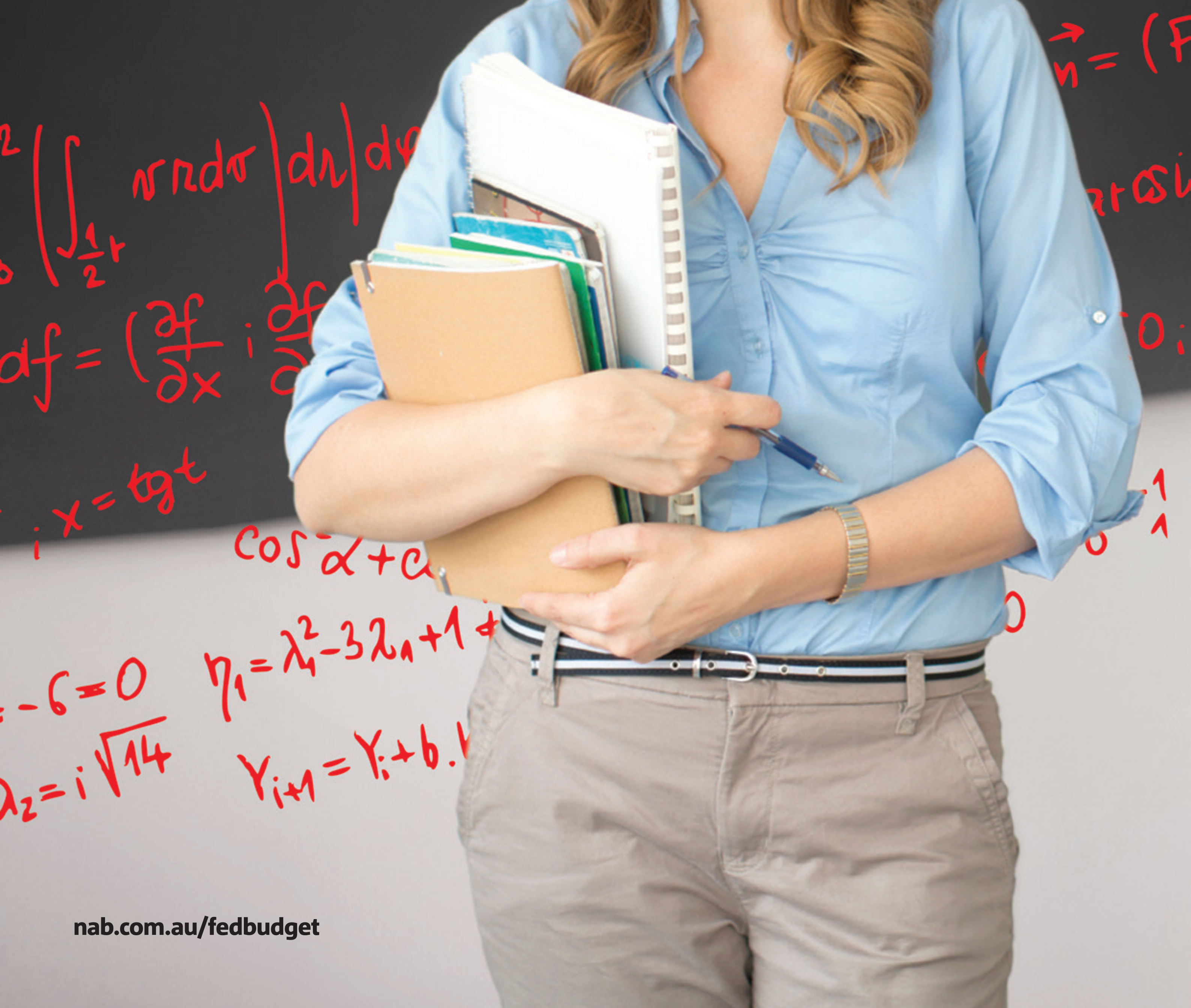
nabeducation

FEDERAL Budget 2016

What the Federal Budget means for Education

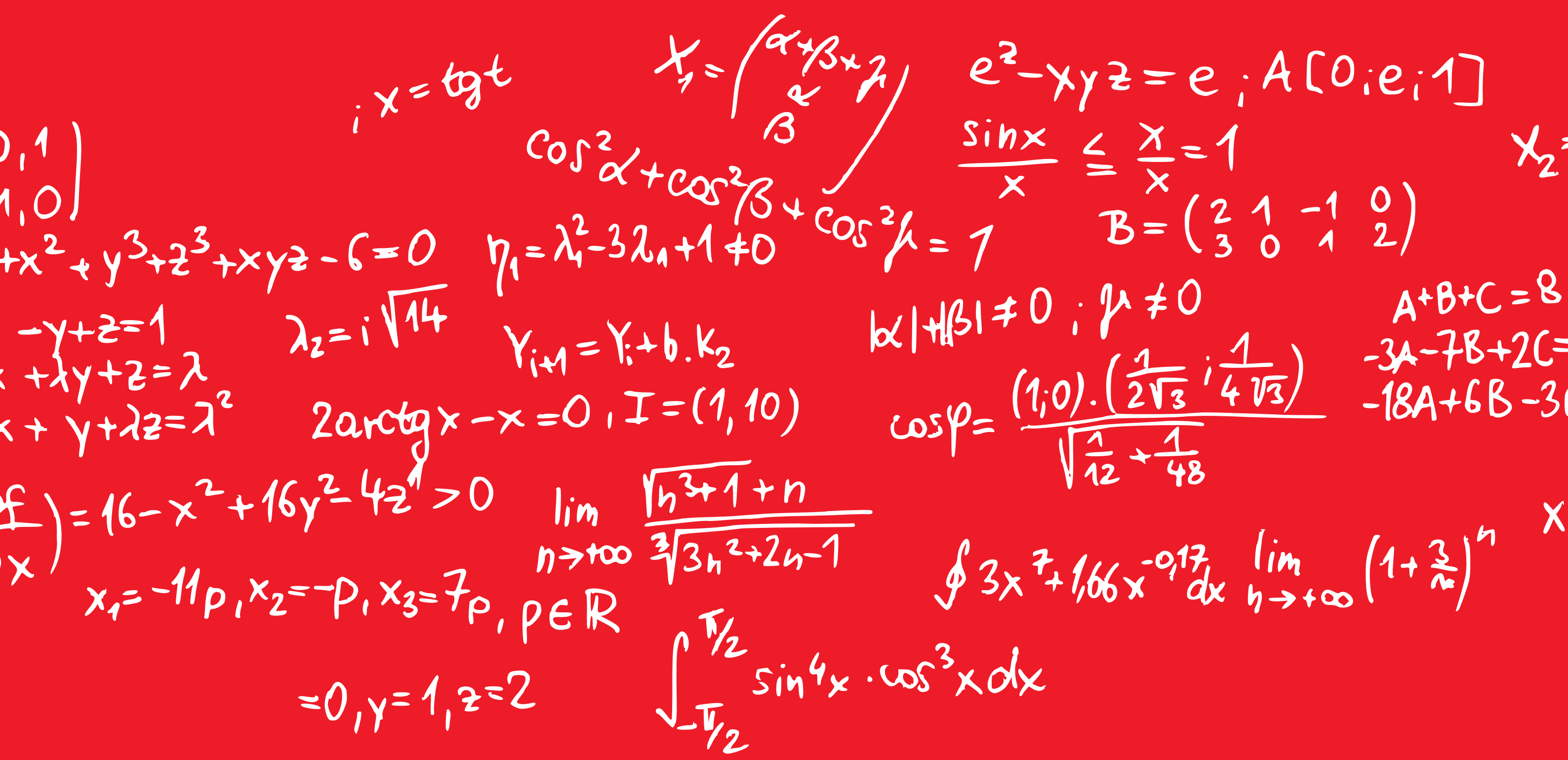


nab.com.au/fedbudget

ABOUT 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 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.



FEDERAL BUDGET OVERVIEW

Our Group Economics view

Alan Oster, Group Chief Economist, NAB

This Budget clearly has a political as well as economic dimension – and in particular is framed against the assumption of an upcoming election. As such, it's really an exercise in selected refocusing outlays and receipts to achieve the Government's focus of growth and jobs – but achieved within a realpolitik framework of burden sharing and keeping debt at sustainable (AAA) levels. The current environment means there is little scope for large structural reforms. And with a Budget not likely to get back to surplus by 2020-21 – and then only marginally – it clearly remains vulnerable to the vagaries of the economic cycle.

Key measures are largely as signaled in recent days. On improving the 'equity' theme, the Budget raises the 32.5% personal income threshold from $80k to $87k to help offset some effects of bracket creep; imposes tougher rules on top end superannuation (lowering the threshold for the higher tax on super from $300k to $250k and imposing annual and lifetime caps on extra super contributions); and eases the tax treatment of super for lower to middle income contributors. Also on the equity theme is stricter enforcement of multi-national tax (essentially a 'Google tax' with diverted income to be taxed at 40%).

On the 'adding to growth' theme is business tax cuts (from 28.5% to 27.5% for small and middle business with the turnover threshold raised to $10m. Thereafter the turnover limit is progressively raised until all businesses are on the rate by 2023-34. The rate then falls to 25% in 2024-25. There is an extra benefit in that the investment tax write off has been extended for an extra year. That said, the size of the short-term cuts are limited (around $5.3bn over four years) – and our modeling suggests very small short-term benefits. There is also extra money for infrastructure ($5bn); extra money for health ($2.9bn); and education ($1.2bn – albeit much less than full Gonski). Also helping to repair the Budget bottom line is the (12.5%) increase in tobacco taxation.

Outlays remain under 26% of GDP before moving a touch lower in the long run. By way of context, outlays peaked at around 27% during the GFC stimulus and before that around 23% of GDP. Revenue still does most of the repair job on the Budget balance, with a combination of policy and economic recovery. Overall net debt peaks a touch higher in 2019 at 19.2% (previously 18.5%) and starts to edge lower thereafter. Rating agencies have been much more guarded in their reaction than usual. As set out in the Medium Term Economic Outlook, the Budget would represent a slight drag on economy going forward (around 0.5% per year) and as such is probably doable.

Of course the Budget may not be the final word on medium-term fiscal sustainability given the forthcoming election campaign. Our bottom line is there is not a lot of scope for pulling more 'rabbits from the hat'. And that Budget repair will be a long and difficult slog given the economic environment. We are more cautious in 2018-19 forecasts.

Fiscal outcome

Estimates of the underlying cash deficit are slightly larger at A$39.9bn (2.2% of GDP) in 2015-16 and $37.1bn (2.4% of GDP) in 2016-17 (slightly below market expectations – but near the viewpoint of NAB). The projected deficit then moves down through the out-years with an eventual return to surplus in 2021-22.

Economic outlook

There is little fundamental difference between Treasury and NAB's economic forecasts in the next few years. A sharp increase in commodity export volumes, offset by subdued domestic demand, remains the common theme. However, NAB forecasts become notably more pessimistic as we move into the forward projections (from 2018-19) reflecting significant headwinds as LNG exports reach their peak and dwelling construction reduces. Over the forward estimates, expectations for the unemployment rate are similar, easing to around 5.5% in the short-term before stabilising. On the nominal GDP forecasts, NAB and Treasury expectations are similar in 2016-17 (around 4.25%) but the Treasury's 2017-18 forecasts are more optimistic.

Financial markets

There was little discernible market reaction to the Budget. Ratings agencies have been circumspect in their initial reaction to the Budget, choosing instead to allow more time for analysis.

> The Budget… is an exercise in selected refocusing of outlays and receipts to achieve the Government's focus of growth and jobs… within a realpolitik framework of burden sharing and keeping debt at sustainable (AAA) levels.

Key initiatives

- An additional $1.2bn over four years, commencing 2017-18 for government and non-government schools. More broadly, total funding for schools is expected to grow by 3.6% per year, with adjustments for changes in enrolment.
- In real (inflation-adjusted) terms, funding for public schools will increase by 11.1% between 2016-17 and 2019-20, and 7% for private schools.
- An additional $118m is expected to be provided over 2016-17 and 2017-18 for school students with a disability.
- Unlike schools, higher education faces funding cuts. In real terms, higher education expenses are expected to decline 2.4%, reflecting the Government's decision to delay the full implementation of higher education reforms announced in the 2014-15 Budget and Mid-Year Economic and Fiscal Outlook (MYEFO) until January 2018. Expenses between 2016-17 and 2019-20 are expected to decrease 7.7% in real terms, due to the reduction of Commonwealth Grant subsidies from 2018.
- The Government has decided not to proceed with the deregulation of university fees announced in the 2014-15 Budget. However, it has released a paper (*Driving Innovation, Fairness and Excellence in Australian Higher Education*), which considers a range of options including:
  - A 20% cut for bachelor degrees.
  - A lower income threshold for repaying Government debt.
  - Raising the student payment burden from 40-50%.
  - Flexibility around the deregulation of fees for courses considered 'flagship'.
  - Recovering income from deceased estates for those who die with unpaid HECS debt.
- In nominal terms, the Government is expecting cuts of around $2bn stemming from this review, with the bulk of the cuts expected between 2018-19 and 2019-20.

Other notable savings include:

- $247m over five years from 2015-16 by reducing funding available under the Industry Skills Fund.
- Unspecified efficiencies relating to the Higher Education Participation Program worth $152m over four years from 2016-17. Most of the benefits are expected to be realised during 2019-20 ($88.1m).
- Savings in other programs including the Promotion of Excellence in Learning and Teaching in Higher Education, leading to $20.9m worth of savings, starting from 2016-17.

Other measures include:

- $12m over four years to support the National Strategy for International Education, aimed at ensuring Australia remains competitive in attracting international students.
- $5.9m over two years to expand the Early Learning Languages Australia program to all pre-schools.
- $8m over four years to enhance the Quality Indicators for the Learning and Teaching website.
- $10m over four years to increase the capacity of the Tertiary Education Quality and Standards Agency.
- $18m in savings by abolishing the Office for Teaching and Learning.

The Government has also launched an $840m Youth Employment Package to provide help for up to 120,000 vulnerable young people to secure jobs. The main component of this package is a $752m Youth Jobs Path program over four years. The program is based on a prepare-trial-hire model, and is expected to benefit about 30,000 young job seekers.

In addition to supporting job opportunities for younger Australians, the Government has allocated $88.6m over four years from 2016-17 to provide assistance to young Australians who wish to start their own businesses. This New Enterprise Incentive Scheme will help to provide young Australians with the training, support, finance and networks to realise their ideas into actual businesses.

The implementation of the streamlined childcare subsidy (under the Jobs for Families Package) has been deferred for 12 months and is now scheduled to commence on 1 July 2018. The scheme was announced

Industry reaction

The general view among industry participants has not been favourable in the higher education sector. However, the response from the independent schools sector has been more positive.

Group of Eight Universities Chair, Michael Spence said it was surprising that "the government remains committed to $2.5bn in cuts to the university sector just at the time they have expressed their commitment to innovation in the Australian economy".

Universities Australia CEO, Belinda Robinson said "cuts worth a combined $180m to university programs that support disadvantaged students and teaching excellence are fresh blows".

Australian Education Union President, Correna Haythorpe believes that "this budget fails the fairness test. It confirms Malcolm Turnbull will walk away from needs-based Gonski funding and turn their backs on disadvantaged students".

Independent Schools Council of Australia (ISCA) Executive Director, Colette Colman, said "this decision will help maintain the real value of Commonwealth funding to independent schools, which is critical to ensuring the ongoing affordability and sustainability of independent schools".

Early Childhood Australia supported previously announced elements of the Jobs for Families Package, but argued that cuts to family assistance via Family Tax Benefit changes should not be linked to increased investment in early learning. The industry body argues that the deferral of the new package provides the Government with an opportunity to cure problems, by fixing the activity test (which could exclude up to 130,000 children due to parental ineligibility) and ensuring all children can access at least two days of subsidised early learning each week. It also expressed its disappointment that ongoing workforce issues, including shortages, skills and wages, were not addressed.

in the 2015-16 Budget, with funding tied to Family Tax Benefit reforms that failed to pass the Senate. Existing child care subsidy arrangements (including the Child Care Benefit and Child Care Rebate) will be extended over the deferral period, with the Child Care Rebate set to receive indexation from 1 July 2017 (for the first time since 2011). The deferral will result in savings of $1.2bn over the estimates period – primarily in the 2017-18 financial years.

NAB's view

A positive aspect of this Budget relates to the support for youth employment, both through the Youth Jobs Path program, and the New Enterprise Incentive Scheme. High youth unemployment is a significant problem in a number of OECD countries such as Spain and Greece, where there are concerns that this could lead to a 'lost generation'. While Australia is much better placed, these budgetary measures should help both economically and socially, as well as providing opportunities for accredited training providers.

With regard to schools, the extra $1.2bn in funding is generally welcomed. However, it still falls short of the $4.5bn promised under the Gonski funding scheme. The decision to link grants to teaching standards may not sit well with many education industry participants. A number of state education ministers have suggested that the more pertinent issue is adequate funding as opposed to testing, and would prefer a more consultative approach to maintaining standards. The universities segment has the most unresolved issues. The Government has released a discussion paper, which is open for consultation, outlining possible measures to be undertaken from 2018 onwards. However, this has not prevented it from pencilling in $2bn worth of savings. Based on some of the options canvassed in the paper, student contributions are set to rise (from the current 40-50%).

Moreover, prestige courses in highly ranked universities could also rise sharply going forward. This could include courses in medicine, engineering, computer science and law, based on median starting salaries supplied by Graduate Careers Australia. Finally, more intrusive income testing, including that of a spouse or estate could be expected.

Concerns remain in regards to the ability of universities to provide the appropriate training for the innovation economy of the future, and also attract high-paying overseas students, in light of the proposed budget savings.

Important NAB information

This publication has been prepared by National Australia Bank Limited ABN 12 004 044 937, AFSL and Australian Credit Licence 230686. It is for information purposes only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Accordingly, reliance should not be placed by anyone on this document as the basis for making any investment, financial or other decision. Please seek professional financial and taxation advice prior to acting on this information.