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 2018 to 2022 as part of our interactive data dashboard on our website (https://www.audit.vic.gov.au/report/results-2022-audits-universities).

Figure G1: Financial sustainability indicators, formulas and descriptions

Indicator	Formula	Description
Net result margin (%)	Net result/total revenue and income	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.
Liquidity (ratio)	Current assets/current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of 1 or more means that an entity has more cash and short-term assets than short-term liabilities.
Adjusted liquidity (ratio)	Current assets + non-current financial assets/current liabilities	Liquidity ratio adjusted to include non-current financial assets. Non-current financial assets are typically liquid, meaning universities can convert most of these into cash at short notice, and use them to meet any liabilities if needed. The ratio should ideally be above 1, indicating that there are sufficient liquid assets to meet short-term liabilities.
Capital replacement (ratio)	Cash outflows on tangible and intangible assets/depreciation and amortisation (excluding right of use assets)	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. Leases are typically non-cash transactions, so are excluded from the calculation. 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. We obtain the cash outflows on tangible and intangible assets amount from the cashflow statement. We obtain the depreciation and amortisation amount from the comprehensive operating statement.

Indicator	Formula	Description
Internal financing (%)	Net operating cashflow/net cash outflow on tangible and intangible assets	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. We obtain the net operating cashflows and net cash outflow on tangible and intangible assets (that is, capital expenditure after factoring in cash received on sales of capital assets) 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 0%.
Debt to equity (%)	Total debt (borrowings and leases)/equity	This measures the reliance on debt as a source of funding. A higher ratio indicates greater reliance on debt and an increased risk of insolvency.
Cost of debt (%)	Finance costs on borrowings and leases/total borrowings and leases	This measures the effective rate of interest and other costs paid on borrowings, including those obtained via leases. This shows how much it costs the university to service its debt.
Return on investment (%)	Income from investments/total cash and financial assets	This measures the performance of financial investments and shows the income earned for each dollar invested. Note: this excludes any gains or losses on valuation.
Employee benefits ratio (%)	Employee expenses/total revenue and income	This measures of how efficiently each university uses its staff to deliver revenue and income generating services. A smaller ratio shows 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 the amount they are recording as depreciation. Depreciating assets degrade over time and need to be repaired to maintain their operating effectiveness.
EFTSL to Employee FTE (ratio)	Total EFTSL/total FTE employees	This measures the adequacy of available resources per student load. This shows how many staff FTE, both academic and otherwise, a university employs for each EFTSL student it teaches.
Employee expenses per EFTSL (ratio)	Employee expenses/total EFTSL	This measures how much the university spends on employees, both academic and otherwise, for each EFTSL student it teaches. A smaller ratio shows greater cost efficiency.
Operating expenses per EFTSL (ratio)	Operating expenses/total EFTSL	This measures how much the university spends overall for each EFTSL student it teaches. Operating expenses exclude things such as depreciation, finance costs, and valuation losses. A smaller ratio shows greater cost efficiency.

Source: VAGO.