Senate Standing Committee on Education and Employment - Education

QUESTIONS ON NOTICE
Budget Estimates 2014-2015

Outcome 3 - Higher Education, Research & International

Department of Education Question No. ED0038_15

Senator Carr provided in writing.

Question

Projected increase in expenses associated with the HELP scheme

1. The Department projects an increase in expenses associated with the HELP scheme over the Forward Estimates – from $1.47 billion in the current year to $2.33 billion in 2017-18.

(a) First, your projections include a drop from this financial year to next – down to $1.38 billion. Why a drop?
(b) Secondly, why do you project an increase in HELP expenses of this magnitude? Can you quantify the components of this increase?
(c) Thirdly, can you provide detail on the contributing factors behind the projected increase?
(d) The PBS mentions “the cost of government borrowings to fund loans"". To what extent is that a notional cost? Does the Government actually borrow – explicitly - to fund HELP loans? Or is that figure included notionally to reflect the fact that the Government borrows for general purposes?

2. In regards to HELP, is it the Government’s overall policy to include an item covering real or notional borrowing costs for all its expenditure, or just for expenditure in this area? If the latter, why include it in this area of expenditure if not in others?

Answer

1. (a) The Department of Finance provides Commonwealth departments with guidance about the accounting treatment to be applied to concessional loans such as HELP.

The concessional component of a loan is essentially the opportunity cost of the value forgone in providing the loan at a discounted rate. This is referred to as the 'loan discount’. The discount component is recognised as an expense at the point in time that the loan is provided. The discount component is subsequently unwound (written back) over the remaining life of the loan.

Prior to the announcement of the 2014–15 Budget measures, the estimated new HELP loans for 2014–15 contained an amount to account for the loan discount for new loans (this is known as the deferral cost or the deferral subsidy). The 2014–15 Budget measure to index outstanding HELP debt at the 10 year bond rate effectively reduces this amount to zero. This is the case for the estimated new loans incurred during 2014–15 as these loans will be indexed at the bond rate on 1 June 2016. This is why there is a drop in HELP expenses between 2013–14 and 2014–15.

1. (b and c) The increase in expense over the forward estimates is mainly due to an expected growth in student numbers and an increase in the proportion of new debt that is not expected to be repaid (DNER) The percentage of new DNER is currently estimated to be 17 per cent. Modelling indicates that by the end of the forward estimates it is likely to move to around 23 per cent. New DNER is expected to become the only HELP expense component from 2015–16 onwards. This is because the other components of the expense, namely the discount for students who elect to pay all or some of their student contribution, the bonus for voluntary repayment of HELP debt and the deferral cost, will no longer apply.

1. (d) HELP loans are accounted for as concessional loans, in accordance with Australian Accounting Standards. The value of the concession is the difference between the interest rate received by the Government and the market rate on equivalent loans. This concession is treated as an expense. Therefore, the reference in the PBS to ‘the cost of government borrowing fund loans’ relates to how the change in indexation from CPI to the cost of government borrowings from 1 June 2016 impacts upon expenses for the HELP, rather than the actual cost of borrowings required to fund the loans.

The value of the concession is a notional cost as the expense would be the same regardless of whether the Government is borrowing money to fund loans or not. However, as the budget is currently in deficit, the Government does issue debt to fund expenditure, including HELP loans. There is also a real cost to Government in borrowing these funds. That is, there is a real cost to the Government if the interest received from the student loans is less that the interest costs on borrowings required to fund the provision of the loans

2. Refer to 1.(d).