Parliamentary Budget Office

ECR-2025-2764

Reinstate the 50% pass mark required for HECS-HELP loans	
Party:	The Coalition
Summary of proposal: The proposal would reinstate the 50% pass rate rule. The 50% pass rate rule states that after 8 units of a bachelor's degree or higher qualification, a student must maintain a pass rate of 50% of the units they attempt to remain eligible for a Commonwealth Supported Place (CSP) or Higher Education Loan Program (HELP) loans. The proposal would be ongoing and start from 1 July 2025.	

Costing overview

The proposal would be expected to increase the fiscal balance by around $58.0 million, the underlying cash balance by around $7.5 million and the headline cash balance by around $167.3 million over the 2025-26 Budget forward estimates period (see Table 1). These impacts primarily reflect a decrease in total loans being issued, leading to a reduction in concessional loan discount expense and debt not expected to be repaid, and savings in public debt interest (PDI). The fiscal balance, underlying cash balance, and headline cash balance impacts differ in the treatment of interest payments and the flow of loan principal amounts.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications over the period to 2035-36 is provided at Attachment A.

Consistent with PBO Guidance 02/2015, PDI expense impacts have been included in this costing because the concessional loans impacted under this proposal involve financial asset transactions. The impact on gross debt will be broadly consistent with movements in the headline cash balance. A note on the accounting treatment of concessional loans is included at Attachment B.

The financial impacts are sensitive to the number of students who would fail to meet the pass rate rule, and the number who would circumvent it by changing provider and/or course.

Table 1: Reinstate the 50% pass mark required for HECS-HELP loans – Financial implications ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	7.3	15.4	16.8	18.5	**58.0**
Underlying cash balance	0.1	0.9	2.4	4.1	**7.5**
Headline cash balance	21.8	45.3	48.6	51.6	**167.3**

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

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Around 3% of HECS-HELP, 8.5% of undergraduate FEE-HELP, and 3.5% of postgraduate FEE-HELP students would fail more than 50% of courses after undertaking at least 8 units of study in a year.
  - This is based on data on the volume of student study load across 2018 to 2021 attributable to students undertaking 8 or more units of study in a year, disaggregated by provider type and HELP scheme.
- 80% of students would circumvent the 50% pass rule by changing providers and/or courses.
- Departmental costs to reinstate the rule would be minimal and would be absorbed by the Department of Education, given it is a rule that has previously been in place and for which systems to track student pass rates already exist.

Methodology

The proportion of students who would fail 50% of courses after undertaking at least 8 units and would not continue with further student loans was calculated using the parameters as per *Key assumptions*. The change in student study load was then flowed through the Department of Education's Higher Education Loan Program model to estimate the financial implications of the proposal.

Financial implications were rounded consistent with the PBO's rounding rules.[1]

Data sources

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

The Department of Education provided the Higher Education Loan Program model as at both the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO) and at the 2025-26 Budget.

[1] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Reinstate the 50% pass mark required for HECS-HELP loans – Financial implications

Table A1: Reinstate the 50% pass mark required for HECS-HELP loans – Fiscal balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
Administered non-tax													
Indexation on loans	-	*-0.4*	*-1.1*	*-1.9*	*-2.7*	*-3.5*	*-4.4*	*-5.3*	*-6.2*	*-7.1*	*-8.0*	***-3.4***	***-40.6***
Unwinding concessional loan discount	-	*-0.3*	*-1.0*	*-1.6*	*-2.3*	*-3.0*	*-3.8*	*-4.6*	*-5.4*	*-6.2*	*-7.0*	***-2.9***	***-35.2***
Student loan fees	..	..	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	***-0.2***	***-0.9***
Total – revenue	**..**	**-0.7**	**-2.2**	**-3.6**	**-5.1**	**-6.6**	**-8.3**	**-10.0**	**-11.7**	**-13.4**	**-15.1**	**-6.5**	**-76.7**
Expenses													
Administered													
Concessional loan discount	*3.3*	*6.9*	*7.3*	*7.8*	*8.2*	*8.8*	*9.3*	*9.9*	*10.6*	*11.3*	*12.0*	***25.3***	***95.4***
Other loan financing	*3.5*	*7.3*	*7.7*	*8.1*	*8.6*	*9.1*	*9.6*	*10.2*	*10.8*	*11.5*	*12.2*	***26.6***	***98.6***
Total – expenses	**6.8**	**14.2**	**15.0**	**15.9**	**16.8**	**17.9**	**18.9**	**20.1**	**21.4**	**22.8**	**24.2**	**51.9**	**194.0**
Total (excluding PDI)	**6.8**	**13.5**	**12.8**	**12.3**	**11.7**	**11.3**	**10.6**	**10.1**	**9.7**	**9.4**	**9.1**	**45.4**	**117.3**
PDI impacts	***0.5***	***1.9***	***4.0***	***6.2***	***8.5***	***11.0***	***13.6***	***16.4***	***19.3***	***22.3***	***25.5***	***12.6***	***129.2***
Total (including PDI)	**7.3**	**15.4**	**16.8**	**18.5**	**20.2**	**22.3**	**24.2**	**26.5**	**29.0**	**31.7**	**34.6**	**58.0**	**246.5**

(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.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A2: Reinstate the 50% pass mark required for HECS-HELP loans – Underlying cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Receipts													
Administered non-tax													
Interest receipts	*-0.3*	*-0.7*	*-1.1*	*-1.5*	*-2.0*	*-2.6*	*-3.3*	*-4.0*	*-4.9*	*-5.9*	*-6.9*	***-3.6***	***-33.2***
Total (excluding PDI)	**-0.3**	**-0.7**	**-1.1**	**-1.5**	**-2.0**	**-2.6**	**-3.3**	**-4.0**	**-4.9**	**-5.9**	**-6.9**	**-3.6**	**-33.2**
PDI impacts	***0.4***	***1.6***	***3.5***	***5.6***	***7.9***	***10.4***	***13.0***	***15.7***	***18.6***	***21.6***	***24.7***	***11.1***	***123.0***
Total (including PDI)	**0.1**	**0.9**	**2.4**	**4.1**	**5.9**	**7.8**	**9.7**	**11.7**	**13.7**	**15.7**	**17.8**	**7.5**	**89.8**

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

Table A3: Reinstate the 50% pass mark required for HECS-HELP loans – Headline cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Receipts													
Administered non-tax													
Interest receipts	*-0.3*	*-0.7*	*-1.1*	*-1.5*	*-2.0*	*-2.6*	*-3.3*	*-4.0*	*-4.9*	*-5.9*	*-6.9*	***-3.6***	***-33.2***
Loan principal repayments	*-0.5*	*-1.4*	*-2.3*	*-3.5*	*-5.1*	*-7.1*	*-9.6*	*-12.0*	*-15.0*	*-18.3*	*-21.5*	***-7.7***	***-96.3***
Total – receipts	**-0.8**	**-2.1**	**-3.4**	**-5.0**	**-7.1**	**-9.7**	**-12.9**	**-16.0**	**-19.9**	**-24.2**	**-28.4**	**-11.3**	**-129.5**
Payments													
Administered													
Total loans	*22.2*	*45.8*	*48.5*	*51.0*	*53.9*	*56.9*	*60.2*	*63.8*	*67.7*	*71.9*	*76.4*	***167.5***	***618.3***
Total – payments	**22.2**	**45.8**	**48.5**	**51.0**	**53.9**	**56.9**	**60.2**	**63.8**	**67.7**	**71.9**	**76.4**	**167.5**	**618.3**
Total (excluding PDI)	**21.4**	**43.7**	**45.1**	**46.0**	**46.8**	**47.2**	**47.3**	**47.8**	**47.8**	**47.7**	**48.0**	**156.2**	**488.8**
PDI impacts	***0.4***	***1.6***	***3.5***	***5.6***	***7.9***	***10.4***	***13.0***	***15.7***	***18.6***	***21.6***	***24.7***	***11.1***	***123.0***
Total (including PDI)	**21.8**	**45.3**	**48.6**	**51.6**	**54.7**	**57.6**	**60.3**	**63.5**	**66.4**	**69.3**	**72.7**	**167.3**	**611.8**

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

Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program (HELP) are an example of concessional loans offered by the Commonwealth.

Budget impact[2]

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans (which include fees). The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.[3] Table B1 provides information about the detail provided in a costing. The provision of concessional loans decreases the Australian Government's net worth if the liabilities issued (the value of Commonwealth Government Securities issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid (DNER)

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. The fiscal balance captures change in loans not expected to be repaid through 'Other loan financing'. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'other economic flows' which are also reflected in net worth.

Table B1: Components of concessional loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur. An assessment by the Government that a loan (apart from HELP loans) will not be fully repaid is an 'other economic flow', not included in the FB.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

[2] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[3] This is in accordance with *PBO Guidance 02/2015* and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.

Table B2: Descriptions of Fiscal balance items

Fiscal balance item	Description
Personal benefits	Personal benefits in HELP are the direct benefits to students who pay their fees up-front and get a discount. The discount is no longer applicable as of December 2022.
Remissions	Remissions occur when both parties agree to write-off an amount owed to the Australian Government. This item is mainly policy driven and consists of the mutually agreed write-downs of non-DNER debt for existing loans, such as policy measures related to debt waivers.
Concessional loan discount	The concessional component of a HELP loan represents the opportunity cost of providing the loan at a discounted rate and is referred to as the "loan discount", which is recognised as an expense. The expense is the difference between the loan's nominal value at the concessional rate and fair value at the market rate.
Other loan financing	This item reports the proportion of debt that is not expected to be repaid (DNER) at the time of initial recognition. Other loan financing is primarily comprised of DNER due to death.
Indexation on loans	The fair value of HELP loans outstanding is subject to indexation which is recognised as interest income in the financial statements. The fair value of the HELP opening balance is based on actuarial assessment performed by the Australian Government Actuary (AGA).
Unwinding concessional discount	The concessional loan discount is initially recognised when new loans are advanced, and then subsequently written back over the lifetime of the loan as revenue, referred to as unwinding of the discount. The unwinding is calculated as the difference between potential interest income at market rates and actual interest accrued at the concessional rate.
Student loan fees	When enrolled in a full fee-paying university place, there is a 20% FEE-HELP loan fee applied to some undergraduate study, which is captured in this line item.
Other non-tax revenue	Other non-taxation revenue that is not reported elsewhere, calculated as the proportion of state contributions for DNER and deferral costs for state subsidised VET Student Loans (VSL) consisting of the upfront fees charged on new VSL loans. States and territories contribute 50% of loan expenses, which includes DNER and the concessional loan discount, generated by state-subsidised students using the VSL scheme or grandfathered VET FEE HELP.

Table B3: Descriptions of Underlying cash balance (UCB) items

UCB item	Description
Interest receipts	The proportion of HELP repayments that are classified as interest repayments.
Other non-tax receipts	The cash equivalent of other non-tax revenue – this includes the proportion of state contributions for DNER and deferral costs for state subsidised VET Student Loans (VSL) consisting of the upfront fees charged on new VSL loans.
Personal benefits	Personal benefits in HELP are the direct benefits to students who pay their fees up-front and get a discount. The discount is no longer applicable as of December 2022.

Table B4: Descriptions of Headline cash balance (HCB) items

HCB item	Description
Interest receipts	The proportion of HELP repayments that are classified as interest repayments.
Other non-tax receipts	The cash equivalent of other non-tax revenue – this includes the proportion of state contributions for DNER and deferral costs for state subsidised VET Student Loans (VSL) consisting of the upfront fees charged on new VSL loans.
Loan principal repayments	This line item captures only the principal component of repayments.
Personal benefits	Personal benefits in HELP are the direct benefits to students who pay their fees up-front and get a discount. The discount is no longer applicable as of December 2022.
Total loans	This item captures the total new loans issued each year across all HELP types.