

WEST MIDLANDS COMBINED AUTHORITY



Financial Due Diligence and Financial Health Monitoring for Independent Training Providers (Contract for Service)

(For the funding year 1 August 2023 onwards)

Version 1

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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 Skills Programme funding.
- 1.2. This document should be read alongside your Contract Agreement and the [Skills Programme Payment & Performance Management Framework](#).
- 1.3. We will use our approach to funding 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. We will work collaboratively with providers, putting in place early intervention to ensure that delivery remains viable and address any potential risk of failure.
- 1.5. It is mandatory for all providers to submit the information requested by the deadlines. We expect that this information is provided in full. Failure to meet deadlines may result in the withholding of payment and/or result in a serious breach of contract, related to financial probity.
- 1.6. This guidance has been updated in July 2023 and will be reviewed again before July 2024 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.

Section 2 – Approach and Monitoring

2. Approach

- 2.1. Due diligence approach will follow each provider's financial year – i.e., April to March.
- 2.2. Return data will be on a cumulative basis. For example, August 2023 data return, will include profit and loss data for the months of April to August, with the balance sheet dated 31 August 2023.
- 2.3. Providers will be given an automatic grading based on three key ratios:
 - 2.3.1. Solvency
 - 2.3.2. Gearing
 - 2.3.3. Profitability
- 2.4. Other metrics will also be considered, these are:
 - 2.4.1. Reliance on WMCA income
 - 2.4.2. Cashflow Change (Cash & Cash Equivalents)
 - 2.4.3. Credit Score
- 2.5. *For a full overview, please refer to [Appendix 1](#)*

3. **Monitoring**

- 3.1. WMCA will send out a return to be completed by all Contract for Service providers.
- 3.2. All returns must be filled in on an accrual basis and show all income relating to the month(s) in question.
- 3.3. It will be requested that the worksheet is completed and returned within 2 weeks.
- 3.4. We may use external sources of information to inform our decision on your allocated grading – for example, Companies House and credit reference agencies.
- 3.5. Each metric has been weighted and scored and all Contract for Service providers will be allocated a risk grading.
- 3.6. We reserve the right to moderate the automatically calculated score, we will communicate the rationale to you.
- 3.7. This grading will inform our risk-based approach to provider management and the frequency of ongoing financial reviews.
- 3.8. Providers cannot be rated higher than ‘satisfactory’ if they have scored ‘low’ on any of the three key ratios.
- 3.9. Providers will remain ungraded if any of the following criteria are met:
 - 3.9.1. No Credit Score
 - 3.9.2. Missing information
 - 3.9.3. No/insufficient information provided in a timely manner (including if the information appears incomplete, or contains errors)
 - 3.9.4. Other factual evidence which indicates the financial health is different from the calculated score for example (but not limited to)
 - 3.9.4.1.1. A court ruling which has financial consequences
 - 3.9.4.1.2. Loss of a material contract or area of provision
 - 3.9.4.1.3. A contingent liability which crystallises
 - 3.9.4.1.4. Recall of debt by bank/investor
 - 3.9.4.1.5. Loss of key personnel
 - 3.9.4.1.6. Cessation of trading
- 3.10. Returns will need to be completed regularly, depending on the [risk grading](#).
- 3.11. If a provider has a higher [risk grading](#), we will need to monitor the financial health more closely, therefore they will be required to submit more frequent returns.
- 3.12. See [Appendix 2](#) for submission deadlines for 2023-24 and [Appendix 3](#) for the frequency of reviews according to grades.

4. **New providers/onboarding**

- 4.1. Organisations applying through any of our Procurement rounds must follow the guidance published with the round they are applying to.
- 4.2. Communication of the grading will be supplied during the Onboarding process.
- 4.3. Providers will then follow the current process and will be required to submit returns going forward as appropriate.

Section 3 – Financial health grading

5. Financial health Grading

- 5.1. Based on the scoring of the metrics (and other data where applicable), Contract for Service providers will be rated as one of the following.
- 5.1.1. Outstanding
 - 5.1.2. Good
 - 5.1.3. Satisfactory
 - 5.1.4. Inadequate

6. Financial health descriptions

- 6.1. Outstanding
- 6.1.1. 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.
- 6.2. Good
- 6.2.1. 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.
- 6.3. Satisfactory
- 6.3.1. 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.
- 6.4. Inadequate
- 6.4.1. 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 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.

7. Reporting

- 7.1. Initial gradings will be communicated to Contract for Service providers and will include the initial risk grading and a brief explanation of this decision.
- 7.2. WMCA will hold an internal review on a quarterly basis to review the ‘Inadequate’ rated Contract for Service providers in more detail and may be in touch to discuss this with relevant providers.
- 7.3. Every 12 months, WMCA will re-rate all Contracts for Service providers and consider whether the risk gradings will need to be adjusted. Changes will be communicated to providers.

8. Return timelines

- 8.1. Grading will inform the frequency of ongoing monitoring based on the below timelines.
 - 8.1.1. Outstanding graded providers will be required to submit returns every 6 months
 - 8.1.2. Good-graded providers will be required to submit returns every 4 months
 - 8.1.3. Satisfactory graded providers will be required to submit returns every 2 months
 - 8.1.4. Inadequate graded providers will be required to submit returns every month

Section 4 – Provider management

9. Risk-Based Approach to Provider Management

- 9.1. We will use your financial health grading to inform the WMCA's risk-based approach to provider management as set out in the [Payment and Performance Management Framework](#).
- 9.2. In addition, inadequate financials will also be considered at
 - 9.2.1. contractual renewal points
 - 9.2.2. in-year performance management points, which may lead to a decrease in allocation to manage risk and/or
 - 9.2.3. impact on any in-year flexibility or growth requests.

Section 5 – validity check

10. Year-end validity check

- 10.1. At the academic year-end point, 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.
- 10.2. Any significant discrepancies may result in a serious breach related to financial probity and could lead to.
 - 10.2.1. future withholding of payment/s
 - 10.2.2. reduction of allocation/s
 - 10.2.3. termination of contract/s
- 10.3. 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.
 - 10.3.1. Balance sheet
 - 10.3.2. A profit and loss account
 - 10.3.3. Commentary and relevant notes to the accounts
- 10.4. The accounts must be full, not just extracts/selected pages.

- 10.5. 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).
- 10.6. If you do not have a UK parent company, you are not required to submit overseas parent company accounts.
- 10.7. If financial statements are not submitted to us within the given timeframes, you will remain ungraded, and we may withhold your payments going forward.
- 10.8. If financial statements are qualified, you will remain ungraded until unqualified statements are received.
- 10.9. 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.
- 10.10. If Companies House shows your accounts are overdue, then you will be graded as 'Inadequate', and this will be monitored throughout the year.
- 10.11. If the group/parent financial statements indicate that their financial position could significantly impact the provider, then we may moderate the grading accordingly.

Section 6 – Appendix

Appendix 1

Metric	Definition
Solvency	Current Assets / Current Liabilities
Gearing	Total Debt / Total Equity *100 Total debt includes short-term borrowing and long-term debt. To include bonds, bank loans, overdrafts, pension obligations, finance leases and director loans.
Profitability	Operating surplus/(deficit) / Total Revenue * 100
Reliance on WMCA income	WMCA Revenue / Total Revenue
Cashflow change	(Current month cash-previous month cash) / (previous month's cash)

Appendix 2

Month of data	Data sent out	Deadline
Aug-23	09/09/2023	23/09/2023
Sep-23	14/10/2023	28/10/2023
Oct-23	11/11/2023	25/11/2023
Nov-23	09/09/2023	23/09/2023
Dec-23	14/10/2023	28/10/2023
Jan-23	11/11/2023	25/11/2023
Feb-23	09/09/2023	23/09/2023
Mar-23	14/10/2023	28/10/2023
Apr-23	11/11/2023	25/11/2023
May-23	09/09/2023	23/09/2023
Jun-23	14/10/2023	28/10/2023
Jul-23	11/11/2023	25/11/2023

Appendix 3

Grading	Timeline of returns
Outstanding	every 6 months
Good	every 4 months
Satisfactory	every 2 months
Inadequate	every month

WMCA – Skills Programmes

Financial Due Diligence and Financial Health Monitoring

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