

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

2016 - 2017

**Department/Agency: Treasury**

**Question: BET309**

**Topic: VET FEE-HELP - Underlying Cash Balance**

**Reference: Hansard Page No. 42-43 - 6 May 2016**

**Senator: Sean Edwards**

**Question:**

"Senator Cormann: What I will put to you is that it is absolutely beyond doubt that the proposal to cap VET FEE-HELP loans to \$8,000 will not reduce the underlying cash deficit by \$6 billion over 10 years. In fact, if anything, it will detract from the underlying cash balance over that period on the basis that it will reduce—if you write fewer loans—the level of interest income to government and that is what is accounted in the underlying cash balance, which is something that Mr Bowen, as a former Treasurer, should of course know.

CHAIR: It is a pretty basic error.

Senator KETTER: Chair, I have given people licence on this, but I think the purpose of these proceedings is to look at the government's—

CHAIR: I just want to know. It is a pillar of the alternative government's budget-in-reply speech, Senator Ketter.

Senator McALLISTER: And that is not the purpose of estimates to examine the alternative government's budget-in-reply speech.

CHAIR: We do have the Treasury officials in front of us.

Senator McALLISTER: And the Treasury officials have given evidence that they have not examined this proposition.

CHAIR: I want to know whether it is patently false—you guys do not have a real good track record when it comes to managing the Treasury.

Senator McALLISTER: Well, that is a political argument for you to make in another forum, Senator Edwards.

CHAIR: You are suggesting that it is political. I am just wondering.

Senator Cormann: We will get back to you on notice later today.

CHAIR: I would be very interested. Thank you very much."

**Answer:**

Treasury notes in response to BET309, 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.