more give, less take

nabhealth

Federal Budget 2014

What the Federal Budget means – Health sector

About NAB Health

NAB Health's market leading team of specialist bankers work exclusively with businesses and professionals in the healthcare industry across the country, providing comprehensive financial solutions to pharmacy, practitioners, aged care, private hospitals, private health insurance, health supply and community and allied health providers.

Our team's extensive knowledge and experience in the healthcare sector means we understand the opportunities and challenges facing medical professionals, and partner with them to deliver personalised banking and wealth management solutions.

Medfin, an Australian leader in medical finance and loan services, is a wholly-owned subsidiary of NAB and part of NAB Health. We also offer financial planning services, insurance solutions and access to HICAPS, our innovative market-leading electronic health and payments system."

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Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

The 2014 Federal Budget should really be seen as a re-ordering of Budget priorities to fund significant new outlays proposed for years to come – including National Disabilities, Gonski education reforms and Paid Parental Leave commitments – and at the same time put the Budget on a more robust path to balance. With net debt to GDP of around 17% this was never a Budget in crisis – although some medium term challenges had to be addressed. The Government has opted to spread the pain and start straight away.

Much of that pain has been well signalled. That included tightening eligibility criteria for family tax benefits and eligibility rules for unemployment benefits; increased cuts to public sector employment (from 12,000 to 16,500); the merger/abolition of 70 public entities and more privatisation; a deficit tax levy of 2% for those paid more than $180k per year (for three years); cuts to industry assistance programs worth $850m; resumption of petrol indexation (with the proceeds put to road funding); and medical co-payments of $7 per visit (to set up a new medical services future fund); large cuts to hospital payments; and university fee liberalisation (which will increase the cost of some courses). In the longer run, from 2018 Gonski funding will be replaced by an indexation of education funding; the pension age will be raised to 70 years effective from 2035; and the pension assets test will not be indexed for a number of years.

Over the next three years the measures represent significant savings (around $15 billion) – with most of the work done on the revenue side. Effectively our estimates suggest that the Government, in a structural sense, is taking around 0.5% out of growth in each year in the forward estimates. While the tax rises and petrol tax increases are not enough to seriously impact growth, they together with significant transfer cuts, could well have more important effects on confidence.

On the Budget forecasts, NAB is more optimistic on growth (NAB 3% Govt 2.5% in 2014-15). We are more cautious on domestic demand, reflecting a view that public sector demand and/or consumption might be hit harder by Budget announcements. That said, the Government sees unemployment peaking at the same rate as NAB, but staying at that rate longer (all of 2015-16). The Government also anticipates a faster terms of trade fall and, consequently, lower nominal GDP growth. Overall, we see the forecasts as unlikely to overstate the fiscal outcome and indeed they appear marginally conservative.

Clearly this Budget has lots of politics. This is where the main uncertainties will emerge. How many of the measures announced will get through Parliament and how will consumer and business confidence be affected?

Fiscal Outcome

The underlying cash deficit for 2013-14 is estimated at $49.9 billion (3.1% of GDP). The Budget maintains large but shrinking deficits of $29.8 billion in 2014-15, $17.1 billion in 2015-16, and $10.6 billion in 2016-17. The Government has set an objective to return the Budget to 1% of GDP over the medium-term.

Economic Outlook

The Government's economic outlook is softer than recent RBA forecasts, and slightly softer than NAB's forecasts for 2014-15 (NAB is weaker in 2015-16). In 2014-15, the government has forecast real GDP growth of 2.5% (compared with NAB's 3.1%), reflecting a smaller trade balance that more than offsets its stronger expectation for domestic demand. In 2015-16, the Government's forecast is a little stronger (3% compared to NAB's 2.7%) due to an anticipated improvement in domestic demand (NAB is forecasting a further slowing, led by a contraction in mining investment). The Government expects unemployment to rise to around 6.25% by mid 2015, while NAB expects it to peak sooner (at a similar level), before easing to around 6%. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, although the RBA sees larger price pressures in the near term. Each expects inflation to remain well within the RBA's 2-3% target band over the forecast horizon. The structural adjustment occurring in the economy at present remains a real risk to the outlook. Nothing in the Budget changes our view that rates are on hold until late 2015.

Financial Markets

Beyond the economic/fiscal outlook, the Budget was regarded as 'credit positive' by Moody's Investors Service, and supportive of Australia's AAA rating. The market reaction to the Budget was positive, with the $A quickly rising ½ a cent to under 0.938, before retracing. Despite all the concern in the lead up, most measures were well flagged, with no real negative surprises. Overall, the market sees the Budget as a good start towards addressing the looming structural pressures facing government finances.

For more detailed analysis from NAB Group Economics, please visit **nab.com.au/fedbudget**

Key initiatives:

- A major initiative in this year's budget is the establishment of the Medical Research Future Fund from 1 January 2015. It will be allocated around $1 billion of uncommitted funds from the previous Health and Hospitals Fund, and then receive the estimated savings from health measures in this budget, until it reaches $20 billion by 2020. Net earnings will be used to fund medical research, primarily through the National Health and Medical Research Council (with funding of around $20 million in 2015-16 rising to $1 billion a year from 2022-23). There will also be $200 million over five years for research into dementia treatment.
- Introduction of co-payment for standard general practice consultations and out-of-hospital pathology and imaging services (which account for around 70% of Medicare services). From 1 July 2015, the Medicare Benefits Schedule fee for these services will be reduced by $5 and providers will be allowed to collect $7 (a net $2 gain to the provider). Concession card holders and children under 16 face the co-payment for only the first 10 services in each calendar year.
- Changes to costs of PBS medicines and Safety Net thresholds – with the PBS co-payment to increase by $5 per prescription (or $0.80 for concession card holders). The general safety net threshold will also rise by 10% a year for four years from 1 January 2015. The safety net for concessional patients will also be increased. These changes are in addition to the normal CPI indexation arrangements. Combined, these measures will save $1.3 billion over four years.
- The Government will provide $379 million over five years for new and amended listings for the Pharmaceutical Benefits Scheme.
- Health related National Partnership Agreements with the states are being modified or abolished. In particular, public hospital funding arrangements are set to change, resulting in savings of $1.8 billion over four years. National Partnership Agreements on Improving Public Hospital Services and Preventative Health are ending.
- A new Medicare Safety Net will be introduced from 1 July 2016 – which will simplify the three existing safety nets for out-of-hospital services. The new scheme will have lower thresholds for most people, but is expected to result in budget savings of around $270 million over five years.
- Medicare Locals (established under the previous Government) will be replaced by Primary Health Networks – which will align more closely to state and territory health networks to reduce duplication between state and Federal Governments.
- Other health sector savings include a reduction in some rebates and a pause to indexation of some Medicare Benefits Schedule fees and Health Flexible Funds for two years. Further savings come from not indexing income thresholds for the Private Health Insurance Rebate and Medicare Levy Surcharge for three years.
- There will be an additional 300 training places for General Practitioners from 2015. However the Prevocational General Practice Placements Scheme is being ceased – contributing to the funding for this measure. The Government will also provide $238 million over five years to double incentive payments for GPs who provide teaching opportunities to medical students.
- A rationalisation of Indigenous programmes, grants and activities (including healthcare related work) is expected to produce savings (which will be directed towards the Medical Research Future Fund).
- The Government will cease the Aged Care Payroll Tax Supplement from 1 January 2015 – which will save $653 million over four years. The Government is also reprioritising $1.5 billion over five years from the Aged Care Workforce Supplement including through increasing aged care subsidies for home and residential care providers.
- A range of programmes and agencies have been abolished (e.g. Dental Flexible Grants Programme, Diagnostic Imaging Quality Programme and the National Health Preventative Agency).

NAB's view:

The key focus related to health in this year's budget is savings. The introduction of GP co-payments, changes to PBS provisions, Medicare safety nets and indexation arrangements will contribute significant savings – with the majority of these savings being directed towards the Medical Research Future Fund.

That said, these savings will come at the expense of healthcare consumers, which will lead to increased costs and/or lower demand for a range of services.

While lower demand would be a negative for service providers, this may be offset by the net gain from the co-payment. The introduction of GP co-payments is accompanied by the removal of restrictions on fees for hospital emergency departments (although introducing such measures would be up to individual state governments). In the absence of such fees, increased burden could be placed on the public health system (with individuals seeking emergency treatment to avoid the GP co-payment).

The introduction of the Medical Research Future Fund is a positive for the research section of the healthcare sector. Under this plan, direct Government funding for medical research will double, with the potential for significant long term benefits (providing that the funds are efficiently allocated).

Industry comment:

The Australian Medical Association welcomed parts of the budget, including the additional GP training places (though expressed concern at the abolition of the Prevocational General Practice Placements Scheme), investment in medical research, the preservation of prevention and health workforce functions (despite the abolition of agencies), and the creation of Primary Health Networks.

However, the AMA were concerned that the burden of costs on patients is too heavy – with co-payments for GP services (and potentially emergency departments) and PBS medicines, cuts to Medicare rebates and frozen rebates for Medical Specialists.

The Public Health Association of Australia was critical of the co-payment scheme – arguing that it will create barriers to accessing primary care for the disadvantaged while increasing the burden on public hospitals. They were also critical of cuts to preventative health agencies – arguing these bodies could have provided greater long term savings.

The Australian Healthcare and Hospitals Association argued that the cost burden for healthcare has been shifted to the states and consumers – suggesting that states and territories lack clarity of funding beyond the next two financial years.

Leading Age Services Australia (LASA) had a mixed response, welcoming the redirection of the Aged Care Workforce Supplement. However, it is concerned that the removal of the aged care payroll tax supplement will negatively affect the sector's capacity to deliver services for older Australians.

Important information

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