Australian Government Actuary Report to the Department of Education and Training
18 August 2016 – VET FEE-HELP Extract

VET FEE-HELP

On average, we might expect the incomes of VET course completers to be lower than those of university graduates. While data on repayments by VET FEE-HELP (VFH) debtors is limited, it provides support for this premise, with VFH debtors being slower to commence repayment and, when they do, making lower payments on average. Last year, we made an adjustment to our model to reduce the incomes of VFH debtors based on the average differential observed relative to non-VFH debtors. This adjustment was based on the limited experience that related to the early years of operation of VFH and pre-dates the mis-selling scandals that have since emerged.

Since that time, there has been significant publicity around dubious practices in the VET sector, with the Australian Competition and Consumer Commission having instituted proceedings against four providers and an education services broker on the grounds of misleading representations and unconscionable conduct. One of the providers gave a signed undertaking in May to the ACCC that it will repay around $45 million of loans issued inappropriately, and further recoveries are possible as a result of the cancellation of current enrolments. The proceedings that are currently in train and future investigations may result in similar outcomes.

Prior to the ACCC action, the Australian Skills Quality Authority (ASQA) had also initiated regulatory reviews of a number of providers identified as problematic and published a report on these targeted audits in October 2015 which was updated in November of the same year. Of the 21 providers audited, two were found to be non-compliant and have been notified of the intention to cancel registration, one has been notified of the need to rectify remaining non-compliances, and eleven were found to be compliant following corrective action, but will be subject to continuing scrutiny. One further provider had already been notified of ASQA's decision to cancel registration. The providers that are currently subject to ACCC action were all covered by the ASQA review. The fourteen of these fifteen providers that were included in the 2014 VET FEE-HELP statistical report accounted for almost 55% of the $1.65bn of VFH loans issued in 2014 despite representing less than 6% of registered VFH providers. Given the increase in VFH loans between 2014 and 2015, it could be expected that these problem providers accounted for a larger proportion of the debt in 2015.

Although the outcomes of these investigations are uncertain, it seems likely that there will be students, for whom we currently have VFH debts recorded in our database, who will eventually receive loan reversals or remissions in respect of debts issued inappropriately. It is also possible that the issues with the sector may extend beyond the providers investigated to date. Even where there is not a reversal, the recovery prospects for many of these debts are likely to be extremely poor.

Given the amounts of debt involved, we have chosen to make an allowance in our 2015 model for the possible impact of such eventualities by treating a proportion of VFH debt as potentially not receivable. Based on the limited quantitative evidence available, we have assumed that 20% of the debtors who incurred a charge in either 2014 or 2015 will have debts that are effectively irrecoverable. We have given effect to this assumption in our model by randomly selecting 20% of such debtors and excluding them from the microsimulation model. All of the debt held by this group is therefore treated as DNER. The amount of debt removed from scope was just under $1.2bn of outstanding debt as at 30 June 2015 with a little over 50% of this amount being debt incurred in 2014-15.

This is necessarily a highly subjective judgement. However, given the extent of the problems which have plagued the sector, I believe an adjustment is necessary and the 20% figure falls within a range I consider reasonable.

The removal of VFH debtors to allow for potential reversals introduces some complications in the presentation of financial reporting measures relating to the HELP receivable. We have accounted for this adjustment in two key ways.

Firstly, we have split out the debt being captured under this adjustment from estimates of debt not expected be repaid. This provides a clearer picture of the repayment prospects for HELP debt that is not affected by the inappropriate conduct in the VET sector.

Secondly, in estimating the impairment on new debt, we have removed this cohort of VET-FEE-HELP debtors from the population of debts incurred in 2014-15. In doing so, we are assuming that the problems within the VET sector have been successfully addressed and that, going forward, the experience will be closer to that observed for earlier VFH cohorts.