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**Parliament of Australia**  
**Parliamentary Budget Office**

Senator David Leyonhjelm  
Liberal Democratic Party  
Parliament House  
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *Higher education and vocational education and training* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Gareth Tunks on (02) 6277 9550.

Yours sincerely

Tim Pyne  
Acting Parliamentary Budget Officer

11 January 2017

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## Policy costing—outside the caretaker period

Name of proposal:	Higher education and vocational education and training
Summary of proposal:	<p>The proposal would amend the Higher Education Loan Program (HELP) as follows:</p> <ul style="list-style-type: none"> <li>• Interest on outstanding HELP loans would be charged at the standard variable owner-occupied home loan rate published by the Reserve Bank of Australia.</li> <li>• The threshold of income at which HELP compulsory repayments would take effect would be reduced to the level at which a recipient would lose eligibility for unemployment benefits.</li> <li>• An initial repayment rate of 4 per cent of HELP repayment income, rising as per existing arrangements.</li> <li>• Outstanding debts to be claimed from deceased estates.</li> </ul> <p>The proposal would also:</p> <ul style="list-style-type: none"> <li>• abolish higher education and vocational education and training (VET) tuition subsidies</li> <li>• abolish government funding for research by higher education and VET institutions</li> <li>• deregulate the higher education and VET sectors.</li> </ul> <p>The proposal would be implemented on 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	11 January 2017
Additional information requested (including date):	<p>On 13 September 2016, clarifications were sought from Senator Leyonhjelm’s office on the following:</p> <ul style="list-style-type: none"> <li>• The unemployment benefit to be used in guiding the starting point of HELP compulsory repayment income thresholds.</li> <li>• The manner in which the proposed HELP repayment rate would rise.</li> </ul>

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	<ul style="list-style-type: none"> <li>• The seniority of HELP debt in claims against deceased estates.</li> <li>• Whether funding that may have indirectly contributed to lower tuition fees should be included in the list of funding being abolished.</li> <li>• The specific programs that are considered funding for research by higher education and VET institutions.</li> </ul>
<p>Additional information received (including date):</p>	<p>On 14 September 2016, Senator Leyonhjelm’s office clarified that:</p> <ul style="list-style-type: none"> <li>• the unemployment benefit to be used in guiding the starting point of HELP compulsory repayment income thresholds would be Newstart Allowance for single recipients with dependent children</li> <li>• the proposed HELP compulsory repayment income thresholds and rates would mirror the current arrangements, except for the bottom threshold, which would be lowered to the aforementioned income and the repayment set at 4 per cent of HELP repayment income</li> <li>• the seniority of HELP debt would be the same as for tax debt in claims against deceased estates</li> <li>• the following Department of Education and Training programs and payment to states and territories would be abolished:             <ul style="list-style-type: none"> <li>– Program 2.1 Commonwealth Grant Scheme</li> <li>– Program 2.3 Higher Education Support</li> <li>– Program 2.5 Investment in Higher Education Research</li> <li>– Program 2.6 Research Capacity</li> <li>– Program 2.8 Building Skills and Capability</li> <li>– National Agreement for Skills and Workforce Development.</li> </ul> </li> </ul>
<p>Expiry date of the costing:</p>	<p>Release of the next economic and fiscal outlook report.</p>

### Costing overview

The proposal would remove all Commonwealth Government subsidies to the higher education and VET sectors and deregulate these sectors, leading to higher fees for students. The majority of the increase in fees that would be faced by students under the proposal would be borrowed through HELP.

The proposal would also amend HELP by removing the concessional interest rate on loans and introducing changes to increase the likelihood of more HELP debt being repaid, partially offsetting the increase in debt not expected to be repaid as a result of increased borrowing per student.

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The increase in up-front student fees, reduced concessionality and higher repayment rates for HELP loans would be expected to reduce demand for higher education courses.

This proposal would be expected to increase the fiscal balance by \$46,210 million, increase the underlying cash balance by \$39,150 million and increase the headline cash balance by \$28,770 million over the 2016-17 Budget forward estimates period. The disaggregated financial impacts of the proposal to 2026-27 are included at [Attachment A](#).

As the proposal involves the transaction of financial assets in the form of additional loan issuance and repayments, the Public Debt Interest (PDI) impact of the proposal has been included in the overall financial impact of the proposal. The proposal results in a net reduction in PDI payments, which are the results of the savings from abolition of subsidies, partially offset by higher lending to students. The *Methodology* section outlines how impacts on each budget balance are estimated, and a note on the accounting treatment of income contingent loans is included at [Attachment B](#).

The proposal would be expected to reduce departmental expenditure as a result of the abolition of higher education and VET programs.

The costing is considered to be of very low reliability as there is significant uncertainty regarding the demand for higher education in a deregulated market without any government subsidy. Furthermore, the reliability of these estimates decreases the further into the future the estimates are projected.

**Table 1: Financial implications (outturn prices)<sup>(a)(b)</sup>**

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	520	14,620	15,090	15,990	<b>46,210</b>
Underlying cash balance	..	12,780	12,900	13,470	<b>39,150</b>
Headline cash balance	..	8,490	9,580	10,700	<b>28,770</b>

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

(b) Figures may not sum to totals due to rounding.

## Key assumptions

In costing the proposal, the Parliamentary Budget Office has made the following assumptions:

- The legislation enabling the proposal would be passed in 2016-17.
  - Once the enabling legislation is passed, the fair value of all existing HELP debt increases to reflect the improved prospect of the loans being repaid, which would in turn increase the amount of debt on which interest could reasonably be accrued.
- As interest on HELP loans is only accrued once a year, the proposed interest rate on HELP loans would be based on the 12-month average of the standard variable owner-occupied home loan rate published by the Reserve Bank of Australia prior to 1 June each year.

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- Higher education providers would increase fees for students. For the purpose of this costing, it has been assumed that the increase is equal to the amount of lost direct government subsidies.
- Demand for higher education places that would otherwise be funded under the Commonwealth Grant Scheme or Research Training Program would reduce substantially, reflecting the higher fees that would be paid by students.
  - The reduction would occur gradually over six years, reflecting the estimated time taken by current and future students to adjust their plans in response to the increased costs of studying.
- Demand and fees for courses that do not currently receive any direct government subsidies would remain largely unchanged.
- The mix of subjects studied and the proportion of students paying their fees upfront would remain largely unchanged.
- Departmental expenditure for Outcome 2 of the Department of Education and Training would reduce by 40 per cent, which takes into account both the abolition of programs and the proposed changes to HELP.

## Methodology

### Abolition of subsidies for higher education and VET

The financial impacts of abolishing the identified programs over the 2016-17 Budget forward estimates are based on information provided by the Department of Finance. Beyond the forward estimates, financial impacts are estimated by growing the savings by the relevant indexation factors, which include the Consumer Price Index and growth in student numbers.

### Changes to HELP

The proposed changes to HELP were modelled using a microsimulation of existing HELP debtors, which compares the values of repayments and outstanding loans under current and proposed arrangements. The microsimulation takes into account the income and amount of HELP debt of individuals, as well as the proposed interest rate, HELP repayment thresholds, additional HELP borrowings and reduced demand for higher education due to the abolition of government subsidies.

The value of HELP loans that could be recovered from deceased estates under the proposal was derived by assigning an estimated net wealth to the unit record of HELP debt write-off over the period 2012-13 to 2014-15. Individuals' net wealth was estimated based on the *Survey of Income and Housing 2013-14*.

The financial impact of the proposed changes to HELP were then estimated based on the change in repayments, loans outstanding, and debt writedowns using the HELP forward estimates model provided by the Department of Education and Training.

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## *Fiscal balance impact of changes to HELP – components*

- Concessional loan discount expenses are no longer incurred with a positive impact on the fiscal balance.
  - Reduced concessional loan discount unwinding revenue in later years would completely offset the decreased concessional loan discount expenses and has a negative impact on the fiscal balance.
  - Over an indefinite period of time, the combined concessional loan discount expense and unwinding revenue would have a nil impact on the fiscal balance.
- Increased interest revenue has a positive impact on the fiscal balance.
- Decreased writedowns have a positive impact on the fiscal balance.
- Decreased state contributions to deferral costs have a negative impact on the fiscal balance.
- Increased PDI payments have a negative impact on the fiscal balance.

## *Underlying cash balance impact of changes to HELP – components*

- Increased interest receipts have a positive impact on the underlying cash balance.
- Decreased state contributions to deferral costs have a negative impact on the underlying cash balance.
- Increased PDI payments have a negative impact on the underlying cash balance.

## *Headline cash balance impact of changes to HELP – components*

- Increased value of loans issued due to higher fees has a negative impact on the headline cash balance.
- Increased principal repayments and interest receipts have a positive impact on the headline cash balance.
- Decreased state contributions to deferral costs have a negative impact on the headline cash balance.
- Increased PDI payments have a negative impact on the headline cash balance.

The sum of the financial impacts from the abolition of programs and changes to HELP represents the financial impacts of the proposal.

All estimates regarding HELP have been rounded to the nearest \$10 million.

## Data sources

- Australian Bureau of Statistics, 2015. *6553.0 - Survey of Income and Housing 2012-13*, Canberra: Australian Bureau of Statistics.

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- Australian Taxation Office, 2012-13. *Income tax unit records*, Canberra: Australian Taxation Office.
- Australian Taxation Office, 2016. *HELP writedowns unit record between 2012-13 and 2014-15*, Canberra: Australian Taxation Office.
- Department of Education and Training, 2016. *Higher Education Loan Program Forward Estimates Model, 2016-17 Mid-year Economic and Fiscal Outlook (MYEFO)*, Canberra: Department of Education and Training.
- Department of Finance, 2016-17 MYEFO. *Central Budget Management System estimates*, Canberra: s.n.
- Reserve Bank of Australia, 2016. *Indicative Mid Rates of Australian Government Securities – F16*. [Online]  
Available at: <http://www.rba.gov.au/statistics/tables/xls/f16.xls>  
[Accessed 25.11.2016].
- Reserve Bank of Australia, 2016. *Indicator Lending Rates – F5*. [Online]  
Available at: <http://www.rba.gov.au/statistics/tables/xls/f05hist.xls>  
[Accessed 25.11.2016].

## Attachment A – Higher education and vocational education and training—financial implications

Table A1: Higher education and vocational education and training —Financial implications (outturn prices)<sup>(a),(b)</sup>

(\$m)	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Impact on fiscal balance</b>												
Changes to HELP	520	2,180	2,550	2,900	3,470	4,120	4,880	5,730	6,680	7,730	8,890	49,630
Abolition of higher education and vocational education and training subsidies	-	12,435	12,538	13,094	13,935	14,945	16,058	17,301	18,670	20,168	21,796	160,940
<b>Total</b>	<b>520</b>	<b>14,620</b>	<b>15,090</b>	<b>15,990</b>	<b>17,400</b>	<b>19,070</b>	<b>20,930</b>	<b>23,030</b>	<b>25,350</b>	<b>27,900</b>	<b>30,680</b>	<b>210,570</b>
<b>Impact on underlying cash balance</b>												
Changes to HELP	..	210	240	250	160	110	90	130	270	460	850	2,760
Abolition of higher education and vocational education and training subsidies	-	12,575	12,664	13,218	14,055	14,870	15,992	17,243	18,616	20,111	21,728	161,073
<b>Total</b>	<b>..</b>	<b>12,780</b>	<b>12,900</b>	<b>13,470</b>	<b>14,210</b>	<b>14,980</b>	<b>16,080</b>	<b>17,380</b>	<b>18,880</b>	<b>20,570</b>	<b>22,580</b>	<b>163,830</b>
<b>Impact on headline cash balance</b>												
Changes to HELP	..	-4,410	-3,420	-2,870	-2,820	-2,710	-2,510	-2,070	-1,430	-520	1,050	-21,710
Abolition of higher education and vocational education and training subsidies	-	12,898	13,000	13,575	14,432	15,456	16,584	17,706	18,948	20,310	21,791	164,699
<b>Total</b>	<b>..</b>	<b>8,490</b>	<b>9,580</b>	<b>10,700</b>	<b>11,610</b>	<b>12,750</b>	<b>14,080</b>	<b>15,640</b>	<b>17,510</b>	<b>19,790</b>	<b>22,840</b>	<b>142,980</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 positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A positive number for the headline cash balance indicates an increase in cashflow. A negative number for the headline cash balance indicates a decrease in cashflow.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.



Table A2: Changes to HELP—Financial implications (outturn prices)<sup>(a)(b)</sup>

(\$m)	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Impact on fiscal balance</b>												
Higher Education Loan Program												
Concessional loan discount expense	490	550	550	550	560	580	600	630	650	680	700	6,530
Concessional loan discount unwinding revenue	-	-	-60	-110	-180	-250	-300	-360	-400	-450	-490	-2,610
Net concessional loan discount	490	550	490	440	380	330	300	270	250	220	210	3,930
Interest revenue accrued	30	1,690	2,220	2,710	3,420	4,230	5,130	6,120	7,180	8,300	9,460	50,500
Loan writedowns	-	20	20	20	20	30	30	30	30	30	40	260
State contributions to deferral costs	..	-20	-20	-20	-20	-30	-30	-30	-30	-30	-30	-270
Public Debt Interest	..	-57	-160	-243	-332	-439	-553	-662	-750	-801	-787	-4,783
<b>Total</b>	<b>520</b>	<b>2,180</b>	<b>2,550</b>	<b>2,900</b>	<b>3,470</b>	<b>4,120</b>	<b>4,880</b>	<b>5,730</b>	<b>6,680</b>	<b>7,730</b>	<b>8,890</b>	<b>49,630</b>
<b>Impact on underlying cash balance</b>												
Higher Education Loan Program												
Interest receipts	-	280	410	510	510	570	660	820	1,040	1,290	1,670	7,760
State contributions to deferral costs	..	-20	-20	-20	-20	-30	-30	-30	-30	-30	-30	-270
Public Debt Interest	..	-53	-152	-237	-326	-432	-545	-654	-743	-797	-788	-4,728
<b>Total</b>	<b>..</b>	<b>210</b>	<b>240</b>	<b>250</b>	<b>160</b>	<b>110</b>	<b>90</b>	<b>130</b>	<b>270</b>	<b>460</b>	<b>850</b>	<b>2,760</b>
<b>Impact on headline cash balance</b>												
Higher Education Loan Program												
Loans issued	-	-5,300	-4,660	-4,400	-4,320	-4,380	-4,500	-4,710	-5,010	-5,330	-5,690	-48,300
Principle repayments and interest receipts	-	960	1,420	1,790	1,850	2,130	2,570	3,320	4,340	5,640	7,550	31,580
State contributions to deferral costs	..	-20	-20	-20	-20	-30	-30	-30	-30	-30	-30	-270
Public Debt Interest	..	-53	-152	-237	-326	-432	-545	-654	-743	-797	-788	-4,728
<b>Total</b>	<b>..</b>	<b>-4,410</b>	<b>-3,420</b>	<b>-2,870</b>	<b>-2,820</b>	<b>-2,710</b>	<b>-2,510</b>	<b>-2,070</b>	<b>-1,430</b>	<b>-520</b>	<b>1,050</b>	<b>-21,710</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. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms. A positive number for the headline cash balance indicates an increase in cashflow. A negative number for the headline cash balance indicates a decrease in cashflow.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table A3: Abolition of higher education and vocational education and training subsidies—Impact on fiscal balance (outturn prices)<sup>(a)(b)</sup>

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Impact on fiscal balance</b>													
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	-	6,810	6,566	6,752	20,128	6,971	7,266	7,574	7,895	8,229	8,577	8,941	75,581
Program 2.3 Higher Education Support	-	440	461	401	1,301	484	506	530	555	581	608	636	5,201
Program 2.5 Investment in Higher Education Research	-	1,922	1,890	1,940	5,752	2,019	2,106	2,158	2,212	2,268	2,324	2,383	21,223
Program 2.6 Research Capacity	-	178	181	185	544	188	192	196	201	205	209	214	1,950
Program 2.8 Building Skills and Capability	-	1,216	1,215	1,214	3,645	1,207	1,208	1,209	1,209	1,212	1,221	1,235	12,145
Departmental	-	208	204	205	617	205	207	209	210	212	214	215	2,090
National Agreement for Skills and Workforce Development	-	1,494	1,516	1,537	4,547	1,560	1,582	1,605	1,628	1,651	1,675	1,699	15,946
Public Debt Interest	-	167	506	859	1,532	1,299	1,877	2,577	3,391	4,312	5,340	6,475	26,803
<b>Total</b>	-	<b>12,435</b>	<b>12,538</b>	<b>13,094</b>	<b>38,066</b>	<b>13,935</b>	<b>14,945</b>	<b>16,058</b>	<b>17,301</b>	<b>18,670</b>	<b>20,168</b>	<b>21,796</b>	<b>160,940</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.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A4: Abolition of higher education and vocational education and training subsidies—Impact on underlying cash balance (outturn prices)<sup>(a)(b)</sup>

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Impact on underlying cash balance</b>													
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	-	6,810	6,566	6,752	20,128	6,971	7,266	7,574	7,895	8,229	8,577	8,941	75,581
Program 2.3 Higher Education Support	-	440	461	401	1,301	484	506	530	555	581	608	636	5,201
Program 2.5 Investment in Higher Education Research	-	1,922	1,890	1,940	5,752	2,019	2,106	2,158	2,212	2,268	2,324	2,383	21,223
Program 2.6 Research Capacity	-	178	181	185	544	189	192	197	201	205	209	214	1,951
Program 2.8 Building Skills and Capability	-	1,391	1,392	1,393	4,175	1,387	1,202	1,221	1,238	1,253	1,265	1,276	13,017
Departmental	-	185	177	176	538	177	178	179	181	182	184	185	1,803
National Agreement for Skills and Workforce Development	-	1,494	1,516	1,537	4,547	1,560	1,582	1,605	1,628	1,651	1,675	1,699	15,946
Public Debt Interest	-	155	482	835	1,472	1,269	1,836	2,528	3,334	4,248	5,268	6,395	26,350
<b>Total</b>	-	<b>12,575</b>	<b>12,664</b>	<b>13,218</b>	<b>38,457</b>	<b>14,055</b>	<b>14,870</b>	<b>15,992</b>	<b>17,243</b>	<b>18,616</b>	<b>20,111</b>	<b>21,728</b>	<b>161,073</b>

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A5: Abolition of higher education and vocational education and training subsidies—Impact on headline cash balance (outturn prices)<sup>(a)(b)</sup>

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
<b>Impact on headline cash balance</b>													
Department of Education and Training Outcome 2													
Program 2.1 Commonwealth Grant Scheme	-	6,810	6,566	6,752	20,128	6,971	7,266	7,574	7,895	8,229	8,577	8,941	75,581
Program 2.3 Higher Education Support	-	440	461	401	1,301	484	506	530	555	581	608	636	5,201
Program 2.5 Investment in Higher Education Research	-	1,922	1,890	1,940	5,752	2,019	2,106	2,158	2,212	2,268	2,324	2,383	21,223
Program 2.6 Research Capacity	-	178	181	185	544	189	192	197	201	205	209	214	1,951
Program 2.8 Building Skills and Capability	-	1,713	1,728	1,749	5,190	1,764	1,788	1,812	1,701	1,585	1,464	1,339	16,643
Departmental	-	185	177	176	538	177	178	179	181	182	184	185	1,803
National Agreement for Skills and Workforce Development	-	1,494	1,516	1,537	4,547	1,560	1,582	1,605	1,628	1,651	1,675	1,699	15,946
Public Debt Interest	-	155	482	835	1,472	1,269	1,836	2,528	3,334	4,248	5,268	6,395	26,350
<b>Total</b>	-	<b>12,898</b>	<b>13,000</b>	<b>13,575</b>	<b>39,472</b>	<b>14,432</b>	<b>15,456</b>	<b>16,584</b>	<b>17,706</b>	<b>18,948</b>	<b>20,310</b>	<b>21,791</b>	<b>164,699</b>

(a) A positive number for the headline cash balance indicates an increase in cashflow. A negative number for the headline cash balance indicates a decrease in cashflow.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

## **Attachment B – Accounting Treatment of Income Contingent Loans**

In accordance with PBO Guidance 02/2015 and the *Charter of Budget Honesty Policy Costing Guidelines*, proposals that “involve transactions of financial assets” would need to take into account the impact of Public Debt Interest (PDI) payments. When estimating the proposal’s impact on PDI payments, the net headline cash balance impact is used. The net headline cash balance impact includes not only the income contingent loan component of the proposal, but all associated components that are considered integral to the overall proposal. The most widely known example of an income contingent loan is a loan under the Higher Education Loan Program (HELP).

The issuing of income contingent loans and repayments of principal themselves do not have an impact on the underlying cash or fiscal balances as they are treated as investments. However, the associated PDI payments impact on all three budget balances. The PDI impact is a result of the change in the Government’s borrowing requirements to fund these loans.

- The component of repayments that is considered interest is included as revenue in underlying cash balance terms.
  - As repayment amounts are linked to income levels, it is difficult to separate interest repayments from principal repayments.
  - In the forward estimates, a fixed proportion of all repayments is taken to be interest repayments. This is based on the average amount of interest paid over the life of the loan, and is based on the approach used for HELP loans.
- Interest is accounted for in fiscal balance terms. This is the increase in the value of the debt due to the debiting of the interest on the outstanding balance of the loan each financial year.
  - Fiscal balance interest income is assessed on the “fair value” of the debt, consistent with relevant accounting standards, as it is unreasonable to claim interest income on a debt that is not expected to be repaid. For HELP loans, the interest rate of the loan is the rate of the increase in the Consumer Price Index (CPI).
- Income contingent loans may be concessional to the extent that the interest rate on the loan is less than the market interest rate that would be charged to the borrowers.
  - For budget purposes in HELP, the concession is estimated based on the difference between the Government bond rate and the interest rate on the concession loan.
  - The Budget accounts for the net present value of this concession as an expense in fiscal balance terms. As loans are repaid, the amount of foregone interest income reduces, so this expense is “unwound”, having a positive impact on the fiscal balance. For example, HELP loans are concessional as they are indexed to CPI.

## Sensitive

- When the Commonwealth agrees to forgo the repayment of some or all of a debtor's debt, this also has a negative impact on Budget aggregates.
  - Mutually agreed writedowns or write-offs (for example in the case of the death of the borrower) have no impact on the underlying cash balance, but are an expense in fiscal balance terms.
- The headline cash balance is tracked in Budget papers, and is normally reported in policy costings when it differs from the underlying cash balance. The fair value of the debt is a positive contributor to the Government's net financial worth.