Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A267
Date Referred:	25/02/2015	Date Published:	23/03/2015

Proposal Title: **HOUSING SOLUTIONS FUND - PROVIDE $100M OF NO INTEREST LOANS**

Cluster: Family and Community Services

General Government Sector Impacts

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	4 Year Total $'000
Expenses (ex. depreciation)		16,834	-	-	16,834
Depreciation					-
Less: Offsets					-
Revenue		2,911	2,663	2,406	7,979
Net Operating Result:	**-**	**(13,923)**	**2,663**	**2,406**	**(8,855)**
Capital Expenditure					-
Capital Offsets					-
Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing)	**-**	**(13,923)**	**2,663**	**2,406**	**(8,855)**
Net Financial Liabilities:	**-**	**13,923**	**11,260**	**8,855**	

Total State Sector Impacts

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000
Net Financial Liabilities:	**-**	**13,923**	**11,260**	**8,855**

Notes and costing assumptions

The policy proposes to provide no-interest loans to providers of community and affordable housing capped at $100 million. This will be a one-off program with funding provided in the 2015-16 financial year.

The purpose of the loans is to enable community and affordable housing providers to invest in the construction of new housing.

The costing assumes $100 million in no-interest loans are all provided on 1 July 2015, with ten equal annual repayments commencing 1 July 2016. The Parliamentary Budget Office notes loans may be issued on different dates, however the timing is difficult to predict and therefore it is assumed all loans are issued on the same date. The discount rate used in determining the fair value of the loan is assumed to be 3.5 percent. There is a risk the estimate will be affected if the discount rate is different at the time loans are issued. For example; an increase of 0.25 percent will add $1.04 million to expenses, a decrease of 0.25 percent will reduce expenses by $1.06 million.

Under accounting standards no-interest loans need to be recorded at fair value. The expense in 2015-16 is the difference between the loan's fair value (present value of future cash-flows) and transaction price (cash loaned). The revenue (interest) is from unwinding the initial expense over the ten year loan term. Interest starts to accrue when the loan is issued. The costing assumes all loans are issued on 1 July 2015.

Other costs to administer the loans are assumed to be funded from within existing resources through reprioritisation. This assumption is reasonable.

Costing assumptions continued:

Consistent with NSW Treasury's accounting treatment for no-interest (concessional)loans, an expense arises from the initial recognition of the difference between the fair value of the loan and the transaction price . The fair value of the concessional loan is estimated as the present value of all future cash receipts, discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. In the public sector context, the market rate of interest is represented by the NSW TCorp Government bond rate.