Tertiary Education Commission
Te Amorangi Mātauranga Matua

A guide for TEIs for preparing a business case for borrowing from a commercial source

This guide sets out the information tertiary education institutions (TEIs) need to include in a business case or proposal for borrowing

- The TEC requires a business case as part of our assessment and recommendation to the Secretary for Education to grant consent to borrow under Section 192(4)(d) of the Education Act 1989.
- For borrowing **over** $1 million, your business case must provide all the information set out below.
- For borrowing **under** $1 million, contact your TEC Relationship Manager to find out what information you need to provide.

General information describing the institution

1. You should provide general information describing your institution.
   - Who you are, your student demographic, and the key markets within which you operate.
   - What are the key services/courses you perform/offer in the tertiary education sector?
   - What are your main revenue sources and key drivers of demand?
   - What are your EFTS projections and key assumptions supporting them?
   - What is your target customer group and what are you doing to protect/grow that market?
   -
   - What are your main capabilities and competitive advantage?
   - Provide an analysis of the operating environment including key markets, EFTS trends and major strategies.
   - What are your mission, goals and key success factors?
   - What are your major business risks?
   - Include the main elements of your Investment Plan and/or Strategic Plan and Capital Plan.
   - List the key members of the management team or project team who have a direct influence on the business case and provide any relevant background.

Investment decision – purpose of borrowing

2. Explain the purpose of the borrowing. You should show that you have considered and analysed alternative investment options from the perspective of meeting the borrowing's objective/s. This includes outlining the relationship to capital projects, how the reason for borrowing fits with your strategic direction, and the financial implications of alternative investment options.

Funding decision – loan details

3. You should explain the borrowing details including:
   - amount and borrowing profile – how much are you asking for and when?
   - the general purpose for borrowing eg, to fund operating deficit, capital purchase, back-up liquidity, working capital needs, restructuring costs, make efficiency improvements and so on
   - drawdown timeframe with relevant partial amounts
   - borrowing term
   - interest rates you expect to pay
   - repayment sources, dates and terms
   - security expected/offered – include details like nature, valuation, criticality to TEI's operations and security type eg, unsecured, negative pledge and so on
   - early repayment options offered.

4. Explain what sources/types of funding facility you have considered, for example:
   - Should the funds be sourced directly off the market, through a bank (or a syndicate) or another lending institution?
   - Should the funds be borrowed by way of overdraft, revolving/seasonal facility, commercial bill facility, term loan etc?
   - Have development grant agencies been approached as a source of funding?
   - What potential financiers have been approached and what are their indicative offerings?

Additional information needed for our analysis of your application

5. We will undertake a comprehensive analysis of each business case including the TEI's financial situation and the reasons for borrowing. To help our analysis you should also provide (and explain where appropriate) or make available the following information:
   - copies of recent, preferably audited, financial statements (ie, at a minimum an Operating Statement, Statement of Financial Position and Cash Flow Statement)
   - copies of the institution's management financial reports and council papers where relevant
   - copies of any internal project evaluation and council decisions in relation to the capital project or other reason for the borrowing facility
   - a copy of the institution's financial forecast/budget projections for the next 5–10 years or the period of the borrowing (whichever is longer). Initial borrowing consents are usually for a maximum of 10 years.
   - a copy of the institution's strategic plan, current business plan and capital plan
   - a description and/or details of the institution's key strengths, weaknesses, opportunities and threats
   - a list of the main assumptions in the institution's planning documents
   - the time period during which the institution's cash situation may become tight
   - what the current and projected financial ratios show relating to:
     - net surplus or deficit
     - debt/equity position
     - interest coverage
     - liquidity position
     - revenue tends
     - cash flow generated from operations
     - operational performance (past and forecast)
   - answers to these questions:
     - Is there an adequate level and satisfactory stability of revenues?

- Is there a sufficient buffer to manage interest rate changes?
- a copy of the cost/benefit analysis for the project.

Additional commentary and questions that need to be answered

6. Commentary should be provided to us on the following in respect of projects or a programme of projects:
    - the contribution to the institution's strategic direction, investment plan goals and objectives, as well as its contribution to the Tertiary Education Strategy
    - the contribution in terms of each of the borrowing approval assessment criteria.

   Additional questions that need to be answered as part of the business plan for a capital project or programme:

    - Has any initial feasibility study/pilot scheme been carried out?
    - What background research has been performed?
    - Are the costs fixed or variable?
    - What are the costs being funded by the loan?
    - Have those costs been independently reviewed/obtained from a tender process?
    - Are cost projections provided inclusive/exclusive of GST (all numbers should be provided exclusive of GST)?
    - What costs are sensitive to overruns?
    - What project management is in place to minimise risk of cost over-runs?
    - What project reporting and/or governance mechanisms are used – internally and externally?
    - Have you provided an outline of the capital budgeting approval process used within the institution?
    - What checks have been carried out on the key/major suppliers/vendors? What are their experiences?
    - Has adequate insurance been considered?
    - Has an adequate return on investment/internal rate of return been evaluated?
    - How long is the payback period?
    - Have realistic inflation and interest rate projections been used?
    - Have project financial sensitivities been carried out and a variety of scenarios modelled?
    - What are your risk mitigation strategies and their effect?
    - What is the project's Net Present Value (NPV)?
    - What are the educational benefits of the proposal?
    - What regulatory licences need to be obtained?
    - What professional advisors have been engaged and what are their roles e.g., lawyer, financial advisor, quantity surveyor?
    - What are the initial set-up costs to the project before purchase/construction actually starts?
    - What Quality Assurance programme is incorporated into the project?
    - What are the opportunity costs associated with the project i.e., an indication of how the resources could be alternatively used to achieve the same ends or alternative purposes?
    - What monitoring will be performed of the project's outcomes and the management of key risks?
    - What post project evaluation of outcomes will be performed to measure the success of the project including benefits realisation?

The potential causes of failure

7. The institution should be aware of the potential causes of failure. These may include:
    - completion delays that affect cash flow
    - cost overruns

- technical failures
- financial problems with contractors
- government intervention/change of direction
- uninsured losses
- increased prices or shortages of raw materials
- reduction of current or expected EFTS levels
- loss of competitive position in the market place
- management inadequacies.

To ensure we make a fair and adequate evaluation of individual loan applications, all of the above areas should be covered in your formal business cases submitted to us.