

Victorian State Budget Analysis 2014-15

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1. Introduction

This budget is entitled 'Building a Better Victoria'. In this election year the Government has delivered a significant increase in infrastructure investment with headline projects focusing on public and road transport development.

The 2014-15 budget has delivered a respectable surplus after previous years of spending reduction and austerity measures. Expenditure is estimated to grow by 2.6% per year over the budget and forward estimates, delivering the Treasurer a surplus of \$1.3 billion, rising to \$3.03 billion in 2015-16.

The headline from the budget was a \$27 billion infrastructure investment program, led by a commitment to build the Melbourne Rail Link, and a concurrent investment in both the Eastern and Western Sections of the East-West Link road project.

1.1. Budget initiatives supported by VHA

The VHA provided the Victorian Government with a framework and a series of suggested investments to be included in the 2014-15 Victorian State Budget. We are pleased to note that a number of our key recommendations were supported by the Government. In addition to these recommendations receiving budgetary support, the VHA has analysed the 2014-15 budget papers and has identified a number of health and non-health spends that we support. We look forward to working with the Department of Health in the coming 12 months to see these initiatives set out and operationalised.

- **Fund community-based healthcare that prevent hospital admissions** has been supported by a \$28.1 million investment over the forward estimates into an integrated primary health centre that will provide GP and urgent care services at the Geelong Hospital

- **The significant \$9.5 million (\$72.4m) for mental health** to manage complex and longer stay patients is a positive initiative, particularly as it will be a joint undertaking between the acute and community-based mental health sectors
- **The \$45.4 million (\$190.1m) boost to elective surgery capacity** is cautiously welcomed. While the VHA has set out its own recommendations to help improve capacity in the state's elective surgery waiting list, the VHA welcomes the recurrent investment into hospital capacity
- **An increased investment in early intervention programs** has been supported by \$10.2 million for at-risk pregnant women and their babies
- **The \$5 million (\$20.8m) initiative to provide home care for the elderly** is welcomed
- **\$7.4 million (\$30.9m) for methamphetamine and other drug use** is well-timed and appropriate, particularly considering the relatively low allocation of funding to the AOD sector over recent years
- **An increase in neonatal intensive care cots** was strongly advocated for by the VHA and has received a \$4 million boost of funding for 14 new intensive care and neonatal intensive care beds across the state
- **Further capital investment into community health** will occur with a \$3 million development of Moyne Health in Port Fairy
- **The \$14 million Melton community health centre** is warmly welcomed, and will be developed using a significant portion of the funds allocated in the previous budget for an integrated primary care centre

2. Context

2.1. Economic outlook

Victoria's economic outlook has improved according to the budget papers, with some optimistic estimates for the next four years:

- Forecast growth in gross state product (GSP) has grown from 2% to 2.5% for 14-15 but will increase to, and hold at, 2.75% from 2015-16
- Unemployment is predicted to fall from 6.25% in 2014-15 to 6% in 2015-16, eventually reaching 5.5% in 2017-18.
- Consumer price index (CPI) has fallen from 2.75% to 2.25%. It is forecast to rise to 2.5% from 2015-16.
- Wage price index has risen from 2.75% to 3.25%, where it will stay until 2016-17.
- Population growth has remained steady at 1.8%.

2.2. State revenue

The state's revenue is expected to increase by 3.5% in 2014-15 and average around 3.7% over the forward estimates:

- Taxation revenue will grow by 7.2%, which is attributed to strengthening property taxes such as land tax and land transfer duty
- GST income will grow by 2.4% in 2014-15, however this reflects a decline Victoria's share of the national GST pool. Growth in GST revenue is expected to increase to an average of 8.1% per year over the forward estimates
- Total grant revenue will grow by 3.2% in 2014-15 and 3.5% a year on average across the forward estimates

2.3. State expenditure

Total Government expenditure in 2014-15 will reach \$51.6 billion, which amounts to a 2.8% growth on the previous budget. Expenditure is estimated to grow by 2.6% on average over the forward estimates.

2.4. Expenditure by government department

The budget allocation to the Department of Health was relatively strong compared to other government departments. The chart below illustrates the budget allocation, proportion and variation from the previous budget.

	2013-14 Budget	2014-15 Budget	Proportion	2014-15 Variation
Department of Education and Early Childhood Development	11,562.3	12,065.6	25.93	0.45
Department of Environment and Primary Industries	1,719.4	1,826.5	3.93	0.14
Department of Health	14,344.9	14,952.5	32.14	0.52
Department of Human Services	3,646.4	3,848.5	8.27	0.24
Department of Justice	5,387.5	5,464.5	11.75	-0.13
Department of Premier and Cabinet	661.7	676.1	1.45	-0.01
Department of State Development, Business and Innovation	1,058.5	926.7	1.99	-0.34
Department of Transport, Planning and Local Infrastructure	6,570.1	6,344.7	13.64	-0.84
Department of Treasury and Finance	245.7	235.2	0.51	-0.04
Parliament/VAGO	173.5	183.3	0.39	0.01
	45,370.0	46,523.6	100.00	

2.5. The surplus

The Government has confirmed that it intends to deliver a surplus in each of the next four years. In 2014-15, the surplus is has improved on the forecasts included in the 2013-14 budget:

	2014-15	2015-16	2016-17	2017-18
2013-14 budget	\$398.7m	\$1,927.7m	\$2,547.4m	n/a
2014-15 budget	\$1,326.7m	\$3,030m	\$3,183.2m	\$3,329.7m
Change	\$928.0m	\$1,102.3m	\$632.8m	n/a

2.6. Capital expenditure

The Government has announced a number of new projects in the budget, and intends to spend \$2.741 billion of capital this year, including over \$661.8 million on new projects. Key new projects include:

- \$8.5-\$11 billion for the Melbourne Rail Link, which would result in three new underground stations and a connection from Southern Cross station to South Yarra station, and a spur to connect Melbourne Airport to the metro rail network
- \$8-\$10 billion to begin the East-West Link – Western Section
- \$2-\$2.5 billion for the Cranbourne-Pakenham Rail Corridor Project, including new rolling stock, new signalling and the removal of level crossings
- \$850 million to widen the Tullamarine Freeway
- \$180-\$220 million upgrade the Murray Basin rail network
- \$284 million for school refurbishment, modernisation and upgrades-
- \$140.8 million for additional prison bed capacity
- \$73 million for the redevelopment of Latrobe Regional Hospital

3. Health

3.1. Overview

While total state spend has increased by 2.8%, the health portfolio has seen a 4.24% increase this year. This takes the total revenue spend on health up \$607.6 million to \$14.95 billion, or 32.1% of the total state revenue budget.

When compared to CPI of 2.25% and population growth figures of 1.8%, the 4.24% increase to the health budget translates to a far more modest 0.19% increase. When taken in combination with the Government's budget surplus of \$1.3 billion, this is a somewhat disappointing budget for Victorian health services.

Three community health capital projects were announced in the budget, including \$28 million for an integrated primary care centre at Barwon Health North that will combine GP services, an urgent care centre and the opportunity for co-investment from other health providers to reduce demand on the emergency department, and \$14 million for the new Melton community health centre. While these capital projects are welcomed by the VHA, the community health care program target in 2014-15 will be lower than 2013-14. The total output cost target for community health care has increased marginally from \$230.3million to \$235.8 million. While the budget for the Primary, Community and Dental Health has increased by 9.8% on 2013-14, much of this increase is through the dental program and is linked to the National Partnership Agreement on Treating More Public Dental Patients, which will end in 2015.

Overall the result for the primary and community health sector was disappointing and the VHA will continue to advocate for a progressive shift of funding into the sector.

The big capital announcements are the redevelopment of Latrobe Regional Hospital, Barwon Health's integrated primary health centre, an expansion of Healesville Hospital, a major redevelopment of Boort Hospital, the construction of a community health centre in Port Fairy for Moyne Health, five Prevention and Recovery Care Units across Victoria, and wide-scale medical equipment and engineering replacement works across the state.

3.2. Headline figures

1. Output expenditure (which excludes capital) will increase by \$607.6 million (4.24%) to \$14.95 billion. This equates to around 0.19% in real terms when taking inflation and population growth into account. The figure is even lower when considering that health CPI is running at 4.0%.¹
2. Primary and community health (increased 9.8%), mental health (increased 4.8%) and drug services (increased 7.6%) received the biggest increases.
3. Aged care (decreased by 1.02% which is being attributed to changes to residents and nursing home contributions) and public health (increased 2.98%) received the only decrease and smallest increase.
4. 16 new output initiatives with a total worth of \$330.2 million (\$1186.4m over the forward estimates).
5. 12 new capital projects with a total worth of \$222.8 million have been announced, and \$80.9 million will be spent in 14-15.

¹ Consumer Price Index, Australian Bureau of Statistics, 2014
<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0?opendocument>

3.3. Proportional spend by service area

The table below illustrates the proportionate allocation of funding across the Department of Health, including how this proportion has changed compared to previous years.

	2012-13			2013-14			2014-15		
	\$m	Change \$	Change %	\$m	Change \$	Change %	\$m	Change \$	Change %
Acute	9332.3	375.7	4.19%	9836	503.7	5.40%	10275.30	439.3	4.47%
Ambulance	640.3	51.8	8.80%	661.9	21.6	3.37%	696.50	34.6	5.23%
Mental Health	1140.6	69.5	6.49%	1203.2	62.6	5.49%	1260.60	57.4	4.77%
Aged Care	1168.1	56.1	5.04%	1216.1	48	4.11%	1203.70	-12.4	-1.02%
Primary & Dental	396	-4.5	-1.12%	420.9	24.9	6.29%	462.30	41.4	9.84%
Small Rural Health	518.6	24.3	4.92%	534	15.4	2.97%	560.20	26.2	4.91%
Public Health	341.3	41.4	13.80%	319.3	-22	-6.45%	328.80	9.5	2.98%
Drug Services	146.4	3.2	2.23%	153.5	7.1	4.85%	165.10	11.6	7.56%
	13683.6	617.5	4.73%	14345	661.3	4.83%	14952.5	607.6	4.24%

3.4. Department of Health savings

The 2014-15 budget includes efficiency and savings measures worth \$1.2 million this year, and \$4.7 million over the forward estimates. This is in addition to savings announced in the 11-12, 12-13 and 13-14 budgets, which amounts to \$200 million for application in 2014-15.

This figure is comprised of election commitment savings, measures to offset GST reductions, and reallocation of existing resources from within the Department of Health.

In addition to overt reallocation of resources and efficiency savings, the acute hospital WEIS output target has grown by more than 6% whilst acute funding has only increased by 4.5%. This continues the trend of previous years with health services being asked to do more with less.

3.5. New output initiatives (highlights)

Acute health

\$45.4 million initial spend (\$190.1m over the forward estimates) contestable elective surgery pool – it is as yet unclear what proportion of this funding which will be allocated specifically to public health services.

\$179.4 million (\$744.7m over the forward estimates) to enhance the capacity of health services to meet and manage growth in demand – this initiative is linked to the National Health Reform Agreement and attracts a contribution from the Commonwealth Government, which is included in these figures

\$60 million to prepare health services for increased demand over winter – this funding will focus on improving access to hospital services.

Ageing and Aged and Home Care

\$5 million (\$20.8m over the forward estimates) to increase the delivery of aged care in home settings – aiming to keep the elderly living in their homes for as long as possible

Primary, Community and Dental Health

\$2.5 (\$10.2 over the forward estimates) million to improve health outcomes for at-risk pregnant women and their babies – funding will be provided on an ongoing basis and provide targeted support for pregnant women

\$1 million (\$5.5m over the forward estimates) to contribute to the National Diabetes Syringe Program – will provide Victorians suffering from diabetes with free access to syringes and needle pens to help manage their condition

Mental Health

\$9.5 million (\$72.4m over the forward estimates) for mental health demand management for complex and longer stay patients – a combined community and acute approach that aims to reduce the likelihood of consumers requiring ongoing clinical mental health services

\$5.1 million (\$21.1m over the forward estimates) for three Prevention and Recovery Care Units – three new 1-bed facilities in Fitzroy North, Heidelberg Heights and Wodonga

Drug Services

\$7.5 million (\$30.9m over the forward estimates) to methamphetamine and other drug use – drug treatment services will be expanded at targeted locations to treat more than 2,000 people each year.

3.6. New capital projects

The Department of Health will receive over \$222 million of new capital infrastructure funding over the next four years. Highlights of the new projects announced for 2014-15 include:

- \$28.1 million for an integrated primary health facility that will provide GP and urgent care services aimed at reducing emergency department presentations at Geelong Hospital
- \$14 million for the new Melton Community Health Centre
- \$73 million for the redevelopment of Latrobe Regional Hospital, including a new emergency department
- \$35 million for the replacement of medical equipment
- \$14.9 million for two new transitional mental health service units
- \$3 million to develop a new community health building in Port Fairy for Moyne Health Service
- \$14 million to redevelop Boort Hospital
- \$4 million to deliver 14 new intensive care or neonatal intensive care beds across Victoria
- \$8.6 million for two new Prevention and Recovery Care Units in regional Victoria²
- \$4.6 million for an upgrade of Healesville Hospital

² This capital initiative is in addition to the output investment listed under 3.4



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