Parliamentary Budget Office

## Policy costing

| TAFE – 100,000 fee-free TAFE courses | |
|---|---|
| Party: | Australian Labor Party |
| Summary of proposal:<br>This proposal would provide funding for 25,000 Tertiary and Further Education (TAFE) places each year over a period of four years to cover all upfront course fees currently faced by TAFE students. The 25,000 places would be spread evenly across Certificate II, Certificate III, Certificate IV, Diploma and Advanced Diploma courses.<br>This proposal would have effect from 1 January 2020 and would terminate on 31 December 2023. | |

## Costing overview

This proposal would effectively replace vocational education and training (VET) student loans with grants for some students and provide direct assistance to other students.

The proposal would be expected to decrease the fiscal balance by $343 million, the underlying cash balance by $324 million, and the headline cash balance by $209 million over the 2019-20 Budget forward estimates period.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, as the proposal involves changes in the value of financial assets, the public debt interest (PDI) impact of the proposal has been included in the estimates.

A breakdown of the financial implications of this proposal over the 2019-20 Budget forward estimates period is included at Attachment A. The proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period, primarily due to the decrease in VET student loans (which would result in a decrease in repayments of loans and interest paid on loans).

The fiscal, underlying cash and headline cash balance impacts differ due to how they treat the concessional interest rate, and the flow of loan principal and interest repayment amounts. Only the fiscal balance includes an estimate of the change in the value of the concession being provided. Only the headline cash balance includes changes in the value of loans issued and principal repayments. A note explaining the accounting treatment of income contingent loans, such as those provided under the Higher Education Loan Program (HELP) and the VET Student Loans program, is included at Attachment B.

Departmental expenditure estimates for the Department of Education and Training to administer the proposal have been included in the costing. These estimates have been based on similar-sized programs.

The estimates of the financial implications in this costing are highly sensitive to assumptions regarding the out-of-pocket costs paid by students, and a number of other factors, including behavioural responses by students and educational providers. Out-of-pocket costs paid by students for similar courses differ significantly between states and territories, and there is limited data available on a national basis. Similarly, the estimates in this costing are highly sensitive to the assumptions made about the students, and the distribution of courses studied, that would be affected by this proposal. Inherent uncertainties in the baseline estimates for the VET Student Loans program, and limited information regarding loan repayment profiles add to the uncertainty of the estimated financial implications of this proposal.

**Table 1: Financial implications ($m)[(a)(b)]**

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
|---|---|---|---|---|---|
| Fiscal balance | -79 | -86 | -88 | -91 | **-343** |
| Underlying cash balance | -77 | -80 | -82 | -84 | **-324** |
| Headline cash balance | -61 | -47 | -49 | -51 | **-209** |

(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

The PBO has made the following assumptions in costing the proposal.

- Any enabling legislation would be passed before the commencement of the proposal.
- There would be no increase in TAFE student numbers as a result of the proposal.
- Neither the subsidies paid nor the course costs for any TAFE course would be altered as a result of this proposal, and students would not transfer from one course to another based on the change in out-of-pocket costs under this proposal.
  - The proposal makes tuition free for 25,000 TAFE students, which is a relatively small proportion of the total VET student pool.
- 50 per cent of students affected by this proposal and eligible for VET student loans would have otherwise accessed the VET Student Loans program to pay their upfront student fees in the form of a deferred, income-contingent loan.
  - The value of the VET student loans that would no longer be required is based on the average value of VET student loans at TAFE institutions, estimated from historical data provided by the Department of Education and Training.
  - The value of out-of-pocket costs for all other students across Australia for the 2019 calendar year is equal to those published by the New South Wales Department of Industry (program level data are not available on a national basis regarding out-of-pocket costs paid by students). These costs, after subsidies provided by the New South Wales Government, are taken into account. Costs are indexed annually by the higher education grants index.
  - Average student out-of-pocket costs are higher for students who, in the baseline scenario, would have taken out a VET student loan, than for students without a VET student loan.
- All grants to cover students' out-of-pocket costs would be paid at the beginning of the academic year.

## Methodology

The financial implications of this proposal are the net effect of the implications of removing VET student loans and providing grants.

The implications of removing VET student loans for students affected by the proposal and assumed to have taken out a VET student loan under the baseline were calculated using the Department of Education and Training's HELP forward estimates model with the average assumed VET student loan for TAFE students.

- Applying the assumptions described above, 5,000 places would be affected. This is 50 per cent of the 10,000 places at Diploma and Advanced Diploma level each year under the proposal because VET student loans are only available for eligible courses at Diploma or Advanced Diploma level at eligible institutions.

The value of grants provided to the states and territories was calculated by multiplying the average course fee paid by students, by program level, for a secondary or further qualification multiplied by the total number of affected students.

All estimates have been rounded to the nearest $1 million.

## Data sources

The Department of Education and Training provided the 2019-20 Budget HELP forward estimates model.

The Department of Finance provided indexation and efficiency dividend parameters as at the 2019 Pre-election Economic and Fiscal Outlook.

Commonwealth of Australia, 2019. *2019-20 Budget*, Canberra: Commonwealth of Australia.

Department of Education and Training, 2019. *VET Student Loans Six-monthly Report – 1 July 2018 to 31 December 2018 – Table 1 to Table 6 addendum.* [Online] Available at: https://docs.education.gov.au/node/52436 [Accessed 27.03.2019].

National Centre for Vocational Education Research, 2018. *Total VET students and courses 2017: data slicer*. [Online] Available at: https://www.ncver.edu.au/research-and-statistics/data/all-data/total-vet-students-and-courses-2017-data-slicer [Accessed 12.03.2019].

New South Wales Department of Industry, 2019. *Smart and Skilled Prices and Fees – v8.5.* [Online] Available at: https://www.training.nsw.gov.au/forms_documents/smartandskilled/prices_fees/prices_fees_v8.5.pdf [Accessed 15.03.2019].

# Attachment A – TAFE – 100,000 fee-free TAFE courses – financial implications

## Table A1: TAFE – 100,000 fee-free TAFE courses – Fiscal balance ($m)[(a)(b)]

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| *Income from unwinding concessional loan discount* | - | - | .. | .. | **..** |
| *Interest accrued on loans* | - | .. | *-1* | *-2* | ***-3*** |
| *Loan fee revenue* | *-3* | *-7* | *-7* | *-7* | ***-23*** |
| **Total – revenue** | **-3** | **-7** | **-8** | **-9** | **-26** |
| **Expenses** | | | | | |
| *Administered* | | | | | |
| *Replace TAFE student fees with grants* | *-75* | *-77* | *-78* | *-80* | ***-310*** |
| *Concessional loan discount* | *1* | *2* | *2* | *2* | ***6*** |
| *Loan write downs* | - | .. | .. | .. | **..** |
| ***Total – administered*** | ***-74*** | ***-75*** | ***-76*** | ***-78*** | ***-304*** |
| *Departmental* | | | | | |
| *Department of Education and Training* | *-1* | *-2* | *-2* | *-1* | ***-5*** |
| ***Total – departmental*** | ***-1*** | ***-2*** | ***-2*** | ***-1*** | ***-5*** |
| **Total – expenses** | **-75** | **-77** | **-78** | **-79** | **-309** |
| **Total (excluding PDI)** | **-78** | **-84** | **-86** | **-88** | **-335** |
| **PDI impacts** | **-1** | **-2** | **-2** | **-3** | **-8** |
| **Total (including PDI)** | **-79** | **-86** | **-88** | **-91** | **-343** |

(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.

.. Not zero but rounded to zero.

\- Indicates nil.

### Table A2: TAFE – 100,000 fee-free TAFE courses – Underlying cash balance ($m)[(a)(b)]

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
|---|---|---|---|---|---|
| **Receipts** | | | | | |
| *Interest received on loans* | - | .. | .. | .. | ***-1*** |
| **Total – receipts** | **-** | **..** | **..** | **..** | **-1** |
| **Payments** | | | | | |
| *Administered* | | | | | |
| *Replace TAFE student fees with grants* | *-75* | *-77* | *-78* | *-80* | ***-310*** |
| ***Total – administered*** | ***-75*** | ***-77*** | ***-78*** | ***-80*** | ***-310*** |
| *Departmental* | | | | | |
| *Department of Education and Training* | *-1* | *-2* | *-2* | *-1* | ***-5*** |
| ***Total – departmental*** | ***-1*** | ***-2*** | ***-2*** | ***-1*** | ***-5*** |
| **Total – payments** | **-76** | **-79** | **-80** | **-81** | **-315** |
| **Total (excluding PDI)** | **-76** | **-79** | **-80** | **-81** | **-316** |
| **PDI impacts** | **-1** | **-1** | **-2** | **-3** | **-8** |
| **Total (including PDI)** | **-77** | **-80** | **-82** | **-84** | **-324** |

(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.

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

.. Not zero but rounded to zero.

\- Indicates nil.

### Table A3: TAFE – 100,000 fee-free TAFE courses – Headline cash balance ($m)[a][b]

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
|---|---|---|---|---|---|
| **Receipts** | | | | | |
| *Interest received on loans* | - | .. | .. | .. | ***-1*** |
| *Principal repayments* | - | .. | *-1* | *-1* | ***-2*** |
| **Total – receipts** | **-** | **..** | **-1** | **-1** | **-3** |
| **Payments** | | | | | |
| *Administered* | | | | | |
| *Replace TAFE student fees with grants* | *-75* | *-77* | *-78* | *-80* | ***-310*** |
| *Loans issued* | *16* | *33* | *34* | *34* | ***117*** |
| ***Total – administered*** | ***-59*** | ***-44*** | ***-44*** | ***-46*** | ***-193*** |
| *Departmental* | | | | | |
| *Department of Education and Training* | *-1* | *-2* | *-2* | *-1* | ***-5*** |
| ***Total – departmental*** | ***-1*** | ***-2*** | ***-2*** | ***-1*** | ***-5*** |
| **Total – payments** | **-60** | **-46** | **-46** | **-47** | **-198** |
| **Total (excluding PDI)** | **-60** | **-46** | **-47** | **-48** | **-201** |
| **PDI impacts** | **-1** | **-1** | **-2** | **-3** | **-8** |
| **Total (including PDI)** | **-61** | **-47** | **-49** | **-51** | **-209** |

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

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

.. Not zero but rounded to zero.

\- Indicates nil.

# 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 are an example of concessional loans offered by the Commonwealth.

## 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. 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.[2] (Table B1 provides information about the detail provided in a costing.) The provision of concessional loans decreases the Commonwealth Government's net worth if the liabilities issued (the value of Commonwealth Government Securities (CGS) 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

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. None of the measures capture the direct impact on net worth of the loans 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 reflected in net worth but not in the budget aggregates.

**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 fair value of 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. |
| 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. |

[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.