

## BUDGET 2008-09 Mid Year Economic and Fiscal Outlook

The Charter of Budget Honesty Act 1998 requires the Treasurer to publicly release and table a Mid-year Economic and Fiscal Outlook (MYEFO) report by the end of January in each year, or within 6 months after the last budget, whichever is later. Typically, MYEFO is released in November each year. This year it was released on November 6.

The purpose of the MYEFO report 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.

### The impact of the current economic crisis on the Budget estimates

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 Australian 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

### The fiscal stimulus package – Economic Security Strategy.

The **\$10.4 billion** package, announced on 14 October 2008, consists of:

**\$4.9 billion** for an immediate down payment on long-term pension reform — a one-off payment of \$1,400 to eligible single pensioners and \$2,100 to eligible pensioner couples, including Commonwealth Seniors Health Card holders, as well

as a one-off payment of \$1,000 to Carer Allowance recipients for each person in their care;

**\$3.9 billion** in support payments for low and middle income families — a payment of \$1,000 for each child in families eligible for Family Tax Benefit (A);

**\$1.5 billion** investment to help first home buyers purchase a home — from the date of the announcement to 30 June 2009, the Government will introduce the First Home Owners Boost for established homes of \$7,000 (to take the total grant to \$14,000), and for newly-constructed houses of \$14,000 (to take the total grant to \$21,000); and

**\$187 million** to create 56,000 new training places for the 2008-09 Productivity Places Program.

The Economic Security Strategy will also accelerate the implementation of the Government's nation building agenda, bringing forward the commencement of investment in nation building projects to 2009. This will include **\$5 billion** for hospital equipment and infrastructure.

Since the MYEFO was released the Rudd Government has announced an additional **\$3.4 billion** investment in the Australian car industry. It's not clear how these funds are rolled out over the forward estimates.

### **Health measures which have affected Budget forecast**

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

In the health portfolio, the only major policy decision (taken up to and including 28 October 2008) affecting revenue over the four year period 2008-09 to 2011-12 was 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;

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 the 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.

**Table 1 Changes in Commonwealth Health Budget and Contingency Reserve**

	2008-09		2009-10		2010-11		2011-12	
	budget	MYEFO	budget	MYEFO	budget	MYEFO	budget	MYEFO
<b>Commonwealth health budget (\$m)</b>	46,032	46,697	48,071	48,593	50,220	50,817	52,190	52,805
<b>Contingency reserve (\$m) (does not include \$3.4b auto package)</b>	451	-407	6,036	5,808	8,379	7,875	12,117	11,118

As Table 1 shows, Commonwealth health spending is predicted to grow by 7% over the forward estimates (2009-10 to 2011-12).

**The impact of recent economic changes on the health care system**

1. 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:

- AHCA's 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.

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 2011-2012 in table B.2 (Budget Paper 3 pp 95-99).

**Table 2 Payments to support state health services, from Budget Papers**

Measure	2007-8	2008-09	2009-10	2010-11	2011-22
AHCAs	\$9,247.2m + \$500m	\$9,724.8m			
Public health and other grants	\$234.5m	\$246.4m			
<b>AHCAs including public health and funding grants</b>	<b>\$9,981.7m</b>	<b>\$9,971.2m</b>	<b>\$10,528.6m</b>	<b>\$11,095.9m</b>	<b>\$11,696.2m</b>
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

Table A.2 in the MYEFO outlines payments to the States and Territories to support health services, by state and year. 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 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			
<b>AHCAs including public health and funding grants (National Healthcare SPP)</b>		<b>\$9,971.2m</b>	<b>\$10,559</b>	<b>\$11,139m</b>	<b>\$11,742m</b>
Current NPPs		\$52.4m	\$69.0m <sup>^</sup>	\$74.4m <sup>^</sup>	\$77.6m <sup>^</sup>
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

<sup>^</sup> this now includes \$14m in payments for Indigenous early childhood development

**Table 4** **Changes in funding for Australian Health Care Agreements in MYEFO**

	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Health SPPs (\$m) from MYEFO# Note that this apparently includes NPPs.		11,263	10,893*	11,552	11,837
Health payments in AHCAs (\$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.

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

As can be seen, from the three tables presented above, it is very difficult, if not impossible, to align the funding commitments to the States and Territories through the AHCAs and related payments in the Budget with those in MYEFO.

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% increase over the 5 year period.

In the current economic climate it is unlikely that there will be much new spending in the AHCAs 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 AHCAs would remain at considerably less than 50%.

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 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 genuinely represents all new funding.

2. State and 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 4: 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.

### 3. Contingency Reserve

The 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".

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. 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.



## 5. Impact 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.