

2023-2024 Federal Budget

What does this mean for Health?



Summary

The significant budget announcements were in line with media reporting and prepositioning over recent days. The key headlines, in a budget sense, are the expectations for a small surplus (\$4.2bn) this financial year, driven by strong employment and better than expected nominal wage growth, as well as very high commodity prices. The Government is claiming around 82% of cyclical benefits have been saved. Going forward, the surplus turns back to a deficit of \$13.9bn in 2023/24 and around \$35bn in the out years of the forward estimates as the impact of cyclical factors fade and a persistent – albeit improving – structural deficit continues. Nonetheless, the cumulative deficit over 5 years is now expected to be around \$125bn lower. Gross debt is also expected to peak at a lower 36.6% of GDP in 2025/26.

Cost of living measures (totalling \$14.6bn) take the focus on the expenditure side, including \$3bn of energy bill relief, \$3.5bn on Medicare bulk billing incentives, \$4.9bn for an across-the-board Jobseeker increase and increasing rent assistance by 15%. Other areas of focus include Medicare, improving aged care services (including \$11.3bn for a 15% award pay increase) and supporting the energy transition through incentives to small business for green investments and a \$2bn Hydrogen HeadStart program to develop the industry.

Key revenue measures were as expected, with increased collections from the PRRT, tobacco excise and previously announced reductions in superannuation concessions. Elsewhere, Phase 3 Tax cuts stay – and will be needed if our forecasts are accurate, while the Low and Middle Income Tax Offset (LMITO) will end as expected.

Based on our early analysis of the budget, the impact on the economy is expected to be broadly neutral over coming years, notwithstanding a widening in the structural deficit in 2023/2024 before it levels off over the forward estimates. Further out the government projects a gradual tightening, with the structural deficit expected to narrow over the medium term. Consequently, we see little implication for monetary policy in the near term, with the RBA likely to continue to focus on the ongoing passthrough of rates and the pace of moderation in inflation.

The trajectory of the key economic forecasts matches our own outlook, albeit with a more optimistic outlook for growth in the near-term. For unemployment, wage growth and the CPI, the budget is only slightly more optimistic but sees a similarly shaped profile for each variable.

Economic outlook

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours, albeit slightly more optimistic, particularly on growth. GDP is expected to grow below trend over each of the next two years at 1.5% and 2.25%, (around 0.75ppt stronger than our outlook on the back of stronger consumption growth). Unemployment is expected to rise from current lows to 4.25% by 2023/24 and 4.5% by 2024/25. Our expectations for wage growth are broadly similar, with an acceleration to 4% in the near-term before easing further out, while the outlook for inflation is broadly similar.

Fiscal & Debt Outlook

A budget surplus of \$4.2b is expected for 2022/23, a \$41b improvement on the October 2022-23 Budget estimate. If realised, it would be the first surplus since 2007-08. However, the budget is expected to return to deficit in 2023-24 (and subsequent years). Similarly, reflecting the improvement in the budget position, the net debt profile has been lowered and net debt (as % of GDP) is expected to fall in 2022-23 before rising in subsequent years.

Setting the scene: Health 2023

The Federal Government signalled a strong focus on health in the May Budget. Australia's universal health-care system, with primary care at its centre, has long been regarded as among the best in the world. But Medicare (now 40 years old), is under growing pressure given the aging population and rise in chronic diseases and life expectancy. Moreover, while COVID motivated many Australians to be more proactive in caring for their health, the funding model for the health system remains heavily focussed on treating illness.

NAB research suggests around 4 in 10 Australians require ongoing treatment or medication for a medical condition, with over 8 in 10 of these "chronic" (i.e. lasting or expected to last 6 months or more). The most common conditions are mental & behavioural (anxiety, depression etc.), impacting around 1 in 4 people. Just under 1 in 4 are afflicted by back problems & 1 in 5 arthritis and diabetes. A significant number also suffer from heart, stroke & vascular disease, asthma, and osteoporosis. With the exception of mental health, these conditions disproportionately affect older people.

While the pandemic affected people in extremely different ways, the impact on mental health has been pervasive. Over 4 in 10 Australians believe they needed professional help for their emotions, stress, or mental health over the past year alone. A number of health bodies have called on the Government to address gaps in Australia's mental health workforce and system. The decision to trim subsidised psychology sessions from 20 per year back to the pre-pandemic maximum of 10 has been a particular area of contention.

Against this background, health consumers are facing growing financial pressures due to the rising cost of living. Consumers are responding by changing their spending & behaviours, and this includes health. Some Australians have been switching to lower cost prescription items and medications, cancelling, or cutting back on regular medical appointments, treatments & procedures, or buying less fresh fruit and vegetables. Further policy may be required to make access to health care more equitable.

As part of the Government's focus on health it has promised a "major revamp" to Medicare and to deliver the highest priority investments in primary care. The \$2.2 billion earmarked includes the \$750 million announced in the October budget to strengthen Medicare. The government has also stated that the trajectory of NDIS expenditure is not sustainable into the future.

In terms of preventative health, the Government pre-announced some preventative measures targeting smoking and vaping, particularly among young Australians, through stronger legislation, enforcement, education, and support.

More significantly, the Minister for Health and Aged Care established the Strengthening Medicare Taskforce, to provide recommendations on the highest priority improvements to primary care. The Taskforce

report (released earlier in the year), focusses on four key areas for strengthening Medicare: increasing primary care access; multidisciplinary team-based care; technology and data sharing; and supporting change management.

The Taskforce recommended moving to a blended funding model to support general practice in the management of complex chronic diseases that are integrated with fee-for-service, "with funding for longer consultations and incentives that promote quality bundles of care for people who need it most". A patient registration scheme was also proposed that would direct payments to practices that sign up people for ongoing care. Patient registration has been spoken about for some time.

"Multidisciplinary team-based care" would be delivered by teams of GPs, nurses, and allied health professionals working together to address people's health needs. This would require a significant uplift in a range of health professionals including nurses, physiotherapists, mental health clinicians, pharmacists, and other allied health workers.

Allied health professionals have been broadly supportive of the report's conclusions, welcoming any opportunity to have their skills better utilised to help GPs manage their growing and more complex case load by reducing low value GP visits.

GPs are much more cautious given they are typically the first point of contact with the health system continue to provide the foundation of Australia's primary health-care system. However, it has become more difficult for some patients to see a doctor, and to have their costs fully covered by Medicare.

Demand for GP services is high. Over the past year, almost 8 in 10 Australians visited a GP. In its pre-budget submission, the AMA noted that despite being so heavily accessed, the total Commonwealth expenditure on GPs in 2020-21 was \$11.2 billion, equivalent to only \$437 per person. In effect, government investment in general practice has not matched the increase in the cost and demand for providing high-quality patient care - particularly given increased demand for complex care, such as for people with chronic disease or mental health problems.

As a result, doctors are increasingly being forced to pass on more of their costs to patients, while more patients are leaving their GP (and breaking in many instances, long established care relationships), travelling further to obtain bulk billing, or in some cases, utilising already strained hospital emergency departments. GPs want the Government to immediately increase Medicare rebates.

At the same time, a new breed of healthcare consumer is emerging. Australians are becoming more engaged and proactive in managing their own health and wellbeing, and also a growing list of expectations for practitioners and the health system. Patients increasingly expect a hybrid system offering both virtual and in-person visits. While the balance of preferences remains heavily tilted toward face-to-face interactions,

there are opportunities to expand telehealth and virtual care further. That said, the demands of video technology do not suit everyone.

In July last year, the Medicare Benefits Schedule removed the patient rebate for GP phone consults longer than 20 minutes but kept patient rebates for video calls lasting 20 to 40 minutes as well as video calls lasting longer than 40 minutes. A number of health bodies have called on the Government to boost telehealth access, including making Medicare rebates for longer telehealth phone consultations a permanent fixture and the re-introduction of Medicare rebates for phone consultations for mental health items and GP chronic disease management plans.

Finally, it is now more than two years since the tabling of the Royal Commission into Aged Care Quality and Safety's 'Care, Dignity, and Respect' Final Report in Parliament. There remains broad sector support for implementing the Commission's 148 recommendations and improve the lives of and do better by older Australians.

As part of the Budget aged care workers are set to receive a pay rise, effective from July 1.

What did business want this year?

The **Australian Medical Association** called for a series of substantive changes noting that general practice was underfunded with the Medicare Benefits Scheme (MBS) systematically devaluing GP services through inadequate indexation and a consultation item structure that is failing to keep up with the growing complexity of care and the need for GPs to spend more time with their patients.

The AMA focussed on three main priorities: indexing the workforce incentive program and lifting the incentive cap to 7000 standardised whole patient equivalent; aligning the definition of afterhours care with that of the Approved Medical Deputising Service to encourage GPs to run in-clinic afterhours services; and implementing voluntary patient enrolment. In total, these reforms were estimated to cost \$890 million (around \$140 million more than what has been allocated to fund the taskforce recommendations). In its submission on longer-term funding goals, the AMA asked for a new attendance item that would cover consults between 15 and 19 minutes, at an estimated cost of \$1 billion over four years.

The AMA also noted how the last couple of years had shown how quickly a sector can come under financial pressure. Notwithstanding the recent increase in insurance uptake, those over 60 years of age are set to become the largest insured population in the foreseeable future, with younger and healthier Australians no longer seeing the value in insurance. Moreover, private hospitals have now faced 3 years of decreased activity which had significantly impacted their ability to generate income. At the same time the AMA noted that public hospitals were operating at breaking point, with patients waiting years for

essential surgery, and ambulances ramping outside hospitals because there are not enough beds and staff to cope with demand.

The AMA also sought a number of private health insurance reforms, including the reintroduction of a flat 30% premium reduction via the private health insurance rebate for people under 65 (estimated to cost about \$5.3 billion over four years). The AMA believes this would encourage more people to take out private health insurance, putting downwards pressure on insurance premiums.

Analysis conducted by the AMA released in March estimates approximately \$3.8 billion over the past 10 years in fee losses due to the Medicare rebate indexation freeze. GPs have either absorbed the loss, along with higher operating costs or passed this onto patients. The AMA estimates that, if no adjustment is made to indexation, that a further \$4.5 billion in fees will be lost over the next 5 years.

Finally, the AMA noted that the health system does not provide sufficient funding to "keep people out of hospital through preventative and community care". To this end there were a series of recommendations including a tax on sugary drinks to curb the nation's growing obesity and chronic disease, as well as other public health initiatives across preventative health, Aboriginal and Torres Strait Islander health, mental health, climate change, child health, matching medical workforce to community need, and rural health.

The **Pharmacy Guild** was firmly focussed on cost of living concerns, noting that not enough was being done to address the medicine affordability issues that exist for an unacceptably large number of Australian. The Guild re-stated its affordable medicines campaign, believing these problems could be addressed through further reduction of the maximum patient co-payment to \$19 (having been lowered from \$42.50 to \$30 just last year), and a reduction of \$1 to all other co-payments in place of the current discretionary allowable \$1 discount from 1 July 2023. The Guild noted that international comparisons of patient co-payments or charges for pharmaceuticals showed that Australia's general patient co-payment and safety net was extremely high compared with the amounts paid for the same medicines for equivalent population groups in other OECD countries.

The Guild estimated a reduction to \$19 for the maximum patient co-payment would provide relief to 32% of patients, offering structural, long-term cost of living relief for families, while a reduction of \$1 to the concessional patient co-payment would ensure equity of cost-of-living relief beyond the current discretionary \$1 discount.

In addition to addressing current affordability issues, the Guild's proposal included reforms to co-payment indexation to address the problem in the longer term. This reform they argued would prevent a future re-widening of the gap between the concessional and general co-payments.

The Guild remains firmly opposed to 60-day dispensing (which would save on costs by effectively halving dispensing fees), arguing that many patients would be worse off because the proposal would result in medicine shortages across the country and increase the risk of accidental overdose, due to more medications sitting in Australian homes.

The **Australian Dental Association** noted that oral health was at the foundation of overall health, happiness, and quality of life. The ADA believed investment in oral health care could be offset by reductions in health care costs elsewhere, noting that around 68,000 potentially preventable hospitalisations occur each year due to dental conditions in Australia.

Their submission focuses on four key priorities: creating a Senior Dental Benefits Scheme; enhancing the Child Dental Benefit Schedule; adjusting Public Dental Services for Adults funding arrangements; and considering the introduction of Health Savings Accounts.

The ADA referenced findings from The Royal Commission into Residential Aged Care pertaining to the poor dental and oral health of residents in care. In particular, they noted Recommendation 60 to Establish a Senior Dental Benefits Scheme (SDBS). While calling for a phased approach, a key feature of the scheme would include providing individual residents with access to \$1,052 of oral and dental care over two years - similar to funding provided under the Child Dental Benefits Schedule (CDBS).

The ADA also noted that CDBS benefits were insufficient to cover the cost of treatment for children with more extensive treatment requirements and would therefore support consideration of increasing the CDBS limit for high-risk children. To further meet funding shortfalls the ADA called on tax incentives to encourage community-wide saving for extras health care needs.

Private Healthcare Australia called on the Government to address two key urgent issues in health: cost of living pressures on families; and relieving pressure on the health system. The PHA said it was well recognised that a strong private system supports the public health and that pressure on the private system affects the public system, and vice versa. They also noted that 42% of people with private health insurance have a taxable income of \$50,000 per year or less and 10% of these are on the aged pension as their only income.

PHA recommendations included: the introduction of a standing committee to combat fraud, miscoding and low value care; a reduction in the over-pricing of medical devices to the same as the public sector, then commission the ACCC to review a better way forward to prioritise consumer interests; abolition of second tier default benefits; allowing private health insurance to support specified primary care programs approved and monitored by general practitioners; legislation to hold consumers not liable for costs not disclosed beforehand; allow

Services Australia to inform other payors of fraud and overpayments; an increase in the Medicare Levy Surcharge, and an increase in the Private Health Insurance Rebate for people on very low incomes.

The **Australian Psychological Society** noted there was a critical shortage of psychologists in Australia, with the current workforce meeting only 35% of the national demand for mental health services. The APS sought measures which would directly support the resilience and wellbeing of the Australian community through three sets of initiatives: strengthening the psychology workforce, addressing issues relating to access and equity in relation to psychological services within the Better Access initiative and the MBS more generally; and building the capacity of psychologists to work with individuals and communities to prepare for and respond to disasters through the APS Disaster Response Network (DRN), and to support our children and young people.

Aged & Community Care Providers Association noted that seven out of 10 aged care providers are operating at a loss and the situation appears to be worsening. ACCPA called on the government to inject \$853 million into the Home Care Packages program to clear the waiting list for 2023-24 ahead of the replacement scheme's commencement in July 2024. Among other recommendations, they sought measures to address the chronic workforce shortages, ensuring aged care nurses receive salaries commensurate with their counterparts in public hospitals and an extension to the working hours of student visa holders beyond 30 June 2023.

Catholic Health Australia (CHA) also sought financial sustainability as among their top priorities for Catholic health and aged care providers. The CHA called on the government to: increase consumer contributions for aged care services, including proper inclusion of housing wealth in means testing (currently capped at just below \$200,000 for the primary home); deregulate the Basic Daily Fee (currently capped at 85% of the basic aged pension); monitor and adjust the new AN-ACC funding model; and create an aged care innovation fund to support investment. Workforce pressures were also addressed.

Vision 2020 Australia, the national peak body for the eye health and vision care sector, noted that with over half a million Australians are affected by vision loss and blindness and that addressing inequities in eye care would help reduce health spending, free up resources, prevent conditions and injuries that cost more in the long term. There were six areas of focus: ending avoidable vision loss and blindness in Aboriginal and Torres Strait Islander communities; increasing access to publicly funded sight-saving eye care; ensuring eye care, early intervention and education are accessible for all Australian children; strengthening health systems in the Indo-Pacific; improving accessibility and inclusion for people who are blind or have low

vision; investing in Australian eye and vision research.

Association of Australian Medical Research Institutes (AAMRI) called on the budget to address an exodus of early- and mid-career researchers and underfunding in research costs. AAMRI noted that in 2022, only 11.0% of all applications submitted to the NHMRC's Ideas Grant Program were funded, and of these, only 15% (around 35 grants) were awarded to early- and mid-career researchers. They recommended that the Government fund 241 additional Ideas Grants each year for early- and mid-career researchers through the NHMRC, noting that retention of existing talent would be far more efficient and cost-effective than recruiting hundreds of new or less-experienced researchers to fill the gaps.

What did the Budget actually deliver?

For Health, the headline from this budget is the provision for forward estimates under the \$5.7 billion Strengthening Medicare initiative. The initiative includes several measures, the largest of which is the expected \$3.5 billion to arrest the decline in GP bulk billing. This initiative is targeted directly towards GPs to provide bulk billing services to concession card holders and those aged under 16. This is achieved by tripling the incentive. It applies to face-to-face consultations over 6 minutes and selected telehealth.

To improve the interoperability of primary health care, the budget features programs to enhance after hours GP services, attract more GPs to rural areas, and to train and attract more nursing staff to primary care.

To meet these, there's \$445.1 million for the Workforce Incentive Program – Practice Stream to help practices employ additional nurses and other health professionals. Further measures include \$143.9 million allocated to improve access to after-hours programs, \$98.9 million for GPs to treat frequent hospital users, \$79.4 million for primary health networks to improve access for those with chronic health conditions, \$50 million for a wounds consumable scheme in general practice, \$29.1 million for the Royal Flying Doctors Service, and \$10.7 Million over 4 years to provide 6000 primary care clinical placements.

Medicare Urgent care clinics, which received \$235 million over four years in October, will receive additional funding to deliver 8 new clinics.

A Medicare fraud crackdown also features, with \$29.8 million over 4 years, front loaded, to strengthen the integrity of the system following the Philip Review.

Beyond Medicare directly, there is also \$263.8 million over 4 years for a new lung cancer screening program, \$141.2 million to expand the Tackling Indigenous smoking program, \$63.4 million for programs to prevent the uptake and

reduce smoking and vaping, along with \$29.5 million to enhance quit programs. The government will also fund the testing of tobacco products for prohibited ingredients and inspections.

The budget also contained revenue measures – in particular an increase in tobacco excise, which is expected to add about \$3.3 billion to the budget over the forward estimates. This is an increase of 5% per year beyond normal indexation. This increase to the excise will also provide \$290 million in the form of GST to the states over the forward estimates.

Community Pharmacies are beneficiaries of programs through the Seventh Community Pharmacy Agreement funding (\$654.9 million), along with \$114 million for the National Immunisation Program. Pharmacies, however, will be affected by one of the largest savings measures, with \$1.2 billion over 5 years saved by allowing 2 months of a patient's prescriptions to be dispensed at one time. To offset the revenue losses experienced by pharmacies, with anecdotal evidence from similar programs in New Zealand and the UK leading to pharmacy closures, the government has allocated \$79.5 million to help regional pharmacies remain viable after dispensing income is reduced.

Dental receives \$219.4 to progress the Long Term adult public dental funding reform and extend the existing Public Dental Services for Adults funding to June 2025.

Finally, for aged care, the government will reallocate \$1.7 billion over 4 years from health and aged care plans to other programs. \$338 million of this is likely to be funding for the in-home aged care system, of which \$166.8 million is provided for 9,500 home care packages. In addition, \$515 million has been allocated to fund pay increases for aged care workers, and \$112 million for GPs in Aged Care.

How did business react?

The Australian Medical Association

The AMA issued a statement in support of the budget with President Steve Robson indicating that he believes the government has listened to their request to focus on health and deliver for GPs. Referring to the \$3.5 billion bulk billing incentive, he said "With access to GP care getting more difficult for these patients due to increasing out of pocket costs, this targeted support is much needed and will make a real difference, especially in rural and regional areas."

The AMA was also pleased with additional Workforce Incentive Program (WIP) funding. "This will ease pressure on GPs and help make care more convenient and accessible for patients and is based on what the AMA has long called for."

The wounds consumable scheme in general practice was first proposed in an AMA submission to the Medicare Review, so, perhaps unsurprisingly the AMA is very supportive given the likelihood to address what they refer to as the Chronic Wound Problem in Australia.

Preventative health measures such as the crackdown on Vapes and changes made to the Medicare rebate formula is also welcome. Finally the AMA points to the 2 month pharmaceutical dispensary which it supports on the grounds that it will save GPs time.

The Royal Australian College of GPs

The RACGP also welcomed the federal budget, referring to it as a “game changer”. President Dr Nicole Higgins said “The budget is a win for patients. Hiking Medicare rebates this year in July and again in November is a good first step in reducing out-of-pocket costs for patients across the country at a time when it’s most needed given increasing cost of living pressures.” There was also support for the WIP funding, with Dr Higgins saying that it “is a positive step to enable general practice to grow existing multidisciplinary care teams within general practice.”

The Australian Dental Association

Funding largely in line with ADA expectations was how the ADA described the Budget. They support the interim Adult Dental Program measures while longer term solutions are found.

Catholic Health Australia

The CHA said the increased wages for aged care workers was a centrepiece of a positive budget. “Tonight over 250,000 aged care workers feel valued and respected, knowing that they will receive a much-deserved pay rise on 1 July,” said CHA Aged Care Director Jason Kara. The CHA was also pleased with an additional two years of funding to manage the ongoing costs of COVID.

Australian Psychological Society

The APS was pleased that their advocacy for an increase in the psychology workforce has come to fruition. “The Government will invest an additional \$91 million in the psychology workforce. This investment will create an additional 500 psychology postgraduate placements, 500 one-year internships, and 2,000 supervisor training sessions across Australia.”

Association of Australian Medical Research Institutes (AAMRI)

The association said the government has outlined its support for the sector. “AAMRI President Professor Kathryn North and CEO Dr Saraid Billiards welcome the new and ongoing investments announced in this evening’s budget”. The budget will continue to provide \$650 million for new medical research projects each year from 2023-24 forwards and there was a significant budget increase for the Australian Nuclear Science and Technology Organisation

(ANSTO), with an additional \$135 million per year from 2023-24 to 2025-26 compared to the previous Budget outlined.

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