

8 March 2024

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

Dear Ms Hatton

Re: 2024 Up-Front Payments Tuition Protection Levy Draft Advice

I am writing to you in accordance with subsection 167-35(1)(b) of the *Higher Education Support Act 2003* 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 Up-front Payments Tuition Protection Levy for 2024.

In formulating its advice, the Higher Education 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 Higher Education 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 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 *Higher Education (Up-front Payments Tuition Protection Levy) Act 2020* (Up-front Payments Levy Act).

The Board has considered the levy parameters for the Up-Front Payments Levy on the basis that the majority of higher education providers are both HESA-approved HELP providers, as well as TEQSA-registered higher education providers, and share similar characteristics.

The Board agrees that the risk factors for the HELP Levy are appropriate and equally applicable to Up-front Payments providers and, therefore, agrees that they apply for the Up-front Payments Levy.

The Risk-rated Premium component formula includes a per student charge and a percentage rate multiple of the per \$1 revenue received by the provider. The Board accepts the AGA's recommendation that these be set lower than for the HELP Levy given the different nature of many Up-front Payments providers.

Accordingly, the Board recommends that:

- the specified percentage rate for the Risk-rated Premium component of the Levy be 0.04% – section 13(1)(b), the Up-front Payments Levy Act;
- the specified per student amount for the Risk-rated Premium component of the Levy be \$2.00 – section 13(1)(a), the Up-front Payments Levy Act; and
- the specified percentage rate for the Special Tuition Protection component of the Levy be 0.10% – section 13(1)(d), the Up-front Payments Levy Act.

Yours sincerely

Sharon Robertson
Chair
Higher Education Tuition Protection Fund Advisory Board

Risk factors and values for the Risk-rated Premium component of the Up-front Payments 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 (payment made on time)	0.0	0.0
	Plus For registration periods less than the maximum allowable due to risk management ⁴	1.0	1.0
	For registration periods equal to the maximum allowable ⁵	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 over the past three years.

⁴ applied under section 35 of the *Tertiary Education Quality and Standards Agency Act 2011*, to renew the provider's registration and, due to risk management reasons, the most recent period of registration granted under section 37 of that Act is less than the maximum period specified in subsection 36(4) of that Act.

⁵ applied under section 35 of the *Tertiary Education Quality and Standards Agency Act 2011* to renew the provider's registration and the period for which the registration was renewed as set out in the notice given in 2022 under section 37 of that Act is the maximum period specified in subsection 36(4) of that Act