



Tuition Protection Service Advisory Board

“DRAFT ADVICE”

Mr Vipin Mahajan
Director
Tuition Protection Service
c/o Department of Education
GPO Box 9880
CANBERRA ACT 2601

Dear Mr Mahajan

I am writing to you in accordance with section 55B of the *Education Services for Overseas Students Act 2000* (the ESOS Act) to provide advice and make recommendations to you in relation to you making the annual legislative instrument for the risk rated premium and special tuition protection components of the Tuition Protection Service (TPS) Levy for 2020.

In formulating its advice, the Board has considered a number of issues including the strategic risk environment, the advice of the Australian Government Actuary (AGA), the views of the regulators and industry peak bodies, the findings of the levy review undertaken by the TPS and the quantum of funds required for the long-term sustainability of the Overseas Students Tuition Fund (OSTF).

As in previous years, the Board has been assisted in its deliberations by the Board's agreed 'guiding principles':

1. Advice provided to the TPS Director should reflect the overall risk environment and ensure that revenue matches what is needed to sustain the OSTF, while also being sustainable for the industry.
2. The model for the TPS 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.

Earlier this year the Board took the opportunity to review the 'guiding principles' and reaffirmed their ongoing relevance.

The Board notes the continuing strong growth in international education. International student numbers continue to grow in Australia with 612 849 students in Australia up to April 2019, which is 12 percent more students than in April 2018. While China remains the largest source country by some margin, its growth is a relatively modest 6 percent, while the next two largest source countries, India and Nepal, have grown at 38 and 47 percent respectively. While the majority of enrolments are still in the Higher Education sector (53 percent), growth in VET sector enrolments continues to outpace the Higher Education sector (18 percent versus 13 percent per annum). Other sectors have seen either modest growth or declines.

The annual report from the AGA is a key document on which the Board relies while preparing its advice. The latest AGA report, provided in July 2019, notes that the TPS arrangements are working well and the OSTF is in a sound financial position with claims below expectations and revenue consistent with expectations.

Nonetheless, the AGA has noted that there are some risks, including growth in the sector and the potential for further claims in the VET sector following increased regulatory scrutiny on providers aimed at raising standards.

The AGA has recommended the target fund size remain at current levels (\$35 to \$60 million) this year even if a modest inflation-related increase is justified. This could be addressed in the future when a more material change is warranted. The Board accepts this recommendation.

The Board notes that the TPS paid out approximately \$2.7 million for student placements and refunds during the 2018-19 financial year. This is about the same amount that was paid out in the previous financial year.

The Board has also taken account of a detailed review of levy framework undertaken by the TPS in concert with the AGA. The review has shown that while the risk factors for the risk rated premium of the levy remained consistent with the principles, there was scope to make some adjustments to risk factors and associated risk scores.

The AGA also recommended an ongoing alignment of the risk factors more closely with the experience of failure while targeting a similar level of revenue.

The levy review and AGA work has led to recommendations to adjusting some risk factors and the associated risk scores. The Board also recommends that changes to the levy framework, including risk factors and risk scores, may be implemented over two years following the opportunity to have discussions and consultation with the sector about some changes.

Risk Rated Premium Component

The Board has reviewed the risk factors in consultation with the Australian Government Actuary. The Board agrees with the AGA's recommendation that changes can be made to the risk scores for the risk factors *Length of operation* and *Variation in overseas student enrolments* to better align with the experience of failure while targeting a similar level of revenue. That is, the Board recommends:

- for '*Length of operation*', reduce the scope to the first two years (rather than five) of operation; and
- for '*Volatility in overseas student enrolments*', reduce the exemption from five years to two years of operation.

The Board also recommends that the Risk factor '*Payment in arrears*' be renamed to '*Base risk factor*' with a uniform risk score of one (1) for all non-exempt providers for the 2020 levy.

The Board considered additional non-compliance metrics for the Risk factor '*Non-compliance history*' but does not recommend changes at this time and that further analysis is needed, which will also provide additional time for appropriate consultation.

The recommended risk factors for 2020, therefore are:

1. Base risk factor
2. Length of operation
3. Variations in overseas student enrolments
4. Maximum overseas source country concentration, and
5. Non-compliance history

As the balance in the OSTF increased by a modest amount over the last financial year (by about \$3 million) and at year's end was just over \$40 million and within the \$35 million to \$60 million target range, the Board does not see a need to change the specified percentage rate for the risk rated premium component of the levy (currently 0.07 per cent).

Based on the AGA's analysis, the Board considers it unlikely that the total collection would breach the acceptable upper limit of the TPS levy collection, approximately \$6 million.

Special Tuition Protection Component

In considering whether the special tuition protection component of the TPS levy should apply in 2020, the Board has taken the view that this component should not be activated. Based on the foregoing discussion, there is little justification for activation of this component of the levy.

Accordingly, the Board recommends that:

- the specified percentage rate for the risk rated premium component of the TPS levy remain at 0.07% - section 9(3)(a), *Education Services for Overseas Students (TPS Levies) Act 2012*; and
- the specified percentage rate for the special tuition protection component of the TPS levy be set at zero - section 10(2), *Education Services for Overseas Students (TPS Levies) Act 2012*.

The Board notes the TPS Director's intention to undertake consultations with the sector on the Board's draft advice. The consultation process should signal the other changes considered but not implemented and subject to consultation feedback may consider their adoption in the future. The Board looks forward to finalising its advice following consideration of the feedback from your consultations.

Yours sincerely

Helen Zimmerman
Chair
TPS Advisory Board

**Risk Factors and Weightings for the Risk Rated Premium Component
for the TPS Levy in 2020**

Risk Factor	Category	Risk Factor Weight
Base risk	All providers	1.0
Length of operation	Less than 1 year	1.0
	1 year to less than 2 years	0.5
	2 years to less than 3 years	0.0
	3 years to less than 5 years	0.0
	5 years or more	0.0
Volatility in overseas student enrolments (1) Growth in student enrolments OR (2) Decline in student enrolments	120% or more	3.5
	105% or more, but less than 120%	3.0
	90% or more but less than 105%	2.5
	75% or more but less than 90%	1.8
	60% or more but less than 75%	1.2
	45% or more but less than 60%	0.6
	30% or more but less than 45%	0.4
	-15% to less than 30%	0.0
	More than or equal to -30% but less than -15%	0.6
	More than or equal to -45% but less than -30%	1.0
	More than or equal to -60% but less than -45%	1.2
	Less than -60%	1.5
	Maximum overseas source country concentration	80% or more
50% to less than 80%		0.7
25% to less than 50%		0.3
Less than 25%		0.0

<p>Non-compliance history</p>	<p>Either or both of the following apply:</p> <ul style="list-style-type: none"> (a) There is a weighted late payment measure of 30 days or more; (b) The provider has been sanctioned for non-compliance under Division 1 of Subdivision A of section 83 of the <i>Education Services for Overseas Students Act</i> in the last year. <p>There is a weighted late payment measure of less than 30 days but at least 15 days</p> <p>There is a weighted late payment measure of less than 15 days but at least 1 day</p> <p>There is no weighted late payment measure (payment made on time).</p>	<p>2.0</p> <p>0.9</p> <p>0.7</p> <p>0.0</p>
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