



Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Australian Labor Party
Date Referred: 13/03/2019

Proposal No: B428
Date Published: 18/03/2019

Proposal Title: Labor's Plan to Rebuild TAFE

Cluster: Industry

General Government Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	1,738	5,837	10,672	18,247
Depreciation	-	120	716	1,537	2,373
Less: Offsets	-	6,134	10,696	15,648	32,478
Revenue	-	(4,998)	(13,365)	(20,995)	(39,358)
Net Operating Balance:	-	(722)	(9,222)	(17,556)	(27,501)

Capital Expenditure	-	1,425	2,850	2,850	7,125
Capital Offsets	-	1,425	2,850	2,850	7,125
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	(602)	(8,506)	(16,019)	(25,128)
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Total State Sector Impacts

Net Lending/(Borrowing):	-	(602)	(8,506)	(16,019)	(25,128)
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Notes and costing assumptions

This proposed policy comprises four components, each outlined separately in the notes below:

- 1) Remove fees on all TAFE courses in plumbing, disability care, aged care, child care, electrical and construction at the Certificate III and IV level
- 2) Limit the Fee-free Apprenticeship Scheme to apprenticeships undertaken in public institutions
- 3) Establish a specialist unit (TAFE Rescue NSW) to manage the implementation of the policy
- 4) Allocate \$7.1 million to support capital repairs and investments in TAFE.

The policy would start from 1 July 2019 and would be implemented incrementally. The PBO estimates the total cost of the policy to be \$25.1 million over the forward estimates. Further details are provided in the sections below and the Appendix.

1) Remove fees on certain TAFE courses

The policy proposes to remove fees for eligible Certificate III and IV courses. Courses under the following six disciplines would become fee-free from the following dates:

- **1 Jan 2020:** Plumbing and disability/aged care
- **1 Jan 2021:** Child care and electrical
- **1 Jan 2022:** Construction

The cost of this policy component is estimated at \$57.4 million over the forward estimates (see Table A6 in the Appendix). This comprises \$39.4 million in forgone course fee revenue (Table A4), and \$18.0 million of extra costs arising from additional enrolments in fee-free courses (Table A5).

Notes and costing assumptions continued:

TAFE NSW has made the following assumptions to estimate the costs of, respectively, forgone revenue and additional demand resulting from the policy.

Forgone revenue

62 courses will be eligible for fee removal under the policy (Table A1). The PBO estimates that 60,016 enrolments would be captured by the policy by 2021-22 (Table A2). However, TAFE NSW has advised that 36 of the 62 courses are already fee-free under the Fee-free Apprenticeship Scheme that commenced on 1 July 2018, and therefore would have no cost impact. TAFE NSW has used the following calculation to estimate the forgone revenue from non-apprenticeship courses. In line with current policy, TAFE NSW assumes no escalation of fees over the forward estimates:

Fee paid by the student x Forecast enrolments in that year x Allowance for year of introduction (as some students will have paid a fee prior to introduction of the policy)

Based on data provided by TAFE NSW, the PBO estimates that forgone revenue from removing course fees would total \$39.4 million over the forward estimates (Table A4).

The costing also takes into account existing policy in relation to fee waivers, exemptions and concessions. Eligible student categories include Aboriginal and Torres Strait Islanders, students with a disability, fee-free scholarships, refugees and asylum seekers. Based on existing enrolment data, TAFE NSW has assumed that:

- 40% of non-apprentice Certificate III students receive a fee exemption or waiver
- 15% of non-apprentice Certificate III students receive a fee concession, paying \$240
- 25% of non-apprentice Certificate IV students receive a fee exemption or waiver

Additional demand

Removing course fees is expected to lead to additional enrolments, with this increased demand leading to further expenses. The cost of this increased demand was determined using the following calculation:

Cost to TAFE NSW of delivering the course x Additional enrolments in that year x 50% deduction for attrition x Allowance for year of introduction (as some students will have paid a fee prior to introduction of the policy)

The costing also takes into account existing policy in relation to fee concessions for students paying a concessional fee of \$240 for Certificate III courses.

In the time available, TAFE NSW was unable to conduct an econometric analysis on the effect that fee changes would have on commencements. Instead, based on enrolment data from the Fee-free Apprenticeship Scheme (FAS), TAFE NSW has assumed an uplift in fee-free course commencements from the first year a TAFE discipline becomes fee-free. This uplift would vary between courses, and is in addition to normal growth rates based on population and economic indicators over the forward estimates.

Notably, TAFE NSW has excluded apprenticeship courses from this uplift. As these courses are already fee-free, it is reasonable to assume that there would not be any increase in demand as a result of the policy. For non-apprenticeship courses though, the PBO has used TAFE NSW data to estimate the increase in demand. On average, courses would experience an increase of approximately 14% in enrolments over the forward estimates once a course becomes fee-free. This increase in demand is within the range of elasticities for fee changes used by IPART (almost zero to about 0.17) in its 2013 report *Pricing VET [Vocational Education and Training] under Smart and Skilled*.

Based on TAFE NSW data (see also Tables A3 and A5), the PBO estimates that the policy would lead to an additional 3,225 enrolments in these courses by 2021-22, at a cost of \$18.0 million over the forward estimates. In accordance with TAFE NSW's internal accounting policy, the PBO has included depreciation costs equal to 10% of this cost component (\$1.8 million over the forward estimates).

Notes and costing assumptions continued:

2) Offsets - Savings in the Fee-free Apprenticeship Scheme

From 1 July 2019, this policy component proposes to exclude private registered training organisations (RTOs) from receiving funding currently provided under the existing Fee-free Apprenticeships Scheme (FAS). Apprenticeships provided through TAFE NSW would continue to be eligible for FAS funding, with the agency's current scope and number of FAS places maintained for these apprentices.

Additionally, apprenticeships in private RTOs that commence before 1 July 2019 would have their courses grandfathered, and accordingly would continue to receive FAS funding.

The PBO estimates the impact of this policy is a saving of \$30.5 million over the forward estimates (see Table A7). Over the six year duration of the FAS, the total saving is estimated at \$44.5 million. This amount represents monies that would have otherwise been spent on private RTOs, less the cost of grandfathered apprenticeships.

Current split of FAS funding and policy impact

Based on information provided by the Department of Industry, the current market share for FAS-eligible apprenticeships is 80% for TAFE NSW and 20% for private RTOs. The PBO has assumed that, under current policy settings, this market share would remain the same over the duration of the FAS. Accordingly, TAFE NSW is assumed to receive 80% of total FAS funding (\$228.2 million of the \$285.2 million allocated), and private RTOs receiving 20% (\$57.0 million).

The PBO estimates that the removal of funding for private RTOs would have a net impact of \$30.5 million over the forward estimates (\$44.5 million by the end of the FAS). This estimate comprises existing FAS funding for private RTOs over the forward estimates (\$43.0 million), less the cost of grandfathering apprenticeships (\$12.5 million) as shown in Table A7.

The cost of grandfathering apprenticeships is based on the Department of Industry's estimate of honouring all FAS apprentices commencing in 2018-19, and the private RTOs' share of the FAS funding/market.

Assumptions about the cost of additional enrolments at TAFE NSW

The policy states that the number of fee-free apprenticeship places at TAFE NSW (after grandfathering) would be fixed at the current number of forecast places. This means that there will be no impact on the forward estimates. Once enrolment caps have been reached, any additional prospective apprentices could not enrol at TAFE NSW.

Assumptions about competition and Commonwealth funding arrangements

The Department of Industry and TAFE NSW have advised that, if TAFE NSW is the only Smart and Skilled provider allowed to offer free training to students, it would give the agency a competitive advantage over other providers. Such a competitive advantage may not be consistent with the principle of subsidised VET provision in NSW, and may breach the NSW Government's Competition Policy.

TAFE NSW has also advised there is a risk the policy may not meet the 100,000 apprenticeship target under the FAS. Commonwealth funding for the FAS under the National Partnership Fund may be affected if the FAS target is not reached.

The PBO has not considered the impact of the policy on Commonwealth funding. We assume the NSW Government would negotiate with the Commonwealth to mitigate any funding impacts or shortfalls arising from not meeting this target.

Notes and costing assumptions continued:

3) Creation of TAFE Rescue NSW specialist unit

TAFE NSW has advised that the specialist unit would comprise 5 full-time equivalent FTE staff at the following grades: 3 x TAFE Worker Level 6, 1 x TAFE Worker Level 9, 1 x TAFE Manager Level 2.

TAFE salaries are based on average salaries by grade under the following two awards: *TAFE Commission of NSW Administrative, Support and Related Employees Enterprise Agreement 2016*, and *TAFE Commission of NSW TAFE Managers Enterprise Agreement 2017*. Salaries have been escalated at 2.5% per annum in line with NSW public sector wage cap policy.

The PBO estimates the cost of these staff to be \$2.0 million over the forward estimates. However, the cost to the budget is zero, since the policy indicates it would be achieved by redeploying existing resources within TAFE NSW or the Department of Industry.

4) Capital maintenance

The policy proposes to allocate \$7.1 million in capital funding to TAFE to support capital repairs and investments over the forward estimates. The policy states that the profile for the \$7.1 million is \$1.4 million for 2019-20, and \$2.9 million for both 2020-21 and 2021-22.

The policy specifies that the funding should be absorbed within the Department of Industry's capital budget.

The PBO estimates that the net lending and net operating balance impacts are nil. Consistent with the policy, the capital expenditure and associated depreciation for TAFE is assumed to be offset by the reduced capital expenditure and associated depreciation for the Department of Industry. The PBO has estimated that depreciation expenses would total around \$600,000. This is based on a ten year straight line approach, which the PBO considers to be a reasonable high level estimate of the likely mix of assets to be acquired, in the absence of detailed capital spending plans for this policy.

The PBO considers it feasible for TAFE's capital expenditure to be offset and absorbed from within the Department of Industry's existing capital budget. The PBO notes that the Department's budgeted capital expenditure for 2018-19 is \$96.4 million. Excluding TAFE, the cluster's budgeted capital expenditure is approximately \$175 million for 2018-19. These amounts indicate some flexibility for the Department to reprioritise capital expenditure within the Department or in the cluster to meet this policy.

Appendix

Table A1 - Certificate III & IV courses eligible for fee removal

Course Title	Discipline	Fee-free apprenticeship
Certificate III in Individual Support	Disability/Aged Care	No
Certificate IV in Ageing Support	Disability/Aged Care	No
Certificate IV in Disability	Disability/Aged Care	No
Certificate III in Plumbing	Plumbing	Yes
Certificate III in Roof Plumbing	Plumbing	Yes
Certificate IV in Plumbing and Services	Plumbing	No
Certificate III in Early Childhood Education and Care	Child Care	No
Certificate III in Electrical Machine Repair	Electrical	Yes
Certificate III in Switchgear and Controlgear	Electrical	Yes
Certificate III in Electrotechnology Electrician	Electrical	Yes
Certificate III in Electronics and Communications	Electrical	Yes
Certificate III in Instrumentation and Control	Electrical	Yes
Certificate III in Renewable Energy - ELV	Electrical	No
Certificate III in Appliance Service	Electrical	Yes
Certificate III in Air-conditioning and Refrigeration	Electrical	Yes
Certificate III in Electrical Fitting	Electrical	Yes
Certificate IV in Electrical - Instrumentation	Electrical	Yes
Certificate IV in Electrotechnology - Systems Electrician	Electrical	No
Certificate IV in Industrial Electronics and Control	Electrical	Yes
Certificate IV in Electrical - Rail Signalling	Electrical	Yes
Certificate IV in Renewable Energy	Electrical	No
Certificate IV in Electrical - Renewable Energy	Electrical	No
Certificate IV in Instrumentation and Control	Electrical	Yes
Certificate III in ESI - Power Systems - Transmission Overhead	Electrical	Yes
Certificate III in ESI - Power Systems - Distribution Overhead	Electrical	Yes
Certificate III in ESI - Power Systems - Rail Traction	Electrical	Yes
Certificate III in ESI - Power Systems - Distribution Cable Jointing	Electrical	Yes
Certificate IV in ESI - Power Systems Substations	Electrical	Yes
Certificate III in Bricklaying/Blocklaying	Construction	Yes
Certificate III in Shopfitting	Construction	Yes
Certificate III in Carpentry	Construction	Yes

Appendix (continued):

Table A1 (continued)

Course Title	Discipline	Fee-free apprenticeship
Certificate III in Signs and Graphics	Construction	Yes
Certificate III in Concreting	Construction	No
Certificate III in Demolition	Construction	No
Certificate III in Painting and Decorating	Construction	Yes
Certificate III in Rigging	Construction	No
Certificate III in Roof Tiling	Construction	Yes
Certificate III in Scaffolding	Construction	No
Certificate III in Solid Plastering	Construction	Yes
Certificate III in Steelfixing	Construction	No
Certificate III in Wall and Ceiling Lining	Construction	Yes
Certificate III in Wall and Floor Tiling	Construction	Yes
Certificate III in Construction Waterproofing	Construction	No
Certificate III in Formwork/Falsework	Construction	Yes
Certificate III in Post-Tensioning	Construction	No
Certificate III in Joinery	Construction	Yes
Certificate III in Carpentry and Joinery	Construction	Yes
Certificate III in Joinery (Stairs)	Construction	Yes
Certificate III in Stonemasonry (Monumental/Installation)	Construction	Yes
Certificate III in Gas Fitting	Construction	No
Certificate III in Fire Protection	Construction	Yes
Certificate III in Construction Crane Operations	Construction	No
Certificate IV in Building and Construction (Building)	Construction	No
Certificate IV in Demolition	Construction	No
Certificate III in Civil Construction Plant Operations	Construction	Yes
Certificate III in Civil Construction	Construction	Yes
Certificate III in Civil Foundations	Construction	No
Certificate III in Trenchless Technology	Construction	No
Certificate III in Drilling Operations	Construction	No
Certificate IV in Civil Construction Operations	Construction	No
Certificate IV in Civil Construction Supervision	Construction	No
Certificate IV in Civil Construction Design	Construction	No

Appendix (continued):

Table A2 - Estimated total enrolment growth (existing growth plus policy uplift)

Course area	Total annual enrolments (forecast figures from 2019-20 to 2021-22)			
	2018-19	2019-20	2020-21	2021-22
Child care	7,923	8,130	8,837	9,744
Construction	19,027	19,087	19,273	19,693
Disability care/Aged care	7,551	8,302	9,145	9,542
Electrical	13,250	13,291	13,414	13,492
Plumbing	7,128	7,210	7,419	7,545
TOTAL	54,879	56,020	58,088	60,016

Table A3 - Estimated uplift in enrolment growth from policy

Course area	Annual enrolment uplift (forecast figures from 2019-20 to 2021-22)			
	2018-19	2019-20	2020-21	2021-22
Child Care	-	-	521	1,230
Construction	-	-	-	307
Disability/Aged Care	-	543	1,202	1,405
Electrical	-	-	1	2
Plumbing	-	66	199	281
TOTAL	-	609	1,923	3,225

Table A4 - Estimated lost fee revenue (net)

Course area	Estimated lost fee revenue (net) (\$'000)				
	2018-19	2019-20	2020-21	2021-22	4 year total
Child care	-	-	3,143	6,437	9,580
Construction	-	-	-	4,115	4,115
Disability care/Aged care	-	3,501	7,174	7,357	18,032
Electrical	-	-	21	42	62
Plumbing	-	1,497	3,027	3,045	7,569
TOTAL	-	4,998	13,365	20,995	39,358

Table A5 - Estimated cost of additional places (subsidies)

Course area	Estimated cost of additional places (subsidies) (\$'000)				
	2018-19	2019-20	2020-21	2021-22	4 year total
Child care	-	-	783	4,059	4,842
Construction	-	-	-	1,054	1,054
Disability care/Aged care	-	1,039	4,293	5,038	10,370
Electrical	-	-	5	15	20
Plumbing	-	163	656	926	1,745
TOTAL	-	1,202	5,738	11,091	18,031

Table A6 - Estimated impact on net operating result

Course area	Estimated impact on net operating result (\$'000)				
	2018-19	2019-20	2020-21	2021-22	4 year total
Child care	-	-	(3,927)	(10,496)	(14,422)
Construction	-	-	-	(5,170)	(5,170)
Disability care/Aged care	-	(4,540)	(11,467)	(12,394)	(28,402)
Electrical	-	-	(26)	(56)	(82)
Plumbing	-	(1,660)	(3,683)	(3,971)	(9,314)
TOTAL	-	(6,200)	(19,103)	(32,086)	(57,389)

Appendix (continued):

Table A7 - Estimated savings from changes to the Fee-free Apprenticeship Scheme

	Estimated impact on net operating result (\$'000)				
	2018-19	2019-20	2020-21	2021-22	4 year total
Total estimated cost of Fee-free Apprenticeship Scheme (private RTOs allocation)	5,045	9,230	13,775	14,958	43,008
Grandfathered 2018-19 fee-free apprenticeships (private RTOs)	5,045	3,752	3,752	-	12,549
Estimated net savings from restricting scheme	-	5,478	10,023	14,958	30,459