Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio
Budget Estimates Hearing 2013-14
3 and 4 June 2013

DEPARTMENT/AGENCY: DEPARTMENT OF INDUSTRY, INNOVATION, CLIMATE CHANGE, SCIENCE, RESEARCH AND TERTIARY EDUCATION

TOPIC: Definition of Medium Risk

REFERENCE: Question on Notice (Hansard, 3 June 2013, pages 82 and 83)

QUESTION No.: BI-24

Senator CAMERON: So are you aware of the Victorian acting Auditor-General's report into the TAFE system?
Mr Griew: The one that was just released?
Senator CAMERON: Yes.
Mr Griew: Yes.
Senator CAMERON: What do you say about that and the implications for the TAFE system?
Mr Griew: There are a number of things that the Victorian Auditor-General is saying about the TAFE system there, and they broadly reflect the kinds of concerns that we have had. The TAFEs collectively, according to the Victorian Auditor-General, have generated a surplus in 2012, but it is a lower—
Senator CAMERON: I am not really worried about the surplus; I am after the concerns.
Mr Griew: It is a lower surplus than it was previously and they rate a higher number of the TAFEs as being of what they call medium risk. They have also raised concerns about their long-term capital financing.
Senator CAMERON: Yes—that is, medium financial risk, isn't it?
Mr Griew: Yes, that is right—they pose a medium risk.
Senator CAMERON: What is medium risk classified as?
Mr Griew: I do not think I have their actual definition with me. I would have to take that on notice.

ANSWER

The Victorian Auditor General’s Report, “Tertiary Education and Other Entities: Results of the 2012 Audits” released on 29 May 2013 defined medium financial risk as per the matrix below from the report.

Risk	Underlying result	Liquidity	Debt-to-equity	Self-financing	Capital replacement
High	Negative 10% or less Insufficient revenue is being generated to fund operations and asset renewal.	Less than 0.7 Immediate sustainability issues with insufficient current assets to cover liabilities.	More than 60% Potential long-term concern over ability to repay debt levels from own source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.
Medium	Negative 10%–0% A risk of long-term run down to cash reserves and inability to fund asset renewals.	0.7–1.0 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	40–60% Some concern over the ability to repay the debt from own source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.
Low	More than 0% Generating surpluses consistently.	More than 1.0 No immediate issues with repaying short-term liabilities as they fall due.	Less than 40% No concern over the ability to repay debt from own source revenue.	More than 20% Generating enough cash from operations to fund new assets.	More than 1.5 Low risk of insufficient spending on asset renewal.