



Policy costing—outside the caretaker period

Name of proposal:	Higher education and vocational education and training
Summary of proposal:	<p>The proposal would amend the Higher Education Loan Program (HELP) as follows:</p> <ul style="list-style-type: none"> • Interest on outstanding HELP loans would be charged at the standard variable owner-occupied home loan rate published by the Reserve Bank of Australia. • The threshold of income at which HELP compulsory repayments would take effect would be reduced to the level at which a recipient would lose eligibility for unemployment benefits. • An initial repayment rate of 4 per cent of HELP repayment income, rising as per existing arrangements. • Outstanding debts to be claimed from deceased estates. <p>The proposal would also:</p> <ul style="list-style-type: none"> • abolish higher education and vocational education and training (VET) tuition subsidies for courses commencing from 1 July 2017 • abolish government funding for research by higher education and VET institutions for courses commencing from 1 July 2017 • deregulate the higher education and VET sectors. <p>The proposal would be implemented on 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	13 January 2017
Date costing completed:	13 October 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

The proposal would remove all Commonwealth Government subsidies to the higher education and VET sectors for courses commencing from 1 July 2017 and deregulate these sectors, leading to higher fees for students. The majority of the increase in fees that would be faced by students under the proposal would be borrowed through HELP.

The proposal would also amend HELP arrangements by removing the concessional interest rate on loans and introducing changes intended to increase the likelihood of more HELP debt being repaid, partially offsetting the increase in debt not expected to be repaid as a result of increased borrowing per student.

The increase in up-front student fees, reduced concessionalism and higher repayment rates for HELP loans would be expected to reduce demand for higher education courses.

This proposal would be expected to increase the fiscal balance by \$45,970 million, increase the underlying cash balance by \$35,325 million and increase the headline cash balance by \$30,859 million over the 2017-18 Budget forward estimates period. The disaggregated financial impacts of the proposal to 2027-28 are included at [Attachment A](#).

As the proposal involves the transaction of financial assets, the Public Debt Interest (PDI) impact of the proposal has been included. A note on the accounting treatment of income contingent loans is included at [Attachment B](#).

The proposal would be expected to reduce departmental expenditure as a result of the abolition of higher education and VET programs.

Due to the significant policy changes contained in this proposal the estimates of the financial implications of this proposal are subject to uncertainty related to a number of factors, including the potential behavioural responses by students and education institutions affected by the proposal, limited information regarding loan repayment profiles, and inherent uncertainties in the baseline estimates for the HELP program.

Table 1: Financial implications^{(a)(b)}

Impact on (\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21
Fiscal balance	8,129	10,131	12,565	15,144	45,970
Underlying cash balance	6,192	7,701	9,792	11,640	35,325
Headline cash balance	5,899	6,687	8,412	9,861	30,859

(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 the proposal, it has been assumed that:

- once the enabling legislation is passed, the fair value of all existing HELP debt increases to reflect the improved prospect of the loans being repaid, which would in turn increase the amount of debt on which interest could reasonably be accrued
- as interest on HELP loans is only accrued once a year, the proposed interest rate on HELP loans would be based on the 12-month average of the standard variable owner-occupied home loan rate published by the Reserve Bank of Australia prior to 1 June each year
- higher education providers would increase fees for students. For the purpose of this costing, it has been assumed that the increase is equal to the amount of lost direct government subsidies
- demand for higher education places that would otherwise be funded under the Commonwealth Grant Scheme or Research Training Program would reduce substantially, reflecting the higher fees that would be paid by students
 - The reduction would occur gradually over six years, reflecting the estimated time taken by current and future students to adjust their plans in response to the increased costs of studying.
- demand and fees for courses that do not currently receive any direct government subsidies would remain largely unchanged
- the mix of subjects studied and the proportion of students paying their fees upfront would remain largely unchanged
- departmental expenditure for Outcome 2 of the Department of Education and Training would reduce by 40 per cent, which takes into account both the abolition of programs and the proposed changes to HELP
- the proposal commences from 1 July 2017. In practice a change of this magnitude would take some time to legislate and implement. Accordingly, the costing estimates are indicative of the magnitude of the impact of the proposal on the assumption that it could commence from the date specified.

Methodology

Abolition of subsidies for higher education and VET

The financial impacts of abolishing the identified programs over the 2017-18 Budget forward estimates are based on information provided by the Department of Finance, accounting for retaining subsidies for courses commencing before 1 July 2017. Beyond the forward estimates, financial impacts are estimated by growing the savings by the relevant indexation factors, which include the Consumer Price Index and growth in student numbers.

Changes to HELP

The proposed changes to HELP were modelled using a microsimulation model of existing HELP debtors, which compares the values of repayments and outstanding loans under current and proposed arrangements. The model takes into account the income and amount of HELP debt of individuals, as well as the proposed interest rate, HELP repayment thresholds, additional HELP borrowings, and reduced demand for higher education due to the abolition of government subsidies.

The value of HELP loans that could be recovered from deceased estates under the proposal was derived by assigning an estimated net wealth to the unit record of HELP debt write-off over the period 2012-13 to 2014-15. Individuals' net wealth was estimated based on the *Survey of Income and Housing 2013-14*.

The financial impact of the proposed changes to HELP were then estimated based on the change in repayments, loans outstanding, and debt writedowns using the HELP forward estimates model provided by the Department of Education and Training.

The sum of the financial impacts from the abolition of programs and changes to HELP represents the financial impacts of the proposal.

All estimates except PDI impacts have been rounded to the nearest \$10 million. PDI impacts have been rounded to the nearest \$1 million.

Data sources

Australian Bureau of Statistics, 2015. *6553.0 - Survey of Income and Housing 2012-13*, Canberra: Australian Bureau of Statistics.

Australian Taxation Office, 2012-13. *Income tax unit records*, Canberra: Australian Taxation Office.

Australian Taxation Office, 2016. *HELP writedowns unit record between 2012-13 and 2014-15*, Canberra: Australian Taxation Office.

Department of Education and Training, 2017. *Higher Education Loan Program Forward Estimates Model, 2017-18 Budget*, Canberra: Department of Education and Training.

Department of Finance, 2017-18 Budget. *Central Budget Management System estimates*, Canberra: s.n.

Reserve Bank of Australia, 2016. *Indicative Mid Rates of Australian Government Securities – F16*. [Online]

Available at: <http://www.rba.gov.au/statistics/tables/xls/f16.xls>
[Accessed 25.11.2016].

Reserve Bank of Australia, 2016. *Indicator Lending Rates – F5*. [Online]

Available at: <http://www.rba.gov.au/statistics/tables/xls/f05hist.xls>
[Accessed 25.11.2016].

Attachment A – Higher education and vocational education and training—financial implications

Table A1: Higher education and vocational education and training—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2027–28
Impact on fiscal balance													
Changes to HELP	2,410	2,760	3,100	3,760	12,030	4,580	5,470	6,510	7,680	8,990	10,440	12,040	67,730
Abolition of higher education and vocational education and training subsidies	5,717	7,373	9,461	11,385	33,936	13,005	14,524	16,032	17,280	18,660	20,172	22,007	155,617
Total	8,129	10,131	12,565	15,144	45,970	17,584	19,996	22,538	24,959	27,647	30,608	34,048	223,352
Impact on underlying cash balance													
Changes to HELP	310	170	180	100	760	50	-10	-70	-120	-150	-110	-30	320
Abolition of higher education and vocational education and training subsidies	5,880	7,530	9,616	11,538	34,564	13,032	14,579	16,113	17,382	18,776	20,293	22,133	156,873
Total	6,192	7,701	9,792	11,640	35,325	13,082	14,567	16,043	17,264	18,623	20,183	22,107	157,195
Impact on headline cash balance													
Changes to HELP	-300	-1,190	-1,590	-2,100	-5,190	-2,400	-2,650	-2,750	-2,710	-2,600	-2,230	-1,730	-22,260
Abolition of higher education and vocational education and training subsidies	6,203	7,877	10,002	11,962	36,044	13,615	15,165	16,573	17,715	18,983	20,373	22,206	160,674
Total	5,899	6,687	8,412	9,861	30,859	11,215	12,511	13,824	15,001	16,382	18,147	20,474	138,414

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

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

Table A2: Changes to HELP—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2027–28
Impact on fiscal balance													
Higher Education Loan Program													
<i>Concessional loan discount expense</i>	540	580	590	600	2,310	650	660	680	710	740	780	810	7,350
<i>Concessional loan discount unwinding revenue</i>	-	-60	-110	-180	-350	-250	-320	-380	-430	-480	-530	-570	-3,310
Net concessional loan discount	540	530	480	420	1,960	400	340	310	280	260	240	240	4,040
Interest revenue accrued	1,880	2,260	2,680	3,440	10,260	4,350	5,390	6,570	7,900	9,360	10,950	12,670	67,450
Loan writedowns	20	20	20	20	80	30	30	30	40	40	40	40	330
State contributions to deferral costs	-20	-20	-20	-20	-80	-20	-20	-20	-20	-30	-30	-30	-250
Public Debt Interest	-4	-23	-58	-106	-191	-174	-269	-385	-513	-645	-771	-886	-3,833
Total	2,410	2,760	3,100	3,760	12,030	4,580	5,470	6,510	7,680	8,990	10,440	12,040	67,730
Impact on underlying cash balance													
Higher Education Loan Program													
Interest receipts	330	210	250	230	1,020	240	270	330	410	510	680	880	4,340
State contributions to deferral costs	-20	-20	-20	-20	-80	-20	-20	-20	-20	-30	-30	-30	-250
Public Debt Interest	-4	-21	-56	-102	-183	-169	-263	-377	-504	-636	-762	-878	-3,771
Total	310	170	180	100	760	50	-10	-70	-120	-150	-110	-30	320
Impact on headline cash balance													
Higher Education Loan Program													
Loans issued	-1,410	-1,920	-2,440	-2,820	-8,590	-3,110	-3,400	-3,610	-3,750	-3,910	-4,070	-4,230	-34,660
Principle repayments and interest receipts	1,130	770	930	840	3,660	900	1,030	1,260	1,570	1,970	2,630	3,410	16,420
State contributions to deferral costs	-20	-20	-20	-20	-80	-20	-20	-20	-20	-30	-30	-30	-250
Public Debt Interest	-4	-21	-56	-102	-183	-169	-263	-377	-504	-636	-762	-878	-3,771
Total	-300	-1,190	-1,590	-2,100	-5,190	-2,400	-2,650	-2,750	-2,710	-2,600	-2,230	-1,730	-22,260

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

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

- Indicates nil.

Table A3: Abolition of higher education and vocational education and training subsidies—Impact on fiscal balance (outturn prices)^{(a)(b)}

(\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2027–28
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	1,760	2,881	4,267	5,459	14,367	6,367	7,090	7,834	8,153	8,485	8,830	9,190	70,315
Program 2.3 Higher Education Support	420	435	452	499	1,806	508	516	525	534	543	553	562	5,548
Program 2.5 Investment in Higher Education Research	489	810	1,241	1,624	4,164	1,913	2,133	2,181	2,268	2,358	2,452	2,550	20,019
Program 2.6 Research Capacity	178	181	185	188	732	192	196	200	204	208	212	216	2,158
Program 2.8 Building Skills and Capability	1,216	1,215	1,214	1,207	4,852	1,204	1,201	1,197	1,197	1,201	1,209	1,223	13,284
Departmental	82	78	77	78	315	79	79	80	81	81	82	82	879
National Agreement for Skills and Workforce Development	1,495	1,517	1,540	1,563	6,115	1,587	1,611	1,636	1,661	1,687	1,713	1,740	17,750
Public Debt Interest	78	256	484	766	1,585	1,157	1,698	2,379	3,183	4,097	5,121	6,443	25,663
Total	5,717	7,373	9,461	11,385	33,936	13,005	14,524	16,032	17,280	18,660	20,172	22,007	155,617

(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.

Table A4: Abolition of higher education and vocational education and training subsidies—Impact on underlying cash balance (outturn prices)^{(a)(b)}

(\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2027–28
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	1,760	2,881	4,267	5,459	14,367	6,367	7,090	7,834	8,153	8,485	8,830	9,190	70,315
Program 2.3 Higher Education Support	420	435	452	499	1,806	508	516	525	534	543	553	562	5,548
Program 2.5 Investment in Higher Education Research	489	810	1,241	1,624	4,164	1,913	2,133	2,181	2,268	2,358	2,452	2,550	20,019
Program 2.6 Research Capacity	178	181	185	188	732	192	196	200	204	208	212	216	2,159
Program 2.8 Building Skills and Capability	1,391	1,392	1,393	1,387	5,563	1,266	1,301	1,334	1,363	1,388	1,410	1,451	15,076
Departmental	75	71	70	70	286	71	71	72	72	73	73	74	793
National Agreement for Skills and Workforce Development	1,495	1,517	1,540	1,563	6,115	1,587	1,611	1,636	1,661	1,687	1,713	1,740	17,750
Public Debt Interest	72	244	468	747	1,531	1,129	1,660	2,332	3,127	4,033	5,049	6,351	25,212
Total	5,880	7,530	9,616	11,538	34,564	13,032	14,579	16,113	17,382	18,776	20,293	22,133	156,873

(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.

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Table A5: Abolition of higher education and vocational education and training subsidies—Impact on headline cash balance (outturn prices)^{(a)(b)}

(\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2027–28
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	1,760	2,881	4,267	5,459	14,367	6,367	6,367	7,090	7,834	8,153	8,485	8,830	67,492
Program 2.3 Higher Education Support	420	435	452	499	1,806	508	508	516	525	534	543	553	5,494
Program 2.5 Investment in Higher Education Research	489	810	1,241	1,624	4,164	1,913	1,913	2,133	2,181	2,268	2,358	2,452	19,382
Program 2.6 Research Capacity	178	181	185	188	732	192	192	196	200	204	208	212	2,135
Program 2.8 Building Skills and Capability	1,713	1,739	1,778	1,812	7,043	1,849	1,849	1,887	1,793	1,696	1,595	1,490	19,203
Departmental	75	71	70	70	286	71	71	71	72	72	73	73	789
National Agreement for Skills and Workforce Development	1,495	1,517	1,540	1,563	6,115	1,587	1,587	1,611	1,636	1,661	1,687	1,713	17,598
Public Debt Interest	72	244	468	747	1,531	1,129	1,660	2,332	3,127	4,033	5,049	6,351	25,212
Total	6,203	7,877	10,002	11,962	36,044	13,615	14,146	15,836	17,367	18,622	19,999	21,675	157,304

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

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

Attachment B: Accounting Treatment of Income Contingent Loans

In accordance with PBO Guidance 02/2015 and the *Charter of Budget Honesty Policy Costing Guidelines*, proposals that “involve transactions of financial assets” would need to take into account the impact of PDI payments. 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 income contingent loan component of the proposal, but all associated components that are considered integral to the overall proposal. The most widely known example of an income contingent loan is a loan under the Higher Education Loan Program (HELP).

The issuing of income contingent loans and repayments of principal themselves do not have an impact on the underlying cash or fiscal balances as they are treated as investments, while the associated PDI payments impact on all three budget balances. The PDI impact is a result of the change in Government’s borrowing requirements to fund these loans.

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 the loan, and is based on the approach used for HELP loans.

Interest is also accounted for in fiscal balance terms. This is the increase in the value of the debt due to the debiting of the interest on the outstanding balance of the loan each financial year. Fiscal balance interest income is assessed on the “fair value” of the debt, consistent with relevant accounting standards, as it is unreasonable to claim interest income on a debt that is not expected to be repaid. For HELP loans, the interest rate of the loan is the rate of the increase in the Consumer Price Index (CPI).

Furthermore, income contingent loans may be concessional to the extent that the interest rate on the loan is less than the market interest rate that would be charged to the borrowers. For Budget purposes, the concession is estimated based on the difference between the Government bond rate and the interest rate on the concessional loan. The Budget accounts for the net present value of this concession as an expense in fiscal balance terms. As loans are repaid, the amount of foregone interest income reduces, so this expense is “unwound”, having a positive impact on the fiscal balance. For example, HELP loans are concessional as they are indexed to CPI.

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 writedowns or write-offs (for example in the case of death of the borrower) have no impact on the underlying cash balance, but are an expense in fiscal balance terms.

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.