Parliamentary
Budget Office

FutureGrid Rewiring Australia's Energy System	
Party:	Australian Greens

Summary of proposal:

The proposal consist of 3 components, each starting from 1 July 2022.

Component 1 – Public Grid Investment

- Create a new publicly owned electricity transmission and distribution corporation (FutureGrid), with a specific remit to:
  - invest in new transmission infrastructure to connect the existing grid to Renewable Energy Zones
  - buy transmission and distribution infrastructure from the private sector, beginning with privately owned interconnectors.
- Provide $25 billion of equity to FutureGrid ($10 billion in 2022-23 and $3.75 billion in each year from 2023-24 to 2026-27).

Component 2 – Household Solar Storage Scheme

- Element 1 would provide grants of up to $5,000 to any Australian household to install household storage technology. Grants would be limited to 50% of the total cost of the upgrade.
- Element 2 would provide low interest loans of up to $10,000 to any Australian household to install household storage technology. Loans would be offered at the Reserve Bank of Australia (RBA) overnight cash rate with a maximum 10-year fixed term.

Component 3 – Small Business Solar Storage Scheme

- Element 1 would provide grants of up to $10,000 to any Australian small business (a business with a turnover below $10 million in the previous financial year) to install a battery at their business site. Grants would be limited to 50% of the total cost of the upgrade.
- Element 2 would provide low interest loans of up to $50,000 to any Australian small business to install a battery at their business site (excluding those businesses where their site is a residential household). Loans would be offered at the RBA overnight cash rate with a maximum 10-year fixed term.

To be eligible for Components 2 and 3, households and businesses would need to use qualified system providers installing battery systems that meet a set of minimum technical requirements.

Costing overview

The proposal would be expected to decrease the fiscal balance by around $2.72 billion, the underlying cash balance by around $2.27 billion and the headline cash balance by around $14.5 billion over the 2022-23 Budget forward estimates period.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

The financial implications are uncertain and highly sensitive to assumptions on the speed at which capital would be deployed and projects would be completed. The value of transmission and distribution assets, including interconnectors, purchased from the private sector is also highly uncertain, as the cost would depend on market factors at the time of the negotiation. The costing includes no allowance for the impact of the proposal on business profitability or company tax revenue. The magnitude of such effects would be highly uncertain and could comprise different effects, including:

- reductions in the returns of competing investment projects especially due to the entry of large-scale investment in the clean energy sector (crowding-out effects)
- increases in profits from marginal projects as a result of large-scale Australian Government investment driving increased private sector investment (crowding-in effects).

It is unclear which of these 2 effects would dominate and this could vary from period to period.

The financial implications of the grant and loan schemes for household and small business solar storage are sensitive to the assumed take-up rates for the grants and the concessional loans. The take-up rates are likely to be impacted by the price of eligible solar storage technologies, and the price of alternative electricity provision, as well as the perceived benefits of installing such storage technologies. These factors may in turn be influenced by the electricity sector, climate and other policies. Some states and territories provide similar schemes subsidising the cost of solar storage which may impact the adoption rates of this proposed scheme. The Parliamentary Budget Office (PBO) has not made any assessment of how this proposal would interact with other subsidies or schemes available.

Consistent with *PBO Guidance 02/2015*, public debt interest expense impacts have been included in this costing because the concessional loans provided under this proposal involve financial asset transactions.

The fiscal, underlying cash and headline cash balance impacts differ in the treatment of interest and dividend payments, and the flow of equity and loan principal. In particular, only the fiscal balance reflects the concessional loan discount expense, associated unwinding income, and loan write-downs, and only the headline cash balance includes transactions related to equity and 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 B.

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

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-460.7	-578.5	-779.9	-898.1	**-2,717.2**
Underlying cash balance	-382.0	-475.1	-647.8	-765.6	**-2,270.5**
Headline cash balance	-712.0	-3,417.1	-4,641.8	-5,730.6	**-14,501.5**

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

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Component 1

- Each tranche of the funding would be deployed over 4 years.
  - Similar to the Clean Energy Finance Corporation (CEFC), FutureGrid would commence making investments a year after establishment, allowing for preparations required to enable entry into the transmission and distribution market.
  - There is a large pool of existing transmission and distribution assets available to purchase.
- FutureGrid would be a public non-financial corporation, providing goods and services to consumers on a commercial basis, largely funded by the sale of these goods and services and generally legally distinguishable from the Australian Government.
- FutureGrid would have a similar risk and return profile to the CEFC and would achieve similar returns.
  - FutureGrid would target an average return of the 5-year Australian Government bond rate plus 3% to 4% per annum over the medium to long term as the benchmark return on the core portfolio.
  - In targeting these returns, FutureGrid would develop a portfolio that has an acceptable, but not excessive, level of risk.
- The committed equity would not impact the Consolidated Revenue Fund through dividend payments until funding is deployed or drawn down for investment or operational purposes.
  - Dividend earnings on investments would be returned to the Consolidated Revenue Fund.
- The projects would commence and be completed in a phased manner. This would reflect the time needed to assess eligibility, the average investment project length and staged project commencement.
- The departmental costs would reflect the establishment of FutureGrid as a corporation only.
  - The ratio of administered and departmental costs would be broadly consistent with the CEFC.

Components 2 and 3

- The number of household battery installations would initially increase by around 31% to 51,000 in 2022-23 and would grow in line with historical demand responses to the introduction of solar storage rebates in the states and territories. This is informed by:
  - data from the Clean Energy Regulator's postcode data for small-scale installations
  - analysis in SunWiz's *Australian Battery Market 2021* report.
- The take-up rate of small business battery installations would be around 0.5% in 2022-23, partially informed by the experience in the household sector. The number of small business installations would grow at 13% per annum into the medium term.
- The average cost of battery installations would remain similar to current estimates of around $11,000 for households and $26,000 for small businesses, with any decrease in price offset by an increase in storage size.

  - The current estimates were based on estimated storage requirements for households and small businesses, and actual costs per kilowatt-hour.
- All households and small businesses accessing the grants would fund any outstanding installation costs using a concessional loan up to the specified amount.
- No household or small business would access a concessional loan but not a grant.
- The average loan maturity would be 10 years and default rates would be at 1.2% for households and 2.5% for small businesses. Default rates are based on the RBA observations of non-performing loans and default probabilities for each sector.

Methodology

Component 1

The equity investment profile estimates were based on the CEFC model as projects envisaged under this proposal are of a comparable nature. The equity commitment and deployment profiles were adjusted to reflect the scale of the investment.

Components 2 and 3

The financial implications for these components were derived by estimating the number of eligible households and small businesses that would take up a grant for solar storage and the average costs of installation.

The cost of installing solar storage technology would be funded by the full amount of the grant with the remainder to be funded through the concessional loan.

- This reflects the assumption that consumers would maximise any grant funding by installing a storage system that qualified them for the maximum grant amount.
- The remaining installation costs would be treated as a concessional loan. The PBO used its concessional loan model to calculate the impact to the fiscal, underlying cash and headline cash balances of the loan funding provided, with interest payments at the specified RBA cash rate, and repayments spread evenly over the maximum 10-year period.

Departmental costs were estimated based on similar programs administered by the Department of Industry, Science, Energy and Resources.

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

Data sources

The Treasury provided indexation parameters and RBA cash rate projections as at the 2022 Pre-election Economic and Fiscal Outlook.

The Australian Taxation Office provided the 2018-19 taxation statistics for companies.

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

The Department of Industry, Science, Energy and Resources provided information on the CEFC's funding commitments, equity investments, concessional loans and operational expenses over the 2022-23 Budget forward estimates period.

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Attachment A – FutureGrid Rewiring Australia's Energy System – financial implications

Table A1: FutureGrid Rewiring Australia's Energy System – 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													
Component 1 - Equity investment dividends	*-*	*53.0*	*120.0*	*229.0*	*346.0*	*429.0*	*492.0*	*533.0*	*554.0*	*554.0*	*554.0*	***402.0***	***3,864.0***
Component 2 - Income from unwinding concessional loans	*13.0*	*32.0*	*56.0*	*83.0*	*110.0*	*139.0*	*169.0*	*200.0*	*234.0*	*269.0*	*307.0*	***184.0***	***1,612.0***
Component 2 - Interest accrued from loans	*..*	*..*	*1.0*	*1.0*	*4.0*	*10.0*	*20.0*	*35.0*	*56.0*	*84.0*	*121.0*	***2.0***	***332.0***
Component 3 - Income from unwinding concessional loans	*1.8*	*3.7*	*5.7*	*7.7*	*9.7*	*11.7*	*13.6*	*15.6*	*17.5*	*19.3*	*21.1*	***18.9***	***127.4***
Component 3 - Interest accrued from loans	*..*	*0.1*	*0.1*	*0.1*	*0.4*	*1.1*	*2.1*	*3.6*	*5.6*	*8.2*	*11.5*	***0.3***	***32.8***
Total – revenue	**14.8**	**88.8**	**182.8**	**320.8**	**470.1**	**590.8**	**696.7**	**787.2**	**867.1**	**934.5**	**1,014.6**	**607.2**	**5,968.2**
Expenses													
Administered													
Component 2 - Concessional loan discount expense	*-78.0*	*-120.0*	*-161.0*	*-187.0*	*-206.0*	*-234.0*	*-265.0*	*-301.0*	*-341.0*	*-387.0*	*-439.0*	***-546.0***	***-2,719.0***
Component 2 - Other financing costs	*-3.7*	*-5.7*	*-7.6*	*-8.9*	*-10.3*	*-12.0*	*-13.9*	*-16.2*	*-18.9*	*-22.0*	*-25.7*	***-25.9***	***-144.9***
Component 2 - Solar storage grant	*-260.0*	*-390.0*	*-530.0*	*-620.0*	*-720.0*	*-830.0*	*-970.0*	*-1,130.0*	*-1,310.0*	*-1,530.0*	*-1,780.0*	***-1,800.0***	***-10,070.0***
Component 3 - Concessional loan discount expense	*-10.4*	*-11.8*	*-13.4*	*-15.2*	*-16.0*	*-17.5*	*-19.2*	*-20.9*	*-22.9*	*-25.0*	*-27.2*	***-50.8***	***-199.5***
Component 3 - Other financing costs	*-1.4*	*-1.6*	*-1.8*	*-2.1*	*-2.3*	*-2.7*	*-3.0*	*-3.4*	*-3.9*	*-4.4*	*-5.0*	***-6.9***	***-31.6***
Component 3 - Solar storage grant	*-35.0*	*-40.0*	*-45.0*	*-51.0*	*-58.0*	*-66.0*	*-75.0*	*-85.0*	*-96.0*	*-109.0*	*-124.0*	***-171.0***	***-784.0***
Total – administered	***-388.5***	***-569.1***	***-758.8***	***-884.2***	***-1,012.6***	***-1,162.2***	***-1,346.1***	***-1,556.5***	***-1,792.7***	***-2,077.4***	***-2,400.9***	***-2,600.6***	***-13,949.0***

	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
Departmental													
Component 1	*-11.8*	-	-	-	-	-	-	-	-	-	-	***-11.8***	***-11.8***
Component 2	*-56.0*	*-43.0*	*-58.0*	*-68.0*	*-79.0*	*-92.0*	*-107.0*	*-124.0*	*-144.0*	*-168.0*	*-196.0*	***-225.0***	***-1,135.0***
Component 3	*-9.2*	*-5.2*	*-5.9*	*-6.7*	*-7.6*	*-8.6*	*-9.8*	*-11.1*	*-12.6*	*-14.3*	*-16.2*	***-27.0***	***-107.2***
Total – departmental	***-77.0***	***-48.2***	***-63.9***	***-74.7***	***-86.6***	***-100.6***	***-116.8***	***-135.1***	***-156.6***	***-182.3***	***-212.2***	***-263.8***	***-1,254.0***
Total – expenses	**-465.5**	**-617.3**	**-822.7**	**-958.9**	**-1,099.2**	**-1,262.8**	**-1,462.9**	**-1,691.6**	**-1,949.3**	**-2,259.7**	**-2,613.1**	**-2,864.4**	**-15,203.0**
Total (excluding PDI)	**-450.7**	**-528.5**	**-639.9**	**-638.1**	**-629.1**	**-672.0**	**-766.2**	**-904.4**	**-1,082.2**	**-1,325.2**	**-1,598.5**	**-2,257.2**	**-9,234.8**
PDI impacts	***-10.0***	***-50.0***	***-140.0***	***-260.0***	***-410.0***	***-570.0***	***-710.0***	***-840.0***	***-960.0***	***-1,080.0***	***-1,200.0***	***-460.0***	***-6,230.0***
Total (including PDI)	**-460.7**	**-578.5**	**-779.9**	**-898.1**	**-1,039.1**	**-1,242.0**	**-1,476.2**	**-1,744.4**	**-2,042.2**	**-2,405.2**	**-2,798.5**	**-2,717.2**	**-15,464.8**

(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.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A2: FutureGrid Rewiring Australia's Energy System – 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													
Component 1 - Equity investment dividends	*-*	*53.0*	*120.0*	*229.0*	*346.0*	*429.0*	*492.0*	*533.0*	*554.0*	*554.0*	*554.0*	***402.0***	***3,864.0***
Component 2 - Interest repayments received on loans	*..*	*..*	*1.0*	*1.0*	*4.0*	*10.0*	*20.0*	*35.0*	*56.0*	*84.0*	*121.0*	***2.0***	***332.0***
Component 3 - Interest repayments received on loans	*..*	*0.1*	*0.1*	*0.1*	*0.4*	*1.1*	*2.1*	*3.6*	*5.6*	*8.2*	*11.5*	***0.3***	***32.8***
Total – receipts	**..**	**53.1**	**121.1**	**230.1**	**350.4**	**440.1**	**514.1**	**571.6**	**615.6**	**646.2**	**686.5**	**404.3**	**4,228.8**
Payments													
Administered													
Component 2 - Solar storage grant	*-260.0*	*-390.0*	*-530.0*	*-620.0*	*-720.0*	*-830.0*	*-970.0*	*-1,130.0*	*-1,310.0*	*-1,530.0*	*-1,780.0*	***-1,800.0***	***-10,070.0***
Component 3 - Solar storage grant	*-35.0*	*-40.0*	*-45.0*	*-51.0*	*-58.0*	*-66.0*	*-75.0*	*-85.0*	*-96.0*	*-109.0*	*-124.0*	***-171.0***	***-784.0***
Total – administered	***-295.0***	***-430.0***	***-575.0***	***-671.0***	***-778.0***	***-896.0***	***-1,045.0***	***-1,215.0***	***-1,406.0***	***-1,639.0***	***-1,904.0***	***-1,971.0***	***-10,854.0***
Departmental													
Component 1	*-11.8*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-11.8***	***-11.8***
Component 2	*-56.0*	*-43.0*	*-58.0*	*-68.0*	*-79.0*	*-92.0*	*-107.0*	*-124.0*	*-144.0*	*-168.0*	*-196.0*	***-225.0***	***-1,135.0***
Component 3	*-9.2*	*-5.2*	*-5.9*	*-6.7*	*-7.6*	*-8.6*	*-9.8*	*-11.1*	*-12.6*	*-14.3*	*-16.2*	***-27.0***	***-107.2***
Total – departmental	***-77.0***	***-48.2***	***-63.9***	***-74.7***	***-86.6***	***-100.6***	***-116.8***	***-135.1***	***-156.6***	***-182.3***	***-212.2***	***-263.8***	***-1,254.0***
Total – payments	**-372.0**	**-478.2**	**-638.9**	**-745.7**	**-864.6**	**-996.6**	**-1,161.8**	**-1,350.1**	**-1,562.6**	**-1,821.3**	**-2,116.2**	**-2,234.8**	**-12,108.0**
Total (excluding PDI)	**-372.0**	**-425.1**	**-517.8**	**-515.6**	**-514.2**	**-556.5**	**-647.7**	**-778.5**	**-947.0**	**-1,175.1**	**-1,429.7**	**-1,830.5**	**-7,879.2**
PDI impacts	***-10.0***	***-50.0***	***-130.0***	***-250.0***	***-390.0***	***-550.0***	***-690.0***	***-820.0***	***-950.0***	***-1,060.0***	***-1,190.0***	***-440.0***	***-6,090.0***
Total (including PDI)	**-382.0**	**-475.1**	**-647.8**	**-765.6**	**-904.2**	**-1,106.5**	**-1,337.7**	**-1,598.5**	**-1,897.0**	**-2,235.1**	**-2,619.7**	**-2,270.5**	**-13,969.2**

(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.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A3: FutureGrid Rewiring Australia's Energy System – 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													
Component 1 - Equity investment dividends	-	*53.0*	*120.0*	*229.0*	*346.0*	*429.0*	*492.0*	*533.0*	*554.0*	*554.0*	*554.0*	***402.0***	***3,864.0***
Component 2 - Interest repayments received on loans	..	..	*1.0*	*1.0*	*4.0*	*10.0*	*20.0*	*35.0*	*56.0*	*84.0*	*121.0*	***2.0***	***332.0***
Component 2 - Loan repayments	*30.0*	*80.0*	*140.0*	*210.0*	*300.0*	*400.0*	*510.0*	*640.0*	*800.0*	*980.0*	*1,160.0*	***460.0***	***5,250.0***
Component 3 - Interest repayments received on loans	..	*0.1*	*0.1*	*0.1*	*0.4*	*1.1*	*2.1*	*3.6*	*5.6*	*8.2*	*11.5*	***0.3***	***32.8***
Component 3 - Loan repayments	*6.0*	*12.0*	*19.0*	*27.0*	*36.0*	*46.0*	*58.0*	*71.0*	*86.0*	*104.0*	*117.0*	***64.0***	***582.0***
Total – receipts	**36.0**	**145.1**	**280.1**	**467.1**	**686.4**	**886.1**	**1,082.1**	**1,282.6**	**1,501.6**	**1,730.2**	**1,963.5**	**928.3**	**10,060.8**
Payments													
Administered													
Component 1 - Equity investments	-	*-2,500.0*	*-3,440.0*	*-4,380.0*	*-5,310.0*	*-3,750.0*	*-2,810.0*	*-1,880.0*	*-940.0*	-	-	***-10,320.0***	***-25,010.0***
Component 2 - Loans made	*-310.0*	*-470.0*	*-640.0*	*-740.0*	*-860.0*	*-1,000.0*	*-1,160.0*	*-1,350.0*	*-1,580.0*	*-1,840.0*	*-2,140.0*	***-2,160.0***	***-12,090.0***
Component 2 - Solar storage grant	*-260.0*	*-390.0*	*-530.0*	*-620.0*	*-720.0*	*-830.0*	*-970.0*	*-1,130.0*	*-1,310.0*	*-1,530.0*	*-1,780.0*	***-1,800.0***	***-10,070.0***
Component 3 - Loans made	*-56.0*	*-64.0*	*-73.0*	*-82.0*	*-93.0*	*-106.0*	*-120.0*	*-136.0*	*-155.0*	*-176.0*	*-199.0*	***-275.0***	***-1,260.0***
Component 3 - Solar storage grant	*-35.0*	*-40.0*	*-45.0*	*-51.0*	*-58.0*	*-66.0*	*-75.0*	*-85.0*	*-96.0*	*-109.0*	*-124.0*	***-171.0***	***-784.0***
Total – administered	***-661.0***	***-3,464.0***	***-4,728.0***	***-5,873.0***	***-7,041.0***	***-5,752.0***	***-5,135.0***	***-4,581.0***	***-4,081.0***	***-3,655.0***	***-4,243.0***	***-14,726.0***	***-49,214.0***

	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**
Departmental													
Component 1	*-11.8*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-11.8***	***-11.8***
Component 2	*-56.0*	*-43.0*	*-58.0*	*-68.0*	*-79.0*	*-92.0*	*-107.0*	*-124.0*	*-144.0*	*-168.0*	*-196.0*	***-225.0***	***-1,135.0***
Component 3	*-9.2*	*-5.2*	*-5.9*	*-6.7*	*-7.6*	*-8.6*	*-9.8*	*-11.1*	*-12.6*	*-14.3*	*-16.2*	***-27.0***	***-107.2***
Total – departmental	***-77.0***	***-48.2***	***-63.9***	***-74.7***	***-86.6***	***-100.6***	***-116.8***	***-135.1***	***-156.6***	***-182.3***	***-212.2***	***-263.8***	***-1,254.0***
Total – payments	**-738.0**	**-3,512.2**	**-4,791.9**	**-5,947.7**	**-7,127.6**	**-5,852.6**	**-5,251.8**	**-4,716.1**	**-4,237.6**	**-3,837.3**	**-4,455.2**	**-14,989.8**	**-50,468.0**
Total (excluding PDI)	**-702.0**	**-3,367.1**	**-4,511.8**	**-5,480.6**	**-6,441.2**	**-4,966.5**	**-4,169.7**	**-3,433.5**	**-2,736.0**	**-2,107.1**	**-2,491.7**	**-14,061.5**	**-40,407.2**
PDI impacts	***-10.0***	***-50.0***	***-130.0***	***-250.0***	***-390.0***	***-550.0***	***-690.0***	***-820.0***	***-950.0***	***-1,060.0***	***-1,190.0***	***-440.0***	***-6,090.0***
Total (including PDI)	**-712.0**	**-3,417.1**	**-4,641.8**	**-5,730.6**	**-6,831.2**	**-5,516.5**	**-4,859.7**	**-4,253.5**	**-3,686.0**	**-3,167.1**	**-3,681.7**	**-14,501.5**	**-46,497.2**

(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.

.. Not zero but rounded to zero.

- Indicates nil.

Attachment B – 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 Australian Government.

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 Australian Government's net worth if the liabilities issued (the value of Australian 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.