APPENDIX G
Financial and non-financial sustainability indicators

Figure G1 shows the financial and non-financial indicators used to assess the financial sustainability risks of universities. 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 university and its controlled entities (each consolidated university).

We have published the underlying raw data and each universities' results for each indicator from 2017 to 2021 as part of our interactive data dashboard on our website (www.audit.vic.gov.au/report/results-2020-audits-universities).

FIGURE G1: **Financial and non-financial sustainability indicators, formulas and descriptions**

Indicator	Formula	Description
Net result margin (%)	Net result/ total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement. The adjusted net result margin is the net result margin adjusted for the one-off accounting changes introduced by AASB 9 *Financial Instruments* in 2018.
Liquidity (ratio)	Current assets/current liabilities	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.
Adjusted liquidity (ratio)	(Current assets + non-current financial investments)/current liabilities	Liquidity ratio adjusted to include non-current financial investments, since most of these can be converted to cash or cash equivalents at short notice and are available to the universities to meet any liabilities if required. The ratio should ideally be above one, indicating that there are sufficient liquid assets to meet short-term liabilities.
Capital replacement (ratio)	Cash outflows for property, plant and equipment/depreciation	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. This is a long-term indicator, as 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 property, plant and equipment are taken from the cashflow statement. Depreciation is taken from the comprehensive operating statement.

Indicator	Formula	Description
Internal financing (%)	Net operating cashflow/net capital expenditure	This measures the ability of an entity to finance capital works from generated cashflow. The higher the percentage, the greater the ability for the entity to finance capital works from its own funds. Net operating cashflows and net capital expenditure are obtained from the cashflow statement. 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.
Debt to equity (%)	Total borrowings/equity	This measures the reliance on debt as a source of funding. A higher ratio indicates greater reliance on debt and an increased the risk of insolvency.
Cost of debt (%)	Finance costs/total borrowings	This measures the effective rate of interest and other costs paid on borrowings.
Employee benefits ratio (%)	Employee expenses/total revenue	This measures of how efficiently each university uses its staff to deliver revenue-generating services. Generally, a smaller ratio indicates a more efficient and sustainable workforce.
Repairs and maintenance to depreciation (%)	Repairs and maintenance expense/depreciation	This compares the rate of spending on repairing and maintaining existing assets with depreciation.
Effective Full-Time Student Load (EFTSL) to Employee Full-Time Equivalent (FTE) (ratio)	Total EFTSL/total employee FTE	This measures the adequacy of available resources per student load.
Employee expenses per EFTSL (ratio)	Employee expenses/total EFTSL	This measures the cost of employees per student. Generally, a smaller ratio indicates greater cost efficiency.
Operating expenses per EFTSL (ratio)	Operating expenses/Total EFTSL	This measures the operational cost per student. Generally, a smaller ratio indicates greater cost efficiency.

Source: VAGO.