

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2016 - 2017

Department/Agency: Treasury

Question: BET308

Topic: VET FEE-HELP

Reference: Hansard Page No. 42 - 6 May 2016

Senator: Sean Edwards

Question:

"CHAIR: I see the shadow Treasurer is claiming that their proposed policy to cap VET FEE-HELP at \$8,000 would reduce the underlying cash deficit by \$6 billion over 10 years, to be precise. Minister, the transcript reads:

Well, I think, I think it's a very, very significant step in the right direction. I mean, this problem has been very evident in the last few years. The Government's decisive actions have been a discussion paper released last week, well Kim Carr and myself and Tony Burke have been looking at this issue. This is a very sensible plan which not only has a positive return on the budget bottom line but stops the rip off young people in particular who are looking for improvements in their qualifications but are being treated to very shoddy service by ... providers.

The evidence given by yourself and Mr Brennan would suggest that that is inaccurate—if I could put it in the softest possible terms. Mr Brennan: Chair, I would have look at the detail of the specific proposition in order to form a view. I would keep it at the general level.

CHAIR: The shadow Treasurer also said—

Senator Cormann: We will take it on notice. We might be able to assist later on today.

CHAIR: that on ABC radio this morning as well.

Senator Cormann: What we will do, Chair, is to take that on notice and I am sure that Mr Brennan will be able to come back later today with some more conclusive information."

Answer:

Treasury notes in response to BET308, specific questions on the impact of VET FEE-HELP loans on the budget should be directed to the Department of Finance, who have responsibility for budget treatment.

However, at a broad level, when a VET FEE-HELP loan is issued there is no direct impact on the underlying cash balance (UCB). In subsequent years over the life of the loan the UCB is positively impacted by any interest received from VET FEE-HELP debtors and loan fee repayments, but negatively impacted by public debt interest costs associated with funding the loans (PDI costs are not accounted for at the program level but rather at the whole-of-government level). An expense is recorded reflecting the concessional component of the loan, worsening the fiscal balance in the year the loan is written.

In subsequent years over the life of the loan this impact is unwound, resulting in the fiscal balance improving in each year over the lifetime of the loan. Interest is also charged on the fair value of HELP loans, resulting in the fiscal balance improving in each year over the lifetime of the loan. Revenue is recorded reflecting the loan fee applied to VET FEE-HELP loans, resulting in the fiscal balance improving in the year the loan is written. Gross debt will worsen, as the Government will have to borrow more to fund the loan.