not required to submit overseas parent company accounts.

## *4. Assessment Methodology*

Financial risk for providers will be based on three key ratios as outlined below. The information on each is outlined in Appendix 1

- Solvency
- Gearing

- Profitability

The scoring of the ratios is a points system based on the three key ratios outlined above. Score and outcomes are outlined in Appendix 2.

Other metrics will also be considered; these are:

- Reliance on WMCA income – see Recommended Funding Limits (RFL)
- Cashflow Change (Cash & Cash Equivalents)
- Credit Score – Scores of less than 30 cannot access funding

WMCA may take into accounts information from external sources, including Companies House and credit reference agencies, (CreditSafe), and any representations or supporting evidence submitted by a provider where it considers such information relevant, when assessing financial health.

Providers will be allocated a financial health risk rating. Detailed definitions and scoring are set out in Appendix 1 and Ratio and outline in Appendix 2.

Providers with a financial health risk rating of Inadequate cannot access funding unless approved mitigations are applied (as set out in Moderation and Exemptions). This includes but not limited to, new contracts, contract growth or contract renewals.

WMCA may consider alternative financial assurances, where permitted under procurement and contractual requirements.

Financial health assessments are used to determine a provider's financial health rating and Recommended Funding Limit (RFL). The RFL represents the maximum level of WMCA Adult Skills funding that may be awarded relative to a provider's financial capacity and risk profile. Further details are set out in Recommended Funding Limits (RFL)

The financial health risk rate assigned to a provider will remain unchanged until the next set of audited accounts are reviewed.

## *5. Monitoring*

Throughout the contract term, there will be on going monitoring of financial health assessment. Intervals will depend on the Financial health risk rating awarded as outlined in Appendix 3 – Frequency of DD Reviews.

Providers will be required to submit financial monitoring information (typically management accounts) as requested by WMCA throughout the duration of their contract. Returns must be completed on an accrual's basis.

It is imperative that the worksheet be completed and returned within 10 working days of the due date. Failure to do so could result in a payment pause and/or a breach of contract.

The monthly return data will be on a cumulative basis for the full financial year of the provider. For example, if a provider's financial year is April to March, then the return data for August 2025 will include profit and loss data for the months of April to August, with the balance sheet dated 31 August 2025.

Each metric has been weighted and scored, and all providers will be allocated a Financial Health Risk Rating.

WMCA reserves the right to moderate the calculated score. WMCA may provide a summary of the reasons for any moderation decision where appropriate.

The Financial Health Risk Rating will inform WMCA's risk-based approach to provider management and the frequency of ongoing financial reviews (see Appendix 3).

## 6. *Impact*

Providers will be automatically awarded a financial health risk rating based on the above guidance. This score will remain unchanged until the next set of audited accounts is reviewed. A key outcome of the financial health assessment process is using the Financial Health Risk Rate to set a maximum Recommended Funding Limit (RFL). The RFL is a measure of an organisation's financial capacity to deliver its objectives.

Recommended Funding Limits (RFL) is the maximum WMCA Adult Skills funding a provider can receive in totality. Recommended Funding Limit (RFL) is in place for all providers, based on their reliance on WMCA income and financial health risk rating.

WMCA may provide a summary of the reasons for any moderation decision where appropriate.

The outcome of these assessments will result in additional financial contract stipulations as outlined below:

- Providers with financial health scores rated as Inadequate will not be awarded new contracts.

- Providers with financial health scores rated as Inadequate will not be able to renew or extend their current contracts.
- Providers with financial health scores rated as Satisfactory will have overall contracts capped at £1m under the Recommended Funding Limit (RFL)
- Providers that are rated as Inadequate during the contract period may have their contract terminated and will not be permitted to continue delivery of WMCA-funded provision. Any termination will be exercised in accordance with the relevant contractual provisions.

WMCA reserves the right to implement immediate risk mitigation measures, including suspension of delivery, learner protection arrangements and contract termination.

## *7. New providers/onboarding*

Where this policy applies, organisations applying to WMCA funding opportunities must comply with the requirements set out within the relevant opportunity documentation.

Financial health assessments will form part of the onboarding process, and providers will be notified of their financial health risk rating following assessment.

*New and Recently Established Organisations*

Where an organisation cannot provide the minimum two years of financial accounts, WMCA may consider alternative evidence to assess financial health and organisational sustainability. This may include:

- management accounts;
- cashflow forecasts;
- business plans;
- evidence of available working capital;
- bank or investor support arrangements;
- evidence of existing contracts and income streams; and
- any other information reasonably required by WMCA.

WMCA will assess alternative evidence on a case-by-case basis and acceptance of alternative evidence does not guarantee a satisfactory rating.

*Additional Assurance*

Where an organisation is newly established, has limited trading history, or where financial information indicates increased financial risk, WMCA may:

- apply enhanced monitoring arrangements;
- request additional financial information;
- limit contract values;
- apply staged contract growth; or
- implement other risk management measures considered appropriate.

*Ongoing Monitoring*

Following onboarding, providers will be subject to ongoing financial monitoring and review in accordance with their financial health risk rating and the requirements set out within this guidance.

# Section 3 – Financial Health Risk Rating

## 8. *Financial health risk rating*

Financial Health Risk Ratings provide an assessment of a provider's financial resilience and capacity to deliver WMCA-funded provision. The ratings are used to inform monitoring arrangements, provider support, provider management activity and Recommended Funding Limits (RFLs). Financial health assessments form part of WMCA's wider risk-based approach to provider assurance.

## 9. *Financial health descriptions*

Providers will be allocated one of the following financial health risk ratings based on the assessment methodology set out in Appendix 2.

| Rating | Description |
|---|---|
| **Outstanding** | An organisation that appears to have robust finances to fulfil its contractual obligations and respond successfully to opportunities or adverse circumstances. |

| | |
|---|---|
| **Good** | An organisation that appears to have sufficiently robust finances to fulfil its contractual obligations and respond successfully to most opportunities or adverse circumstances. |
| **Satisfactory** | An organisation that appears to have sufficient resources to fulfil its contractual obligations but may have limited capacity to respond to financial pressures, opportunities or adverse circumstances. |
| **Inadequate** | An organisation that is in financial difficulty and presents a significant risk to its ability to fulfil contractual obligations due to weak financial health. |

Financial health risk ratings are determined using the scoring methodology outlined in Appendix 1. Providers cannot be rated higher than Satisfactory where any of the three key financial ratios score zero.

Please note; Providers will have a financial health risk rating of Inadequate if any of the following criteria are met:

- No Credit Score or a credit score of less than 30
- Missing information not provided following a request from the WMCA finance team
- No/insufficient information provided in a timely manner (including if the information appears incomplete, or contains errors)

In addition to the above, there is other factual evidence which indicates the financial health is different from the calculated score, providers may have a financial health risk rating of Inadequate. Examples are but not limited to:

- A court ruling which has financial consequences
- Loss of material contract or area of provision
- A contingent liability which crystallises
- Recall of debt by bank/investor
- Loss of key personnel where WMCA considers this creates a material risk to financial viability or contract delivery.
- Cessation of trading

## *10. Recommended Funding Limits (RFL)*

Recommended Funding Limits (RFLs) are applied to ensure contract values remain proportionate to a provider's financial capacity and risk profile. They support the sustainable

delivery of Adult Skills provision, help protect learners from potential disruption and reduce exposure to financial risk.

The following Recommended Funding Limits (RFL) are applied to each financial health risk rating category as a percentage of the providers' turnover based on their latest financial statements. This limit is the maximum WMCA Adult Skills Funding the provider can receive in totality across all contracts (including in-year growth).

Providers with financial health scores rated as Satisfactory will have overall contracts capped at £1m.

| Financial Health Risk Rating | RFL as a Percentage of Turnover |
|---|---|
| Outstanding | 150% |
| Good | 125% |
| Satisfactory | 115% |
| Inadequate | 0% |

## *11. Reporting and Review*

Initial financial health risk ratings will be communicated to providers and will include the initial risk rating and a brief explanation of this decision.

Financial health risk ratings will typically be reviewed:

- during onboarding and contract award;
- At the start of the academic year, WMCA will re-rate all providers and consider whether the financial health risk ratings will need to be adjusted.
- financial health Risk ratings will also be updated throughout the year when new annual accounts are available as per the agreed timelines as outlined in Appendix 6.
- when new financial information becomes available; or
- where a material financial risk or significant change in circumstances has been identified.

Changes will be communicated to providers.

Providers should ensure annual accounts are available as per the agreed timelines from Companies House and this policy.

Providers are expected to notify WMCA promptly of any material change to their financial position that may affect their ability to deliver funded provision, for example:

- insolvency event
- County Court Judgment (CCJ)
- significant funding loss
- major contract withdrawal
- banking covenant breach
- acquisition/merger

Returns will need to be completed regularly, depending on the Financial Health Risk Rating. If a provider has a higher Financial Health Risk Rating, We will need to monitor financial health more closely; therefore, they will be required to submit returns more frequently.

Providers will be expected to return requested data in accordance with the grading award and the timelines outlined in Appendix 3.

# Section 4 – Moderation and Exemptions

## *12. Moderation*

The WMCA may moderate the financial health risk rating of any provider based on the points outlined below.

Moderation will only be applied where there is sufficient evidence to support the adjustment and will be documented by WMCA. Please note that this is not an exhaustive list, and there may be other risks that result in moderation.

*Automatic Moderation to Inadequate*

The following circumstances will normally result in a provider being rated as Inadequate irrespective of the calculated score:

- failure to submit required financial information within specified timescales;
- incomplete or materially inaccurate financial information;
- accounts overdue at Companies House and/or according to the ITP Handbook guidance;
- qualified financial statements;
- insolvency, liquidation, dormancy or CVA status;
- where, in WMCA's opinion, the qualification indicates material financial risk;
- no credit score available; or
- credit score below the minimum threshold (30).

If any of the above apply, then you will be rated as Inadequate, and WMCA may exercise its right to terminate the contract/ agreement.

*Upward Moderation through Mitigation*

Where a provider does not meet WMCA's minimum financial standing requirements, including where a financial assessment results in an Inadequate rating, WMCA may, at its sole discretion, consider alternative forms of financial security and assurance as per the below.

Acceptance of any such arrangements does not remove the requirement for the provider to demonstrate financial viability and will be subject to WMCA review, due diligence and formal approval.

Where a financial health concern is identified and mitigation is required, the following hierarchy will apply:

- **Parent Company Guarantee (PCG):** Where the provider does not meet the minimum financial standing requirements, the WMCA may, at its sole discretion, accept a Parent Company Guarantee (PCG). The parent company must demonstrate sufficient financial strength and will be required to enter into a binding agreement, guaranteeing the performance and obligations of the Tenderer under the contract. The WMCA reserves the right to assess the financial viability and legal standing of the parent company before acceptance.
- **Bank or Performance Bond:** The WMCA may require the provider to submit a performance bond, issued by a reputable financial institution authorised to operate in the UK, for an amount equivalent to (% TBC) of the contract value. This bond shall guarantee the performance of the contract and may be called upon in the event of non-performance or insolvency of the contractor. The form and terms of the bond must be acceptable to the WMCA.
- **Third-Party Guarantee or Surety:** In circumstances where the provider does not meet the required financial thresholds, the WMCA may permit the provision of a third-party guarantee or surety bond, issued by a financially robust and legally independent entity. The guarantor must be acceptable to the WMCA, and the guarantee must be unconditional, irrevocable, and enforceable under English law (or applicable jurisdiction).

The acceptance of any guarantee, bond or other security arrangement shall be entirely at WMCA's discretion and subject to satisfactory financial, legal and risk assessment. WMCA reserves the right to decline any arrangement where it does not provide sufficient assurance regarding the provider's financial resilience and ability to deliver the contract.

## *13. Exemptions: large organisations*

WMCA may also consider established public limited companies, other registered companies, charities, and voluntary organisations to be exempt from this financial health assessment process if they have a consistent annual turnover more than £75 million, where total current WMCA funding to the organisation constitutes, or is expected to constitute less than 5% of the organisation's annual turnover.

WMCA will undertake a financial health assessment when first considering whether an exemption applies.

Financial statements for organisations under this category will continue to be reviewed annually to ensure:

- the organisation remains financially stable
- that total WMCA funding is incidental to their business (that it is no more than, or expected to be no more than, 5% of annual turnover)

As part of this annual review, WMCA will request financial statements from you. We will also confirm organisational status and that no change has occurred which could affect the organisations status or stability.

WMCA may use external sources of information to inform our decision on your finances. If We become aware of any financial risk to an organisation, We reserve the right to review the exemption status at our discretion.

An organisation may be removed from this category and be subject to the full assessment process if either:

- total WMCA funding becomes material, that is, exceeds 5% of annual turnover
- annual turnover reduces to below £75 million
- We become aware of concerns over the financial health of the organisation

Organisations which are considered to fall under this category must still submit their financial statements as part of a register, procurement or ITT round for validation or assessment purposes or when requested by WMCA.

WMCA reserve the right to amend or withdraw the exemption category for large organisations or adjust the applicable turnover threshold where this is considered necessary to reflect changes in funding requirements, legislation, regulatory guidance, organisational policy or risk management requirements.

### *14. Communication of Moderation and Exemption Decisions*

Where moderation/exemption is applied, WMCA will notify the provider of:

- the final financial health risk rating;
- the reason for moderation/exemption; and
- any resulting monitoring, compliance or contractual implications

# Section 5– Provider management

### *15. Risk-Based Approach to Provider Management*

We will use Your financial health risk rating to inform the WMCA's risk-based approach to provider management as set out in the IS Contract for Service and VSFSE Operational Plan, which can be found on our website.

There may be additional assessment points throughout the year as outlined below. WMCA will not be limited to these points and may choose additional reviews at their discretion.

- contractual renewal points
- in-year performance management points, which may lead to a decrease in allocation to manage risk and/or
- As part of flexibility or growth requests, at WMCA's discretion

As outlined, Inadequate risk-rated providers will no longer be considered for funding as per the conditions.

### *16. Provider Support*

WMCA will support providers to ensure the financial health of both individual providers and the broader provider base is healthy. Providers are encouraged to strive to continually improve their financial health.

A self-assessment tool, known as the Financial Evaluation Workbook, has been developed that will allow providers to self-assess their financial health against the WMCA Financial Due Diligence rules outlined in this document. It is recommended that providers use this self-assessment tool whenever making a financial investment, even if it's not through WMCA, as that will still impact the financial health and potentially WMCA funding. This can be found in Appendix 5.

# Section 6 – Appendix

## *Appendix 1 – Financial Health Risk Ratings Tests*

The table below provides the tests for each of the three measures as part of the financial risk rating.

Please note; Providers cannot be rated higher than 'satisfactory' if they have scored 0 points on any of the three key ratios.

| Metric | Definition |
|---|---|
| **Solvency** | Current Assets / Current Liabilities<br>Current Assets - Obtained directly and in full, from the balance sheet.<br>Current Liabilities – Obtained directly and in full, from the balance sheet. |
| **Gearing** | Total Debt / Total Equity *100<br>Total debt - long-term debt and other debt obtained directly and in full, from the balance sheet. To include bonds, bank loans, overdrafts, pension obligations, finance leases and director loans.<br>Total Equity – This is the value of equity obtained directly and in full, from the balance sheet. This typically, represented as Total Assets minus Total Liabilities. |
| **Profitability** | Operating surplus/(deficit) / Total Revenue * 100<br>Operating surplus/(deficit) – income less direct operating expenses and administration costs<br>Total Revenue – taken directly and in full, from the statement of profit and loss |
| **Reliance on WMCA income** | Total WMCA Revenue / Total Revenue<br>Total WMCA Revenue – Revenue only from WMCA, included in the Total Revenue figure taken from the statement of profit and loss<br>Total Revenue – taken directly and in full, from the statement of profit and loss |
| **Cashflow change** | (Current month cash-Previous month cash) / (Previous month's cash)<br>Current month cash – taken directly and in full, from balance sheet (current month)<br>Previous month cash – taken directly and in full, from balance sheet (previous |

Please note numbers taken from financial statements must not be adjusted from those presented in the financial accounts. Any adjustments made by Providers is at their own risk, as WMCA will provide a financial health risk rating on the basis set out above and as set out in this document.

## *Appendix 2 – Ratio Scoring*

Each ratio will receive a score of up to 100 based on the strength of the ratio and scoring system in the table below.

| Score | Profitability | Solvency | Gearing |
|---|---|---|---|
| **0** | < 0 | < 0.5 | >= 90 or negative |
| **10** | >= 0 | >= 0.5 | < 90 |
| **20** | >= 1 | >= 0.6 | < 80 |
| **30** | >= 2 | >= 0.7 | < 70 |
| **40** | >= 3 | >= 0.8 | < 60 |
| **50** | >= 4 | >= 1.0 | < 50 |
| **60** | >= 5 | >= 1.2 | < 40 |
| **70** | >= 6 | >= 1.4 | < 30 |
| **80** | >= 7 | >= 1.6 | < 20 |
| **90** | >= 8 | >= 1.8 | < 10 |
| **100** | >= 9 | >= 2.0 | = 0 |

The scores for each of the three key ratios are added together to produce a total score. The financial health risk rating is set based on the table below.

| Financial Health Risk Rating | Points |
|---|---|
| Outstanding | 240 to 300 points |
| Good | 180 to 230 points |
| Satisfactory | 120 to 170 pints |
| Inadequate | <= 110 points |

Providers cannot be rated higher than 'satisfactory' if they have scored 0 points on any of the three key ratios.

## *Appendix 3 – Frequency of DD Reviews*

The table below sets out the frequency of the reviews by WMCA to monitor financial health of providers with live contracts. This applies to existing contracts only.

| Financial Health Risk Rating | Timeline of returns |
|---|---|
| Outstanding | Every 6 months |
| Good | Every 4 months |
| Satisfactory | Every 2 months |

## *Appendix 4 – Return examples*

Providers will be expected to return information for monitoring financial health in line with Appendix 3

Providers must provide the requested information within 10 working days of WMCA's request.

Examples of these requests are outlined below. Please note these are subject to amendment.

| Financial Health Risk rating | Return due | Data requested | Deadline for return |
|---|---|---|---|
| Satisfactory | Sep 26 | 15/10/2026 | 29/10/2026 |
| Good | Nov 26 | 10/11/2026 | 24/11/2026 |
| Outstanding | Jan 27 | 12/01/2027 | 26/01/2027 |

*Example purposes only. These will not be the agreed-upon dates for the issue.

## *Appendix 5 – Self Assessment Tool*

A Self-assessment tool known as the Financial Evaluation Workbook, for Adult Skills providers has been included to support Providers to assess their financial health at any time they choose. Please refer to our website to access the self-assessment tool.

## *Appendix 6 – Timescales to submit accounts*

| Period in which the provider's accounting year commences | More than £8 million | More than £1 million up to £8 million | More than £100,000 up to £1 million | Up to £100,000 |
|---|---|---|---|---|
| 1 August 2024 to 31 July 2025 | Within 7 months (can apply for an extension of up to 2 more months) | Within 9 months (10 months for charities) | Within 9 months (10 months for charities) | Within 9 months (10 months for charities) |
| 1 August 2025 to 31 July 2026 | Within 5 months (can apply for an extension of up to 2 more months) | Within 7 months | Within 7 months | Within 9 months (10 months for charities) |
| On or after 1 August 2026 | Within 5 months | Within 5 months | Within 5 months | Within 9 months (10 months for charities) |

## *Appendix 7 – Key Changes*

## *WMCA Due Diligence and Financial Health Key Changes for 2026/27*

| Area | Link | Overview of change |
|---|---|---|
| **Exemption for large Organisations** | **Impact** | Introduced a formal exemption process setting out circumstances in which providers may be considered outside of the standard financial health requirements. |
| **Mitigations** | **Impact** | Introduced a defined framework for financial mitigations, allowing WMCA to consider additional assurances where financial concerns are identified. |
| **Adjustment of numbers** | **Clarification** | The assessment of financial health will be undertaken using the financial ratios, calculation methodology and thresholds defined by WMCA guidance. Applicants must not substitute or amend these measures by applying their own calculation methods or alternative ratio definitions. |