

# **WEST MIDLANDS COMBINED AUTHORITY**



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Combined Authority**

## **Financial Due Diligence and Financial Health Monitoring for Independent Training Providers (Contract for Services)**

**(For the funding year 1 August 2025 onwards)**

This document outlines the Financial Due Diligence rules applicable to all Contract for Service and VCS Organisations that receive Adult Skills funding, including, but not limited to, Adult Skills Fund, including Free Courses for Jobs (FCFJ), Skills Bootcamp Providers must read these in conjunction with the Skills Programmes Funding Rules and associated documents.



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## Section 1 - Introduction and Purpose

### 1. Introduction

- 1.1. This document sets out the financial due diligence and financial health monitoring approach employed by WMCA for Contract for Service providers, who receive Adult Skills Programme Funding.
- 1.2. This document should be read alongside your Funding Agreement and the Adult Skills Programme Funding rules and its associated documents, which can be accessed via our [website](#).
- 1.3. We will use our approach to make sure the learning provision is of 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.
- 1.4. We will test financial health to assess that providers are financially resilient.
- 1.5. We will work collaboratively with providers, putting in place early intervention to ensure that delivery remains viable and addresses any potential risk of failure.
- 1.6. 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 serious breach/ material default of the contract related to financial probity.
- 1.7. This guidance has been updated in July 2025 and may be reviewed and updated in the future. 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.
- 1.8. Guidance and support on Financial due diligence, and a 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.



## Section 2 – Approach and Monitoring

### 2. Approach

- 2.1. Financial due diligence and financial health monitoring will be completed for all Contract for Service and VCS providers prior to and at the point of contract award.
- 2.2. Financial due diligence and financial health monitoring will additionally be completed at the start of the academic year for providers with existing WMCA contracts.
- 2.3. Financial due diligence and financial health monitoring will be updated during the academic year, when new audited financial statements are requested.
- 2.4. Only full audited financial statements are eligible (not abbreviated/abridged), including the Balance Sheet and Statement of Profit and Loss.
- 2.5. The WMCA requires a minimum of two years of financial accounts to be compliant. 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:
  - 2.5.1. Balance sheet
  - 2.5.2. A profit and loss account
  - 2.5.3. Commentary and relevant notes to the accounts
- 2.6. 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.
- 2.7. Financial risk for providers will be based on three key ratios as outlined below. The information on each is outlined in [Appendix 1](#).
  - 2.7.1. Solvency
  - 2.7.2. Gearing
  - 2.7.3. Profitability
- 2.8. 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](#).
- 2.9. Other metrics will also be considered; these are:
  - 2.9.1. Reliance on WMCA income – see Recommended Funding Limits (RFL)
  - 2.9.2. Cashflow Change (Cash & Cash Equivalents)
  - 2.9.3. Credit Score – Scores of less than 30 are a failure



## 3. **Monitoring**

- 3.1. WMCA will send out a return to be completed by all Contract for Service providers. All returns must be filed on an accrual basis and show all income relating to the month(s) in question. This is known as return data.
- 3.2. It is imperative that the worksheet be completed and returned within 2 weeks. Failure to do so may result in a payment pause and/or be deemed a breach of contract.
- 3.3. We may use external sources of information to inform our decision on your allocated risk rating – for example, Companies House and credit reference agencies.
- 3.4. Each metric has been weighted and scored, and all Contract for Service Providers will be allocated a [risk rating](#).
- 3.5. WMCA reserves the right to moderate the automatically calculated score. We will communicate the rationale to you.
- 3.6. The risk rating will inform WMCA's risk-based approach to provider management and the frequency of ongoing financial reviews (see [Appendix 3](#)).
- 3.7. Providers cannot be rated higher than 'satisfactory' if they have scored 0 points on any of the three key ratios.
- 3.8. Providers will have a risk rating of Inadequate if any of the following criteria are met:
  - 3.8.1. No Credit Score
  - 3.8.2. Missing information
  - 3.8.3. No/insufficient information provided in a timely manner (including if the information appears incomplete, or contains errors)
- 3.9. In addition to the above, there is other factual evidence which indicates the financial health is different from the calculated score, for example (but not limited to):
  - 3.9.1. A court ruling which has financial consequences
  - 3.9.2. Loss of material contract or area of provision
  - 3.9.3. A contingent liability which crystallises
  - 3.9.4. Recall of debt by bank/investor
  - 3.9.5. Loss of key personnel
  - 3.9.6. Cessation of trading
- 3.10. There will be ongoing monitoring of financial health by assessing management accounts, depending on the risk rating awarded as outlined in [Appendix 2](#).
- 3.11. 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 financial health more closely and therefore, they will be required to submit returns more frequently.
- 3.12. Providers will be expected to return requested data in accordance with the grading award and the timelines outlined in [Appendix 3](#).

3.13. See Section 6 – Appendix, which outlines:

3.13.1. Appendix 1 shows the calculation of the three key ratios.

3.13.2. Appendix 2: The points scoring system to generate the rating.

3.13.3. Appendix 3 for the frequency of reviews according to risk rating.

3.13.4. Appendix 4 for submission deadlines for 2025-26.

3.13.5. Appendix 5 for the self-assessment tool for Adult Skills providers.

## **4. Impact**

4.1. Providers will be automatically awarded a financial health score based on the above. This score will remain unchanged until the next set of audited accounts are reviewed.

4.2. A key outcome of the financial health assessment process is using the financial health grade to set a maximum Recommended Funding Limit (RFL). The RFL is a measure of an organisation's financial capacity to deliver its objectives.

4.3. Recommended Funding Limits (RFL) is the maximum WMCA Adult Skills funding the provider can receive in totality.

4.4. A Recommended Funding Limit (RFL) is in place for all providers covered by this guidance, based on their reliance on WMCA income and risk rating (DD score). The outcome of these assessments will result in additional financial contract stipulations as outlined below:

4.4.1. Providers with financial health scores graded as Inadequate will not be awarded new contracts from 1st August 2025.

4.4.2. Providers with financial health scores graded as Inadequate will not be able to renew or extend their current contracts from 1st August 2026.

4.4.3. Providers with financial health scores graded as Satisfactory will have overall contracts capped at £1m under the Recommended Funding Limit (RFL)

4.4.4. More information on this can be found under Recommended Funding Limits (RFL)

## **5. New providers/onboarding**

5.1. Organisations applying through any WMCA Procurement must follow the guidance published with the round they are applying to.

5.2. Communication of the risk rating will be supplied during the Onboarding Process.

5.3. Providers will then follow the current process and will be required to submit returns in the future as appropriate



## Section 3 – Financial health risk rating

### 6. *Financial health risk rating*

6.1. Based on the scoring of the metrics (and other data where applicable), Contract for Service providers will be rated as one of the following. Please refer to [Appendix 2](#) for scoring.

6.1.1. Outstanding

6.1.2. Good

6.1.3. Satisfactory

6.1.4. Inadequate

### 7. *Financial health descriptions*

#### 7.1. Outstanding

7.1.1. 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.

#### 7.2. Good

7.2.1. 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.

#### 7.3. Satisfactory

7.3.1. 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.

#### 7.4. Inadequate

7.4.1. 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 that organisations in this group may not be able to fulfil their contractual obligations due to weak financial health. Normally, an organisation has at least two 'inadequate' indicators for profitability, solvency, and gearing.



**8. Recommended Funding Limits (RFL)**

- 8.1. The following Recommended Funding Limits (RFL) are applied to each 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).
- 8.2. Providers with financial health scores graded as Satisfactory will have overall contracts capped at £1m

<i>Risk Rating</i>	<i>Providers RFL as a percentage of turnover on cumulative contract value</i>
<b>Outstanding</b>	<b>150%</b>
<b>Good</b>	125%
<b>Satisfactory</b>	115%
<b>Inadequate</b>	<b>0%</b>

**9. Reporting**

- 9.1. Initial risk ratings will be communicated to Contract for Service providers and will include the initial risk rating and a brief explanation of this decision.
- 9.2. At the start of the academic year, WMCA will re-rate all Contracts for Service providers and consider whether the risk ratings will need to be adjusted. Changes will be communicated to providers.
- 9.3. Risk ratings will also be updated throughout the year when new annual accounts are available as per the agreed timelines from Companies House and the Financial Handbook for independent training providers.



## Section 4 – Provider management

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

- 10.1. 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 Services & VCS Operational Plan, which can be found on our [website](#).
- 10.2. 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 its discretion.
  - 10.2.1. contractual renewal points
  - 10.2.2. in-year performance management points, which may lead to a decrease in allocation to manage risk and/or
  - 10.2.3. As part of flexibility or growth requests.
- 10.3. As outlined in [section 3](#), Inadequate risk-rated providers will no longer be considered for funding as per the conditions.

### **11. Provider Support**

- 11.1. WMCA will support providers to ensure the financial health of both individual providers and the broader provider base is healthy. Providers are strongly encouraged to strive to improve their financial health continually.
- 11.2. A self-assessment tool 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 5 – Moderation

### 12. Moderation

- 12.1. The WMCA may moderate the risk rating of any providers based on the points outlined below. Please note that this is not an exhaustive list, and there may be other risks that result in moderation.
- 12.1.1. 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).
- 12.1.2. If you do not have a UK parent company, you are not required to submit overseas parent company accounts.
- 12.1.3. If financial statements are not submitted to us within the given timeframes, you will be risk-rated as Inadequate, and WMCA may exercise its right to terminate the agreement.
- 12.1.4. If financial statements are qualified, you will be rated as Inadequate until unqualified statements are received, and WMCA may exercise its right to terminate the agreement.
- 12.1.5. 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 WMCA may exercise its right to terminate the agreement.
- 12.1.6. If Companies House shows your accounts are overdue, then you will be graded as Inadequate, and WMCA may exercise its rights in accordance with the terms of the agreement.
- 12.1.7. If the group/parent financial statements indicate that their financial position could significantly impact the provider, then we may moderate the risk rating accordingly.

## Section 6 – Appendix

### Appendix 1

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

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

## Appendix 2

14. 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

15. 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.

Grade	Points
Outstanding	240 to 300 points
Good	180 to 230 points
Satisfactory	120 to 170 pints
Inadequate	<= 110 points

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



**Appendix 3**

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

<b>Risk Rating</b>	<b>Timeline of returns</b>
Outstanding	Every 6 months
Good	Every 4 months
Satisfactory	Every 2 months
Inadequate*	Every month (existing only)

\* Existing contracts only until 1 August 2026.

**Appendix 4**

- 18. Providers will be expected to return information for monitoring financial health in line with [Appendix 3](#)
- 19. Providers must provide the requested information within 10 working days of WMCA's request.
- 20. Examples of these requests are outlined below. Please note these are subject to amendment.

<b>Risk rating</b>	<b>Return due</b>	<b>Data requested</b>	<b>Deadline for return</b>
Satisfactory	September 25	15/10/2025	29/10/2025
Good	November 25	10/11/2025	24/11/2025
Outstanding	January 26	12/01/2026	26/01/2026

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

**Appendix 5**

21. A Self-assessment tool 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

### WMCA Due Diligence and Financial Health Key Changes for 2025/26

Area	Link	Overview of change
<b>Recommended Funding Limits</b>	<a href="#">Recommended</a>	<p>WMCA has introduced set funding limits that will be effective for new providers/contracts as of August 1, 2025.</p> <p>Providers with existing contracts will have their contracts brought in line with the RFL by 1<sup>st</sup> August 2026</p> <p>Providers with financial health scores graded as Satisfactory will have overall contracts capped at £1m</p>
	<a href="#">Funding Limits (RFL)</a>	
<b>Funding for providers scores as Inadequate</b>	<a href="#">Impact</a>	<p>From August 1, 2025, Providers with financial health scores graded as 'Inadequate' will not be awarded new contracts.</p> <p>As of August 1, 2026, current Providers with financial health scores graded as 'Inadequate' will not be able to renew or extend their current contracts.</p>
<b>A Credit Score of less than 30</b>	<a href="#">Approach</a>	<p>From August 1, 2025, Providers with a credit score of less than 30 will not be awarded new contracts.</p> <p>As of August 1, 2026, current Providers with a credit score of less than 30 will not be able to renew or extend their current contracts.</p>