

**Health expenditure Australia
2005–06**

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Preface

In the financial year 2005–06, Australia’s health expenditure totalled \$86.9 billion, representing 9.0% of gross domestic product (GDP). This compares with 9.05% of GDP in 2004–05 and 7.5% of GDP in 1995–96. Given the continual calls for more resources across the different components of the health system, it is essential to understand what is currently spent if there is to be informed discussion about where the money should be best spent.

Regular reporting of national health expenditure statistics is also vital to understanding the characteristics of Australia’s health system. These statistics show the volume and proportion of economic resources allocated through the health care system to foster the health and wellbeing of the nation.

Health expenditure Australia 2005–06 continues the Australian Institute of Health and Welfare’s series of reports on national health expenditures, which have been produced annually since 1986. This publication presents health expenditure data for the period 1995–96 to 2005–06, with detailed matrices at the national level and for each of the states and territories for the years 2003–04 to 2005–06. This publication and previous publications in the series are available at the Institute website <http://www.aihw.gov.au/expenditure/health.cfm>

Detailed time series data back to 1960–61 is available in online datacubes at <http://www.aihw.gov.au/expenditure/datacubes/index.cfm>

There have been some revisions to previously published estimates of health expenditure, due to receipt of additional or revised data or changes in methodology. Comparisons over time should, therefore, be based on information provided in this publication and on-line data, rather than by reference to earlier editions. For example, data in this report are not comparable with the data published in the previous issues because expenditure on high-level residential aged care which, in earlier reports was classified to health, is now classified to welfare services.

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The collection and analysis of the data and the writing of this publication was done by Rebecca Bennetts, Gail Brien, Richard Webb and John Goss with assistance from Jenny Hargreaves, Eric Puno, John Shelton Agar, Daniel Aherne and Maneerat Pinyopusarerk.

Abbreviations and symbols

ABS	Australian Bureau of Statistics
ACCMIS	Aged and Community Care Management Information System
ACFI	Aged Care Funding Instrument
AHCA	Australian Health Care Agreements
AIHW	Australian Institute of Health and Welfare
CPI	Consumer price index
DoFA	Department of Finance and Administration
DoHA	Australian Government Department of Health and Ageing
DVA	Australian Government Department of Veterans' Affairs
GDP	Gross domestic product
GFCE	Government Final Consumption Expenditure
GFS	Government finance statistics
GHE	Government health expenditure
GPC	Government Purpose Classification
HACC	Home and Community Care
HASAC	Hospitals and Allied Services Advisory Committee
HEAC	Health Expenditure Advisory Committee
HFCE	Household final consumption expenditure
ICHA	International Classification for Health Accounts
IPD	Implicit price deflator
MBS	Medicare Benefits Schedule
NHA	National Health Accounts
NMDS	National minimum data set
OECD	Organisation for Economic Co-operation and Development
PBS	Pharmaceutical Benefits Scheme
PET	Positron emission tomography
PHE	Public hospital establishments
PHIAC	Private Health Insurance Administration Council
PHIIS	Private Health Insurance Incentives Scheme
PHOFA	Public Health Outcome Funding Agreements
PPP	Purchasing power parity
RCS	Resident Classification Scale
ROGS	Report on Government Services

RPBS	Repatriation Pharmaceutical Benefits Scheme
SHA	System of Health Accounts
SPPs	Specific purpose payments for health under Section 96 of the Australian Constitution
WHO	World Health Organization
n.a.	not available
..	not applicable
n.e.c.	not elsewhere classified
—	nil or rounded down to zero

Executive summary

- The provision of health services is an important part of the Australian economy. Expenditure on health services reached \$87 billion in 2005–06 which was 9.0% of Gross Domestic Product (GDP) (Table 2).
- Health expenditure grew more slowly in 2005–06 than the growth in GDP so the health to GDP ratio was down slightly from the 9.05% of GDP in 2004–05. But over the decade health expenditure grew much more strongly than GDP, so there has been a substantial increase in the health to GDP ratio from 7.5% of GDP in 1995–96 (Table 2). Australia's health to GDP ratio is comparable with Italy and New Zealand, more than the UK and considerably less than the level in the USA of 15% of GDP (Table 51).
- Health expenditure is 2/3 funded by governments and 1/3 by individuals, private health insurance, and other non-government sources (Table 13). Real expenditure by individuals on health has grown over the decade at an average 6.0% per year compared to growth for overall recurrent health expenditure of 4.8% per year (Tables 20 and 25). The biggest area of individual spending was on medications (34%), followed by dental services (23%) (Figure 7). Bulk-billing rates increased by 4.2 percentage points from 67.5% in 2003–04 to 71.7% in 2005–06 and this led to lower real growth in out-of-pocket payments for medical services for the last two years (Tables 41 and 42). But over the decade, medical out-of-pocket expenditure increased in real terms an average 4.2% per year.
- Of the two-thirds of funding for health spending coming from governments, \$37 billion is contributed by the Australian government and \$22 billion by state/territory/local governments (Tables 12 and 13). State funding grew in real terms by 7.6% in 2005–06 compared to a 0.7% growth in Australian Government funding (Table 21). In the decade as a whole the Australian Government funding grew in real terms on average 4.9% per year and state/territory and local government funding grew by 6.2% per year. Over the last 10 years, the changes in proportions of funding between the Australian Government and the state and territory governments have not been driven by major changes in respective responsibilities.
- Key changes during the last decade included the Australian Government introduction of the private health insurance 30% rebate, increases in hospital expenditure primarily borne by the states and territories and a substantial slowing of pharmaceutical expenditure growth in the final year.
- There have been changes in the balance of funding due to the Australian Government's decision to provide a rebate on private health insurance. The contribution to health funding made by private health insurance declined over the decade from 11% of total funding to 7% in 2005–06, due in large part to the Australian Government private health insurance rebate scheme taking up some of this funding (Figure 5).
- The state and territory share of funding of public hospitals has been growing over the decade (a 5 percentage point increase). The Australian Government share decreased by 4 percentage points. The relative shares in 2005–06 were 51% state/territory and 41% Australian Government, with the remainder being non-government (Table 35).
- After allowing for inflation, growth in health expenditure over the last decade averaged 5.1% while in 2005–06 growth was 3.1%, the lowest for the decade (Table 1). Within overall expenditure, the most noticeable slowing was in expenditure on medications, which increased by just 1.6% (after allowing for inflation) against an annual average real increase of 8.6% over the last decade (Table 20).

Health expenditure in Australia

- Total health expenditure in Australia grew by 7.1% between 2004–05 and 2005–06 to \$86.9 billion or \$4,226 per person. This represents a \$5.8 billion increase from 2004–05, or \$225 more per person than the previous year (Tables 1 and 6).
- High-level residential aged care expenditure has been reclassified from health expenditure to welfare services expenditure. As a result, data in this report are not comparable with the data published in the previous issues. The reclassification of high-level residential aged care expenditure from health to welfare services expenditure has reduced the health to GDP ratio in 2004–05 and 2005–06 by 0.6 percentage points (i.e. the health to GDP ratios would have been 9.7% and 9.6% respectively without the reclassification) (Table 64). The welfare services expenditure to GDP ratios have been correspondingly increased (AIHW in press).
- Real growth (adjusted for inflation) in expenditure on health was 3.1% in 2005–06 compared to real growth in 2004–05 of 5.3% and an average annual growth of 5.1% between 1995–96 and 2005–06 (Table 1).
- Expenditure for research grew in real terms by 7.0% in 2005–06, public hospital services grew by 5.6%, community health by 5.2%, aids and appliances by 4.0%, other health practitioners by 3.7%, private hospitals by 1.3% and medical services by 0.2% (Table A8).
- Real expenditure on medications increased 1.6% in 2005–06 (Table 20) compared to an average annual increase in constant prices of 8.6% from 1995–96 to 2005–06.

Funding

- In 2005–06, the majority of spending in health was funded by governments (67.8%), with the Australian Government contributing \$37 billion (42.9%) and state, territory and local governments contributing \$22 billion (24.9%). The non-government sector (households, private health insurance and other non-government) funded the remaining \$28 billion (32.2%) (Tables 12 and 13).
- In real terms, Australian Government funding of health grew by an average of 4.9% a year from 1995–96 to 2005–06, state and territory government funding grew by 6.2% and non-government funding by 4.5% a year (Table 21).
- In 2005–06, the Australian Government's total funding grew, in real terms, by 0.7%, state, territory and local governments funding grew by 7.6% and non-government funding grew by 2.9% (Table 21).

Hospital funding

- Over the decade to 2005–06, governments increased their share of public and private hospital funding by 7.8 percentage points (Table 34). The Australian Government share increased by 3.2 percentage points from 37.4% to 40.6%. The state and territory government share increased by 4.6 percentage points from 35.9% to 40.5%. The non-government funding of public and private hospitals decreased from 26.7% in 1995–96 to 18.9% in 2005–06 (Table 34). Of this 7.8 percentage points increase, 5.6 percentage points was the effect of the Australian Government private health insurance rebate scheme taking over some of the funding of private health insurance.
- Most funding for public hospitals came from governments in 2005–06 – 41% from the Australian Government and 51% from the states and territories (Table 35).

- Between 1995–96 and 2005–06, the Australian Government share of public hospital funding decreased by 4 percentage points from 45% to 41%. State and territory government funding during this period increased by 5 percentage points from 46% to 51% (Table 35).
- Between 2003–04 and 2005–06, the first three years of the second Australian Health Care Agreements (AHCAs), the Australian Government share of public hospital funding through the AHCAs declined 2.8 percentage points from 36.9% to 34.1%. State and territory government funding during this period increased 2.5 percentage points from 48.1% to 50.6% (Table 36).

Private health insurance and other non-government funding

- The non-government sector funded 32% (\$28 billion) of total health expenditure in 2005–06 (Table 24). Private health insurance funds provided 7% (\$6 billion); individual out-of-pocket payments accounted for 17% (\$15 billion); and other non-government sources (mainly compulsory motor vehicle third-party and workers' compensation insurers) accounted for the remaining 8% (\$7 billion) (Table 24).
- Over the decade to 2005–06, non-government sector funding provided by private health insurance funds decreased 4 percentage points from 11% to 7% of total health expenditure, funding by individuals increased by 2 percentage points from 15.6% to 17.4% and funding by other non-government sources increased by 1 percentage point (Table 24).
- The decrease in funding by private health insurance reflected the 30% rebate for private health insurance from the Australian Government. Private health insurance benefits that were previously funded almost entirely by private health insurance premiums were instead funded 30% by the Australian Government. In 2005–06, 4% of total health expenditure was funded by the Australian Government's 30% rebate and 7% was funded through private health insurance (Table A3).
- Medical services out-of-pocket expenditure in constant prices decreased by 4.1% (\$71 million) between 2003–04 and 2005–06, but over the decade it increased by \$562 million which was an average of 4.2% per year (Table 41). Bulk-billing rates for medical services were 71.7% in 2005–06, an increase of 0.6 percentage points since 1995–96. The peak was 72.3% in 1999–00 (Table 42).
- Real growth in expenditure by individuals between 1995–96 and 2005–06 was 6.0% per year, 1.2 percentage points above the real growth in recurrent health expenditure (4.8%) (Tables 20 and 25).

Types of health services funded by the non-government sector

- Private health insurance funding of \$6 billion in 2005–06 was mainly spent on private hospitals (49%), dental services (12%), administration (10%) and medical services (10%) (Figure 8).
- Private health insurance funds (including Australian Government premium rebates) were the source of funding for over two-thirds (69%) of private hospital expenditure in 2005–06 (Table A3).
- In 2005–06, out-of-pocket recurrent expenditure by individuals on health goods and services was an estimated \$15.4 billion: \$5 billion (34%) was spent on medications; \$4 billion (23%) on dental services, \$2 billion (13%) on aids and appliances and \$1.7 billion (11%) on medical services (Table A3 and Figure 7).

Areas of health expenditure

Hospital expenditure

- In 2005–06, hospitals accounted for over one-third (38.6% or \$31.0 billion) of recurrent health expenditure. Expenditure on public hospital services (which excludes expenditure on community and public health services, dental and ambulance services and health research undertaken by public hospitals) was \$24.3 billion and expenditure on private hospitals was \$6.7 billion (Table A3).
- Over the past three years, expenditure on hospitals accounted for the largest proportion of real growth in recurrent health expenditure (42%) – public hospital services (38%) and private hospitals (4%) (calculated from Table 20).
- The private hospital share of hospital expenditure increased from 21.7% of hospital expenditure in 1995–96 to 22.7% in 2001–02, stabilised for three years and then declined to 21.5% in 2005–06 (calculated from Table 33).

Pharmaceuticals and other medications expenditure

- Expenditure on all medications grew in real terms at an average of 8.6% per year from 1995–96 to 2005–06 (Table 20), but in 2005–06 growth was only 1.6%.
- In real terms, recurrent expenditure on pharmaceuticals for which benefits were paid grew at an average of 9.1% per year from 1995–96 to 2005–06 (Table 43). In 2005–06 the growth was 2.7%.
- In 2005–06, the total amount spent on pharmaceuticals for which benefits were paid was \$7.3 billion – 81% of this was benefits paid by the Australian Government for PBS and RPBS items; 16% was patient contributions and 3% was other pharmaceuticals (comprising mostly Section 100 drugs) (Figure 16).
- Expenditure on ‘all other medications’ in 2005–06 was \$4.2 billion – 70% of which was for over-the-counter medications (Figure 17).

What is health expenditure?

Health expenditure comprises recurrent and capital expenditure on hospitals, medical, dental, patient transport services, other health practitioner, community and public health services, medications, aids and appliances, health research and the administrative systems that support these services. Health expenditure is mostly funded by the Australian Government and state and territory governments with some funding also by private health insurance, households, local government, non-government and other private sector organisations.

In previous editions of *Health expenditure Australia* the high-level care component of residential aged care was included with health, but this has been reclassified to welfare services which now includes all aspects of residential aged care.