more give, less take

nabeducation

nab

Federal Budget 2015

What the Federal Budget means for Education.

About NAB Education

Wherever you sit in the education sector, schools or universities, we understand the opportunities and challenges you face. You need to remain financially viable and work in a policy-driven environment.

Our education and community banking specialists understand the complexities of running a successful education organisation. They work closely with the education sector, so you benefit from a manager who specialises in education and values the pivotal role that you play in the community.

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Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

The focus of the 2015 Federal Budget is very different from last year. Given the political problems of last year's budget, the focus has been on attempting to make this Budget as politically saleable as possible. Also, unlike last year, the 2015 Budget is relatively neutral in its impact on the broader economy. Essentially, new expenditures have been broadly offset by savings.

More than any budget in recent memory, most of the key changes were pre-announced/leaked – again to emphasise the 'no surprises' focus. Consequently, the key spends include a $5.5bn small business package (really micro business, ie turnover of less than $2m per annum), including tax cuts and, more importantly, a 5% tax discount (up to $1,000) to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is $3.5bn (over five years) spending on childcare incentives (linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for employment of older Australians; drought spending ($330m); border/terrorism spend ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the Pharmaceutical Benefit Scheme ($1.6bn) and the reversal of last year's doctor rebate savings.

The savings were equally well flagged. These include a new law on cross-border profit shifting: GST on intangible/services (Netflix tax); pension savings by lowering the non-home asset threshold to $800,000 ($2.4bn); tightening of the paid parental schemes (anti-double dipping between private and public schemes); the withdrawal of Melbourne East West Link money ($1.5bn); and further public service efficiency dividends.

As set out in the section on the medium term fiscal outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP, which is better than the previous upward trend. Also, the economic impact of the Budget on the economy is relatively neutral.

Broadly, the Government's forecasts are very similar to NAB's, so we see the projections as credible. Of course to the extent we have all overestimated growth – especially in a low wage growth and falling commodity price world – the Budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury's $US48 vis-à-vis NAB's $US60 per tonne) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence, outside of micro business.

Of course the Budget is not the complete current fiscal story. There is still the Tax White Paper to come. The Budget had little on big tax and superannuation questions. Also, there is still the debate about what happens to Government's removal of $80bn in state funding for health and education in the out years. And finally, despite the Government's best efforts, what happens in the ensuing political process is unknowable.

Fiscal Outcome

The underlying cash deficit for 2014-15 is estimated at $41.1bn and $35bn in 2015-16 (or 2.1% of GDP and below market expectations – but near NAB's). The projected deficit then moves down to $14.4bn in 2017-18 (0.8% of GDP) with an eventual return to surplus in 2019-20. Basically the reduction in the deficit is driven by returning revenues, which rise from 23.9% of GDP in 2014-15 to 25.7% in 2017-18 (accruals basis). Outlays move from 26.1% to 26% of GDP in the same period.

Economic Outlook

As noted above, there is little fundamental difference between Treasury's and NAB's economic outlook. At the margin, we are slightly less optimistic in the near term (NAB 2.3% Treasury 2.5% in 2014-15) but slightly more optimistic in 2015-16 (NAB 2.9% Treasury 2.75%). An interesting difference here is our slightly more pessimistic view on business investment. That said, the RBA is more pessimistic on 2015-16 growth than either Treasury or NAB. At the margin, Treasury has a slightly higher unemployment rate in year average terms in 2015-16 (NAB 6.25% Treasury 6.5%). Finally, on the critical nominal GDP forecasts (for Budget deficit forecasting) there is little difference between NAB and the Treasury (both around 1.5% and 3.5% in the next financial year).

Financial Markets

There was modest but nonetheless positive market reaction to the Budget. The $A has pushed 30bps higher towards 0.7990, although it was trading higher before the Budget's release. Bond futures improved 2-3 bps (ie yields lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the Budget doesn't pose any immediate threat to the AAA rating.

For more detailed analysis from NAB Group Economics, please visit **nab.com.au/fedbudget**

Key initiatives for **Education:**

- Total funding for education will increase by $3.9bn or 13% in 2018-19 compared to 2014-15;
- School funding is expected to increase by $4.1bn or 28% (nominal terms) over the 2018-19;
- Allocations to non-government schools are anticipated to rise 23% by 2018-19, reaching $11.62bn. For the same period, government school funding is projected to rise by $1.9bn or 36%;
- There is also $843m in the 2016 and 2017 calendar years to ensure all children have access to a pre-school program for up to 15 hours a week, or 600 hours a year;
- Vocational training will see an overall decline in expenses of $294m, primarily due to a cessation of funding under the Skills Reform Partnership Agreement.
- $16.9m for teacher training spread over four years starting in the 2015-16 financial year;
- Higher Education funding sees marginal increase of 1.6% (nominal terms) to $9.28bn by 2018-19. In real terms, this represents a decline of 7.3% driven by a reduction in subsidies under the Commonwealth Grant Scheme. Universities will be allowed to raise fees from January 2016 for their courses to cover the revenue shortfall;
- Students who move overseas and reach a certain income threshold will have to repay their HELP (Higher Education Loan Program) debt. This will generate $26m over four years, commencing 2015-16;
- To maintain Australia's research capability in medical imaging and other fields, the Government will provide $20.5m in 2016-17 to the Australian Nuclear Science and Technology Organisation (ANSTO) to meet part of the $30m cost of operating the Australian Synchrotron in 2016-17. The remaining operating costs will be met through contributions from the Victorian Government and the New Zealand Synchrotron Group Ltd;
- The Government committed $150m in the 2016-17 financial year to support the National Collaborative Research Infrastructure strategy. This is to be funded through cuts of $262.5m in the Sustainable Research Excellence program;
- Beginning in 2016/17, the Sustainable Research Excellence (SRE) program will be cut by $262.5m.

NAB's view:

After last year's dramatic changes to higher education, this year's budget contained few surprises. Importantly, the Budget assumes that the reforms to the education sector (including the deregulation of fees) will occur, despite not having passed the Senate.

Funding cuts to higher education (and uncertainty in regards to fees) will continue to generate considerable challenges for universities, particularly in regards to future revenue streams, making it increasingly difficult to plan ahead. Further, there is no mention of reinstating education related funds to the states, which were cut in last period's budget.

Finance Minister Mathias Cormann was adamant that the Government would stand by the cuts made to the Higher Education sector, and provided universities with the option of charging higher fees to cover any revenue shortfall.

However, this issue of higher university fees could potentially be scuppered in the Senate, if the experience of the past year is anything to go by.

For independent schools, the needs-based Gonski funding model (the Average Government School Recurrent Costs) will only last to 2018-19. Beyond that, school funding will be based on student numbers and will rise with inflation, which is typically lower than the rate of indexation for education. According to the Independent Schools Council of Australia, funding growth for primary students typically increases by 3.5% per annum, but increases to 4.7% per annum for secondary school students.

In the research space, the continued funding of the Australian Synchrotron program and the National Collaborative Research Infrastructure program are bright spots. However, the efficacy of the latter measure is dented somewhat by cuts to the Sustainable Research Excellence (SRE) program.

Finally, additional resources to support initial teacher training is a welcome initiative.

The industry comment:

Universities are disappointed at cuts to research programs and the level of progress made in providing much needed higher education funding and policy certainty.

Universities Australia maintain their strong opposition to the proposed 20% cut to funding for teaching and learning announced in last year's budget.

Australian Education Union and the Association of Heads of Independent Schools of Australia are interpreting the Budget as a symbol of the federal government's intention to limit Commonwealth spending on schools and students.

Key initiatives for **Childcare:**

- An additional $3.5bn over five years will be spent on childcare assistance, with the majority of spending in the final two years. This includes the introduction of the childcare subsidy from 1 July 2017 (which will replace the existing childcare rebate and childcare benefit payments) and an interim home-based carer subsidy program (a two year pilot program for nannies) from 1 January 2016.
- In addition, a further $869m (over an unspecified period) will be provided for the childcare safety net for disadvantaged families – consisting of the additional childcare subsidy ($156m) for 'at risk' children, a community childcare fund ($304m) to increase childcare access in disadvantaged communities and an inclusion support program ($409m) to support children with disabilities or cultural/linguistic additional needs. The budget papers suggest that spending on the childcare safety net over four years will total $328m.
- The childcare subsidy will be means and activity tested – families earning less than $65,000 (in 2013-14 dollars) will receive a subsidy of 85% of fees paid (up to an hourly cap), with the subsidy tapering down to 50% for families earning $165,000 a year. For families with an income above $185,000, the subsidy will be capped at $10,000 per child, per year.

NAB's view:

NAB's recent *Work & Family Dynamics in Australia* survey found a strong relationship between higher levels of household income and the use of childcare centres. It also found that almost two-thirds of Australian families rated their access to local childcare as "good", "very good" or "excellent" and there was little variation between capital cities, regional cities or rural towns.

Affordability was clearly identified as the biggest issue with regards to childcare, with more than one-quarter of Australian families stating that the cost of childcare outweighed the value of working, while almost one-third were "barely breaking even".

This budget should not only help to address these concerns but could also expand productivity – both in the short term by allowing greater flexibility for working women (including the capacity to return to work sooner) and the longer term, with improved educational outcomes, particularly for children from low income families.

Evidence from overseas suggests that countries with greater access to subsidised early childhood learning also have higher labour force participation rates for women. Increasing labour force participation rates among women (currently just under 59%, compared with 71% for men (ABS)) was seen as a critical driver of long term growth in the Intergenerational Report 2015.

The childcare package represents a significant gain for the sector by removing considerable regulatory uncertainty, but it may face opposition in the Senate, with the pre-budget announcement of the package linking the new spending to savings in existing family payments. The Budget documents propose savings of $177m over four years by cutting the Family Tax Benefit (FTB) Part A Large Family Supplement from 1 July 2016. Crossbench Senators have already indicated that they will oppose this package if it remains linked to the FTB cuts.

The industry comment:

Early Childhood Australia Chief Executive Samantha Pageias is pleased with the Government's investment in childcare but is concerned that some families will be disadvantaged by a tighter activity test determining eligibility for the subsidy payments, noting that "workforce participation is not the only reason to invest in early childhood education and care—improving children's development has long-term educational, health and productivity benefits for the whole of society."

This concern is echoed by Smith Family CEO Lisa O'Brien, who notes, "We are concerned parents in casual or insecure employment won't be able to secure employment unless they have child care, but can't secure childcare unless they have employment."

Diane Smith-Gander, President of Chief Executive Women, supports the general aims of the childcare reforms, noting that "the shift in thinking about child care as a facilitator of workforce participation rather than welfare is essential for the sustainability of Australia's economic future".

Co-chairmen of the Early Learning and Care Council of Australia, Bernie Nott and Tom Hardwick, say the package provides "a big step forward for affordable childcare and early learning".

Important information

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