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.

Institutional health expenditure includes:

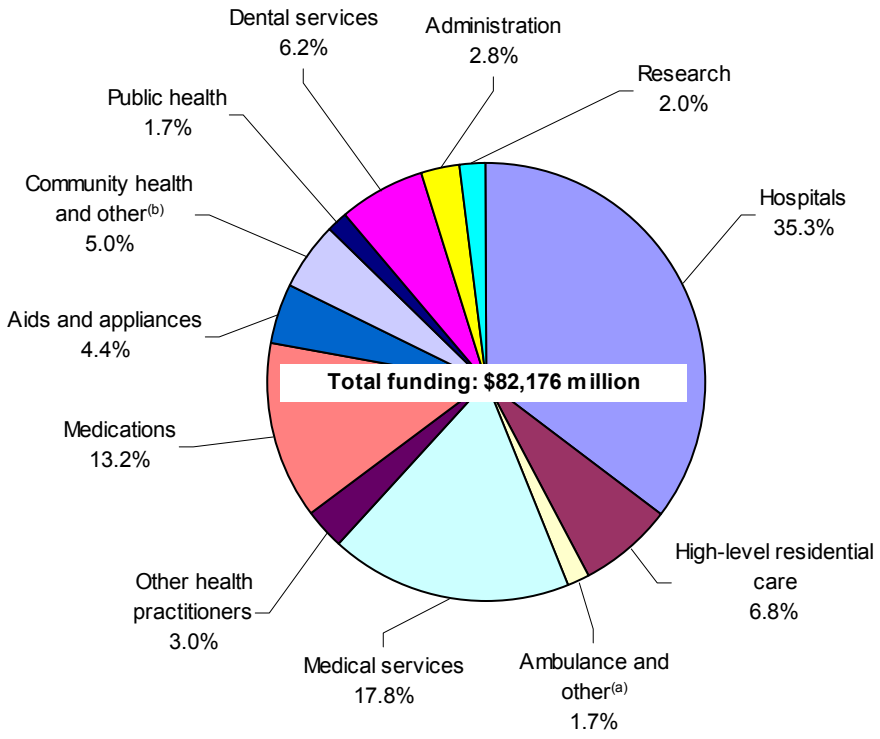
- hospitals
- high-level residential care (formerly nursing homes)
- ambulance (patient transport) services; and
- other institutional health services n.e.c.

Non-institutional health expenditure includes:

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

Over the period 1994–95 to 2004–05, total institutional services decreased its share of total health expenditure from 46.3% to 43.9% (Table A9) while total non-institutional goods and services increased its share from 53.7% to 56.1%. However, within these two categories of health goods and services there is substantial overlap.

For example, in 2004–05 hospitals (as part of institutional health services) accounted for an estimated 35.3% of total recurrent expenditure on health services, and medical services (a part of ambulatory health services under non-institutional health goods and services) accounted for a further 17.8% (Figure 18). Public hospitals, however, spent $3,416 million on salaried medical staff and visiting medical officers during 2004–05 (AIHW 2006a). 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. Likewise, expenditures classified as medical services include medical services provided to private patients in public and private hospitals.



(a) 'Other' refers to other institutional health services n.e.c.

(b) 'Other' refers to other non-institutional health services n.e.c.

Source: Table A3.

Figure 18: Recurrent expenditure on health goods and services, current prices, by broad area of expenditure, 2004–05

Institutional health services

Hospitals

More money is spent by hospitals, as the largest providers of health services, than other health providers. In this report hospital expenditure is analysed by three categories:

- 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 'stand-alone' public hospitals that cater almost exclusively for the needs of people with mental illness.

Table 30: Recurrent expenditure by hospitals, constant prices[(a)], by broad type of hospital, and annual growth rates, 1994–95 to 2004–05

	Public hospitals						All hospitals recurrent expenditure	
	Public (non-psychiatric)	Public psychiatric	Total public hospitals		Private hospitals			
Year	Amount ($m)	Amount ($m)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1994–95	13,210	606	13,816	. .	3,631	. .	17,447	. .
1995–96	13,847	562	14,409	4.3	3,954	8.9	18,363	5.3
1996–97	14,795	501	15,296	6.2	4,268	7.9	19,564	6.5
1997–98	15,700	454	16,155	5.6	4,389	2.8	20,543	5.0
1998–99	16,301	464	16,765	3.8	4,624	5.3	21,388	4.1
1999–00	16,573	481	17,055	1.7	4,800	3.8	21,855	2.2
2000–01	17,092	431	17,523	2.7	5,116	6.6	22,639	3.6
2001–02	17,900	506	18,406	5.0	5,484	7.2	23,890	5.5
2002–03	19,100	503	19,603	6.5	5,903	7.6	25,506	6.8
2003–04	19,671	557	20,228	3.2	6,482	9.8	26,710	4.7
2004–05	20,741	566	21,307	5.3	6,665	2.8	27,972	4.7
Average annual growth rate								
1994–95 to 1997–98				5.4		6.5		5.6
1997–98 to 2002–03				3.9		6.1		4.4
1994–95 to 2004–05				4.4		6.3		4.8

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

Source: AIHW health expenditure database.

In real terms hospital expenditure—public (psychiatric and non-psychiatric) and private hospitals—grew by 4.4% and 6.3% per year, respectively, between 1994–95 and 2004–05 (Table 30).

One important influence on growth in expenditure on hospitals is the Australian Government's policy for funding hospital services. In the case of public 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). Funding for hospitals is also influenced by the Australian Government's private health insurance initiatives, as private health insurance provides the bulk of funding for private hospitals and for private patients in public hospitals. Data from the first AHCA period and the first two years of the second AHCA period are included in this publication. See Box 3 for the periods of all health service funding agreements between the Australian Government and the state and territory governments.

Between 1997 and 2000 three major incentives relating to private health insurance were introduced:

- in July 1997, the means-tested Private Health Insurance Incentives Scheme (PHIIS) subsidy.
- in January 1999, an open-ended 30% rebate on private health insurance premiums, which replaced the PHIIS subsidy.
- in July 2000, the 'Lifetime Health Cover' initiatives to encourage more people to take out and maintain private hospital insurance cover.

Box 3: Australian Government and state and territory governments health funding agreement periods

First Medicare (Compensation) Agreement: 1984 to 30 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

Changes to 'Lifetime Health Cover' cover initiatives were announced in 2006 with the aim of improving take-up of private hospital insurance cover. These changes will be implemented progressively from 2007. The Australian Government also announced its intention to allow insurers to add value to private health insurance products by offering broader health cover products which would expand hospital cover to out-patient and out-of-hospital services. The details of this initiative are still under discussion.

From 1997–98 to 2002–03, public hospital expenditure grew at 3.9% per year. Private hospital expenditure grew at 6.1% per year during the same period (Table 30).

The private hospital share of hospital expenditure increased in the last decade from 20.8% of hospital expenditure in 1994–95 to 23.8% in 2004–05 (calculated from Table 30).

Table 31: Funding of hospitals[(a)], current prices, by broad source of funds, 1994–95 to 2004–05 (per cent)

	Government			Non-government			
Year	Australian Government[(b)]	State/territory and local	Total	Private health insurance funds[(b)]	Other non-government	Total	Total
1994–95	39.4	34.3	73.7	17.7	8.6	26.3	100.0
1995–96	37.7	35.7	73.4	17.7	8.9	26.6	100.0
1996–97	36.5	37.2	73.7	17.5	8.8	26.3	100.0
1997–98	38.2	38.2	76.4	14.7	8.9	23.6	100.0
1998–99	41.9	36.0	77.9	12.3	9.8	22.1	100.0
1999–00	43.8	35.8	79.6	10.5	9.9	20.4	100.0
2000–01	44.7	34.7	79.4	10.8	9.7	20.6	100.0
2001–02	43.7	34.9	78.6	11.9	9.4	21.4	100.0
2002–03	43.2	37.1	80.3	11.5	8.2	19.7	100.0
2003–04	41.9	37.8	79.7	11.3	8.9	20.3	100.0
2004–05	41.9	38.0	79.9	10.7	9.4	20.1	100.0

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

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

Source: AIHW health expenditure database.

In 2004-05, government accounted for the majority of funding for hospitals (79.9%). Non-government sources contributed the remainder of the funding (20.1%). Over the decade to 2004–05, governments increased their share of funding of hospitals by 6.2 percentage points (Table 31). The Australian Government increased its share by 2.5 percentage points and the state/territory governments increased their share by 3.7 percentage points.

Public hospitals

More than 90% of funding for public hospitals comes from governments. The Australian Government's contribution—estimated at 44.2% in 2004–05 (Table 32)—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, provided 48.0% of the funding for public hospitals in 2004–05.

The non-government contribution declined over the decade from 9.2% in 1994–95 to 7.8% in 2004–05 (Table 32). The non-government funding consists of funding from private health insurance (1.6%), individual out-of-pocket payments (2.3%), workers compensation insurers and motor vehicle third-party insurers (0.7%) and other revenue (3.1%).

Table 32: Funding of public hospitals[(a)], current prices, by broad source of funds, 1994–95 to 2004–05

	Government					
	Australian Government		State/territory		Non-government	
Year	Amount ($m)	Share (%)	Amount ($m)	Share (%)	Amount ($m)	Share (%)
1994–95	5,186	47.6	4,716	43.3	999	9.2
1995–96	5,285	45.6	5,274	45.5	1,041	9.0
1996–97	5,475	43.9	5,937	47.6	1,068	8.6
1997–98	5,905	43.9	6,543	48.6	1,004	7.5
1998–99	6,657	46.4	6,589	45.9	1,093	7.6
1999–00	6,979	46.8	6,847	45.9	1,099	7.4
2000–01	7,497	47.3	7,100	44.8	1,249	7.9
2001–02	7,982	46.5	7,769	45.3	1,413	8.2
2002–03	8,696	46.0	8,854	46.8	1,371	7.2
2003–04	9,059	44.8	9,702	48.0	1,467	7.3
2004–05	9,782	44.2	10,614	48.0	1,716	7.8

(a) Includes public (non-psychiatric) and public psychiatric hospitals.

Source: AIHW health expenditure database.

The share of funding for public (psychiatric and non-psychiatric) hospitals met by the two major levels of government—Australian, and state and territory—fluctuates from year to year. The usual pattern observed over time has seen the Australian Government share of funding higher in the earlier years of the five-year health agreements (see Box 3) and lower towards the end of the period—with state and territory governments share of funding the reverse. The non-government share declined somewhat over the decade to 2004–05 (Table 32). For the first two years of the current AHCAs however, the Australian Government share fell—by 1.2 percentage points in the first year and 0.5 percentage points in the second year. There was an increase in the share provided by the state and territory governments (1.2 percentage points and 0.1 percentage points respectively).

Table 33: Recurrent funding of public hospitals[a], constant prices[b], by source of funds, and annual growth rates, 1994–95 to 2004–05

	Government									
	Australian Government[b]		State/territory		Total		Non-government[c]		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1994–95	6,573	. .	5,977	. .	12,550	. .	1,266	. .	13,816	. .
1995–96	6,565	–0.1	6,551	9.6	13,116	4.5	1,293	2.1	14,409	4.3
1996–97	6,699	2.0	7,283	11.2	13,982	6.6	1,314	1.6	15,296	6.2
1997–98	7,087	5.8	7,861	7.9	14,948	6.9	1,206	–8.2	16,155	5.6
1998–99	7,781	9.8	7,703	–2.0	15,484	3.6	1,280	6.1	16,765	3.8
1999–00	7,974	2.5	7,824	1.6	15,797	2.0	1,257	–1.8	17,055	1.7
2000–01	8,290	4.0	7,851	0.3	16,141	2.2	1,382	9.9	17,523	2.7
2001–02	8,559	3.3	8,331	6.1	16,891	4.6	1,516	9.7	18,406	5.0
2002–03	9,009	5.3	9,173	10.1	18,182	7.6	1,421	–6.3	19,603	6.5
2003–04	9,059	0.6	9,702	5.8	18,761	3.2	1,467	3.3	20,228	3.2
2004–05	9,429	4.1	10,225	5.4	19,654	4.8	1,653	12.7	21,307	5.3
Average annual growth rate										
1994–95 to 1997–98		2.5		9.6		6.0		–1.6		5.4
1997–98 to 2002–03		4.9		3.1		4.0		3.3		3.9
1994–95 to 2004–05		3.7		5.5		4.6		2.7		4.4

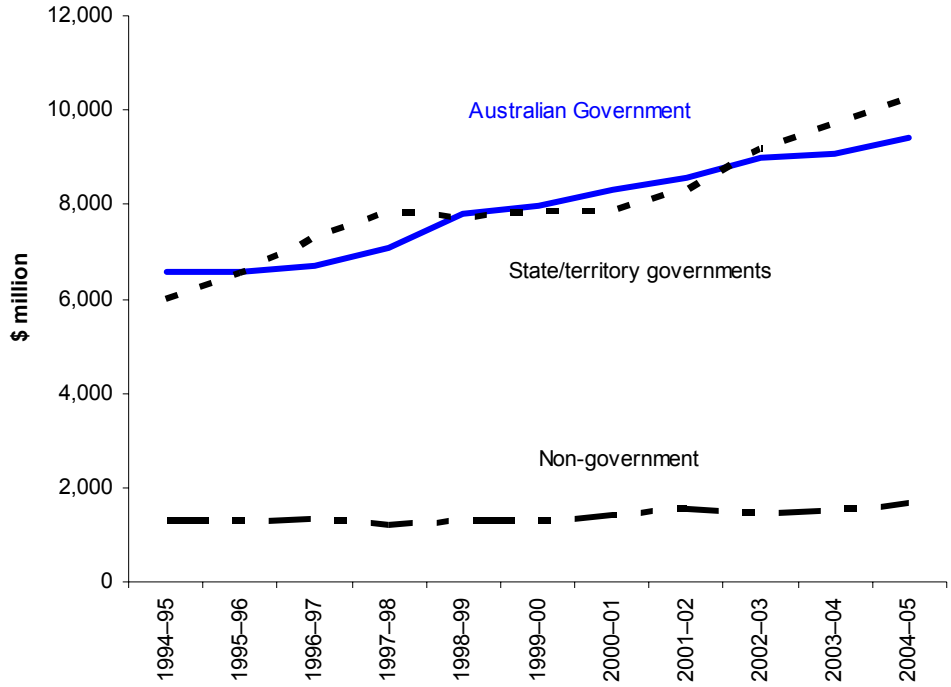
(a) Includes public (non-psychiatric) and public psychiatric hospitals.

(b) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

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

Source: AIHW health expenditure database.



(a) Includes both non-psychiatric and psychiatric hospitals.

(b) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

Source: Table 33.

Figure 19: Funding of public hospitals[(a)], constant prices[(b)], by broad source of funds, 1994–95 to 2004–05

Public psychiatric hospitals

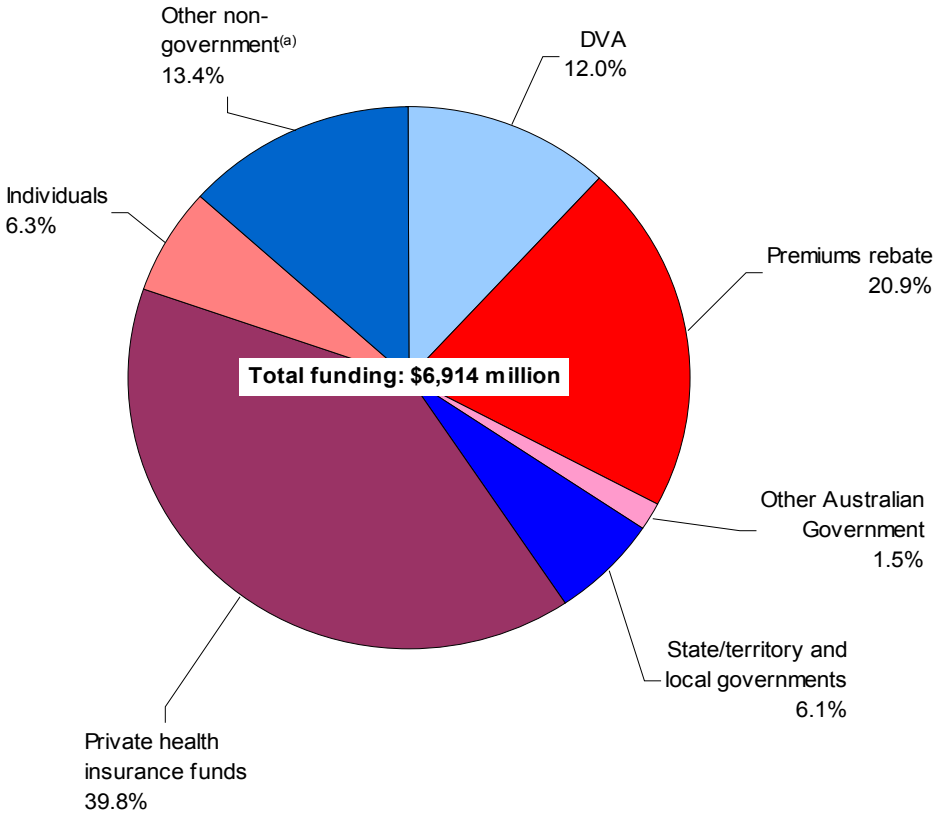
Public psychiatric hospitals are stand-alone institutions operated by, or on behalf of, state and territory governments whose main function is to provide psychiatric care. These days most psychiatric care is provided by public (non-psychiatric) hospitals sometimes in general wards, sometimes in dedicated psychiatric wards and sometimes in out-patient clinics. The admitted patient expenditure for mental health services in these hospitals is approximately $700 million in 2004–05.

Total expenditure on public psychiatric hospitals in 2004–05 is estimated at $588 million (Table A3). Of this, $324 million was funded by state and territory governments and $234 million was funded by the Australian Government.

Private hospitals

Total expenditure on private hospitals in 2004–05 was estimated at $6,914 million (Figure 20). Almost two-thirds (60.7%) of this was sourced through private health insurance funds. This comprised 39.8% out of the premiums paid by members and other revenues flowing to the funds, and the remaining 20.9% being indirectly funded out of the rebates paid by the Australian Government in respect of contributors' premiums. In 2004–05 those rebates, in

total, amounted to $3.0 billion, and $1.4 billion of that is estimated to have been directed to the funding of private hospitals (Table 24).



(a) Includes funding by injury compensation insurers.

Source: Table A3.

Figure 20: Funding of private hospitals, current prices, by broad source of funds, 2004–05

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 2004–05 was estimated at $5,586 million. Of this, the Australian Government funded $4,183 million, state and territory and local governments funded $215 million and the non-government sector $1,187 million (Table A3).

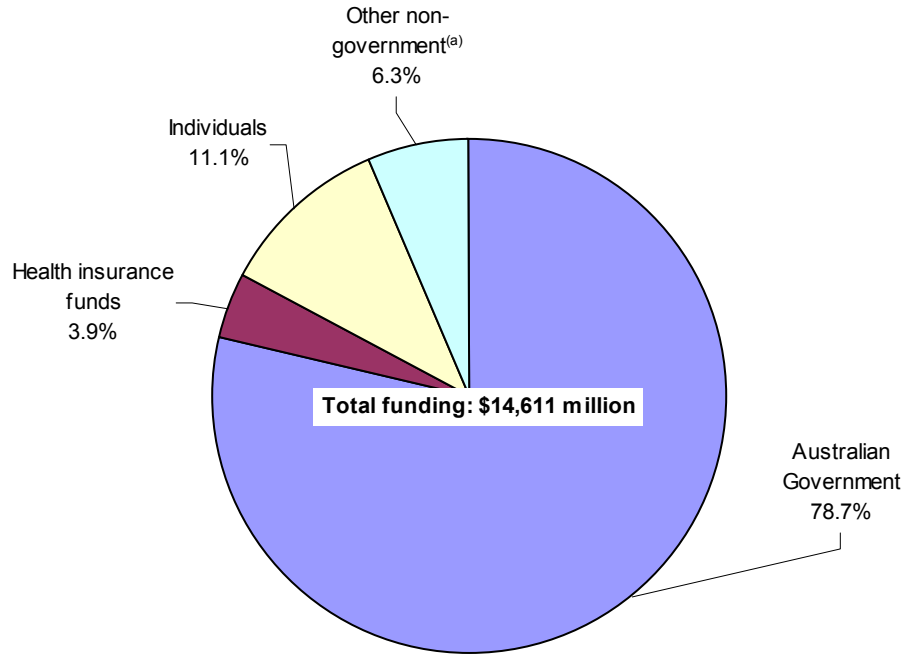
From 1994–95 to 2004–05, real growth in expenditure on high-level residential care was 4.5% per year compared with 5.2% per year for total health expenditure (Table A8). For the period 1997–98 to 2002–03, the differential between the two growth rates widened to 3.2 percentage points—for high-level residential care the growth rate was 2.3% per year, while for total health expenditure it was 5.5% per year.

Non-institutional health goods and services

Medical services

Between 1994–95 and 2004–05, expenditure on medical services increased, in real terms, at an average of 3.1% per year. The real growth rates were similar during the Third Medicare Agreement and the First Australian Health Care Agreement (2.7% and 3.0% respectively) (Table 34 and Box 3).

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 $14.6 billion spent on medical services in 2004–05, 78.7% was funded by the Australian Government (Figure 21). 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.



(a) Includes funding by injury compensation insurers.

Source: Table A3.

Figure 21: Recurrent expenditure on medical services, current prices, by source of funds, 2004–05

While the Australian Government's expenditure provides the bulk of the funding for medical services, the implementation of government policies to encourage the take-up of private health insurance led to a real growth in funding of medical services by the non-government sector. For example, between 1994–95 and 2004–05, the Australian Government's real expenditure grew by 2.6%, while expenditure by individuals rose by 4.5% and that of health insurance funds rose by 6.0% (Table 34).

From 1999–00, with the introduction of the 30% rebate and the subsequent 'Lifetime Health Cover' incentives, real growth in funding by the health insurance funds accelerated sharply until 2002–03 when the growth rate decreased to 11.0% from 37.4% in the previous year. Growth declined further in 2003–04 to 6.0% and became negative in 2004–05 (–2.7%). As health insurance coverage began to flatten off, and even fall, for people aged 64 and below, the increases in funding by individuals that had occurred since 1999–00 and peaked in 2002–03 (13.0%), also started to slow and by 2004–05 were also showing negative growth (–5.9%) (Table 34).

Table 34: Recurrent funding of medical services, constant prices[a], by source of funds, and annual growth rates, 1994–95 to 2004–05

	Australian Government[b]		Health insurance funds		Individuals		Other non-government		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1994–95	8,268	. .	293	. .	968	. .	501	. .	10,031	. .
1995–96	8,674	4.9	298	1.6	1,011	4.4	527	5.1	10,509	4.8
1996–97	8,821	1.7	301	1.0	1,075	6.3	576	9.2	10,772	2.5
1997–98	8,888	0.8	268	–11.1	1,153	7.3	567	–1.6	10,875	1.0
1998–99	9,194	3.4	252	–5.7	1,207	4.6	597	5.4	11,250	3.4
1999–00	9,772	6.3	266	5.4	1,225	1.5	634	6.3	11,897	5.8
2000–01	9,766	–0.1	336	26.3	1,265	3.3	610	–3.9	11,977	0.7
2001–02	9,945	1.8	461	37.4	1,326	4.8	700	14.7	12,432	3.8
2002–03	9,889	–0.6	512	11.0	1,498	13.0	702	0.4	12,602	1.4
2003–04	9,972	0.8	542	6.0	1,600	6.8	796	13.3	12,910	2.4
2004–05	10,671	7.0	528	–2.7	1,505	–5.9	848	6.5	13,551	5.0
Average annual growth rate										
1994–95 to 1997–98		2.4		–3.0		6.0		4.2		2.7
1997–98 to 2002–03		2.2		13.8		5.4		4.4		3.0
1994–95 to 2004–05		2.6		6.0		4.5		5.4		3.1

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

Note: Components may not add due to rounding.

Source: AIHW health expenditure database.

Bulk-billing influences the relative shares of funding by the Australian Government and individuals, because services that are bulk-billed do not attract any co-payment. For example, if the quantity, prices and mix of services remained constant, while the proportion of services that were bulk-billed rose, the average co-payment across all medical services would fall, while the average payment by the Australian Government would remain constant. This, in turn, would bring about a fall in the share of the overall expenditure being funded by individuals and a corresponding rise in the Australian Government's share.

In 1994–95, 69.6% of all medical services were bulk-billed. Bulk-billing rates continued to increase up to 1999–00 when rates peaked at 72.3% (Table 35). After this date, the overall bulk-billing rate declined each year to 2003–04, when 67.5% of all medical services were bulk-billed. In 2004–05 the rate increased again to 70.2%—a similar proportion to the levels of services that were bulk-billed in 2001–02.

Table 35: Shares of recurrent funding for medical services, current prices, and proportion of medical services bulk-billed, 1994–95 to 2004–05 (per cent)

		Non-government					
Year	Australian Government	Health insurance funds	Individuals	Other	Total	Total	Bulk-billing rate
1994–95	82.4	2.9	9.6	5.0	17.6	100.0	69.6
1995–96	82.5	2.8	9.6	5.0	17.5	100.0	71.1
1996–97	81.9	2.8	10.0	5.3	18.1	100.0	71.8
1997–98	81.7	2.5	10.6	5.2	18.3	100.0	71.8
1998–99	81.7	2.2	10.7	5.3	18.3	100.0	72.0
1999–00	82.1	2.2	10.3	5.3	17.9	100.0	72.3
2000–01	81.5	2.8	10.6	5.1	18.5	100.0	71.4
2001–02	80.0	3.7	10.7	5.6	20.0	100.0	70.4
2002–03	78.5	4.1	11.9	5.6	21.5	100.0	67.8
2003–04	77.2	4.2	12.4	6.2	22.8	100.0	67.5
2004–05	78.7	3.9	11.1	6.3	21.3	100.0	70.2

Source: AIHW health expenditure database.

Other health practitioners

Almost half the expenditure on other health practitioners was funded by individual users of services (46.8% in 2004–05) and totalled $2.4 billion in that year (Table A3).

In real terms, expenditure on other health practitioners fell at an average of 0.2% per year between 1994–95 and 2004–05 (Table A8). In the years 1997–98 to 2002–03 average growth was –1.0% per year, 6.5 percentage points lower than the growth in total health expenditure (5.5%) over that period.

Medications

Medications comprise benefit-paid pharmaceuticals and other medications (pharmaceuticals and other medicines) for which no PBS or RPBS benefit was paid. Other medications include private and under co-payment prescriptions, and over-the-counter medicines such as pharmacy-only medicines, aspirin, cough and cold medicines, vitamins and minerals, and a range of medical non-durables, such as bandages, band aids and condoms. For more information see Table 51 and Glossary.

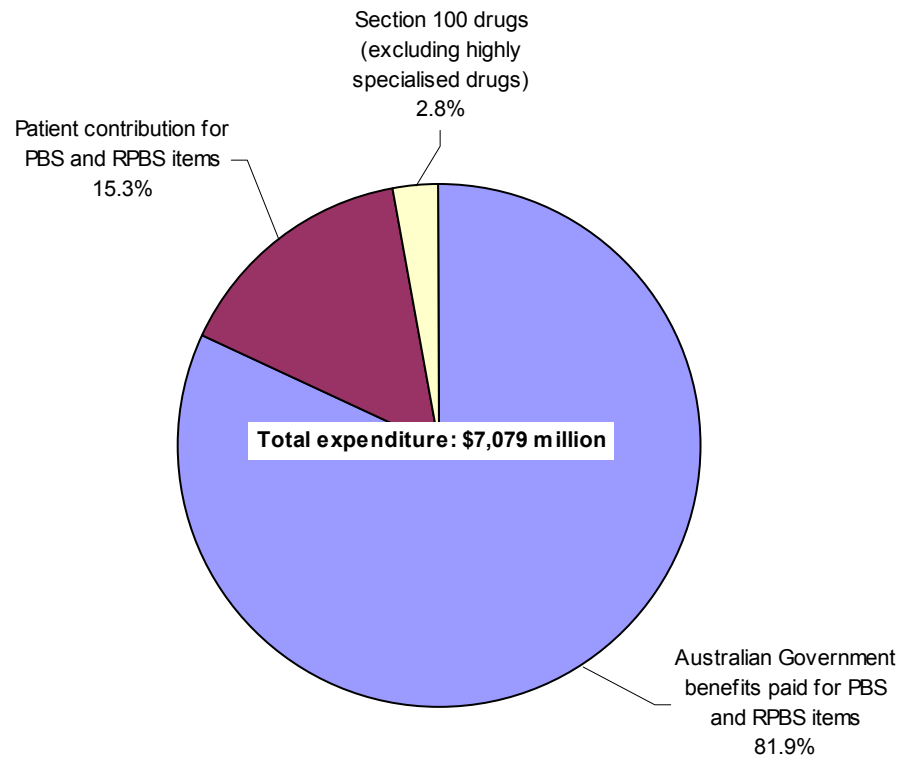
In real terms, total expenditure on medications increased by 8.9% per year from 1994–95 to 2004–05, to reach $10.7 billion in 2004–05 (Tables A6 and A8). While total expenditure experienced relatively consistent growth between 1994–95 and 2004–05, expenditure on benefit-paid pharmaceuticals and other medications 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 pharmaceuticals 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 'other medications' category.

Benefit-paid pharmaceuticals

In real terms, recurrent expenditure on benefit-paid pharmaceuticals grew at an average of 10.5% per year from 1994–95 to 2004–05 (Table 36). The period of most rapid growth was from 1997–98 to 2002–03, when growth averaged 12.4% per year—greater than the overall rate of growth in total recurrent health expenditure (5.5%) (Table A8). Growth in that period was shared between the Australian Government (12.9% per year) and individuals' (9.7% per year) expenditure (Table 36).

In 2004–05, the total amount spent on pharmaceuticals for which benefits were paid was $7,079 million in current prices (Figure 22). Benefits paid by the Australian Government for PBS and RPBS items accounted for 81.9% of this expenditure. Of the remaining expenditure, 15.3% of the total was due to patient contributions for PBS and RPBS items, and 2.8% to Section 100 drugs (excluding highly specialised drugs).



Source: AIHW health expenditure database.

Figure 22: Recurrent expenditure on benefit-paid pharmaceuticals, current prices, 2004–05

Table 36: Recurrent expenditure on benefit-paid pharmaceuticals, constant prices[a], by source of funds, and annual growth rates, 1994–95 to 2004–05

	Australian Government		Individuals		Total recurrent expenditure	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1994–95	2,128	. .	470	. .	2,599	. .
1995–96	2,545	19.6	501	6.5	3,046	17.2
1996–97	2,754	8.2	557	11.1	3,311	8.7
1997–98	2,814	2.2	600	7.8	3,414	3.1
1998–99	3,105	10.3	630	5.0	3,735	9.4
1999–00	3,537	13.9	683	8.4	4,221	13.0
2000–01	4,324	22.2	777	13.7	5,101	20.9
2001–02	4,683	8.3	842	8.5	5,525	8.3
2002–03	5,171	10.4	951	12.9	6,123	10.8
2003–04	5,660	9.5	1,035	8.8	6,695	9.4
2004–05	5,917	4.5	1,148	10.9	7,065	5.5
Average annual growth rate						
1994–95 to 1997–98		9.8		8.4		9.5
1997–98 to 2002–03		12.9		9.7		12.4
1994–95 to 2004–05		10.8		9.3		10.5

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

Source: AIHW health expenditure database.

All other medications

In real terms, recurrent expenditure on other medication items (see Table 51 for definition) grew by an average of 6.3% between 1994–95 and 2004–05 (Table 37). 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 source of funding for other medication items was individuals' out-of-pocket expenditure. The most rapid period of growth (10.5%) was from 1997–98 to 2002–03, which can largely be attributed to growth in expenditure by individuals (10.4%) and by health insurance funds (9.1%) (Table 37).

Table 37: Recurrent expenditure of other medications, constant prices[a], by source of funds, and annual growth rates, 1994–95 to 2004–05

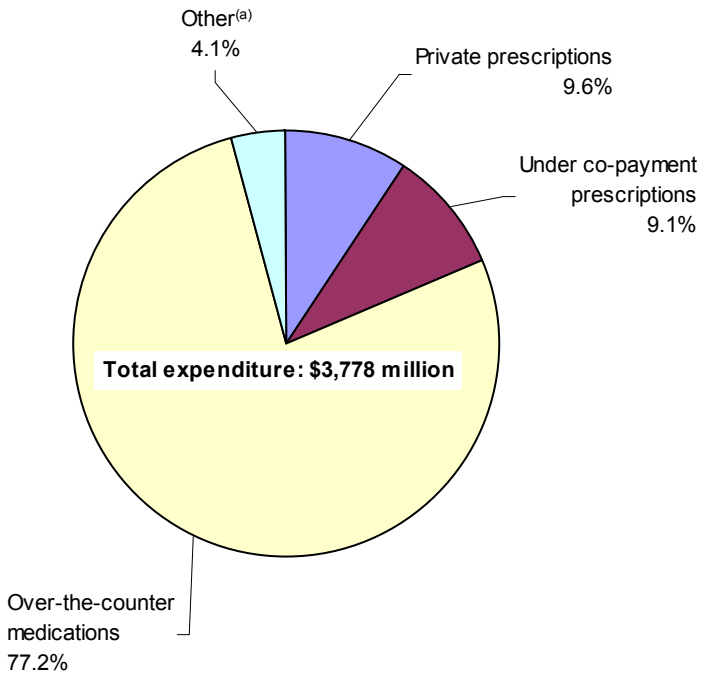
	Australian Government		State/territory and local governments		Health insurance funds		Individuals and other non-govt		Total recurrent funding	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1994–95	—	. .	2	. .	49	. .	1,930	. .	1,981	. .
1995–96	—	. .	12	. .	50	3.0	1,828	–5.3	1,890	–4.6
1996–97	—	. .	12	1.2	50	–0.4	2,033	11.2	2,096	10.9
1997–98	3	. .	18	44.7	34	–31.2	2,379	17.0	2,435	16.2
1998–99	8	125.8	—	. .	32	–8.0	2,593	9.0	2,633	8.1
1999–00	15	84.6	—	. .	33	4.1	2,856	10.1	2,903	10.3
2000–01	86	488.5	—	. .	38	14.4	3,095	8.4	3,219	10.9
2001–02	56	–35.2	2	. .	47	24.3	3,702	19.6	3,807	18.3
2002–03	61	10.5	—	. .	53	13.5	3,893	5.2	4,008	5.3
2003–04	75	22.8	—	. .	49	–8.8	3,444	–11.5	3,568	–11.0
2004–05	119	58.2	—	. .	48	–2.3	3,495	1.5	3,662	2.6
Average annual growth rate										
1994–95 to 1997–98		. .		. .		–11.0		7.2		7.1
1997–98 to 2002–03		77.4		. .		9.1		10.4		10.5
1994–95 to 2004–05		. .		. .		–0.3		6.1		6.3

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

Source: AIHW health expenditure database.

In 2004–05, expenditure on all other medication items was $3,778 million. Over-the-counter medicines accounted for the largest share of this expenditure at 77.2%. Private prescriptions accounted for 9.6%, under co-payment prescriptions for 9.1% and the remainder (4.1%) comprised funding from injury compensation insurers and other administered expense items (Figure 23).



(a) Includes injury compensation insurers payments and some DoHA administered expense items.

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

Figure 23: All other medications expenditure, by category, current prices, 2004–05

Pharmaceutical expenditure in the community and hospitals

In 2004–05, estimated expenditure on pharmaceuticals (excluding complementary and alternative medications, and over-the-counter medications for which a prescription was not required) was $9,755 million (Table 38). The majority of this expenditure was for benefit-paid pharmaceuticals (72.6% or $7,079 million) most of which was funded by the Australian Government (83.7%). Individuals' out-of-pocket expenses accounted for the remaining 16.3% of benefit-paid pharmaceuticals. Expenditure on in-hospital drugs comprised $1,511 million spent on drugs by public hospitals and $304 million spent by private hospitals. This total ($9,755 million) does not include expenditures incurred by the Australian Government and state and territory governments in purchasing and administering vaccines under various state, territory and national public health programs.

Table 38: Expenditure on pharmaceuticals for which a script is required, dispensed in the community and by hospitals[a], current prices, 2004–05 ($ million)

Funding source	Benefit-paid pharmaceuticals	All other pharmaceuticals		Total pharmaceuticals
		Non-hospital[b]	Hospital[c]	
Government sector				
Australian Government Department of Veterans' Affairs	474	. .	. .	474
Australian Government Department of Health and Ageing[d][e]	5,454	123	. .	5,577
Public hospitals[f]	. .	. .	1,511	1,511
Total public sector	*5,928*	*123*	*1,511*	*7,562*
Non-government sector				
Health insurance funds	. .	49	. .	49
Individuals	1,151	631	. .	1,782
Private hospitals[g]	. .	. .	304	304
Other non-government[h]	. .	58	. .	58
Total private sector	*1,151*	*739*	*304*	*2,193*
Total	**7,079**	**862**	**1,815**	**9,755**

(a) Excludes complementary and alternative medicines and over-the-counter medicines for which a prescription is not required.

(b) Includes private prescriptions and under co-payment prescriptions.

(c) Does not include the costs of paying hospital staff to dispense these pharmaceuticals. Dispensary costs are included in the first two columns of this table.

(d) Excludes $471 million in payments for highly specialised drugs.

(e) Includes $204 million in Section 100 payments for human growth hormones, IVF and other subsidised pharmaceuticals.

(f) Includes $385 million in Australian Government payments to states for highly specialised drugs.

(g) Includes $86 million in Australian Government payments for highly specialised drugs.

(h) Includes funding by injury compensation insurers.

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

Source: AIHW health expenditure database.

Expenditure on benefit-paid items under the PBS and RPBS represented almost three quarters (72.6%) of the total expenditure on pharmaceuticals for which a prescription was required (Table 38). Expenditure on benefit-paid items has two components—the cost to government and co-payments by users.

The cost to government under the PBS (not including expenditure under the RPBS) in 2003–04 was estimated at $4,992 million (Table 39). In 2004–05, it increased to $5,296 million. The relative funding shares of the PBS (that were met by the Australian Government through benefits and by individuals through their co-payments) changed little until 1 January 2005, when co-payments by general patients increased from $23.70 per prescription to $28.60 and by concessional patients from $3.80 to $4.60. There have also been some changes over time in the proportion of total patient contribution paid by general and concessional patients and funding under the safety net arrangements. In 2000–01 concessional patients contributed $337 million or 45.3% of total patient contributions. By 2004–05 their contribution had dropped to 42.7% or $444 million. During the same period contributions provided by the Australian Government for general and concessional patients under the safety net arrangement increased from $788 million (20.7% of Australian Government contribution to PBS benefits) to $1,368 million (25.8%) in 2004–05.

Table 39: Pharmaceuticals Benefits Scheme[a], Australian Government and patients' payments, 2000–01 to 2004–05 ($ million)

Benefit category	2000–01	2001–02	2002–03	2003–04	2004–05
Patient contributions					
General patients	407	444	489	545	597
Concessional patients	337	362	370	393	444
Total patient contributions	*744*	*806*	*860*	*938*	*1,041*
Government benefits					
General patients–no safety net	662	691	751	824	851
General patients–safety net	128	148	170	191	223
Total general patients	*790*	*840*	*920*	*1,015*	*1,073*
Concessional patients–no safety net	2,360	2,570	2,747	2,972	3,077
Concessional patients–safety net	660	778	908	1,005	1,145
Total concessional patients	*3,020*	*3,348*	*3,655*	*3,977*	*4,223*
Total cost to government	*3,810*	*4,188*	*4,575*	*4,992*	*5,296*
Total cost of PBS benefit-paid items[b]	**4,554**	**4,994**	**5,435**	**5,929**	**6,337**

(a) Does not include RPBS or 'doctors bag' pharmaceuticals.

(b) Excludes Section 100 payments for human growth hormones, IVF and other non-PBS subsidised pharmaceuticals.

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

Source: DoHA unpublished data.

Aids and appliances

Expenditure on health aids and appliances grew 11.4% per year in real terms over the period 1994–95 to 2004–05. The fastest year of growth was 1999–00 to 2000–01, when it grew by 30.1% (Table A8). 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.

In 2004–05 expenditure on aids and appliances was $3,622 million, of which over 80% was funded by individuals' out-of-pocket expenditure (calculated from Table A3).

Community health and other

In 2003–04, expenditure by state, territory and local governments totalled $3.1 billion out of a total of $3.7 billion spent on community health services (Table A2). In 2004–05, community health was estimated at $4.1 billion (Table A3).

Public health

While reliable estimates are not available for earlier years, since 1999–00, 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 2002, 2004, 2006b).

Over the past three years, public health expenditure was estimated at:

- 2002–03—$1.2 billion
- 2003–04—$1.3 billion
- 2004–05—$1.4 billion.

Over these three years the Australian Government's funding of total public health expenditure has been respectively 58.8%, 52.0% and 59.8% (calculated from Tables A1, A2 and A3). Part of this Australian Government funding was directed to state and territory governments to fund public health initiatives (32.1%, 24.6% and 27.1% respectively of total public health expenditure). State and territory own source funding of public health has been 41.2%, 43.0% and 36.3% respectively.

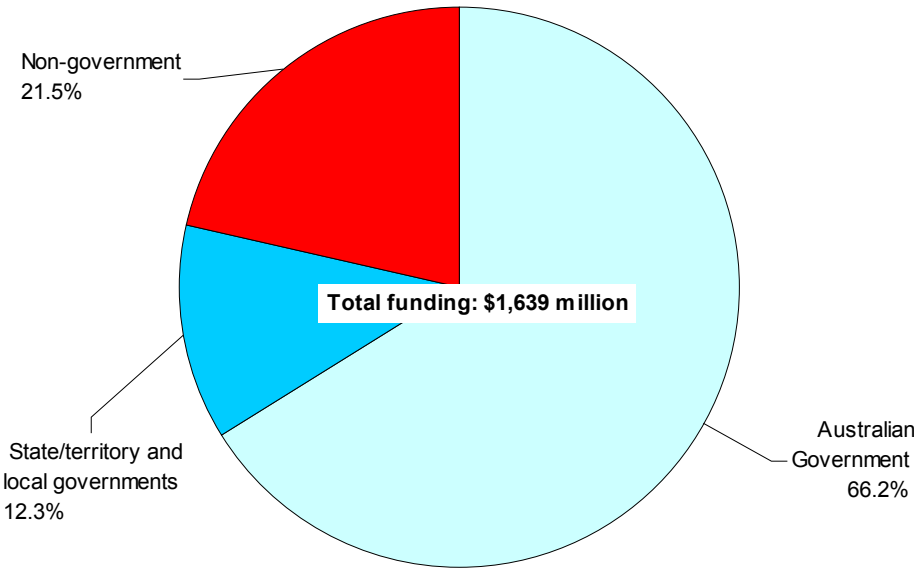
Dental services

Individuals funded 67.1% of the $5.1 billion spent on dental services in 2004–05 (Table A3). For the period 1994–95 to 2004–05, real growth in dental services expenditure averaged 3.7% per year—1.4 percentage points below the annual real growth in total recurrent health expenditure (Table A8). However, in nominal terms, average annual growth for dental services expenditure was 8.8% over the decade, 0.5 percentage points higher than the growth for total recurrent health expenditure of 8.3% (Table A7). The reason for the difference is the high growth in dental prices.

In contrast, for the period 1997–98 to 2002–03, real growth for dental services (6.2% annually) exceeded that for recurrent health expenditure by 0.7 percentage points (Table A8).

Research

Total estimated expenditure on health research in 2004–05 was $1,639 million (Table A3). In real terms, estimated expenditure grew at an average of 7.6% per year between 1994–95 and 2004–05 (Table 40). Much of the expenditure in 2004–05 (66.2%) was funded by the Australian Government (Figure 24). State and territory and local governments provided 12.3% of the funding for research and a further 21.5% was provided by non–government sources.



Source: Table A3.

Figure 24: Recurrent expenditure on health research, current prices, by broad source of funds, 2004–05

Table 40: Recurrent funding for health research, constant prices[a], and annual growth rates, by broad source of funds, 1994–95 to 2004–05

	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 (%)
1994–95	508	. .	119	. .	127	. .	754	. .
1995–96	555	9.3	106	–10.9	136	7.6	798	5.8
1996–97	567	2.1	125	17.8	145	6.4	837	4.9
1997–98	517	–8.8	116	–7.5	156	7.5	789	–5.8
1998–99	600	16.1	109	–5.7	143	–8.4	852	8.1
1999–00	654	9.0	130	19.1	225	57.2	1,009	18.4
2000–01	821	25.4	157	20.8	270	20.3	1,248	23.7
2001–02	870	5.9	165	5.0	290	7.1	1,324	6.1
2002–03	950	9.3	177	7.8	310	6.9	1,437	8.6
2003–04	988	4.0	171	–3.7	326	5.2	1,484	3.3
2004–05	1,036	4.9	192	12.6	338	3.6	1,566	5.5
Average annual growth rate								
1994–95 to 1997–98		0.6		–1.0		7.2		1.5
1997–98 to 2002–03		12.9		9.0		14.7		12.8
1994–95 to 2004–05		7.4		4.9		10.3		7.6

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

Note: Components may not add to totals 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 41 and Figure 25). 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 2004–05 was $3,743 million (in 2003–04 prices), 4.5% of total health expenditure (Tables 1 and 41).

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, 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. Non-government capital investment is largely in private hospitals and residential care facilities.

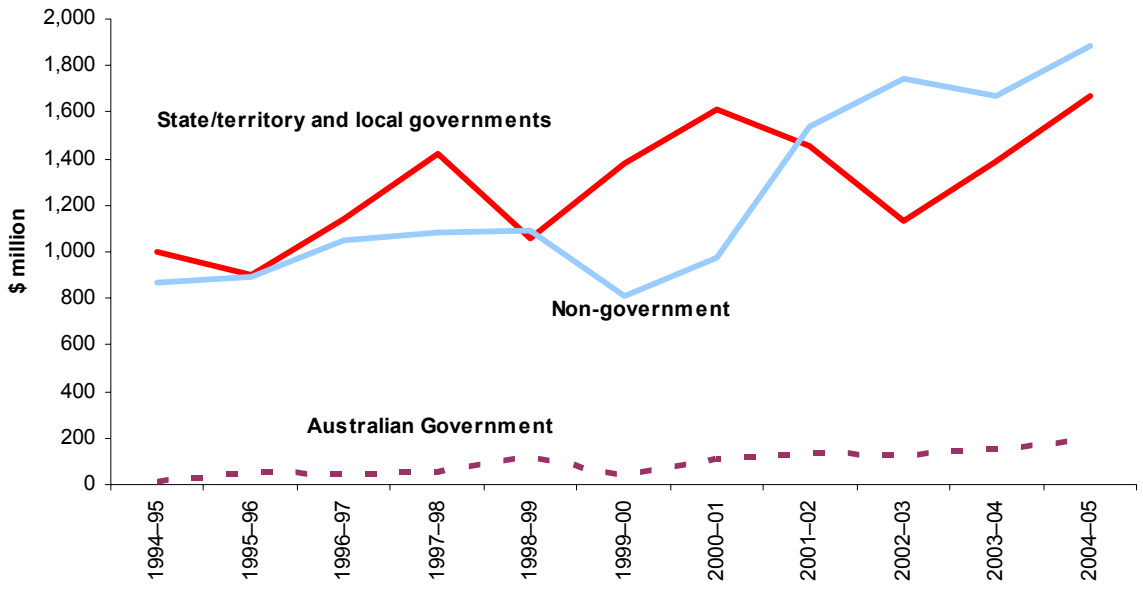
Table 41: Outlays on capital, constant prices[a], by source of funds, 1994–95 to 2004–05 ($ million)

	Government			
Year	Australian Government	State/territory and local	Non-government	Total
1994–95	5	998	866	1,869
1995–96	50	898	892	1,840
1996–97	39	1,137	1,050	2,226
1997–98	47	1,425	1,083	2,554
1998–99	120	1,062	1,093	2,274
1999–00	30	1,381	811	2,222
2000–01	109	1,611	977	2,697
2001–02	134	1,454	1,538	3,126
2002–03	128	1,135	1,746	3,009
2003–04	148	1,390	1,667	3,206
2004–05	193	1,669	1,880	3,743

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

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

Source: AIHW health expenditure database.



(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

Source: Table 41.

Figure 25: Outlays on capital, constant prices[a], by broad source of funds, 1994–95 to 2004–05

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 sits along side capital expenditure. Together capital expenditure, capital consumption and recurrent expenditure add to total direct health expenditure.

Capital consumption (depreciation) by governments, in real terms, was estimated at $1,260 million in 2004–05 (Table 42). This was an increase, in real terms, of 5.9% from 2003–04.

Table 42: Capital consumption by governments, current and constant prices[(a)], and annual growth rates, 1994–95 to 2004–05

	Current prices	Constant prices	
Year	$ million	$ million	Real growth (%)
1994–95	529	524	. .
1995–96	571	561	7.1
1996–97	531	529	–5.7
1997–98	579	577	9.2
1998–99	884	886	53.4
1999–00	945	959	8.3
2000–01	985	985	2.8
2001–02	1,038	1,043	5.8
2002–03	1,080	1,076	3.2
2003–04	1,190	1,190	10.6
2004–05	1,288	1,260	5.9

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices.

Source: AIHW health expenditure database.