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FINANCIAL ANALYSIS

Key lessons learnt	Ensure the financial appraisal provides an accurate representation of the whole-of-life costs and revenues for the reference project to ensure those reviewing or approving the business case have a clear understanding of the financial requirements of the project and how that may impact on project funding and financing considerations.
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Introduction

The financial appraisal is an important tool that informs the various stakeholders of the whole-of-life costs and revenues for the project. It provides detailed information to define the project's financial characteristics and enable the project team and reviewers to evaluate the associated funding and financing implications of the project. Therefore it is vital that the financial appraisal accurately reflects the reference project including the costs, revenues and risks on a whole-of-life basis.

Key considerations

We think there are a number of characteristics of an effective financial analysis:

- While it is common for assumptions and reference project details to be continually refined as new information comes through, the financial appraisal should accurately reflect the most up-to-date cost, revenue and risks associated with the reference project. It should also outline the key risks to the project to provide a holistic picture.
- While a majority of the project details will be developed by the project team and advisers, it is necessary to liaise with the relevant stakeholders on project specific issues to ensure the financial appraisal provides the most relevant information in the most effective format. It is important to ensure NSW Treasury are closely consulted at all stages of the development of the financial appraisal. In addition, there may be specific technical questions that should be discussed with NSW Treasury including (but not limited to) the relevant discount rate(s) and the approach to estimating the project residual value if required.
- Other technical considerations are as follows:
  - The practitioner should agree the format of the financial analysis including inputs and outputs early with other technical input providers and the project team to minimise delays at the back end of the financial analysis when cost and other information become available or are revised. In addition the financial model should be set-up to lock in parameters that are unlikely to change (for example the base date for escalation or the base date for discounting) at the outset.
  - The financial model should be flexible enough to incorporate revised assumptions, additional options to the reference case (scenarios) and undertake sensitivity analysis across a range of parameters (for example costs, revenues, escalation, discount rates) to ensure the financial analysis is robust.
  - Ensure that assumptions used in the financial analysis consistently applies across other work streams. A good example of this is the reference case – are other teams working on the same basis for the reference case? It is up to the business case manager to ensure updates are disseminated to the relevant project team members in a timely coordinated manner to minimise rework and ensure the business case is consistent across the different chapters.
  - It is important to keep stakeholders abreast of developments in the financial analysis at key milestones. Examples of interested stakeholders include the project's commercial team, NSW Treasury, INSW and INSW.
  - The business case is likely to include only a high-level summary of the financial analysis to present a holistic picture to the reader. The supporting financial appraisal document should however be a comprehensive document with detailed analysis for the reader to delve into for further detail.

About the authors:

EY is a leading provider of financial, commercial, economic and property advisory services on business cases to the NSW government and other governments around Australia and overseas.

Neal Johnston is a partner in EY's Infrastructure advisory team. Neal has more than 15 years of experience advising both government and private sector clients on major infrastructure projects in Australia and overseas.

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