

Health and Aged Care Services Borrowing Guidelines



1. Purpose

- 1.1. The purpose of these guidelines is to provide guidance for public hospitals, community health centres and metropolitan health services seeking to borrow money, or enter into financial arrangements such as leases or overdrafts.

2. Background

- 2.1. Victorian budget sector bodies' powers to spend, borrow or enter into other financial arrangements are set out in legislation, primarily the *Health Services Act 1988*. In particular, Section 30 of the *Health Services Act 1988* requires registered funded agencies to obtain approval from the Minister for Health and the Treasurer before seeking financial accommodation¹. Registered funded agencies include public hospitals, community health centres and metropolitan health services and are detailed in the budget papers and Schedules one to five of the *Health Services Act 1988*.
- 2.2. One purpose of the legislation is to regulate the circumstances in which registered funded agencies are able to borrow money, so as to limit the State's exposure to the risk of unplanned expenditure arising from inappropriate management of borrowings.
- 2.3. The requirement to obtain Ministerial approval before borrowing is also stated in the Department of Human Services' Health (Hospital) Service Agreement (s5.6) and the Community Health Centres Service Agreement (s5.5).
- 2.4. These guidelines are a tool to help agencies comply with existing legislation and guidelines by outlining the appropriate steps that must be followed before entering into borrowing arrangements.
- 2.5. Schedule 5.4 of the Department of Human Services' Health (Hospital) Service Agreement also states that if the public hospital intends to enter into any expenditure (including operating leases) related to capital works, whether or not funded by borrowings or from reserves, where the estimated total end cost of the works exceeds 10% of the annual revenue of the hospital or \$2 million, whichever is the lesser amount then:
 - a. The hospital must provide the Secretary with a detailed business plan relating to the proposed expenditure; and,
 - b. Obtain approval from the Secretary for the expenditure.

The guidelines set out herein do not change these requirements under s5.4 of the Department of Human Services' Health (Hospital) Service Agreement.

3. Types of Borrowing

- 3.1. Approval of the Treasurer and the Minister for Health are required for all types of financial accommodation. This includes:
 - 3.1.1. **Capital loans** - long or short term for construction, refurbishment, or purchase of equipment, buildings and other assets etc;
 - 3.1.2. **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; and,
 - 3.1.3. **Finance Leases** - where the benefits and risks of ownership of the leased property are transferred to the agency, including leveraged leases and commercial hire purchases.

4. Key Borrowing Principles

- 4.1. Where a financial accommodation is required outside the annual budget allocation or beyond the Department's asset investment program, the approval of the Minister of Health and the Treasurer must be obtained before obtaining financial accommodation.
- 4.2. A Government guaranteed loan can be sought from the Treasury Corporation of Victoria (TCV), the State's central financing authority. Loans provided by TCV are guaranteed by the Treasurer and generally have significantly lower associated costs than debt provided by private sector financial institutions.
- 4.3. TCV's legislative functions are to:
 - 4.3.1. Provide financial accommodation to a participating authority or the State;
 - 4.3.2. Enter into or perform financial arrangements; and
 - 4.3.3. Provide financial services for, and financial advice to, participating authorities and the State.
- 4.4. It is the Government's policy that all Government agencies should conduct their substantive borrowing through TCV, with certain exceptions for example certain overdraft facilities for day to day cash management purposes. However, TCV can also provide flexible cash loans or short term loans that can offer similar flexibility to many overdraft arrangements offered by private sector financial institutions.

5. Preparing a Business Case

- 5.1. Before approval will be granted for any form of financial accommodation, a business case needs to be provided. The documentation needed to support the business case should be commensurate with the duration, scale and complexity of the proposal.

In the case of **overdrafts**, the business case should demonstrate the agency's capacity to manage and repay the facility by documenting:

- 5.1.1. the purpose and duration of the funding;
- 5.1.2. evidence of the borrower's current financial status with details of operating results, cash reserves and existing debt;
- 5.1.3. summary operating cash flows showing the timing of movements in the overdraft balance in order to demonstrate capacity to manage and repay the facility; and
- 5.1.4. the signed approval of the Chief Financial Officer.

In addition, for **small scale asset purchases** (relative to agency net asset values or turnover) financed by short term debt (generally less than 5 years), the documentation should include:

- 5.1.5. details of the expected outcomes and deliverables that flow from the investment;
- 5.1.6. a brief description of any uncertainties or contingencies associated with the proposal and the agency's approach to managing these;
- 5.1.7. evidence that the proposal is consistent with the agency's core activity, regional service plans and agreed development priorities. Where relevant, the documentation should detail how the project aligns with agreed DHS Program plans and wider Government objectives;
- 5.1.8. income, expenditure and periodic cash flow figures pertaining to those areas of organisation that will benefit through additional revenue or cost savings or will carry the financing cost. Cash flows should clearly indicate the amount of expenditure allocated to servicing and repaying the financial accommodation;
- 5.1.9. the financial rationale for the proposal in the form of a cost – benefit analysis examining the financial and non-financial benefits and costs to the agency and, if relevant, to the community and government; and
- 5.1.10. the signed approval of the CEO.

More **substantial investments** in capital assets or finance leases or involving complex debt arrangements require more detailed business cases supported by comprehensive documentation covering all of the agency's activities. These should consist of :

- 5.1.11. the purpose of the funding highlighting the expected outcomes and deliverables;
- 5.1.12. reliable cost and revenue estimates for one off and recurrent elements of the project, with corresponding timeframes;
- 5.1.13. evidence of the borrower's current financial status with details of operating results, cash reserves and existing debt;
- 5.1.14. a comprehensive risk analysis including risk management plans, for example an analysis of the impact of fluctuating interest rates, demand variability, or long term construction risk;
- 5.1.15. a demonstrated link 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. For capital assets proposals should

demonstrate a link to agreed service plans, development priorities and master plans;

- 5.1.16. an options analysis, for example comparing long, medium or short term debt alternatives; different combinations of equity, reserves, client contributions and fund raising, or different lease options; and
- 5.1.17. a projected, whole of agency, annual cash flow for each year of the life of the financial accommodation, highlighting all recurrent and non-recurrent revenue and expenditure analysed by:
 - 5.1.17.1. funds source, activity and program (see example A), and
 - 5.1.17.2. the receipt and payment types (see example B).

These examples are designed to demonstrate that the entity is capable of servicing its borrowings. Cash flows should clearly indicate the amount of expenditure allocated to servicing and repaying the financial accommodation.

- 5.1.18. detail of the financial rationale for the proposal:
 - 5.1.18.1. 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; and
 - 5.1.18.2. In addition for long term capital funding , provide a discounted cash flow analysis to determine the net present value of the initiative. Long term funding concerns projects with a life of greater than five years, or amounts greater than \$4 million, or for complex borrowing involving a mix of debt types.
- 5.1.19. a proposed repayment strategy describing the associated cash movements (included in the above cash flow statements), and projected balance sheets (example C); and
- 5.1.20. the signed approval of the Board and Chief Executive Officer.

- 5.2. The business case should be based on sound evidence, justify the funding required, demonstrate that the recommended option is the best alternative, and confirm that risk management and repayment strategies are appropriate to the scale of the project.
- 5.3. A business case pro forma and explanatory notes are provided as part of these guidelines to guide agencies when developing a business case.
- 5.4. The nature of the business case will vary depending on the type of borrowing and amount of funds required. For complex proposals, more detailed analysis will be required. In some cases, it may be advantageous to engage TCV or an external consultant to assist in the financial modelling, analysis and the overall presentation of the business case. TCV is available to advise and consult with hospitals and community health centres in relation to borrowing strategies and the preparation of business cases.

6. Service and Capital Planning Issues

- 6.1. These guidelines relate to a method of sourcing funds and, in the case of borrowings for capital, does not alter the requirements in relation to demonstrating need for the investment, or the DHS processes of determining the priority of projects. The policy does not override any existing policies or procedures in relation capital investments. Any capital project to be funded by borrowings still needs to be consistent with DHS and Government asset investment priorities and policies.
- 6.2. 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.
- 6.3. More information on Government policy in planning and executing major capital projects can be found at the following sites: www.dtf.vic.gov.au/gateway and www.dhs.vic.gov.au/pdfs/capdev/polproc.pdf

7. Borrowing Approval Process

- 7.1. The Planning and Resources Branch, within the Rural and Regional Health and Aged Care Services Division, is responsible for processing all applications to borrow by rural registered budget sector agencies and all community health centres. Agencies should submit all borrowing requests to their regional office who will then forward the documents to the Planning and Resources Branch. The Planning and Resources Branch will then liaise with the Rural and Regional Health Services Branch, other relevant central office branches, the Minister's office and Treasury on behalf of applicants.
- 7.2. The Metropolitan Health and Aged Care Division is responsible for processing applications from Metropolitan Health Services. Submit applications directly to the Metropolitan Health Services Branch who will liaise with the Funding and Financial Policy Branch, the Minister's office and Treasury on behalf of applicants.
- 7.3. Agencies should consult their applicable regional or central Department of Human Services Agency Liaison Officer early in the business case development process to discuss proposals before they are formally submitted to the Department.

8. Retrospective Approval

- 8.1. Registered funded agencies with unapproved borrowing arrangements are required to apply for retrospective approval from the Minister for Health and the Treasurer as soon as possible. This involves submitting a business case as outlined above. Any rural hospital or CHC agency in this situation should contact their Department of Human Services rural office and the Planning and Resources Branch. Any Metropolitan Health Services should contact the Metropolitan Health Service Relations Branch.
- 8.2. As part of the retrospective approval application process, current-funding arrangements must be reviewed to examine refinancing options using TCV facilities. This is to ensure that the agency has selected the most economical alternative.
- 8.3. Any future borrowings must be approved in advance.

9. Operating Leases

- 9.1. Operating leases, where the agency does not gain the risks and rewards of ownership and can terminate the lease with minimal or no penalties, do not require approval from the Treasurer or the Minister for Health. However, agencies must undertake rigorous internal investment analysis to assist the decision making process and to ensure that operating leases are cost effective compared to other forms of financial accommodation. In particular, it is recommended that such investment analyses be undertaken:
- 9.1.1. when any operating lease is over 12 months or where payments under the lease exceed \$1 million; and
 - 9.1.2. when the net present value of all operating leases exceeds \$5 million.

10. Contacts

- 10.1. Rural or metropolitan community health centres or a rural public hospitals seeking to borrow should contact their regional Department of Human Services office:

Barwon South Western

Regional Office
Corner of Little Malop and Fenwick Streets
Geelong
Ph (03) 5226 4540

Grampians

Regional Office
Corner of Mair & Doveton Street
Ballarat
Ph (03) 5333 6530

Loddon Mallee

Regional Office
37 Rowan Street
Bendigo
Ph (03) 5434 5555

Hume

Regional Office
43 -47 Rowan St
Wangaratta
Ph (03) 5722 0555

Gippsland

Regional Office
64 Church Street
Taralgon
Ph (03) 5177 2500

Western

Regional Office
71 Moreland Street
Footscray
Ph (03) 9275 7000

Northern

Regional Office
145 Smith Street,
Fitzroy
Ph (03) 9412 5334

Eastern

Regional Office
883 Whitehorse Road,
Box Hill
Ph (03) 9843 6000

Southern

Regional Office
122 Thomas St,
Dandenong
Ph (03) 9213 2111

10.2. Metropolitan public hospitals should contact:

John Walker
Manager
Financial Performance
Metro Health Service Relations
Metropolitan Health and Aged Care Services
9616 8064
john.walker@dhs.vic.gov.au

10.3. Regional offices seeking general advice or to progress an application on behalf of an agency should contact:

Greg Stenton
Manager
Financial Operations & Development Unit
Planning & Resources
Rural and Regional Health and Aged Care Services
9616 1437
greg.stenton@dhs.vic.gov.au

¹ Financial accommodation means a financial benefit or assistance to obtain a financial benefit arising from or as a result of-

- a. a loan;
- b. issuing, endorsing or otherwise dealing in promissory notes;
- c. drawing, accepting, endorsing or otherwise dealing in bills of exchange;
- d. issuing, purchasing or otherwise dealing in securities;
- e. granting or taking a lease of any real or personal property for financing but not for operating purposes; or,
- f. any other arrangement that the Governor in Council on the recommendation of the Treasurer approves.