



Tuition Protection Service Advisory Board

“DRAFT ADVICE”

Mr Vipin Mahajan
VSL Tuition Protection Director
c/o Department of Education, Skills and Employment
GPO Box 9880
CANBERRA ACT 2601

Dear Mr Mahajan

I am writing to you in accordance with section 66R of the *VET Student Loans Act 2016* to provide advice and make recommendations to you in relation to you making the legislative instrument for the risk rated premium and special tuition protection components of the VSL Tuition Protection Levy for 2021.

In formulating its advice, the VSL Tuition Protection Fund Advisory Board (the Board) has considered a number of issues including the advice of the Australian Government Actuary (AGA) and the quantum of funds required for the long-term sustainability of the VSL Tuition Protection Fund (VTPF).

The Board has been assisted in its deliberations by the Board’s agreed ‘guiding principles’, namely:

1. Advice provided to the TPS Director should reflect the overall risk environment and ensure that revenue matches what is needed to sustain the relevant fund, while also being sustainable for the industry;
2. The model for each Levy should, as far as possible, reflect gradual change and assist the industry with business planning by providing a stable regulatory environment.
3. The model should be as simple and transparent as possible, preferably based on a small number of risk factors.
4. Risk premiums imposed should provide incentives for providers to adopt positive behaviours.
5. Additional imposts on industry, such as data collection, should be minimised as far as possible, consistent with the ability to set sound risk-based levies.

The Board notes its first advice to you in this capacity last year dated 26 June 2020. While the Board notes the Minister for Employment, Skills, Small and Family Business ultimately waived the VSL Tuition Protection Levy for 2020, the Board welcomed its advice being used for consultation with the sector on what the levy would have looked like had the pandemic not occurred.

In formulating its advice for 2021, the Board has again considered the domestic education sector for VSL providers and considered the history of previous tuition assurance arrangements. The Board notes the Minister's waiver of the 2020 levy and the Australian Government providing additional seed funding (repayable) of \$2.7 million for the VSL Tuition Protection Fund in lieu. The Board has also been cognisant of the impact of the Covid-19 pandemic and its associated restrictions on the sector.

The report from the AGA is a key document on which the Board has relied while preparing its advice. The AGA's report to the Board for the 2021 levy, provided in October 2020, recommends a set of proposed levies, risk factors and the target fund levels for VSL tuition assurance scheme, building on the settings that were proposed for 2020.

The AGA has recommended the target fund size remain at between \$5,900,000 and \$7,800,000. The Board accepts this recommendation.

The AGA's report also offered options in terms of Covid-19 related adjustments to the risk factors, which the Board has adopted.

The AGA recommends that the discretionary surcharge (special tuition protection component) again be applied in 2021. The Board accepts this recommendation that the specified percentage remain at 0.15% for the special tuition protection component (section 13(1)(d) of the *VET Student Loans (VSL Tuition Protection Levy) Act 2020* (the VSL Levy Act).

Adopting the Covid-19 related adjustments, the AGA estimates a collection of approximately \$1 million for the risk rated premium and special tuition protection components of the levy.

Risk Rated Premium Component

The Board has developed proposed risk factors in consultation with the AGA. The Board agrees with the AGA's recommendation of retaining the risk factors of:

- financial strength;
- completion rate; and
- compliance history.

The Board is satisfied with the correlation of those factors with the risk of provider failure and therefore a call on the fund.

The Board agrees to adjusting the financial risk score that underpins the *Financial strength* risk factor. The revised calculation of this score amends the thresholds for the net profit margin component to improve the performance of this risk factor. No changes are proposed to the risk scores.

As a temporary Covid-19 pandemic relief measure, the Board has agreed to moderate the loading for the *Completion rate* risk factor in 2021 by halving the factors that applied in 2020. This is in recognition of the sector being directly impacted by the inability to complete certain courses due to social distancing and other pandemic-related restrictions. As this is a temporary relief measure, the Board has agreed to revisit this risk factor in 2022. The Board also agreed it would signal to industry its intention to introduce a risk score for an extra step (60% to 85%) for 2022.

In terms of the *Non-compliance* risk factor, the Board agrees to new risk scores and a sub-component for RTO registration period for inclusion (notwithstanding mature data availability).

The Board also accepts the AGA's recommended weightings for the risk factors, which are outlined at the end of this letter for the purposes of section 13(1)(c) of the VSL Levy Act.

The risk rated premium component formula also includes a per student charge and a percentage rate multiplier of the loan amounts paid to the provider. The Board accepts the AGA's recommendations that these remain as they were in 2020.

That is, the Board recommends that:

- the specified percentage rate for the risk rated premium component of the levy be 0.17% – section 13(1)(b), VSL Levy Act;
- the specified per student amount for the risk rated premium component of the levy be \$6.00 – section 13(1)(a), VSL Levy Act; and
- the specified percentage rate for the special tuition protection component of the levy be 0.15% – section 13(1)(d), VSL Levy Act.

Yours sincerely

Helen Zimmerman
Chair
VSL Tuition Protection Fund Advisory Board

**Risk Factors and Weightings for the Risk Rated Premium Component
for the VSL Tuition Protection Levy in 2021**

Risk Factor	Category	Risk Factor Weight
Financial Strength score of:	8 or 9	0.0
	6 or 7	1.0
	1 to 5	2.0
	Provider did not submit data	2.5
Completion rate	85% or higher	0.0
	60% to <85%	0.0
	35% to <60%	1.7
	0% to <35%	2.7
Non-compliance history	A weighted late payment measure of 30 days or more and/or the provider has been sanctioned under the relevant (specified) section of the relevant Act.	2.0
	There is a weighted late payment measure of less than 30 days but at least 15 days	0.9
	There is a weighted late payment measure of less than 15 days but at least 1 day	0.7
	There is no weighted late payment measure (payment made on time).	0.0
	Plus For RTO registration periods* less than the maximum allowable	1.0
	For RTO registration periods* equal to the maximum allowable	0.0

* Where RTO registration period is the length of a provider's current registration period rounded to the nearest whole number of years.