



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by: Australian Labor Party **Proposal No:** C1539
Date Referred: 07/03/2023 **Date Published:** 20/03/2023
Proposal Title: Health graduates incentive
Cluster: Health

General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)		24,360	32,370	40,380	97,110
Depreciation					-
Less: Offsets					-
Revenue					-
Net Operating Balance:	-	(24,360)	(32,370)	(40,380)	(97,110)

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

Net Lending/(Borrowing):	-	(24,360)	(32,370)	(40,380)	(97,110)
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Total State Sector Impacts

Net Lending/(Borrowing):	-	(24,360)	(32,370)	(40,380)	(97,110)
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Notes and costing assumptions:

This policy proposes to provide incentives to healthcare graduates and students.

The policy has two elements:

1. Scholarships for those who commence studying from 1 January 2024:

- A \$12,000 scholarship (\$4,000 each year for 3 years).
- 2000 scholarships given each year.
- The student must be willing to make a 5-year commitment to the public health system once they graduate.
- Open to all healthcare degrees, with assessment criteria based on direction from local health districts on what areas are most in need of what kind of healthcare workers.

2. Payments for those who have already commenced studying:

- A one-off payment of \$8,000 will be given to 2000 currently enrolled healthcare students, as a transition arrangement to ensure that healthcare students who have already started studying are also recognised in this policy.

Notes and costing assumptions continued:

- 2000 payments given each year, over the next three years only, starting from 1 January 2024.
- The payment will be given after graduation when the graduate joins the public health workforce.
- The graduate must make a 5-year commitment to the public health system
- Open to all healthcare degrees, with assessment criteria based on direction from local health districts on what areas are most in need of what kind of healthcare workers.

The Parliamentary Budget Office (PBO) estimates the cost of this policy at \$97.1 million over the forward estimates. In order to continue the yearly scholarship payments to students who start their studies in 2026, there will also be a further cost of \$24.8 million beyond the forwards (see **Table 1**).

Table 1 – Policy cost profile over the forward estimates and beyond

Summary (000's)	2022-23	2023-24	2024-25	2025-26	4 year Fwd Est. total	2026-27	2027-28
Scholarships Year 1	-	8,000	8,000	8,000	24,000	-	-
Scholarships Year 2	-	-	8,000	8,000	16,000	8,000	-
Scholarships Year 3	-	-	-	8,000	8,000	8,000	8,000
Payments	-	16,000	16,000	16,000	48,000	-	-
Central administration costs	-	360	370	380	1,110	390	400
Totals	-	24,360	32,370	40,380	97,110	16,390	8,400

Key assumptions

NSW Health estimates the annual administration costs for facilitating the scholarships program at \$360,000 for 2023-24. The PBO has escalated this amount over the forward estimates based on CPI as per the Pre-Election Budget Update. Beyond the forwards the PBO has escalated the amount at 2.5%.

While there is legislation that requires recipients of scholarships to pay tax on these types of incentives, the PBO has consulted with NSW Health who have advised that recipients may be exempt if they meet certain criteria and subject to salary packaging. See detail below for an in-depth explanation:

Scholarships

NSW Health advises that, pursuant to [subsection 51-35\(3\) of the Income Tax Assessment Act 1997](#), payments to full-time students are not exempt from income tax where it is given as “a payment by an entity or authority on the condition that the student will (or will if required) become, or continue to be, an employee of the entity or authority”. This means the scholarships on offer under this policy would normally attract Fringe Benefits Tax (FBT) under the [Fringe Benefits Tax Assessment Act 1986 \('FBT Act'\)](#).

However, NSW Health advises that under section [57A of the FBT Act](#), the scholarship payments may be exempt from FBT, based on the following conditions:

- The student (future employee) commits to work specifically in health entities that are eligible for the section 57A exemption, which includes NSW Local Health Districts, Justice Health, Sydney Children’s Hospital Network, NSW Health Pathology, and NSW Ambulance.
- The student does not receive further scholarship or other benefits from NSW Health where the total of all benefits exceeds \$9,009 each year (the exemption cap).

Payments

NSW Health advises that, like the scholarships above, the \$8,000 one-off payment when the graduate joins the public health workforce will not be subject to FBT provided the following applies:

Notes and costing assumptions continued:

- The graduate commits to work specifically in health entities that are eligible for the section 57A exemption.
- The graduate either cannot salary package in the first year or is limited to salary packaging only \$1,009 in that first year, in order to stay below the exemption cap.

Alternatively, NSW Health advises the one-off payment can be paid to the graduate via payroll and be subject to income tax (PAYG withholding), meaning the graduate can salary package up to \$9,009 worth of other benefits.

General

NSW Health notes that, should the candidate be provided with other non-salary packaged benefits, e.g. overtime payments, private use of fleet vehicles, or housing, the exemption cap is likely to be exceeded and FBT liability will arise. NSW Health advises that the exemption cap is often used up where the employee takes advantage of salary packaging arrangements on offer from health entities.

NSW Health further advises that benefits where the section 57A exemption applies will still be required to be reported on the student's income statement as a "reportable fringe benefit amount". From the student's view this does not impact their income tax liability but might impact their entitlement to government benefits and HELP repayment amount.

The PBO notes that both the scholarships and payments will primarily benefit graduates who would likely be recruited anyway by NSW Health in their standard annual intake.

The PBO notes that financial considerations are not the exclusive reason for healthcare staff staying or leaving the public health system; their decisions are also influenced by other factors such as recognition, employer/employee relations, workplace culture and organisational structure.

Risks

The policy assumes that assessment criteria for access to the scholarships will be developed by the local health district. However, the PBO notes that there is a risk that the government will be under pressure to pay the supplementary payments to remaining health graduates who did not receive a payment.

There is also a risk that some graduates will break their work commitments within the five years. The policy does not specify whether this would mean that those graduates will need to repay a portion of the scholarship/payment.