

2019 ACPET Australian Government Budget Brief

An overview of major initiatives contained in the 2019 Australian Government Budget prepared for the independent tertiary education sector.

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Introduction — 2019 ACPET Government Budget Brief

The Australian Council for Private Education and Training (ACPET) is pleased to provide this overview of the 2019 Australian Government budget. Framed in the lead-up to the federal election that's expected mid-year, the budget makes a significant investment in vocational education and training.

Many of the initiatives funded in the budget arise from the *2019 Expert Review of Australia's Vocational Education and Training System* undertaken by the Hon. Stephen Joyce that was released upon publication of the budget. This review included recommendations to:

- Establish a pilot for a new business-led model of Skills Organisations for qualifications development;
- Establish a new National Skills Commission to start working with states and territories to develop a nationally-consistent funding model based upon a shared understanding of skills needs; and
- Establish a new National Careers Institute;

In total, the Australian Government has announced measures that invest over \$525 million in Australia's VET system. The stated objectives in the skills package are designed to help Australians gain the skills they need to participate in the labour market, boost apprenticeship pathways, and improve choice with more accessible careers information

We hope that the *2019 ACPET Australian Government Budget Brief* provides the independent tertiary education sector with information to make informed decisions.

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2 April 2018, Canberra

Fiscal Strategy — National Economic Outlook

The budget papers set clearly state that the fundamentals of the Australian economy remain sound. Employment growth has been strong, the unemployment rate is at its lowest level in more than seven years and the participation rate is at a near-record high. Non-mining business investment growth is solid and economic growth is being supported by the roll-out of major public infrastructure projects across the country.

Real GDP is forecast to grow at around its estimated potential rate of 2.75% per cent in FY2019-20 and FY2020-21, sustaining solid employment growth and supporting a pick-up in wage growth. Household consumption, business investment, public final demand and exports are all expected to contribute to growth.

Internationally, there has been some loss of momentum in key economies including in the euro area, with the IMF and OECD revising down their growth projections for the global economy. However, global growth is expected to remain solid with strong labour market conditions evident across most advanced economies. The Australian economy is expected to continue to benefit from growth in major trading partners, with economies in the Asian region growing relatively strongly.

Accommodative monetary policy settings continue to support the domestic economy, despite some evidence of tightening credit conditions and a recent decline in housing prices, which appear to be weighing on activity. The Australian dollar remains at levels which are supportive of growth – around one-third lower than the 2011 peak against the US dollar.

Household consumption growth is expected to pick up over the forecast period, supported by continued growth in employment, increasing wage growth, historically low interest rates and the Government's personal income tax relief measures, which have been further enhanced in this Budget. More than 1.2 million jobs have been created since September 2013, driving the unemployment rate down to its lowest level in more than seven years. The participation rate is at a near-record high. Solid employment growth is expected to continue over the forecast period, with the unemployment rate forecast to be 5 per cent. As growth in the economy picks up and spare capacity in the labour market continues to be reduced, wage growth is expected to increase further.

Non-mining business investment is forecast to record solid growth, supported by historically low interest rates, while mining investment is expected to make its first positive contribution to real GDP growth in around seven years. Public final demand will also contribute to growth as the Government continues to provide essential services such as the National Disability Insurance Scheme and deliver on its \$100 billion infrastructure package.

Growth in exports in FY2019-20 is expected to be supported by major liquefied natural gas (LNG) projects ramping up production along with continuing strong demand for education and travel services from Asia. Rural exports are expected to contribute to growth in FY2019-20 on the basis of an assumed return to average seasonal conditions, after detracting from growth in FY2018-19 due to the drought.

Dwelling investment, while remaining at a high historical level, is expected to detract from growth over the forecast period. The fall in housing prices accelerated over 2018 and continued into 2019, partly reflecting a rebalancing of supply and demand. As at February 2019, capital city housing prices had fallen by 8.6 per cent from their most recent peak in September 2017. Price falls were largest in Sydney and Melbourne over that period, although prices remain around 40% to 50% higher in those cities relative to their 2012 levels.

Nominal GDP is forecast to grow by 5 per cent in FY2018-19, 3.25% per cent in FY2019-20 and 3.75% per cent in FY2020-21. Nominal GDP growth is influenced by the terms of trade, which have been supported recently by higher-than-assumed commodity prices, in particular for iron ore and metallurgical coal. The terms of trade are forecast to fall in FY2019-20, consistent with an assumed decline in key commodity prices. This is reflected in a moderation in nominal GDP growth.

As always there are a number of risks and uncertainties around the forecasts. Internationally, while some risks have lessened somewhat since the MYEFO, downside risks remain around trade tensions, emerging market debt vulnerabilities and geopolitical issues. The risks associated with Brexit have become more pronounced in recent months, although Australia's trade is oriented more towards Asia than Europe. In the near term, there is also uncertainty associated with how quickly some of the temporary factors that affected global growth in the second half of 2018, such as natural disasters in Japan, will dissipate.

Domestically, uncertainty about the outlook for the housing market, in particular the extent to which housing prices fall, poses a downside risk to the forecasts for both dwelling investment and consumption. A more subdued outlook for household income, or a further tightening in credit conditions, could constrain household spending amid high levels of household debt. In contrast, faster than expected wage or employment growth could lead to household consumption growth being stronger than forecast. There are also uncertainties around the pace of recovery in rural exports given that the outlook will depend on how weather conditions develop and how the sector recovers from recent drought and flood events.

Taxation — Personal Income Tax

The Government will lower taxes for individuals by building on its legislated Personal Income Tax Plan (the plan). The changes to the plan will provide immediate relief to low and middle income earners, support consumption growth and ease cost of living pressures. It will also introduce structural changes to provide more reward for effort and to maintain our international competitiveness.

This measure will reduce revenue by \$19.5 billion over the forward estimates period, comprising: \$3.5 billion in FY2019-20; \$3.7 billion in FY2020-21; \$3.8 billion in FY2021-22; and \$8.6 billion in FY2022-23.

It will reduce revenue by \$158 billion over the period from FY2019-20 to FY2029-30.

A provision for the impact of this measure was included in the *FY2018-19 Mid Year Economic and Fiscal Outlook*, including \$13.8 billion over the forward estimates: \$2.7 billion in FY2019-20; \$3.0 billion in 2020-21; \$4.0 billion in FY2021-22; and \$4.1 billion in FY2022-23.

Consequently, the net reduction to revenue over the forward estimates is \$5.7 billion, most of which occurs in the FY2022-23 financial year.

The Government will provide a further reduction in tax provided through the non refundable low and middle income tax offset (LMITO). Under the changes, the reduction in tax provided by LMITO will increase from a maximum amount of \$530 to \$1,080 per annum and the base amount will increase from \$200 to \$255 per annum for the FY2018-19, FY2019-20, FY2020-21 and FY2021-22 income years.

The LMITO will now provide a reduction in tax of up to \$255 for taxpayers with a taxable income of \$37,000 or less. Between taxable incomes of \$37,000 and \$48,000, the value of the offset will increase at a rate of 7.5 cents per dollar to the maximum offset of \$1,080. Taxpayers with taxable incomes between \$48,000 and \$90,000 will be eligible for the maximum offset of \$1,080. From taxable incomes of \$90,000 to \$126,000 the offset will phase out at a rate of 3 cents per dollar.

The LMITO will be received on assessment after individuals lodge their tax returns for the FY2018-19, FY2019-20, 2020-21 and 2021-22 income years. This will ensure that taxpayers receive a benefit when they lodge returns from 1 July 2019.

From 1 July 2022, the Government will increase the top threshold of the 19% personal income tax bracket from \$41,000, as legislated under the plan, to \$45,000.

From 1 July 2022, the Government will increase the low income tax offset (LITO) from \$645, as legislated under the plan, to \$700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of \$37,500 and \$45,000, instead of at 6.5 cents per dollar between taxable incomes of \$37,000 and \$41,000 as previously legislated under the plan. LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of \$45,000 and \$66,667.

Together, the increase to the top threshold of the 19 per cent personal income tax bracket and the changes to LITO will lock in the reduction in tax provided by LMITO when LMITO is removed.

Taxation – Instant Asset Write-Off Extension

The Government is increasing the instant asset write off threshold from \$25,000 to \$30,000. The threshold applies on a per asset basis, so eligible businesses can instantly write off multiple assets. Medium sized businesses will now also have access to the instant asset write off.

The increased and expanded instant asset write off will apply from Budget night until 30 June 2020.

Small businesses (with aggregated annual turnover of less than \$10 million) will be able to immediately deduct purchases of eligible assets costing less than \$30,000 that are first used, or installed ready for use, from Budget night to 30 June 2020.

Medium sized businesses (with aggregated annual turnover of \$10 million or more, but less than \$50 million) will also be able to immediately deduct purchases of eligible assets costing less than \$30,000 that are first used, or installed ready for use, from Budget night to 30 June 2020. Medium sized businesses must also acquire these assets after Budget night to be eligible as they have previously not had access to the instant asset write off.

Small businesses can continue to place assets which cannot be immediately deducted into the small business simplified depreciation pool (the pool) and depreciate those assets at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool balance can also be immediately deducted if it is less than the applicable instant asset write off threshold at the end of the income year (including existing pools). The current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2020.

Medium sized businesses do not have access to the small business pooling rules and will instead continue to depreciate assets costing \$30,000 or more (which cannot be immediately deducted) in accordance with the existing depreciating asset provisions of the tax law.

This measure is estimated to reduce revenue by \$400.0 million over the forward estimates period.

Revenue (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Australian Taxation Office	-	-200.0	-500.0	50.0	250.0

Revenue — Higher Education Loan Program Cost Recovery

The Government will delay the introduction of partial cost recovery arrangements for the Higher Education Loan Program (HELP) to provide additional time for the sector to prepare for the new arrangements. The new arrangements will now commence from 1 January 2020 instead of 1 January 2019.

The measure is estimated to reduce revenue by \$3.6 million over four years from FY2018-19.

Revenue (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Dept. of Education and Training	..	-3.5	-	-	-

Revenue — Trades Recognition Australia Cost Recovery

The Government will provide \$131.6 million over five years from FY2018-19 to streamline and strengthen Trades Recognition Australia's (TRA's) oversight of skills assessments related to migration, employment and licensing purposes.

These activities will be fully cost recovered by the collection of fees from individual applicants. Fees will be collected by TRA rather than through Registered Training Organisations, as is currently the case, which will streamline interactions with Government. This will not alter the costs incurred or services provided to individual applicants.

Under the revised arrangements, TRA will be responsible for certifying trade skills assessments sought by potential skilled migrants to Australia under the *Migration Act (Cth) 1958*. This will ensure that an applicant is able to perform at the required skill level for their nominated occupation in Australia.

The arrangements will be implemented in accordance with the principles of the Australian Government Charging Framework.

This measure builds on the FY2018-19 Budget measure titled Trades Recognition Australia — additional funding.

Expense (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Dept. of Education and Training	10.0	25.4	29.2	33.5	33.5
Related revenue (\$m)					
Dept. of Education and Training	8.9	25.8	29.7	34.2	34.2

Expenditure — Vocational Education & Training

The Government will provide \$525.3 million over five years from 2018-19 (including \$15.6 million in capital funding over four years from 2019-20) to further improve the quality of the Vocational Education and Training (VET) system, and to respond to *the 2019 Expert Review of Australia's Vocational Education and Training System* led by the Hon Steven Joyce.

The Government will also put in place the building blocks for long-term tertiary reform to enhance the VET brand, keeping it at the centre of modern skills development into the future, and ensuring that the VET sector is student focused and responsive to change.

This package includes:

- \$132.4 million over four years from FY2019-20 to build an enhanced approach to skills development by establishing a National Skills Commission to drive long-term reforms in the VET sector, piloting new Skills Organisations in key areas of future job growth and establishing a National Careers Institute to improve career advice and provide necessary information for jobseekers;
- \$67.5 million over five years from FY2018-19 to trial 10 national training hubs supporting school-based vocational education in regions with high youth unemployment, with an aim of creating better linkages between schools and local industry, and other skills development measures;
- \$62.4 million over four years from FY2019-20 to expand second chance learning in Language, Literacy, Numeracy and Digital Skills to upskill at-risk workers, and to trial four Indigenous delivery pilots providing tailored services in remote communities
- \$200.2 million over four years from FY2019-20 (and \$147.5 million in FY2023-24) to establish a new Additional Identified Skills Shortage Payment to boost existing incentives for areas of identified skills needs to support up to 80,000 new apprentices over five years, as well as simplifying and streamlining the Australian Apprenticeship Incentives Program;
- \$34.2 million in FY2019-20 to further support the six signatory states and territories to the Skilling Australians Fund (SAF) National Partnership Agreement to support initiatives to boost apprenticeships and traineeships;
- \$20.1 million over four years from FY2019-20 to better identify emerging skills needs in the Australian economy through phase three of the Jobs and Education Data Infrastructure Project, along with simplifying students' access to their education and training records by expanding the Unique Student Identifier to all higher education students and developing a centralised repository for students' education and training records; and

- \$8.5 million over four years from FY2019-20 to provide 400 training scholarships nationally, as well as supporting the National Rugby League's VET Apprenticeship Awareness Program.

This measure will be partially funded by redirecting unallocated funding from the SAF and other vocational Education portfolio programs. ACPET will provide members with a separate update on the full recommendations set out in the *2019 Expert Review of Australia's Vocational Education and Training System*.

Expenditure — VET Support For Apprentices & Skills

The Australian Government's Skills Package responds to the Expert Review of Australia's Vocational Education and Training System. The package addresses immediate priorities and lays the foundation for longer term reform.

Industry competitiveness

This program component facilitates training to ensure Australian businesses' competitiveness in domestic and global markets. The Industry Skills Fund (ISF) provided employers with training grants in priority areas and in other industries that are focused on growth opportunities. The ISF is a co-contribution reimbursement funding model.

The ISF closed to new applications on 31 December 2016. The ISF will continue to deliver assistance to businesses already participating until 30 June 2019.

Skills development

This program component is designed to develop the skills of the Australian workforce through support for skills-based training, including:

Australian Apprenticeships

Assistance is provided in the form of financial incentives to eligible employers and through incentives and loans to eligible individuals participating in apprenticeships. The program includes contractual arrangements with a national network of Australian Apprenticeship Support Network providers who administer incentives, loans and support apprentices and their employers through to completion of the apprenticeship.

Industry Specialist Mentoring for Australian Apprentices

The Industry Specialist Mentoring for Australian Apprentices program aims to increase apprentice retention rates in the first two years of training in order to improve completion rates and support the supply of skilled workers in industries undergoing structural change. The program was launched on 31 January 2018 and will finish on 31 December 2019.

Commonwealth Scholarships Program for Young Australians

Scholarships to support undergraduate, postgraduate and vocational education and training students to undertake study or training and an industry-based work placement in priority industries.

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Access to training

This program component is designed to provide clearer pathways and improved access to training which allows Australians to obtain jobs and progress to better career opportunities.

Funding is provided through the Adult Migrant English Program and the Skills for Education and Employment Program to organisations to deliver foundation skills training to eligible individuals, including job seekers and recent migrants. Improved foundation skills enable people to access further training, or gain employment, and better participate in Australian society.

Support for the national training system

This program component is designed to develop an effective and efficient national training system that meets the needs of Australia's current and emerging industries. It is delivered in collaboration with industry, business and state and territory governments. Activities include:

- developing and reviewing nationally recognised training packages
- enhancing the transparency and performance of the system through data collection and research
- promoting the system to potential participants locally and internationally
- ensuring the ongoing operation of key functions to support the effective operation of national training arrangements.

ACPET will provide members with a separate update on the full recommendations set out in the *2019 Expert Review of Australia's Vocational Education and Training System*.

Expenditure — VSL & FEE-HELP Funding Commitments

The Government will commit \$1.385 million to support FEE-HEL, Vet Student Loans program and delivery in FY2019-20. The cost of this program rises to \$1,508 million in FY2022-23.

The program is delivered through the following activities:

- HECS-HELP—provides loans to eligible Commonwealth supported higher education students to pay their student contributions
- FEE-HELP—provides loans to eligible fee-paying higher education students to pay all or part of their tuition fees
- OS-HELP—provides loans to eligible Commonwealth supported higher education students who wish to undertake some of their Australian course of study overseas
- SA-HELP—provides loans to eligible higher education students to pay Student Services and Amenities Fees charged by their higher education providers
- VET Student Loans—provides loans to eligible students to pay for all or part of tuition fees for eligible higher level VET courses, subject to loan caps for each eligible course and fee limits for approved providers.

Student HELP loan amounts are paid by the Government directly, in instalments, to approved providers on a demand-driven basis for all domestic students who have accessed a HELP loan.

Repayment of debt commences once an individual's HELP repayment income reaches a prescribed level. Repayments are made to the Australian Taxation Office through the taxation system.

Expenditure — VET Student Loan Increase For Aviation Courses

The Government will increase the current lifetime loan limit from \$104,440 to \$150,000 (indexed by CPI) for students undertaking practical flight training from 1 January 2020 through a VET Student Loans approved tuition provider.

The increased support will address skill shortages in the aviation industry by ensuring aviation students can defer all of their tuition fees to obtain the required licences and ratings required for commercial aviation employment.

This measure is estimated to achieve savings of \$29.3 million over four years from FY2019-20 in fiscal balance terms and savings of \$0.7 million over four years from FY2019-20 in underlying cash balance terms.

Expense (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Dept. of Education and Training	-	1.2	2.3	2.5	2.5
Related revenue (\$m)					
Dept. of Education and Training	-	4.3	9.5	11.1	13.0
Related capital (\$m)					
Dept. of Education and Training	-	0.2	-	-	-

Expenditure — International Education Support

The *National Strategy for International Education 2025* sets a ten-year vision for Australian international education and provides a framework of priorities to sustainably grow the sector, while maintaining Australia's reputation for high quality. The program delivers this vision through the following activities:

- Policy and project work that develop Australia's role as a global leader in education, training and research through the Enabling Growth and Innovation program
- Ongoing support for individual and institutional grants for in-bound and out-bound students, researchers and professionals to undertake projects and study exchanges through the Endeavour Leadership Program, which will cease after the 2019 round
- Support for institutional grants to support international and domestic students to study in regional Australia under the Destination Australia Program announced in March 2019
- government-to-government engagement including bilateral working groups and multilateral agreements to facilitate institutional relationships, student and researcher mobility, and strengthen Australia's position in the highly competitive global international education marketplace
- policy and legislation for international students to receive an effective, risk-based, quality assured education, including consumer protection underpinned by the Education Services for Overseas Students Act 2000.

The Australian Government will establish the Destination Australia scholarship program to support both Australian and international students to study in regional Australia. Over 1000 scholarships of \$15,000 will be offered per student, per year to support the study and living expenses associated with studying a Certificate IV to Doctorate level qualification at a regional campus of an eligible tertiary education provider.

This new scholarship program delivers on the Government's commitment to attract more students – both domestic and international – to study in regional locations.

Funding for the Endeavour Leadership Program will not be continued from FY2019-20, with \$93.7 million in funding over the forward estimates to be redirected to the new Destination Australia scholarships program.

Expenditure — Unique Student Identifier Higher Education Extension

The Australian Government will invest \$15.8 million over the next four years to extend the Unique Student Identifier to higher education students.

The USI is a reference number that all students undertaking nationally recognised training need to have. It creates a secure online record of students' training and qualifications gained in Australia. By extending the USI from VET to higher education, the Government will better understand how people use post-secondary school, including pathways between VET and higher education. This will help inform future policy development and program delivery through new evidence-based data.

From 2021 all domestic and onshore international higher education students will receive a USI. It will replace the Commonwealth Higher Education Student Support Number currently provided to higher education students, reducing red tape for providers and giving students access to a simpler, more streamlined tertiary identifier.

Expenditure — Online Repository For Tertiary Qualifications

The Australian Government will invest \$2.5 million to establish the first phase of a centralised digital repository for students to record their tertiary qualifications.

The first phase of the repository will create a transcript service hub, giving students easy access to all of their higher education transcripts in one place. In the long term, this centralised repository, would incorporate a student's tertiary qualifications and skills and give them control over their education and training records.

The introduction of the tertiary learning repository recognises that individuals are increasingly moving between higher education and VET, and dipping in and out of study throughout their lives, including through training and micro-credentials.

Expenditure — Higher Education Commonwealth Grant Scheme

The CGS subsidises the tuition costs for higher education students enrolled in undergraduate and selected postgraduate degrees at public universities. CGS funding also supports a limited number of student places in designated national priority areas at other higher education providers.

The Government provides funding to universities, in instalments, for domestic students enrolled in a bachelor degree at a public university. This funding reduces the direct cost to students in Commonwealth supported places.

Limited funding is also provided for students enrolled in a sub-degree and postgraduate degree programs based on an agreed amount in Funding Agreements with public universities.



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