Federal Budget 2013
What the Federal Budget means for the Health sector

About NAB Health
NAB Health gives you access to dedicated bankers across Australia who bring their extensive knowledge and financial insights to clients across all parts of the healthcare industry. It’s this focus that enables NAB to truly understand the specific issues facing you and your sector. We are strongly committed to supporting the industry and helping you manage and capitalise on the opportunities ahead.
Federal Budget overview

Our economists’ view

Alan Oster, Group Chief Economist, NAB

What a difference a year makes. Gone is the political rhetoric on the importance of gaining international credibility by getting a surplus no matter what. Rather, the focus is very much on a fairly timid initial approach that doesn’t see a balanced Budget till 2015/16 or a surplus till 2016/17. In short, a Budget that is more in line with a “soft economy” – even if the Government doesn’t describe it as such.

The Budget effectively takes nothing to the economy in the near term (compared to detraction from growth of nearly 1½% this year). From a structural viewpoint nearly all of the heavy hitting is from the revenue side and most is done in the out years. That said, the Budget is helping to repair some structural problems via:

- scrapping last year’s welfare increases (last year’s so called spreading the benefits of the mining boom – around $2.5bn over the estimates) and the baby bonus
- increasing the Medicare levy to help fund national disability reform (the largest saving at $1.15bn over the estimates)
- tightening offshore tax arrangements including Offshore Banking Units (a hefty $4.2bn over the estimates) and acknowledging the lower carbon price ($3.4bn over the estimates)
- measures to reduce funding costs of schooling (out of universities etc at $2.6bn) and measures to introduce PAYG systems for large tax payers.

The main expenditure items (within the estimates period) are more infrastructure ($3.1bn) school building ($2.9bn) and disability care ($1.9bn but ramping up in the beyond estimates period).

NAB’s real activity forecasts are very similar to Treasury’s – albeit we are a touch weaker in 2012/13 and we also have unemployment a touch higher. Of more concern, we are significantly lower for nominal GDP – which is important because this was the main cause of revenue under prediction in recent years. We are also slightly weaker for the global outlook. For more details, see Economic and Financial Outlook.

The real risks to the Budget probably revolve around how much of the package will see the light of day post the election. Also, the Budget expenditures are very much back ended which raises the question of just in what state the economy will be in 2016/17 and beyond. Finally even this modest fiscal retraction will possibly be at risk if election spending fires up. At least in that context Australia’s debt position remains very strong in an international context with debt levels very low – albeit they are possibly moving towards the lower end of the remaining AAA economies. For more details, see Bond Issuance and Net Debt.

Overall then a budget for a softer economy but one that is very political in nature (as probably was inevitable in present circumstances).

Fiscal Outcome

The underlying cash deficit for 2012/13 is estimated at $19.4 billion (1.3% percent of GDP). The Budget maintains large deficits of $18 billion in 2013/14, and $10.9 billion in 2014/15, before moving into a marginal surplus of $800 million in 2015/16.

Economic Outlook

The Government’s economic outlook is broadly in line with recent RBA forecasts, and only slightly stronger than NAB’s. However, the Government’s outlook for nominal GDP is substantially stronger than ours, at 3½% in 2012/13 compared to our 2.1%, and 5% in 2013/14 compared to our 4.2%. Over estimating nominal GDP was the reason why revenues were overestimated in recent years – and this is clearly a concern. The Government and NAB both have growth of 2.7% and 3% for 2013/14 and 2014/15. However, we are weaker in 2012/13 (at 2.7% v the Governments 3%) largely slower near-term public sector demand and a sharper pace of decline in the terms of trade. The Government expects unemployment to rise to around 5½% by mid 2014, while NAB expects it to edge towards 6%, reflecting our weaker view on growth. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, which is expected to remain well within the RBA’s 2-3% target band over the forecast horizon. Given the structural adjustment occurring in the economy at present, as well as softness in labour market conditions, we still believe the economy would benefit from another 25 bp rate cut this year (November); this would take the RBA’s cash rate to 2.50%. However, further deterioration in labour market conditions could see earlier action and possibly more than one cut. For further details, see the Economic and Financial Outlook.

Financial Markets

Beyond the economic/fiscal outlook, for bond investors the two main considerations from tonight’s Budget are: 1) the Government’s debt programme for 2013/14, and 2) any implications for Government’s stable AAA credit rating. The market reaction to the Budget was negative, with the $A quickly falling ½ a cent to under 0.9950. The reasoning was less to do with the detail of the Budget and more that investors saw a string of deficits indicating the economy remains weak. The bond market was little moved.

For more detailed analysis from NAB Group Economics, please visit nab.com.au/fedbudget
Health & Community sector

Through our relationship with Business Spectator, LASA, AGPN and Pharmacy Guild, NAB is excited to share additional industry commentary and analysis.

Key initiatives:

- The budget allocates $14.3 billion in new investment for DisabilityCare Australia, a national disability insurance scheme that will be paid for with a 0.5 percentage point increase in the Medicare Levy (to 2% of taxable income) from July 2014. The government estimates that $20.4 billion will be raised from the increase between fiscal 2015 and fiscal 2019, which would be placed in a fund for 10 years and could only be drawn upon to fund the DisabilityCare scheme.
- $226 million to fight cancer, including $55.7 million for breast cancer screening; $18.5 million for prostate cancer research; $23.8 million for bone-marrow transplants.
- But many Australians are expected to be hit by a phase-out of the net medical expenses tax offset over the next two years, which will save the budget nearly $1 billion over four years. However, claims for aged care, disability aids and attendant care will be allowed through until June 30, 2019 when DisabilityCare is rolled out across the country.
- The Government will realign the indexation of Medicare Benefits Schedule (MBS) fees to the financial year in line with many other Government programs. MBS fees, which are currently indexed on 1 November each year, will be indexed on 1 July each year. The next indexation date will be 1 July 2014. This measure will result in savings of $664.4 million over four years.

NAB’s view:

Healthcare had a mixed budget night, with long term headline projects capturing the attention, along with some stings in the tail. Cancer care is the big winner, but health was also a key area of savings through changes to Medicare.

DisabilityCare Australia was a focus, with an accompanying increase in the Medicare Levy from July 2014 to fund it, but the scheme won’t be fully implemented until July 2019. Cancer treatment and research was a more immediate beneficiary, receiving $226 million ($190 million new funding).

Healthcare professionals funded under the Medicare Benefits Scheme were losers from the budget, with an eight month delay in indexation resulting in major savings in coming years.

Aged Services

“Budget 2013 has no real surprises for the age services industry or for health generally” said CEO of peak industry body, Leading Age Services Australia (LASA) Mr Patrick Reid

“This latest Labour budget has been pitched as balancing structural spending with structural saving to support the government reform agenda in a tight fiscal environment. LASA welcomes a budget with no surprises but laments a lost opportunity to further enhance the reform process by ensuring that funding matches the cost of care for older Australians.” said Mr Reid

LASA notes that $60.2 million was removed from the workforce compact in line with the 5 March launch of the supplement. $60.2 million removed from direct care of older Australians.” said Mr Reid

“LASA looks forward to being a participant in the research from the Andrew Fisher Applied Policy Research initiative to enhance positive aging for all Australians and to enhance the ability of the age services sector to meet the increasing demands of an aging population.” said Mr Reid

The removal of $80 million from Health Workforce Australia may adversely affect age services which will need to recruit almost 600,000 workers in the next 30 years.

“LASA would like to acknowledge the work of outgoing deputy secretary Rosemary Huxtable and looks forward to a productive relationship with her replacement David Martine.” said Mr Reid

LASA will continue to work to advocate for funding that matches demonstrated care needs. The age service workforce provides high quality care every day in an environment of growing pressure. LASA is committed to assisting government to meet its ongoing age service liability with practical and innovate solutions; we look forward to government providing the essential support needed to promote workforce growth and capital raising initiatives.” said Mr Reid.
General Practice

Key primary health care initiatives of interest to General Practice are:

A National Primary Health Care Strategic Framework
- Under the National Health Reform Agreement, the Australian Government will work with the states and territories to develop bilateral plans for primary health care by July 2013.

Medicare Services
- The Government will realign the indexation of the MBS with the financial year.
- Medicare provides access to free treatment as a public patient in a public hospital and free or subsidised treatment by medical practitioners and others. In 2013-14, 16 reviews which began in 2011-12 and 2012-13 will be progressed.
- The Government will realign the indexation of the MBS with the financial year.
- The Government will also increase the upper (general) threshold of the extended Medicare safety net (EMSN) to $2,000 from 2015. There will be no changes to the eligibility threshold for people with a concession card, or who are eligible for Family Tax Benefit (Part A).
- These savings will be directed towards meeting the broader commitments of the Australian Government to fund important reforms.

Access to after hours care
- In 2013-14, the Government will continue to strengthen its primary health care reforms including access to after-hours care through Medicare Locals.

Medicare Locals Accreditation Scheme
- In 2013-14 the Government will implement a new Medicare Locals Accreditation Scheme to support Medicare Locals to meet best practice organisational management and service delivery processes. Work will continue on the National Evaluation of Medicare Locals to assess the extent to which Medicare Locals are progressing toward the five strategic objectives of the program.

GP Super clinics
- In 2013-14, the Department will continue work on implementing more than 60 GP Super Clinics and around 425 Primary Care Infrastructure Grant projects across Australia.

Practice incentive payments
- The Australian Government will continue to provide incentive payments to general practices and GPs to support activities that encourage continuing improvements, increase quality of care, enhance capacity, and improve access and health outcomes for patients.
- Under the Practice Incentives Program (PIP), incentive payments are made to general practices and GPs for cervical cancer screening, diabetes management, asthma management, and provision of procedural services in rural and remote areas.
- Other incentives are provided to GPs to ensure that older people receive appropriate and timely access to primary health care services, thereby improving their health outcomes and reducing avoidable hospital admissions and readmissions. To receive the incentives, GPs must provide a minimum specified number of services to residents of aged care facilities.
- The Government will continue to provide financial incentives to participating general practices and Indigenous health services to provide better health care for Aboriginal and Torres Strait Islander patients, including best practice management of chronic disease. The uptake of the incentive has been strong since its implementation in 2010. In 2013-14, the Department will continue to closely monitor its effectiveness in delivering best practice chronic disease care.

Personally Controlled Electronic Health Record System
- This year the Australian Government will monitor new eligibility requirements for the PIP eHealth Incentive, introduced during 2012-13, which were designed to encourage general practices to safely and securely share accurate electronic patient records to enhance the quality of care provided to patients and undertake activities such as electronic prescribing and use of the Personally Controlled Electronic Health Record system.
Pharmacy

The Federal Budget provides further confirmation of the significant impact that Pharmaceutical Benefits Scheme (PBS) price reforms are having on pharmaceutical benefits expenditure.

The budget papers reveal that the Commonwealth’s savings from price disclosure will increase from $296 million in 2013-14 to $1.1 billion a year in 2016-17. This is an increase of more than 300% per cent in annual savings in four years at a rate of increase of 75% per annum.

The aggregate savings from price disclosure, including the Memorandum of Understanding (MOU) with Medicines Australia, are estimated to reach $4 billion over the forward estimates period.

In the 2011 budget, the government estimated that pharmaceutical benefits and services would cost $12.1 billion in 2013-14 and $12.9 billion in 2014-15. It now estimates that these expenditures will be $11.1 billion and the $11.7 billion respectively.

In other words, the government is now estimating that pharmaceutical benefits and services costs will be at least $1 billion a year lower than it estimated two years ago.

The budget figures highlight the extent of the likely flow-on financial impact of price disclosure on dispensary revenues and margins.

**PBS Projections/Price Disclosure Savings**

| Pharmaceutical Benefits & Services Expenditure estimates ($ million) |
|---|---|---|---|---|---|---|---|
| 2011 Budget | 10,337 | 10,794 | 11,245 | 12,070 | 12,882 | |
| 2012 Budget | 10,539 | 10,889 | 11,619 | 12,393 | 13,166 | |
| 2013 Budget | 10,689 | 11,139 | 11,664 | 12,087 | 12,562 | |

Pharmaceutical Benefits expenditure downgraded again

In last year’s budget, the expectation of expenditure on pharmaceutical benefits was reduced by $1.6 billion over four years. This year’s budget has gone even further by downgrading estimates by an additional $2.5 billion over four years. None of this has come from new savings measures. All of the savings from Expanded and Accelerated Price Disclosure and the Fifth Community Pharmacy Agreement (combined, a total saving of $2.5 billion over five years) were already factored in to the 2010 Budget. The additional $4 billion downgrade over the last two budgets is the result of Treasury having underestimated the impact of PBS Reforms and overestimated the demand for medicines.

Expenditure on pharmaceuticals as a percentage of GDP is now expected to decline every year between 2012-13 and 2016-17.

It is also worth noting that the Department of Health and Ageing’s budget papers reveal that the department is expecting the volume of prescriptions to grow by a 6.5% in the next 12 months (from 199 million to 213 million), leaving room for further expenditure downgrades in next year’s budget.

Chemotherapy funding

The budget confirms the provision of $29.6 million to increase dispensing fees for chemotherapy medicines until 31 December 2013, and to conduct a review of longer terms funding. As announced earlier this month, the dispensing fee will be increased by $60 per infusion from $76.37 to $136.37 from 1 July.

The review will cost $1.2 million and will report to the Minister for Health by October this year. The budget documents say: “The review will examine the currently complex arrangements in place for funding and delivery of chemotherapy services and recommend more sustainable arrangements into the future.”

The Guild has welcomed this measure because of the certainty it provides for cancer patients and also because the funds are drawn from outside of the Community Pharmacy Agreement. This decision by the government adds weight to the Guild’s view that the chemotherapy funding arrangements are not part of the agreement. The Guild has argued that Australia’s 5200 community pharmacies should not be required to take a financial hit to fund the shortfall in non-agreement funding for chemotherapy services delivered by fewer than two per cent of pharmacies.

Wound management study

The budget provides $300,000 for a wound management scoping study. The study will provide a cost benefits analysis of options to better address chronic wound management for senior Australians. The cost of the measure will be met from within the existing resources of the Department of Health and Ageing.

Medicare information campaign

The budget provides $10 million over two years to deliver a national communications campaign to inform Australians about the benefits of Medicare and health-related services, including Medicare Locals, Medicare rebates and safety nets. The campaign will provide information to assist consumers to access these services, including the e-Health Record system, Medicare point of care electronic claiming and the after hours GP helpline.
Therapeutic Goods Administration amalgamation with NZ
An unspecified amount has been included in the health budget to continue to fund the staged amalgamation of the Australian and New Zealand Therapeutic Goods Administrations. When fully established, the joint agency will take over responsibility for regulating medicines, medical devices and other therapeutic goods. The cost of this exercise is not published, “due to ongoing negotiations with the New Zealand Government”.

Legal actions against Big Pharma
The budget sets aside health funding to enable the Department of Health and Ageing to respond to the risk of legal challenges in relation to the Pharmaceutical Benefits Scheme. These legal actions could be in relation to price disclosure, reference pricing and post-market reviews. The expenditure for this measure hasn’t been published.

National Medical Stockpile
The budget provides $17 million next financial year to replenish expired items in the National Medical Stockpile, which includes restocking of influenza antivirals. The stockpile is a strategic reserve of medicines and medical equipment for health emergencies or disasters, and includes medicines which may be distributed through community pharmacy in some circumstances.

Health Workforce Australia
Health Workforce Australia has taken an $80 million hit in the budget. The budget papers say the government will “realise efficiencies by reprioritising programs” in Health Workforce Australia (HWA) from next financial year to save $20 million dollars a year through to 2016-17. The government says the Adelaide-based organisation will have the flexibility to achieve the savings across its administrative funding and programs to minimise the impact on individual programs.
The 2013 Federal Budget contained a few new measures and reconfirmed some recent announcements. Here is a summary of the key take-outs.

Note: These measures are proposals only and may or may not be made law.

Gemma Dale, Head of Technical Services, MLC

**Personal Taxation**

- The Medicare levy will increase by 0.5% to 2% pa from 1 July 2014 to help fund a better life for Australians with significant and permanent disabilities.
- The changes to the personal income tax thresholds, marginal tax rates and low income tax offset that were to take effect from 1 July 2015 have been abolished.
- The tax offset that is available if ‘Net Medical Expenses’ exceed $2,120 (in 2012/13) will be progressively phased out. The impact will be immediate for many people and it will be abolished by 2019.
- The amount of self-funded education expenses that can be claimed as a tax deduction will be capped at $2,000 pa from 1 July 2014.
- The Baby Bonus will be abolished from 1 March 2014.
- Families who are eligible for Family Tax Benefit Part A (FTB(A)) will receive an extra $2,000 following the birth of their first child and $1,000 for subsequent children.
- The income thresholds that are used to determine eligibility for FTB(A) and the threshold of $7,500 pa that applies to Child Care Rebate will not be increased until 1 July 2017.

**Superannuation**

- Currently, pre-tax and other concessional super contributions are capped at $25,000 pa, regardless of your age. This cap will increase to $35,000 pa from:
  - 1 July 2013 for people aged 60 and over, and
  - 1 July 2014 for people aged 50 and over.
- Currently, all earnings from assets held in a super pension are tax-free. From 1 July 2014, only the first $100,000 in earnings per member will be tax-free and earnings above this threshold will be taxed at 15%.
- From 1 July 2012, the tax concession on concessional super contributions will reduce from 30% to 15% for people who earn $300,000 pa or over.

**Social security**

- Currently, income payments received from an account-based pension are concessional treated under the social security income test. However, from 1 January 2015, account-based pensions will be treated the same as other financial assets and be deemed to earn a particular rate of interest, regardless of the income actually earned.
- An incentive will be provided to older Australians to downsize the home by providing an exemption from the assets test for up to $200,000, subject to certain conditions. The main one is the home must have been owned for at least 25 years.

**General advice warning and disclaimer**

This information has been prepared by MLC Limited (ABN 90 000 000 402, AFSL number 230694). A company within the National Australia Group, 105 – 153 Miller Street, North Sydney 2060. MLC is not a registered tax agent. If you wish to rely on this to determine your tax obligations you should speak to a registered tax agent.


**Currency and accuracy of information**

While the companies in the MLC Group have taken all reasonable care in producing this information, subsequent changes in circumstances may occur at any time and may impact on the accuracy of this information.

**Third party information**

The MLC Group relies on third parties to provide certain information and is not responsible for its accuracy. The MLC Group is not liable for any loss arising from any person relying, either wholly or partially, on information provided by third parties.
Important information

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek professional financial and taxation advice prior to acting on this information. Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

Our financial planners are Representatives of National Australia Bank Limited ABN 12 004 044 937, an Australian Financial Services Licensee, Registered office at Level 4 (UB4440), 800 Bourke Street, Docklands VIC 3008 and a member of the National Australia Group of companies.