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Commonwealth Government Health Budget Bulletin November 2008

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*The Health Budget Bulletin is prepared by the **Macroeconomics** health team headed by Dr Lesley Russell (pictured below). The bulletins are published at least twice a year (approximately two weeks after the release of the Budget and the Mid Year Economic and Fiscal Outlook) along with supplementary features which are supplied as issues arise in the health portfolio. This Bulletin does not analyse the aged care and sport and recreation provisions of the Budget. Indigenous health provisions in the Budget have been analysed separately and are examined in our Indigenous Health Bulletin.*



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In this Bulletin...

The Rudd Government has two stated goals in health policy: to end the cost shifting and the blame game between the Commonwealth and the states and territories, and an increased focus on prevention and primary care in order to address the predicted impact of a growing burden of preventable chronic illness on acute care costs and resources. Good health policy is seen as part of good economic policy. The aim is to see measurable improvements in a range of health, economic and budget indicators over time. While it is too early to judge how successful the new Government has been in meeting these outcomes, it is possible to assess their actions and funding commitments to this point against the stated policy.

The Mid-year Economic and Fiscal Outlook (MYEFO) shows that the Rudd Government has clearly set out the new structures and formulas for payments to the states and territories for the delivery of acute care services through public hospitals and the provision of a range of public health services.

However in the prevailing economic climate and the absence of final reports and recommendations from advisory groups on policy reform, there is little to suggest that the new Australian Health Care Agreements, due for signing before the end of 2008, will drive significant changes in the delivery and funding of health care services. In particular, MYEFO does not indicate any possible changes in responsibilities for areas such as preventive health, mental health and aged care and disability services.

While allowance should be made for consultative and review processes currently in train and the current restrictive budgetary climate, lack of action in these important areas calls into question the Government's commitments to: make mental health and prevention central aspects of health care; the ability to sustain planned reforms in the acute care sector; and support for equity in the delivery of health care services.

Further analysis of actual and likely movements in Australian Government budgets forecasts is provided in **Macroeconomics** Commonwealth & State Budget Monitor due for release in the first week of December.



MYEFO 2008-09: Overview & Commentary

The *Charter of Budget Honesty Act 1998* requires the Treasurer to publicly release and table a MYEFO report by the end of January in each year, or within 6 months after the last budget, whichever is later. Ideally, MYEFO is released in November each year, however during the last years of the previous Government it was usually released in the week before Christmas. This year it was released on November 6, which saw it compete with the results of the United States presidential election in the media cycle.

The purpose of the MYEFO is to provide updated information to allow the assessment of the Government's fiscal performance against the fiscal strategy set out in the current Budget Papers.

Global economic conditions have changed dramatically since the 2008-09 Budget was delivered in May, seriously impacting on the fiscal outlook, so this year the MYEFO was anxiously anticipated.

The 2008-09 MYEFO report is available at <http://www.budget.gov.au/2008-09/content/myefo/html/index.htm>. This link also provides direct access to the 2008-09 Budget papers.

1.1 Budget Estimates Hit By Sub-Prime Crisis

The 2008-09 Budget projected a surplus of **\$21.7 billion** in 2008-09 and strong surpluses in the following three years.

Since the 2008-09 Budget, total policy decisions in 2008-09 have decreased the underlying cash balance by **\$11.1 billion**. This is made up of **\$9.7 billion** as part of the Economic Security Strategy, which aims to provide a fiscal stimulus in response to the economic crisis, and **\$1.4 billion** in other policy decisions.

The Commonwealth Government's underlying cash surplus for 2008-09 is now estimated to be **\$5.4 billion**, \$16.3 billion lower than the 2008-09 Budget estimate.

Expected taxation receipts have been revised down by **\$4.9 billion** in 2008-09, by **\$12.2 billion** in 2009-10, **\$12.4 billion** in 2010-11 and **\$7.9 billion** in 2011-12.

Most importantly, the interest and the principal from the **Health and Hospitals Fund**, which has an initial allocation of \$10 billion (funded from the proceeds of the budget surplus



outcome in 2007-08), will finance health infrastructure and medical research so that these priorities do not need to compete with patient services for funding.

Further analysis of actual and likely movements in the Commonwealth Budget forecasts is provided in **Macroeconomics** Commonwealth & State Budget Monitor due for release in the first week of December.

1.2 Health Measures Impacting the Budget Forecasts

As Table 1 shows, Commonwealth health spending is now predicted to grow by an average of 4.2 per cent annually over the forward estimates, slightly less than provided for in the Budget.

Table 1 Commonwealth Health Budget and Contingency Reserve

	2008-09		2009-10		2010-11		2011-12	
	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO
Commonwealth health budget (\$m)	46,032	46,647	48,071	48,593	50,220	50,817	52,190	52,805
Contingency reserve (\$m) (does not include \$3.4b auto package)	451	-407	6,036	5,808	8,379	7,875	12,117	11,118

Policy measures have only had a small net effect on overall revenue since the Budget, reducing revenue by \$100 million in 2008-09 and \$87 million in 2009-10.

However, in the health portfolio, there has been one major policy revenue decision (taken up to and including 28 October 2008) affecting revenue over the four year period 2008-09 to 2011-12. It is the modification to the 2008-09 Budget measure increasing the *Medicare levy surcharge thresholds*, which had the effect of increasing revenue by **\$300 million** over the forward estimates period.

On the expenditure side of the health portfolio, to date in the 2008-09 financial year there has been a **\$104 million** reduction in pharmaceutical and pharmaceutical services expenses, due to slower than previously forecast growth in the purchase of drugs funded through the Pharmaceutical Benefits Scheme.



These reductions have been partially offset by a **\$137 million** increase in forecast expenses associated with the continuation of the *Medicare Chronic Disease Dental Scheme* (CDDS). This scheme was to have been superseded by two measures announced in the Budget – the *Commonwealth Dental Health Program* and the *Medicare Teen Dental Plan*. The determination to cease the CDDS was disallowed by Parliament, resulting in ongoing access to the scheme.

Since the release of MYEFO the Government has announced an additional **\$148 million** for 175 new GP training places and **\$18.4 million** for the Remote Vocational Training Scheme.

1.3 Federal Financial Relations and Budget Impacts

The Australian Health Care Agreements and health infrastructure costs

The new Australian Health Care Agreements (AHCAs) are scheduled to be signed in December for implementation in July 2009.

Leaving aside the issues around health reforms and performance agreements which are expected to be included in these agreements, the economic downturn and heavy withdrawals on the budget surplus are sure to impact the funding for these agreements, both from the Commonwealth and the States and Territories.

The *2008-09 Budget Paper No 3 (BP 3)* provides information about how the new federal relations will work through COAG, and the new framework for federal financial relations.

Payments for specific purposes will be rationalized to five or six, including one Specific Purpose Payment (SPP) for health care. National Partnership Payments (NPPs) will be used to facilitate reforms, support specific projects and reward the achievement of reform-based performance benchmarks.

The SPPs will be ongoing, with periodic reviews. Each new SPP will have a statement of objectives and outcomes which will include the role and responsibilities of each jurisdiction, performance indicators and benchmarks, and policy and reform directions.

The funding arrangements for the SPPs and NPPs will be negotiated as one financial package by Treasurers, through the Ministerial Council for Commonwealth-State Financial Relations, for endorsement by COAG. BP 3 (p16) says that this is to allow portfolio ministers to focus on policy aspects of delivering more effective and efficient services.



The COAG Reform Fund will receive contributions directly from the Commonwealth Government and the three funds set up for capital investment. Where investments are to be undertaken by the States and Territories and the Commonwealth has agreed to fund these, the funding will be provided through the COAG Reform Fund in the form of NPPs.

The Budget papers stated that from 1 July 2009, the new health SPP will incorporate the following existing payments:

- AHCAs funding for public hospital services (\$9.7 billion in 2008-09);
- Funding under the national public health program (\$239.9 million in 2008-09);
- Funding under the organ and tissue donation program (\$3.9 million in 2008-09);
- Funding under the youth health services program for primary health care services for homeless and at-risk youth (\$2.6 million in 2008-09).

At the time of the May Budget, decisions were yet to be made about how payments for Highly Specialised Drugs (HSD), essential vaccines and organ transplantation services would be made.

Table 2 Health Service Support Payments from Budget Papers

Measure	2007-08	2008-09	2009-10	2010-11	2011-12
AHCAs	\$9,247.2m + \$500m	\$9,724.8m			
Public health and other grants	\$234.5m	\$246.4m			
AHCAs including public health and funding grants	\$9,981.7m	\$9,971.2m	\$10,528.6m	\$11,095.9m	\$11,696.2m
Current NPPs	\$119.3m	\$123.1m	\$126.7m	\$130.4m	\$134.2m
NPPs from election commitments	\$216.5m	\$290.5m	\$257.2m	\$331.5m	\$10.4m
Existing payments					
Vaccines	\$541.0m	\$263.7m	\$214.8m	\$165.2m	\$165.2m
HSD	\$513.4m	\$554.2m	\$589.0m	\$626.3m	\$659.1m
Other (organ transplants etc)	\$6.4m	\$6.5m	\$6.4m	\$6.4m	\$6.3m

The MYEFO reveals that Highly Specialised Drugs will now become the sole responsibility of the Commonwealth. It appears from the funding provided (see Table 3 below) that the Commonwealth will have responsibility for the purchase of essential vaccines, with small amounts of funding provided to the States and Territories for distribution, and that



payments will continue to be made to the States and Territories for organ transplantation services, as has previously been the case.

Current and new payments to be made as NPPs include:

- Funds to the Royal Darwin Hospital as a national trauma response centre (\$13.7 million in 2008-09);
- Funds for aged care assessment teams (\$376.4 million in 2008-09);
- Funds to reduce elective surgery waiting lists;
- Funds for the establishment of a *Commonwealth Dental Health Program*;
- Funds to encourage qualified nurses to return to the workforce.

Table 3.3 Budget Paper 3 (page 38) includes the forward estimates for the next round of AHCAs. The funding for the AHCAs and NPPs is broken out by state and territory for the years 2007-08 to 2011-12 in Table B.2 (Budget Paper 3 pp 95-99). Table A.2 in the MYEFO outlines payments to the States and Territories to support health services, by state and year.

Table 3 Payments to Support State Health Services, from MYEFO

Measure	2007-8	2008-09	2009-10	2010-11	2011-22
AHCAs		\$9,724.8m			
Public health and other grants		\$239.9m			
AHCAS including public health and funding grants (National Healthcare SPP)		\$9,971.2m	\$10,559	\$11,139m	\$11,742m
Current NPPs		\$52.4m	\$69.0m [^]	\$74.4m [^]	\$77.6m [^]
NPPs from election commitments		\$291.8m	\$257.2m	\$331.5m	\$10.4m
Existing payments					
Vaccines		\$350.1m	\$3.8m	\$3.8m	\$3.8m
HSD		\$597.3m	-	-	-
Other (organ transplants etc)		\$6.8m	\$4.0m	\$3.9m	\$3.9m

Note: [^] These figures now include \$14m in payments for Indigenous early childhood development.



In Table 3 an effort has been made to align the somewhat different funding levels provided in MYEFO with those previously given in the budget papers.

Table 2 through to Table 4 illustrate that it is very difficult, if not impossible, to align the funding commitments to the States and Territories through the AHCA's and related payments in the Budget with those in MYEFO.

Table 4 Australian Health Care Agreement Funding Changes - MYEFO

	2007-08	2008-09	2009-10	2010-11	2011-12
Health SPPs (\$m) From MYEFO# Note that this apparently includes NPPs.		11,263	10,893*	11,552	11,837
Health payments in AHCA's (\$m) From Budget Sum of all measures in Table 2.	11,378	11,209	11,773	12,356	12,671

*decline is due to reclassification of HSD (\$597m in 2008-09) to Commonwealth own expense from 1 July 2009.

Based on MYEFO figures, this cost in 2008-09 is now \$42.8m more than predicted in the Budget. It is not clear if these numbers differ from the Budget numbers solely because of increases in the cost of the HSD component.

If data from Tables 2 and 3 is used to compare total funding to the States and Territories from SPPs and NPPs, this was \$10,317 million in 2007-08 and will be \$11,830 million in 2011-12. This represents a **15 per cent increase** over the **5 year period**.

In the current economic climate it is unlikely that there will be much new spending in the AHCA's over that already committed. The Australian Government could counter any push for additional funding from the States and Territories by saying that it has already made significant investments in addressing elective surgery and the provision of transition care and aged care beds, and has substantial new commitments to infrastructure and equipment. That would mean however that the ongoing Commonwealth contribution to the AHCA's would remain at considerably less than 50 per cent.

The commitment by the Prime Minister to provide \$5 billion for infrastructure and equipment is presumably brought forward from the \$10 billion Health and Hospitals Funds which was



set up in the 2008-09 Budget. Originally these funds were not to be made available until 2009-10.

It is not clear if the Government will count other infrastructure commitments (including that for GP SuperClinics) as part of this \$5 billion or if it will genuinely represent all new funding.



2 Impacts on State & Territory Health Budgets

As a consequence of the international economic crisis, the States and Territories will see their revenues drop due to reduced GST grants from the Commonwealth and reduced revenue from royalties, stamp duties and payroll taxes (see Table 3 – note that comparable data for the territories was not available). With some States already in deficit, it is very likely that future commitments in health services and health infrastructure will be reduced as a consequence.

Table 5 Cuts to State budgets in 2008-09

State	Cut in GST grant 2008-09	Other budget impacts
New South Wales	-\$421m	Stamp duties -\$1b November mini-budget forecasts -\$917m deficit.
Victoria	-\$311m	Budget surplus (currently \$829m) expected to decline, along with income from stamp duty and payroll tax.
South Australia	-\$126m	State taxes -\$100m Unfunded liabilities \$150m
Tasmania	-\$50m	Budget surplus \$30.2m expected to decline, along with income from stamp duties and payroll tax.
Western Australia	-\$124m	Decreases in mining royalties and payroll taxes expected.
Queensland	-\$241m	Decreases expected in mining royalties, stamp duties and payroll taxes. Budget deficit -\$700m.

Further analysis of actual and likely movements in State Budgets forecasts is provided in **Macroeconomics** Commonwealth & State Budget Monitor due for release in the first week of December 2008.



3 The Commonwealth's Contingency Reserve

The Commonwealth Government's Contingency Reserve makes allowance in 2008-09 and the forward years for underspends, overspends, new policy decisions and events that are reasonably expected to affect the budget estimates but cannot be reliably allocated to individual programs. For example, the Contingency Reserve makes provision for the continuation of the Government's support for the Northern Territory Emergency Response (NTER) beyond 2008-09.

The Contingency Reserve also includes a provision for anticipated expenditure from the new funds established in the 2008-09 Budget: the Building Australia Fund; the Health and Hospitals Fund; and the Education Investment Fund. The MYEFO states that "funding to be provided from these funds will be dependent on future budget consideration in line with prevailing macroeconomic conditions", i.e. the size of any future budget surpluses over the near term.

With respect to the NTER, current commitments from the Rudd Government total **\$637.4 million**. While the focus of NTER spending might be expected to change over time, if the Government's goals to close the gap are to be achieved, then this will require at least this level of funding over the next decade, equivalent to **\$2.5 billion** over the forward estimates from 2009-10.

It has been estimated that at least **\$400 million / year** is needed in additional health funding, or **\$1.6 billion** over the forward estimates from 2009-10.

On this basis, the Government will need to commit around **\$3.5 billion** in new funding to tackle Indigenous disadvantage over the next 4 years.



4 Other Budget Issues

There are a number of other policy areas that do not figure prominently in MYEFO but are important parts of the health system and as such, future funding and policy development in these areas should not be ignored.

4.1 Alcopops / Funding for Preventive Health

The MYEFO shows that the Government has overestimated the income from the increased excise on alcopops (predicted to be \$3.1 billion / 5 years). This measure is now expected to raise **\$960 million** less in 2008-09 and 2009-10 (no figures are provided for 2010-11 and 2011-12). (Note that this tax has been imposed despite the fact that the Senate has not passed the enacting legislation.)

The Government has committed **\$2 billion** from these funds to a National Preventative Health Strategy. While this would presumably be a commitment over 4-5 years, commencing sometime after the National Preventative Health Taskforce files its final report in June 2009, the current financial conditions must inevitably put this level of increased investment in prevention in jeopardy.

4.2 Impacts on Consumers

While it is not within the scope of this report to analyse the likely impact of the current economic crisis on the household budgets of Australian families, we can expect that there will be a considerable effect on the ability of many to afford needed health care.

Recent data from the US based Commonwealth Fund shows that 13 per cent of Australians surveyed said they did not visit a doctor when sick, 17 per cent did not get a recommended medical test, treatment or follow-up, and 13 per cent did not fill a prescription or skipped doses because of cost. Overall, 26 per cent of people went without needed care or treatment. Only the US reported a higher figure, at 37 per cent, and only the US had a higher proportion of people who reported out-of-pocket costs of more than \$1000 for medical bills in the past year.



Next Bulletin: Budget 2009-10

*Look for the next **Macroeconomics Health Budget Bulletin** in June 2009.*