

## APPENDIX G

# Financial sustainability indicators

Figure G1 shows the financial indicators used to assess the financial sustainability risks of TAFE institutes. These indicators should be considered collectively and are more useful when assessed over time as part of a trend analysis.

Our analysis of financial sustainability risk in this report reflects on the position of each TAFE institute.

Refer to the data dashboard on our website ([www.audit.vic.gov.au/report/results-2021-audits-TAFEs](http://www.audit.vic.gov.au/report/results-2021-audits-TAFEs)) for our individual TAFE financial sustainability data and analysis

FIGURE G1: **Financial sustainability indicators, formulas and descriptions**

Indicator	Formula	Description
Net result margin (%)	Net result/total revenue	<p>A positive result indicates a surplus, and the larger the percentage, the stronger the result.</p> <p>A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>The net result and total revenue are obtained from the comprehensive operating statement.</p>
Liquidity (ratio)	Current assets/current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means that there are more cash and liquid assets than short-term liabilities.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment/depreciation	<p>This compares the rate of spending on property, plant and equipment with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate.</p> <p>This is a long-term indicator because capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowings is not an option. Cash outflows for infrastructure are taken from the cashflow statement. Depreciation is taken from the comprehensive operating statement.</p>
Internal financing (%)	Net operating cashflow/net capital expenditure	<p>This measures the ability of an entity to finance capital works from generated cashflow.</p> <p>The higher the percentage, the greater the ability for the entity to finance capital works from its own funds.</p> <p>Net operating cashflows and net capital expenditure are obtained from the cashflow statement.</p> <p>Note: The internal financing ratio cannot be less than zero. Where a calculation has produced a negative result, this has been rounded up to zero per cent.</p>

Source: VAGO.