2023-2024 Federal Budget

What does this mean for Education?

Summary

The significant budget announcements were in line with media reporting and prepositioning over recent days. The key headlines, in a budget sense, are the expectations for a small surplus ($4.2bn) this financial year, driven by strong employment and better than expected nominal wage growth, as well as very high commodity prices. The Government is claiming around 82% of cyclical benefits have been saved. Going forward, the surplus turns back to a deficit of $13.9bn in 2023/24 and around $35bn in the out years of the forward estimates as the impact of cyclical factors fade and a persistent – albeit improving – structural deficit continues. Nonetheless, the cumulative deficit over 5 years is now expected to be around $125bn lower. Gross debt is also expected to peak at a lower 36.6% of GDP in 2025/26.

Cost of living measures (totalling $14.6bn) take the focus on the expenditure side, including $3bn of energy bill relief, $3.5bn on Medicare bulk billing incentives, $4.9bn for an across-the-board Jobseeker increase and increasing rent assistance by 15%. Other areas of focus include Medicare, improving aged care services (including $11.3bn for a 15% award pay increase) and supporting the energy transition through incentives to small business for green investments and a $2bn Hydrogen HeadStart program to develop the industry.

Key revenue measures were as expected, with increased collections from the PRRT, tobacco excise and previously announced reductions in superannuation concessions. Elsewhere, Phase 3 Tax cuts stay – and will be needed if our forecasts are accurate, while the Low and Middle Income Tax Offset (LMITO) will end as expected.

Based on our early analysis of the budget, the impact on the economy is expected to be broadly neutral over coming years, notwithstanding a widening in the structural deficit in 2023/2024 before it levels off over the forward estimates. Further out the government projects a gradual tightening, with the structural deficit expected to narrow over the medium term. Consequently, we see little implication for monetary policy in the near term, with the RBA likely to continue to focus on the ongoing passthrough of rates and the pace of moderation in inflation.

The trajectory of the key economic forecasts matches our own outlook, albeit with a more optimistic outlook for growth in the near-term. For unemployment, wage growth and the CPI, the budget is only slightly more optimistic but sees a similarly shaped profile for each variable.

Economic outlook

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours, albeit slightly more optimistic, particularly on growth. GDP is expected to grow below trend over each of the next two years at 1.5% and 2.25%, (around 0.75ppt stronger than our outlook on the back of stronger consumption growth). Unemployment is expected to rise from current lows to 4.25% by 2023/24 and 4.5% by 2024/25. Our expectations for wage growth are broadly similar, with an acceleration to 4% in the near-term before easing further out, while the outlook for inflation is broadly similar.

Fiscal & Debt Outlook

A budget surplus of $4.2b is expected for 2022/23, a $41b improvement on the October 2022-23 Budget estimate. If realised, it would be the first surplus since 2007-08. However, the budget is expected to return to deficit in 2023-24 (and subsequent years). Similarly, reflecting the improvement in the budget position, the net debt profile has been lowered and net debt (as % of GDP) is expected to fall in 2022-23 before rising in subsequent years.

Setting the scene: Education

The Education sector is an essential part of Australia's social infrastructure, promoting equity and social cohesion and driving employment, productivity and economic activity. It also provides generational health and wellbeing benefits.

Australia has a level of high education attainment, with 91% of 25-34 year-olds holding an upper secondary qualification in 2021 (compared with the OECD average of 86%). Participation in early childhood education and care (ECEC), particularly pre-primary, has risen considerably. Participation is also high in upper secondary and tertiary (54% of 25-34 year-olds held a tertiary qualification in 2021, compared to the OECD average of 47%).

Australia also continues to perform at or above the OECD average in PISA (the OECD's Programme for International Student Assessment). However, performance has been in decline across reading, mathematics, and science since our first participation in 2000. While other national and international assessments show improvements for younger students, performance of older students is more mixed.

At 33%, Australia has a relatively high share of primary to tertiary education expenditure coming from private sources (including international), compared to the OECD average of 16%. ABS data shows the proportion of students enrolled in government schools dropped from just over 68% in 2002 to 64.5% last year. There were 16,929 fewer students enrolled in public education in 2022 compared with 2021, a 0.6% drop and the second consecutive year that enrolments decreased.

Independent schools lead the rise in enrolments for 2022, with a 3.3% increase compared with 2021. Over the past decade, enrolments in independent schools increased by over 25% (130,306), compared with government school enrolments, which rose 11% (263,447), and an 8% (58,773) rise in Catholic schools.

Demand for places in many independent schools exceeds supply, with increasing waiting lists among some schools. By comparison, record low unemployment and the large number of available jobs has led to softer demand for university places. That said, growth in the youth population and skill shortages are expected to drive demand in coming years.

International students have become of increasing importance to the collective health of the university sector, making up around 26% of students enrolled at tertiary level. According to ABS data for international arrivals, more than 142,000 overseas students arrived in Australia in February 2023, an increase of more than 93,000 compared with February last year. But the total was still 22.5% below arrivals in February 2019 (the year before COVID-19 reached Australia, prompting the federal government to close the national borders).

Since 2013, Australia has been transitioning to a needs-based school funding model. While Australia has significantly higher spending than the OECD average at most levels of education (with Early Childhood Education and Care and Vocational Education and Training notable exceptions), costs have risen along with ongoing teacher shortages, including higher levels of teacher turnover.

In 2022, there were 307,041 full-time equivalent teaching staff across Australian primary and secondary schools, an increase of 1.2% from 2021. Across all schools, the average student to teacher ratio was 13.1 students to one teacher compared with 13.3 students to one teacher in 2021. Independent schools had a lower student to teacher ratio (11.7 students to one teacher) than government schools (13.4 students to one teacher) and Catholic schools (13.6 students to one teacher).

The Government has already announced plans to offer teaching students financial inducements if they stay in the classroom, along with an advertising campaign to recruit new teachers. This will be part of a broader government push to elevate the status of teachers to that of other professionals.

Research by the Grattan Institute (based on surveys of more than 7,000 teachers and school leaders across Australia), revealed that almost 40% of teachers believed their school did not have a detailed whole-school curriculum plan, which sequenced learning across subjects and year levels, and many were undertaking their own research for teaching materials. The Institute however also noted that some schools were moving toward a more school-wide core program with common assessment schedules, lessons plans and shared classroom materials.

Challenges aside, the education sector is playing a pivotal role in addressing the nation's skill and labour shortages. While labour shortages have become less problematic for Australian businesses in recent quarters, NAB research still shows that, around 1 in 3 (32%) of all SMEs said labour shortages were still a 'very significant' issue for their business in Q1 2023.

Australia has a high level of skills on average according to international assessments, yet average skills' proficiency mask skills gaps. In particular, the OECD argues there is an ongoing need for VET to be made more appealing and relevant for students, as well as sustaining incentives for participating in tertiary education.

In addition, even after subsidies, the cost of childcare in Australia continues to dissuade some families from placing their child in early childhood education and care (ECEC). From March 2022, changes to the Child Care Subsidy (CCS) increased the subsidy for second children and children aged five and under. From July 2023, the maximum CCS rate will be lifted to 90% for families earning $80,000 or less, and the subsidy rates increased for families earning less than $530,000.

The Government has already released figures showing that 1.2 million families will benefit from increased childcare subsidies as part of its commitment to assist with cost of living pressures. There will also be new funding to increase skills and training of early childhood education and care sector workers, with a focus on reskilling and training particularly in regional and remote areas.

The sector has however expressed concerns that the activity test, which reduces payments when one parent works less than 15 hours a week, would remain. The government has been urged by both its women's economic equality taskforce and the economic inclusion advisory committee to scrap the activity test for childcare subsidies.

Finally, it is important to acknowledge many young people have been uniquely impacted by the pandemic during important periods of physical, social, and emotional development. This continues to create challenges for the education sector with an increasing need to focus on mental health and wellbeing and growing expectations for comprehensive, proactive, and tailored wellbeing solutions for all students.

What did business want this year?

The Early Learning and Care Council of Australia (ELACCA) noted the early learning sector is facing its largest ever workforce challenge. While the shortage of Certificate III and Diploma qualified early childhood educators (educators) and Degree qualified early childhood teachers (teachers) was clearly apparent before the pandemic, it has exploded since mid-2021, fuelled by heavy workloads, educator and teacher burnout, and dissatisfaction with wages and conditions.

The ELACCA called on the government to: invest in an immediate wages supplement and longer-term funding package to improve wages and conditions of early learning teachers and educators; fund and support targeted action to attract and retain a qualified early learning workforce (including a campaign, to bring qualified early childhood educators and teachers back to the sector); bring forward funding and fast-track action to fully implement the Shaping our Future Workforce Strategy, including for nationally consistent registration for all early childhood teachers, to build professionalisation of the sector and facilitate ongoing professional development and workforce mobility across jurisdictions.

Among other recommendations, there was also a call for an amendment to the Child Care Subsidy (CCS) activity test to provide all children with a base entitlement of subsidised early learning and care (at least three day), regardless of their parents' engagement in work or study.

The National Catholic Education Commission highlighted the integral role of Catholic education to provide universal, affordable schooling, accessible to all across Australia, providing families with a genuine choice of a faith-based school in their area. It strongly supported the extension of the Non-Government Reform Support Fund (NGRSF) beyond 2023 to enable Catholic education authorities to maintain support for the ongoing and emerging national priorities in school reform in line with the extension of the current National School Reform Agreement.

The Commission noted that in Australia today, the cost of a school education is around $12,500 per primary student and $15,700 per secondary student each year, and for Catholic students, governments only fund around 74% of this cost, with families making up the shortfall through school fees.

Other recommendations included; an increase in the Capital Grants Program funding for non-government schools to facilitate the construction of new and expansions of existing, low-fee schools in areas of high population growth; an extension of the Preschool Reform Funding Agreement, to provide quality preschool programs to all three-year-old and four-year-old children (for two years) prior to commencing compulsory school; and to increase provision in the year before school from 15 hours a week to 30 hours a week for children at risk of educational disadvantage.

Universities Australia acknowledged that Australia was at a critical juncture, with skill shortages, economic uncertainty, geopolitical tensions, and a new industrial revolution changing the domestic and global landscapes in which we operate. In 2021, nearly a third of Australians aged between 15 and 74 had a university degree - up from just one per cent of the population in the late 1960s.

UA estimates that more than half of all the new jobs expected to be created in the coming years will require a university degree. While UA acknowledged the significant challenges the budget faces, it argued future investment in universities would pay for itself with the extra economic activity it generated - contending that for every $1 invested in research (of which the majority is undertaken in our universities), $5 is returned to the economy.

Among their recommendations were: 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; extending the Transition Fund Loading for at least another year or until new, long-term funding arrangements are introduced; extending demand-driven places to all Aboriginal and Torres Strait Islander students, not just those from regional and remote areas; extending eligibility for the Higher Education Loan Program (HELP) to Australians undertaking non-award micro credentials; supporting sustainable clinical education and placement capacity; expanding clinical placement capacity including in non-traditional settings; growing and supporting technology-assisted clinical training; better harnessing health professional students in the workforce through support for paid final year assistant roles and degree-apprenticeship models; increased funding for university research to at least the OECD average to drive innovation and boost productivity; Government working with universities to realise the full potential of the National Reconstruction Fund and ensuring that the program boosts industry's capacity to innovate; redirecting Research and Development Tax Incentive (RDTI) funds towards targeted, direct-funding programs; re-establishing the Endeavour Leadership Program and raising investment in activities that counter foreign interference in universities to levels in similar jurisdictions such as Canada.

The Australian Chamber of Commerce & Industry (ACCI) acknowledged that to meet future skills needs, Australia needed an education and training system that grows our skills base, supports a knowledge economy, and maximises the contribution of businesses to our national prosperity. The ACCI noted the critical role of the vocational education and training (VET) system in skills development across Australia. However they argued a lack of consistent funding by all Australian governments, as well as cost shifting between state and territory, and Commonwealth governments over the past decade, has seen the number of funded students decline.

Among their recommendations were: a commitment to VET funding increases to deliver an increase in the number of VET funded students by 300,000 per annum; wage subsidies of 30% in the first year of apprenticeships/traineeships, reinstatement of $2,500 to employers for completion incentives, and $5,000 to all apprentices and trainees to assist in the completion of their training; the establishment of a national apprenticeship advisory board to link in with Jobs and Skills Australia (JSA); and expanding the focus on micro-credentials in the VET and higher education space to support opportunities for flexible learning and training.

What did the Budget actually deliver?

While the dollar increases in spending (when compared with the October budget) were comparatively modest for the broader education sector, it should be noted that overall government spending on education is likely to increase – particularly for universities and TAFE and vocational training – following the completion of the current review of the university sector and the National Skills Agreement.

Childcare

To complement the Cheaper Child Care reforms (announced in last October's budget), the Government will spend $72.4 million over four years to support the skills development of early childhood education and care sector workers. This will include financial assistance for ongoing professional development and to complete practical components of higher education courses.

Schools

Funding for 5,000 scholarships and the High Achieving Teachers program to attract more high-quality candidates into teaching. An additional $25 million to pilot new ways to reduce teacher workloads and maximise the time they have to teach; $10 million for a national communications campaign to raise the status of the teaching profession; and $10 million to support teachers in phonics, classroom management and programs in leadership.

The Government will also broaden eligibility for teaching bursaries of up to $40,000 to include mid-career professionals, people from culturally and linguistically diverse backgrounds, and other underrepresented communities.

TAFE

Funds have been retained in the Contingency Reserve (estimated at $3.7 billion) for the 5 year National Skills Agreement (currently being negotiated with state and territory governments) scheduled to commence on 1 January 2024. Under this agreement, an additional 300 000 fee-free TAFE and vocational education training places will be provided.

Universities

The Government has established the Australian Universities Accord, which is currently reviewing the system and will deliver its final report in December 2023. This review is likely to shape longer term university funding.

The Budget delivers $128.5 million to fund 4,000 additional university places over the next four years, to boost the number of graduates from STEM disciplines and support the AUKUS program. Of these additional places, 800 will be allocated to South Australian universities, with the remaining places allocated across the country.

Indexation on university HECS loans will rise to 7.1 per cent in June, adding to the debt burden students will have to repay.

International university graduates with eligible qualifications from Australian institutions will be able to work for an extra two years post-study from 1 July 2023, designed to strengthen the pipeline of skilled labour.

International student visa holders will have a cap on their working hours reinstated from 1 July 2023, after it was removed during the COVID-19 pandemic, but it will be increased from pre-pandemic levels to 48 hours a fortnight. Students working in aged care will be exempt from the cap until 31 December 2023.

How did business react?

Universities Australia Chief Executive Catriona Jackson noted that overall the budget strikes a balance between cost-of-living relief and fiscal repair, although boosting productivity is essential to offsetting the medium-to-long term challenges for the Australian economy. From a university perspective, this means greater investment from the government – which UA hope will be achieved in the next budget, following the Universities Accord.

Early Learning Association Australia acting CEO Megan O'Connell also welcomed the overall balance between combating inflation and supporting people but noted the limited scope of funding increases in early childhood spending (primarily for training).

Independent Tertiary Education Council Australia (ITECA) noted that "The budget commitments reflect the fact that the Australian Universities Accord is yet to be fully settled, and as this will set out the long-term re-vision for higher education, there are few major announcements".

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