Parliament of Australia
Parliamentary Budget Office

Policy costing—outside the caretaker period

Name of proposal:	**Health**
Summary of proposal:	The proposal would: Option 1: Abolish Medicare, the Pharmaceutical Benefits Scheme, Commonwealth health-related grants to state and local governments (including funding for public hospitals), the Private Health Insurance Rebate, federal government involvement in the delivery of health services, federal government prevention services other than for infectious diseases, and federal government funding of health research. Commonwealth involvement in the management of infectious diseases, health service standards, health statistics, and radiation protection would continue. Option 2: as per Option 1, but use half of the savings to fund a medical expenses subsidy, means tested according to the following formula: $$s = \begin{cases} c & when\ b \geq i \\ 0 & when\ i \geq h + c \\ c(1 - \dfrac{i - b}{h + c - b}) & when\ b < i < h + c \end{cases}$$ Where *s* is the government subsidy for an individual, *c* is the individual's spending on currently subsidised medical goods and services including health insurance premia, *i* is the individual's annual income, *b* is a low income threshold and *h* is a high income threshold. The subsidy would be available through the year based on the individual's estimated income and medical costs. Instances of over subsidy would be reconciled through reduced subsidies in later years. The proposal would have effect from 1 July 2017.
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	☒ Yes ☐ No
Date costing request received:	9 August 2016

Additional information requested (including date):	On 1 December 2016 the Parliamentary Budget Office sought information on how the proposed arrangements under Option 2 would operate.
Additional information received (including date):	On 1 December 2016, Senator Leyonhjelm's nominated contact officer advised that the subsidy under Option 2 would be set such that the departmental and administered savings from the option would be half the total savings under Option 1.
Date costing completed:	6 December 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

Option 1: Abolish health related funding with exceptions

This option would be expected to increase both the fiscal and underlying cash balances by $265,780 million over the 2016-17 Budget forward estimates period. This impact is due to a decrease in administered expenditure of $262,000 million and a decrease of $3,780 million in departmental expenditure.

Table 1: Financial implications (outturn prices)[(a)(b)]

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Fiscal balance	-	84,230	88,600	92,950	**265,780**
Underlying cash balance	-	84,230	88,600	92,950	**265,780**

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.
- Indicates nil.

Option 2: Abolish health related funding with exceptions, and use half of the savings to fund a medical expenses subsidy

This option would be expected to increase both the fiscal and underlying cash balances by $132,890 million over the 2016-17 Budget forward estimates period. This impact is due to a decrease in administered expenditure of $132,300 million and a decrease of $590 million in departmental expenditure.

Table 2: Financial implications (outturn prices)[(a)(b)]

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Fiscal balance	-	42,120	44,300	46,480	**132,890**
Underlying cash balance	-	42,120	44,300	46,480	**132,890**

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.
- Indicates nil.

Both options would be expected to have an ongoing impact beyond the forward estimates and, as requested, impacts over 2016-17 to 2026-27 are provided at Attachment A.

The financial implications for both options are considered to be of a very low reliability. While estimates are mainly based on the Department of Finance aggregate expenditure estimates, given the magnitude of the change in Commonwealth policy it is difficult to estimate the impact with any certainty.

No assessment of the feasibility of each option has been undertaken or whether either option could be implemented from the specified commencement date of 1 July 2017.

Key assumptions

In costing this proposal, it has been assumed that:

Both options

- This proposal would abolish all programs and related departmental expenditure for Department of Health's Outcome 1: Health System Policy, Design and Innovation, Outcome 2: Health Access and Support Services, Outcome 3: Sports and Recreation, Outcome 4: Individual Health Benefits and Outcome 6: Ageing and Aged Care.
- This proposal would abolish the Independent Hospital Pricing Authority and the National Health Funding Body.
- This proposal would also abolish Program 1.2: Services to the Community – Health for Department of Human Services with the function for "Immunisation" retained.
- In addition, this proposal would also abolish departmental expenditure relating to administering the Private Health Insurance Rebate (PHIR) for the Australian Taxation Office (ATO).
- This proposal would have no material impact on departmental expenditure relating to administering health funding for the Department of the Treasury.

Option 2

- 75 per cent of departmental expenditure from the Health portfolio would be retained to administer the proposed medical expenses subsidy.
- All departmental expenditure from Department of Human Services would be retained to administer the proposed medical expenses subsidy.

- Half of departmental expenditure relating to administering the PHIR for the ATO would be retained.

Methodology

Option 1

The impact of this option was derived by reducing administered and departmental expenditure estimates for the specified programs, less expected redundancy payments.

Administered and departmental expenditure estimates over the 2016-17 Budget and forward estimates period for the specified programs were taken from within the Department of Health, Department of Human Services and Department of the Treasury, obtained from the Department of Finance 2016-17 Budget and Pre-Election Economic and Fiscal Outlook budget management system. Administered and departmental expenditure estimates beyond 2019-20 were projected based on historical trends.

Due to the magnitude of the decrease in departmental expenditure, a provision has been included for redundancies. The number of required redundancies was derived as the estimated reduction in average staffing levels, minus natural attrition. The average per person cost of a redundancy has been estimated at approximately $53,000. This is based on average salary (excluding on-costs) and average service length of 10.2 years (APS Statistical Bulletin 2014-15) with a payout equal to two weeks' salary per year of service, pro-rated for months of service. The impact of redundancy payments was calculated as the total number of redundancies multiplied by the average cost per person.

Option 2

The net financial impact of Option 2 has been estimated based on the policy specification that the proposed subsidy would be set so that Option 2 has savings that are approximately half the net savings under Option 1. The impact on departmental expenditure is calculated by applying the same method as Option 1 using the assumptions as outlined for Option 2 above. The impact on administered expenses has been calculated as a residual after estimating the impact on departmental expenditure.

Estimates for both options have been rounded to the nearest $10 million.

Data sources

The Department of Finance provided 2016-17 Budget and PEFO budget management system reports detailing administered and departmental spending estimates.

ATO provided department expenditure and number of staff relating to administering PHIR.

Attachment A – Health—financial implications

Table A1: Health - Option 1: Abolish health related funding with exceptions[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Administered	-	*83,150*	*87,250*	*91,600*	***262,000***	*96,170*	*100,970*	*106,010*	*111,310*	*116,860*	*122,690*	*128,820*	***1,044,840***
Departmental	-	*1,080*	*1,350*	*1,350*	***3,780***	*1,360*	*1,370*	*1,380*	*1,390*	*1,400*	*1,410*	*1,420*	***13,500***
Total	**-**	**84,230**	**88,600**	**92,950**	**265,780**	**97,530**	**102,340**	**107,390**	**112,690**	**118,260**	**124,100**	**130,240**	**1,058,340**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A1: Health - Option 2 : Abolish health related funding with exceptions, and use half of the savings to fund a medical expenses subsidy[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Administered	-	*41,950*	*44,080*	*46,260*	***132,300***	*48,550*	*50,950*	*53,480*	*56,130*	*58,910*	*61,830*	*64,890*	***527,040***
Departmental	-	*160*	*220*	*210*	***590***	*220*	*220*	*220*	*220*	*220*	*220*	*220*	***2,130***
Total	**-**	**42,120**	**44,300**	**46,480**	**132,890**	**48,770**	**51,170**	**53,700**	**56,350**	**59,130**	**62,050**	**65,120**	**529,170**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.