nabhealth

FEDERAL Budget 2016

What the Federal Budget means for Health

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ABOUT NAB HEALTH

NAB Health's 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 insurance solutions and access to HICAPS, our innovative market-leading electronic health and payments system.

FEDERAL BUDGET OVERVIEW

Our Group Economics view

Alan Oster, Group Chief Economist, NAB

This Budget clearly has a political as well as economic dimension – and in particular is framed against the assumption of an upcoming election. As such, it's really an exercise in selected refocusing outlays and receipts to achieve the Government's focus of growth and jobs – but achieved within a realpolitik framework of burden sharing and keeping debt at sustainable (AAA) levels. The current environment means there is little scope for large structural reforms. And with a Budget not likely to get back to surplus by 2020-21 – and then only marginally – it clearly remains vulnerable to the vagaries of the economic cycle.

Key measures are largely as signaled in recent days. On improving the 'equity' theme, the Budget raises the 32.5% personal income threshold from 80k to 87k to help offset some effects of bracket creep; imposes tougher rules on top end superannuation (lowering the threshold for the higher tax on super from $300k to $250k and imposing annual and lifetime caps on extra super contributions); and eases the tax treatment of super for lower to middle income contributors. Also on the equity theme is stricter enforcement of multi-national tax (essentially a 'Google tax' with diverted income to be taxed at 40%).

On the 'adding to growth' theme is business tax cuts (from 28.5% to 27.5% for small and middle business with the turnover threshold raised to $10m. Thereafter the turnover limit is progressively raised until all businesses are on the rate by 2023-34. The rate then falls to 25% in 2024-25. There is an extra benefit in that the investment tax write off has been extended for an extra year. That said, the size of the short-term cuts are limited (around $5.3bn over four years) – and our modeling suggests very small short-term benefits. There is also extra money for infrastructure ($5bn); extra money for health ($2.9bn); and education ($1.2bn – albeit much less than full Gonski). Also helping to repair the Budget bottom line is the (12.5%) increase in tobacco taxation.

Outlays remain under 26% of GDP before moving a touch lower in the long run. By way of context, outlays peaked at around 27% during the GFC stimulus and before that around 23% of GDP. Revenue still does most of the repair job on the Budget balance, with a combination of policy and economic recovery. Overall net debt peaks a touch higher in 2019 at 19.2% (previously 18.5%) and starts to edge lower thereafter. Rating agencies have been much more guarded in their reaction than usual. As set out in the Medium Term Economic Outlook, the Budget would represent a slight drag on economy going forward (around 0.5% per year) and as such is probably doable.

Of course the Budget may not be the final word on medium-term fiscal sustainability given the forthcoming election campaign. Our bottom line is there is not a lot of scope for pulling more 'rabbits from the hat'. And that Budget repair will be a long and difficult slog given the economic environment. We are more cautious in 2018-19 forecasts.

Fiscal outcome

Estimates of the underlying cash deficit are slightly larger at A$39.9bn (2.2% of GDP) in 2015-16 and $37.1bn (2.4% of GDP) in 2016-17 (slightly below market expectations – but near the viewpoint of NAB). The projected deficit then moves down through the out-years with an eventual return to surplus in 2021-22.

Economic outlook

There is little fundamental difference between Treasury's and NAB's economic forecasts in the next few years. A sharp increase in commodity export volumes, offset by subdued domestic demand, remains the common theme. However, NAB forecasts become notably more pessimistic as we move into the forward projections (from 2018-19) reflecting significant headwinds as LNG exports reach their peak and dwelling construction reduces. Over the forward estimates, expectations for the unemployment rate are similar, easing to around 5.5% in the short-term before stabilising. On the nominal GDP forecasts, NAB and Treasury expectations are similar in 2016-17 (around 4.25%) but the Treasury's 2017-18 forecasts are more optimistic.

Financial markets

There was little discernible market reaction to the Budget. Ratings agencies have been circumspect in their initial reaction to the Budget, choosing instead to allow more time for analysis.

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Key initiatives

- Public hospitals will receive an additional $2.9bn in funding between 2017-18 and 2019-20 (as announced at the April Council of Australian Governments meeting) – partially reversing savings introduced in the 2014-15 Budget. The largest share of funding will occur in the 2019-20 financial year (the final year of the estimates period).
- A new Child and Adult Public Dental Scheme will receive $1.7bn over four years, with services delivered by state and territory governments (the Commonwealth will provide 45% of the national efficient price). All children and adult concession cardholders will be eligible under the scheme. Funding for the scheme comes from the termination of existing dental programs and the National Partnership Agreement for 2016-17 – resulting in a net saving of $17m over the four-year period.
- The indexation pause on the Medicare Benefits Schedule (MBS) will be extended a further two years (until 30 June 2020) – freezing the MBS fees for all services provided by general practitioners, medical specialists, allied health and other health practitioners – generating savings of $925.3m.
- Changes to Aged Care provider funding is forecast to generate savings of $1.2bn over four years. This measure includes changes to the scoring matrix of the Aged Care Funding Instrument (which determines funding levels paid to providers) as well as reducing indexation of the Complex Health Care component of the instrument by 50% in 2016-17. The Government will establish a $55.3m transitional assistance fund to support providers.
- Regional aged care will receive $102m over four years to improve the targeting of the viability supplement. The supplement is designed to address additional cost pressures experienced by providers in rural and remote locations. A further $136.6m will be provided over four years to support the My Aged Care contact centre, which connects consumers and providers.
- Additional savings of $182.2m over three years are generated from pausing indexation and achieving efficiencies (including reducing uncommitted funds) from the Health Department's Flexible Funds program, which are used to fund community programs.
- The Government will establish the National Disability Insurance Scheme (NDIS) Savings Fund Special Account – designed to assist in meeting future costs of the NDIS. Funding comprises $711.2m over five years from reducing net costs in the NDIS transition agreements reached with states and territories, and net savings of $1.3b over five years from targeting social welfare expenditure.
- Savings (which are partially offset by other new social welfare spending) include $1.4bn over five years from closing carbon tax compensation to new recipients of government welfare benefits; $108.6m over four years from aligning the backdating provisions for New Carer Allowance claims with other social security payments; $62.1m over five years by reviewing 30,000 Disability Support Pension recipients each year to assess their capacity to work; $66.7m in previously unspent funds; and not proceeding with NDIS advertising.
- The excise on tobacco products is set to rise in a series of 12.5% increments over the next four years – which is estimated to generate $4.7bn over this period.

NAB's view

Public hospitals will benefit from an additional $2.9bn in funding, restoring some of the funding cut in 2014-15.

Extending the indexation freeze for the Medical Benefits Schedule (MBS) will impact revenues for health care practitioners, who may pass additional costs to consumers. This could potentially impact demand for services.

Announced changes to the dental sector represent a consolidation of existing programs, with a modest contraction in total Federal funding (in contrast to the $1.7bn headline value announced).

Industry reaction

The Australian Medical Association was critical of the decision to extend the pause in MBS indexation, arguing that the costs of this measure will be passed on to consumers – hitting vulnerable Australians the hardest. They contend that continuing existing measures to pause indexation of the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds may disadvantage patients. In addition, it is concerned about cuts to Flexible Funds – impacting community health programs – and cuts to the aged care sector, which it argues requires closer examination.

The Public Health Association of Australia criticised the Budget's focus on treatment and clinical services instead of prevention initiatives – which it argues could generate significant savings in health spending. It welcomed the reinvestment in the Health Star Rating and increases to tobacco excise measures, but suggested there were missed opportunities such as a sugar tax on soft drinks.

The Australian Healthcare and Hospitals Association described the Budget as a disappointing result for the health sector, noting some small investments and many cuts. It highlights that the $2.9bn in public hospital funding returns less than half the expected Federal funding initially removed in the 2014-15 Budget, arguing that the Government has failed to deliver a long-term, co-ordinated strategy across primary, acute, aged and disability care.

The Australian Nursing and Midwifery Federation was also critical of Budget measures – arguing that after previous cuts, the $2.9bn allocated to public hospitals will not ensure state and territory hospitals can operate effectively and efficiently. It also criticised the lack of funding for aged care nursing wages and training – given previous cuts – noting an existing shortfall of staff in the sector.

The Council on the Ageing suggested there were missed opportunities related to aged care – with overdue reforms deferred, and no timeframe to ensure people can access the aged care they need, when they need it.

Academics were critical of changes to disability and aged care services – arguing both were targeted for unrealistic projected savings, while reinvestment areas would be unlikely to deliver the changes needed. Small investments in aged care, for example, would do little to prevent a spending blowout in coming years – meaning future governments will have to deal with increasing costs of aged care.

The Australian Dental Association was critical of the changes to dental sector funding, raising concerns that the Federal Government intends to close the Child Dental Benefits Schedule. It argues this will place greater burden on an overstretched and under-resourced public dental sector.

Cuts to aged care funding are a negative for the sector, with the Government noting that funding costs had grown more rapidly than expected – particularly in the complex care category (which had grown disproportionately to the behavioural and physical assistance funding categories). Given existing shortfalls in aged care places, combined with the ageing of the population, longer term challenges for the sector remain.

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