



Parliament of Australia
Parliamentary Budget Office

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

Dear Senator Di Natale

Please find attached a response to your costing request, *Investing in Early Childhood Educators* (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

29 June 2016



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

Name of proposal:	Investing in Early Childhood Educators
Summary of proposal:	<p>The proposal would waive Higher Education Loan Program (HELP) repayments for early childhood education graduates employed in Long Day Care (LDC) centres. HELP debt equivalent to the repayment that would otherwise be required for the financial year would be written down. Furthermore, graduates working in LDC centres in remote or low socio-economic areas would have the amount of debt written down doubled in comparison to graduates working in other LDC centres.</p> <p>The proposal would have effect from 1 July 2017.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	9 June 2016
Date costing request received:	28 June 2016
Date costing completed:	29 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

The proposal would be expected to decrease the fiscal balance by \$29 million, decrease the underlying cash balance by \$7 million and decrease the headline cash balance by \$29 million over the 2016-17 Budget forward estimates period.

This proposal includes a number of components and would have an ongoing impact that extends beyond the forward estimates period. The disaggregated financial impacts of the proposal over the period 2016-17 to 2026-27 are provided at [Attachment A](#).

The *Methodology* section provides information on how the impacts on each budget balance were calculated. As the proposal impacts on financial asset transactions the Public Debt Interest (PDI) impact of the proposal has been included in this costing and a note on the accounting treatment of income contingent loans is included at [Attachment B](#).

The proposal would not be expected to result in additional departmental expenditure as the implementation of the policy is not expected to have a material impact on the administration of the overall HELP.

The costing is considered to be of low to medium reliability due to uncertainty surrounding the income of early childhood education graduates.

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

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-	-9.0	-10.0	-11.0	-29.0
Underlying cash balance	-	-2.0	-2.0	-3.0	-7.0
Headline cash balance	-	-8.0	-10.0	-11.0	-29.0

(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.

- Indicates nil.

Key assumptions

In costing the proposal, the following assumptions have been made:

- 80 per cent of the eligible early childhood education graduates would take up the proposal
 - The increase from the current take up rate of 30 per cent for the HECS-HELP Benefit for Early Childhood Education reflects the more generous benefit offered under this proposal.
- the graduates eligible for the additional support are the same group of graduates currently eligible for the HECS-HELP Benefit for Early Childhood Education, which is targeted towards graduates working in LDC centres in remote or low socio economic areas.

Methodology

The costing estimate has been derived by taking the product of an estimated number of graduates likely to claim the waiver, and the average of their HELP repayments and debt waived.

The number of early childhood education graduates with HELP debts and their average HELP repayments in 2013-14 were taken from the detailed tables of the Australian Taxation Office's 2013-14 Taxation Statistics publication. The number of graduates and average HELP repayments have been indexed based on their growth over the period 2009-10 to 2013-14.

The combined impact of reduction in HELP repayments and debt writedowns has the following impacts on budget balances:

Fiscal balance impact – components

- Writedowns of debts have a negative impact on the fiscal balance.
- Increased PDI payments have a negative impact on the fiscal balance.

Underlying cash balance impact – components

- Decreased interest receipts have a negative impact on the underlying cash balance.
- Increased PDI payments have a negative impact on the underlying cash balance.

Headline cash balance impact – components

- Decreased principal repayments have a negative impact on the headline cash balance.
- Decreased interest receipts (interest is estimated as a fixed proportion of repayments) have a negative impact on the headline cash balance.
- Increased PDI payments have a negative impact on the headline cash balance.

General

All estimates have been rounded to the nearest \$1 million.

Data sources

- Australian Taxation Office
 - 2013-14 Taxation Statistics
- Department of Education and Training
 - HELP forward estimates model

Attachment A: Investing in Early Childhood Educators — financial implications

Table A1: Investing in Early Childhood Educators—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
Impact on fiscal balance													
Loan writedowns	-	-8.0	-9.0	-10.0	-28.0	-11.0	-12.0	-13.0	-14.0	-14.0	-15.0	-16.0	-124.0
PDI	-	-1.0	-1.0	-1.0	-2.0	-3.0	-4.0	-5.0	-6.0	-8.0	-29.0
Total fiscal balance impact	-	-9.0	-10.0	-11.0	-29.0	-12.0	-14.0	-16.0	-17.0	-19.0	-22.0	-24.0	-153.0

(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.

Table A2: Investing in Early Childhood Educators – 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
Impact on underlying cash balance													
Interest received	-	-2.0	-2.0	-2.0	-6.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-4.0	-28.0
PDI	-	-1.0	-1.0	-1.0	-2.0	-3.0	-4.0	-5.0	-6.0	-8.0	-29.0
Total underlying cash balance impact	-	-2.0	-2.0	-3.0	-7.0	-4.0	-5.0	-6.0	-7.0	-8.0	-10.0	-11.0	-57.0

(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.

.. Not zero but rounded to zero.

- Indicates nil.

Table A3: Investing in Early Childhood Educators – 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
Impact on headline cash balance													
Repayments and interest received	-	-8.0	-9.0	-10.0	-28.0	-11.0	-12.0	-13.0	-14.0	-14.0	-15.0	-16.0	-124.0
PDI	-	-1.0	-1.0	-1.0	-2.0	-3.0	-4.0	-5.0	-6.0	-8.0	-29.0
Total headline cash balance impact	-	-8.0	-10.0	-11.0	-29.0	-12.0	-14.0	-16.0	-17.0	-19.0	-21.0	-24.0	-153.0

(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 Public Debt Interest (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 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 concession 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.