more give, less take

nabhealth

nab

Federal Budget 2015

What the Federal Budget means for Health.

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 focus of the 2015 Federal Budget is very different from last year. Given the political problems of last year's budget, the focus has been on attempting to make this Budget as politically saleable as possible. Also, unlike last year, the 2015 Budget is relatively neutral in its impact on the broader economy. Essentially, new expenditures have been broadly offset by savings.

More than any budget in recent memory, most of the key changes were pre-announced/leaked – again to emphasise the 'no surprises' focus. Consequently, the key spends include a $5.5bn small business package (really micro business, ie turnover of less than $2m per annum), including tax cuts and, more importantly, a 5% tax discount (up to $1,000) to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is $3.5bn (over five years) spending on childcare incentives (linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for employment of older Australians; drought spending ($330m); border/terrorism spend ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the Pharmaceutical Benefit Scheme ($1.6bn) and the reversal of last year's doctor rebate savings.

The savings were equally well flagged. These include a new law on cross-border profit shifting: GST on intangible/services (Netflix tax); pension savings by lowering the non-home asset threshold to $800,000 ($2.4bn); tightening of the paid parental schemes (anti-double dipping between private and public schemes); the withdrawal of Melbourne East West Link money ($1.5bn); and further public service efficiency dividends.

As set out in the section on the medium term fiscal outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP, which is better than the previous upward trend. Also, the economic impact of the Budget on the economy is relatively neutral.

Broadly, the Government's forecasts are very similar to NAB's, so we see the projections as credible. Of course to the extent we have all overestimated growth – especially in a low wage growth and falling commodity price world – the Budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury's $US48 vis-à-vis NAB's $US60 per tonne) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence, outside of micro business.

Of course the Budget is not the complete current fiscal story. There is still the Tax White Paper to come. The Budget had little on big tax and superannuation questions. Also, there is still the debate about what happens to Government's removal of $80bn in state funding for health and education in the out years. And finally, despite the Government's best efforts, what happens in the ensuing political process is unknowable.

Fiscal Outcome

The underlying cash deficit for 2014-15 is estimated at $41.1bn and $35bn in 2015-16 (or 2.1% of GDP and below market expectations – but near NAB's). The projected deficit then moves down to $14.4bn in 2017-18 (0.8% of GDP) with an eventual return to surplus in 2019-20. Basically the reduction in the deficit is driven by returning revenues, which rise from 23.9% of GDP in 2014-15 to 25.7% in 2017-18 (accruals basis). Outlays move from 26.1% to 26% of GDP in the same period.

Economic Outlook

As noted above, there is little fundamental difference between Treasury's and NAB's economic outlook. At the margin, we are slightly less optimistic in the near term (NAB 2.3% Treasury 2.5% in 2014-15) but slightly more optimistic in 2015-16 (NAB 2.9% Treasury 2.75%). An interesting difference here is our slightly more pessimistic view on business investment. That said, the RBA is more pessimistic on 2015-16 growth than either Treasury or NAB. At the margin, Treasury has a slightly higher unemployment rate in year average terms in 2015-16 (NAB 6.25% Treasury 6.5%). Finally, on the critical nominal GDP forecasts (for Budget deficit forecasting) there is little difference between NAB and the Treasury (both around 1.5% and 3.5% in the next financial year).

Financial Markets

There was modest but nonetheless positive market reaction to the Budget. The $A has pushed 30bps higher towards 0.7990, although it was trading higher before the Budget's release. Bond futures improved 2-3 bps (ie yields lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the Budget doesn't pose any immediate threat to the AAA rating.

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

Key initiatives:

- New and amended listings for the Pharmaceutical Benefits Scheme (PBS) will cost $1.6bn over five years, including medicines for the treatment of cancer and asthma. At the same time, the Government is pursuing PBS savings through price amendments to some medicines and a further safety net threshold increase, worth over $250m over five years;
- The reversal of the Medicare Benefits Schedule rebate cuts and associated changes will cost the Government almost $3bn over five years from 2014-15;
- In redesigning the Personally Controlled Electronic Health Records (now called My Health Record), the Government will achieve savings of $214m. The Government will continue to provide $485.1m over four years towards the eHealth system;
- A program to improve immunisation coverage rates and new and amended listings of vaccines will add $188.2m in spending;
- $20m in further funding for the Royal Flying Doctor Service;
- A change to the provision of Commonwealth funded home care, with funding directly provided to consumers. The aim is to increase choice and flexibility and will cost the Government $73.7m over four years. This is in addition to $33.7m for a national gateway for carer support services (including aged care and mental health);
- The Government is still pursuing the Medical Research Future Fund, and anticipates more than $400m provided over the next four years;
- Saving of over $1bn comes from rationalising and streamlining health and aged care programs. This includes cuts in the Department of Health bureaucracy, change to workforce programs, preventative health and an end to GP super clinics. A further $31m will be obtained by expanding cost recovery for aged care accreditation;
- Changes to the Child Dental and Medicare Benefits Schedule will also save around $270m over four years.

NAB's view:

This year's announcements need to be seen in the light of last year's budget measures which included major savings, some of which failed to pass the Senate.

While overall government expenditure is expected to increase relative to what was previously budgeted, the single biggest item is the Government giving up on its attempt to cut GP rebates. The Government has attempted to cover this shortfall, as well as the cost of other measures such as PBS listings, by cutting a range of other programs.

The savings generated by these measures are also being directed into the Medical Research Future Fund (estimated at $400m over the next four years). This fund is a positive for the research section of the healthcare sector.

In principle, attempts to streamline and improve administrative efficiency need not impact on healthcare provision. However, achieving this result will be difficult and dependant on good execution and design.

Important information

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