



### Ending the 10% upfront fee discount

Party: Australian Labor Party

#### Summary of proposal:

The proposal would remove the 10% fee discount available to students who make up-front payments of \$500 or more towards their Higher Education Contribution Scheme – Higher Education Loan Program (HECS-HELP) student contributions.

The proposal would start from 1 January 2023.

### Costing overview

The proposal would be expected to increase the fiscal balance by around \$134 million, increase the underlying cash balance by \$145 million and increase the headline cash balance by around \$65 million over the 2022-23 Budget forward estimates period.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period.

A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The financial implications of this costing are extremely sensitive to inherent uncertainties in the baseline estimates for HELP and the projected student payment behaviour. In particular, it is unknown to what degree COVID-19, and various recent changes to higher education policy, will have on the rate of upfront HELP payments in the absence of the 10% discount.

Consistent with *Parliamentary Budget Office (PBO) Guidance 02/2015*, public debt interest (PDI) 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 the flow of loan principal amount. 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 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)<sup>(a)</sup>**

|                         | 2022-23 | 2023-24 | 2024-25 | 2025-26 | <b>Total to<br/>2025-26</b> |
|-------------------------|---------|---------|---------|---------|-----------------------------|
| Fiscal balance          | 17.8    | 36.6    | 38.6    | 40.6    | <b>133.6</b>                |
| Underlying cash balance | 19.6    | 40.0    | 41.7    | 43.4    | <b>144.7</b>                |
| Headline cash balance   | 8.4     | 17.3    | 18.7    | 20.2    | <b>64.6</b>                 |

(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.

- The proportion of students making upfront payments without any fee discount would return to the level observed prior to the re-introduction of the 10% fee discount in 2020-21 when policy settings were similar to the proposal.
  - Likewise, the proportion of students who defer their tuition fees would return to the 2020-21 levels.
- The rate of debts not expected to be repaid would remain unchanged from current estimates.

## Methodology

The financial estimates were estimated by the Department of Education, Skills and Employment's (DESE) HELP model, updated with the 2022-23 Budget parameters.

- The returning proportion of students expected to make voluntary repayments without receiving any discount and those who would defer payments to historical levels are discussed in *Key assumptions*.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.<sup>1</sup>

## Data sources

The Department of Education, Skills and Employment provided the Higher Education Loan Program estimate model as at the 2022-23 Budget.

The Treasury provided economic parameters as at the 2022-23 Budget.

---

<sup>1</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Costings\\_and\\_budget\\_information](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information)

## Attachment A – Ending the 10% upfront fee discount – financial implications

**Table A1: Ending the 10% upfront fee discount – Fiscal balance (\$m)<sup>(a)</sup>**

|   | 2022-23     | 2023-24     | 2024-25     | 2025-26     | 2026-27     | 2027-28     | 2028-29     | 2029-30     | 2030-31     | 2031-32     | 2032-33     | Total to<br>2025-26 | Total to<br>2032-33 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|---------------------|
| <b>Revenue</b>                              |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <b>Administered non-tax</b>                 |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Indexation on loans</i>                  | -           | 0.3         | 0.8         | 1.3         | 1.9         | 2.4         | 3.0         | 3.7         | 4.3         | 5.0         | 5.8         | 2.4                 | 28.5                |
| <i>Unwinding concessional loan discount</i> | -           | -           | -           | -           | -           | -           | ..          | 0.1         | 0.1         | 0.2         | 0.3         | -                   | 0.7                 |
| <b>Total – revenue</b>                      | -           | <b>0.3</b>  | <b>0.8</b>  | <b>1.3</b>  | <b>1.9</b>  | <b>2.4</b>  | <b>3.0</b>  | <b>3.8</b>  | <b>4.4</b>  | <b>5.2</b>  | <b>6.1</b>  | <b>2.4</b>          | <b>29.2</b>         |
| <b>Expenses</b>                             |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <b>Administered</b>                         |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Discount for upfront payments</i>        | 19.5        | 39.7        | 41.0        | 42.2        | 43.4        | 44.5        | 45.7        | 46.9        | 48.2        | 49.5        | 50.8        | 142.4               | 471.4               |
| <i>Remissions</i>                           | -           | ..          | ..          | ..          | ..          | ..          | ..          | ..          | ..          | -0.1        | -0.1        | ..                  | -0.2                |
| <i>Concessional loan discount</i>           | -           | -           | -           | -           | -           | -0.2        | -0.5        | -0.8        | -1.2        | -1.7        | -2.2        | -                   | -6.6                |
| <i>Other loan financing</i>                 | -1.8        | -3.8        | -4.0        | -4.1        | -4.2        | -4.3        | -4.4        | -4.6        | -4.7        | -4.8        | -4.9        | -13.7               | -45.6               |
| <b>Total – expenses</b>                     | <b>17.7</b> | <b>35.9</b> | <b>37.0</b> | <b>38.1</b> | <b>39.2</b> | <b>40.0</b> | <b>40.8</b> | <b>41.5</b> | <b>42.3</b> | <b>42.9</b> | <b>43.6</b> | <b>128.7</b>        | <b>419.0</b>        |
| <b>Total (excluding PDI)</b>                | <b>17.7</b> | <b>36.2</b> | <b>37.8</b> | <b>39.4</b> | <b>41.1</b> | <b>42.4</b> | <b>43.8</b> | <b>45.3</b> | <b>46.7</b> | <b>48.1</b> | <b>49.7</b> | <b>131.1</b>        | <b>448.2</b>        |
| <b>PDI impacts</b>                          | <b>0.1</b>  | <b>0.4</b>  | <b>0.8</b>  | <b>1.2</b>  | <b>1.7</b>  | <b>2.3</b>  | <b>3.0</b>  | <b>3.8</b>  | <b>4.7</b>  | <b>5.8</b>  | <b>7.2</b>  | <b>2.5</b>          | <b>31.0</b>         |
| <b>Total (including PDI)</b>                | <b>17.8</b> | <b>36.6</b> | <b>38.6</b> | <b>40.6</b> | <b>42.8</b> | <b>44.7</b> | <b>46.8</b> | <b>49.1</b> | <b>51.4</b> | <b>53.9</b> | <b>56.9</b> | <b>133.6</b>        | <b>479.2</b>        |

(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: Ending the 10% upfront fee discount – Underlying cash balance (\$m)<sup>(a)</sup>**

|                                      | 2022-23     | 2023-24     | 2024-25     | 2025-26     | 2026-27     | 2027-28     | 2028-29     | 2029-30     | 2030-31     | 2031-32     | 2032-33     | Total to<br>2025-26 | Total to<br>2032-33 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|---------------------|
| <b>Receipts</b>                      |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Administered non-tax</i>          |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Interest receipts</i>             | -           | -           | ..          | ..          | 0.1         | 0.1         | 0.2         | 0.3         | 0.4         | 0.5         | 0.5         | ..                  | 2.1                 |
| <b>Total – receipts</b>              | -           | -           | ..          | ..          | <b>0.1</b>  | <b>0.1</b>  | <b>0.2</b>  | <b>0.3</b>  | <b>0.4</b>  | <b>0.5</b>  | <b>0.5</b>  | ..                  | <b>2.1</b>          |
| <b>Payments</b>                      |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Administered</i>                  |             |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Discount for upfront payments</i> | 19.5        | 39.7        | 41.0        | 42.2        | 43.4        | 44.5        | 45.7        | 46.9        | 48.2        | 49.5        | 50.8        | 142.4               | 471.4               |
| <b>Total – payments</b>              | <b>19.5</b> | <b>39.7</b> | <b>41.0</b> | <b>42.2</b> | <b>43.4</b> | <b>44.5</b> | <b>45.7</b> | <b>46.9</b> | <b>48.2</b> | <b>49.5</b> | <b>50.8</b> | <b>142.4</b>        | <b>471.4</b>        |
| <b>Total (excluding PDI)</b>         | <b>19.5</b> | <b>39.7</b> | <b>41.0</b> | <b>42.2</b> | <b>43.5</b> | <b>44.6</b> | <b>45.9</b> | <b>47.2</b> | <b>48.6</b> | <b>50.0</b> | <b>51.3</b> | <b>142.4</b>        | <b>473.5</b>        |
| <i>PDI impacts</i>                   | 0.1         | 0.3         | 0.7         | 1.2         | 1.7         | 2.2         | 2.9         | 3.7         | 4.6         | 5.7         | 7.0         | 2.3                 | 30.1                |
| <b>Total (including PDI)</b>         | <b>19.6</b> | <b>40.0</b> | <b>41.7</b> | <b>43.4</b> | <b>45.2</b> | <b>46.8</b> | <b>48.8</b> | <b>50.9</b> | <b>53.2</b> | <b>55.7</b> | <b>58.3</b> | <b>144.7</b>        | <b>503.6</b>        |

(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: Ending the 10% upfront fee discount – Headline cash balance (\$m)<sup>(a)</sup>**

|                                      | 2022-23    | 2023-24     | 2024-25     | 2025-26     | 2026-27     | 2027-28     | 2028-29     | 2029-30     | 2030-31     | 2031-32     | 2032-33     | Total to<br>2025-26 | Total to<br>2032-33 |
|--------------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|---------------------|
| <b>Receipts</b>                      |            |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Administered non-tax</i>          |            |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Interest receipts</i>             | -          | -           | ..          | ..          | 0.1         | 0.1         | 0.2         | 0.3         | 0.4         | 0.5         | 0.5         | ..                  | 2.1                 |
| <i>Loan principal repayments</i>     | -          | 0.2         | 0.6         | 1.1         | 1.8         | 2.6         | 3.6         | 4.8         | 6.2         | 7.7         | 9.1         | 1.9                 | 37.7                |
| <b>Total – receipts</b>              | -          | <b>0.2</b>  | <b>0.6</b>  | <b>1.1</b>  | <b>1.9</b>  | <b>2.7</b>  | <b>3.8</b>  | <b>5.1</b>  | <b>6.6</b>  | <b>8.2</b>  | <b>9.6</b>  | <b>1.9</b>          | <b>39.8</b>         |
| <b>Payments</b>                      |            |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Administered</i>                  |            |             |             |             |             |             |             |             |             |             |             |                     |                     |
| <i>Discount for upfront payments</i> | 19.5       | 39.7        | 41.0        | 42.2        | 43.4        | 44.5        | 45.7        | 46.9        | 48.2        | 49.5        | 50.8        | 142.4               | 471.4               |
| <i>Total loans</i>                   | -11.2      | -22.9       | -23.6       | -24.3       | -25.0       | -25.6       | -26.3       | -27.0       | -27.8       | -28.5       | -29.3       | -82.0               | -271.5              |
| <b>Total – payments</b>              | <b>8.3</b> | <b>16.8</b> | <b>17.4</b> | <b>17.9</b> | <b>18.4</b> | <b>18.9</b> | <b>19.4</b> | <b>19.9</b> | <b>20.4</b> | <b>21.0</b> | <b>21.5</b> | <b>60.4</b>         | <b>199.9</b>        |
| <b>Total (excluding PDI)</b>         | <b>8.3</b> | <b>17.0</b> | <b>18.0</b> | <b>19.0</b> | <b>20.3</b> | <b>21.6</b> | <b>23.2</b> | <b>25.0</b> | <b>27.0</b> | <b>29.2</b> | <b>31.1</b> | <b>62.3</b>         | <b>239.7</b>        |
| <i>PDI impacts</i>                   | 0.1        | 0.3         | 0.7         | 1.2         | 1.7         | 2.2         | 2.9         | 3.7         | 4.6         | 5.7         | 7.0         | 2.3                 | 30.1                |
| <b>Total (including PDI)</b>         | <b>8.4</b> | <b>17.3</b> | <b>18.7</b> | <b>20.2</b> | <b>22.0</b> | <b>23.8</b> | <b>26.1</b> | <b>28.7</b> | <b>31.6</b> | <b>34.9</b> | <b>38.1</b> | <b>64.6</b>         | <b>269.8</b>        |

(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<sup>2</sup>

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.<sup>3</sup> 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.  |

<sup>2</sup> The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

<sup>3</sup> 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.