2022-23 FEDERAL BUDGET

What does it mean for Education?

Group Economics overview of the Budget

With the looming election and the promise by the Opposition of a new budget if elected, there is considerable uncertainty over how many of the announced measures will be implemented. We also don't know what else the Government will announce in the lead up to the election (although the Contingency Reserve which widens to $15.4 billion by 2025-26 is pointing to some further announcements).

That said, the focus of spending was largely as expected. Cost of living measures were a centre piece, including halving the petrol excise for 6 months (worth 22c per litre), an extra $420 on the LMITO, and one-off special payment of around $250 for pensioners and welfare recipients.

Planned infrastructure spending was upped by $17.9 billion - largely concentrated on roads and rail. A new Regional Investment package of at least $11 billion was announced as well as significant new spending on defence - worth $270 billion over 10 years. Elsewhere there were incentives for investment in agriculture, medical manufacturing and digital.

Other measures included tax benefits for SMEs to invest in training and technology and an extension and expansion on home loan guarantees for housing.

Our analysis of the Structural Budget impulse using OECD methodology points to, very little structural tightening over the forward estimates - with the structural position improving by only 2% of GDP over the next 3 years. This sees the structural deficit still around 5% of GDP by 2024-25. Indeed, the small reduction in the headline Budget was largely brought about by a better economy - we think more could have been done.

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. See Fiscal Stimulus section.

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. Further measures that cut red tape, reform taxation and provide greater support for renewable energy would have been welcomed. This budget also does not change expectations for monetary policy - i.e., the RBA will move soon to moderately increase rates (we expect that process to start by August this year).

Fiscal Outcome

The underlying cash balance for 2022-23 is estimated at $78 billion (or around 3.4% of GDP), while around $47 billion or 1.9% of GDP by 2023-24. Net debt is now expected to peak at around 33.1% of GDP by 2024-25 much lower and earlier than previously expected. That said, a return to surplus looks many years away.

Economic Outlook

Both we and the Treasury have similar views on the economic outlook. We see growth of around 3.8% in 2022-23 (Treasury has 3.5%). For 2023-24 we have 2.2% and they have 2.5%. Our expectations for consumption and investment are somewhat more modest in the short term than the Treasury's forecasts, but on the other hand we see unemployment lower for the near term at 3.5%.

Further out, Treasury see unemployment falling to 3.75% in 2023-24 - we are at 3.5% - and then they see unemployment rising back up to 4% in 2024. They also forecast less sustained business investment growth. Regardless, we share a positive outlook for the near term, albeit coloured by elevated inflation and ongoing virus and geopolitical risks.

Financial Markets

S&P has indicated that with Australia running a current account surplus in recent years, Australia's AAA rating is secured by a return to a budget deficit of around 2.5% of GDP, which this Budget presents.

Education

Education is another key sector exposed to 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. Predictions many parents would withdraw their children from private schools because of the financial pressures caused by COVID have fallen flat, with enrolments at many independent schools actually increasing since the pandemic. By the time they reach secondary school, NAB research suggests around 1 in 5 children will be educated in the private system.

For the tertiary sector, which contributes heavily to Australia's services exports, funding constraints associated with physical border closures have been particularly damaging due to the absence of international students. Over the past year, the sector (along with other institutions that host international students, including VET, ELICOS and schools), expressed fear that students abroad were growing impatient and turning to competitor countries which made immigration concessions allowing internationals to return to their studies on campus.

The sector was encouraged to increase diversification (with some analysts arguing that even before COVID hit, rates of growth of on-campus enrolments were not sustainable), and to focus more on domestic students, and online delivery models for international students. That said, there is broad consensus that Australia must work harder to rebuild trust among foreign students after two years of closed borders. Many also believe more must be done to provide foreign students with viable employment pathways in Australia once they graduate. There are currently around 365,000 international students enrolled in Australian education institutions, compared to 529,000 prior to the pandemic.

Childcare centres have also had to navigate COVID outbreaks with the rules governing how to handle cases different in each state. The sector also acknowledged that for many, particularly women, high childcare costs mean the financial benefits of working are often marginal, making it harder for parents to return later and producing much lower lifetime earnings. This is being compounded by rising cost of living pressures for many families. In particular, children from rural areas, and from disadvantaged households are more likely to start school behind their city counterparts. The sector is also facing a major workforce crisis with low pay, high staff turnover and uneven access to quality training mean services leading to a struggle to find the quality staff needed by children and families.

Under changes announced in last year's Budget, the Federal child care subsidy rate for a second child aged five or under has been increased for all families earning $180,000 or less. The move costing taxpayers $1.7 billion over four years will benefit about 250,000 families across Australia by an average of $2,260 a year. However, an estimated 700,000 families will not benefit at all because the policy only affects rates for a second child in care.

What did business want this year?

Early Learning Association Australia (ELAA), **Community Early Learning Australia** (CELA), and **Community Child Care Association** (CCCA) provided a joint submission, with the objective to "ensure every child in Australia has the same opportunities, regardless of what their family earns or where they live". They also noted the sector was facing "a major workforce crisis, with low pay, high staff turnover and uneven access to quality training meaning services were struggling to find the quality staff needed". The joint submission proposed a 6 Point Plan for Australia's education and care sector which included:

1. **two days a week** of funded early education and care for all children from birth to school;
2. **a commitment** to the inclusion of all children;
3. **mandatory** National Quality Standard assessments and ratings at least every three years;
4. **the creation of** a national industrial instrument for the education and care sector to provide educators with fairer levels of pay;
5. **a National** Children's Education & Care Workforce Strategy; and
6. **properly funded** infrastructure and sector support.

National Catholic Education Commission (NCEC) represents 1,755 catholic schools, and educates one in five, or over 777,000 school students. The NCEC has recommended that the Non-Government Reform Support Fund be extended for another 5 years beyond 2022. In addition, there are submissions which focus on early childhood education funding, with priority to disadvantaged communities. The NCEC also has recommendations for increased capital funding and remote area programs, with one focus aligning to 'closing the gap' initiatives.

Independent Schools Australia (ISA) represent 1,169 schools, and over 647,000 or one in six students. The ISA noted the need to protect and support all students and staff had never been more important. The ISA referenced increased incidence of mental health concerns at a younger age, with half of mental illness onsetting prior to 14 years. The ISA note that Safework Australia also reports that teachers are over-represented in the number of paid claims and early career teachers are leaving the profession at high rates. With the number of ISA students expected to increase (projected 11% or an additional 62,000 by 2028), the sub submission highlighted three current key areas of concern for the Independent school sector:

1. **Support for Learners** - ensuring that the wellbeing and mental health needs of staff and students.
2. **Support for Choice** - ensuring schools affected by funding methodologies remain accessible; ensuring schools' funding is stable and predictable; strengthening education in regional and remote areas and for Indigenous students; and contributing to the capital costs of new Independent schools or significant extensions to existing schools.
3. **Support for Reform** - protecting the quality of Independent schools by maintaining funding to assist the sector continue to deliver on existing and new national priorities.

Universities Australia (UA) noted the university sector had been hit hard. Student enrolments (and more critically, commencements) had fallen, student accommodation buildings were empty, and small businesses dependent upon international students suffered - and in some cases closed down. At the same time, however, "the unprecedented crisis of the last two years highlighted the indispensable contribution that universities make to the nation. University researchers studied and sequenced the virus, followed its medical, economic and social impacts, and developed effective, expert responses". Similarly, universities continue to educate the health professionals who work on the front line. UA set out 12 policy recommendations including:

1. **ensuring** the funding framework for Government-subsidised university places is adequate to meet future student demand due to changes in population and the labour market.
2. **extending** demand-driven places to all Aboriginal and Torres Strait Islander students, not just those from regional and remote areas.
3. **funding** a time-limited health service placement adjustment package to support health workforce supply and skills growth.
4. **extending** eligibility to access the Higher Education Loan Program (HELP) to Australians undertaking non-award micro-credentials.
5. **providing** a time-limited targeted grant program to support additional clinical education technology in the university sector.
6. **increasing** long-term investment in university research.
7. **shifting** Research and Development Tax Incentive (RDTI) funds away from indirect funding of industry R&D towards targeted, direct-funding programs that aim to increase innovation, additionality, and absorptive capacity in industry.
8. **funding** the development of information for culturally and linguistically diverse populations to provide guidance on self-isolation requirements on arrival into Australia, access to COVID-19 testing and to assist them in proving their vaccination status.
9. **re-establishing** the Endeavour Program to help students and early to midcareer researchers build international networks.
10. **funding** service providers to ensure international students are able to access physical and mental health support services.
11. **reviewing** the New Colombo Plan with a view to expanding the program to include a broader range of destination countries and to provide targeted opportunities for specific cohorts of students who are currently under-represented.
12. **working in partnership** to identify and deal with regulatory overlap and to coordinate regulatory and reporting requirements more effectively in different portfolios.

The **Australian Academy of Science** also noted that the Budget provides an opportunity for the Australian Government to secure the scientific base. Science and technology continue to offer the "only exit strategy from the pandemic for Australia and the world". The Academy called on the Government to sustain excellence in fundamental research; foster a scientific workforce more diverse in race, gender, and geography; and support high-quality science and mathematics education. Additionally, it believes there is a need to foster closer ties between academia and industry, keep borders open to promote international partnerships, and promote ethical research practices.

The **Australian Council of Social Service** (ACOSS), the peak body of the community services and welfare sector, noted that the COVID-19 pandemic and the 'Black Summer' bushfires had "exposed the weaknesses of our most basic social, economic and environmental supports". Specific to education, ACOSS noted a flexible Jobs and Training Guarantee for people unemployed long-term.

What did the Budget actually deliver?

Childcare and Preschools

An extension of the four year preschool reform agreement from 2021. $6.9 million for business continuity payments of $10,000 to early childhood education and care services in flood affected areas. $19.4 million over 5 years from 2021 for Community Child care for services in rural areas.

School Education

$228.5 million over 5 years from 2021-22, of which $62.4 million over 2 years from 2022-23 extend the National School Reform Funds, $29.4 million over 4 years allocated to extend the Indigenous Boarding schools grants program for one additional year, $10.4 million (from 2021) for emerging priorities, and $7.2 million (from 2021) for teachers, school leaders, and improve student engagement, $6.3 million for a boarding facility in Tennant Creek.

Job Training

The Boosting Participation and Building Australia's Workforce program, allocates $52.8 million over 5 years for the ReBoot initiative for up to 5,000 training places aimed at disadvantaged young people, $49.5 million for 15,000 low and fee-free aged care training places over 2 years.

Of the $1.3 billion over 5 years under the "Investing in skills development and growing Australia's workforce" initiative, $954 million is allocated to the Australian Apprenticeships Incentive System, and $365.3 million to extend an existing apprenticeship program.

Tertiary Support

$988.2 million over 5 years from 2021-22 to deliver the research reform package aimed at university-industry collaboration. Of which, $505.2m has been allocated to the "Australia's Economic Accelerator (AEA)" program, $295.2m for research training pathways including Industry PhDs, and $150m to expand the CSIRO innovation fund. Much of this funding was previously announced.

How did business react?

Universities Australia Chief executive Catriona Jackson said:

"Tonight's budget recognises the pressures faced by ordinary Australians and strives toward a stronger, more productive economy in turbulent times... We welcome the extra $11.3 million for the 80 new Commonwealth Supported Places, commencing from 2023-24, to deliver full medical school programs at new or existing rural training locations."

Swinburne University Professor Pascale Questor raised concerns about the lack of change in research funding noting:

"We continue to have a system where research is not fully funded and has to be subsidised by teaching."

National Catholic Education Commission (NCEC) Jacinta Collins welcomed the increase to early childhood services in regional and remote areas, and continued support for boarding facilities. In addition, the extension of the reform funds is also welcome.

The Parenthood, an independent not-for-profit, issued a mixed response. They welcomed improvements to the paid parental leave scheme, but were disappointed with no further changes to childcare subsidies.

Science and Technology Australia Professor Mark Hutchinson welcomed the investment in research commercialisation. establishment of Australia's Economic Accelerator, and industry PhDs and Fellowships program, along with the CSIRO research translation program. STA also noted the $2 million over 4 years to build the STEM profile of women.

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