Private Training Establishment (PTE) financial viability requirements

Prudential Financial Standards

The table sets out the Tertiary Education Commission's prudential financial standards for PTEs. The "Recommended Level" would indicate in most cases that a provider has adequate ongoing financial viability. The "Minimum Requirements" are recommended "hurdle rates" or minimum financial viability indicators that a provider should meet to be eligible for TEC funding.

Financial measure	Recommended level	Minimum requirement	Comment
Net tangible assets (i.e. shareholders' equity /funds less intangible assets; e.g. goodwill)	Net tangible assets should be larger than 2% of total revenue and larger than 60% of total tangible assets (less pre-paid fees)	The larger of \$50,000 or 2% of total revenue	Total tangible assets are total assets less intangible assets. Note that "pre-paid fees" are student fees received in advance and are shown as a liability item on a PTE's balance sheet. These items are deducted from the denominator when calculating this ratio. Consideration will also be given to large amounts of intercompany or parent company/entity receivables if these are seen to materially decapitalise an entity. Note that shareholder loan accounts are treated as debt/borrowing for this calculation. Note the TEC may provide a waiver for the \$50,000 minimum requirement in exceptional cases where a provider receives less than \$1 million in TEC funding and can satisfactorily demonstrate ongoing financial viability and that it will reach \$50,000 in net tangible assets within a short time period.
Liquid Assets (cash plus bank deposits plus readily liquefiable investments less bank overdrafts divided by annual	8% to 12%	5%	Entity's hold liquid reserves to mitigate risk and uncertainty. A common sector benchmark is to hold one month's cash cover (i.e. 8% of annual cash outflow from operations). A 5% ratio would mean an entity's income or expenses can deviate from plan by up to 5% without an adverse impact on solvency. The higher the ratio the higher the

cash outflow from operations)			buffer available to meet unexpected changes in the operating environment. A PTE will be able to include in liquid assets the unused portion of committed borrowing facilities with a term to run greater than one year, if it gains TEC written approval. It may also include lending to group companies, (i.e. related entities) with TEC written approval, where the TEC is satisfied the Group manages the resources of its entities through a central treasury and certain conditions are met i.e. the amount deposited with related parties is repayable on demand, the related entities are financially viable, and the Group has sufficient funds to repay the PTE within 90 days. Note: where there are restrictions around the PTE's use of particular deposits or investments these will need to be excluded from the definition of liquid assets. Where a PTE does not produce a Statement of Cashflows, the annual cash outflow from operations will be calculated based upon the cash expenses appearing in a PTE's Statement of Financial Performance.
Working capital ratio (current assets divided by current liabilities)	100%+	At least 75%. Any working capital deficit should not exceed annual net cash flow from operations.	This is a measure of the PTE's ability to meet its current (less than one year) commitments from current assets.
Profitability (net surplus after tax to total income)	For commercial entities returns of 3% plus are desirable. For charitable trusts and other	Evidence of being able to operate profitably in the long term. Any losses in any one year should not	Profitability is an important measure of the entity's ability to generate funds for reinvestment and a surplus provides a buffer for unexpected events. To be sustainable an entity must generate sufficient income to cover its costs of operation over the long term. Large or repeated operating losses are a sign of poor financial performance.

	not for profit organisations the aim should be to maintain operating surpluses over the medium to longer term to ensure trust capital is not being eroded.	exceed 30% of Total Shareholders' Funds. Any loss should not exceed 8% of Total Revenue.	
Net cash flow from operations (cash inflow from operations divided by cash outflow from operations)	111% plus	100%	Positive net cash flows from operations assists with funding of capital projects or debt repayment. Depending upon the depreciation charge, a ratio greater than 108% generally indicates that an entity can accumulate cash resources to replace depreciating assets. Where a PTE does not produce a Statement of Cashflows as part of its annual accounts this measure will be calculated from identifiable cash income and expense items in the Statement of Financial Performance or the TEC will contact the PTE for this information.
Debt divided by debt plus net tangible assets	Total borrowings less than 50% of net tangible assets; i.e. a debt ratio of less than 33%.	Total borrowings should not exceed net tangible assets; i.e. a debt ratio of more than 50%.	Borrowings include all forms of debt/liabilities but exclude: trade creditors, accounts payable, tax payable, provisions or liabilities unlikely to result in cash outflows and student fees paid in advance. Note that shareholder loan accounts are treated as debt.

To calculate the ratios the TEC will use the last set of annual financial accounts for an entity.

As compliance with the prudential financial standards is an ongoing requirement the financial ratios above will also be calculated from any financial forecasts/budgets provided by an entity to the TEC.