

Draft 2023 Domestic Tuition Protection Levies

Levy principles, components and calculation examples for the draft 2023 VSL, HELP and Up-front Tuition Protection Levies

# Levy principles

The Tuition Protection Service (TPS) Advisory Board has agreed to the following principles when providing advice to the TPS Director on levysettings, specifically the risk rated premium component:

1. Advice 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 **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**; and
5. **Additional imposts on industry, such as data collection, should be minimised** where possible, consistent with the ability to set sound risk-based levies.

# Legislative authority

VSL Tuition Protection Levy (the **VSL Levy**):

[*VET Student Loans (VSL Tuition Protection Levy) Act 2020*](https://www.legislation.gov.au/Series/C2020A00005)*[[1]](#footnote-1)*

HELP Tuition Protection Levy (the **HELP Levy**):

[*Higher Education Support (HELP Tuition Protection Levy) Act 2020*](https://www.legislation.gov.au/Series/C2020A00004)*[[2]](#footnote-2)*

Up-front Payments Tuition Protection Levy (the **Up-front Levy**):

[*Higher Education (Up-front Payments Tuition Protection Levy) ACT 2020*](https://www.legislation.gov.au/Series/C2020A00102)*[[3]](#footnote-3)*

# Draft 2023 Domestic Tuition Protection Levy settings

The components of the three domestic levies are:

1. Administrative fee component
2. Risk rated premium component
3. Special tuition protection component.

The administrative fee component is set by the relevant Minister. The risk rated premium and special tuition protection components are set by the TPS Director with advice from the TPS Advisory Board.

| Levy | Administrative fee\* | Risk rated premium | Special tuition protection |
| --- | --- | --- | --- |
| **VSL** | **$111** per provider +**$9.33** per VSL student | **$6** per VSL student **+****0.17%** x total 2022 loan amounts | **0.10%** x total 2022 VSL loan amounts |
| **HELP** | **$111** per provider + **$9.33** per HELP student | **$6** per HELP student **+****0.06%** x total 2022 loan amounts | **0.10%** x total 2022 HELP loan amounts |
| **Up-front** | **$111** per provider +**$9.33** per up-front student | **$2** per up-front fee-paying student **+****0.04%** x total 2022 up-front payments | **0.10%** x total 2022 up-front payments |

\*Administrative fee figures quoted are for 2022 and will be indexed to CPI for 2023

N.B. All student figures are based on 2022 enrolments

# Risk rated premium component

The formula for the risk rated premium component considers individual education providers’ student enrolment numbers, income (loan amounts or up-front payments), and a **total risk factor value**. A provider’s total risk factor value is the sum of the provider’s risk scores against each of the risk factors.

The risk factors are a key aspect of the risk rated premium component. They are determined by the TPS Director and are intended to reflect the risk of an education provider default. That is, where an education provider closes, fails to start, or ceases to provide a course or unit of study for an enrolled student.

The risk factors for the 2023 domestic tuition protection levies are:

1. Financial strength
2. Completion rate
3. Non-compliance history and registration renewal.

## Risk rated premium component formula

|  |
| --- |
| $=\left\{\left(\begin{array}{c}total students \\for the year\\×\\amount determined \\by the TPS Director\end{array}\right)+\left(\begin{array}{c}total loan amounts /\\ up-front payments \\ for previous year\\×\\ percentage determined\\by the TPS Director \end{array}\right)\right\} ×\left\{\left(sum of risk factor values\right)+ 1\right\} $  |

## Risk Factor 1: Financial strength

A provider’s financial strength score is the sum of the net profit ratio, return on assets, and debt to
equity scores.

| Ratio | Formula | Below average | Average | Above average |
| --- | --- | --- | --- | --- |
| **Net profit ratio** | $$\left[\frac{NPBT}{Total revenue}\right]$$ | ≤ 0.1 | > 0.1 to ≤ 0.2 | > 0.2 |
| **Return on assets** | $$\left[\frac{NPBT}{Total assets}\right]$$ | ≤ 0.0 | > 0.0 to ≤ 0.1 | > 0.1 |
| **Debt to equity** | $$\left[\frac{Total liabilities}{Total equity}\right]$$ | ≥ 2.5or if the total equity ≤ 0.0 | ≥ 1.5 to < 2.5 | ≥ 0.0 to < 1.5 |
| **Score** |  | **1** | **2** | **3** |

NPBT: Net profit before tax

The proposed 2023 financial strength risk factor values remain the same as they were in 2022.

| Financial strength score | 2022 risk factor value | Proposed 2023 risk factor value |
| --- | --- | --- |
| 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 financial statements | 2.5 | 2.5 |

## Risk factor 2: Completion rate

The formula used to calculate a provider’s completion rate percentage is:

EFTSL: Equivalent full-time student load for a year

$$\frac{Passed EFTSL ×100}{(Passed EFTSL + Failed EFTSL + Withdrawn EFTSL + Ongoing EFTSL + Data missing EFTSL)} $$

| Completion rate percentage | 2020 risk factor value | 2022 risk factor value | Proposed 2023 risk factor value |
| --- | --- | --- | --- |
| 85% or higher | 0.0 | 0.0 | 0.0 |
| 60% to < 85% | 0.0 | 0.0 | 1.0 |
| 35% to < 60% | 3.5 | 1.7 | 2.5 |
| 0% to < 35% | 5.5 | 2.7 | 3.5 |

## Risk factor 3: Non-compliance history and registration renewal

Non-compliance history and registration renewal are based on late payment of tuition protection levies and the registration period granted by a provider’s regulator.

A provider’s total non-compliance history and registration renewal risk factor value is the sum of the applicable risk factor values in the following tables. The proposed 2023 risk factor values remain the same as they were in 2022.

| Non-compliance history category | 2022 risk factor value | Proposed 2023 risk factor value |
| --- | --- | --- |
| A weighted late payment measure of 30 days or more | 2.0 | 2.0 |
| A weighted late payment measure of 15 days to < 30 days | 0.9 | 0.9 |
| A weighted late payment measure of 1 day to < 15 days | 0.7 | 0.7 |
| No weighted late payment measure | 0.0 | 0.0 |

**Plus**

| Registration renewal category | 2022 risk factor value | Proposed 2023 risk factor value |
| --- | --- | --- |
| For registration periods less than the maximum allowable | 1.0 | 1.0 |
| For registration periods equal to the maximum allowable | 0.0 | 0.0 |

# Special tuition protection component

The special tuition protection component is intended to build the value of the funds when they are below their target size and help meet Commonwealth seed capital repayments. It is calculated as a percentage of a provider’s income (loan amounts or up-front payments).

The draft settings for the 2023 domestic levies propose retaining the special tuition protection component percentage at 0.10%.

# Levy calculation examples

## VSL provider example

The following levy calculation is based on an average sized VSL provider with **75 students** and a **total loan amount value of $250,000**.

| VSL levy components | Levy calculation |
| --- | --- |
| **Administrative fee** | $111 + (75 x $9.33) = $810.75 |
| **Risk rated premium** | **Step 1**: 75 x **$6** = $450**Step 2**: $250,000 x **0.17%** = $425**Step 3**: $450 + $425 = $875**Step 4**: Financial strength score: 6 (risk factor value = **1**)Completion rate percentage: 50% (risk factor value = **2.5**)Non-compliance history and registration renewal: weighted late payment measure of 17 days applied (risk factor value = **0.9**)**Step 5**: (1 + 2.5 + 0.9) + 1 = 5.4**Step 6**: $875 x 5.4 = $4,725 |
| **Special tuition protection** | $250,000 x 0.10% = $250 |
| **Total TPS levy** | $810.75 + $4,725 + $250 = **$5,785.75** |

## HELP provider example

The following levy calculation is based on an average sized HELP provider with **650 students** and a **total loan amount value of $10 million**.

| HELP levy components | Levy calculation |
| --- | --- |
| **Administrative fee** | $111 + (650 x $9.33) = $6,175.50 |
| **Risk rated premium** | **Step 1**: 650 x **$6** = $3,900**Step 2**: $10m x **0.06%** = $6,000**Step 3**: $3,900 + $6,000 = $9,900**Step 4**: Financial strength score: 6 (risk factor value = **1**)Completion rate percentage: 50% (risk factor value = **2.5**)Non-compliance history and registration renewal: No weighted late payment measure applied (risk factor value = **0**)**Step 5**: (1 + 2.5 + 0) + 1 = 4.5**Step 6**: $9,900 x 4.5 = $44,550 |
| **Special tuition protection** | $10m x 0.10% = $10,000 |
| **Total TPS levy** | $6,175.50 + $44,550 + $10,000 = **$60,725.50** |

## Up-front provider example

The following levy calculation is based on an average sized up-front provider with **350 students** and a **total of $400,000 up-front payments received**.

| Up-front levy components | Levy calculation |
| --- | --- |
| **Administrative fee** | $111 + (350 x $9.33) = $3,376.50 |
| **Risk rated premium** | **Step 1**: 350 x **$2** = $700**Step 2**: $400,000 x **0.04%** = $160**Step 3**: $700 + $160 = $860**Step 4**: Financial strength score: 6 (risk factor value = **1**)Completion rate percentage: 50% (risk factor value = **2.5**)Non-compliance history and registration renewal: weighted late payment measure of 2 days applied (risk factor value = **0.7**)**Step 5**: (1 + 2.5 + 0.7) + 1 = 5.2**Step 6**: $860 x 5.2 = $4,472 |
| **Special tuition protection** | $400,000 x 0.10% = $400 |
| **Total TPS levy** | $3,376.50 + $4,472 + $400 = **$8,248.50** |

1. www.legislation.gov.au/Series/C2020A00005 [↑](#footnote-ref-1)
2. www.legislation.gov.au/Series/C2020A00004 [↑](#footnote-ref-2)
3. www.legislation.gov.au/Series/C2020A00102 [↑](#footnote-ref-3)