Extreme extrapolation, part 2:

Three problems with the Supplementary Report on HELP from the Parliamentary Budget Office

The rationale is clear for Government to support higher education through directly funding universities and advancing money for students' payments with the students to repay later in their lives. It ensures that all Australians can gain the post school education and training they need to underpin their future employment. The return to Government is higher personal earnings which stimulates economic activity and taxation revenues.

Universities and their students have suffered four years of not making a major change to how higher education is resourced. We hope the coming election will permit certainty for the future, with clarity about the balance of Government and student investment.

The Supplementary Report on HELP from the Parliamentary Budget Office continues to confound effective discussion about the fiscal cost for Government of its support.

I have three main problems with it.

First, the Parliamentary Budget Office's (PBO) estimate of the longer term cost of HELP is highly dependent on the notional cost to Government of borrowing the funds to advance money for students. Its own chart shows that when the interest rate was low the notional cost reduced twice across 2010-11 to 2014-15.

Change its assumption about future interest rates for Government borrowing and the estimated costs will grow or shrink accordingly.

Second, the PBO estimates the cost to Government differently depending on whether the Government directly pays a university or advances money for a student. The PBO assumes Government borrows to advance money for students but uses revenue to pay universities directly.

This is stark in the Supplementary report's two charts. The first allows compounding interest to blow out the long term cost of advancing money for students. The second estimates the saving to Government from reducing its direct payment at the cash value of the day, hence the saving is a near flat line.

The consequence is that on its assumptions, given time, it would be cheaper for Government to eliminate student payments in favour of direct Government subsidy.

That sounds nonsensical because it is.

Third, the Supplementary Report still leaves opaque the long term cost of HECS-HELP, the current funding system for undergraduate education. It only provides an estimate for the previous system mixed in with FEE HELP for courses fully charged to students. This prevents use of the Report to consider the consequence of the current system against the various alternatives.

The PBO supplementary report against the IRU's Four Questions

PBO supplementary report provides two new charts and support data:

- splitting the annual cost of HELP, estimated at $11.1 billion in 2025-26 across:
  - a base line from 2009 for the capped funded system with modest growth plus FEE-HELP, $4.6 billion,
  - demand driven funding, $1.8 billion,

  - the Government's package, $1.2 billion, and
  - VET-FEE-HELP, $3.5 billion; and
- an estimate of the saving on Commonwealth Grant Scheme (CGS) from the proposed cuts, including expansion to other Higher Education (HE) providers and for sub-bachelor programs.:

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

This is partly provided through the first chart which shows the VET FEE-HELP as $3.5 billion of the 2025-26 estimate, or just over 30%.

The table does not distinguish FEE-HELP, which is wrapped into the base line scenario. It is important to separate it since the number of FEE-HELP loans is quite small but they amount about 20% of recent loans. People use FEE-HELP to offset quite large fees, often on top of a HECS-HELP debt, however it appears the PBO assumes same level of non-repayment.

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 new table shows the division between demand driven funding ($1.8 billion) and the Government's fee changes ($1.2 billion). It does not split the Government package's impact between recovery of the CGS cut and the annual real increase of 2% assumed to reflect real revenue increase. We know from the first report that the real increase is worth $0.4 billion so the recovery of CGS is $1.4 billion.

As above, the base underlying HECS-HELP remains a mystery since it is combined with FEE-HELP at $4.4 billion.

Hence the report does not permit a figure of the 2025-26 cost of the system as at 2013, before the Labor Government's announced cuts to fund better per student school funding. This is the current system of open number of places and capped student charges.

The PBO does not explain its assumption that recovery of the CGS cut requires a 40% increase to student contributions rather than 27%.

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

The second new table notionally does this, however it does not appear to do so on the same terms as the other tables. The gap between CGS on current settings and the lower CGS is effectively constant across the out years ($1.1 billion in 2019-20 reaching $1.3 billion in 2025-26), allowing for the growth in students which the PBO assumes.

Hence, there is no evidence here of the long term saving to Government in interest payments from not paying those funds to universities.

This means that on the PBO approach over time the net effect of transforming a direct Government payment into a HELP payment will eventually be a cost to Government: since one is an actual dollar figure and the other involves inflating the figure over time for notional costs of borrowing the funds. Yet the reality is that they are just two different ways for the Government to put money into higher education.

The cost of any one dollar is the same – except that when it advances money for students much of it is repaid. The PBO report gives the opposite impression.

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

The PBO does not address this, and indeed as per Q3 explicitly assumes that funding a direct subsidy does not involve Government borrowing but advancing money for students does.

However it does reveal the frailty of its approach.

The first chart shows a surprising dip in 2011-12 and again in 2014-15. The PBO explain that this is due to low interest rates at the time as reason. They use higher, long-term average interest rates for the later years. Without saying so they in effect reveal that the level of interest assumed is crucial to the figures they have produced.

Further, the PBO do not explain the basis of its starting 2010-11 figure of $1.1 billion. Is this really the figure achieved starting from the initial HECS advances from 1991, applying their approach? I wonder, It should be if they are to be consistent.

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