Executive Director Comment 01/16

For comment: 0434 601 691

Extreme extrapolation: Four questions for the Parliamentary Budget Office on the true cost of HECS-HELP

I do not fully understand the Parliamentary Budget Office report: *HELP, impact on the budget*.

The headline figure is that in 2025-26 the annual cost of HELP on an underlying cash balance basis will be $11.1 billion. How does a suite of programs bobbing along at an estimated cost of around $2 billion suddenly and inexorably begin to rise from 2017-18 to six times the current level with lending only doubling?

As I ponder the report four questions come to the fore.

1. What is the split of the $11.1 billion across the five distinct HELP programs?
2. What is the split of the HECS-HELP amount to show the current program plus the impact of the Government's proposed changes?
3. What is the saving to the Government from its proposed major reduction in funding through the Commonwealth Grant Scheme?
4. On what basis does the PBO hypothecate all HELP costs to Government borrowing, driving up the notional cost, ignoring the contribution of many other major Government programs?

1. What is the split of the $11.1 billion across the five distinct HELP programs?

The report does not break out HECS-HELP, the core program supporting undergraduate students in Commonwealth funded places.

At page 1 it sets out the relative contribution of the different HELP elements to total loans across the five years 2010-11 to 2015-16:

56.6% for HECS-HELP
20.5% for FEE-HELP
21.0% for VET FEE-HELP
1.9% for OS-HELP and SA-HELP.

The key figure is that HECS-HELP, the base system for supporting university students is now not much more than half the total loans. The PBO assume that HECS-HELPS grows much faster than the other elements, primarily due to extra charges to offset reduced Government funding.

At a guess, on the PBO assumptions, HECS-HELP would be about $6.6 billion in 2025-26.

2. What is the split of the HECS-HELP amount to distinguish the impact of the current program from the impact of the Government's proposed changes?

The report estimates the impact of the continued slow growth on HECS-HELP load plus higher student charges due to the Government's proposed cut to base funding and allowance for universities to charge additional amounts to raise the additional revenue required for effective graduate outcomes.

It does not show the outcome for two of these factors, but does indicate the impact of additional real increases in student charges, worth $0.4 billion in 2025-26.

The PBO asserts that the offset for a 20% reduction on Commonwealth Grant Scheme funding is a 40% increase. IRU previously estimated that the increase required would be 27%.

A 40% increase implies that the Commonwealth input is twice that of the student, rather than the Commonwealth currently paying around 50-60% of the combined amount. The higher PBO figure then drives a higher future HELP cost.

At a guess, on the PBO assumptions, the current program would be at a cost of $4.5 billion in 2025-26, with the higher charge to recover reduced Government funding costing a further $1.8 billion.

3. What is the saving to the Government from its proposed major reduction in funding through the Commonwealth Grant Scheme?

Any assessment of the HELP programs impact on the budget should allow for the reduced call on direct Government funding where the two are directly linked. Some of the proposed Government saving is to be redirected to an expansion of places in currently non funded providers and to sub-bachelor qualifications but much is not.

On the PBO argument the Government should be saving the cost of borrowing that money to pay it to universities – balanced by giving it to students instead, with some of it coming back. The PBO argument is only relevant where the Government extends the scheme to students it would not otherwise fund, which is the case for FEE-HELP and VET FEE-HELP but not for HECS-HELP.

To take the PBO approach to an extreme, if the Government turned all its funding into a loan would the PBO then argue it equals a major blow out in costs? In reverse, if all fees were eliminated in favour of direct Government subsidy would the lack of HELP debts thus improve the Government bottom line?

No serious analysis of HELP can be done in isolation from the direct Government funding element.

4. On what basis does the PBO hypothecate all HELP costs to Government borrowing?

The PBO report points out that The Treasury does not allocate the Government's borrowings to meet the gap between revenue and expenditure to particular elements of Government expenditure. In contrast the PBO assumes that all of HELP requires borrowings.

A counter and equally self serving argument is that none of it does but the borrowings should be ascribed to other programs.

- Expenditure through the *Higher Education Support Act* is a Special Appropriation (s238-12). This should have preference ahead of mere annual budget programs. Hence it is possible to argue that none of it drives borrowing, it is other Government operations and programs that do.
- Further, since education expenses support future Government revenue streams they should be a priority expense ahead of others that allow for activity but with less return to future revenue.

The more reasonable approach is to accept that higher education expenses are part of the suite of Government activity and should be held against the need to borrow in its proportion to total Government expenditure. That figure changes over time, with higher education currently about 4% of Government expenditure (with allowance for HELP).

It is the assumption of borrowing with the gap between the annual indexation of outstanding debt and Government borrowing rate that drives much of the growth in the apparent cost of HELP.

The approach centres on HELP being a loan program constructed off budget. That does not make it a real loan program. Loan programs try to make a return on the investment. HELP uses a hybrid of a loan form and the taxation system to reduce Government direct expenditure through payment from successful graduates. It is more realistic to treat it in context with the whole higher education program.

In sum…

Nowhere does the PBO explain why it has decided higher education is less a first call on revenue than any number of other programs, whether those newly created like the National Disability Insurance Scheme, or redevelopment of long standing expenses such as major defence expenditure.

The PBO argument about HELP could be applied to any Government program but it cannot apply to all of them at the same time. The annual borrowing cost would be subscribed multiple times.

The expense of any program consumes money that is either taken from revenue or borrowed. Either way the long term loss from not investing the revenue or from the borrowing is ultimately enormous. The unusual aspect of HELP is that it is contrived to be presented as a loan such that some of the expense is returned, so far a high proportion around 80%.

Conor King
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