



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Universities: Base Funding Lift* (letter of 28 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

28 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Universities: Base Funding Lift
Summary of proposal:	<p>The proposal would increase base funding for teaching and learning in tertiary education by 10 per cent.</p> <p>The increase in funding would be phased in from 1 January 2017 to 2020 so that from 1 January 2020 universities have a 10 per cent increase in their base funding from current levels (appropriately indexed).</p> <p>The proposal would also reverse cuts to higher education funding in the 2013-14 and 2014-15 Budgets.</p> <p>The proposal would have effect from 1 January 2017.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	4 February 2016
Date costing request received:	28 June 2016
Date costing completed	28 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would reverse measures announced in the 2013-14 and 2014-15 Budgets that affected base university funding and, after allowing for the effect of the reversal of these measures, increase base university funding by an additional 2.5 per cent per year for four years such that after four years there would be an ongoing increase in base funding of 10 per cent. Details of the budget measures that would be reversed under this proposal are provided at [Attachment A](#).

This proposal is expected to decrease the fiscal balance by \$6,995 million, the underlying cash balance by \$6,943 million and the headline cash balance by \$7,051 million over the 2016-17 Budget forward estimates period.

This proposal is not expected to require significant additional departmental expenses, as the proposal relates to an existing core function of the Department of Education and Training.

This proposal would have an ongoing impact that extends beyond the forward estimates period. A breakdown of the cost of the proposal over the period 2016-17 to 2026-27 is provided at [Attachment B](#).

The proposal has a different impact on the fiscal and underlying cash balances primarily due to the effect of the reversal of budget measures on the Higher Education Loan Program.

This costing is considered to be of medium reliability. The base university funding figures and the impact of reversing budget measures are reliant on projections of student numbers and future indexation parameters which may, in fact, differ from current projections.

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

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-419	-1,482	-2,318	-2,776	-6,995
Underlying cash balance	-408	-1,459	-2,303	-2,773	-6,943
Headline cash balance	-408	-1,504	-2,364	-2,776	-7,051

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

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

Key assumptions

In costing this proposal it has been assumed that university funding is grown by labour productivity and the consumer price index beyond the forward estimates period.

Methodology

As per the proposal, the costing applies the 10 per cent increase to the base funding estimates profile after reversing the effect of relevant measures in the 2013-14 and 2014-15 Budgets. Consistent with the costing request the 10 per cent increase was applied to the estimates in a phased approach at a rate of 2.5 per cent per calendar year from 1 January 2017 accumulatively up to 10 per cent by 1 January 2020.

Amounts have been rounded to the nearest \$1 million.

Data sources

- The 2013-14, 2014-15 and 2015-16 Budget papers and the 2015-16 Mid-Year Economic and Fiscal Outlook (MYEFO).
- The Treasury provided economic parameters as at the 2016-17 Budget.

Attachment A: Higher Education measures from the 2013-14 Budget and 2014-15 Budget that would be reversed under this proposal

2013-14 Budget

- Student Start-up Scholarships - conversion to Income Contingent Loans

2014-15 Budget

- Expanding Opportunity - Higher Education Indexation - revised arrangements
- Expanding Opportunity - a more effective Higher Education Participation Programme
- Expanding Opportunity - expansion of the demand driven system and sharing the cost fairly
- A Sustainable Higher Education System - Higher Education Reward Funding – cessation
- A Sustainable Higher Education System - Research Training Scheme - student contributions



Attachment B: Universities: Base Funding Lift — financial implications

Table B1: Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Additional cost from proposed increase in university funding ^(c)	-128	-397	-685	-989	-2,198	-1,161	-1,193	-1,227	-1,263	-1,300	-1,338	-1,377	-11,056
Impact of reversing budget measures	-291	-1,091	-1,657	-1,838	-4,877	-2,047	-2,273	-2,512	-2,767	-3,035	-3,305	-3,591	-24,407
PDI ^(d)	-	6	24	50	80	104	170	247	333	430	535	652	2,552
Total	-419	-1,482	-2,318	-2,776	-6,995	-3,104	-3,296	-3,493	-3,696	-3,904	-4,107	-4,316	-32,911

(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.

(c) The increase in university spending has been phased at a rate of 2.5 per cent per calendar year from 1 January 2017 accumulatively up to 10 per cent by 1 January 2020.

(d) PDI is calculated only on the reversal of the measure: *Expanding Opportunity – expansion of the demand driven system and sharing the cost fairly.*

- Indicates nil.

Table B2: Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Additional cost from proposed increase in university funding ^(c)	-129	-402	-697	-1,008	-2,237	-1,183	-1,215	-1,249	-1,284	-1,321	-1,358	-1,397	-11,245
Impact of reversing budget measures	-279	-1,062	-1,629	-1,813	-4,783	-2,021	-2,244	-2,475	-2,718	-2,983	-3,248	-3,530	-24,003
PDI ^(d)	-	5	23	48	77	100	166	241	327	423	528	644	2,506
Total	-408	-1,459	-2,303	-2,773	-6,943	-3,104	-3,293	-3,483	-3,675	-3,880	-4,079	-4,284	-32,741

(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 fiscal 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.

(c) The increase in university spending has been phased at a rate of 2.5 per cent per calendar year from 1 January 2017 accumulatively up to 10 per cent by 1 January 2020.

(d) PDI is calculated only on the reversal of the measure: *Expanding Opportunity – expansion of the demand driven system and sharing the cost fairly*.

- Indicates nil.

Table B3: Headline cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Additional cost from proposed increase in university funding ^(c)	-129	-402	-697	-1,008	-2,237	-1,183	-1,215	-1,249	-1,284	-1,321	-1,358	-1,397	-11,245
Impact of reversing budget measures	-279	-1,062	-1,629	-1,813	-4,783	-2,021	-2,244	-2,475	-2,718	-2,983	-3,248	-3,530	-24,003
Change in Higher Education Loan Program (HELP) loans issued ^(d)	0	-44	-61	-2	-108	62	-100	-109	-119	-128	-138	-147	-788
Change in repayments received	-	-	-	-1	-3	-6	-10	-16	-25	-62
PDI ^(e)	-	5	23	48	77	100	166	241	327	423	528	644	2,506
Total	-408	-1,504	-2,364	-2,776	-7,051	-3,043	-3,395	-3,595	-3,800	-4,018	-4,233	-4,456	-33,591

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

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

(c) The increase in university spending has been phased at a rate of 2.5 per cent per calendar year from 1 January 2017 accumulatively up to 10 per cent by 1 January 2020.

(d) The change in HELP loans issued is due to the inclusion of the HELP component of the measure: *Expanding Opportunity – expansion of the demand driven system and sharing the cost fairly*.

(e) PDI is calculated only on the reversal of the measure: *Expanding Opportunity – expansion of the demand driven system and sharing the cost fairly*.

.. Not zero but rounded to zero.

- Indicates nil.