4 Health expenditure and funding, by area of health expenditure

4.1 Recurrent expenditure on health goods and services

Recurrent health expenditure in Australia is considered under two broad categories of health goods and services—institutional services and non-institutional goods and services. This follows the format suggested by the World Health Organization (WHO) (AIH 1985).

The broad areas of health expenditure that are classified as institutional health expenditure are:

- hospitals
- high-level residential care (formerly nursing homes)
- ambulance (patient transport) services
- other institutional health services (not elsewhere classified).

Non-institutional expenditure takes in:

- ambulatory health services, such as those provided by doctors, dentists and other health professionals
- community health services and public health services
- health goods (pharmaceuticals and aids and appliances) provided to patients in the community
- health-related expenditures, such as expenditure on health administration and research.

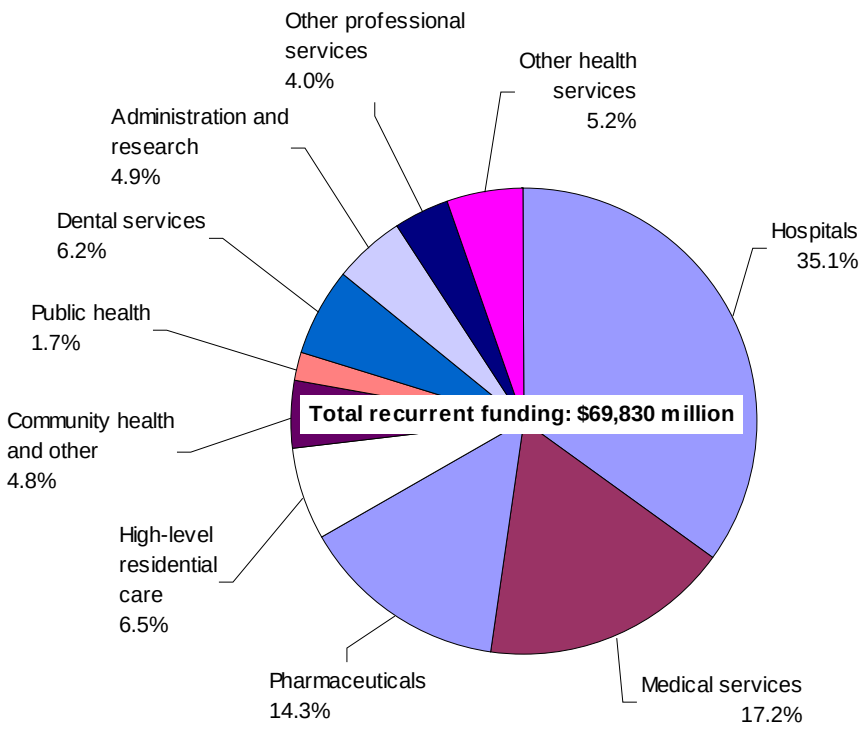
Over the period 1993–94 to 2002–03, total institutional services has decreased its share of total health expenditure from 46.9% to 43.2% (Table A6) while total non-institutional goods and services has increased its share from 53.1% to 56.8%.

Of the areas of health goods and services that attract recurrent expenditure, hospitals and medical services account for more than half. In 2002–03 hospitals were estimated to have accounted for 35.1% of total recurrent expenditure on health services, and medical services 17.2% (Figure 16).

Within these two categories, however, there is substantial overlap. For example, public hospitals spent $2,890 million on salaried medical staff and visiting medical officers during 2002–03 (AIHW 2004a). While these are payments in respect of staff that provide ‘medical’ services, they are included in the gross operating costs of the public hospitals and are counted as expenditure on public hospitals. Further, some other expenditures that make up the estimates of expenditure on hospitals (for example, salaries of technical staff involved in

providing diagnostic services) relate to the provision of services to public patients in hospitals that could usually be classified as 'medical' services (pathology and radiology).

Expenditures classified as medical services, on the other hand, include medical services provided to private patients in public and private hospitals.



Source: Table A3.

Figure 16: Recurrent expenditure on health goods and services, current prices, by broad area of expenditure, 2002–03

Institutional health services

Hospitals

In terms of the amount of expenditure involved, hospitals are the largest providers of health services in Australia. In the Australian context there are three broad categories of hospitals:

- public (non-psychiatric) hospitals
- private hospitals
- public (psychiatric) hospitals.

The first two of these fall within the description of 'general hospitals' under the OECD's international classification of health care providers. The third category, public (psychiatric) hospitals, refers to those remaining 'stand-alone' public hospitals that cater almost exclusively for the needs of people with mental illness.

Table 28: Recurrent expenditure on hospitals, constant prices[a], by broad type of hospital, and annual growth rates, 1993–94 to 2003–04

	Public hospitals							
	Public (non-psychiatric)		Public (psychiatric)		Private hospitals		All hospitals recurrent expenditure	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	12,367	. .	612	. .	4,594	. .	17,573	. .
1994–95	12,773	3.3	586	–4.2	5,035	9.6	18,394	4.7
1995–96	13,398	4.9	544	–7.3	5,167	2.6	19,109	3.9
1996–97	14,274	6.5	483	–11.1	5,156	–0.2	19,913	4.2
1997–98	15,149	6.1	439	–9.2	4,961	–3.8	20,548	3.2
1998–99	15,723	3.8	447	2.0	5,247	5.8	21,417	4.2
1999–00	15,990	1.7	464	3.8	5,308	1.2	21,763	1.6
2000–01	16,502	3.2	416	–10.4	5,410	1.9	22,328	2.6
2001–02	17,268	4.6	488	17.3	5,540	2.4	23,296	4.3
2002–03	18,435	6.8	485	–0.5	5,593	1.0	24,513	5.2
2003–04[b]	19,118	3.7	515	6.1	5,636	0.8	25,270	3.1
Average annual growth rate								
1993–94 to 1997–98		5.2		–8.0		1.9		4.0
1997–98 to 2002–03		4.0		2.0		2.4		3.6
1993–94 to 2003–04		4.5		–1.7		2.1		3.7

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW and ABS estimates.

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.

In real terms, expenditure on the general hospitals—public (non-psychiatric) and private hospitals—grew by 4.5% and 2.1% per year, respectively, between 1993–94 and 2003–04. Expenditure on public (psychiatric) hospitals, on the other hand, fell in most years, averaging a real annual decrease of 1.7% (Table 28).

The relative growth in expenditures on the different types of hospitals is often interrelated, with policy initiatives moving expenditures sometimes in the same direction and sometimes in opposite directions.

One important influence on growth in expenditure on hospitals is the Australian Government's policy for funding hospital services. In the case of the public (non-psychiatric) hospitals, funding is governed by bilateral agreements between the Australian Government and the various state and territory governments (the Australian Health Care Agreements or AHCAs). Private funding for hospitals is also influenced by the Australian Government's private health insurance initiatives. This is because private health insurance provides the bulk of funding for private hospitals and for private patients in public (non-psychiatric) hospitals.

The latest series of AHCAs for which estimates are included in this publication covered the 5 years from 1 July 1998 to 30 June 2003. Since then, new agreements have been negotiated to cover the period from 1 July 2003 to 30 June 2008.

To date there have been three major incentives relating to private health insurance:

- in July 1997, the introduction of the means-tested Private Health Insurance Incentives Subsidy (PHIIS)
- in January 1999, the replacement of the PHIIS with an open-ended 30% rebate on private health insurance premiums
- in July 2000, the introduction of the 'lifetime' cover initiatives to encourage more people to take out and maintain private hospital insurance cover.

During the 5-year AHCA period that ended in June 1998, expenditure on public (non-psychiatric) hospitals grew, in real terms, at an average of 5.2% per year, compared with an average growth for private hospitals of 1.9% per year (Table 28). From 1997–98 (the last year of the previous agreement period and the year the PHIIS was introduced) to 2002–03, public (non–psychiatric) hospitals experienced a lower average rate of real growth in expenditure (4.0% per year) than they had previously. This translated into increased growth in expenditure on private hospitals, which rose to 2.4% per year for the 5-year period ending 2002–03.

In 2003-04, government accounted for the majority of the funding for general hospitals (80.3%). Non-government sources contributed the remainder of the funding (19.7%). Over the 11-year period from 1993–94 to 2003–04 (Table 29) governments increased their share of funding of general hospitals by 7.3 percentage points.

Table 29: Funding of general hospitals[a], current prices, by broad source of funds, 1993–94 to 2003–04 (per cent)

	Government				
Year	Australian Government[b]	State/territory and local	Total	Non-government[b]	Total
1993–94	42.0	31.0	73.0	27.0	100.0
1994–95	40.8	32.1	72.9	27.1	100.0
1995–96	38.9	33.8	72.7	27.3	100.0
1996–97	37.4	35.7	73.1	26.9	100.0
1997–98	39.0	37.0	76.0	24.0	100.0
1998–99	42.8	34.7	77.5	22.5	100.0
1999–00	44.8	34.5	79.3	20.7	100.0
2000–01	45.8	33.7	79.5	20.5	100.0
2001–02	44.8	33.6	78.4	21.6	100.0
2002–03	44.3	36.1	80.4	19.6	100.0
2003–04[c]	43.7	36.6	80.3	19.7	100.0

(a) Public (non-psychiatric) and private hospitals.

(b) Funding by the Australian Government and non-government sources has been adjusted for tax expenditures in respect of private health incentives claimed through the taxation system.

(c) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Public (non-psychiatric) hospitals

More than 90% of all funding for public (non-psychiatric) hospitals comes from governments. The Australian Government's contribution—estimated at 46.4% in 2003–04 (Table 30)—was largely in the form of SPPs under the AHCAs. The states and territories,

which have the major responsibility for operating and regulating public hospitals that operate within their jurisdictions, met the balance of the net operating costs of the hospitals. In 2003–04, the states and territories provided 46.2% of the funding for public (non-psychiatric) hospitals.

The non-government contribution declined over the decade from 9.8% in 1993–94 to 7.5% in 2003–04.

Table 30: Funding of public (non-psychiatric) hospitals, current prices, by broad source of funds, 1993–94 to 2003–04

	Government					
	Australian Government		State/territory and local		Non-government	
Year	Amount ($ m)	Share (%)	Amount ($ m)	Share (%)	Amount ($ m)	Share (%)
1993–94	5,071	51.1	3,871	39.0	977	9.8
1994–95	5,180	49.7	4,263	40.9	979	9.4
1995–96	5,278	47.3	4,843	43.5	1,025	9.2
1996–97	5,465	45.3	5,558	46.0	1,048	8.7
1997–98	5,898	45.1	6,191	47.4	984	7.5
1998–99	6,651	47.7	6,219	44.6	1,072	7.7
1999–00	6,979	48.1	6,447	44.5	1,078	7.4
2000–01	7,497	48.5	6,732	43.6	1,227	7.9
2001–02	7,982	47.8	7,316	43.8	1,393	8.3
2002–03	8,696	47.2	8,388	45.5	1,351	7.3
2003–04[(a)]	9,191	46.4	9,152	46.2	1,477	7.5

(a) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

The shares of funding for public (non-psychiatric) hospitals met by the two major levels of government—Australian, and state and territory—fluctuate from year to year. Over the life of the Third Medicare Agreement (predecessor of the AHCAs), the Australian Government share fell back 6.0 percentage points from 51.1% in 1993–94 to 45.1% in 1997–98. It rose again by 2.6 percentage points in the first year of the first AHCA, and ended some 2.1 percentage points higher in the last year of the first AHCA compared with the last year of the previous agreement. The non-government share fluctuated within a narrow band over this period (Table 30). See Box 1 below for the periods of all health service funding agreements between the Australian Government and the states / territories.

Box 1: Australian Government–state/territory health funding agreement periods

First Medicare (Compensation) Agreement: 1984 to June 1988

Second Medicare Agreement: 1 July 1988 to 30 June 1993

Third Medicare Agreement: 1 July 1993 to 30 June 1998

First Australian Health Care Agreement: 1 July 1998 to 30 June 2003

Second Australian Health Care Agreement: 1 July 2003 to 30 June 2008

Table 31: Recurrent funding of public (non-psychiatric) hospitals, constant prices[a], by source of funds, and annual growth rates, 1993–94 to 2003–04

	Government									
	Australian Government[b]		State/territory and local		Total		Non-government[b]		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	6,323	. .	4,826	. .	11,149	. .	1,218	. .	12,367	. .
1994–95	6,348	0.4	5,224	8.3	11,573	3.8	1,200	–1.5	12,773	3.3
1995–96	6,344	–0.1	5,821	11.4	12,165	5.1	1,233	2.7	13,398	4.9
1996–97	6,453	1.7	6,577	13.0	13,030	7.1	1,244	0.9	14,274	6.5
1997–98	6,831	5.9	7,176	9.1	14,007	7.5	1,141	–8.2	15,149	6.1
1998–99	7,499	9.8	7,013	–2.3	14,512	3.6	1,210	6.0	15,723	3.8
1999–00	7,694	2.6	7,107	1.3	14,801	2.0	1,189	–1.8	15,990	1.7
2000–01	8,003	4.0	7,187	1.1	15,191	2.6	1,311	10.3	16,502	3.2
2001–02	8,257	3.2	7,570	5.3	15,827	4.2	1,442	10.0	17,268	4.6
2002–03	8,696	5.3	8,388	10.8	17,084	7.9	1,351	–6.3	18,435	6.8
2003–04[c]	8,866	2.0	8,828	5.3	17,694	3.6	1,424	5.4	19,118	3.7
Average annual growth rate										
1993–94 to 1997–98		2.0		10.4		5.9		–1.6		5.2
1997–98 to 2002–03		4.9		3.2		4.1		3.4		4.0
1993–94 to 2003–04		3.4		6.2		4.7		1.6		4.5

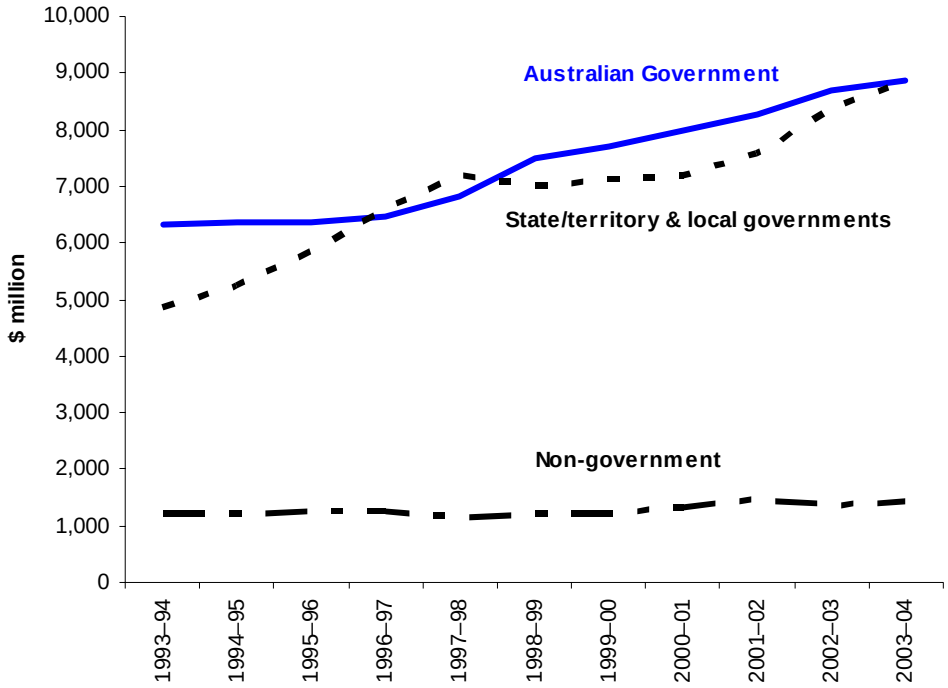
(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Funding by the Australian Government and non-government sources has been adjusted for tax expenditures in respect of private health incentives claimed through the taxation system.

(c) Based on preliminary AIHW and ABS estimates.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.



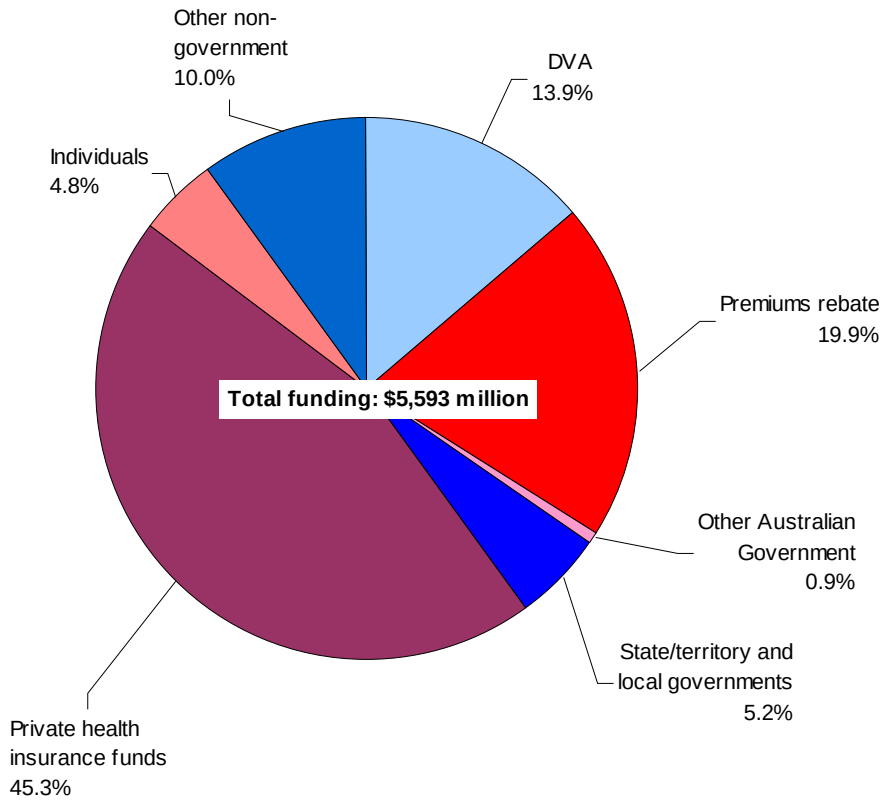
(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

Source: Table 31.

Figure 17: Funding of public (non-psychiatric) hospitals, constant prices[(a)], by broad source of funds, 1993–94 to 2003–04

Private hospitals

Total expenditure on private hospitals in 2002–03 was estimated at $5,593 million (Figure 18). Almost two-thirds (65.2%) of this was sourced through private health insurance funds. This comprised 45.3% out of the premiums paid by members and other revenues flowing to the funds, and the remaining 19.9% being indirectly funded out of the rebates paid by the Australian Government in respect of contributors' premiums. In 2003–04 those rebates, in total, amounted to $2.5 billion, and $1.2 billion of that is estimated to have been directed to the funding of private hospitals (Table 22).



Source: Table A3.

Figure 18: Funding of private hospitals, current prices, by broad source of funds, 2002–03

Public (psychiatric) hospitals

Public (psychiatric) hospitals are stand-alone institutions operated by, or on behalf of, state and territory governments. Their main function is to provide psychiatric care to admitted patients. It should be noted that public (non-psychiatric) hospitals also provide psychiatric care to admitted patients, sometimes in general wards and sometimes in dedicated psychiatric wards. The related expenditure, however, is captured as part of expenditure on public (non-psychiatric) hospital care.

Total expenditure on public (psychiatric) hospitals in 2002–03 is estimated at $485 million (Table A3). Almost all of this ($466 million) was funded by state and territory governments.

High-level residential care services

The technical notes (Chapter 6) explain the concepts behind the definition of high-level residential care.

Total recurrent expenditure on high-level residential care in 2002–03 was estimated at $4,545 million. Of this, the Australian Government funded $3,435 million, state and territory and local governments funded $207 million and the non-government sector $903 million (Table A3).

From 1993–94 to 2002–03, real growth in expenditure on high-level residential care was 3.5% per year compared with 4.7% per year for total health expenditure (Table A5). For the period

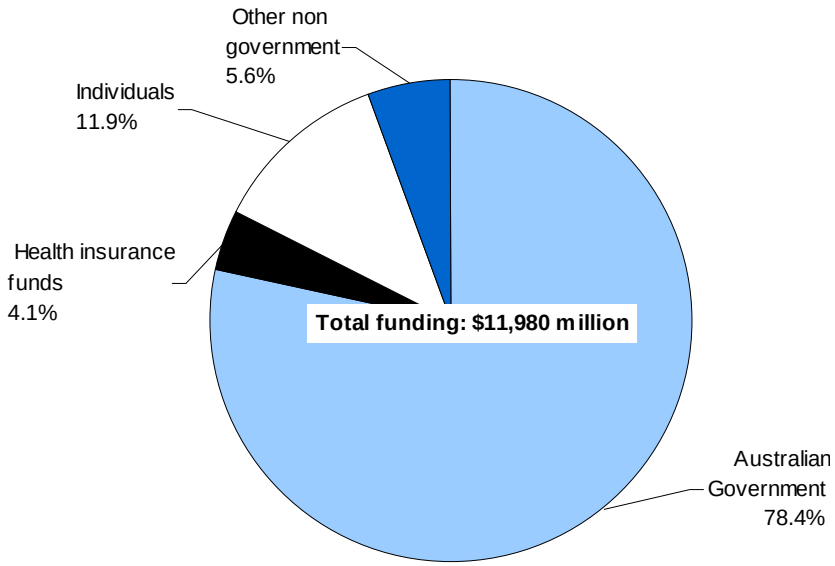
1997–98 to 2002–03, the differential between the two growth rates widened to 2.8 percentage points—for high-level residential care the growth rate was 2.3% per year, while for total health expenditure it was 5.1% per year.

Non-institutional health services

Medical services

Between 1993–94 and 2003–04, expenditure on medical services increased, in real terms, at an average of 3.4% per year. The real growth rates were similar over the Third Medicare Agreement and the First Australian Health Care Agreement (3.3% and 3.1% respectively) (Table 32).

Almost all expenditure on medical services in Australia relates to services that are provided by practitioners on a 'fee-for-service' basis. This is reflected in the distribution of funding for medical services. Of the $12.0 billion spent on medical services in 2002–03, 78.4% was funded by the Australian Government (Figure 19). This was made up almost exclusively of medical benefits paid under Medicare, with some funding from the DVA for medical services to eligible veterans and their dependants, as well as payments to general practitioners under alternative funding arrangements.



Source: Table A3.

Figure 19: Recurrent expenditure on medical services, current prices, by source of funds, 2002–03

Because it provides the bulk of the funding for medical services, the Australian Government's expenditure was the main determinant of growth. Between 1993–94 and

2003–04, the Australian Government's real expenditure grew by 3.3%, while expenditure by individuals rose by 1.9% (Table 32).

The effect of government policies to encourage the take-up of private health insurance is reflected in the real growth in funding of medical services by the various sectors. From 1999–00, with the introduction of the 30% rebate and the subsequent 'lifetime' cover incentives, real growth in funding by the health funds accelerated sharply, while real growth in funding by the Australian Government slowed and individuals' funding became negative. As health insurance coverage began to flatten off, and even fall, for people aged 64 and below, from 2002–03, funding by individuals showed positive growth while that of health funds slowed considerably.

Table 32: Recurrent funding of medical services, constant prices[a], by source of funds, and annual growth rates, 1993–94 to 2003–04

	Australian Government[b]		Individuals		Health insurance funds		Other non-government		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	7,071	. .	1,200	. .	365	. .	388	. .	9,025	. .
1994–95	7,421	4.9	1,239	3.2	375	2.8	476	22.7	9,512	5.4
1995–96	7,780	4.8	1,294	4.4	381	1.6	500	5.1	9,956	4.7
1996–97	7,963	2.4	1,319	1.9	369	–3.2	546	9.2	10,198	2.4
1997–98	8,132	2.1	1,318	–0.1	306	–17.2	539	–1.4	10,294	0.9
1998–99	8,381	3.1	1,396	5.9	292	–4.6	567	5.3	10,635	3.3
1999–00	8,840	5.5	1,490	6.7	323	10.7	610	7.7	11,264	5.9
2000–01	8,928	1.0	1,449	–2.7	384	18.9	586	–3.9	11,347	0.7
2001–02	9,228	3.4	1,401	–3.3	487	26.7	672	14.7	11,788	3.9
2002–03	9,395	1.8	1,423	1.6	486	–0.2	675	0.4	11,980	1.6
2003–04[c]	9,827	4.6	1,447	1.7	492	1.2	825	22.2	12,591	5.1
Average annual growth rate										
1993–94 to 1997–98		3.6		2.4		–4.3		8.5		3.3
1997–98 to 2002–03		2.9		1.6		9.7		4.6		3.1
1993–94 to 2003–04		3.3		1.9		3.0		7.8		3.4

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Australian Government and health insurance funds expenditures have not been adjusted for rebates claimed as tax expenditures.

(c) Based on preliminary AIHW and ABS estimates.

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.

Other professional services

Expenditure on other professional services was largely funded by individual users of services (55.9% in 2002–03) and totalled $2.8 billion in that year (Table A3).

In real terms, expenditure on other professional services grew at an average of 2.5% per year between 1993–94 and 2002–03 (Table A5). In the years 1997–98 to 2002–03 it accelerated to 6.3% per year, 1.2 percentage points higher than the growth in total health expenditure (5.1%) over that period.

Community health and other

In 2002–03, expenditure by state and territory governments and by local government authorities totalled $3.1 billion out of a total of $3.4 billion spent on community health services (Table A3). In 2003–04, community health was estimated at $3.6 billion (Table A4).

Public health

While reliable estimates are not available for earlier years, since 1998–99, estimates of public health expenditure have been compiled on a consistent basis in each state and territory and for the Australian Government using a single collection protocol developed through the National Public Health Expenditure Project (AIHW 2002b and 2004c). In these years public health expenditure was estimated at:

- 2000–01—$1.0 billion
- 2001–02—$1.1 billion
- 2002–03—$1.2 billion.

Over these 3 years the Australian Government's direct funding share of total public health expenditure has been respectively 54.0%, 52.8% and 59.6% (calculated from Tables A1, A2 and A3).

In 2003–04, it is estimated to increase to $1.3 billion, with the Australian Government's share being 52.6% (Table A4).

Dental services

Individuals contributed 68.1% of the total expenditure of $4.4 billion for dental services in 2002–03 (Table A3). For the period 1993–94 to 2002–03, real growth in expenditure on dental services was 3.9%, some 0.8 percentage points below that of real growth in total health expenditure (Table A5).

For the period 1997–98 to 2002–03, however, real growth for dental services (5.7%) exceeded that for total health expenditure by 0.6 percentage points.

Pharmaceuticals and other non-durable health goods

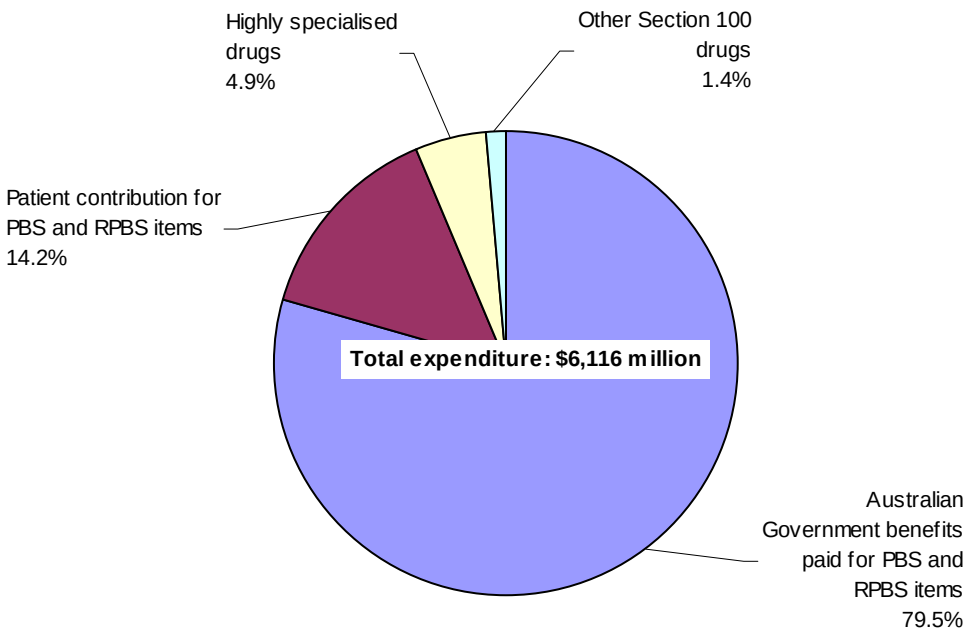
In real terms, total expenditure on pharmaceuticals increased by 10.3% from 1993–94 to 2002–03, to reach $10.0 billion in 2002–03 (Tables A3 and A5). While total expenditure experienced consistent growth between 1993–94 and 2001–02, expenditure on benefit-paid items and non-benefit items fluctuated greatly from year to year. This is due to the effects of the co-payment in determining what items attract benefits. The benefit-paid items category includes only those items listed under the Schedule of Pharmaceutical Benefits for which benefits were actually paid. Items that are listed on the PBS but have a price below the statutory patient co-payment are recorded in the 'all other pharmaceuticals' category.

Benefit-paid items

In real terms, recurrent expenditure on benefit-paid items grew at an average of 11.0% per year from 1993–94 to 2003–04 (Table 33). The period of most rapid growth among the AHCA periods was from 1997–98 to 2002–03, when growth averaged 12.4% per year, greater than the overall rate of growth in health expenditure (5.1%). Growth in that period was shared

between the Australian Government's (12.9% per year) and individuals' (9.7% per year) expenditures.

In 2002–03, the total amount spent on pharmaceuticals for which benefits were paid was $6,116 million. Benefits paid by the Australian Government for PBS and RPBS items accounted for 79.5% of this expenditure. Of the remaining expenditure, 14.2% of the total was due to patient contributions for PBS and RPBS items, 4.9% to highly specialised drugs and 1.4% to other Section 100 drugs (Figure 20).



Source: AIHW health expenditure database.

Figure 20: Recurrent expenditure on PBS and RPBS items, current prices, 2002–03

Table 33: Recurrent expenditure on benefit-paid pharmaceuticals, constant prices[a], by source of funds, and annual growth rates, 1993–94 to 2003–04

	Australian Government		Individuals		Total recurrent expenditure	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	1,931	. .	405	. .	2,335	. .
1994–95	2,126	10.1	470	16.2	2,596	11.2
1995–96	2,542	19.6	501	6.5	3,043	17.2
1996–97	2,754	8.3	557	11.2	3,311	8.8
1997–98	2,811	2.1	599	7.7	3,411	3.0
1998–99	3,102	10.3	629	5.0	3,731	9.4
1999–00	3,534	13.9	682	8.4	4,216	13.0
2000–01	4,320	22.2	776	13.7	5,096	20.9
2001–02	4,678	8.3	842	8.5	5,520	8.3
2002–03	5,166	10.4	951	12.9	6,116	10.8
2003–04[b]	5,624	8.9	1,036	9.0	6,660	8.9
Average annual growth rate						
1993–94 to 1997–98		9.9		10.3		9.9
1997–98 to 2002–03		12.9		9.7		12.4
1993–94 to 2003–04		11.3		9.9		11.0

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW estimates.

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.

All other pharmaceuticals

In real terms, recurrent expenditure on other pharmaceutical items (see Table 43 for definition) grew by an average of 8.7% between 1993–94 and 2003–04 (Table 34). To some extent, this growth mirrors that for benefit-paid items. This is due to the effect of the PBS patient co-payment threshold and the increased availability of cheaper alternatives to those items on the PBS that would have attracted pharmaceutical benefits. Expenditure by the Australian Government from 1997–98 is entirely composed of the proportion of the private health insurance rebate allocated to pharmaceuticals.

The main sources of funding for other pharmaceutical items were individuals' out-of-pocket expenditure and ancillary tables provided by private health insurance funds. The most rapid period of growth (10.6%) was from 1997–98 to 2002–03, which can largely be attributed to growth in expenditure by individuals (10.4%).

Table 34: Recurrent funding of other pharmaceuticals, constant prices[a], by source of funds, and annual growth rates, 1993–94 to 2003–04

	Australian Government		State/territory and local governments		Health insurance funds		Individuals and other non-govt		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	—	. .	—	. .	50	. .	1,743	. .	1,793	. .
1994–95	—	. .	2	. .	48	–3.9	1,886	8.2	1,935	8.0
1995–96	—	. .	12	662.7	49	3.1	1,787	–5.3	1,848	–4.5
1996–97	—	. .	12	0.5	49	–1.4	1,971	10.3	2,031	9.9
1997–98	3	. .	17	44.4	33	–31.3	2,304	16.9	2,358	16.1
1998–99	8	126.1	—	. .	31	–7.8	2,514	9.1	2,553	8.3
1999–00	14	84.0	—	. .	32	3.8	2,762	9.8	2,808	10.0
2000–01	83	489.7	—	. .	37	14.6	2,998	8.6	3,118	11.0
2001–02	54	–35.3	2	. .	45	24.1	3,579	19.4	3,680	18.0
2002–03	60	11.1	—	. .	52	14.2	3,783	5.7	3,895	5.8
2003–04[b]	60	0.6	—	. .	47	–9.0	4,025	6.4	4,132	6.1
Average annual growth rate										
1993–94 to 1997–98		. .		. .		–9.5		7.2		7.1
1997–98 to 2002–03		77.5		. .		9.2		10.4		10.6
1993–94 to 2003–04		. .		. .		–0.5		8.7		8.7

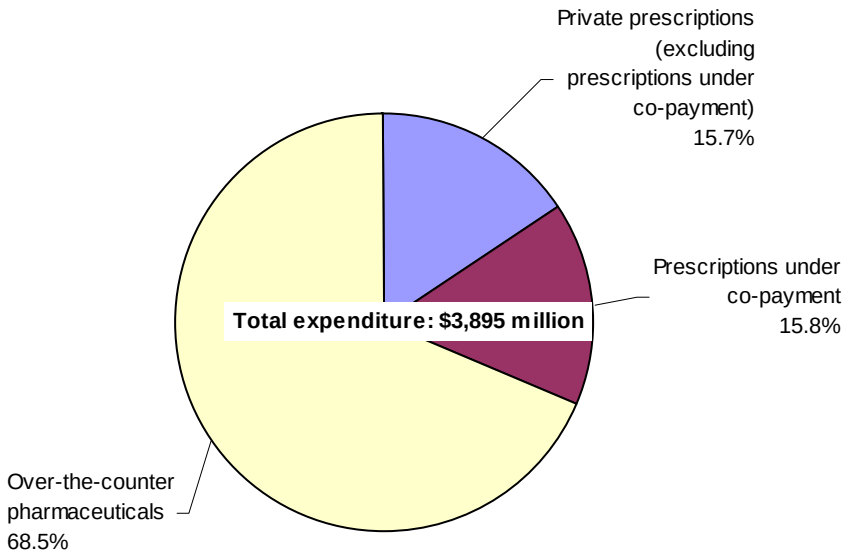
(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW estimates.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

In 2002–03, expenditure on private prescriptions and over-the-counter pharmaceuticals was $3,895 million. Over-the-counter pharmaceuticals accounted for the largest share of this expenditure at 68.5%. Private scripts accounted for the remainder of the expenditure (31.5%) (Figure 21).



Source: DoHA, Pharmacy Guild of Australia and AIHW health expenditure database.

Figure 21: All other pharmaceuticals expenditure, by category, current prices, 2002–03

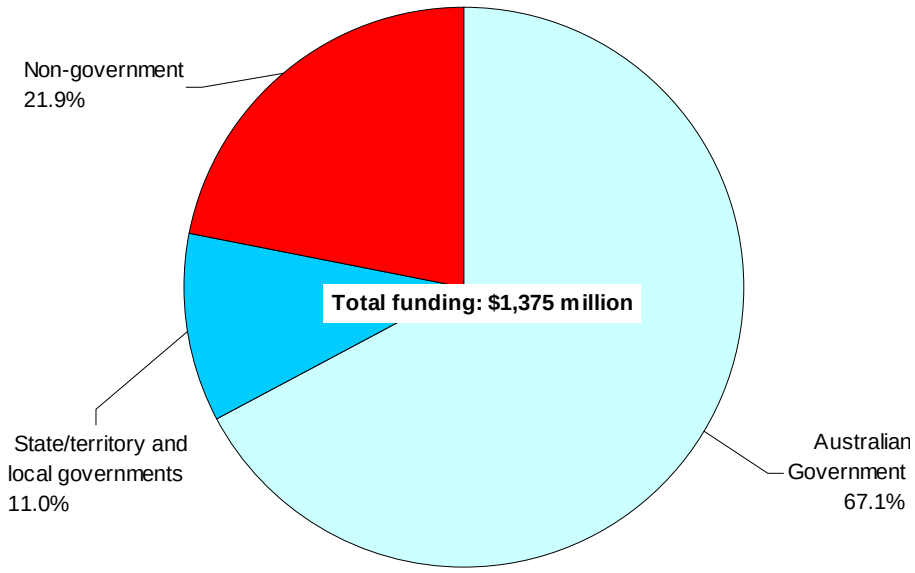
Aids and appliances

Expenditure on health aids and appliances grew 9.0% per year in real terms over the period 1993–94 to 2002–03. The fastest year of growth was 1999–00 to 2000–01, when it grew by 30.3% (Table A5). Changes in the methodology surrounding the treatment of private health insurance benefits paid for contractual ancillary services, and revisions to the ABS estimate of HFCE for medicines, aids and appliances have affected this series (see Chapter 6).

In 2002–03 expenditure on aids and appliances was $2,501 million, of which almost 80% was funded by individuals' out-of-pocket expenditure (calculated from Table A3).

Research

Total estimated expenditure on health research in 2002–03 was $1,375 million (Table A3). In real terms, estimated expenditure grew at an average of 7.9% per year between 1993–94 and 2003–04 (Table 35). Much of the expenditure in 2002–03 (67.1%) was funded by the Australian Government (Figure 22). State and territory and local governments provided 11.0% of funding for research and a further 21.9% was provided by non–government sources.



Source: Table A3.

Figure 22: Recurrent expenditure on health research, current prices, by broad source of funds, 2002–03

Table 35: Recurrent funding for health research, constant prices[a], and annual growth rates, by broad source of funds, 1993–94 to 2003–04

	Government							
	Australian Government		State/territory and local		Non-government		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1993–94	493	. .	75	. .	111	. .	679	. .
1994–95	498	1.1	117	55.9	124	11.5	739	8.8
1995–96	534	7.2	102	–12.6	131	5.6	767	3.8
1996–97	551	3.2	122	19.7	142	8.0	815	6.2
1997–98	501	–9.1	112	–8.1	151	6.9	764	–6.2
1998–99	580	15.8	106	–5.7	138	–8.7	824	7.8
1999–00	628	8.3	126	19.0	218	57.8	972	18.0
2000–01	784	24.9	152	21.0	263	20.5	1,200	23.4
2001–02	780	–0.5	185	21.7	311	18.2	1,277	6.4
2002–03	923	18.3	151	–18.6	302	–3.1	1,375	7.7
2003–04[b]	962	4.3	153	1.4	331	9.7	1,446	5.2
Average annual growth rate								
1993–94 to 1997–98		0.4		10.6		8.0		3.0
1997–98 to 2002–03		13.0		6.1		14.8		12.5
1993–94 to 2003–04		6.9		7.4		11.5		7.9

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW and ABS estimates.

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.

4.2 Capital formation

Because investments in health facilities and equipment involve large outlays, and the lives of such facilities and equipment can be very long (up to 50 years is not uncommon for buildings), capital expenditure fluctuates greatly from year to year (Table 36 and Figure 23). It is, therefore, meaningless to look at average growth rates over a relatively short period such as 10 years. Capital expenditure on health facilities and investments in 2002–03 was $1,566 million, 2.2% of total health expenditure (Tables 1 and 36). In 2003–04, it is estimated to have increased, in real terms, by 6.1%, to $1,662 million.

Australian Government funding of capital is often by way of grants and subsidies to other levels of government or to non-government organisations. In the early 1990s, the estimates of Australian Government funding of capital were somewhat distorted by the negative outlays that resulted from the disposal of the Repatriation General Hospitals.

State and territory and local governments, in contrast, devote much of their resources to new and replacement capital for government service providers (for example, hospitals and community health facilities). There were particularly high levels of capital expenditure in Queensland towards the end of the 1990s as some of the state's very old or run-down capital stock was replaced.

Typically, capital expenditure by the non-government sector accounts for between one-third and one-half of all capital outlays in any year. This is largely the result of investment in private hospitals and residential care facilities.

Table 36: Outlays on capital, constant prices[a], by source of funds, 1993–94 to 2003–04 ($ million)

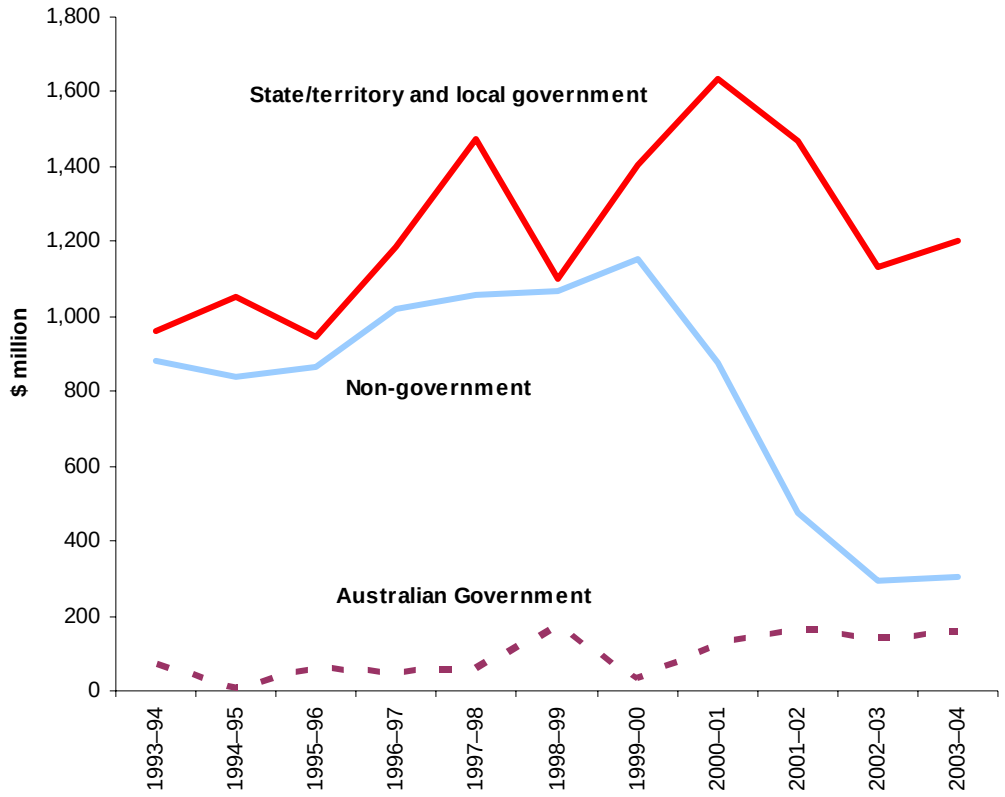
	Government			
Year	Australian Government	State/territory and local	Non-government	Total
1993–94	71	964	882	1,917
1994–95	6	1,050	838	1,894
1995–96	61	945	866	1,872
1996–97	48	1,188	1,022	2,258
1997–98	57	1,477	1,056	2,589
1998–99	169	1,100	1,067	2,336
1999–00	33	1,402	1,153	2,588
2000–01	123	1,634	875	2,632
2001–02	166	1,467	477	2,110
2002–03	139	1,135	292	1,566
2003–04[b]	157	1,201	304	1,662

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW and ABS estimates.

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.



(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

Source: Table 36.

Figure 23: Outlays on capital, constant prices[(a)], by broad source of funds, 1993–94 to 2003–04

4.3 Capital consumption by governments

Capital consumption is otherwise known as depreciation and represents the amount of fixed capital used up each year. The AIHW sources the data for this item from ABS Government finance statistics. Traditionally within the National Health Accounts (NHA) tables, capital consumption has been excluded from recurrent expenditure and has been grouped with capital expenditure to add to total health expenditure.

Capital consumption (depreciation) by governments, in real terms, was estimated at $1,056 million in 2002–03. Of this, 74.4% was related to hospitals (Table 38).

It was estimated to have increased, in real terms, by 5.2% in 2003–04 (Table 37), to $1,110 million.

Table 37: Estimated capital consumption by governments, current and constant prices[a], and annual growth rates, 1993–94 to 2003–04

	Current prices	Constant prices	
Year	$ million	$ million	Real growth (%)
1993–94	523	546	. .
1994–95	529	554	1.5
1995–96	571	592	7.0
1996–97	531	556	–6.1
1997–98	579	604	8.5
1998–99	877	913	51.2
1999–00	934	970	6.2
2000–01	970	991	2.2
2001–02	1,018	1,039	4.9
2002–03	1,056	1,056	1.6
2003–04[b]	1,121	1,110	5.2

(a) Constant price health expenditure for 1993–94 to 2003–04 is expressed in terms of 2002–03 prices.

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Table 38: Government sector shares of capital consumption expenditure by area of expenditure (per cent) and total capital consumption expenditure, current prices ($ million), 2001–02 and 2002–03

	Australian Government		State and local government		Total government	
Area of expenditure	**2001–02**	**2002–03**	**2001–02**	**2002–03**	**2001–02**	**2002–03**
Hospitals	. .	. .	79.92	78.33	76.26	74.42
Public (non-psychiatric)	. .	. .	76.55	76.77	73.05	72.95
Public (psychiatric)	. .	. .	3.36	1.55	3.21	1.48
High-level residential care	. .	. .	0.92	1.94	0.88	1.85
Total institutional	*. .*	*. .*	*80.84*	*80.27*	*77.14*	*76.27*
Benefit-paid pharmaceuticals	. .	. .	0.05	–-	0.05	–-
All other pharmaceuticals	. .	. .	0.03	–-	0.03	–-
Aids and appliances	. .	. .	0.02	–-	0.02	–-
Community health and other[(a)]	. .	. .	13.56	15.45	12.94	14.68
Public health	19.15	12.96	2.65	2.04	3.40	2.59
Health administration	72.34	81.48	2.75	1.75	5.93	5.72
Research	8.51	5.56	0.10	0.49	0.49	0.74
Total non-institutional	*100.00*	*100.00*	*19.16*	*19.73*	*22.86*	*23.73*
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Total expenditure ($ million)	**28**	**29**	**990**	**1,027**	**1,018**	**1,056**

(a) Includes ambulance

Source: AIHW health expenditure database.