



Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Coalition
Date Referred: 25/02/2019

Proposal No: Y071
Date Published: 18/03/2019

Proposal Title: 70,000 Fee Free Traineeships

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)	-	4,915	11,691	13,551	30,157
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	-	-	-	-
Net Operating Balance:	-	(4,915)	(11,691)	(13,551)	(30,157)

Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	(4,915)	(11,691)	(13,551)	(30,157)
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Total State Sector Impacts

Net Lending/(Borrowing):	-	(4,915)	(11,691)	(13,551)	(30,157)
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Notes and costing assumptions

This policy proposes, over four years from 1 January 2020, to provide 70,000 fee-free traineeships through Smart and Skilled Vocational Education and Training (VET) providers (e.g. TAFE NSW and private operators).

The PBO estimates the cost of this policy to be \$30.2 million over the forward estimates, with an additional \$24 million to be paid between 2022-23 and 2024-25. A breakdown by year is shown in Tables A2 and A3.

Providers offering traineeships for Certificate III courses or above would receive payments in lieu of student fees in two instalments: approximately three months after a traineeship starts, and after it ends (see Table A1 overleaf). As Certificate II courses are shorter than other qualifications, the Department of Industry assumes that providers who offer these courses would receive a single payment at the start of a traineeship. The policy is capped at 70,000 places.

The policy would commence from 1 January 2020, with no new fee-free commencements after 31 December 2023. The policy assumes that the budget impact would continue into 2024-25, as final payments for courses commenced during the fourth year would continue to be payable once fee-free commencements end.

However, the PBO notes that some traineeships are longer in duration, and accordingly a small number of final payments may occur beyond the 2024-25 financial year.

Notes and costing assumptions continued:

The assumptions provided by the Department of Industry and NSW Treasury include the following:

- Commencements are assumed to be distributed evenly across the four years (17,500 per year). The PBO notes that there is a risk providers will seek to claim as early as possible (especially for Certificate II courses, which attract on initial payment only with no final payment). This would pull costs to the start of the program unless an annual cap is applied.
- Student fees are assumed to be \$1,000 per commencement, the maximum payable under the Smart and Skilled program
- In line with TAFE NSW's current policy, there is no escalation of course fees over the forward estimates
- Based on 2017 traineeship commencement data and analysis conducted by the Department of Premier and Cabinet, 87% of enrolments are assumed to generate the first payment, and 60% the final payment (i.e. 40% of students will not complete their traineeship)
- The Department of Industry does not anticipate increased demand for traineeships as a result of this policy. This is because there are more expected commencements over the policy period (83,700) than fee-free traineeship places (70,000), limiting the fee-free incentive to undertake a traineeship. The PBO does not agree with this assumption. The objective of the policy, as advised to the PBO, is to remove a barrier to entry and incentivise take-up: that is, the policy is designed to increase demand. While there would be an increase in demand as a result of removing fees, modelling that increase is not possible without data on the elasticities of demand. However, the factor which limits the cost of the policy is not demand but the capping of places at 70,000.

Table A1 - Payment profile by qualification level

Qualification level	First payment (\$)	Second payment (\$)
Certificate II	1,000	0
Certificates III & IV	600	400
Diploma/Advanced Diploma	550	450

Table A2 - Cost of policy from 1 Jan 2020 to 31 Dec 2024

2020 \$'000	2021 \$'000	2022 \$'000	2023 \$'000	2024* \$'000
9,831	13,551	13,551	13,551	3,720

*Final instalment payments only, no additional commencements

Table A3 - Cost of policy from 2019-20 to 2024-25

2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	2022-23 \$'000	2023-24 \$'000	2024-25* \$'000
4,915	11,691	13,551	13,551	8,636	1,860

*Final instalment payments only, no additional commencements