

8 March 2024

Ms Melinda Hatton
VSL Tuition Protection Director
c/o Department of Education
GPO Box 9880
CANBERRA ACT 2601

Dear Ms Hatton

Re: 2024 VSL Tuition Protection Levy Draft Advice

I am writing to you in accordance with section 66R of the *VET Student Loans Act 2016* to provide draft 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 2024.

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 (the Fund).

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 agrees with the AGA's recommendation on the risk factors of:

- financial strength;
- completion rate; and
- non-compliance history and registration renewal.

The AGA has reviewed financial strength risk factor given the issue of the use of 'net profit' in the levy calculation raised by some not-for-profit leviable providers and presented alternate modelling for calculating financial risk scores. The recommendation from AGA is to remove the net profit ratio financial score to simplify the calculation and put less weight on "profit" when measuring the financial strength risk factor. Financial strength will be measured by the remaining two scores, namely return on assets and debt to equity.

The board agrees with the AGA's recommendation that the previous modelling of a 2% VSL provider failure rate be changed to 1.5%, given the low number of VSL provider closures which will reduce the base risk levy from 0.17% to 0.13%.

The Board is satisfied with the correlation of those factors with the risk of provider default and, therefore, a call on the Fund. The Board accepts the AGA's recommended values for the risk factors, which are outlined at the end of this letter for the purposes of section 13(1)(c) of the *VET Student Loans (VSL Tuition Protection Levy) Act 2020* (VSL Levy Act).

The Risk-rated Premium component formula includes a per student charge and a percentage rate multiple of the loan amounts paid to the provider.

Accordingly, the Board recommends that:

- the specified percentage rate for the Risk-rated Premium component of the Levy be 0.13% – 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 0.10% – section 13(1)(d), VSL Levy Act.

Yours sincerely

Sharon Robertson
Chair
VSL Tuition Protection Fund Advisory Board

Risk factors and values for the Risk-rated Premium component of the VSL Tuition Protection Levy in 2024

Risk Factor	Category	2023 value	Proposed 2024 settings
Financial Strength ¹	8 or 9	0.0	0.0
	6 or 7	1.0	1.0
	1 to 5	2.0	2.0
	Provider did not submit data	2.5	2.5
Completion rate ²	85% or higher	0.0	0.0
	60% to <85%	1.0	1.0
	35% to <60%	2.5	2.5
	0% to <35%	3.5	3.5
Non-compliance history and registration renewal ³	A weighted late payment measure of 30 days or more	2.0	2.0
	A weighted late payment measure of 15 days or more, but less than 30 days	0.9	0.9
	A weighted late payment measure of 1 day or more, but less than 15 days	0.7	0.7
	No weighted late payment measure exists	0.0	0.0
	Plus⁴		
	For registration periods less than the maximum allowable	1.0	1.0
	For registration periods equal to the maximum allowable	0.0	0.0

¹ The risk factor value for the financial strength risk factor for a leviable provider is as follows:

- (a) if the provider did not submit its financial statement, the risk factor is 2.5,
- (b) if the provider was not required to submit a financial statement, the risk factor is 0.0,
- (c) if the provider submitted its financial statement, the financial strength score is the sum of the return on assets score and the debt to equity score for the risk factor as set out in the table.

² The risk factor value for the completion rate risk factor for a leviable provider is as follows:

- (a) if the provider did not report any units of study for the calendar year beginning on 1 January 2022 (previous calendar year) in its statement of general information, the risk factor is 0.0,
- (b) otherwise—the risk factor value is set out in the table.

³ A provider's weighted late payment measure calculation considers how many days past the due date the provider paid the TPS levy payments and VSL provider charges over the past three years.

⁴ applied under:

- i. section 16 of the National Vocational Education and Training Regulator Act 2011 to renew the leviable provider's registration and, for risk management purposes, the period of registration set out in the most recent notice given to that provider under section 18 of that Act is less than the maximum period specified in subsection 17(5); or
- ii. section 4.3.15 of the Education Training and Reform Act 2006 (Vic) to renew the leviable provider's registration and, for risk management purposes, the most recent period of registration granted by the Authority under that Act in respect of that provider is less than the maximum term specified in section 4.3.18 of that Act; or
- iii. regulation 16 of the Vocational Education and Training (General) Regulations 2009 (WA) to renew the leviable provider's registration and, for risk management purposes, the period of registration set out in the most recent registration document given under regulation 12(7) of those Regulations is less than the maximum period specified in regulation 14.