Parliament of Australia
Parliamentary Budget Office

**Phil Bowen PSM FCPA**
**Parliamentary Budget Officer**

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Reducing Student Debt* (letter of 28 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen
28 June 2016

# Policy costing—during the caretaker period for the 2016 general election

| Name of proposal: | Reducing Student Debt |
|---|---|
| Summary of proposal: | The proposal would amend the Higher Education Loan Program (HELP), with the intention of reducing the debt level of students accessing HECS-HELP. Students eligible to pay their tuition fees through HECS-HELP would have their tuition fees reduced by 20 per cent, with the Government covering the shortfall by paying the universities directly, from 1 January 2017. |
| Person/party requesting costing: | Senator Richard Di Natale, Australian Greens |
| Date of public release of policy: | 26 April 2016<br>http://greens.org.au/news/sa/greens-proposal-reduces-student-debt-burden |
| Date costing request received: | 28 June 2016 |
| Date costing completed: | 28 June 2016 |
| Expiry date for the costing: | Release of the next economic and fiscal outlook report |

## Costing overview

The proposal would be expected to decrease the fiscal balance by $3,330 million, decrease the underlying cash balance by $3,580 million, and decrease the headline cash balance by $60 million over the 2016 17 Budget forward estimates period. The impact is entirely due to an increase in administered expenses.

The proposal would not be expected to result in additional departmental expenditures because the administration of HELP and the Commonwealth Grant Scheme (CGS) would remain largely unchanged.

The disaggregated financial impacts of the proposal over the period 2016-17 to 2026-27 are provided at Attachment A.

As the proposal involves the transaction of financial assets in the form of a lower value of HELP loans being issued, the Public Debt Interest (PDI) impact of the proposal has been included in the overall financial impacts of the proposal. The Methodology section outlines how impacts on each budget balance are estimated, and a note on the accounting treatment of income contingent loans is included at Attachment B.

This costing is considered to be of low to medium reliability as the behavioural responses of students to this proposal are uncertain. The reliability of estimates diminishes the further out projections are made, as the forecast becomes more uncertain.

**Table 1: Financial implications (outturn prices)[(a)(b)]**

| Impact on ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total** |
|---|---|---|---|---|---|
| Fiscal balance ($m) | -410.0 | -880.0 | -980.0 | -1,060.0 | **-3,330.0** |
| Underlying cash balance ($m) | -460.0 | -960.0 | -1,050.0 | -1,110.0 | **-3,580.0** |
| Headline cash balance ($m) | - | - | -10.0 | -50.0 | **-60.0** |

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

(b) Figures may not sum to totals due to rounding.

## Key assumptions

In costing this proposal, the following assumptions have been made:

- The proposal would not impact on the number of students undertaking higher education. If the proposal did cause student numbers to increase, the cost of this proposal would increase, due to both an increase in higher education funding and other related government expenses which are driven, in part, by the number of higher education students.
- Students currently projected to make upfront payments for their studies have been adjusted to reflect that a proportion of them would instead take out a HECS-HELP loan to take advantage of the proposal.

## Methodology

The Department of Education and Training's 2016-17 Budget forward estimates model for HELP was used to cost the proposal. This model takes account of the decision of the Government in the 2016-17 Budget not to proceed with the deregulation of university fees announced in the 2014-15 Budget.

As per the proposal, reductions in HECS-HELP student contributions are offset exactly by an increase in CGS payments that are paid by the Government to universities. The increase in CGS payments decreases the fiscal, underlying cash and headline cash balances.

The costing applies the reduction in HECS-HELP student contribution to the base funding estimates profile in the HELP model. The HELP component of the proposal has the following impacts on budget balances:

### Fiscal balance impact – components

- Lower interest revenue from smaller HECS-HELP loans being issued has a negative impact on the fiscal balance.
- Lower concessional loan discount expenses due to smaller HECS-HELP loans being issued have a positive impact on the fiscal balance.
- Concessional loan discount unwinding revenue in later years offsets the reduced concessional loan discount expenses and has a negative impact on the fiscal balance. Over the life of an individual loan, the concessional loan discount unwinding revenue is equal to the concessional loan discount expenses and results in a nil impact on the fiscal balance[1].
- Reductions in write-downs of bad debts (due to smaller HECS-HELP loans being issued) have a positive impact on the fiscal balance.
- Lower PDI expenses have a positive impact on the fiscal balance.

### Underlying cash balance impact – components

- Lower interest receipts from smaller HECS-HELP loans being issued have a negative impact on the underlying cash balance.
- Lower PDI payments have a positive impact on the underlying cash balance.

### Headline cash balance impact – components

- Reduced borrowings by HECS-HELP students have a positive impact on the headline cash balance.
- Lower principal repayments by HECS-HELP students have a negative impact on the headline cash balance.
- Lower interest receipts from smaller HECS-HELP loans being issued have a negative impact on the headline cash balance.
- Lower PDI payments have a positive impact on the headline cash balance.

The financial implication of the proposal is the total financial impact of its HELP and CGS components. All estimates are rounded to the nearest $10 million.

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[1] Given this costing is over a defined time period with a lower value of loans being issued each year relative to the 2016-17 Budget, the net impact of the concessional loan discount expense and the revenue from the unwinding of concessional loan discount would not be zero. Were the analysis to be undertaken for a single loan and that loan were to be established and fully repaid during the analysis period then these two lines would net to zero.

## Data sources

The Department of Education and Training provided the 2016-17 HELP forward estimates model.

# Attachment A: Reducing higher education contribution scheme (HECS) burden—financial implications

**Table A1: Reducing HECS-HELP student contributions by 20 per cent from 1 January 2017—Fiscal balance[(a)(b)]**

| ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total to 2019–20** | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | **Total to 2026–27** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commonwealth Grant Scheme expenses | *-460.0* | *-960.0* | *-1,040.0* | *-1,100.0* | ***-3,570.0*** | *-1,160.0* | *-1,210.0* | *-1,270.0* | *-1,320.0* | *-1,380.0* | *-1,440.0* | *-1,500.0* | ***-12,840.0*** |
| Higher Education Loan Programme | | | | | | | | | | | | | |
| *Concessional loan discount expense* | *50.0* | *90.0* | *100.0* | *100.0* | ***330.0*** | *100.0* | *110.0* | *110.0* | *120.0* | *120.0* | *130.0* | *130.0* | ***1,140.0*** |
| *Concessional loan discount unwinding revenue* | - | - | *-10.0* | *-20.0* | ***-20.0*** | *-30.0* | *-40.0* | *-50.0* | *-70.0* | *-80.0* | *-80.0* | *-90.0* | ***-470.0*** |
| *Net concessional loan discount[(c)]* | *50.0* | *90.0* | *90.0* | *80.0* | ***310.0*** | *70.0* | *60.0* | *60.0* | *50.0* | *40.0* | *40.0* | *40.0* | ***670.0*** |
| *Interest revenue accrued* | - | *-10.0* | *-20.0* | *-50.0* | ***-80.0*** | *-70.0* | *-90.0* | *-110.0* | *-130.0* | *-160.0* | *-180.0* | *-210.0* | ***-1,010.0*** |
| *Loan write-downs* | - | .. | .. | .. | **..** | .. | .. | .. | .. | .. | .. | .. | ***20.0*** |
| Public Debt Interest | - | - | .. | .. | **..** | .. | *-10.0* | *-20.0* | *-40.0* | *-60.0* | *-80.0* | *-110.0* | ***-330.0*** |
| **Total impact** | **-410.0** | **-880.0** | **-980.0** | **-1,060.0** | **-3,330.0** | **-1,160.0** | **-1,250.0** | **-1,340.0** | **-1,440.0** | **-1,540.0** | **-1,660.0** | **-1,780.0** | **-13,500.0** |

(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.

(b) Figures may not sum to totals due to rounding.

(c) Net concessional loan discount comprises the Concessional loan discount expense *less* the Concessional loan discount unwinding revenue.

.. Not zero but rounded to zero.

\- Indicates nil.

### Table A2: Reducing HECS-HELP student contributions by 20 per cent from 1 January 2017 – Underlying cash balance [(a)(b)]

| ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total to 2019–20** | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | **Total to 2026–27** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commonwealth Grant Scheme payments | -460.0 | -960.0 | -1,040.0 | -1,100.0 | -3,570.0 | -1,160.0 | -1,210.0 | -1,270.0 | -1,320.0 | -1,380.0 | -1,440.0 | -1,500.0 | **-12,840.0** |
| Higher Education Loan Programme | | | | | | | | | | | | | |
| *Interest received* | - | - | .. | *-10.0* | *-10.0* | *-30.0* | *-40.0* | *-60.0* | *-70.0* | *-80.0* | *-90.0* | *-100.0* | ***-490.0*** |
| Public Debt Interest | - | - | .. | .. | .. | .. | -10.0 | -20.0 | -40.0 | -60.0 | -80.0 | -110.0 | **-320.0** |
| **Total impact** | **-460.0** | **-960.0** | **-1,050.0** | **-1,110.0** | **-3,580.0** | **-1,190.0** | **-1,270.0** | **-1,350.0** | **-1,430.0** | **-1,520.0** | **-1,610.0** | **-1,710.0** | **-13,650.0** |

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

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

\- Indicates nil.

### Table A3: Reducing HECS-HELP student contributions by 20 per cent from 1 January 2017 – Headline cash balance [(a)(b)]

| ($m) | 2016–17 | 2017–18 | 2018–19 | 2019–20 | **Total to 2019–20** | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | **Total to 2026–27** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commonwealth Grant Scheme expenses | -460.0 | -960.0 | -1,040.0 | -1,100.0 | **-3,570.0** | -1,160.0 | -1,210.0 | -1,270.0 | -1,320.0 | -1,380.0 | -1,440.0 | -1,500.0 | **-12,840.0** |
| Higher Education Loan Programme | | | | | | | | | | | | | |
| *Loans issued* | *460.0* | *960.0* | *1,040.0* | *1,100.0* | ***3,570.0*** | *1,160.0* | *1,210.0* | *1,270.0* | *1,320.0* | *1,380.0* | *1,440.0* | *1,500.0* | ***12,840.0*** |
| *Repayments and interest received* | - | - | *-10.0* | *-50.0* | ***-60.0*** | *-110.0* | *-180.0* | *-240.0* | *-300.0* | *-350.0* | *-400.0* | *-450.0* | ***-2,080.0*** |
| Public Debt Interest | - | - | .. | .. | **..** | .. | -10.0 | -20.0 | -40.0 | -60.0 | -80.0 | -110.0 | **-320.0** |
| **Total impact** | **-** | **-** | **-10.0** | **-50.0** | **-60.0** | **-110.0** | **-190.0** | **-260.0** | **-330.0** | **-410.0** | **-480.0** | **-560.0** | **-2,400.0** |

(a) A positive number for the headline cash balance indicates an increase in cash flow. A negative number for the headline cash balance indicates a decrease in cash flow.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

\- Indicates nil.

# Attachment B: Accounting treatment of HELP loans

The issuing of HELP loans and repayments of principal are not included in either the underlying cash balance or the fiscal balance as they are treated as investments.

However, the component of repayments that is considered interest is included as revenue in underlying cash balance terms. As repayment amounts are linked to income levels, it is difficult to separate interest repayments from principal repayments. In the forward estimates, a fixed proportion of all repayments is taken to be interest repayments. This is based on the average amount of interest paid over the life of HELP loans.

Interest is also accounted for in fiscal balance terms. This is the increase in the value of the debt due to indexation by the Consumer Price Index (CPI) each financial year (moving to the 10 year bond rate, capped at six per cent, under this measure). Fiscal balance interest income is assessed on the "fair value" of the HELP debt, consistent with relevant accounting standards, as it is unreasonable to claim interest income on a debt that is not expected to be repaid.

HELP loans are concessional as they are indexed to CPI rather than the market interest rate. The Budget accounts for this as an expense in fiscal balance terms. As loans are repaid, the amount of forgone interest income reduces, so this expense is "unwound", having a positive impact on the fiscal balance.

When the Commonwealth agrees to forgo the repayment of some or all of a debtor's debt this also has a negative impact on Budget aggregates. Mutually agreed write-downs or write-offs (for example in the case of death) have no impact on the underlying cash balance, but are an expense in fiscal balance terms.

The headline cash balance adjusts the underlying cash balance to include earnings from the Future Fund and the net cash flow from investments for policy purposes. An example of such an investment is the issuing of loans to achieve policy goals, as is the case with HELP.

The headline cash balance impact on HELP resulting from a policy change would be:

- the underlying cash balance impact
- **less** the positive impact on the underlying cash balance from interest
- **plus** the value of HELP repayments, and
- **less** the value of new HELP loans issued.

The headline cash balance is tracked in Budget papers, and is normally reported in policy costings when it differs from the underlying cash balance.

The fair value of the debt is a positive contributor to the Government's net financial worth.

In accordance with PBO Guidance 02/2015 and the *Charter of Budget Honesty Policy Costing Guidelines*, proposals that impact on HELP "involves transactions of financial assets" and thus the flow on impact to Public Debt Interest (PDI) payments would need to be taken into account. When estimating the proposal's impact on PDI payments, the net headline cash balance impact is used. The net headline cash balance impact includes not only the HELP component of the proposal, but all associated components that are considered integral to the overall proposal.