

Purpose of funding

Outline clearly the purpose of this loan, in terms of:

- Why is additional funding required?
- The business need and outline the expected outcomes and deliverables.
- What would be the consequences of no action/funding?

Type

Indicate the type(s) of financial accommodation covered by this business case:

Capital loans - long or short term for construction, refurbishment, or purchase of equipment, buildings and other assets;

Operating Overdrafts - for financing the working capital needs of the organisation. These include any overdraft related to health service, business or fundraising activities whether they form part of the entity operating, special purpose or capital fund. They include permissions to borrow, loan guarantees and any other financial arrangement which could result in contingent or actual liabilities in the registered agency or any related entity;

Finance Leases - where the benefits and risks of ownership of the leased property are transferred to the agency, this includes leveraged leases, and commercial hire purchases.

As evaluations of finance leases are financing decisions, the decision of whether to enter into a finance lease should be made separately from the decision to accept a capital expenditure project, i.e. the investment decision. The decision to enter into a finance lease needs to be compared with the alternative of direct ownership using borrowed funds.

The standard technique to evaluate a finance lease is to estimate cash flows associated with the lease. Standard cash flows to include are the saving of the purchase price of the asset at the outset of the project, the lease payments over the term of the lease and any tax effects associated with the lease agreement. These cash flows should be discounted at the cost of borrowing by the TCV for the appropriate term to calculate a net present value for the leasing decision; or,

Operating Leases - where the agency does not gain the risks and rewards of ownership, and can terminate the lease with minimal or no penalties.

A lease contract with an effective cancellation clause or whose term is substantially shorter than the economic life of the asset is defined as an operating lease.

Size

Based on the recommended funding option, how much money is required in total and how much needs to be borrowed? For example, what proportion of the funding will be sourced from cross subsidies and how much will be borrowed? Provide information on the assumptions used to calculate this figure, for instance industry quotes, projected throughput, and interest rates.

Reliable and accurate costings are important to ensure that the appropriate size of loan is approved.

In addition, what are the terms and conditions of the loan?

Term

How long will it take to repay the loan? Provide projected cash flows and assumptions used to estimate the timeframe.

Link to agency and Government strategic objectives and Regional Service Plans

Link the purpose of the funding to the strategic objectives of the agency, DHS and Government, the regional service plan, the related DHS funding program and the agency's core business activities.

If no link can be established between the purpose of the funding and existing strategic objectives or plans then it is unlikely that approval for the funding will be pursued, as it is not clear that the initiative supports Government's long-term goals or enables the provision of core human services.

Link to the agency service plans

For capital assets, demonstrate a link to agreed service plans, asset development priorities and master plans.

Before seeking funding approval agencies planning to undertake capital investment must obtain support from the regional and central office to confirm that the investment proposal is consistent with agreed service plans and capital priorities and provide evidence of this support in the business case.

Link to core business activity

How will this loan support the funded body's core business activity?

There should be a clear association between the purpose of the loan and the applicant's core business activity.

It is unlikely that non-core initiatives will be supported.

In addition, which program area/s will this loan support? Provide an indication of how it will be distributed across program areas.

Funding options

It is important to demonstrate that the applicant has investigated alternative funding sources in arriving at the preferred financing option. The following information should be provided in this section to support the funding option chosen.

What different sources of funding are available? For example:

- State or Commonwealth grant;
- Alternative long, medium or short term debt structures;
- Internal financing from combinations of equity, reserves, client contributions and fund raising;
- Stakeholder and community partnerships; or,
- Buy versus different lease options. Note that as a result of recent restrictions and the introduction of the imputation tax system, the decision to lease an asset rather than borrow to fund to purchase is now tax neutral for most tax exempt entities in many cases. Therefore, it is important to demonstrate clearly the advantages of leasing versus purchasing.

What is the recommended alternative and why?

A decision tree analysis may help to explore the viability of different options.

Include all assumptions and references, for instance interest rates and industry quotes for the proposed initiative.

Projected cash flow

A projected annual cash flow should be provided for each year of the life of the financial accommodation.

For larger proposals such as substantial capital loans or finance leases, supply a cash flow for the whole of the agency highlighting all recurrent and non-recurrent revenue and expenditure analysed by fund source, activity and program (see example A) and by the main receipt and payment types (see example B). These examples are designed to demonstrate that the entity is capable of servicing its borrowings.

For smaller proposals such as an operating overdraft, provide a cash flow for the activities being purchased and movements in the cash balance. Cash flows should clearly indicate the amount of expenditure allocated to servicing and repaying the financial accommodation.

Cost - benefit analysis

For short term funding with a life of five years or less, provide a cost – benefit analysis examining the financial and non-financial benefits and costs to the agency and, if relevant, to the community and government. Cost-benefit analysis is a tool for guiding public expenditure decisions by helping to determine whether the financial or social benefit of an action exceeds cost.

Demonstrate that the overall benefits resulting from the additional funding outweigh its costs using evidence-based analysis. Non-financial criteria, such as positive or negative political consequences, should be included with financial costs and benefits.

Discounted cash flow analysis

For long term capital funding, with a life of greater than five years or amounts greater than \$4 million, or for complex borrowing involving a mix of debt types, provide a discounted cash flow analysis to determine the net present value of the initiative.

For relatively small and less complex requests, The Department of Treasury and Finance (DTF) recommends that you use the TCV indicative 10 year borrowing rate less 80 basis points. This rate reflects the State's "risk free rate". This can be found in the DTF website, (www.dtf.vic.gov.au) under the heading of "Business and the Government" - Indicative Borrowing Rates, and is updated on a weekly basis.

For more complex requests Partnerships Victoria have developed some guidance material on the setting of discount rates that specifically deals with Partnership Victoria projects. It is available on the Partnerships Victoria website (<http://www.partnerships.vic.gov.au/>) under the subheading of guidance material.

Current financial status

Provide the latest audited financial statements together with balance sheets, profit and loss statements and cash flow statements at the date of the application and projected to the end of the loan period. Refer to examples A, B and C for guidance in drawing together this documentation. In addition, the application must include both bank and at ledger balances for cash assets and borrowings and a description of all loans, overdrafts, leases and the nature of associated security at the time of the application.

The applicant must inform the Department of all material changes in its financial status during the application or loan period.

Repayment strategy

Detail how the hospital or community health centre will repay the loan and provide corresponding cash flows forecasts. Indicate how the project will impact on service provision

Repayment strategy

highlighting those areas that are expected to generate cash surpluses to repay the loan.

Risk analysis

Provide an analysis of various interest rate variations and their impact on your ability to repay the loan.

What are the other risks and opportunities associated with this loan? For example, demand variability, or long term construction risk. Include relevant sensitivity analyses.

What risk management plans are in place if the consequences of a scenario are too great for the hospital or community health centre to accommodate?

Refer to the Australian and New Zealand Standard 4360:1999 *Risk Management* as a guide for the establishment and implementation of a risk management process.

Additional Support

Is there wider industry support for this initiative?

Does this funding link into a larger initiative?

For capital asset initiatives, is there support from the regional and central office? Agencies seeking to undertake capital investment must obtain support from the regional and central office to confirm that the investment proposal is consistent with agreed service plans and capital priorities, before seeking funding approval.

Provide evidence.

Signatories

In addition to the Board and the Chief Executive Officer obtain the signatures and record the details of all the primary people involved in the presentation of the submission. For instance:

Who prepared the submission?

Who signed off the original project documentation?

Who endorsed the submission?

Who approved the submission?

Copy the signature table if additional spaces are required.