2020 FEDERAL BUDGET
What it means for Education

Group Economics overview of the Budget

As expected, this is one of the most stimulatory budgets we have ever seen.

Broadly it is largely as expected. A key decision has been to backdate the Phase 2 tax cuts (worth $17.8bn over four years). The back dating of Phase 2 cuts is important as it helps fill the gap to consumers incomes from the reduction of JobKeeper and JobSeeker payments. It has also led us to revise up our near-term GDP forecasts and reduce the level of unemployment at the same horizon.

The biggest item in the budget was the instant asset write off for firms with turnover of less than $5bn (covering around 99% of businesses) - worth $26.7bn. It is very much aimed at encouraging business investment. Further in keeping with the tone of moving from “support to survival”, extra money has been given by way of pay incentives to employ people, especially for under 35 year olds who were previously unemployed ($4bn). Also announced were wage subsidies for new apprentices ($1.2bn).

A surprise was not bringing forward the timing of “Stage 3” tax cuts (which the Opposition opposes) or permanently increasing the JobSeeker payment.

The expenditure items include bringing forward infrastructure spending by providing extra money to the States ($6.7bn) along with Commonwealth road infrastructure of $2bn. There was also a carry back tax provision (of around $4.9bn). There was extra money for manufacturing support ($1.5bn) and higher education ($0.9bn). Further, as previously announced, the laws on Responsible lending have been scrapped in an attempt to boost credit for SMEs.

The size of the total fiscal package suggests a policy stimulus this year of around 7% of GDP. The implied fiscal tightening that follows as JobKeeper drops out sees the Budget position improving by around $100bn - or a tightening of nearly 5%. At a time when the economy is expected to grow by 4.8%. That in our view is a big stretch - either for the pace of Budget repair and growth.

In looking at the near-term deterioration in the Budget nearly all the work is done on the expense side - as is the subsequent repair process. Albeit, the structural Budget deficit is - even on these charitable assumptions - still likely to be around 6% in deficit. Therefore, repairing the budget will be a protracted process, taking well over 5 years.

Overall, we have no problem with the focus on getting the economy going using fiscal stimulus. Structural reform would have also been useful but has not really been attempted apart from the tax cuts. We agree the issue of future debt is of little near term concern. The economy needs all the help it can get from fiscal policy. While the RBA may fractionally lower rates, that would have marginal impacts at present. The cost of credit is not the issue - rather it is the lack of demand for credit.

Fundamentally we are much more worried about the outlook than the forecasts published by the Treasury. We see GDP falling by around -2.1% in 2020/21 (while the Treasury is at -1.5%). For 2021/22 we have around 3.8% but the Treasury has 4.7%. While we both see unemployment peaking at around 8% (Treasury in December 2020, NAB March 2021) the Treasury has unemployment falling to around 6½% in 2021/22 while NAB is nearer 7%. We both have unemployment of around 6% in 2022/23.Generally, we are weaker across all private sector components, while we are stronger on the outlook for government spending. We also expect a slower bounce back in exports.

Education

The disruptive effects of the pandemic on international education is having impacts throughout the Australian economy. In addition to funding constraints, it has also curtailed the capacity of universities to conduct research and development. There has also been concern for temporary visa holders (such as international students) unable to access Australian social security systems, and for whom returning to their countries of origin has not been feasible.

Some schools, particularly those with large rural and international boarding communities, have experienced a loss of a key source of income. In response to COVID-related financial pressures, some private schools have offered fee cuts and deferrals, and asked alumni to help pay the fees of students at risk of leaving the school due to economic pressures in the family.

What did business want?

The higher education sector has been directly affected by COVID-19. Physical distancing requirements have made in-person activities difficult, while border closures have disrupted a key source of funding which many universities have become increasingly dependent upon. In addition, a number of universities enacted redundancy programs, as they were unable to satisfy amended requirements related to the JobKeeper program. With universities conducting over one-third of R&D the loss of staff is a key concern.

In their pre-Budget submission, Universities Australia made a number of recommendations to Government including: stabilisation funding for the research workforce; hardship support for international students; and further funding for clinical health experience (given new physical distancing requirements).

In addition, along with universities, leading industry groups (including Science & Technology Australia and the Australian Investment Council) called on the government to improve the commercialisation of local research in Australia. While the government had already announced a $1.3 billion Modern Manufacturing Initiative that will offer co-investment grants, there were hopes it would go further, with calls for a Research Translation Fund, modelled on the Biomedical Translation Fund or the Medical Research Future Fund (MRFF). Science and Technology Australia along with Innovation and Science Australia also called for a 20 per cent “collaboration premium” to be introduced to the Research & Development Tax Incentive (RDTI) - something which Innovation and Science Australia also called for.

More generally, there were calls for: further investment in R&D (with Research Australia calling on the government to spend at least 0.75% of GDP on R&D by the end of its current term); more incentives to attract international investment; programmes to attract and retain talent onshore; and tax regimes that incentivised the discovery, exploitation and value add of patentable intellectual property, especially the advanced manufacturing of IP-based products.

In terms of school education, the NCEC (National Catholic Education Commission) urged Government to increase the capital funding allocations to meet the capital funding needs stemming from a rise in student numbers (as it has done in past years). In its second submission the NCEC recommended stimulus funding for capital works especially for areas affected by the economic fallout from COVID-19.

A recommendation of support for indigenous boarding schools is shared with the Independent Schools Council of Australia (ISCA). The ISA recommended the Direct Measure Income (DMI) methodology used for the Capacity to Contribute (CTC) be delayed for schools where their score increased, to allow a better assessment of the effects of COVID-19 and called for the extension of the current 2-year ‘best-of’ arrangements. In addition, the CTC should use the most up to date parental income for the CTC calculation instead of an 18-month lag, given the immediate effects of COVID-19 on incomes.

Key early learning operators also made pre-budget submissions with key recommendations relating to: the allocation of funding across the forward estimates providing universal access; the extension activity test exemptions; a second 13 weeks of child care subsidy for families meeting financial hardship; and removing the current cap per child, and limits for middle and high-income earners. Early Childhood Australia (ECA) called for an increase in the Child Care Subsidy (CCS) to 95% for low-income families, to overcome cost barriers to children’s participation in ECEC.

What did the Budget deliver?

In the July Economic and Fiscal Update, $2.8 billion was allocated for 180,000 apprenticeships and traineeships. In this Budget, under the JobMaker Plan - Boosting Apprentices Wage Subsidy, $1.2 billion is allocated for 100,000 additional positions over the next four years, with the biggest allocation in 2021/22. Eligible businesses can claim up to 50% of an apprentice or trainees wage, capped at $7000 per quarter.

Additional initiatives include:

- $298.5 million for 12,000 new Commonwealth supported higher education places deemed 'national priority area' in 2021.
- $251.8 million allocated over two years for 50,000 new higher education short courses in agriculture, health, IT, science and teaching.
- $238.9 million for the government to guarantee the Commonwealth Grant Scheme (CGS) payments for higher education providers between 2021 and 2023 as transitional payments to the 'Job-ready Graduates'.
- $1.0 billion in 2020/21 via the Research Support Program to support universities' costs related to research infrastructure, research jobs, and partnerships with industry.
- $263 million over four years for Vocational Education and Training (VET). This includes $91.6 million for an apprenticeships data management system, $75.9 million for the Department of Education, Skills, and Employment, $52.3 million for literacy and numeracy skills, and $29.6 million for the National Careers Institute careers information.
- $146.3 million over five years including $39.8 million over four years for 2,000 positions funded via the Clontarf foundation to assist indigenous men, and $38.2 million over four years to the Smith Family for 76,000 disadvantaged Australians. Both programs aim to assist recipients' complete year 12 and move into work, training, or further study. There is also $27.3 million over five years for STEM skill related programs.
- Emergency support for Victorian childcare, as $314.2 million is allocated to support early childhood education and care (ECEC) in 2020/21 so that services remain viable. There is already a $51.7 Child care subsidy that will conclude in January. Key parts of the new initiative include $269 million for recovery payments for all ECECs, $8.6 million for outside school hours and vacation care until school returns, and $36.6 million for the same operators after that.

How did business react?

Universities Australia Chair Professor Deborah Terry welcomed the significant investment to the nation's research effort, noting that the Government "clearly understands you can't have an economic recovery without investing in research and development", and that "this will ensure world-class research and discovery can continue on Australia's university campuses" and "will stabilise university research capacity and jobs." Universities Australia also noted that the 50,000 new short courses will be "especially important for mature-aged workers looking for new skills".

The Early Childhood education sector was critical of the lack of a boost in national funding, with Sam Page from Early Education Australia commenting "If you want to create jobs - invest in early education, the investment employs people (70% of expenditure is wages) and supports parents to work - plus it's good for children. It is just as critical to the economy as construction and manufacturing but overlooked."

Important Notice