Parliamentary Budget Office

Wipe Student Debt	
Party:	Australian Greens
Summary of proposal: The proposal would waive 20% of outstanding Higher Education Loan Program and Student Financial Supplement Scheme (SFSS) debt each year over 5 years, from 1 January 2023. This includes the following types of debt: • HECS-HELP • OS-HELP • SA-HELP • FEE-HELP • VET FEE-HELP • VET student loans. • SFSS Debt to be waived would be valued as at 1 January 2023, with any new HELP loans from 2023 onwards out of scope of this proposal and not factored into the estimates. The request also sought distributional analysis of policy impact in fiscal terms in 2024-25 across income deciles.	

Costing overview

The proposal would decrease the fiscal balance by around $45,700 million, the underlying cash balance by around $2,600 million, and the headline cash balance by around $12,100 million over the 2022-23 Budget forward estimates period.

This proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A full breakdown of the financial implications over the period to 2032-33 is provided at Attachment A. Distributional analysis by income decile is provided at Attachment B.

The financial implications of this proposal are uncertain and highly sensitive to assumptions around repayments on the stock of student loans in each calendar year, including inherent uncertainties in the baseline estimates for the relevant student loan programs, uncertainties around existing estimates of debts not expected to be repaid and limited information regarding loan repayment profiles. The SFSS closed to new entrants in 2003, limiting information available on repayment profiles and the ratio of principal to interest repayments.

The distributional estimates provided in this response are uncertain and highly sensitive to the distribution of student debt that is expected to be repaid. The analysis provided in this response is based on the distribution of total student debts by various groups. However, some of this debt will not be repaid if an individual never earns above the study and training loan repayment threshold.

- The Government includes a provision in the budget baseline for the value of debts not expected to be repaid (DNER), and this value is already factored into the net cost of Wiping Student Debt. As such, the distribution of debt that is expected to be repaid may attribute more debt to higher-income earners than the distribution of total debt.

Consistent with *Parliamentary Budget Office (PBO) Guidance 02/2015*, public debt interest (PDI) expense impact has been included in this costing because the concessional loans impacted under this proposal involve financial asset transactions.

The fiscal, underlying cash and headline cash balance impacts differ in the treatment of interest payments, and the flow of loan principal amounts. In particular, only the fiscal balance reflects the associated unwinding income, and loan write-downs, and only the headline cash balance includes transactions related to loan principal amounts. The impact on net debt will be broadly consistent with movements in the headline cash balance. A note on the accounting treatment of concessional loans is included at Attachment C.

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

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-11,713.2	-11,396.2	-11,243.5	-11,311.0	**-45,663.9**
Underlying cash balance	-120.2	-410.6	-801.0	-1,291.4	**-2,623.2**
Headline cash balance	-571.0	-1,963.0	-3,735.1	-5,877.1	**-12,146.2**

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

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- No voluntary repayments would be made on any student loans. The rate of compulsory repayments on the existing stock of loans would move in line with expectation and would not exceed one-third of the existing stock of debt in any year over the medium term.
- There would be no impact on departmental resourcing requirements for the Department of Education, Skills and Employment (DESE) and the Department of Social Services, as any increased workload arising from debt waiver activities would be offset by corresponding reductions in other related activities.
- The relative distribution of incomes in Australia would not differ significantly between 2018-19 and 2024-25.

SFSS

- The rate of compulsory repayments on the loan stock would move in line with expected repayment amounts.
- The fair value of the loan stock would remain steady from the start of the proposal, with no adjustments made outside repayments and debt waivers.
- The total value of the loan stock would have decreased from the balance published in 2018-19 taxation statistics in line with the average reduction in balances from 2016-17 to 2018-19.
- The ratio of principal to interest repayments would be similar to the ratio used for HELP.

- The rate of income from the unwinding of concessional loan discount would be similar to the rate used for HELP.

Methodology

HELP

The financial implications of this part of the proposal were calculated using DESE's Higher Education Loan Program model.

- Future loan estimates from the start of 2023 were excluded from the model, to create a baseline drawing on the existing stock of loans as at the start of 2023.
- The value of loan waivers was then calculated based on the value of remaining loan stock to match the policy specification.

The waiver of debt was applied at the start of the relevant calendar year, after which the impacts of compulsory repayments and debt write-offs were assessed. There would be no write-offs or repayments after 2026-27, as all loans would be waived by early 2027.

Compulsory repayments on loans were estimated based on the existing trends in repayment growth, taking into account an expected slowdown of repayments in later years as the overall stock of outstanding loans reduces.

SFSS

The financial implications of this part of the proposal were calculated by projecting the fair value of the outstanding loan stock and then waiving 20% of the balance each year, accounting for repayments.

- The fair value is based on the value published in the Statement of Risk in Budget Paper 1.
- Indexation and interest repayments foregone on the outstanding loans was projected based on the estimated fair value loan balance as at 30 December 2022.

Repayments were calculated based on the opening balance for the fair value of outstanding loans multiplied by the average change in balance for SFSS between 2016-17 and 2018-19 based on the taxation statistics. Repayments were split by principal and interest as per *Key assumptions*.

Distributional analysis

The distributional analysis of wiping student debt by income decile was based on the fiscal impact of this costing and distribution of debt across income, as at 2018-19 provided by DESE.

- Income deciles were based on 2018-19 personal income tax data.
- The distribution of debt reflects the total amount of student debt held by various groups. The fiscal impact reflects the value of student debt net of DNER.
- There was no income data available for around 17% of debtors. This results in around $1.8 billion impact being unattributable to an income decile.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

Australian Government, 2022. *Budget Strategy and Outlook, Budget Paper No.1*, 2022-23. Canberra: Commonwealth of Australia.

Australian Government, 2021. *Budget Strategy and Outlook, Budget Paper No.1*, 2021-22. Canberra: Commonwealth of Australia.

Australian Government, 2020. *Budget Strategy and Outlook, Budget Paper No.1*, 2020-21. Canberra: Commonwealth of Australia.

Australian Government, 2019. *Budget Strategy and Outlook, Budget Paper No.1*, 2019-20. Canberra: Commonwealth of Australia.

Australian Taxation Office, 2021. *Taxation statistics 2018-19*.

Australian Taxation Office, 2021. *Taxation statistics 2017-18*.

Australian Taxation Office, 2020. *Taxation statistics 2016-17*.

The Department of Finance and Treasury provided indexation parameters as at the Pre-election Economic and Fiscal Outlook 2022.

The Department of Education, Skills and Employment provided the Higher Education Loan Program modelling as at the Pre-election Economic and Fiscal Outlook 2022.

The Australian Taxation Office provided a sample of de-identified personal income tax data as at 2018-19.

The Department of Education, Skills and Employment provided distributional information on Higher Education Loan Program debt and the number of debtors as at 2018-19.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Wipe Student Debt – financial implications

Table A1: Wipe Student Debt – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Administered non-tax													
HELP - Indexation on loans	*-730.0*	*-1,390.0*	*-1,270.0*	*-1,130.0*	*-960.0*	*-760.0*	*-530.0*	*-360.0*	*-250.0*	*-170.0*	*-120.0*	***-4,520.0***	***-7,670.0***
SFSS - Indexation on loans	*-5.4*	*-10.4*	*-9.6*	*-8.9*	*-8.3*	*-8.0*	*-8.2*	*-8.3*	*-8.4*	*-8.3*	*-8.3*	***-34.3***	***-92.1***
HELP - Unwinding concessional loan discount	-	-	-	-	-	-	*-42.7*	*-59.2*	*-72.0*	*-64.6*	*-55.3*	***-***	***-293.8***
SFSS - Unwinding concessional loan discount	-	-	-	-	-	-	*-0.7*	*-1.3*	*-2.3*	*-3.0*	*-3.6*	***-***	***-10.9***
Total – revenue	**-735.4**	**-1,400.4**	**-1,279.6**	**-1,138.9**	**-968.3**	**-768.0**	**-581.6**	**-428.8**	**-332.7**	**-245.9**	**-187.2**	**-4,554.3**	**-8,066.8**
Expenses													
Administered													
HELP - Remissions	*-10,900.0*	*-9,900.0*	*-9,800.0*	*-9,900.0*	*-8,700.0*	-	-	-	-	-	-	***-40,500.0***	***-49,200.0***
SFSS - Remissions	*-67.8*	*-65.8*	*-63.9*	*-62.1*	*-60.3*	-	-	-	-	-	-	***-259.6***	***-319.9***
Total – expenses	**-10,967.8**	**-9,965.8**	**-9,863.9**	**-9,962.1**	**-8,760.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-40,759.6**	**-49,519.9**
Total (excluding PDI)	**-11,703.2**	**-11,366.2**	**-11,143.5**	**-11,101.0**	**-9,728.6**	**-768.0**	**-581.6**	**-428.8**	**-332.7**	**-245.9**	**-187.2**	**-45,313.9**	**-57,586.7**
PDI impacts	***-10.0***	***-30.0***	***-100.0***	***-210.0***	***-380.0***	***-620.0***	***-870.0***	***-1,070.0***	***-1,240.0***	***-1,380.0***	***-1,510.0***	***-350.0***	***-7,420.0***
Total (including PDI)	**-11,713.2**	**-11,396.2**	**-11,243.5**	**-11,311.0**	**-10,108.6**	**-1,388.0**	**-1,451.6**	**-1,498.8**	**-1,572.7**	**-1,625.9**	**-1,697.2**	**-45,663.9**	**-65,006.7**

(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.

\- Indicates nil.

Table A2: Wipe Student Debt – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Receipts													
Administered non-tax													
HELP - Interest receipts	*-110.0*	*-380.0*	*-710.0*	*-1,100.0*	*-1,550.0*	*-1,930.0*	*-1,370.0*	*-950.0*	*-660.0*	*-460.0*	*-320.0*	***-2,300.0***	***-9,540.0***
SFSS - Interest receipts	*-0.2*	*-0.6*	*-1.0*	*-1.4*	*-1.8*	*-2.0*	*-1.9*	*-1.9*	*-1.9*	*-1.9*	*-1.9*	***-3.2***	***-16.5***
Total – receipts	**-110.2**	**-380.6**	**-711.0**	**-1,101.4**	**-1,551.8**	**-1,932.0**	**-1,371.9**	**-951.9**	**-661.9**	**-461.9**	**-321.9**	**-2,303.2**	**-9,556.5**
Total (excluding PDI)	**-110.2**	**-380.6**	**-711.0**	**-1,101.4**	**-1,551.8**	**-1,932.0**	**-1,371.9**	**-951.9**	**-661.9**	**-461.9**	**-321.9**	**-2,303.2**	**-9,556.5**
PDI impacts	***-10.0***	***-30.0***	***-90.0***	***-190.0***	***-360.0***	***-590.0***	***-840.0***	***-1,050.0***	***-1,220.0***	***-1,360.0***	***-1,490.0***	***-320.0***	***-7,230.0***
Total (including PDI)	**-120.2**	**-410.6**	**-801.0**	**-1,291.4**	**-1,911.8**	**-2,522.0**	**-2,211.9**	**-2,001.9**	**-1,881.9**	**-1,821.9**	**-1,811.9**	**-2,623.2**	**-16,786.5**

(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.

Table A3: Wipe Student Debt – Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Administered non-tax													
HELP - Interest receipts	*-110.0*	*-380.0*	*-710.0*	*-1,100.0*	*-1,550.0*	*-1,930.0*	*-1,370.0*	*-950.0*	*-660.0*	*-460.0*	*-320.0*	***-2,300.0***	***-9,540.0***
SFSS - Interest receipts	*-0.2*	*-0.6*	*-1.0*	*-1.4*	*-1.8*	*-2.0*	*-1.9*	*-1.9*	*-1.9*	*-1.9*	*-1.9*	***-3.2***	***-16.5***
HELP - Loan principal repayments	*-450.0*	*-1,550.0*	*-2,930.0*	*-4,580.0*	*-6,490.0*	*-8,090.0*	*-5,740.0*	*-3,980.0*	*-2,770.0*	*-1,930.0*	*-1,350.0*	***-9,510.0***	***-39,860.0***
SFSS - Loan principal repayments	*-0.8*	*-2.4*	*-4.1*	*-5.7*	*-7.1*	*-7.8*	*-7.8*	*-7.7*	*-7.7*	*-7.7*	*-7.7*	***-13.0***	***-66.5***
Total – receipts	**-561.0**	**-1,933.0**	**-3,645.1**	**-5,687.1**	**-8,048.9**	**-10,029.8**	**-7,119.7**	**-4,939.6**	**-3,439.6**	**-2,399.6**	**-1,679.6**	**-11,826.2**	**-49,483.0**
Total (excluding PDI)	**-561.0**	**-1,933.0**	**-3,645.1**	**-5,687.1**	**-8,048.9**	**-10,029.8**	**-7,119.7**	**-4,939.6**	**-3,439.6**	**-2,399.6**	**-1,679.6**	**-11,826.2**	**-49,483.0**
PDI impacts	***-10.0***	***-30.0***	***-90.0***	***-190.0***	***-360.0***	***-590.0***	***-840.0***	***-1,050.0***	***-1,220.0***	***-1,360.0***	***-1,490.0***	***-320.0***	***-7,230.0***
Total (including PDI)	**-571.0**	**-1,963.0**	**-3,735.1**	**-5,877.1**	**-8,408.9**	**-10,619.8**	**-7,959.7**	**-5,989.6**	**-4,659.6**	**-3,759.6**	**-3,169.6**	**-12,146.2**	**-56,713.0**

(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.

Attachment B – Wipe Student Debt – distributional analysis

Table B1: Wipe Student Debt – Distribution of expenditure estimates in 2024-25 (in fiscal terms) by income deciles ($m)[a][b]

	Wiping Student Debt
Decile 1	*-740*
Decile 2	*-1,160*
Decile 3	-1,240
Decile 4	*-1,250*
Decile 5	*-1,170*
Decile 6	*-1,140*
Decile 7	*-1,130*
Decile 8	*-910*
Decile 9	*-490*
Decile 10	*-200*
No income data available	*-1,820*
Total cost of policies	**-11,250**

(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 total due to rounding.

Attachment C – 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[2]

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.[3] 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 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.

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

[3] 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.