



Policy costing

Higher education (consolidation)	
Person/party requesting the costing:	Senator Richard Di Natale, Australian Greens
Date costing completed:	5 December 2018
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>This proposal consists of four components. It would be announced on 1 January 2019 and would have effect from 1 July 2019.</p> <p>Component 1: University tuition fees</p> <p>Tuition for commencing undergraduates at public universities who are Australian citizens would be funded by the Commonwealth without requiring payments by students. Students who have held a Commonwealth-supported place within the two years prior to 1 July 2019 would still be required to pay for their tuition.</p> <ul style="list-style-type: none"> This part of the proposal would not apply to SA-HELP loans (provided to eligible students to pay for all or part of their student services and amenities fee) and OS-HELP loans (provided to eligible students enrolled in a Commonwealth-supported place who undertake some of their study overseas). <p>The Commonwealth Grant Scheme (CGS) funding calculation for undergraduate places would be amended to remove the aggregate CGS funding cap so that each additional student results in additional CGS funding for the university. Medical undergraduate places would remain allocated.</p> <p>Funding per student provided to universities would also increase by 10 per cent under the proposal. This comprises both the CGS contribution and the portion of funding provided under the baseline through the student contribution.</p> <p>Component 2: Higher Education Loan Program (HELP) and Vocational Education and Training (VET) loan repayment</p> <p>The HELP and VET student loan repayment thresholds would be increased as specified at Attachment A. These thresholds would be indexed annually by the median wage.</p>	

Component 3: Technical and Further Education (TAFE) grants

Grants would be provided to states and territories to cover the costs of tuition at TAFE institutions for courses at the Certificate Level 1 or above, up to a per-hour tuition cost cap. The cap would be set based on the average operating cost per delivery hour for government VET providers in 2017, indexed by the Consumer Price Index (CPI) to the policy start date, and indexed annually at the CPI thereafter.

The Commonwealth would reduce its financial contributions under the National Agreement for Skills and Workforce Development by an amount equal to these annual tuition grants (or to zero if tuition grants exceed National Agreement payments).

Grants would be available to all Australian citizens and permanent residents who have not been enrolled in a VET course through a TAFE or any other provider within the two years prior to the proposal's start date.

VET Student Loans for students enrolled at eligible courses and institutions outside of the TAFE system would remain unchanged.

Component 4: Student support payments

For the following Australian Government student payments, the maximum single payment rate would increase by \$75 a week and the indexation arrangements changed to those used to index the Age Pension:

- Youth Allowance (Student and Apprentice)
- Austudy
- ABSTUDY (Tertiary).

The personal income test thresholds for single rate recipients of the above payments would also increase by \$100 a week.

This proposal is intended to operate in conjunction with a proposal to increase payment rates for single recipients of other Australian Government transfer payments. Consequently, the proposal is not expected to induce any switching between benefits.

Costing overview

The proposal would be expected to decrease the fiscal balance by \$18,010 million, decrease the underlying cash balance by \$18,690 million, and decrease the headline cash balance by \$14,300 million over the 2018-19 Budget forward estimates period.

The proposal would be expected to have a significant ongoing impact beyond the 2018-19 Budget forward estimates period. The disaggregated impacts of the proposal over the period to 2028-29 are provided at [Attachment B](#).

The four components of the proposal interact. Under Component 1, undergraduate courses in public universities would be free for Australian citizens commencing from 1 July 2019, so those students would no longer accumulate a HELP debt and hence would not be required to make loan repayments. This significantly reduces the cost of increasing the repayment thresholds under Component 2. Similarly, under Component 3, VET courses in TAFEs would be free or near free for Australian citizens and permanent residents commencing from 1 July 2019, so those students would no longer accumulate a VET student loan and hence would not be required to make loan repayments. In addition, the change in the student population for the first semester of 2019 (Components 1 and 3) has a flow-on impact to student transfer payments in 2018-19 (Component 4).

Sensitive

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.

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 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 HELP, is included at [Attachment C](#).

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

The estimated financial implications of Components 1, 2 and 3 are subject to a high degree of uncertainty related to a number of factors, particularly the responses of students, educational institutions, and state and territory governments to the change from either upfront or deferred income-contingent tuition fees to free tuition. Inherent uncertainties in the baseline estimates for the HELP programs and limited information regarding loan repayment profiles add to the uncertainty of the estimated financial implications of this proposal.

The estimated financial implications of Component 4 are based on reliable de-identified Department of Human Services administrative transfer payment data. The estimates are sensitive to uncertainty associated with the indexation and population growth factors used to project the payment data across the medium term. The estimates are also particularly sensitive to the assumption that transfer payment recipients would not alter their behaviour in response to the proposal.

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

	2018–19	2019–20	2020–21	2021–22	Total to 2021–22
Combined					
Fiscal balance	1,240	-4,000	-6,280	-9,000	-18,010
Underlying cash balance	1,230	-4,250	-6,510	-9,200	-18,690
Headline cash balance	1,710	-3,980	-5,280	-6,800	-14,300

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

General

- Any enabling legislation would be passed before the commencement of the proposal.

Sensitive

- Given that the proposal makes tuition free for undergraduates and free or close to free for TAFE students, students are not expected to substitute from one type of higher education to another based on tuition fees.

Component 1: University tuition fees

- The funding provided to universities on behalf of students would be classified as a grant.
 - The value of HECS-HELP loans converted to grants is equivalent to the average HECS-HELP loan multiplied by the projected number of HECS-HELP recipients eligible for the proposal (on an equivalent full-time student load basis).
- The proposal would result in a small (one per cent) increase in projected student numbers (measured in equivalent full-time student load) in response to the fee-free undergraduate tuition. This equates to roughly an additional 6,000 students per year over the medium term (on an equivalent full-time student basis, rounded to the nearest 1,000 students).
 - At an aggregate level, the introduction of the Higher Education Contribution Scheme (HECS, now HELP) does not appear to have deterred participation in higher education, so one may expect that removing HELP would have only a marginal impact on participation. However, Australian and international research indicates that certain cohorts such as mature-aged students, part-time students, high school leavers with low Australian Tertiary Admission Rankings and low socio-economic status students may be more sensitive to changes in tuition fees.
 - In addition, at the time HECS was introduced, the supply of undergraduate places was insufficient to meet the available demand. Thus while the introduction of income contingent loans may well have deterred some participants, the price demand impact could not be reasonably analysed using enrolment data.
- In response to the proposal, a majority of commencing students (62.5 per cent) would choose to delay studies from the first semester to the second semester of 2019 to take advantage of the fee-free tuition.
 - This results in a flow-on reduction in student payments in 2018-19.

Component 2: HELP and VET loan repayment

- The rate of HELP debt not expected to be repaid under the proposal would increase by a small amount relative to the baseline, reflecting the fact that fewer people would reach the lowest repayment threshold.
- The difference between annual growth in the CPI and annual growth in median wages would remain constant at its historical level of 0.6 per cent over the period 2008 to 2017.
- The amount of voluntary repayments would not be affected by this proposal.

Component 3: TAFE grants

- Total projected delivery hours in relevant TAFE courses in the absence of any policy change would be held constant at the average of 2016 and 2017 levels (the latest years for which National Centre for Vocational Education Research data is available).
 - Delivery hours have been fairly flat between 2015 and 2017. While there have been considerable fluctuations in delivery hours over the past decade, there has been no clear discernible trend.

Sensitive

- The proposal would result in a small (5 per cent) increase in projected student numbers (measured in equivalent full-time student load).
 - Given the diversity of course options at TAFEs (and, in particular, the option to undertake shorter duration or less-intensive courses) the estimated behavioural response is larger for Component 3 than Component 1.
 - In addition, under the proposal, a number of courses which are currently not eligible for VET Student Loans would be covered by Commonwealth TAFE grants, so some students deterred by up-front costs under the baseline may undertake study.
- There would be some substitution (15 per cent) away from VET courses delivered in non-TAFE settings to TAFEs to take advantage of the free or low-cost tuition.
 - Aside from this substitution effect, there would be no change in projected student numbers or value of VET student loans from non-TAFE VET providers.
- In response to the proposal, a majority of commencing students (62.5 per cent) would choose to delay studies from the first semester to the second semester of 2019 to take advantage of the free or low cost tuition.
 - This results in a flow-on reduction in student payments in 2018-19.
- Any responses by state and territory governments to the proposal are unlikely to affect the financial implications of this proposal to the Commonwealth.

Component 4: Student support payments

- Student payment recipients would not alter their earned income or marital status in response to the proposal.
- No additional transfer payment claims would be made, beyond those that would become eligible for payment as a result of the payment rate increase.
- As specified in the request, the proposal is not expected to induce any switching between benefits.
- Aside from a reduction in the number of students eligible for student payments in the first semester of 2019, any interactions between the changes to student payments and the proposal's other three components would be marginal and have not been accounted for in the costing.

Methodology

All estimates have been rounded to the nearest \$10 million.

Component 1: University tuition fees

The financial implications of ceasing student contributions were calculated by removing HELP loans for students affected by the proposal and increasing grant funding by an amount equal to those HELP loans, plus the student contributions paid upfront under the baseline. This funding is then increased by 10 per cent as per the proposal specification.

The number of affected students (on an equivalent full-time basis) in each year was estimated using historical information provided by the Department of Education and Training on the proportion of commencing versus continuing undergraduates.

The financial implications of increasing CGS funding by 10 per cent was calculated by multiplying the funding rates by the projected full-time student load and subtracting the baseline level of funding as at the 2018-19 Budget.

Component 2: HELP and VET loan repayment

The financial implications were estimated based on the difference between the existing policy and a simulation of loan repayments by borrowers, taking into account the proposed repayment thresholds, borrower's incomes and existing HELP debts. Repayment thresholds under the policy were indexed by projected median wages, calculated as outlined above.

Component 3: TAFE grants

The financial implications were calculated by removing HELP loans for students affected by the proposal, calculating the value of grants provided to the states and territories for TAFE tuition, and identifying the savings to the Commonwealth by ceasing payments under the National Agreement for Skills and Workforce Development (as the cost of the TAFE grants exceeds the expenditure under this agreement for each year of the proposal).

The value of payments under the National Agreement for Skills and Workforce Development was projected beyond the 2018-19 Budget forward estimates using the method outlined in Budget Paper No. 3 (the total amount of payment under the Agreement is indexed annually by a composite of Wage Cost Index 1 (85 per cent) and Wage Cost Index 6 (15 per cent)).

The value of TAFE grants was estimated using National Centre for Vocational Education Research data on TAFE total delivery hours, adjusted to apply only to courses at the Certificate I level and above and for the assumptions outlined above. A grandfathering adjustment was then applied, given that students who have been enrolled in a VET course through a TAFE or any other provider within the two years prior to the proposal's start date are not eligible for this proposal.

Total applicable delivery hours were then multiplied by the capped hourly price. The 2017 hourly capped price of the grant was calculated by dividing total operating expenditures by total VET delivery hours for government-funded VET providers (both sourced from National Centre for Vocational Education Research data). 'Commercial trading' and 'other' services were removed from the operating expenditures in deriving the cost of VET delivery. The 2017 hourly capped price was then indexed annually by the CPI thereafter. The capped price in 2019-20 (the first year of the proposal) was \$20.50 per delivery hour.

Component 4: Student support payments

Administered expenditure estimates for Youth Allowance (Student and Apprentice) and Austudy recipients affected by this proposal were calculated using the Policy and Evaluation Model (PoEM). PoEM is a microsimulation model of administered transfer payments projected over the 2018-19 Budget forward estimates period. The PBO has extended PoEM over the medium term to 2028-29.

Administered expenditure estimates for ABSTUDY recipients were calculated by multiplying the projected number of eligible recipients of these payments by the proposed payment increase, and applying the appropriate indexation factors.

Revenue estimates were calculated by multiplying the marginal income tax rate of affected recipients by the increase in payments under the proposal.

The ongoing departmental impact was calculated by multiplying the number of additional recipients for each transfer payment by the cost of administering payments to each new recipient. Departmental implementation costs were estimated based on a similar previous budget measure to alter payments administered by the Department of Human Services.

Data sources

The Australian Taxation Office provided the 2014-15 unit record tax data.

The Department of Education and Training provided:

- the 2018-19 Budget CGS forward estimates model
- the 2017-18 Mid- Year Economic and Fiscal Outlook measure *Higher Education Reforms – revised implementation*
- the 2018-19 Budget HELP forward estimates model.

The Department of Finance provided indexation and efficiency dividend parameters.

The Department of Human Services provided annual unit payment administration costs as at the 2018-19 Budget.

The Department of Social Services provided:

- expenditure and population forecasts for income support recipients as at the 2018-19 Budget
- the 2018-19 Budget Policy and Evaluation Model.

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Attachment A – Higher education (consolidation)

Table A1: Higher education (consolidation) – repayment rates and thresholds

Existing 2019-20 repayment threshold ^(a)	Existing 2019-20 repayment rate ^(a)	Proposed repayment threshold	Proposed repayment rate
\$45,880 and below	Nil	\$52,988 and below	Nil
\$45,880 to less than \$52,974	1.0%	\$52,988 to less than \$60,162	1.0%
\$52,974 to less than \$56,152	2.0%	\$60,162 to less than \$63,340	2.0%
\$56,152 to less than \$59,522	2.5%	\$63,340 to less than \$66,710	2.5%
\$59,522 to less than \$63,0923	3.0%	\$66,710 to less than \$70,281	3.0%
\$63,093 to less than \$66,878	3.5%	\$70,281 to less than \$74,066	3.5%
\$66,878 to less than \$70,891	4.0%	\$74,066 to less than \$78,079	4.0%
\$70,891 to less than \$75,145	4.5%	\$78,079 to less than \$82,333	4.5%
\$75,145 to less than \$79,653	5.0%	\$82,333 to less than \$86,841	5.0%
\$79,653 to less than \$84,433	5.5%	\$86,841 to less than \$91,621	5.5%
\$84,433 to less than \$89,499	6.0%	\$91,621 to less than \$96,687	6.0%
\$89,499 to less than \$94,869	6.5%	\$96,687 to less than \$102,057	6.5%
\$94,869 to less than \$100,561	7.0%	\$102,057 to less than \$107,749	7.0%
\$100,561 to less than \$106,594	7.5%	\$107,749 to less than \$113,782	7.5%
\$106,594 to less than \$112,990	8.0%	\$113,782 to less than \$120,178	8.0%
\$112,990 to less than \$119,770	8.5%	\$120,178 to less than \$126,958	8.5%
\$119,770 to less than \$126,956	9.0%	\$126,958 to less than \$134,144	9.0%
\$126,956 to less than \$134,573	9.5%	\$134,144 to less than \$141,761	9.5%
\$134,573 and above	10.0%	\$141,761 and above	10.0%

(a) As outlined in the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018*, which passed the Senate and the House of Representatives on 14 August 2018.

Attachment B – Higher education – financial implications

Table B1: Higher education (consolidation) – Fiscal balance (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
<i>Income from unwinding concessional loan discount</i>	-	-	..	-10	-20	-30	-50	-80	-100	-120	-140	-10	-540
<i>Interest accrued on loans</i>	-	-10	-20	-50	-120	-190	-290	-400	-530	-660	-810	-90	-3,090
<i>Loan fee revenue</i>	-10	-10	-20	-30	-30	-40	-40	-40	-40	-50	-50	-70	-370
<i>State contributions to deferral costs for VET Student Loans^(c)</i>	-	..	..	..	..	..	..	..	..	..	..	10	40
<i>Student transfer payments (personal income tax)</i>	-	30	30	40	40	40	50	50	60	60	70	100	470
Total – revenue	-10	10	-10	-50	-130	-220	-330	-470	-610	-770	-930	-60	-3,490
Expenses													
<i>Administered</i>													
<i>Replace undergraduate student contribution with grant and increase by 10 per cent</i>	-	-1,610	-2,680	-3,960	-4,990	-5,740	-6,310	-6,870	-7,140	-7,410	-7,690	-8,240	-54,400
<i>Grants to state and territory governments for TAFEs</i>	-	-2,090	-2,990	-3,800	-4,430	-5,470	-5,050	-5,180	-5,310	-5,440	-5,580	-8,880	-45,340
<i>National Agreement for Skills and Workforce Development</i>	-	1,540	1,560	1,590	1,610	1,640	1,660	1,690	1,710	1,740	1,770	4,690	16,500
<i>Remove cap on total Commonwealth Grant Scheme (CGS) funding and increase funding by 10 per cent</i>	-	-800	-890	-1,070	-1,270	-1,510	-1,750	-2,000	-2,270	-2,550	-2,840	-2,760	-16,940
<i>CGS impact of students delaying commencement of studies from 1 January 2019 to 1 July 2019</i>	1,130	-60	-120	-360	-410	-160	-80	-80	-	-	-	590	-140
<i>Concessional loan discount</i>	20	50	80	130	160	180	200	220	230	230	240	280	1,740
<i>Loan write downs</i>	-	..	..	..	..	..	..	..	..	..	..	..	20
<i>Student transfer payments</i>	80	-1,010	-1,080	-1,160	-1,260	-1,370	-1,490	-1,630	-1,770	-1,930	-2,100	-3,160	-14,710
Total – administered	1,230	-3,980	-6,120	-8,630	-10,590	-12,430	-12,820	-13,850	-14,550	-15,360	-16,200	-17,480	-113,270
<i>Departmental</i>													
<i>Department of Education and Training</i>	..	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-30	-80
<i>Department of Social Services</i>	..	-10	..	-10	-10	-10	-10	-10	-10	-10	-10	-20	-70
Total – departmental	-	-20	-10	-20	-20	-20	-20	-20	-20	-20	-20	-50	-150
Total – expenses	1,230	-4,000	-6,130	-8,650	-10,610	-12,450	-12,840	-13,870	-14,570	-15,380	-16,220	-17,530	-113,420
Total (excluding PDI)	1,220	-3,990	-6,140	-8,700	-10,740	-12,670	-13,170	-14,340	-15,180	-16,150	-17,150	-17,590	-116,910
PDI impacts	20	-10	-140	-300	-520	-820	-1,190	-1,610	-2,110	-2,680	-3,280	-420	-12,620
Total (including PDI)	1,240	-4,000	-6,280	-9,000	-11,260	-13,490	-14,360	-15,950	-17,290	-18,830	-20,430	-18,010	-129,530

(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) State and territory governments contribute to deferral costs for this program.

.. Not zero but rounded to zero.

- Indicates nil.

Table B2: Higher education (consolidation) – Underlying cash balance (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Receipts													
Interest received on loans ^(c)	-	-220	-200	-170	-160	-150	-160	-170	-180	-210	-250	-590	-1,870
State contributions to deferral costs for VET student loans ^(d)	-	..	..	..	..	..	..	..	..	..	..	10	40
Student transfer payments (personal income tax)	-	30	30	40	40	40	50	50	60	60	70	100	470
Total – receipts	-	-190	-170	-130	-120	-110	-110	-120	-120	-150	-180	-480	-1,360
Payments													
<i>Administered</i>													
Replace university student contribution with grant and increase by 10 per cent	-	-1,610	-2,680	-3,960	-4,990	-5,740	-6,310	-6,870	-7,140	-7,410	-7,690	-8,240	-54,400
Grants to state and territory governments for TAFEs	-	-2,090	-2,990	-3,800	-4,430	-5,470	-5,050	-5,180	-5,310	-5,440	-5,580	-8,880	-45,340
National Agreement for Skills and Workforce Development	-	1,540	1,560	1,590	1,610	1,640	1,660	1,690	1,710	1,740	1,770	4,690	16,500
Remove cap on total CGS funding and increase funding by 10 per cent	-	-800	-890	-1,070	-1,270	-1,510	-1,750	-2,000	-2,270	-2,550	-2,840	-2,760	-16,940
CGS impact of students delaying commencement of studies from 1 January 2019 to 1 July 2019	1,130	-60	-120	-360	-410	-160	-80	-80	-	-	-	590	-140
Student transfer payments	80	-1,010	-1,080	-1,160	-1,260	-1,370	-1,490	-1,630	-1,770	-1,930	-2,100	-3,160	-14,710
Total – administered	1,210	-4,030	-6,200	-8,760	-10,750	-12,610	-13,020	-14,070	-14,780	-15,590	-16,440	-17,760	-115,030
<i>Departmental</i>													
Department of Education and Training	..	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-30	-80
Department of Social Services	..	-10	..	-10	-10	-10	-10	-10	-10	-10	-10	-20	-70
Total – departmental	-	-20	-10	-20	-20	-20	-20	-20	-20	-20	-20	-50	-150
Total – payments	1,210	-4,050	-6,210	-8,780	-10,770	-12,630	-13,040	-14,090	-14,800	-15,610	-16,460	-17,810	-115,180
Total (excluding PDI)	1,210	-4,240	-6,380	-8,910	-10,890	-12,740	-13,150	-14,210	-14,920	-15,760	-16,640	-18,290	-116,540
PDI impacts	20	-10	-130	-290	-500	-800	-1,160	-1,580	-2,070	-2,640	-3,240	-400	-12,390
Total (including PDI)	1,230	-4,250	-6,510	-9,200	-11,390	-13,540	-14,310	-15,790	-16,990	-18,400	-19,880	-18,690	-128,930

- (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.
- (c) Includes both the interest and loan fee components of repayments.
- (d) State and territory governments contribute to deferral costs for this program.
- .. Not zero but rounded to zero.
- Indicates nil.

Table B3: Higher education – Headline cash balance (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Receipts													
<i>Interest payments^(c)</i>	-	-220	-200	-170	-160	-150	-160	-170	-180	-210	-250	-590	-1,870
<i>Principal repayments</i>	-	-1,310	-1,160	-1,020	-960	-920	-930	-970	-1,040	-1,170	-1,320	-3,490	-10,800
<i>State contributions to deferral costs for VET student loans^(d)</i>	-	..	..	..	..	..	..	..	..	..	..	10	40
<i>Student transfer payments (personal income tax)</i>	-	30	30	40	40	40	50	50	60	60	70	100	470
Total – receipts	-	-1,500	-1,330	-1,150	-1,080	-1,030	-1,040	-1,090	-1,160	-1,320	-1,500	-3,970	-12,160
Payments													
<i>Administered</i>													
<i>Replace undergraduate student contribution with grant and increase by 10 per cent</i>	-	-1,610	-2,680	-3,960	-4,990	-5,740	-6,310	-6,870	-7,140	-7,410	-7,690	-8,240	-54,400
<i>Grants to state and territory governments for TAFEs</i>	-	-2,090	-2,990	-3,800	-4,430	-5,470	-5,050	-5,180	-5,310	-5,440	-5,580	-8,880	-45,340
<i>National Agreement for Skills and Workforce Development</i>	-	1,540	1,560	1,590	1,610	1,640	1,660	1,690	1,710	1,740	1,770	4,690	16,500
<i>Remove cap on total CGS funding and increase CGS funding by 10 per cent</i>	-	-800	-890	-1,070	-1,270	-1,510	-1,750	-2,000	-2,270	-2,550	-2,840	-2,760	-16,940
<i>CGS impact of students delaying commencement of studies from 1 January 2019 to 1 July 2019</i>	1,130	-60	-120	-360	-410	-160	-80	-80	-	-	-	590	-140
<i>Loans issued</i>	480	1,580	2,390	3,420	4,250	4,870	5,310	5,760	5,970	6,200	6,440	7,880	46,680
<i>Student transfer payments</i>	80	-1,010	-1,080	-1,160	-1,260	-1,370	-1,490	-1,630	-1,770	-1,930	-2,100	-3,160	-14,710
Total - administered	1,690	-2,450	-3,810	-5,340	-6,500	-7,740	-7,710	-8,310	-8,810	-9,390	-10,000	-9,880	-68,350
<i>Departmental</i>													
<i>Department of Education and Training</i>	..	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-30	-80
<i>Department of Social Services</i>	..	-10	..	-10	-10	-10	-10	-10	-10	-10	-10	-20	-70
Total - departmental	-	-20	-10	-20	-20	-20	-20	-20	-20	-20	-20	-50	-150
Total – payments	1,690	-2,470	-3,820	-5,360	-6,520	-7,760	-7,730	-8,330	-8,830	-9,410	-10,020	-9,930	-68,500
Total (excluding PDI)	1,690	-3,970	-5,150	-6,510	-7,600	-8,790	-8,770	-9,420	-9,990	-10,730	-11,520	-13,900	-80,660
PDI impacts	20	-10	-130	-290	-500	-800	-1,160	-1,580	-2,070	-2,640	-3,240	-400	-12,390
Total (including PDI)	1,710	-3,980	-5,280	-6,800	-8,100	-9,590	-9,930	-11,000	-12,060	-13,370	-14,760	-14,300	-93,050

(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.

(c) Includes both the interest and loan fee components of repayments.

(d) State and territory governments contribute to deferral costs for this program.

.. Not zero but rounded to zero.

- Indicates nil.

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 impact¹

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 C1 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 C1: 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 underlying cash balance or fiscal 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.