Australian Federal Budget 2014

Health
May 2014

It is time to talk about Health

In 2013, one of the striking things about the election campaign was the limited focus upon health policy. Some commitments were made around aged care funding, but overall few major changes were proposed. It seemed that things would broadly continue in a similar direction. This view has dramatically changed as a result of Budget 2014.

Why is this health budget so controversial?

Australia's health care system involves two major public sector funders: the Commonwealth and the States and Territories. Historically, there have been some agreed boundaries of accountability, but the reality is that each is highly dependent upon each other. This arises not only because of federal / state relations with respect to collection of revenue, but also because of the critical role played by primary care in the delivery of effective and efficient hospital services.

In 2011, some significant steps were taken to clarify the boundaries between the Commonwealth and States/Territories, and also to establish some shared incentives. Of particular note, the National Health Reform Agreement agreed:

1. ***Changes to hospital funding***
   This significant reform included introduction of Activity Based Funding (ABF) based upon a National Efficient Price (NEP). These changes were designed to provide incentives for efficiency and more closely align funding to what a hospital actually does. In conjunction, the Agreement increased the Commonwealth's share of hospital funding, aligned to the cost of the growth of health care.

2. ***Improvements to primary care***
   The agreement committed to improving the provision of GP and primary health services through the development of a more integrated health care system and the establishment of Medicare Locals.

3. ***Greater Commonwealth involvement in aged care***
   Recognising overlaps in responsibility, the Agreement included the Commonwealth taking "full funding, policy, management and delivery responsibility" for aged care.

Whilst there are a number of things that were announced in the 2014 budget that do not directly relate to what was agreed in 2011, the major controversies arise because of the budget's impact upon this Agreement.

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Changes announced in the budget are bigger than you may have noticed

Overall, the Government's budget health reforms are founded on a need to put the budget in a "secure and sustainable" position. Whilst there is some new spending, many measures are designed to improve the budget bottom-line.

Some of the more publicised measures include:

1 ***Co-contributions***
$7 patient contributions to bulk-billed Medicare services (including GP consultations and out-of-hospital pathology and imaging services), saving $3.5bn over the forward estimates. In parallel, States and Territories will also be able to introduce patient contributions for GP equivalent visits to emergency departments.

2 ***Pharmaceutical Benefits Scheme***
General patients to pay an additional $5 towards each PBS prescription, saving $1.27bn.

3 ***Medical Research Future Fund***
Establishment of a new $20bn Medical Research Future Fund, with savings from the bulk-billing changes contributing to its funding.

4 ***Health Productivity and Performance Commission***
Establishment of a new Health Productivity and Performance Commission, merging a number of existing agencies: the Australian Commission on Safety and Quality in Health Care, the Independent Hospitals Pricing Authority, the National Health Funding Body, the National Health Funding Pool Administrator, the National Health Performance Authority; and the Australian Institute of Health and Welfare.

5 ***e-Health***
An additional $140m for eHealth and the Personally Controlled Electronic Health Record (PCEHR), covering one further year of operation whilst the government plans its response to its recent review of the PCEHR system.

6 ***Aged care funding***
Increased aged care funding achieved through replacement of the aged care workforce supplement with additional general aged care funding ($1.5bn)

Some of the less publicised, but no less important, changes include:

1 ***Medicare Benefits Scheme***
Pausing indexation of some Medicare Benefits Schedule fees and the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds (saving $1.67bn).

2 ***Hospital Funding***
The government will not proceed with previously agreed hospital funding arrangements, which from 2017-18 will be linked to CPI and population growth.

3 ***Medicare Locals***
Medicare Locals will be replaced by new Primary Health Networks (PHNs). There will be less PHNs than Medicare Locals and the government expects them to align more closely with state and territory health network arrangements. More private sector involvement in these Networks will be encouraged.

4 ***Preventative Health***
Cessation of the national partnership agreements on preventive health ($368m saving) and improving hospital services ($201m saving).

5 ***Payroll tax supplement paid to aged care providers***
Cutting an existing payroll tax supplement paid to aged care service providers ($653m).

6 ***Commonwealth Home Support Programme***
Reducing the annual growth rate in the Commonwealth Home Support Programme from 2018-19 to 3.5 per cent above indexation (previously 6 per cent).

These changes dramatically impact upon our health system

Some of the budget changes are controversial (as can be seen in the press in recent days), and the real impacts in some areas uncertain. In PwC's view, it is the changes to previously agreed hospital funding, primary care and aged care that most raise questions that merit public discussion and debate.

Hospital funding: is ABF part of the story anymore? Is it a pause or a halt?

Activity Based Funding is driving a focus upon real waste in our health care system, casting a spotlight on what factors contribute to additional cost, and is a demonstrable step towards a system that better links patient health outcomes to funding. Exactly what the future holds for efficient hospital funding remains unclear.

The most dramatic impact of these changes is upon the States and Territories – operators of our public hospitals. This budget asks States and Territories to find more money now, and more money in future, to operate these critical facilities. Beyond the changed Commonwealth funding commitments now (which removes almost $1.8bn that was expected by State and Territory governments in the four years), the other major change is future abandonment of growth funding based upon the volume of activity within hospitals, based upon an agreed efficient price. This change is in the order of tens of billions of dollars over the next ten years.

Whilst this change may have a positive implication for the federal budget, it seems to reduce the "strong financial incentive to ensure that people are treated through less expensive primary care services" identified by the Prime Minister at the time of the previous reform agreement. The Commonwealth and the States previously shared a financial burden for increased volume care, which could potentially be reduced (or not occur), with highly effective and coordinated primary care and aged care services. This budget's change removes this link for the Commonwealth but not the States and Territories. The change also potentially undermines the significant work done to establish and monitor the National Efficient Price, and raises the question as to whether there is a need for Activity Based Funding at all. Yet Activity Based Funding is driving a focus upon real waste in our health care system, casting a spotlight on what factors contribute to additional cost, and is a demonstrable step towards a system that better links patient health outcomes to funding. Exactly what the future holds for efficient hospital funding remains unclear.

Primary care: new uncertainty

It is the budget's changes to Medicare and PBS, including co-payments and freezes to Medicare items, that create the greatest uncertainty for our health care system.

The changes to Medicare Locals, with transition to Primary Health Networks, are one major change announced in the budget. Overall this change may create some short-term complications (for example to planned State government integrated care initiatives), but hopefully will deliver even stronger integration of the care of patients across the health system.

It is the budget's changes to Medicare and PBS, including co-payments and freezes to Medicare items, that create the greatest uncertainty for our health care system. There has been evidence put forward that creating a co-payment will be a disincentive for those needing primary care from seeking it, and this in turn could lead to unnecessary complications and hospital care. Whilst GPs have discretion on the fees, it is unclear whether and how individual GPs will choose to waive application to specific patients. Other unintended consequences could include:

1 changes to the rate of bulk billing (increasing out-of-pocket expenses and in turn, adding to the risk of Australians avoiding or delaying seeking primary health care),

2 increases in the use of hospital emergency departments for services that could be delivered by primary health care providers, and

3 reduced rates of filling prescriptions post-discharge (leading to increased rates of avoidable readmissions).

There are some who debate that the changes will lead to people avoiding care, and make the case that the additional GP funding that arises from the change is of benefit. Whether there are negative consequences or not, what the changes do create is additional uncertainty for State and Territory governments in managing their health budget.

Aged care: are we really sustainable?

The ability to care for older Australians who are unable to fully care for themselves, through either home support or residential aged care, plays a vital role in keeping older Australians healthy and, as much as possible, out of hospital. Aged care reforms initiated under the previous government are continuing under the Abbott government, helping to make sure appropriate services are available in a timely fashion when they are needed.

It is worth noting, however, that the aged care sector is not as healthy as it could be. Capital investment in residential aged care is not aligning to expected demand, a number of existing service providers are struggling with financial viability, and demand continues to outstrip supply in some parts of Australia. At times, this places additional burden on our hospitals. Aged care payroll funding changes in the budget were unexpected, and arguably could reduce private sector investment in aged care services at a time when more investment is needed. Further, it is not clear that there is a strong link between a reduced growth in home support funding and reduced demand for these services. Continued rationing of these services could lead to unintended consequences, such as delay to home help, which could prevent or avoid hospital visits.

It is time we talked about health

Australia's health care system is one of the best in the world. It is, however, increasingly ill-suited to helping those managing complex and chronic conditions, retains incentives to cost-shift, and sometimes lacks the incentives to drive improved patient outcomes – for the funders of our health care and for health care providers. The system also includes a varied range of means through with Australians contribute to their care across different health and aged care services. And the cost of health care is increasing at a time of budget deficits.

The 2014 Federal budget raises a number of crucial questions affecting the health care that Australians expect, particularly associated with the shared responsibilities of different governments, health care providers and individual Australians. Our health care matters, and requires a symbiotic relationship between the Commonwealth, States and Territories to align incentives and levers for change in and out of hospital care. On the face of it the budget appears to sever this link, making it harder for a range of stakeholders to make decisions that are in the best interests of the health care system as a whole.

It is time to talk about health, and how we best achieve a sustainable health care system. Perhaps this budget provides a catalyst for this conversation.

About PwC's National Health Practice

PwC's National Health Practice works with all segments of the health sector. We bring to health care engagements a depth of understanding and practical experience that can only come from people who have dedicated their professional lives to the industry, supported by the resources of a global firm.

Our Australian and global network of more than 100 and 9,000 health industry experts respectively provide assurance, tax and advisory services that are grounded in an unmatched understanding of the entire healthcare system and the dynamics that drive it. We use our unparalleled network of resources to provide strategies that help clients succeed in a transforming market. Within our network, we have a range of expertise across the health continuum, including leading minds in medicine, science, information technology, operations, administration, and health policy.

Let's Talk

To have a discussion about these issues, please contact

National
John Cannings
National Markets Leader for Health & Legal Partner
+61 (2) 8266 6410
john.cannings@au.pw.com

Western Australia
Stephanie Allen
Western Australia Health Lead & National Consulting Health Lead Partner
+61 (8) 9238 5121
stephanie.allen@au.pwc.com

Queensland
Christopher Rogan
Queensland Health Lead & Consulting Partner
+61 (7) 3257 5152
christopher.rogan@au.pwc.com

Canberra
Stuart Babbage
Canberra Health Lead & Consulting Partner
+61 (2) 6271 3021
stuart.babbage@au.pwc.com

New South Wales
Nathan Schlesinger
Consulting Partner
+61 (2) 8266 0990
nathan.schlesinger@au.pwc.com

Steve Billingham
Consulting Partner
+61 (2) 8266 3417
steve.billingham@au.pwc.com

Michael Playford
Consulting Partner
+61 (2) 8266 5478
michael.playford@au.pwc.com

Christa Marjoribanks
Consulting Partner
Ph: +61 (2) 8266 5790
christa.marjoribanks@au.pwc.com

Victoria
Ian Hockings
Victorian Health Lead & Consulting Partner
+61 (3) 8603 2610
ian.hockings@au.pwc.com

Travis Grant
Consulting Partner
+61 (3) 8603 1338
travis.grant@au.pwc.com