

## **Barton Deakin Brief: Commonwealth Budget 2014-15 - Health**

**15 May 2014**

Tuesday's 2014-15 Commonwealth Budget contained some significant changes and announcements relating to the health system.

To read Barton Deakin's analysis of the Commonwealth Budget measures on Health, click on the link below. Key changes include:

1. Allow providers of medical services to collect a patient co-payment for general practitioner consultations and out-of-hospital pathology;
2. Increase co-payments for medicines under the Pharmaceutical Benefits Scheme (PBS);
3. Reducing funds to the states for public hospital services and adult dental services;
4. Rationalisation of health Indigenous affairs programmes;
5. Indexation of some Medicare Benefits Schedule fees, the Medicare Levy Surcharges as well as Private Health Insurance Rebate thresholds; and
6. Using the savings achieved across the portfolio, the Government will set up a Medical Research Future Fund. This fund will reach around \$20 billion by 2020.

The Budget was the Commonwealth Government's first formal response to the Commission of Audit and saw a number of the Commission's recommendations adopted or partly-adopted.

### **Key budget measures**

The key changes to the Federal Government's health budget include some significant savings, as well as some new spending commitments.

Key Budget spending commitments:

- \$379 million over the forward estimates on new and amended listings to the PBS;
- \$276 million over the forward estimates invested in the Medical Research Future Fund;
- \$238 million over the forward estimates to doubling the Practice Incentives Programme Teaching Payment to assist general practitioners who take on medical students;
- \$160 million over the forward estimates to boost dementia research;
- \$141 million in 2014-15 for the continuation of the Personally Controlled Electronic Health Record System;
- \$96 million over four years to implement the National Bowel Cancer Screening Programme;
- \$53 million over four years on Rural and Regional General Practice Teaching Infrastructure Grants;
- \$35 million additional funding this year for the General Practice Rural Incentives Programme.



#### Key Budget savings:

- \$3.5 billion in savings over the forward estimates by introducing patient contributions for general practitioner, pathology and diagnostic imaging services;
- \$1.8 billion to be saved over the forward estimates from changing the funding arrangements to the states for public hospitals;
- \$1.7 billion in savings over four years by pausing indexation of some Medicare Benefits Schedule fees, the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds;
- \$1.3 billion saved over four years through introducing co-payments and increasing Medicare Safety Net thresholds;
- \$391 million saved over the forward estimates by deferring the National Partnership Agreement for adult public dental services;
- \$367 million saved over four years through the cessation of the National Partnership Agreement on Preventative Health;
- \$267 million saved over four years from simplifying Medicare Safety Net arrangements;
- \$229 million saved over four years by cutting the Dental Flexible Grants Programme;
- \$201 million to be saved over the forward estimates by the cessation of the National Partnership Agreement with the states for improving public hospital services;
- \$197 million saved over four years by pausing indexation and finding efficiencies in [Health Flexible Funds](#);
- \$142 million to be saved over the forward estimates through Federal Government health workforce downsizing and efficiencies;
- \$115 million in savings over the forward estimates by taking funds out of rebuilding general practice education and training to deliver more GPs; and
- \$90 million in savings over four years from reduced optometry rebates and removing the charging gap.

### Health portfolio changes

In the Budget, the Government announced changes to the Commonwealth health portfolio to streamline the department and to reduce duplication between agencies.

Health portfolio changes include:

- Transferring essential functions of the Australian National Preventative Health Agency and Health Workforce Australia to the Department of Health with a view to close these agencies;
- Transfer essential functions of the General Practice Education and Training to the Department by 1 January 2015 with a view to establishing a new independent Authority;
- Working with States and Territories to create a new Health Productivity and Performance Commission, likely to be created by merging six bodies:
  - The Australian Institute of Health and Welfare
  - Australian Commission on Safety and Quality in Health Care
  - The Independent Hospital Pricing Authority
  - The National Health Funding Body
  - The National Health Performance Body, and
  - The Administrator of the National Health Funding Pool.



## **Introduction of medical services co-payments**

The Government announced in the Budget that, subject to the legislation's passage through the Parliament, they would mandate that providers of medical services collect a patient co-payment of \$7 for general practitioner consultations and out-of-hospital pathology.

At the same time, the Government will reduce Medicare Benefits Schedule (MBS) rebates they provide to doctors by \$5 from 1 July 2015. This \$5 saving will be reinvested into the new Medical Research Future Fund. The \$2 gap will go to the medical provider.

For concession holders and children under 16, the MBS rebate will only be reduced for the first 10 services in each year. A new Low Gap Incentive will replace bulk billing incentives, which will be paid to providers who treat concession holders and children.

The Government will also remove the restriction on State Governments from charging patients at hospital emergency departments for non-emergency treatments, and will encourage the states to collect payments for emergency visits where patients should have seen a General Practitioner.

## **Pharmaceutical co-payments and safety net**

An increase in co-payments for medicines was also announced in the Budget. Patient payments for medicines under the Pharmaceutical Benefits Scheme will increase by \$5 per prescription for general patients and by \$0.80 for concession holders from 1 January 2015.

To assist with increased out-of-pocket expenses for pharmaceuticals, PBS safety net thresholds will increase each year, for four years from 1 January 2014, by 10% per year for general patients and by the cost of two prescriptions each year for concession holders.

## **Medical Research Future Fund**

The Government will set up a Medical Research Future Fund, modelled on the [Future Fund](#), which will reach around \$20 billion by 2020.

The savings from the \$5 per medical service reduction in Medicare Benefits Schedule (MBS) will be reinvested into the Medical Research Future Fund. Uncommitted funds in the existing Health and Hospitals Fund will also be transferred into the Fund.

The dividends from the Fund will be used for research into diseases such as cancer, diabetes and multiple sclerosis, including through the National Health and Medical Research Council.

The Government will provide \$2 million over three years in net earnings from the Medical Research Future Fund to fund medical research.

Payments from the Fund are expected to reach \$1 billion per year from 2022-23. The money will be sourced from closing the Health and Hospitals Fund.

The rules governing the Fund will ensure that it cannot be touched by future governments.



## Further information

Detailed information on the 2014-15 Federal Budget can be found online:

- The 2014-15 Budget Papers are available [here](#).
- The 2014-15 Budget Health Overview is available [here](#).
- Further Health portfolio Budget fact sheets are available [here](#).

Previous Barton Deakin Briefs:

- Barton Deakin's summary of the 2014-15 Commonwealth Budget is available [here](#).
- Barton Deakin's summary of the Commission of Audit Report is available [here](#).
- Barton Deakin's in-depth brief on the Commission of Audit's health recommendations is available [here](#).

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