Parliamentary Budget Office

Fee-Free TATE	
Party:	Australian Labor Party

Summary of proposal:

The proposal would increase Australian Government funding for vocational education and training in the following ways.

- The proposal would provide free Technical and Further Education (TAFE) (no-fee places) for Australians, giving priority to areas of skills shortage and future labour market demand, to be determined in consultation with the states and territories.
  - The annual number of free TAFE places is based on 105,365 commencements. This reflects National Centre for Vocational Education and Research (NCVER) data on commencements in areas of strong future labour market demand.
  - These places are currently subsidised by the Australian Government and state and territory governments, but attract student fees, which would be removed by this proposal.
- The proposal would also provide funding for additional free TAFE places across all TAFE courses under a joint funding arrangement with the states and territories, with the Australian Government contributing 54% of required funding for the additional places.
  - The number of places would be according to the following schedule:

	2023	2024	2025	2026	**Total**
No-fee places – existing	105,365	105,365	105,365	105,365	**421,460**
No-fee places – additional	15,000	15,000	15,000	-	**45,000**
Total	**120,365**	**120,365**	**120,365**	**105,365**	**466,460**

\- Indicates nil.

The proposal would commence on 1 January 2023, with funding ceasing on 31 December 2026.

Costing overview

The proposal would be expected to decrease the fiscal balance by around $783 million, the underlying cash balance by around $793 million, and the headline cash balance by around $709 million over the 2022-23 Budget forward estimates period.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period.
A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

The financial implications of this proposal are uncertain and sensitive to assumptions around course costs, the distribution of course types, and the distribution of qualification levels. Additionally, it is uncertain how the demand for the qualified teachers required under the proposal would be met. The Parliamentary Budget Office (PBO) has not assessed:

- potential supply constraints of qualified teachers, due to the complex nature of the educational labour market and interactions with this proposal
- any implications for the education system and broader labour market under the proposal.

Further, it is uncertain how responsive the states and territories would be in co-funding new places.

The vocational education and training (VET) student loan program provides income-contingent confessional loans to eligible tertiary students to cover the cost of their fees. Typically, the government's cost of borrowing exceeds the consumer price index (CPI), however, with interest rates at historical lows, this is not currently the case. This does not mean that such loans are no longer concessional from the borrower's perspective, simply that the standard way of calculating the value of the concession from the Australian Government's perspective is no longer approximating this concession.

Consistent with the approach adopted by the Department of Finance, for this costing, the concessional loan discount expenses and the associated unwinding have been zeroed out over the period when the CPI is estimated to be higher than the 10-year bond rates. Similar adjustments in the Budget are incorporated in the 'other economic flows' in the operating statement.

Consistent with the *Parliamentary Budget Office (PBO) Guidance 02/2015*, public debt interest expense impacts have been included in this costing because the proposal would reduce the amount of concessional loan funding that would otherwise be provided to students to support them in meeting course fees.

The fiscal, underlying cash and headline cash balance impacts differ in the treatment of interest payments and the flow of loan principal. In particular, only the fiscal balance reflects the loan waivers, and only the headline cash balance includes transactions related to loan principal amounts. The impact on net debt will be broadly consistent with movements in the headline cash balance. A note on the accounting treatment of concessional loans is included at Attachment B.

Table 1: Financial implications ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-110.1	-226.0	-234.3	-213.1	**-783.5**
Underlying cash balance	-111.9	-229.1	-236.8	-215.3	**-793.1**
Headline cash balance	-99.8	-204.9	-212.6	-191.3	**-708.6**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Any enabling legislation would be passed before the commencement of the proposal.
- The ratio of fees paid by students for existing courses to the full cost of courses, based on the National Skills Commission (NSC) estimates, would be 24% for non-apprentice qualifications and 13% for apprentice and trainee places.
- The unit cost per enrolment would be consistent with the average subsidy, fee ratio, and price data reported by the NSC for relevant courses.
- TAFE institutions would be able to source all necessary additional teachers to deliver this proposal.

- The distribution of course types and qualifications would be consistent with existing trends in the vocational education sector.
- The impact on VET student loans would be consistent with the ratio of loans to tuition fees observed across relevant TAFE qualifications.
- The additional no-fee places would be fully subscribed in each year they are available.
- All state and territory governments would provide the necessary co-funding.

Methodology

Financial implications were calculated by multiplying the number of no-fee places specified by the average additional funding to be provided for those places.

- The average additional funding was calculated using subsidy and fee ratios, based on NSC benchmark data for existing places, and the specified Australian Government funding ratio and the average cost per relevant course for wholly new places. Full course funding was allocated in the year of commencement for each place.
- The impact on VET student loans was calculated by applying the expected reduction in VET student loans under the proposal to the VET student loan model provided by the Department of Education, Skills and Employment, and considering historical rates of up-front tuition payment.
- Departmental expenses were based on ratios of administered to departmental funding for similar observed activities.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

The Department of Education, Skills and Employment provided VET student loan modelling as at the 2022-23 Budget.

The Treasury provided indexation parameters as at the Pre-election Economic and Fiscal Outlook 2022.

Department of Education, Skills and Employment (2020), *VSL Annual report Jan-Dec 2019*, accessed 14 April 2022.

Department of Education, Skills and Employment (2022), *Portfolio Budget Statements 2022-23, Budget Related Paper No. 1.4, Education Skills and Employment Portfolio*, Australian Government.

National Skills Commission (2021), *VET average price benchmarks*, accessed 14 April 2022.

National Skills Commission (2021), *2021 Skills Priority List | National Skills Commission*, accessed 14 April 2022.

National Centre for Vocational Education Research (2021), *DataBuilder (ncver.edu.au)*, accessed 14 April 2021.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Fee-Free TAFE – financial implications

Table A1: Fee-Free TAFE – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Administered non-tax													
Indexation on Loans	-	-0.3	-0.9	-1.4	-2.0	-2.3	-2.4	-2.5	-2.5	-2.6	-2.7	**-2.6**	**-19.6**
Unwinding concessional loan discount	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Loan fees	-2.4	-4.9	-5.0	-5.0	-2.5	-	-	-	-	-	-	**-17.3**	**-19.8**
Total – revenue	**-2.4**	**-5.2**	**-5.9**	**-6.4**	**-4.5**	**-2.3**	**-2.4**	**-2.5**	**-2.5**	**-2.6**	**-2.7**	**-19.9**	**-39.4**
Expenses													
Administered													
No-fee places	-110.0	-223.0	-226.0	-200.0	-86.0	-	-	-	-	-	-	**-759.0**	**-845.0**
Remissions	-	..	0.01	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.03	**0.03**	**0.23**
Concessional loan discount	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loan financing	4.3	8.7	8.8	8.9	4.5	-	-	-	-	-	-	**30.7**	**35.2**
Total – administered	***-105.7***	***-214.3***	***-217.2***	***-191.1***	***-81.5***	..	..	..	..	..	..	**-728.3**	**-809.6**
Departmental													
Departmental costs	-0.9	-2.0	-2.0	-1.8	-0.8	-	-	-	-	-	-	**-6.7**	**-7.5**
Total – departmental	***-0.9***	***-2.0***	***-2.0***	***-1.8***	***-0.8***	-	-	-	-	-	-	**-6.7**	**-7.5**
Total – expenses	**-106.6**	**-216.3**	**-219.2**	**-192.9**	**-82.3**	..	..	..	..	..	..	**-735.0**	**-817.1**
Total (excluding PDI)	**-109.0**	**-221.5**	**-225.1**	**-199.3**	**-86.8**	**-2.3**	**-2.4**	**-2.5**	**-2.5**	**-2.6**	**-2.7**	**-754.9**	**-856.5**
PDI impacts	***-1.1***	***-4.5***	***-9.2***	***-13.8***	***-17.1***	***-18.5***	***-19.2***	***-19.9***	***-20.7***	***-21.6***	***-23.3***	***-28.6***	***-168.9***
Total (including PDI)	**-110.1**	**-226.0**	**-234.3**	**-213.1**	**-103.9**	**-20.8**	**-21.6**	**-22.4**	**-23.2**	**-24.2**	**-26.0**	**-783.5**	**-1,025.4**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A2: Fee-Free TAFE – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Administered non-tax													
Interest receipts	-	..	*-0.1*	*-0.3*	*-0.5*	*-0.6*	*-0.8*	*-1.0*	*-1.3*	*-1.3*	*-1.3*	***-0.4***	***-7.2***
Total – receipts	**-**	**..**	**-0.1**	**-0.3**	**-0.5**	**-0.6**	**-0.8**	**-1.0**	**-1.3**	**-1.3**	**-1.3**	**-0.4**	**-7.2**
Payments													
Administered													
No-fee places	*-110.0*	*-223.0*	*-226.0*	*-200.0*	*-86.0*	-	-	-	-	-	-	***-759.0***	***-845.0***
Total – administered	***-110.0***	***-223.0***	***-226.0***	***-200.0***	***-86.0***	-	-	-	-	-	-	***-759.0***	***-845.0***
Departmental													
Departmental costs	*-0.9*	*-2.0*	*-2.0*	*-1.8*	*-0.8*	-	-	-	-	-	-	***-6.7***	***-7.5***
Total – departmental	***-0.9***	***-2.0***	***-2.0***	***-1.8***	***-0.8***	-	-	-	-	-	-	***-6.7***	***-7.5***
Total – payments	**-110.9**	**-225.0**	**-228.0**	**-201.8**	**-86.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-765.7**	**-852.5**
Total (excluding PDI)	**-110.9**	**-225.0**	**-228.1**	**-202.1**	**-87.3**	**-0.6**	**-0.8**	**-1.0**	**-1.3**	**-1.3**	**-1.3**	**-766.1**	**-859.7**
PDI impacts	***-1.0***	***-4.1***	***-8.7***	***-13.2***	***-16.7***	***-18.4***	***-19.1***	***-19.8***	***-20.6***	***-21.5***	***-23.1***	***-27.0***	***-166.2***
Total (including PDI)	**-111.9**	**-229.1**	**-236.8**	**-215.3**	**-104.0**	**-19.0**	**-19.9**	**-20.8**	**-21.9**	**-22.8**	**-24.4**	**-793.1**	**-1,025.9**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A3: Fee-Free TAFE –Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Administered non-tax													
Interest receipts	-	..	-0.1	-0.3	-0.5	-0.6	-0.8	-1.0	-1.3	-1.3	-1.3	***-0.4***	***-7.2***
Loan principal repayments	-	-0.2	-0.6	-1.2	-1.9	-2.6	-3.1	-3.7	-4.4	-5.0	-5.4	***-2.0***	***-28.1***
Total – receipts	**-**	**-0.2**	**-0.7**	**-1.5**	**-2.4**	**-3.2**	**-3.9**	**-4.7**	**-5.7**	**-6.3**	**-6.7**	**-2.4**	**-35.3**
Payments													
Administered													
No-fee places	-110.0	-223.0	-226.0	-200.0	-86.0	-	-	-	-	-	-	***-759.0***	***-845.0***
Loans made	12.1	24.4	24.8	25.2	12.7	-	-	-	-	-	-	***86.5***	***99.2***
Total – administered	***-97.9***	***-198.6***	***-201.2***	***-174.8***	***-73.3***	***-***	***-***	***-***	***-***	***-***	***-***	***-672.5***	***-745.8***
Departmental													
Departmental costs	-0.9	-2.0	-2.0	-1.8	-0.8	-	-	-	-	-	-	***-6.7***	***-7.5***
Total – departmental	***-0.9***	***-2.0***	***-2.0***	***-1.8***	***-0.8***	***-***	***-***	***-***	***-***	***-***	***-***	***-6.7***	***-7.5***
Total – payments	**-98.8**	**-200.6**	**-203.2**	**-176.6**	**-74.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-679.2**	**-753.3**
Total (excluding PDI)	**-98.8**	**-200.8**	**-203.9**	**-178.1**	**-76.5**	**-3.2**	**-3.9**	**-4.7**	**-5.7**	**-6.3**	**-6.7**	**-681.6**	**-788.6**
PDI impacts	***-1.0***	***-4.1***	***-8.7***	***-13.2***	***-16.7***	***-18.4***	***-19.1***	***-19.8***	***-20.6***	***-21.5***	***-23.1***	***-27.0***	***-166.2***
Total (including PDI)	**-99.8**	**-204.9**	**-212.6**	**-191.3**	**-93.2**	**-21.6**	**-23.0**	**-24.5**	**-26.3**	**-27.8**	**-29.8**	**-708.6**	**-954.8**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

.. Not zero but rounded to zero.

\- Indicates nil.

Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program are an example of concessional loans offered by the Commonwealth.

Budget impact[2]

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans. The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.[3] Table B1 provides information about the detail provided in a costing. The provision of concessional loans decreases the Commonwealth's net worth if the liabilities issued (the value of Commonwealth Securities issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. None of the measures capture the direct impact on net worth of the loans not expected to be repaid. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'other economic flows' which are reflected in net worth but not in the budget aggregates.

Table B1: Components of concessional loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

[2] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[3] This is in accordance with *PBO Guidance 02/2015* and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.