Appendix Two – Financial Sustainability

Indicator	Formula	Description
Operating margin (percentage)	Operating result excluding capital revenue/Total income excluding capital 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.
Current (ratio)	Current assets/current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio above one means there is more cash and current assets than short-term liabilities. Current liabilities exclude current annual leave and long service leave liabilities expected to be settled after 12 months.
Debt to equity percentage	Debt/equity	This is a longer-term measure that compares all current and non-current interest bearing borrowings to equity. It complements the current ratio which is a short-term measure. A low percentage indicates less reliance on debt to finance the capital structure of an organisation.
Interest coverage (ratio)	Operating result before interest, tax, depreciation and amortisation/Interest incurred	This ratio indicates the extent to which earnings are available to meet interest payments. A lower ratio indicates less earnings are available and the business is more vulnerable to increases in interest rates.