



Guidance Note: *Financial Assessment*

Version 1.1 (11 April 2019)

Providers should note that Guidance Notes are intended to provide guidance only. They are not definitive or binding documents. Nor are they prescriptive. The definitive instruments for regulatory purposes remain the TEQSA Act and the Higher Education Standards Framework as amended from time to time.

Why does TEQSA do financial assessments?

The financial status of a higher education provider can significantly affect its ability to support quality in its higher education delivery to students. The financial status can influence, for example, a provider's:

- capacity to invest in sufficient facilities and infrastructure (physical assets and information communication technology) to support the student learning experience
- ability to maintain adequate staffing levels and academic leadership in order to support academic quality and integrity
- capacity to provide support services to students
- ability to continue to operate sustainably into the future.

A registered higher education provider is required under the *Tertiary Education Quality and Standards Agency Act 2011* (TEQSA Act) and the *Higher Education Standards Framework (Threshold Standards) 2015* (HES Framework) to ensure it is able to maintain its higher education operations and meet the Standards on an ongoing basis.

This guidance note explains how TEQSA assesses the financial basis for a provider's ability to continue to meet the Standards.

Relevant Standards in the HES Framework

The principal Standards concerned with financial assessment are in Part A of the HES Framework: Standards 6.2.1b, 6.2.1c and 6.2.1d. These in turn have links to other related Standards concerning financial standing (such as Standards 7.3.1d and 7.3.1k).

Intent of the Standards

The intent of Standards 6.2.1b, 6.2.1c and 6.2.1d is to ensure that the corporate governing body is demonstrably exercising effective oversight of financial aspects of the provider's operations and that providers are financially viable and sustainable.



A provider should be ensuring that it is not merely financially viable but that financial resources are being managed in a sustainable way to support quality at existing and planned level of activity. The members of the corporate governing board of a provider should ensure that they are financially literate and have access to financial expertise to provide sufficient assurance about financial matters.

TEQSA approach to financial analysis

At the time of initial registration, TEQSA assesses new applicants against all of the Standards in the HES Framework; this includes a financial assessment of the applicant. After a provider has been registered for the first time, a financial assessment does not form part of the 'core' Standards assessed at the time of any further regulatory event for existing providers (such as a renewal of registration).

TEQSA will employ a risk-based approach to determine whether a financial assessment is necessary as part of any scheduled or unscheduled regulatory activity, taking into consideration a range of factors, including a provider's:

- annual risk assessment
- operating context
- business model.

TEQSA also works closely with the Department of Education and Training and the Australian Skills Quality Authority in determining whether to include a financial assessment as part of a provider's upcoming regulatory activity.

TEQSA's risk assessments include an assessment of a provider's overall risk to financial position. This assessment rating is informed by an analysis of a range of financial metrics which analyse a provider's short- and longer-term financial viability and sustainability.

Key Concepts

TEQSA employs an approach to financial assessment that is similar to that used by lending institutions and credit ratings agencies. In determining whether a provider meets the Standards in the HES Framework relating to financial viability and sustainability, TEQSA considers a higher education provider's:

- financial capacity
- financial capability
- financial trajectory.

These concepts are explained in further detail below.

Financial capacity

Financial capacity is considered to be the provider's ability to apply and continue to apply sufficient financial resources to achieve its higher education objectives. This includes a provider's capacity to operate both in the short-term (financial viability) and over the longer-term (financial sustainability). Both are prerequisites and ongoing requirements for higher education providers.



Some of the questions considered by TEQSA to determine financial capacity include:

- Has the provider exhibited a consistent track record of financial performance?
- Has the provider maintained sufficient levels of liquidity and investment to support key academic functions?
- What have been the trends in key financial performance elements?
- Has the provider exhibited a consistent track record of financial prudence?
- Has there been sufficient and rigorous business planning?
- Has there been reliance on a related party?
- How has the provider anticipated, and responded to, key sector drivers and trends affecting the business model?

Financial capability

Financial capability considers a provider's access to resourcing and combines both financial resources and non-financial resources.

A provider's financial resources includes its:

- earnings and cash
- assets
- credit rating
- insurance
- ability to grow revenue and manage expenditure.

A provider's overall management capability is critically influenced by:

- the quality of financial and business planning, budgeting and alignment with the institution's strategic plan
- its financial monitoring, reporting and analysis
- fraud management
- financial risk identification and management
- oversight by the board
- interactions with auditors.

Financial trajectory

A provider's financial trajectory is a key element in demonstrating its ability to sustain quality in higher education.

When TEQSA assesses a provider's trajectory, it considers both historical and forecast information together, and where available has regard to a provider's business strategy, benchmarking to like providers, available market trends, known policy and funding events. It is important for any forecasts to reflect realistic projections, particularly with respect to:



- Student enrolment numbers that are supported, where applicable, by historic trends and robust research or market analysis.
- Academic and non-academic staff numbers.
- Asset investment plan, such as floor space and facilities.

TEQSA’s collection of financial data

TEQSA collects financial information through various means that are designed to be efficient and not to create an unreasonable burden for the provider, while also meeting the requirements of the TEQSA Act and HES Framework.

The table below shows the ways through which TEQSA obtains financial data.

	New application or renewal	Annual data collection	Ongoing disclosure
Source	Provider registration Course accreditation CRICOS registration	Provider (via annual submission to the Department of Education and Training)	Material change notifications
Information requested	Historical financial statements Forecast financial information Business plans Governing body meeting minutes	Historical financial statements Standardised historical financial report Detailed key operating metrics (student/staff numbers)	Further information may be requested based on the nature of material change notification

Resources and references

TEQSA (2016), *Explanations of terms in Part A of the HES Framework 2015*, <<http://www.teqsa.gov.au/explanations-hes-framework-terms>>.

TEQSA, *TEQSA’S Risk Assessment Framework*, <<http://www.teqsa.gov.au/regulatory-approach/risk-assessment-framework>>.

TEQSA welcomes the diversity of educational delivery across the sector and acknowledges that its Guidance Notes may not encompass all of the circumstances seen in the sector. TEQSA also recognises that the requirements of the HESF can be met in different ways according to the circumstances of the provider. Provided the requirements of the HESF are met, TEQSA will not prescribe how they are met. If in doubt, please consult your TEQSA case manager.



Version #	Date	Key changes
1.0	21 October 2016	Made available as beta version for consultation. Replaces previous information sheet on 'TEQSA's approach to financial assessment'.
1.1	11 April 2019	Consultation advice incorporated into "Key Concepts – Financial Trajectory" section.