2014 FEDERAL BUDGET - NCOSS ANALYSIS OF HEALTH MEASURES

CONTENTS

1. OVERVIEW

The 2014 federal health budget focuses on reducing health spending and investing in medical research. The budget is cut by $428m in 2014-15, with a total reduction of $8.6b over the forward estimates. The Government argues the savings are necessary due to the unsustainable budget position and growing demand for health care.

Total health expenditure in 2014-15 is estimated to be $66.9bn.

Headline measures:

- Patient co-payment introduced for GP consultations, pathology and diagnostic imaging.
- Medicine co-payments increased and safety net income thresholds increased under the Pharmaceutical Benefits Scheme (PBS).
- Funding to the States for public hospitals, dental health, and prevention scrapped or delayed.
- Indexation of Medicare Benefits and Medicare Levy Surcharge and Private Health Insurance Rebate income thresholds frozen.
- Medical Research Future Fund established from budget savings.

2. SUMMARY OF KEY MEASURES

MEASURE	Expenditure	Savings
Aboriginal health		
Indigenous Affairs Programs rationalisation		$121m / 4 yrs
E-health		
Personally Controlled Electronic Health Record (PCEHR) system continuation	$141m in 2014-15	

Health Flexible Funds		
Indexation frozen from 2015-16 and uncommitted funds reduced		$197m / 3 yrs
Hospitals		
Funding guarantees to the States under the *National Health Reform Agreement 2011* ceased and from 1 July 2017 efficient growth funding replaced with indexation for Consumer Price Index and population growth.		$1.8b / 4 yrs
Reward funding to States for Emergency Department and Elective Surgery targets under the *National Partnership Agreement on Improving Public Hospital Services* ceased		$201m / 3 yrs (from 2015-16)
Medicare Benefits Schedule (MBS)		
$7 patient co-payment for GP, pathology & diagnostic imaging services		$3.5b / 4 yrs
Freeze indexation of Medicare benefits (excluding GP services) for 2 years, and the Medicare Levy Surcharge & Private Health Insurance Rebate income thresholds for 3 years		$1.7b / 4 yrs
Simplify Medicare safety net arrangements		$267m / 4 yrs
Mental health		
Reduced funding for Partners in Recovery, deferring 13 services for two years from 2013-14		$54m / 2 yrs
Mental Health Nurse Incentive Program continuation	$23m in 2014-15	
Establish a National Centre for Excellence in Youth Mental Health	$18m / 4 yrs	
Establish 10 new Headspace sites and conduct an evaluation	$14.9m / 4 yrs	
Oral health		
Deferral of the National Partnership Agreement for adult public dental services from 2014-15 to 2015-16		$390m / 4 yrs
Cease the Dental Flexible Grants Programme		$229m / 4 yrs
Cancel oral health clinic developments at Charles Sturt University		$15.2m / 3 yrs
Pharmaceutical Benefits Scheme (PBS)		
PBS prescriptions co-payment increase ($5 general / 80 cents concession) and safety net income thresholds increases ($145 general / $62 concessions)		$1.3bn / 4 yrs
New and amended medicine listings	$379m / 4 yrs	
Prevention		
National Partnership Agreement on Preventive Health terminated		$368m / 4 yrs
National Preventive Health Agency abolished		$6.4m / 4 yrs
National Bowel Cancer Screening Program		$96m / 4 yrs
Research		
Medical Research Future Fund	$276m / 4 yrs	
Dementia research	$160m / 4 yrs	

Rural and remote		
Rural and remote GP teaching infrastructure grants	$53m / 3 yrs	
GP Rural Incentives Programme additional funding	$35m in 2014-15	
Workforce		
Health Workforce Australia functions transferred to Department of Health		$142m / 4 yrs
Funding reduction for rebuilding GP education and training to deliver more GPs		$115m / 4 yrs
Practice Incentives Program Teaching Payment increase	$238m / 4 yrs	

Other measures

Medicare Locals

- Budget includes Government's response to the Horvath Review of Medicare Locals released on 12 May.
- Medicare Locals replaced with a reduced number of 'Primary Health Networks' more aligned to Local Hospital Networks with greater GP presence from July 2015.
- Australian Medicare Local Alliance abolished from June 2014

Health Productivity and Performance Commission to be established by merging six bodies:

- Australian Institute of Health and Welfare
- Australian Commission on Safety and Quality in Health Care
- National Health Performance Authority,
- Independent Hospital Pricing Authority
- National Health Funding Body
- Administrator of the National Health Funding Pool

3. NCOSS COMMENTARY

The cuts to the health budget have serious implications for the future of Australia's health system. Proposed measures such as co-payments, safety net threshold increases and indexation freezes are regressive and place the biggest financial burden on low-to-middle income people who already experience the greatest burden of illness and disease. Cost barriers to diagnosis and early treatment will lead to more preventable and expensive health problems and result in increased future costs.

It should be noted many of the measures require the passage of separate legislation to the Budget Appropriate Bills to be enacted. The Government does not have a Senate majority and after July the balance of power lies with the micro-parties.

Medicare and co-payments

NCOSS strongly opposes the introduction of a $7 co-contribution payment for standard GP consultations, pathology and diagnostic imaging. Australia already has relatively high out-of-

pocket health costs by world standards,[1] and cost is a major barrier for people to access services or medicines. While fees are capped at the first ten services for concession card holders and children, around 8% of low income people already saying they delayed seeing a GP due to cost.[2] Consumers Health Forum (CHF) survey research found co-payments are likely to hit those most in need of care, and deliver little overall benefit to the health system.[3]

The GP co-payment erodes the already honeycombed universal health system under Medicare and may have a domino effect on other health services. Under the Budget, states and Territories will be able to introduce patient contributions for GP equivalent visits to emergency departments. It also gives licence to the States to consider co-payments for other previously free services such as public dental to supplement revenue shortfalls.

A more positive step is the simplification of the Medicare Safety Net by replacing the current MSN, extended MSN and Greatest Permissible Gap with a single safety net system for out-of-hospital services from 1 July 2016. In its *2014 Budget Priorities Statement*, ACOSS argued for the abolition of the EMSN as it overwhelmingly benefited higher income earners. The new Medicare Safety Net will have lower thresholds for most people ($400 for concessional patients, $700 for singles and Family Tax Benefit Part A families, and $1,000 for families).

Medicines

Under the proposed changes to the PBS, consumers will pay extra $5 or $42.70 per prescriptions and concession card holders will pay an extra 80 cents or $6.90 per prescription. From 1 January 2015, the PBS Safety Net threshold will also increase by $145.30 to $1,598 per year, and for concession card holders it will increase by $62 to $428. The safety net threshold will continue to increase by 10% above inflation for a further three years.

The increased cost of prescriptions along with the higher safety net threshold will place an unfair cost burden on low to middle income families. The cost of medicine is already a significant issue for many Australians, with almost one in 10 Australians delaying or skipping their prescribed medicine because of cost[4].

The 2013 Grattan Institute report, *Poor pricing progress: price disclosure isn't the answer to high drug prices* argues Australians already pay too much for prescription drugs due to price setting. It recommended more transparent comparative price information, international bench-marking and independent oversight to manage medicine prices.

Mental Health

Mental health is one of the few areas with new investment, although this is mostly for the Coalition's pre-election commitments. Funding has also been provided to continue programs pending the National Mental Health Commission's review into Mental Health Services and Programmes. The commitment has been welcomed by the Mental Health Council of Australia.

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[1] http://www.oecd.org/els/health-systems/oecdhealthdata2013-frequentlyrequesteddata.htm

[2] *Healthcare 2011-12: Comparing performance across Australia*, COAG Reform Council, 24 May 2013, accessed: Healthcare 2011-12: Comparing outcomes by socio-economic status - PDF 745 KB

[3] *Empty Pockets: Why health Co-Payments are not the solution that Australia needs*, Consumers Health Forum Australia, March 2014, accessed at: https://www.chf.org.au/pdfs/chf/Empty-Pockets_Why-copayments-are-not-the-solution_Final-OOP-report.pdf

[4] *Healthcare 2011-12: Comparing performance across Australia*, COAG Reform Council, 24 May 2013, accessed: Healthcare 2011-12: Comparing outcomes by socio-economic status - PDF 745 KB

Disappointingly, the establishment of 13 new Partners in Recovery services have been deferred. The program provides integrated support to people with a severe and persistent mental illness and complex support needs.

Oral Health

NCOSS is very disappointed by the cuts to oral health funding given the Coalition's pre-election commitment to retain the previous Government's investment with a long-term aspiration to bring dentistry into Medicare. Oral health is one of the most under-funded areas of the health system.

The second National Partnership Agreement to fund the states for public dental services to low income adults due to start on 1 July 2014 has been deferred to 2015-16. Under the current dental NPA, NSW will still receive up to $38.5m in 2014-15. However, the loss of anticipated funding under the second NPA in 2014-15 will impact on staff retention and service capacity. NSW has achieved significant waiting list reductions of up to 40% with the current funding, but there continue to be around 57,500 people waiting for treatment.

The loss of funding for dental infrastructure in outer metropolitan, rural and regional areas, and oral health clinic developments at Charles Sturt University will also limit service capacity and expansion in under-serviced areas.

Less children will also have access to the Child Dental Benefit Scheme under changes to Family Tax Benefits.

Prevention

Preventive health funding cuts are another key area of concern. The Commonwealth has disbanded the Australian National Preventive Health Agency and terminated the National Partnership Agreement that funded the Healthy Children and Healthy Workers programs. These programs were managed in NSW by the Office of Preventive Health, putting it at risk.

Primary Care

NCOSS supports the re-orientation of Medicare Locals to have a greater focus on integration and coordination of services, consistent with our recommendations to the Horvath review. We also welcome the reviews recommendation that Medicare Locals only provide services in the case of market failure. This is consistent with feedback from community sector organisation in our 2013 survey concerned about the direct competition and duplication by Medicare Locals.

However, NCOSS does not support a major re-organisation and re-tendering of Medicare Locals as new Primary Health Organisations. Since 2011, significant time, money and effort have gone into establishing Medicare Locals. It would be more efficient to let them bed down and address under-performers on a case-by-case basis rather than a wholesale re-structure.

We are concerned about the new PHOs having a greater focus on GPs. A major criticism of the former Divisions of General Practice was their medical orientation and limited scope of engagement. A broad approach to primary care encompassing the full spectrum of providers is needed for Medicare Locals to effectively integrate services and improve the health of their local communities.

Hospitals

The large-scale funding cuts to hospital services have serious implications for the sustainability of state health systems. The Commonwealth will not honour the $16.4b funding guarantee under the *National Health Reform Agreement 2011.* Under the agreement NSW was set to receive an additional $3bn in guaranteed funding over the 6 years from July 2014 – June 2020.

Activity-based funding will end in June 2017 and efficient growth funding will be replaced with indexation for Consumer Price Index and population growth. While NCOSS had concerns ABF incentivised hospital services over primary and community health services, it was increasing service and funding transparency. The Commonwealth's proposed indexation will be less than health expenditure growth, thereby placing an increasing and unsustainable financial burden on the states.

Reward funding to states for Emergency Department and Elective Surgery targets under the *National Partnership Agreement on Improving Public Hospital Services*, under which NSW would receive around $63.4m, has been terminated. There is also no on-going funding for the additional sub-acute beds funded under the NPA which ends this financial year.

4. HEALTH EXPERTS' COMMENTARY

- The Conversation, Federal budget 2014: health experts react, 13 May 2014
- Public Health Association of Australia (PHAA) - 'Killer Budget: kicking people when they're down', Media Release 14 May 2014
- Australian Health Care Reform Alliance (AHCRA) **-** Budget a dangerous step away from evidence and universal health care! Media release, 15 May 2014
- Australian Healthcare and Hospitals Association (AHHA) - States, consumers to bear the burden of this health budget, Media release, 13 May 2014
- Australian Medical Association (AMA) - Health budget full of pain for patients, Media release, 13 May 2014
- Royal Australian College of General Practitioners (RACGP) - $7 co-payment widens the gap to accessible healthcare, Media release, 13 May 2014
- Pharmaceutical Society of Australia, Co-payment increases present added challenges for patients, Media release, 13 May 2014
- Stephen Duckett, Budget takes hospital funding arrangement back to the future**,** Grattan Institute, 16 May 2014
- Sharon Friel, Professor of Health Equity, ANU - Is Australia a country built on the principles of a fair go? Most certainly not now, Croakey, 14 May 2014.
- ACOSS, Budget divides the nation, young and old, rich and poor, initial media response,13 May 2014

5. BUDGET PAPER LINKS

Commonwealth Government Federal Budget papers:

- 2014-15 Budget Papers (general)
- 2014-15 Health Budget at a Glance
- 2014-15 Budget - Health Overview
- 2014-15 Health Portfolio Statements