Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Implementing Primary Health Care* (letter of 29 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen
30 June 2016

Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	**Implementing Primary Health Care**
Summary of proposal:	The proposal would make a payment of $1,000 per enrolled patient to doctors on an annual basis in return for enrolling patients who need ongoing management of a chronic disease condition. The payments would compensate the doctor for time spent managing, planning and coordinating the care of the patient including with allied health providers, and are conditional on benchmarks (set by the Department of Health (Health) and local Primary Health Networks) being met. The number of enrolled patients would be capped at one million patients per annum. The proposal would also phase out Medicare payments over two years by: • Removing 50 per cent of chronic disease management items in the Medicare Benefits Schedule (MBS) in 2018-19 • Removing all chronic disease management items in 2019-20. The proposal would have effect from 1 July 2017.
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	27 May 2016 http://greens.org.au/primary-care
Date costing request received:	29 June 2016
Date costing completed:	30 June 2016
Additional information requested:	On 29 June 2016 clarification was sought from the office of Senator Di Natale (the Office) as to the start date of the policy.

Additional information received:	On 29 June 2016 the Office advised that the proposal would commence on 1 July 2017.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by $1,057.7 million over the 2016-17 Budget forward estimates period. The impacts are due to an increase in administered expenses of $1,044.4 million and an increase in departmental expenses of $13.4 million.

The increase in administered expenses over the forward estimates reflects increased expenditure of $2,700 million related to payments for enrolled patients partially offset by reduced expenditure of $1,655.6 million resulting from the phasing out of MBS payments for the specified list of current chronic disease management items (refer to Attachment A for specified items).

This proposal would result in an ongoing annual improvement to the budget. In 2019-20 and each year thereafter the savings from removing items from the MBS would be greater than the cost of payments for enrolled patients and the associated departmental costs. A breakdown of the financial impact over the period 2016-17 to 2026-27 is provided at Attachment B.

This costing is considered to be of medium reliability due to uncertainty surrounding the growth rate of the chronic disease management items being removed from 2018-19 under this proposal.

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

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total**
Fiscal balance	-	-706.7	-471.0	120.0	**-1,057.7**
Underlying cash balance	-	-706.7	-471.0	120.0	**-1,057.7**

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

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

\- Indicates nil.

Key assumptions

In costing the proposal, it has been assumed that:

- the chronic disease management items removed in 2018-19 would represent 50 per cent of the costs of all of the items specified to be removed from 2019-20 onwards. This is due to the uncertainty regarding which chronic disease management items would be removed in 2018-19, which is subject to consultation as specified in the proposal.
- 70 per cent of the capped one million patients with a chronic disease condition would enrol with doctors in the second half of 2017-18 and the remaining 30 per cent would enrol with doctors in 2018-19.

Methodology

Administered expenses

The costs of additional payments to doctors were derived by multiplying the specified number of enrolled patients with a chronic disease condition by the specified annual payments to doctors per enrolled patient ($1,000).

The savings from reduced Medicare payments for chronic disease management items were calculated based on applying the appropriate growth rate (based on the historical trend in MBS benefits paid) to expenditure of these items in 2014-15.

Departmental expenses

The additional departmental expenses for the Department of Human Services (DHS) related to payments for enrolled patients were derived by multiplying the specified number of enrolled patients by the estimated processing cost per transaction with additional funding for the development of the payment system in 2016-17.

The savings in departmental costs for DHS were derived by multiplying the estimated number of services for MBS items that would be removed under this proposal by the estimated processing cost per transaction.

The departmental costs for Health were calculated based on similar sized programs[1].

[1] Departmental costs for Health to establish the framework for enrolling patients is included in the Parliamentary Budget Office's costing of GRN044 – Managing Chronic Disease.

Data sources

- The Department of Finance - indexation and efficiency dividend parameters.
- Medicare statistics, http://medicarestatistics.humanservices.gov.au/statistics/mbs_item.jsp.
- Department of Human Services provided the 2016-17 Budget Funding Model on Unit Prices for National Policy Proposals.

Attachment A: List of current chronic disease management items being removed from 2018-19 under the proposal

- 10986 Health assessment kids check
- 701 Health assessment brief
- 703 Health assessment standard
- 705 Health assessment long
- 707 Health assessment prolonged
- 715 Health assessment ATSI
- 721 Chronic disease plan
- 723 Team care coordination
- 729 Contribution to team care (health)
- 731 Contribution to team care (aged)
- 732 Review of GP management plan

Attachment B: Implementing Primary Health Care—financial implications

Table B1: Implementing Primary Health Care—Financial implications[(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**
Impact on fiscal and underlying cash balances													
Administered													
Payments for enrolled patients	-	*-700.0*	*-1,000.0*	*-1,000.0*	***-2,700.0***	*-1,000.0*	*-1,000.0*	*-1,000.0*	*-1,000.0*	*-1,000.0*	*-1,000.0*	*-1,000.0*	***-9,700.0***
Savings from removed MBS items	-	-	*534.0*	*1,121.6*	***1,655.6***	*1,178.0*	*1,237.2*	*1,299.4*	*1,364.6*	*1,433.2*	*1,505.2*	*1,580.8*	***11,254.1***
Total administered	**-**	**-700.0**	**-466.0**	**121.6**	**-1,044.4**	**178.0**	**237.2**	**299.4**	**364.6**	**433.2**	**505.2**	**580.8**	**1,554.1**
Departmental													
Payments for enrolled patients (DHS)	-	*-5.8*	*-7.1*	*-7.1*	***-20.0***	*-7.2*	*-7.2*	*-7.3*	*-7.3*	*-7.4*	*-7.4*	*-7.4*	***-71.1***
Savings from removed MBS items (DHS)	-	-	*3.0*	*6.3*	***9.4***	*6.7*	*7.1*	*7.5*	*7.9*	*8.4*	*8.9*	*9.4*	***65.2***
Health	-	*-0.9*	*-0.9*	*-0.9*	***-2.7***	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	***-9.2***
Total departmental	**-**	**-6.7**	**-5.0**	**-1.7**	**-13.4**	**-1.4**	**-1.0**	**-0.7**	**-0.3**	**0.1**	**0.5**	**1.0**	**-15.2**
Total	**-**	**-706.7**	**-471.0**	**120.0**	**-1,057.7**	**176.6**	**236.2**	**298.7**	**364.3**	**433.3**	**505.7**	**581.8**	**1,538.9**

(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.