

APPENDIX E

Financial sustainability indicators

Figure E1 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.

FIGURE E1: **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>A surplus or increasing surplus suggests an improvement in the operating position.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment/depreciation	<p>Comparison of the rate of spending on infrastructure 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>

Indicator	Formula	Description
		Note: The internal financing ratio cannot be less than 0. Where a calculation has provided a negative result, this has been rounded up to 0%.

Source: VAGO.

Financial sustainability risk assessment criteria

We assessed the financial sustainability risk of each TAFE using the criteria outlined in Figure E2.

FIGURE E2: **Financial sustainability risk indicators-risk assessment criteria**

Risk	Net result margin	Liquidity	Capital replacement	Internal financing
High	-10% or less Insufficient revenue is being generated to fund operations and asset renewal.	Less than 0.75 Immediate sustainability issues with insufficient current assets to cover liabilities	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.	Less than 10% Limited cash generated from operations to fund new assets and asset renewal.
Medium	-10%–0% A risk of long-term run down of cash reserves and inability to fund asset renewals.	0.75–1.0 Need for caution with cashflow, as issues could arise with meeting obligations as they fall due.	1.0–1.5 May indicate spending on asset renewal is insufficient.	10–35% May not be generating sufficient cashflow from operations to fund new assets.
Low	More than 0% Generating surpluses consistently.	More than 1.0 No immediate issues with repaying short-term liabilities as they fall due.	More than 1.5 Low risk of insufficient spending on asset renewal.	More than 35% Generating enough cash from operations to fund new assets.

Source: VAGO.

Financial sustainability risk analysis results

Figures E3 to E6 show the financial sustainability risk indicators for each consolidated TAFE institute from 2016 to 2020, the annual sector average and the five-year average for each TAFE institute.

FIGURE E3: **Net result margin (percentage)**

TAFE institute	2016	2017	2018	2019	2020	Average
Bendigo Kangan Institute	2.71%	4.87%	1.35%	-5.22%	17.52%	4.25%
Box Hill Institute	2.11%	1.37%	7.71%	-5.26%	1.31%	1.45%
Chisholm Institute	9.53%	20.05%	14.51%	0.52%	5.38%	10.00%
Gordon Institute of TAFE	1.61%	4.28%	1.51%	-10.70%	-17.61%	-4.18%
Goulburn Ovens Institute of TAFE	2.05%	4.17%	-0.31%	-19.64%	-20.13%	-6.77%

TAFE institute	2016	2017	2018	2019	2020	Average
Holmesglen Institute	10.39%	15.25%	1.51%	6.17%	-0.79%	6.51%
Melbourne Polytechnic	-1.84%	0.09%	5.33%	-5.90%	2.22%	-0.02%
South West Institute of TAFE	0.38%	1.61%	10.92%	-14.77%	-22.70%	-4.91%
Sunraysia Institute of TAFE	1.15%	2.59%	12.74%	5.89%	-13.74%	1.73%
TAFE Gippsland	2.56%	0.64%	1.6%	-5.28%	2.04%	0.31%
William Angliss Institute of TAFE	9.09%	1.59%	0.60%	-7.86%	-1.70%	0.34%
Wodonga Institute of TAFE	0.25%	2.09%	8.44%	0.08%	0.56%	2.28%
Sector average	3.33%	4.88%	5.49%	-5.16%	-3.97%	0.92%

Source: VAGO.

FIGURE E4: Liquidity (ratio)

TAFE institute	2016	2017	2018	2019	2020	Average
Bendigo Kangan Institute	3.03	2.48	2.58	1.63	1.70	2.28
Box Hill Institute	1.50	1.40	1.93	1.32	1.54	1.54
Chisholm Institute	4.55	5.60	2.76	1.87	2.14	3.38
Gordon Institute of TAFE	5.77	4.98	4.07	2.83	1.85	3.90
Goulburn Ovens Institute of TAFE	3.90	3.33	3.31	2.34	1.36	2.85
Holmesglen Institute	2.54	2.79	2.28	2.12	2.13	2.37
Melbourne Polytechnic	1.19	1.13	1.08	0.72	0.92	1.01
South West Institute of TAFE	2.21	2.48	2.79	1.93	1.33	2.15
Sunraysia Institute of TAFE	1.86	2.22	3.09	2.88	2.54	2.52
TAFE Gippsland	2.53	6.38	7.19	3.95	3.86	4.78
William Angliss Institute of TAFE	1.89	1.92	1.70	1.74	1.85	1.82
Wodonga Institute of TAFE	4.06	4.57	4.55	5.55	7.43	5.23
Sector average	2.92	3.27	3.11	2.41	2.39	2.82

Note: 2019 ratios have been revised for some TAFEs where there has been a reclassification in asset/liability figures.

Source: VAGO.

FIGURE E5: Capital replacement (ratio)

TAFE institute	2016	2017	2018	2019	2020	Average
Bendigo Kangan Institute	0.53	1.76	1.26	1.00	3.03	1.52
Box Hill Institute	5.10	2.30	2.11	0.39	0.79	2.14
Chisholm Institute	0.98	2.06	9.06	2.45	0.71	3.05
Gordon Institute of TAFE	0.96	1.82	3.69	1.43	0.70	1.72
Goulburn Ovens Institute of TAFE	0.33	1.22	0.36	1.40	1.41	0.94

TAFE institute	2016	2017	2018	2019	2020	Average
Holmesglen Institute	0.79	1.21	3.26	0.72	0.77	1.35
Melbourne Polytechnic	1.12	1.43	2.38	0.49	0.33	1.15
South West Institute of TAFE	1.76	0.48	0.47	1.08	0.19	0.80
Sunraysia Institute of TAFE	2.50	0.52	0.59	1.40	0.88	1.18
TAFE Gippsland	0.28	0.71	1.27	2.23	3.23	1.54
William Angliss Institute of TAFE	2.06	0.78	1.59	0.17	0.28	0.97
Wodonga Institute of TAFE	0.34	0.29	0.50	1.00	0.78	0.58
Sector average	1.40	1.21	2.21	1.15	1.09	1.41

Source: VAGO.

FIGURE E6: Internal financing (percentage)

TAFE institute	2016	2017	2018	2019	2020	Average
Bendigo Kangan Institute	166%	89%	105%	251%	116%	145%
Box Hill Institute	25%	61%	325%	105%	135%	130%
Chisholm Institute	362%	216%	53%	80%	262%	195%
Gordon Institute of TAFE	238%	123%	40%	9%	140%	110%
Goulburn Ovens Institute of TAFE	444%	152%	694%	0%	0%	258%
Holmesglen Institute	404%	129%	49%	183%	167%	186%
Melbourne Polytechnic	64%	123%	110%	0%	391%	138%
South West Institute of TAFE	80%	614%	542%	0%	0%	247%
Sunraysia Institute of TAFE	60%	347%	626%	201%	0%	247%
TAFE Gippsland	783%	351%	141%	90%	32%	279%
William Angliss Institute of TAFE	142%	237%	14%	696%	380%	294%
Wodonga Institute of TAFE	1 471%	165%	548%	87%	442%	543%
Sector average	353%	217%	271%	142%	172%	231%

Source: VAGO.