Appendix D:
Financial and non-financial sustainability indicators

Figure D1 lists and describes the financial and non-financial indicators that we use to assess TAFEs' and universities' financial sustainability risks. 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 consolidated position of each TAFE and university (that is, each TAFE and university together with its controlled entities).

Refer to the data dashboard on our website for individual TAFEs' and universities' financial sustainability data and analysis.

(https://www.audit.vic.gov.au/report/results-2024-audits-tafes-and-universities).

Figure D1: Financial sustainability indicators, formulas and descriptions

Indicator	Formula	Description
Net result margin (%)	Net result / total revenue and income	A positive result indicates a surplus or profit. The larger the percentage, the stronger the result. A negative result indicates a deficit or loss. Operating deficits or losses cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating or income statement.
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 there are more cash and liquid assets than short-term liabilities.
Capital replacement (ratio)	Cash outflows for new property, plant, equipment and intangibles / depreciation and amortisation	This compares the rate of spending on new property, plant, equipment and intangibles with its depreciation and amortisation expense on tangible and intangible assets, but excluding right of use asset amortisation. Right of use assets are paid for by leases and are not included in cash outflows for new property, plant and equipment. Amortisation of these assets is therefore excluded as well. Ratios higher than one indicate that spending is faster than the depreciating rate. This is a long-term indicator, because capital expenditure can be deferred in the short term if there are insufficient funds available. Cash outflows for property, plant, equipment and intangibles are taken from the statement of cash flows. Depreciation and amortisation is taken from the comprehensive operating or income statement.

Indicator	Formula	Description
Net result margin before fair value gains or losses on investments (%)*	Net result before fair value gains or losses on investments / total revenue and income before fair value gains or losses on investments	A positive result indicates a profit. The larger the percentage, the stronger the result. A negative result indicates a loss. Unlike the net result margin, this excludes fair value gains or losses on investments, which can be outside management's control.
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. A ratio of one or more indicates universities have sufficient liquid assets to meet short-term liabilities.
EFTSL to employee FTE (ratio)*	Total EFTSL / total FTE employees	This measures the adequacy of available resources per student load. It shows how many FTE staff, both academic and otherwise, a university employs for each EFTSL student it teaches.

Note: *Measure applies to universities only.
Source: VAGO.