



## Policy costing—outside the caretaker period

Name of proposal:	Higher threshold for regional student HELP repayments
Summary of proposal:	<p>The proposal would amend the income threshold for repayment of the Higher Education Loan Program (HELP) debt for students studying courses at a recognised regional campus. Students who attend a campus that receives the ‘regional loading’ would not be required to start repaying their HELP debt on the units completed at the regional campus until they reach the 3.5 per cent threshold under the proposed legislation (\$56,205 - \$59,576). Repayments would then continue as per the legislation.</p> <p>The proposal would have effect from 1 July 2018.</p>
Person/party requesting the costing:	Ms Cathy McGowan AO MP, Member of Indi
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	7 July 2017
Date costing completed:	7 September 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

### Costing overview

This proposal would be expected to decrease the fiscal balance by \$9.7 million, the underlying cash balance by \$5.8 million and the headline cash balance by \$21.6 million over the 2017-18 Budget forward estimates period.

The proposal would not be expected to result in additional departmental expenditure as the implementation of the policy is expected to be within the scope of administering the existing HELP.

This proposal would be expected to have an ongoing impact beyond the 2017-18 Budget forward estimates period. The disaggregated impacts of the proposal over the period 2017-18 to 2027-28 are provided 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 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**<sup>(a)(b)</sup>

Impact on (\$m)	2017–18	2018–19	2019–20	2020–21	Total to 2020–21
Fiscal balance	-1.4	-2.1	-2.7	-3.4	-9.7
Underlying cash balance	0.1	-1.5	-2.0	-2.4	-5.8
Headline cash balance	0.1	-6.0	-7.3	-8.4	-21.6

(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, it has been assumed that:

- the legislation giving effect to the proposal would be passed before the end of the 2017-18 financial year
  - The prospect of repayments from both new and existing loans deteriorates when the enabling legislation is passed. On a fiscal balance basis, this reflects decreased Government interest revenue from a decrease in the amount of debt likely to be repaid on which interest is accrued, which has a negative impact on the fiscal balance, partly offset by higher interest revenue as HELP debts are paid off more slowly and the outstanding principle is higher than is reflected in the baseline.
- students studying at a campus that receives the 'regional loading' would have the same income distribution as all other university students
- voluntary repayments would not be affected by this proposal
- demand for HELP loans are unaffected by this proposal.

## Methodology

The financial impacts of amending repayment thresholds from 1 July 2018 were estimated based on the difference between existing policy and a simulation of loan repayments by borrowers, taking into account the proposed repayment thresholds, borrowers' income, existing HELP debts, and the proportion of HELP debts from students studying at a campus that receives the 'regional loading'.

## Data sources

The Department of Education and Training provided the value of loans under HELP loans and the VET Student Loans program issued to students who attended a campus receiving regional loading over the calendar years 2012 to 2016.

Australian Taxation Office - 2012-13 unit record tax data.

## Attachment A – Higher threshold for regional student HELP repayments—financial implications

**Table A1: Higher threshold for regional student HELP repayments—Fiscal balance<sup>(a)(b)</sup>**

Financial impact (\$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
Higher Education Loan Program													
<i>Concessional loan discount expense</i>	-1.3	-1.4	-1.3	-1.3	<b>-5.3</b>	-1.4	-1.4	-1.4	-1.5	-1.5	-1.6	-1.7	<b>-15.7</b>
<i>Concessional loan discount unwinding revenue</i>	-	-0.3	-0.5	-0.8	<b>-1.6</b>	-1.1	-1.3	-1.6	-1.9	-2.1	-2.3	-2.5	<b>-14.4</b>
Net concessional loan discount	-1.3	-1.6	-1.8	-2.1	<b>-6.9</b>	-2.5	-2.7	-3.0	-3.3	-3.6	-3.9	-4.2	<b>-30.1</b>
Interest revenue accrued	-0.2	-0.5	-0.8	-1.0	<b>-2.4</b>	-1.1	-1.3	-1.5	-1.6	-1.8	-1.9	-2.1	<b>-13.7</b>
Loan writedowns	-	-	..	-0.1	<b>-0.1</b>	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	<b>-1.6</b>
Other revenue	0.1	0.1	0.1	0.1	<b>0.4</b>	0.1	0.1	0.1	0.1	0.1	0.2	0.2	<b>1.4</b>
PDI impacts	..	-0.1	-0.2	-0.4	<b>-0.7</b>	-0.7	-1.1	-1.7	-2.3	-3.1	-4.1	-5.2	<b>-19.0</b>
<b>Total</b>	<b>-1.4</b>	<b>-2.1</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-9.7</b>	<b>-4.2</b>	<b>-5.1</b>	<b>-6.2</b>	<b>-7.4</b>	<b>-8.7</b>	<b>-10.1</b>	<b>-11.7</b>	<b>-63.1</b>

(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.

## Sensitive

**Table A2: Higher threshold for regional student HELP repayments—Underlying cash balance<sup>(a)(b)</sup>**

Financial impact (\$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
Higher Education Loan Program													
Interest received	-	-1.6	-1.9	-2.1	-5.5	-2.4	-2.7	-3.0	-3.3	-3.6	-4.0	-4.3	-28.7
Other revenue	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.2	1.4
PDI impacts	..	-0.1	-0.2	-0.4	-0.7	-0.7	-1.1	-1.6	-2.3	-3.1	-4.0	-5.2	-18.7
<b>Total</b>	<b>0.1</b>	<b>-1.5</b>	<b>-2.0</b>	<b>-2.4</b>	<b>-5.8</b>	<b>-2.9</b>	<b>-3.6</b>	<b>-4.4</b>	<b>-5.4</b>	<b>-6.5</b>	<b>-7.8</b>	<b>-9.3</b>	<b>-46.0</b>

(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.

## Sensitive

**Table A3: Higher threshold for regional student HELP repayments—Headline cash balance<sup>(a)(b)</sup>**

Financial impact (\$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
Higher Education Loan Program													
Repayments received (including interest received)	-	-6.0	-7.2	-8.1	<b>-21.3</b>	-9.3	-10.5	-11.8	-13.1	-14.5	-16.0	-17.5	<b>-113.9</b>
Other revenue	0.1	0.1	0.1	0.1	<b>0.4</b>	0.1	0.1	0.1	0.1	0.1	0.2	0.2	<b>1.4</b>
PDI impacts	..	-0.1	-0.2	-0.4	<b>-0.7</b>	-0.7	-1.1	-1.6	-2.3	-3.1	-4.0	-5.2	<b>-18.7</b>
<b>Total</b>	<b>0.1</b>	<b>-6.0</b>	<b>-7.3</b>	<b>-8.4</b>	<b>-21.6</b>	<b>-9.8</b>	<b>-11.4</b>	<b>-13.3</b>	<b>-15.3</b>	<b>-17.5</b>	<b>-19.8</b>	<b>-22.5</b>	<b>-131.2</b>

(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.

.. Not zero but rounded to zero.

- Indicates nil.

## **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.