2021-22 FEDERAL BUDGET

What does it mean for Education?

more than money
nab

Group Economics overview of the Budget

The Treasurer wasn't kidding when he said budget repair has been put on hold until unemployment was below 5%, with a raft of new spending measures offsetting the cyclical improvements in the budget due to a better than expected economic outcome. Overall, the momentum of the recovery has more than offset the pullback in stimulus, but this budget aims to provide further support.

In terms of spending the largest item was the aged care package - at around $17.7 billion over the forward estimates. But there were other big spends in the areas of Infrastructure ($15 billion) and NDIS ($13.2 billion). The Low and Middle-Income tax offset was extended a year ($7.8 billion) and the Investment Asset Write Off also was extended. Other areas of focus included childcare, home ownership support and a number of tweaks to superannuation to ensure greater flexibility (as well as support for women).

Something of a surprise was relatively little to boost private sector investment which will be critical to maintain the recovery's momentum. Also, there was not a lot of emphasis on public housing and no attempt to bring forward the third phase of tax cuts (which will be much cheaper than first thought given the better labour market outcomes forecast) or company tax changes. It is worth noting that the Budget does not include election spending which will either occur via an early Budget (the election must be called by May 2022) or via Government announcements.

Structurally the Budget is taking back only around 2% of GDP in policy stimulus - compared to a net 8% stimulus in 2019/20 and 2020/21. Clearly a structural surplus is a long way off. In looking at the near-term trends, the fiscal situation is once again driven by the expense side rather than revenue. Indeed, compared to MYEFO there is little change.

Overall, we have no problem with the focus on maintaining the support for economic growth, but we see the scope for more structural/productivity enhancing measures to have been included. Cutting red tape, tax changes and greater support for alternative energy environment would have been preferred. That said, as noted above, we are only getting a partial view of the likely budget outlook and much can and will probably change in the lead up to the election.

Fiscal Outcome

The underlying cash balance for 2020/21 is estimated at $161 billion (or around 8% of GDP), around $40 billion better than at MYEFO. While for 2021/22 a deficit of $107 billion is forecast (we had expected around $75 billion), after that progress is slow and by 2023/24 the deficit is still expected to be around $79.5 billion. A return to surplus looks many years away.

Economic Outlook

Both we and the Treasury see the economy continuing to recover over the next couple of years. In aggregate our outlook for real GDP sees a similar end point over the forward estimates but there are some underlying differences. We see a bigger boost to business investment in the near term and a more pronounced cycle in dwelling investment, while Treasury sees stronger consumption and a bigger contribution from net exports. On the labour market we are more optimistic with unemployment around 0.5ppt lower than the budget outlook by the end of the forecast horizon. That said, both sets of forecasts embody a weak outlook for wage growth, which will see soft inflationary pressure and the need for ongoing support from policy makers. Our forecasts are based on much the same assumptions for a reopening in borders next year and the possibility of further small outbreaks of the virus but no large-scale shutdowns.

Financial Markets

S&P maintained its negative outlook for Australia's AAA credit rating, noting that "risks remain tilted toward the downside". S&P has said before that a narrowing in the deficit towards 3% of GDP is more consistent with a AAA rating (not projected till 2024-25 in the budget).

Education

Over the past year, the education sector has been a key sector feeling the disruptive effects of the pandemic. From the challenges of home-schooling, to the issues related to closed borders for international education providers, the effects have been pervasive. Educators and students have adapted to meet these challenges, with more flexible timetables, and uptake in technology for remote learning.

However, for the tertiary sector, which contributes heavily to services exports, funding constraints associated with physical border closures remain. With the continued absence of international students, revenue to the universities sector fell by about $1.8 billion in 2020, or about 5% on 2019 figures. This drop in revenue is likely to be repeated in 2021 while international borders remain closed, or relatively small numbers are granted entry.

Universities across the country proposed to Government a range of plans aimed at bringing international students back under special lockdown arrangements but with little success to date. The sector (along with other institutions that host international students, including VET, ELICOS and schools), fear that students abroad are growing impatient and may turn to competitor countries which have made immigration concessions to allow internationals to return to their studies on campus. The sector has recognised that bringing Australians home should be a priority, but have also argued that there is capacity to bring back both residents and students, with costs borne by the students themselves and education providers.

The Federal Government has continued to signal that universities should not expect a large-scale return of international students until 2022. The sector has been encouraged to increase diversification (arguing that even before COVID hit, rates of growth of on-campus enrolments were not sustainable), focus on domestic students, and invest more in online delivery models for international students.

What did business want?

Universities Australia (UA) highlighted 12 targeted initiatives they proposed would strengthen the sectors role in the economy and support research. While acknowledging the benefits of the $1billion research funding in the October 2020 budget, UA continued to advocate for stabilisation funding for the research workforce; hardship support for students; and the extension of HELP loans for students looking to retrain.

In addition to universities advocating for research initiatives, in the Science & Technology Australia pre-Budget submission, they maintained a proposal that the government invest $2.4 billion over the forward estimates to support a "Research Translation Fund" which would provide long term research funding. There was also a submission to improve communications to attract more STEM students and fund a STEM specific Teach for Australia program.

In terms of school education, the **National Catholic Education Commission** (NCEC) continued to urge 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 January submission, the NCEC recommended stimulus funding for capital works for both schools and early childhood centres, and the consistent application of funding for preschools. The NCEC has a list of project proposals worth $1.02 billion in 2021-22.

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; 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. The **Australian Childcare Alliance** (ACA) has also long advocated for the removal of the CCS annual cap arguing it had been a major disincentive for secondary income earners when deciding how many days they would like to work. They have also stressed that for Australian families who have multiple children in early learning, affordability is a major challenge and often results in the secondary income earner remaining out of work until all of their children commence school.

What did the Budget deliver?

Childcare

Starting on 1 July 2022, the current $10.3 billion in Child Care Subsidy (CCS) will be increased by $1.7 billion. If a family has more than one child aged 5 and under in the childcare system, the subsidy will increase by 30 percent to a maximum of 95 percent of the daily fee for the second and subsequent children. Treasury estimates that about 250,000 families will benefit from this initiative. In addition, the current $10,560 subsidy cap for families with a combined income above $189,390 will be removed.

Preschools

$1.6 billion will be provided over four years from 2021-22, which covers the 2022 to 2025 preschool years under the Guaranteeing Universal Access to Preschools Program. The proposed agreement aims to support 15 hours of preschool per child, per week, and 600 hours per year, in the year prior to starting school. It should be noted that this proposal will be delivered via a yet to be negotiated agreement with the states and territories and replaces an existing agreement.

Schools

There is an additional $40.8 million over two years from 2021-22 for the continuation of the sporting schools program.

$63 million, over four years from 2020-21, is allocated as part of the Indigenous Skills and Job Advancement Program, to support a further 2700 places in indigenous girl's academies. However, funding for this measure has already been provided as part of the previous budget.

As part of regular funding transfers, school funding to non-government schools increases from $13 billion in 2020-21 to $14.7 billion in 2021-22. On the same basis, government school funding increases from $9.0 billion to $9.7 billion.

Job training

$2.7 billion to extend the Boosting Apprenticeship Commencements, which is a wage subsidy that will reimburse businesses up to $7,000 per quarter for 12 months for taking on new apprentices and trainees. While this is a wage subsidy, it is likely to lead to further demand for technical training. Further, a $500 million extension of the JobTrainer fund, conditional upon state and territory governments matching contributions. The aim is to provide an additional 163,000 low fee and free training places, with 33,800 targeted towards aged care skills, and 10,000 places for digital skills courses.

There are also a series of smaller targeted 'Next Gen' programs, although these are partly allocated beyond the forward estimates. As part of the Next Generation AI graduates program, the government has allocated $24.7 million over 6 years to attract and train AI specialists. A further $42.4 million is allocated over 7 years for a Next Generation of Women in STEM.

Tertiary support

Additional support to tertiary and international education providers is relatively small. An additional $26.1 million will be available in 2021-22 to non-university higher education providers for 5,000 short course places in 2021. $9.4 million is also allocated in 2021-22 for $150,000 grants to support online and offshore delivery models. A PhD program that links funding to industry placements has been allocated $1.1 million. The $1 billion emergency research funding support of 2020-21 has not been extended.

How did business react?

Universities Australia Chief executive Catriona Jackson reiterated the need for the facilitation of a return of international students, stating that "another $2 billion will be lost this year" in reference to the likely revenue shortfall from continued border closures. The **National Tertiary Education Union** went further, citing the cessation of the emergency research funding and limited benefit of allocating 5,000 short course places. The NTEU asks "Where is the rescue package for higher education…which has lost over 17,300 jobs". The **Australian Education Union** highlighted a lack of reference to TAFEs, despite the government's emphasis on apprenticeships and job training.

The early childhood education sector welcomed the pre-budget announcement for the additional $1.7 billion. Sam Page from **Early Childhood Australia** (ECA) commented further "We are also pleased that removal of the $10,560 cap on the Child Care Subsidy is part of the announcement". However, the delayed timing of changes has not been greeted with the same enthusiasm. "While ECA believes this investment is a step in the right direction, we are disappointed that changes are planned to come in to effect in 2022". The **National Catholic Education Commission** (NCEC) also welcomed the $1.6 billion for Early childhood learning and $63 million for Indigenous girls academies. Executive director Jacinta Collins said "the continuation of universal access to 15 hours preschool will enable children to build critical foundations…".

The Parenthood, an independent not-for-profit, issued a mixed response. "$1.6 billion over 4 years for preschool funding for 4 year olds is great news. Nothing beyond $1.7 billion over three years for child care - with nothing for educators - is disappointing."

Science and Technology Australia CEO Misha Schubert said "New women in STEM scholarships would pave the way for more women and girls to study science and technology."

Group Economics

Alan Oster
Group Chief Economist
+61 (0) 414 444 652

Jacqui Brand
Executive Assistant
+61 (0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+61 (0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist
+61 (0) 436 606 175

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+61 (0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+61 (0) 455 052 520

Steven Wu
Economist – Behavioural & Industry Economics
+61 (0) 472 808 952

International Economics

Tony Kelly
Senior Economist
+61 (0) 477 746 237

Gerard Burg
Senior Economist – International
+61 (0) 477 723 768

Global Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9237 1836