Frequently asked questions – Concessional loans

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Frequently asked questions

The following answers provide general information only. Some concessional loan programs may be more complex in practice or have specific requirements. It is important that entities also review and apply the relevant:

- legislation
- government policies
- Australian accounting standards.

For more information, see Accounting for concessional loans (RMG 115).

Concessional loans

Q1. What is a concessional loan?

A concessional loan is a loan made on more favourable terms than the borrower could obtain in the market place. The concessional terms may be one or more of the following:

- an interest rate below the market rate (the most common)
- deferred repayments
- income-contingent repayments.

Nevertheless, concessional loans are still loans, and the government expects them to be repaid according to the terms and conditions of the loan.

Q2. Why does the Australian Government issue concessional loans?

Concessional loans by the government are issued to support the achievement of government policy objectives.

Q3. Are concessional loans by government a recent development?

No. Concessional loans have been used in Australian public policy for many decades.

Q4. Can defaults occur with concessional loans by government?

Yes. As with any loan, there is a risk that the borrower may not repay the loan in full or in accordance with the terms and conditions.

Defaults may be more likely with income-contingent loans (such as student loans) where the borrower may not earn the level of income needed, in the future, to meet the mandatory repayments.

Q5. Are loan applicants subject to a credit assessment?

A credit assessment will be conducted for most concessional loans. However, there are some exceptions such as income-contingent student loans where the government can require repayment through the taxation system.

Q6. What are the biggest concessional loan programs?

Income-contingent loans for students, such as the Higher Education Loan Program (HELP) and Vocational Educational and Training (VET) Student Loan Programs are the biggest loan programs.

Q7. How does the government approve new or modified loan programs?

The Cabinet approves new loan programs as part of the Budget process.

Changes to existing loan programs are approved according to the program's implementation and may require:

- approval by the Cabinet
- changes to legislation, or
- approval by the relevant minister.

Q8. What terms and conditions apply to concessional loans?

The terms and conditions of loan programs, including interest rates, are individually set.

For the terms and conditions of open concessional loan programs, see the website of the responsible department or entity.

Accounting for concessional loans by the government

Q9. How does the government record concessional loans in its accounts?

Concessional loans are a loan type so are a government asset – in the same way that any other lender would record loans made as assets. Loans are financial assets, distinct from non-financial assets such as land or computer equipment.

Q10. Do concessional loans made affect the underlying cash balance (UCB)?

Providing a concessional loan to a borrower has no immediate impact on the UCB, which excludes payments and repayments of loan principal. Similarly, the UCB is not affected when a borrower repays the principal of a concessional loan.

Q11. Does any aspect of a concessional loan affect the UCB?

Yes. UCB will be affected by interest – interest:

- received on the concessional loan improves the UCB
- paid by the government on money borrowed to finance the concessional loan worsens the UCB – however, as the government borrows globally and not for individual programs, the interest expense is not itemised separately.

Q12. How is the concessional benefit of a concessional loan calculated?

Concessional loans provide a benefit to the borrower (also see Q1). Financially, the benefit is calculated as the net present value of the cash inflows and outflows from the loan, using the market rate as a discount factor.

For further information refer to Accounting for concessional loans (RMG 115).

Q13. How is the concessional benefit treated in government accounts?

This concessional amount affects the value of the loan to the government. While it does not involve a cash payment (so does not affect the UCB), it does affect the measure of the government's borrowings called net debt – calculated as the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements).

A concessional loan is valued at less than the amount the government has borrowed to fund the lending due to the more favourable terms and conditions. The difference between the amount borrowed and the value of the loan worsens net debt.

Q14. How do I account for the risk of concessional loan defaults?

The value of concessional loans on the balance sheet includes an allowance for loss from default. Where actual defaults exceed the allowance they are accounted for as a further reduction in the value of the loan.

The reduction in value:

- does not result in a cash receipt or payment and so does not affect the UCB
- worsens net debt (see Q13).

Any loss of budgeted interest receipts will worsen the UCB.

Q15. What assurance is there that the government correctly accounts for concessional loans?

The Australian Government's assurance arrangements include that:

- under subsection 42(2) of the *Public Governance, Performance and Accountability Act (PGPA) 2013*, annual financial statements (which include concessional loans) must comply with the Australian accounting standards.
- the Auditor-General:
    - audits the government's accounts every year, including concessional loans and examines both loan values and the interest received from them
    - has the power to undertake audits of the performance of government programs.

Q16. Where do concessional loans appear in the 2021-22 Consolidated Financial Statements (CFS) and Budget Paper 1 (BP1) of the 2023-24 Budget?

Information about major policy loan programs is included in *Statement 9: Statement of Risks* of the 2023-24 BP1 (page 331).

Amounts expected to be lent and repaid under major loan programs – that is the new amounts lent or repaid each year - are included in *Table 3.4: Reconciliation of general government underlying and headline cash balance estimates* (page 109, October 2023-24 BP1).

As the government's financial statements provide a high-level summary of financial transactions, to present a concise overall picture of government finances, concessional loan programs are not separately itemised.

Financial statements of the actual outcomes are included in the:

- Monthly Financial Statements
- Final Budget Outcome
- Consolidated Financial Statements.

The following is a quick guide to the location in the 2021-22 CFS and 2023-24 Budget of the most common concessional loans transactions and balances:

Concessional loan information	2021-22 CFS and May 2023-24 Budget, BP1 Reference
Amount of loans outstanding	**Balance sheet** – *Advances paid* (page 165, CFS and page 353, Table 10.2, BP1); and *Advances paid and receivables* (Note 5A, page 84, CFS, and Note 13, page 378, BP1)
Amount of loans advanced/repaid during a year	**Cash flow statement** - *Net cash flows from investments in financial assets for policy purposes* (page 167 CFS, and page 355, Table 10.3, BP1)
Interest revenue received	**Cash flow statement** – *Interest receipts* (page 167 CFS, and page 355, Table 10.3, BP1)
Interest revenue due each year (accrual accounting)	**Operating statement** – *Interest income* (page 162, CFS, and page 351, Table 10.1, BP1)); and *Interest and dividend and distribution revenue (*Note 2C, page 66, CFS and Note 5, page 374, BP1)
Amounts written off each year	**Operating statement -** *Net write-downs of assets* (page 162, CFS and page 351, Table 10.1 BP1) (includes bad and doubtful debts)
Concessional aspect of loans	**Operating statement** – *Interest expenses* (page 162, CFS and page 351, Table 10.1 BP1); and *Interest expense* (Note 3D, page 72, CFS and Note 10, page 376, BP1) and *Mutually agreed write-downs* for income contingent loans (page 162, CFS and page 351, Table 10.1, October BP1)