Parliamentary Budget Office

Costing Concepts: Concessional loans

Tags: Accounting

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Overview

This *Costing Concept* describes the accounting treatment of concessional loans and how these loans are reported in PBO costings of policies which affect these 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.

This guidance covers concessional loan accounting, including for the Higher Education Loan Program (HELP).

Budget impact[1]

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 and is a better measure of the macroeconomic impact of some measures.
- 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.[2] Table 1 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 Australian 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).

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

[2] 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.

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 'debt not expected to be repaid'. 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 1: 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.

Table 2: Descriptions of Fiscal balance items

Fiscal balance item	Description
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).
Concessional loan discount	The concessional component of a 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.
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.
Debt not expected to be repaid	This item reports the proportion of debt that is not expected to be repaid (DNER) at the time of initial recognition. DNER primarily reflects death.
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.
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.
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 3: Descriptions of Underlying cash balance (UCB) items

UCB item	Description
Repayments toward interest	The proportion of 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 4: Descriptions of Headline cash balance (HCB) items

HCB item	Description
Repayments toward interest	The proportion of repayments that are classified as interest repayments.
Repayments toward principal	The proportion of repayments that are classified as principal repayments.
New loans issued	This item captures the face value of total new loans issued each year.
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.