4 Health expenditure and funding, by area of health expenditure

Health expenditure consists of recurrent expenditure and capital expenditure. Recurrent expenditure includes capital consumption and can be split by area of health expenditure, while capital expenditure cannot. There is some overlap across categories of recurrent health expenditure. An example of this is where medical services are provided to private patients in a hospital. These expenditures are captured in the Medicare statistics which are part of 'medical services' not 'hospitals'.

4.1 Recurrent expenditure

Of the $98.0 billion recurrent health expenditure in 2007–08, around half was for public hospital services (31.4%) and medical services (18.7%). Expenditure on medications accounted for a further 14.0% (Table 4.1 and Figure 4.1).

Spending on private hospitals, fell as a proportion of total recurrent expenditure from 8.6% in 1997–98 to 8.5% in 2002–03, and by a further 0.6 percentage points to 7.9% in 2007–08. The public hospitals share of recurrent expenditure also fell between 1997–98 and 2002–03. Public hospital services increased by 1 percentage point, from 30.4% to 31.4% between 2003–04 and 2007–08.

In real terms, recurrent expenditure grew by 65%, at an average of 5.1% a year, between 1997–98 and 2007–08 (Table 4.2).

All areas of expenditure experienced real growth in 2007–08.

These included:

- medications—7.7%
- medical services—6.5%
- public hospital services—6.2%
- private hospitals—4.5%
- other health practitioners—3.2%
- dental services—2.1%.

Expenditure on each of the components of the 'other health' category also experienced substantial growth in 2007–08. Public health grew in real terms by 20.7%, which was mostly due to a 21.5% growth in government expenditure on public health activities (AIHW 2009b (in press)); community health and other by 10.4%; research by 12.0%; patient transport services by 8.2%; health administration by 6.3%; and aids and appliances by 0.1% (Table A8).

Expenditure on hospitals accounted for the largest proportion of real growth in recurrent health expenditure between 2003–04 and 2007–08 (39.9%). Of this, 35.3% was related to public hospital services and 4.6% to private hospitals. Expenditure on medications accounted for 16.8% of the growth over that period, and medical services for 16.0% (calculated from Table 4.2). Together, these three areas of expenditure accounted for 72.7% of the growth in expenditure during the last 4 years. The combined expenditure of these three areas as a

percentage of GDP rose in real terms from 5.8% in 2003–04 to 6.2% in 2007–08 (calculated from Table 2.3, page 10, and Table 4.2).

Expenditure on research showed the highest real growth in total recurrent expenditure between 1997–98 and 2007–08 (averaging 11.3% per year) (Table A8, see page 120). Growth in expenditure on medications averaged 8.3% per year and medical services had an average annual real growth of 3.3% (Table A8).

Table 4.1: Total funding of recurrent health expenditure, current prices, by area of expenditure, and proportion of total recurrent, 1997–98 to 2007–08

	Public hospitals[a]		Private hospitals		Medical services		Dental services[a]		Other health practitioners[b]		Medications		Other health[a][c]		Total recurrent
Year	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)	Prop'n (%)	Amount ($ million)
1997–98	13,898	32.8	3,659	8.6	8,539	20.2	2,596	6.1	1,500	3.5	5,602	13.2	6,545	15.5	42,339
1998–99	15,026	32.8	3,959	8.6	9,046	19.7	2,688	5.9	1,563	3.4	6,115	13.3	7,466	16.3	45,863
1999–00	15,635	31.5	4,204	8.5	9,710	19.6	2,895	5.8	1,585	3.2	6,874	13.9	8,662	17.5	49,564
2000–01	16,582	30.2	4,532	8.2	10,218	18.6	3,461	6.3	1,909	3.5	8,161	14.8	10,115	18.4	54,978
2001–02	17,900	30.1	5,030	8.5	11,203	18.8	4,023	6.8	2,189	3.7	9,013	15.1	10,164	17.1	59,522
2002–03	19,723	30.4	5,505	8.5	12,004	18.5	4,316	6.7	2,460	3.8	9,401	14.5	11,413	17.6	64,822
Break in time series[a]															
2003–04	21,243	30.4	5,958	8.5	12,905	18.5	4,663	6.7	2,652	3.8	10,324	14.8	12,155	17.4	69,901
2004–05	23,271	30.3	6,328	8.2	14,648	19.1	5,090	6.6	2,801	3.6	11,206	14.6	13,437	17.5	76,781
2005–06	25,429	31.0	6,684	8.2	15,495	18.9	5,375	6.6	3,038	3.7	11,545	14.1	14,368	17.5	81,933
2006–07	28,016	31.3	7,155	8.0	16,766	18.7	5,749	6.4	3,273	3.7	12,611	14.1	15,880	17.8	89,449
2007–08	30,817	31.4	7,740	7.9	18,338	18.7	6,106	6.2	3,373	3.4	13,720	14.0	17,922	18.3	98,017

(a) The break in time series effects between 2002–03 and 2003–04 affects public hospitals, dental services and patient transport services, community and public health components of other health (see Box 4.1) (see Section 6.3 in Technical notes for further information).

(b) Includes paramedics, physiotherapists, psychologists, and so forth.

(c) Other health comprises patient transport services, community health, public health, aids and appliances, other recurrent health services n.e.c., administration and research.

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

Source: AIHW health expenditure database.

Table 4.2: Total funding of recurrent health expenditure, constant prices[(a)], by area of expenditure, and annual growth rates, 1997–98 to 2007–08

Year	Public hospitals[(b)(e)]		Private hospitals		Medical services		Dental services[(b)]		Other health practitioners[(c)]		Medications		Other health[(b)(d)]		Total recurrent funding	
	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1997–98	19,320	. .	5,109	. .	13,305	. .	4,151	. .	2,220	. .	6,178	. .	9,137	. .	59,419	. .
1998–99	20,298	5.1	5,381	5.3	13,718	3.1	4,155	0.1	2,255	1.6	6,721	8.8	10,166	11.3	62,694	5.5
1999–00	20,664	1.8	5,589	3.9	14,339	4.5	4,245	2.2	2,211	–2.0	7,506	11.7	11,540	13.5	66,092	5.4
2000–01	21,233	2.8	5,831	4.3	14,456	0.8	4,810	13.3	2,493	12.7	8,761	16.7	13,012	12.8	70,595	6.8
2001–02	22,254	4.8	6,275	7.6	14,988	3.7	5,327	10.8	2,610	4.7	9,657	10.2	12,757	–2.0	73,867	4.6
2002–03	23,734	6.7	6,641	5.8	15,252	1.8	5,468	2.6	2,767	6.0	9,939	2.9	13,853	8.6	77,656	5.1
Break in time series[(b)]																
2003–04	24,699	. .	6,933	4.4	15,564	2.0	5,672	. .	2,915	. .	10,804	8.7	14,075	. .	80,661	3.9
2004–05	26,095	5.7	7,102	2.4	16,391	5.3	5,817	2.6	2,993	2.7	11,578	7.2	15,029	6.8	85,004	5.4
2005–06	27,353	4.8	7,192	1.3	16,416	0.2	5,899	1.4	3,094	3.4	11,765	1.6	15,449	2.8	87,169	2.5
2006–07	29,009	6.1	7,409	3.0	17,226	4.9	5,982	1.4	3,270	5.7	12,743	8.3	16,441	6.4	92,080	5.6
2007–08	30,817	6.2	7,740	4.5	18,338	6.5	6,106	2.1	3,373	3.2	13,720	7.7	17,922	9.0	98,017	6.4
Average annual growth rate																
1997–98 to 2002–03		4.2		5.4		2.8		5.7		4.5		10.0		8.7		5.5
2003–04 to 2007–08		5.7		2.8		4.2		1.9		3.7		6.2		6.2		5.0
1997–98 to 2007–08		. .		4.2		3.3		. .		. .		8.3		. .		5.1

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Methodology change in 2003–04, which mainly affects public hospitals, dental services and patient transport services, community and public health components of other health (see Box 4.1).

(c) Includes paramedics, physiotherapists, psychologists, and so forth.

(d) Comprises patient transport services, community health, public health, aids and appliances, other recurrent health services n.e.c., administration and research.

(e) Prior to 2003–04, includes all health goods and services provided in public hospitals. From 2003–04 includes only services classified as 'public hospital services' and excludes dental services, community health services, patient transport services, public health and health research undertaken by the hospital. Can include services provided off-site such as hospital in the home, dialysis or other services (see Box 4.1).

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

Source: AIHW health expenditure database.

Box 4.1: Public hospital and public hospital services expenditure

From 2003–04 the AIHW has collected state and territory government expenditure data directly from the state and territory health authorities using a uniform data collection template. Prior to 2003–04, data had been provided by the states and territories using a myriad of formats. Therefore, the estimates of state and territory government expenditures from 2003–04 are more consistent across jurisdictions in their format and content. As a consequence, the data reported for all years from 2003–04 onwards are not strictly comparable with those reported for earlier years.

In particular, from 2003–04, expenditure for the following services, where they are provided by, or on behalf of, public hospitals and it is possible to identify them, are reported separately under their respective categories:

- *community health services*
- *public health services*
- *dental services (non-admitted)*
- *patient transport services*
- *health research.*

The balance of public hospital expenditure remaining, after the above components have been removed and reallocated to their own expenditure categories, is now referred to as ***'public hospital services'*** *expenditure.*

Before 2003–04, the AIHW public hospitals establishments (PHE) collection data were used to derive estimates of expenditure on public hospitals for each state and territory. Those data comprise individual hospitals' operating expenses, including expenses related to the provision of community and public health services, dental and patient transport services and health research that are provided in the public hospitals. This expenditure was referred to as ***'public hospital'*** *expenditure. The time series data in tables 4.3 to 4.7 and figures 4.3 and 4.4 are based on* ***'public hospital'*** *expenditure data to enable valid comparisons across the decade.*

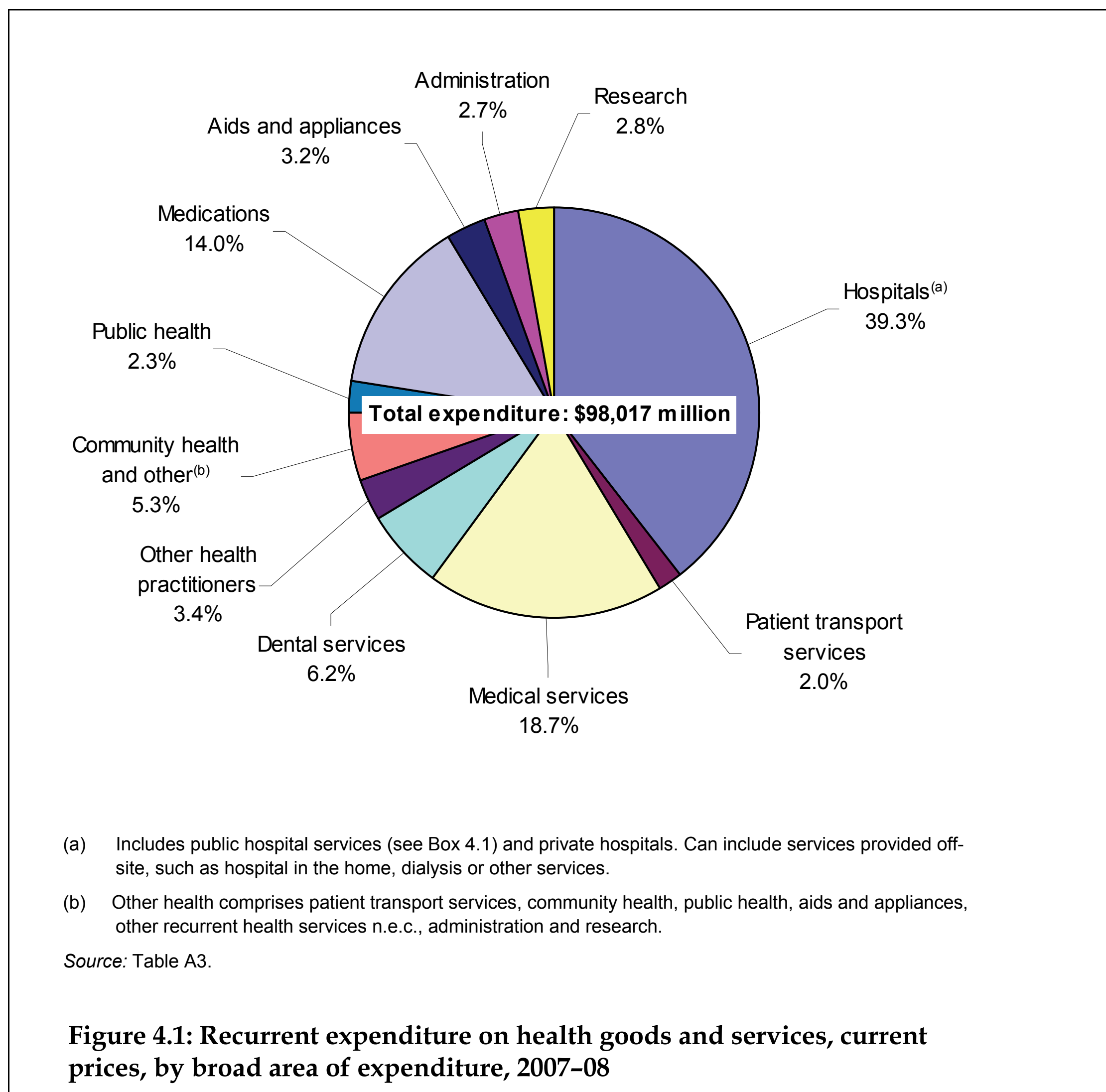
As part of the new expenditure reporting process, some states and territories were able to allocate head office and central costs to functional areas, such as public hospital services, community health services, public health, etc., instead of, as had been the case in the past, simply reporting all such expenditures as 'administration'. As a result, although the public hospital services category now excludes expenditure on certain services that can be reported in other categories, the public hospital services expenditure may, in some instances, actually be higher than would otherwise have been reported as 'public hospital' expenditure.

Impact of these changes on comparability of health expenditure data

Comparisons over time of expenditure on public hospitals, public hospital services, community and public health services, dental services and patient transport services can be made for the following time periods:

- *up to and including 2002–03*
- *from 2003–04 onwards.*

Health expenditure for these areas cannot be compared across 2002–03 and 2003–04, nor can they be used to compare expenditure relating to a specific year, such as 2006–07, to expenditure, or growth in expenditure, for the decade 1997–98 to 2007–08.



(a) Includes public hospital services (see Box 4.1) and private hospitals. Can include services provided off-site, such as hospital in the home, dialysis or other services.

(b) Other health comprises patient transport services, community health, public health, aids and appliances, other recurrent health services n.e.c., administration and research.

Source: Table A3.

Figure 4.1: Recurrent expenditure on health goods and services, current prices, by broad area of expenditure, 2007–08

While the annual real growth in total recurrent health expenditure over time provides a broad picture of what is happening to the whole health system, it does not show what is actually driving that growth. In order to identify the drivers of overall growth, it is important to look at the contribution that growth in different areas of expenditure makes to growth in expenditure overall. The analysis that follows covers the last 3 years of the period, from 2004–05 to 2007–08.

In each of the years 2005–06, 2006–07 and 2007–08, recurrent health expenditure grew by 2.5%,5.6% and 6.4%, respectively (see Table A8, page 120).

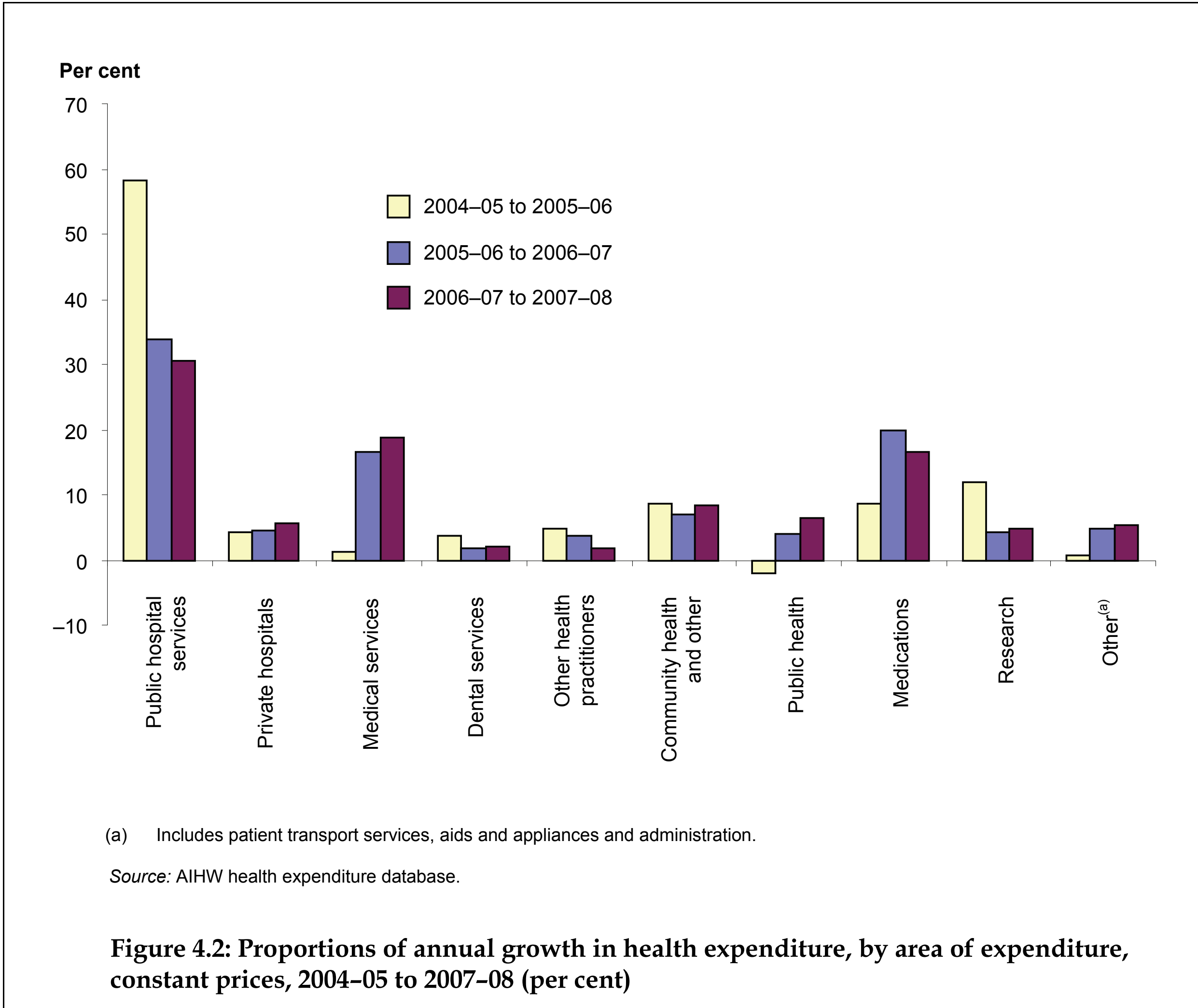
Expenditure on hospitals, which comprised almost 40% of total recurrent spending on health in 2007–08 (Figure 4.1), was the largest contributor to growth in recurrent expenditure in each of those years. In 2005–06 public hospital services accounted for more than half (58.1%) of the total growth in recurrent expenditure. During the next 2 years, 2006–07 and 2007–08, it contributed 33.7% and 30.5%, respectively (Figure 4.2).

Expenditure on medical services contributed 16.5% of growth between 2005–06 and 2006–07 and 18.7% in the following year. However, between 2004–05 and 2005–06 its contribution had been much less—at 1.2%. The contribution to growth of expenditure on medications was also much lower between 2004–05 and 2005–06 (8.7 %) than in the subsequent years—19.9%

and 16.5% (Figure 4.2). The contribution to overall growth of expenditure by private hospitals showed a steady increase over the 3 years from 4.2% to 4.4% and 5.6% in 2007–08.

Expenditure on public health experienced negative growth (–2.6%) between 2004–05 and 2005–06 (see Table A8, page 120) and this is reflected in its negative (–2.1%) contribution to overall growth in that year. This low growth rate occurred in the second year of a new Public Health Outcome Funding Agreements (PHOFAs) period and followed the substantial growth (10.0%) that occurred in the first year of that PHOFAs period. It was followed by two further years of substantial growth in expenditure on public health (Table A8).

Health research showed higher than average increases in spending over the 3 years, with growth rates of 13.2%, 9.1% and 12.0%, respectively (Table A8). However, because it contributes a small proportion of overall recurrent expenditure, its influence on growth in total recurrent expenditure is also quite small.



(a) Includes patient transport services, aids and appliances and administration.

Source: AIHW health expenditure database.

Figure 4.2: Proportions of annual growth in health expenditure, by area of expenditure, constant prices, 2004–05 to 2007–08 (per cent)

Hospitals

More is spent by hospitals, as the largest providers of health services, than other health provider types. In this part of the report the analysis relates to expenditure on hospitals as

providers of a range of services, rather than expenditure on hospital services, which is the focus of the rest of the report. Expenditure on hospitals is analysed in two categories:

- public hospitals
- private hospitals.

In real terms, expenditure on public and private hospitals grew at an average of 4.7% and 4.2% per year, respectively, between 1997–98 and 2007–08 (Table 4.3).

Expenditure on hospitals is very much influenced by the funding arrangements between the Australian Government and the states and territories in respect of public hospitals. The funding arrangements for hospitals were integral to the five-year bilateral Australian Health Care Agreements (AHCAs) between the Commonwealth and each of the state/territory governments for the funding of government health services. Prior to the introduction of the first set of AHCAs on 1 July 1998, there had been other forms of bilateral health funding agreements (see Box 4.2 for details).

This publication covers the last year of the third Medicare Agreements (1997–98) and the two AHCAs agreements from 1 July 1998 to 30 June 2003 and from 1 July 2003 to 30 June 2008.

Funding for hospitals is also influenced by the Australian Government's private health insurance initiatives. This is because private health insurance provides most of the funding for private hospitals and for private patients in public hospitals.

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

- July 1997, the means-tested Private Health Insurance Incentives Scheme (PHIIS) subsidy
- January 1999, a non-means-tested 30% rebate on private health insurance premiums, which replaced the PHIIS subsidy. From 1 April 2005, the Private Health Insurance Rebate increased to 35% for people aged 65 to 69 years and to 40% for people aged 70 years and older. It remained at 30% for those aged less than 65.
- July 2000, the Lifetime Health Cover (LHC) initiatives to encourage younger people to take out and maintain private insurance cover. Under LHC, people who do not have private health insurance cover by 1 July following their 31st birthday and who decided to take out such cover, could be required to pay a LHC loading. This was set at 2% of the standard premium for the type of cover they select, for each year that they delay taking out private health insurance. Changes to the LHC announced in 2006 have been implemented progressively from 2007.

Box 4.2: Australian Government and state and territory governments' health funding agreements periods

First Medicare (Compensation) Agreements: 1984 to 30 June 1988

Second Medicare Agreements: 1 July 1988 to 30 June 1993

Third Medicare Agreements: 1 July 1993 to 30 June 1998

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

Second Australian Health Care Agreements: 1 July 2003 to 30 June 2009

From 1997–98 to 2002–03, real growth in public hospital expenditure averaged 4.2% per year. Private hospital expenditure grew, in real terms, at 5.4% per year during the same period (Table 4.3).

The private hospital share of hospital expenditure increased early in the period, from 20.9% in 1997–98 to 22.0% in 2001–02. It then gradually declined to 20.1% in 2007–08 (calculated from Table 4.3).

Table 4.3: Recurrent expenditure on public hospitals and private hospitals, constant prices[(a)] and annual growth rates, 1997–98 to 2007–08

	Public hospitals[(b)]		Private hospitals		All hospitals	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1997–98	19,320	. .	5,109	. .	24,429	. .
1998–99	20,298	5.1	5,381	5.3	25,679	5.1
1999–00	20,664	1.8	5,589	3.9	26,252	2.2
2000–01	21,233	2.8	5,831	4.3	27,064	3.1
2001–02	22,254	4.8	6,275	7.6	28,529	5.4
2002–03	23,734	6.7	6,641	5.8	30,375	6.5
2003–04	24,570	3.5	6,933	4.4	31,503	3.7
2004–05	26,214	6.7	7,102	2.4	33,316	5.8
2005–06	27,285	4.1	7,192	1.3	34,478	3.5
2006–07	28,785	5.5	7,409	3.0	36,194	5.0
2007–08	30,728	6.8	7,740	4.5	38,468	6.3
			Average annual growth rate			
1997–98 to 2002–03		4.2		5.4		4.5
2002–03 to 2007–08		5.3		3.1		4.8
1997–98 to 2007–08		4.7		4.2		4.6

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Includes dental services, community health services, patient transport services, public health and health research undertaken by the hospital (see Box 4.1).

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

Source: AIHW health expenditure database.

In 2007–08 governments provided 81.5% of the funding for hospitals (Table 4.4). Non-government sources contributed the remainder (18.5%).

Over the decade to 2007–08, the governments' share increased by 4.5 percentage points. Most of this increase was in funding by state and territory governments. The Australian Government's share increased from 37.2% to 38.6% while the state/territory governments' share went from 39.8% to 42.9%. The proportion of funding met by non-government sources decreased over the period, from 23.0% in 1997–98 to 18.5% in 2007–08.

The increase in the total government share of funding was largely due to the Australian Government's private health insurance rebate scheme, which had the effect of transferring some responsibility for funding, particularly for private hospitals, from private health insurance to government.

Table 4.4: Funding of public hospitals[a] and private hospitals, current prices, by source of funds, 1997–98 to 2007–08 (per cent)

	Government			Non-government			
Year	Australian Government[b]	State/territory and local	Total	Private health insurance funds[b]	Other non-government	Total	Total
1997–98	37.2	39.8	77.0	14.3	8.7	23.0	100.0
1998–99	40.4	38.3	78.7	11.9	9.5	21.3	100.0
1999–00	42.3	38.1	80.3	10.1	9.5	19.7	100.0
2000–01	43.4	37.1	80.5	10.5	9.0	19.5	100.0
2001–02	42.6	37.1	79.7	12.0	8.3	20.3	100.0
2002–03	42.1	39.4	81.5	11.8	6.7	18.5	100.0
2003–04	41.1	39.8	80.9	12.0	7.0	19.1	100.0
2004–05	40.3	40.8	81.1	11.6	7.3	18.9	100.0
2005–06	38.9	42.3	81.1	11.3	7.5	18.8	100.0
2006–07	37.9	43.2	81.1	11.4	7.5	18.9	100.0
2007–08	38.6	42.9	81.5	11.2	7.3	18.5	100.0

(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by public hospitals (see Box 4.1).

(b) Funding by the Australian Government and private health insurance funds has been adjusted for the private health insurance rebate (see Box 3.1).

Source: AIHW health expenditure database.

Public hospitals

Analysis of expenditure on public hospitals has been featured in all the Institute's health expenditure publications since 1985. Those analyses related to expenditure on hospitals as providers of a range of services, which included hospital services. The data that were used to compile estimates of expenditure on public hospitals initially came from the cost-sharing data that were required to be provided by states and territories under Medibank in 1975 and under Medicare after 1977. That series was continued under the Institute's Hospital Utilisation and Cost Studies from the mid 1980s to the early 1990s and, since 1993–94, through its annual Australian Hospital Statistics collections.

The data have always included expenditure on dental services, community health services, patient transport services, public health and health research that was undertaken in public hospitals. This was in addition to expenditure associated with general hospital care and treatment, but was not separately identified in the data submissions.

Public hospital expenditure data did not include any expenditure incurred by state and territory governments in purchasing services from private hospitals for public patients. The related expenditure was included as expenditure on private hospitals, but was often not identified as being funded by governments.

The Institute has refined its data collection and expenditure reporting to more clearly identify expenditures according to the types of services they support, rather than the institutions in which they are provided. This means that most of the analyses in this publication look at expenditure on 'hospital services', rather than expenditure on 'hospitals'. Also, expenditures on hospital-provided dental, community health and patient transport services; and on public health and health research are now reported as expenditures on those particular services.

In order to maintain consistency with previous publications in this series, this part of the analysis looks at expenditure on 'public hospitals', as distinct from expenditure on 'public hospital services', which is reported elsewhere in this publication.

Governments provided more than 90% of total funding for public hospitals. The Australian Government's contribution—estimated at 39.2% in 2007–08—was largely in the form of SPPs under the AHCAs. The states and territories, which have the major responsibility for operating and regulating the public hospitals, provided 52.8% of their funding in 2007–08 (Table 4.5).

The Australian Government's share of public hospital funding was lower (39.2%) in 2007–08 than it had been at the start of the period (1997–98) when it was 42.5%. This reduction in the share of funding occurred between 2000–01 and 2006–07 and was due to growth in the state and territory governments' funding exceeding that of the Australian Government in each of those years. By 2006–07, the Australian Government's share had fallen to its lowest point during the decade (38.6%) (Table 4.5).

In the last year of the period (2007–08), growth in funding by the Australian Government almost doubled from 6.5% to 12.3% (Table 4.5). This resulted largely from the provision by the Commonwealth of an extra $0.5 billion to help relieve pressure on public hospitals announced at the COAG in March 2008. Other forms of Australian Government hospital funding also increased substantially in 2007–08. As a result, the share of funding from this source increased from 3.5% to 4.3% of total expenditure on public hospitals (Table 4.6). The main such initiatives were the implementation of the Elective Surgery Waiting List Reduction Plan, funding of public hospital services at the Mersey Community Hospital and increased funding to support the national blood services.

The Australian Government's funding growth in 2007–08 (12.3%) was greater than that of the state and territory governments (9.2%). This resulted in an increase in the Australian Government's share of funding from 38.6% to 39.2% and a fall in the share met by state and territory governments, from 53.4% to 52.8%.

Growth in funding for public hospitals by state and territory governments is almost a mirror image of the Australian Government's funding (Figure 4.3). State and territory governments' funding in 2007–08 was two and a half percentage points higher than at the start of the period (having risen from 50.3% to 52.8%). This, again, was due to the differences between the growth rates for funding by the two levels of government.

The non-government contribution over the decade ranged from a low of 6.9% in 2002–03 to a high of 7.9% in 3 years—2001–02, 2006–07 and 2007–08 (Table 4.5). It consisted of funding by private health insurance, payments by individuals, purchase of services by workers compensation insurers and motor vehicle third-party insurance and other (non-identified) revenues.

Table 4.5: Funding of public hospitals[(a)], current prices, by broad source of funds, 1997–98 to 2007–08

	Government											
	Australian Government			State/territory			Non-government			Total		
Year	Amount ($m)	Growth (%)	Share (%)	Amount ($m)	Growth (%)	Share (%)	Amount ($m)	Growth (%)	Share (%)	Amount ($m)	Growth (%)	Share (%)
1997–98	5,907	. .	42.5	6,987	. .	50.3	1,004	. .	7.2	13,898	. .	100.0
1998–99	6,659	12.7	44.3	7,274	4.1	48.4	1,093	8.9	7.3	15,026	8.1	100.0
1999–00	6,981	4.8	44.6	7,555	3.9	48.3	1,099	0.6	7.0	15,635	4.1	100.0
2000–01	7,499	7.4	45.2	7,834	3.7	47.2	1,249	13.6	7.5	16,582	6.1	100.0
2001–02	7,988	6.5	44.6	8,503	8.5	47.5	1,408	12.8	7.9	17,900	7.9	100.0
2002–03	8,700	8.9	44.1	9,654	13.5	48.9	1,370	–2.7	6.9	19,723	10.2	100.0
2003–04[(b)]	9,056	4.1	42.9	10,555	9.3	50.0	1,497	9.3	7.1	21,110	7.0	100.0
2004–05[(b)]	9,724	7.4	41.6	11,894	12.7	50.9	1,737	16.1	7.4	23,358	10.6	100.0
2005–06[(b)]	10,086	3.7	39.8	13,301	11.8	52.5	1,962	12.9	7.7	25,352	8.5	100.0
2006–07[(b)]	10,738	6.5	38.6	14,853	11.7	53.4	2,200	12.1	7.9	27,794	9.6	100.0
2007–08[(b)]	12,059	12.3	39.2	16,226	9.2	52.8	2,439	10.9	7.9	30,728	10.6	100.0
					Average annual growth rate							
1997–98 to 2002–03		8.0			6.7			6.4			7.3	
2002–03 to 2007–08		6.7			10.9			12.2			9.3	
1997–98 to 2007–08		7.4			8.8			9.3			8.3	

(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by public hospitals (see Box 4.1).

(b) Public hospital expenditure estimates for 2003–04 to 2007–08 are derived from Public Hospital Establishments data published in *Australian Hospital Statistics* (see Box 4.1). These differ from the estimates included in Appendix A.

Source: AIHW health expenditure database.

There were three major sources of Australian Government funding for public hospitals in operation between 1997–98 and 2007–08:

- the Department of Veterans' Affairs funded hospitals either by purchasing services for veterans and their dependants from hospitals or through contractual arrangements with states and territories
- the states and territories receive SPP funding under the AHCAs
- Other forms of funding were provided by the Australian Government, including SPPs outside the AHCAs for services provided in public hospitals (Table 4.6).

There was also a small share of the rebates on private health insurance premiums that was allocated to funding of public hospitals.

DVA funding fell, as a proportion of total funding, from 2.9% in 1997–98 to 2.4% in 2007–08.

After an initial period, from 1997–98 to 2000–01, when the AHCAs funding increased as a proportion of total funding—from 36.0% to 38.0%— Australian Government funding under the AHCAs, as a proportion of total funding, fell each year until 2006–07, when it was 31.6%. It then increased to 31.7% of funding in 2007–08 (Table 4.6). This included the extra $0.5 billion in funding announced at COAG in March 2008 to relieve pressure on public hospitals.

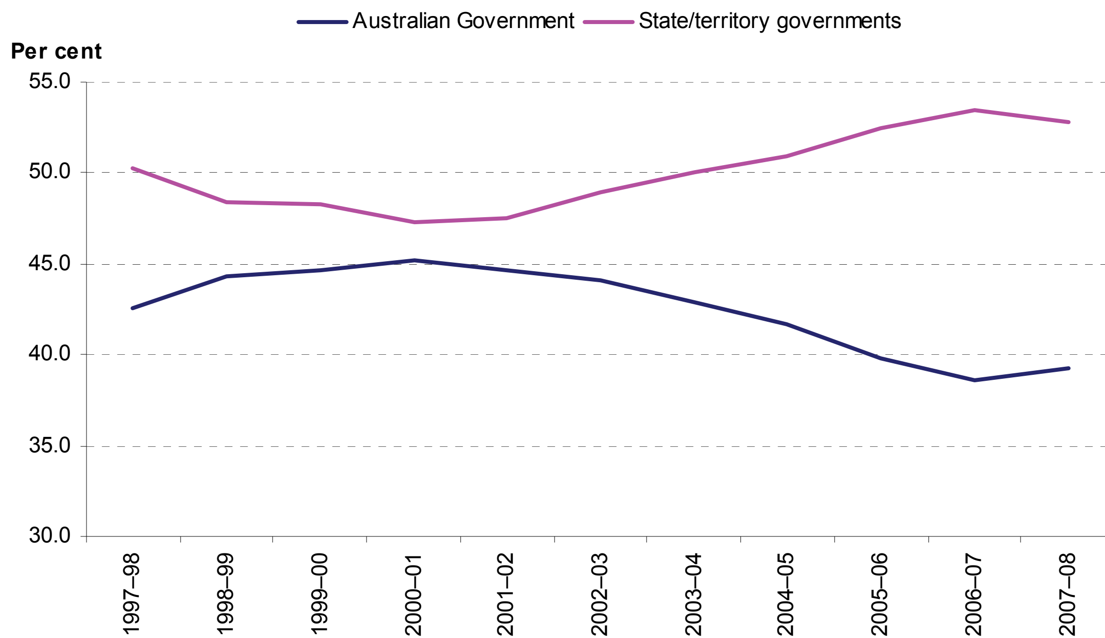
Table 4.6: Government shares of recurrent expenditure on public hospitals[(a)], by level of government, current prices, 1997–98 to 2007–08 (per cent)

		Australian Government					
Year	DVA	AHCAs	Rebates of health insurance premiums	Other Australian Government[(b)]	Total	State/territory governments	Total government
1997–98	2.9	36.0	—	3.3	42.5	50.3	92.8
				AHCAs period commenced 1 July 1998			
1998–99	3.4	37.7	0.4	2.9	44.3	48.4	92.7
1999–00	3.3	37.9	0.6	3.0	44.6	48.3	93.0
2000–01	3.2	38.0	0.6	3.4	45.2	47.2	92.5
2001–02	3.3	37.2	0.6	3.4	44.6	47.5	92.1
2002–03	3.5	36.7	0.6	3.2	44.1	48.9	93.1
				AHCAs period commenced 1 July 2003			
2003–04	3.5	35.5	0.7	3.2	42.9	50.0	92.9
2004–05	3.5	33.9	0.7	3.5	41.6	50.9	92.5
2005–06	2.7	32.8	0.7	3.5	39.8	52.5	92.2
2006–07	2.8	31.6	0.7	3.5	38.6	53.4	92.1
2007–08	2.4	31.7	0.8	4.3	39.2	52.8	92.1

(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by public hospitals (see Box 4.1).

(b) Includes DoHA direct expenditure on public hospitals, such as for blood sector payments and non-AHCA SPPs such as highly specialised drugs, hepatitis C funding, Health program and Positron emission tomography (PET) Scanner grants.

Source: AIHW health expenditure database.



(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by public hospitals (see Box 4.1).

Figure 4.3: Government funding of public hospitals[(a)], current prices, 1997–98 to 2007–08 (per cent)

Table 4.7: Recurrent funding of public hospitals[(a)], constant prices[(b)], by source of funds, and annual growth rates, 1997–98 to 2007–08

	Government									
	Australian Government[(c)]		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 (%)
1997–98	8,249	. .	9,666	. .	17,915	. .	1,404	. .	19,320	. .
1998–99	9,058	9.8	9,749	0.9	18,807	5.0	1,490	6.1	20,298	5.1
1999–00	9,284	2.5	9,915	1.7	19,199	2.1	1,465	–1.7	20,664	1.8
2000–01	9,657	4.0	9,966	0.5	19,623	2.2	1,610	9.9	21,233	2.8
2001–02	9,972	3.3	10,523	5.6	20,494	4.4	1,759	9.3	22,254	4.8
2002–03	10,500	5.3	11,580	10.0	22,079	7.7	1,655	–5.9	23,734	6.7
2003–04	10,539	0.4	12,284	6.1	22,823	3.4	1,743	5.3	24,566	3.5
2004–05	10,913	3.5	13,347	8.7	24,260	6.3	1,950	11.9	26,210	6.7
2005–06	10,855	–0.5	14,315	7.3	25,170	3.8	2,112	8.3	27,282	4.1
2006–07	11,120	2.4	15,382	7.5	26,502	5.3	2,279	7.9	28,781	5.5
2007–08	12,059	8.4	16,226	5.5	28,285	6.7	2,439	7.0	30,724	6.8
					Average annual growth rate					
1997–98 to 2002–03		4.9		3.7		4.3		3.3		4.2
2002–03 to 2007–08		2.8		7.0		5.1		8.1		5.3
1997–98 to 2007–08		3.9		5.3		4.7		5.7		4.7

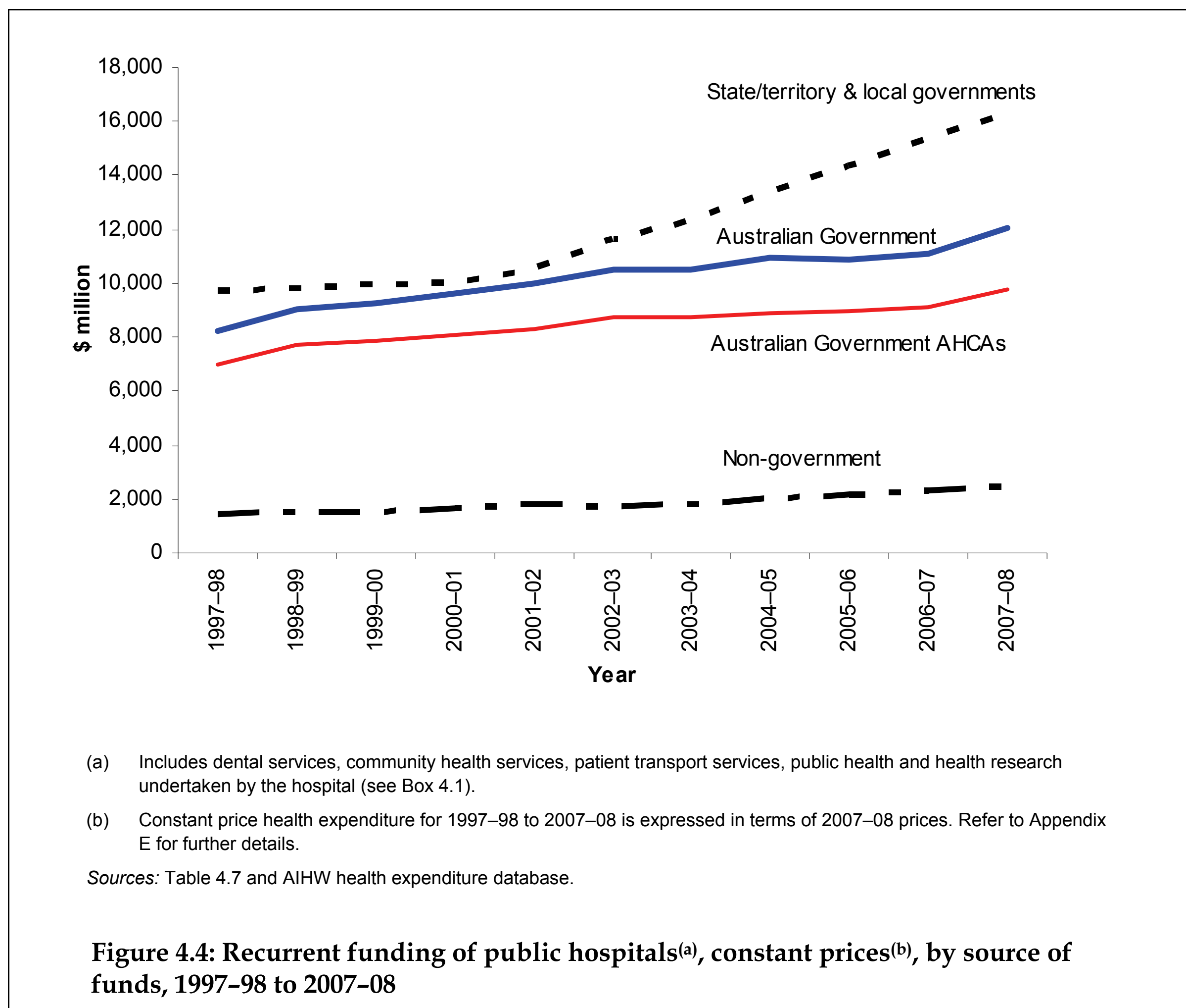
(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by the hospital (see Box 4.1).

(b) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(c) Funding by the Australian Government and private health insurance funds has been adjusted for the private health insurance rebate (see Box 3.1).

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

Source: AIHW health expenditure database.



(a) Includes dental services, community health services, patient transport services, public health and health research undertaken by the hospital (see Box 4.1).

(b) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Sources: Table 4.7 and AIHW health expenditure database.

Figure 4.4: Recurrent funding of public hospitals[(a)], constant prices[(b)], by source of funds, 1997–98 to 2007–08

Public hospital services

Expenditure on public hospital services differs from expenditure on public hospitals (see *Public hospitals* section above). Expenditure on public hospital services comprises expenditure on services provided to a patient who is treated in either a public psychiatric or non-psychiatric hospital, but *excludes* expenditure on dental services, community health services, patient transport services, public health and health research that are provided by the hospital.

The funding patterns of the different levels of government in respect of public hospital services closely follows those of hospitals discussed previously in this report. For example, in 2007–08, the Australian Government provided 39.1% ($12.1 billion) of the funding for public hospital services, compared with 39.2% of the funding of public hospitals (tables 4.8 and 4.5). In the case of public hospital services, this was an increase of $1.3 billion on the previous year, when its share of funding was 38.3%. There was a similar increase in funding for public hospitals. Like its funding share in respect of public hospitals, prior to the increase in 2007–08, the Australian Government's share of funding for public hospital services had fallen each year. In this case, the estimates are taken back only to 2003–04. In that year the Australian Government had provided 42.6% of total funding for hospital services (Table 4.8).

As with its funding for public hospitals, much of the 2007–08 increase in the Australian Government's share of funding for public hospital services resulted largely from the

provision by the Commonwealth of an extra $0.5 billion of funding for public hospitals announced at the COAG in March 2008. Other forms of Australian Government hospital funding also increased by $351 million in 2007–08. This represented one-eighth of the total increase in funding by all sources in that year ($2.8 billion).

The AHCAs funding in 2007–08, which was a continuation of the existing funding arrangements, increased by 0.3 percentage points over the previous year's AHCAs funding.

In comparison, state and territory governments contributed 53.7% ($16.5 billion) of the funding in 2007–08, which was 2.5 percentage points higher than its share in 2003–04 (51.2%), but 0.8 percentage points lower than its share in 2006–07 (54.5%) (Table 4.8).

Non-government sources provided 7.2% of the funding for public hospital services in 2007–08 ($2.2 billion)—an increase of 1.1 percentage points since 2003–04 (6.1%) and 0.1 percentage points higher than in 2006–07 (7.1%).

Table 4.8: Funding of public hospital services[a][b], Australia, current prices, by source of funds, 2003–04 to 2007–08

	Australian Government							
Year	DVA	AHCAs	Rebates of health insurance premiums	Other Australian Govern-ment[c]	Total	State/ territory govern-ments	Non-govern-ment	Total
				Amount ($ million)				
2003–04	743	7,500	140	677	9,059	10,881	1,303	21,243
2004–05	814	7,919	169	826	9,727	11,937	1,607	23,271
2005–06	685	8,321	187	896	10,089	13,577	1,763	25,429
2006–07	770	8,781	207	983	10,741	15,279	1,996	28,016
2007–08	738	9,747	244	1,334	12,063	16,537	2,218	30,817
				Proportion (per cent)				
2003–04	3.5	35.3	0.7	3.2	42.6	51.2	6.1	100.0
2004–05	3.5	34.0	0.7	3.6	41.8	51.3	6.9	100.0
2005–06	2.7	32.7	0.7	3.5	39.7	53.4	6.9	100.0
2006–07	2.7	31.3	0.7	3.5	38.3	54.5	7.1	100.0
2007–08	2.4	31.6	0.8	4.3	39.1	53.7	7.2	100.0

(a) Can include services provided off-site, such as hospital in the home, dialysis or other services (see Box 4.1).

(b) Public hospital services expenditure does not include expenditure on public patients who are contracted with private hospitals as this is part of private hospital expenditure. In 2007–08, this expenditure was $269 million (Table A3).

(c) Includes DoHA direct expenditure on public hospital services, such as for blood sector payments and SPPs for public hospital services which are not AHCAs, for example for highly specialised drugs, hepatitis C funding, Health program and PET Scanner grants.

Source: AIHW health expenditure database.

Total funding and funding by state and territory governments of public hospital services in each jurisdiction increased during the period 2005–06 to 2007–08 (Table 4.9).

Funding by the Australian Government also increased in each year in each state and territory. The increased Australian Government funding was most pronounced in 2007–08 in all states and territories.

With the exception of Tasmania (46.3%), in 2007–08 at least half of total funding of public hospital services came from state and territory governments—ranging from 50.6% in Victoria to 65.7% in the Northern Territory.

The Australian Government's share of funding in 2007–08 ranged from 27.7% in the Australian Capital Territory to 47.3% in Tasmania (Table 4.9).

The proportion of Australian Government funding for public hospital services that was provided under the AHCAs in 2007–08 varied across jurisdictions. The AHCAs share of total funding ranged from 19.3% in the Australian Capital Territory to 32.9% in Victoria.

The share of funding attributable to non-government sources in 2007–08 ranged from 2.8% in the Northern Territory to 9.7% in the Australian Capital Territory (Table 4.9).

Table 4.9: Funding of public hospital services[(a)], current prices, and shares of total funding for public hospital services, by source of funds, by state and territory, 2005–06 to 2007–08

		Australian Government										State and territory government		Non-government		Total
		DVA		AHCAs		Premium rebates		Other[(b)]		Total						
State	Year	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million
NSW	2005–06	307	3.3	2,796	30.1	95	1.0	313	3.4	3,512	37.8	5,065	54.6	703	7.6	9,279
	2006–07	322	3.2	2,928	29.5	107	1.1	337	3.4	3,693	37.2	5,414	54.5	820	8.3	9,928
	2007–08	321	3.1	3,244	31.1	129	1.2	447	4.3	4,141	39.7	5,407	51.8	890	8.5	10,438
Vic	2005–06	163	2.6	1.999	32.5	44	0.7	222	3.6	2.429	39.4	3.125	50.7	607	9.9	6.161
	2006–07	199	3.1	2,130	32.7	49	0.8	247	3.8	2,626	40.3	3,231	49.6	658	10.1	6,514
	2007–08	185	2.6	2,364	32.9	54	0.8	314	4.4	2,918	40.6	3,633	50.6	633	8.8	7,184
Qld	2005–06	52	1.2	1.615	37.9	13	0.3	147	3.5	1.828	42.9	2.290	53.7	144	3.4	4.261
	2006–07	73	1.4	1,702	33.3	13	0.3	169	3.3	1,957	38.2	2,965	57.9	196	3.8	5,117
	2007–08	60	1.0	1,895	32.4	14	0.2	216	3.7	2,185	37.4	3,383	57.9	273	4.7	5,841
WA	2005–06	58	2.5	817	35.3	13	0.6	73	3.2	962	41.6	1,208	52.3	142	6.1	2,312
	2006–07	59	2.3	867	33.1	15	0.6	84	3.2	1,025	39.1	1,452	55.4	145	5.5	2,622
	2007–08	54	1.8	971	32.8	19	0.6	109	3.7	1,153	39.0	1,643	55.5	163	5.5	2,960
SA	2005–06	79	4.0	698	35.7	14	0.7	68	3.5	859	44.0	1,029	52.6	67	3.4	1,954
	2006–07	73	3.3	736	33.4	15	0.7	78	3.5	901	40.9	1,221	55.4	81	3.7	2,203
	2007–08	73	2.9	808	31.8	17	0.7	95	3.7	993	39.1	1,410	55.5	136	5.4	2,539
Tas	2005–06	14	2.6	185	34.2	4	0.8	26	4.8	230	42.5	273	50.3	39	7.2	541
	2006–07	25	4.1	195	31.6	5	0.8	27	4.4	252	40.9	325	52.8	39	6.4	616
	2007–08	18	2.5	214	30.1	6	0.8	100	14.0	337	47.3	330	46.3	46	6.4	712
ACT	2005–06	11	2.1	107	21.2	3.3	0.6	16	3.1	137	27.1	321	63.6	47	9.4	505
	2006–07	14	2.4	113	20.1	3.4	0.6	17	3.1	147	26.2	370	65.9	45	7.9	562
	2007–08	25	3.8	127	19.3	3.9	0.6	27	4.1	182	27.7	411	62.5	64	9.7	657
NT	2005–06	—	—	104	25.0	0.3	0.1	30[(c)]	7.2	134	32.3	267	64.2	15	3.5	415
	2006–07	5.6	1.2	110	24.4	0.3	0.1	24[(c)]	5.3	140	30.9	300	66.3	12	2.7	453
	2007–08	1.5	0.3	124	25.5	0.5	0.1	27[(c)]	5.6	153	31.5	319	65.7	14	2.8	486

(a) Does not include expenditure on services provided to public patients by contracted private hospitals ($269 million in 2007–08). This is included in private hospital expenditure (see Table 4.10).

(b) Includes DoHA direct expenditure on public hospital services, such as for blood sector payments and SPPs for public hospital services which are not AHCAs, for example for highly specialised drugs, hepatitis C funding, Health Program and PET Scanner grants.

(c) Includes SPPs for Royal Darwin Hospital of $21 million in 2005–06 and $13 million in 2006–07 and 2007–08.

Source: AIHW health expenditure database.

Private hospitals

Total expenditure on private hospitals in 2007–08 was estimated at $7.7 billion. More than two-thirds (70.8%) of the funding for this was through private health insurance funds. This comprised 48.6% that was funded from the insurers' own funds, and 22.2% in the form of indirect subsidies through the 30–40% Australian Government rebate on premiums. In 2007–08 those premium rebates totalled $3.6 billion, of which $1.7 billion was estimated to have been used to fund private hospitals (Table A3).

The Australian Government's funding for blood and blood products cannot be split between public and private hospitals. Therefore all such funding has been allocated to public hospital services. To this extent the estimates may understate expenditure on private hospitals and overstate expenditure on public hospital services.

The purchase of private hospital services for public patients is an important state government source of funding for private hospitals—particularly in Western Australia and Tasmania. In 2007–08, state government purchases of private hospital services in Western Australia accounted for 20.9% of total revenue of private hospitals in that state. In Tasmania it represented 7.0% of total private hospital revenue. The two states with the largest populations—New South Wales and Victoria—did not report any spending on the purchase of private hospital services for public patients. In the other states and territories, it generally accounted for less than 2% of private hospitals' revenues (Table 4.10).

The Northern Territory had a very high proportion of its funding for private hospitals sourced from individuals (44.5% in 2007–08). It also had the lowest proportions funded by health insurance (31.7%) and the Australian Government (17.8%) (Table 4.10). This is largely because of the low private health insurance coverage in the Territory— estimated at 33.4% in 2007–08, compared with a national coverage of 44.4% (calculated from appendix tables F2 and F4).

Table 4.10: Funding of private hospitals, current prices, and shares of total, by state and territory, by source of funds, 2005–06 to 2007–08

		Government sources								Non-government sources						Total all sources
		Australian Government						State/territory governments[a]		Health insurance funds		Individuals		Other non-government[b]		
		Direct outlays		Premium rebates		Total										
		$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million
NSW	2005–06	259	14.1	404	22.1	663	36.2	—	—	922	50.4	22	1.2	223	12.2	1,830
	2006–07	271	13.3	434	21.3	705	34.6	—	—	1,020	50.0	100	4.9	214	10.5	2,040
	2007–08	282	13.1	494	22.9	777	36.0	—	—	1,084	50.3	58	2.7	237	11.0	2,155
Vic	2005–06	221	13.6	372	22.8	593	36.4	—	—	848	52.0	56	3.5	133	8.2	1,630
	2006–07	235	13.5	388	22.3	624	35.8	—	—	912	52.3	83	4.8	125	7.2	1,744
	2007–08	248	13.2	455	24.2	702	37.4	—	—	997	53.1	59	3.2	119	6.4	1,878
Qld	2005–06	306	19.9	301	19.5	607	39.4	28	1.8	686	44.6	86	5.6	132	8.6	1,539
	2006–07	314	19.4	325	20.2	639	39.6	32	2.0	764	47.3	86	5.3	93	5.8	1,613
	2007–08	339	19.6	379	21.9	718	41.4	22	1.3	831	47.9	77	4.4	85	4.9	1,733
WA	2005–06	98	11.0	150	16.9	248	27.9	202	22.7	343	38.6	38	4.3	58	6.5	890
	2006–07	103	11.0	160	17.0	263	27.9	195	20.7	376	39.9	45	4.8	63	6.7	943
	2007–08	115	10.6	186	17.1	301	27.7	227	20.9	407	37.6	66	6.1	83	7.6	1,084
SA	2005–06	47	9.5	118	23.8	165	33.3	4	0.7	268	54.2	30	6.1	28	5.7	495
	2006–07	49	9.7	121	23.8	170	33.5	5	1.1	285	56.0	28	5.5	20	3.9	509
	2007–08	57	10.3	137	24.8	194	35.1	4	0.8	301	54.5	33	6.0	20	3.7	552
Tas	2005–06	21	12.3	37	21.9	58	34.2	10	6.2	84	50.0	5	3.1	11	6.5	168
	2006–07	23	12.8	38	21.1	61	33.9	17	9.2	89	49.4	4	2.3	9	5.2	181
	2007–08	25	12.0	43	20.8	68	32.8	14	7.0	94	45.6	12	6.1	17	8.4	206
ACT	2005–06	11	13.5	14	16.8	25	30.2	—	0.3	32	38.2	19	23.2	7	8.1	82
	2006–07	12	14.8	14	16.9	26	31.8	—	—	32	39.8	15	18.6	8	9.8	81
	2007–08	14	17.4	15	18.5	29	36.0	—	—	33	40.6	9	10.5	11	12.9	82
NT	2005–06	2	3.2	6	12.0	7	15.2	—	0.3	13	27.4	25	51.5	3	5.6	49
	2006–07	2	4.0	6	14.2	8	18.2	—	0.5	15	33.4	18	42.1	2	5.7	44
	2007–08	2	3.3	7	14.4	9	17.8	1	1.0	16	31.7	22	44.5	3	5.0	50

(a) Comprises expenditure on public patients who are contracted with private hospitals. New South Wales and Victoria did not provide details of any purchases of private hospital services for public patients.

(b) Includes expenditure on health goods and services by workers compensation and compulsory third-party motor vehicle insurers and other sources of income (e.g. interest earned) of service providers.

Source: AIHW health expenditure database.

Patient transport services

'Patient transport services' mostly refers to the transporting of patients to and from health care facilities to receive outpatient or admitted patient treatment. Expenditure includes a variety of public and private patient transport services, including St John of God ambulance and Careflight aerial ambulance services. It also includes expenditure on public ambulance services by public hospitals.

Total expenditure on patient transport services in 2007–08 was $2.0 billion. The Australian Government's share of that was 12.6%. State and territory and local governments provided almost two-thirds (64.7%) of the funding and non-government sources 22.7% (calculated from Table A3).

Real growth in expenditure averaged 6.4% per year between 2003–04 and 2007–08 (Table A8).

Medical services

Between 1997–98 and 2007–08, expenditure on medical services increased, in real terms, at an average of 3.3% per year (Table 4.12).

Almost all expenditure on medical services in Australia relates to services that are provided by private medical practitioners on a 'fee-for-service' basis. These are generally funded by a combination of Medicare benefits and patient copayments under the Medicare Benefits Scheme. Of the $18.3 billion spent on medical services in 2007–08, just over three-quarters (78.2% or $14.3 billion) was funded by the Australian Government (Figure 4.5). This was made up almost exclusively of Medicare benefits payments, with some funding from the DVA for medical services to eligible veterans and their dependants. There is also a small amount that is made up of Commonwealth Government payments to general practitioners (GPs) under alternative funding arrangements to Medicare. Of the remaining expenditure, 11.8% was funded by individuals through Medicare copayments, while 4.4% was from health insurance funds and 5.6% was other non-government funding (Figure 4.5).

Medical services out-of-pocket expenditure increased, in current prices, by 8.2% ($164 million) in 2007–08 (tables A2 and A3).

Medical services fees and prices

The benefits paid under Medicare for patient-billed services are related to a set of fees established by the Australian Government that are included in the Medicare Benefits Schedule (MBS). Under Medicare, medical practitioners are able to charge a fee for a listed item that is at variance to the Schedule fee for that service in the MBS.

Some medical practitioners charge fees that are higher than the Schedule fee for the services they provide. Where this occurs, patients may be required to meet a copayment equal to the difference between the fee actually charged and the MBS benefit payable for that service. In the case of out-of-hospital medical services, patients are not permitted to insure against such copayments.

In the case of medical services that are bulk-billed, the total fee that a provider can charge must be equal to the MBS benefit payable in respect of the services concerned (that is, there cannot be any copayment by the patient or any third party).

Thus, the total fees charged for medical services in Australia are set by individual medical service providers and the benefits that are paid under Medicare for those services are set by the Australian Government.

There are a large number of medical and other items in the MBS. They have a variety of fees charged and benefits paid. The Australian Government collects statistics on services claimed under Medicare, including the number of services provided and the fees charged and benefits paid for those services.

In order to provide a broad picture of the volume change and price movements in relation to medical services provided under Medicare, the Institute has constructed a 'basket of medical services' and calculated a weighted average price for the medical services that make up that basket of services. The basket of services contains:

- Non referred (General Practitioner) attendances (practice nurses are excluded)
- Specialist attendances
- Pathology tests (excluding Pathology PEI)
- Diagnostic imaging
- Other Medicare services (excluding Obstetrics)

These components are re-weighted annually to reflect any changes in their relative contributions to total expenditure on medical services, as reflected in the aggregated total fees charged. The fee charged for each type of medical service is used as the weighting mechanism so as to give an indicative measure of average changes in fees charged from year to year. It is not a simple calculation of total fee charged divided by total services provided.

While the weighted average fee charged for medical services provided under Medicare increased by 5.7% per year between 1997–98 and 2007–08, the weighted average benefit paid increased at a lower annual rate of 4.8% (Table 4.11). The result is that average copayments increased at a faster rate (9.0% per year).

In the latter half of the period (from 2002–03), the difference between the annual rates of increase for the average fee charged (6.1% per year) and benefit paid (5.9%) was much less than in the previous period. This resulted in an average rate of increase for copayments of 6.6% per year, compared with 11.5% per year, up to 2002–03. (Note that the copayments analysed here could be paid by individuals or by health insurance funds.)

Table 4.11: Annual fluctuations in the weighted average payments per service[(a)] for medical services provided under Medicare, by component of total fee charged

Year	Annual change: Average weighted medical benefit paid per service[(b)]		Average weighted copayment[(b)(c)] paid per service		Average weighted fee charged per service[(b)]	
	Average benefit ($)	Price change (%)	Average payment ($)	Price change (%)	Average fee ($)	Price change (%)
1997–98	46.71	. .	11.23	. .	57.94	. .
1998–99	48.57	4.0	12.08	7.6	60.66	4.7
1999–00	50.58	4.1	12.00	–0.7	62.59	3.2
2000–01	52.16	3.1	14.07	17.2	66.23	5.8
2001–02	54.11	3.7	16.53	17.5	70.64	6.7
2002–03	56.16	3.8	19.31	16.8	75.48	6.8
2003–04	59.44	5.8	21.63	12.0	81.06	7.4
2004–05	66.73	12.3	22.37	3.4	89.10	9.9
2005–06	69.45	4.1	23.46	4.9	92.91	4.3
2006–07	71.76	3.3	25.51	8.7	97.27	4.7
2007–08	74.75	4.2	26.59	4.2	101.33	4.2
			Average annual change in price			
1997–98 to 2002–03		3.8		11.5		5.4
2002–03 to 2007–08		5.9		6.6		6.1
1997–98 to 2007–08		4.8		9.0		5.7

(a) Weighted by the relative fee charged of the individual components of the basket of medical services used in the construction of the Medicare services fees index (see page 63).

(b) The average weighted fees and the average weighted benefit paid per service are not the same as the actual average fee or average benefit per service, but are a statistical construct which aims to measure the fee and benefit changes in a consistent way. Thus it is the price changes which are the relevant statistics in this table, not the average benefit or fee.

(c) Refers to the difference between the fee charged and benefit paid. Some of this copayment will be paid by individuals and some by health insurance funds.

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

Source: AIHW health expenditure database.

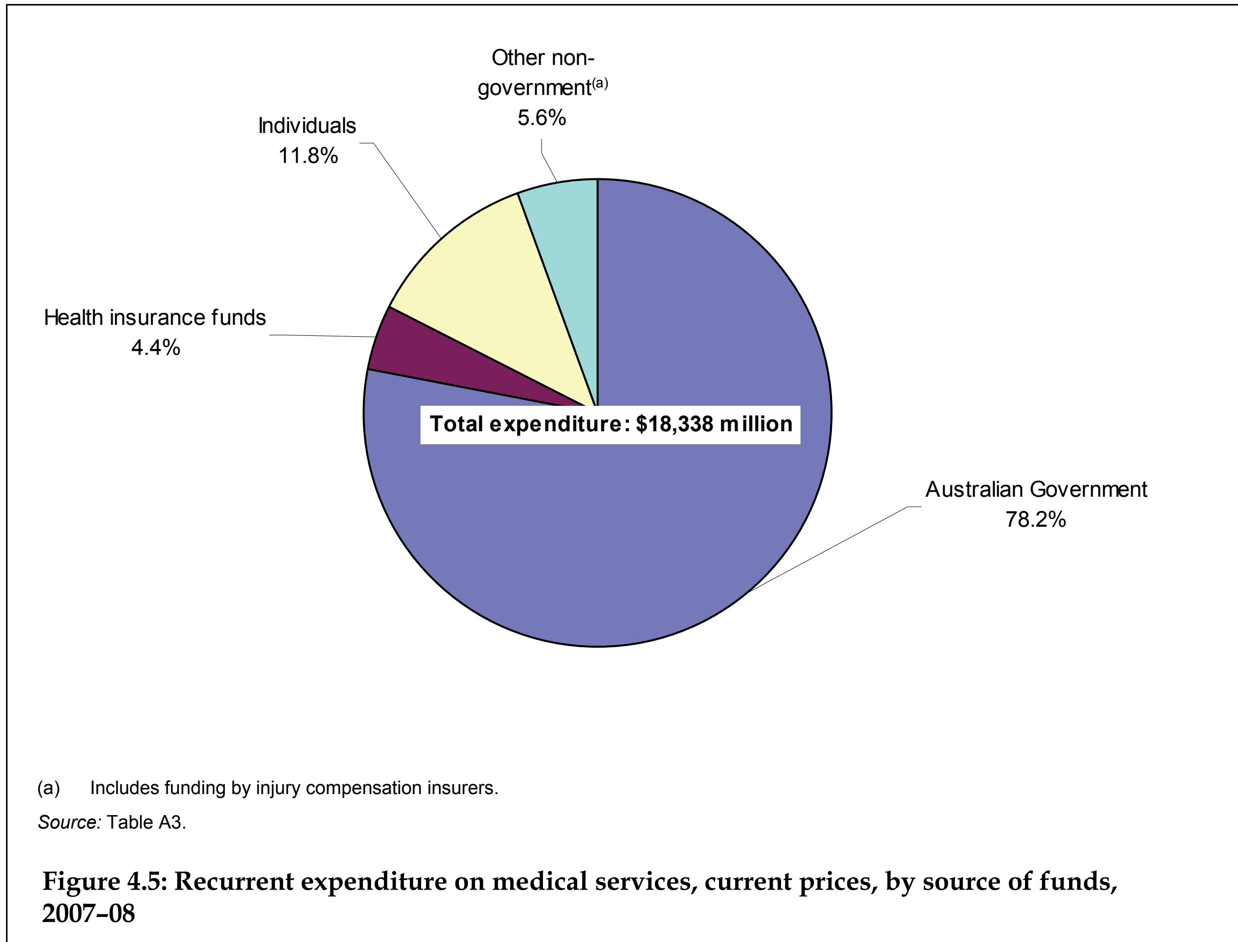


Figure 4.5: Recurrent expenditure on medical services, current prices, by source of funds, 2007–08

Between 1997–98 and 2007–08, the Australian Government's real funding of medical services grew at an average of 2.8% per year, while funding by individuals grew at 4.4% per year and by health insurance at 9.5% per year (Table 4.12).

The introduction of the 'Lifetime Health Cover' incentives and subsequent changes increased insurance coverage (that is, the proportion of the total population with private health insurance cover) from 30.4% in 1998–99 to 34.5% in the following year and to a peak of 45.3% in 2000–01. Coverage has since remained between 42.9% and 44.7% (calculated from appendix tables F2 and F4).

This resulted in a sharp growth in the health insurance funds' funding of health services from 4.1% in 1999–00 to 26.6% and 37.9% in the next 2 years. The rate of growth then slowed each year to 2004–05, when funding grew by 0.5%. In 2006–07 and 2007–08 health insurance funding grew by 7.0%and 7.6%, respectively (Table 4.12).

The large increase in the Australian Government proportion in 2004–05 and the decline in the individual proportion reflects a number of factors, including the Strengthening Medicare program which, from 1 January 2005, increased the benefit paid for GP services from 85% to 100% of the Schedule Fee.

Table 4.12: Recurrent funding of medical services, constant prices[(a)], by source of funds, and annual growth rates, 1997–98 to 2007–08

Year	Australian Government[(b)]		Health insurance funds[(b)]		Individuals		Injury compensation insurers		Total recurrent funding	
	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1997–98	10,874	. .	327	. .	1,411	. .	694	. .	13,305	. .
1998–99	11,211	3.1	307	–6.1	1,472	4.3	728	4.9	13,718	3.1
1999–00	11,777	5.0	319	4.1	1,477	0.3	766	5.2	14,339	4.5
2000–01	11,773	—	404	26.6	1,526	3.3	754	–1.6	14,456	0.8
2001–02	11,986	1.8	557	37.9	1,600	4.8	844	12.1	14,988	3.7
2002–03	11,926	–0.5	629	12.8	1,809	13.0	889	5.3	15,252	1.8
2003–04	12,005	0.7	677	7.7	1,929	6.6	953	7.2	15,564	2.0
2004–05	12,950	7.9	681	0.5	1,815	–5.9	945	–0.8	16,391	5.3
2005–06	12,938	–0.1	705	3.6	1,849	1.9	924	–2.3	16,416	0.2
2006–07	13,452	4.0	755	7.0	2,061	11.5	959	3.8	17,226	4.9
2007–08	14,335	6.6	813	7.6	2,170	5.3	1,021	6.4	18,338	6.5
					Average annual growth rate					
1997–98 to 2002–03		1.9		14.0		5.1		5.1		2.8
2002–03 to 2007–08		3.7		5.3		3.7		2.8		3.8
1997–98 to 2007–08		2.8		9.5		4.4		3.9		3.3

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Funding by the Australian Government and private health insurance funds has been adjusted for the private health insurance rebate (see Box 3.1).

Note: Components may not add to totals 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 copayment. The trends in the bulk-billing rate generally mirror trends in the proportion of medical services expenditure funded by individuals. So, the peak for individuals' payments in 2003–04 of 12.4% of medical services expenditure also represented the lowest bulk-billing rate in this period (Table 4.13).

In 1997–98, 71.8% of all medical services were bulk-billed. Bulk-billing rates increased up to 1999–00 when rates reached 72.3%. After this year, the overall bulk-billing rate declined to 2003–04, when 67.5% of all medical services were bulk-billed. The rate then increased by 5.9 percentage points to 73.4% in 2007–08—the highest rate of bulk-billing over the decade (Table 4.13).

Table 4.13: Shares of recurrent funding for medical services, current prices, and proportion of medical services bulk-billed, 1997–98 to 2007–08 (per cent)

		Non-government				
Year	Australian Government	Health insurance funds	Individuals	Other[(a)]	Total	Bulk-billing rate[(b)]
1997–98	81.7	2.5	10.6	5.2	18.3	71.8
1998–99	81.7	2.2	10.7	5.3	18.3	72.0
1999–00	82.1	2.2	10.3	5.3	17.9	72.3
2000–01	81.4	2.8	10.6	5.2	18.6	71.4
2001–02	80.0	3.7	10.7	5.6	20.0	70.4
2002–03	78.2	4.1	11.9	5.8	21.8	67.8
2003–04	77.1	4.4	12.4	6.1	22.9	67.5
2004–05	79.0	4.2	11.1	5.8	21.0	70.2
2005–06	78.8	4.3	11.3	5.6	21.2	71.7
2006–07	78.1	4.4	12.0	5.6	21.9	72.9
2007–08	78.2	4.4	11.8	5.6	21.8	73.4

(a) Includes funding by injury compensation insurers.

(b) Bulk-billing rate for all services covered under Medicare, which is almost entirely medical services, but also includes optometrical and other selected allied health and dental services.

Sources: AIHW health expenditure database and DoHA unpublished.

Table 4.14 compares the distribution of fees charged in 2007–08 for out-of-hospital medical services across state of provider and state of usual patient residence. For all states and territories, over 90% of the fees charged were for services provided within the state or territory in which the patient resided. For Australian Capital Territory residents, 7.8% of the total fees charged were for services provided in New South Wales. Similarly, for Northern Territory residents, 5.5% of the total fees charged were for services provided in South Australia and 3.0% in Queensland (Table 4.14).

Table 4.14: State of provider and state of usual patient residence for fees charged for out-of hospital[(a)] GP and specialist MBS medical services[(b)], 2007–08

State or territory of usual patient residence	State or territory of provider								
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ($ million)
	%								
NSW	96.8	0.7	1.5	0.1	0.1	—	—	—	4,417
Vic	0.9	98.4	0.4	0.1	0.2	—	—	—	3,002
Qld	1.1	0.4	98.2	0.1	0.1	—	—	0.1	2,289
WA	0.4	0.3	0.4	98.7	0.1	—	—	0.1	1,046
SA	0.5	0.4	0.3	0.1	98.5	—	—	0.1	882
Tas	0.7	1.3	0.7	0.2	0.2	96.9	—	—	252
ACT	7.8	0.7	0.8	0.1	0.2	—	90.4	—	178
NT	1.7	1.7	3.0	1.7	5.5	0.1	0.2	86.0	69
Total ($ million)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12,134

(a) Out of hospital services are those MBS services provided to patients who are not admitted to public and private hospitals and approved day surgeries.

(b) GP and specialist MBS medical services includes: GP/VRGP non-referred attendances, enhanced primary care, other non-referred attendances, practice nurses, specialist attendances, obstetrics, anaesthetics, pathology, diagnostic imaging, operations, assistance at operations, radiotherapy and therapeutic nuclear medicine.

Notes: In this table '—' means rounded to zero. For further information on what comprises each MBS category, go to MBS Online <http://www9.health.gov.au/mbs/search.cfm?adv=>.

Source: DoHA unpublished data.

Other health practitioners

Other health practitioner services are those services provided by health practitioners other than doctors and dentists. These include chiropractors, optometrists, physiotherapists, speech therapists, audiologists, dietitians, podiatrists, homeopaths, naturopaths, practitioners of Chinese medicine and other forms of traditional medicine, and so forth. Of the $3.4 billion spent on other health practitioners in 2007–08, just under half was funded by individual users of services (46.7%) (calculated from Table A3). Of the remaining expenditure ($1.8 billion), $0.6 billion (19.2%) was funded through private health insurance, including the Australian Government private health insurance premium rebates.

Expenditure on other health practitioners grew at an average of 3.7% per year between 2003–04 and 2007–08 (Table A8, page 120). This was 1.3 percentage points lower than the growth in total recurrent health expenditure (5.0%) over that period.

Medications

Medications comprise benefit-paid pharmaceuticals (that is, for which benefits were paid under either the PBS or the RPBS) and other medications (for which no benefits were paid). Other medications include private prescriptions for non-PBS-listed medications; prescriptions for PBS-listed medications with a total cost that is under the copayment level; and over-the-counter medicines such as pharmacy-only medicines, painkillers, cough and cold medicines, vitamins and minerals, and a range of medical non-durables, including bandages, bandaids and condoms. These non-prescription items include only

over-the-counter medicines purchased from pharmacies and supermarkets. They do not include medicines purchased from convenience stores.

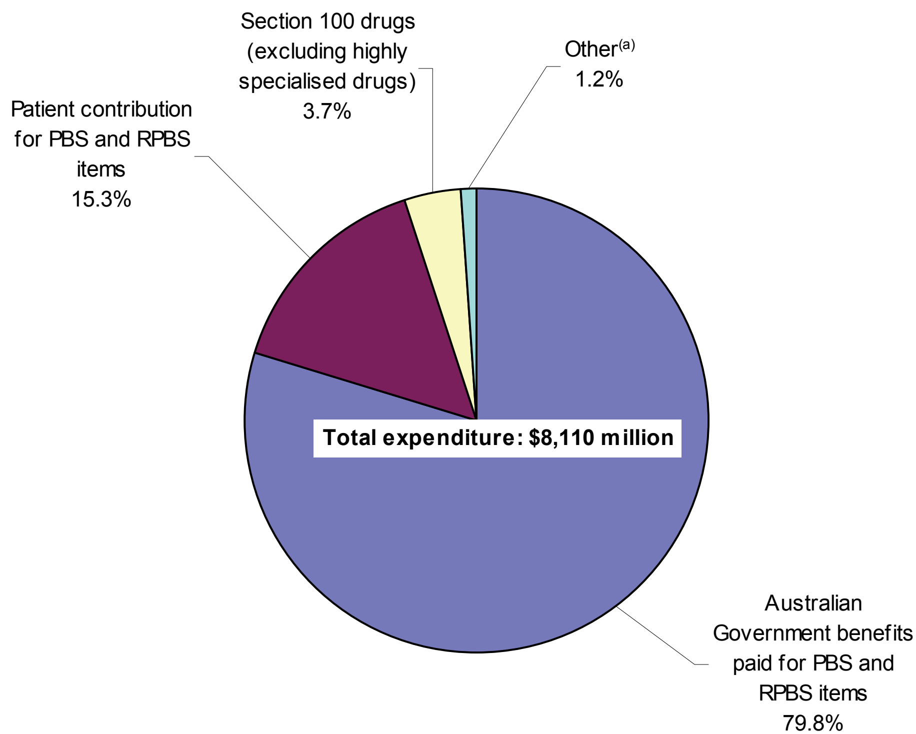
In real terms, recurrent expenditure on medications increased by 8.3% per year from 1997–98 to 2007–08, to reach $13.7 billion in 2007–08 (see Table 4.2, page 44). The rate of growth in recurrent expenditure on medications between 1997–98 and 2007–08 (8.3%), was strongly influenced by expenditure on benefit-paid pharmaceuticals (see Table A8, page 120).

Some of the annual variations in growth were due to the effects of the copayment in determining which items attract benefits. Benefit-paid pharmaceuticals include only those items listed under the Pharmaceutical Benefits Schedule for which PBS benefits were actually paid. Items that are listed on the PBS but have a price below the statutory copayment for a particular category of patient are recorded in the 'other medications' category. Therefore, when there is an increase in copayment levels, some items that would previously have been included as benefit-paid pharmaceuticals become classified as 'other medications', because they no longer attract pharmaceutical benefits.

Benefit-paid pharmaceuticals

In real terms, recurrent expenditure on benefit-paid pharmaceuticals grew at an average of 8.9% per year from 1997–98 to 2007–08, compared to growth in total recurrent health expenditure of 5.1% (tables A8 and 4.15). The period of most rapid growth was from 1997–98 to 2002–03, when growth averaged 12.4% per year—which was shared between the Australian Government (12.9% per year) and individuals (9.6% per year) (Table 4.15).

In 2007–08, the total amount spent on pharmaceuticals for which benefits were paid was $8.1 billion (Table 4.15 and Figure 4.6). This was a growth in real terms of 7.5% from the previous year. Benefits paid by the Australian Government for PBS and RPBS items accounted for 79.8% of this expenditure and 15.3% was due to patient contributions for PBS and RPBS items. The balance (4.9%) was due to Section 100 drugs (excluding highly specialised drugs which are included in hospital expenditure) and other DoHA-administered expense items (Figure 4.6).



(a) 'Other' refers to other DoHA-administered expense items.

Source: AIHW health expenditure database.

Figure 4.6: Recurrent expenditure on benefit-paid pharmaceuticals, current prices, 2007–08

Table 4.15: Recurrent expenditure on benefit-paid pharmaceuticals, constant prices[(a)], by source of funds, and annual growth rates, 1997–98 to 2007–08

	Australian Government		Individuals		Total recurrent expenditure	
Year	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)	Amount ($m)	Growth (%)
1997–98	2,846	. .	607	. .	3,453	. .
1998–99	3,136	10.2	637	4.9	3,773	9.3
1999–00	3,573	13.9	690	8.4	4,263	13.0
2000–01	4,373	22.4	785	13.8	5,158	21.0
2001–02	4,730	8.2	851	8.4	5,581	8.2
2002–03	5,223	10.4	961	12.9	6,184	10.8
2003–04	5,723	9.6	1,047	8.9	6,770	9.5
2004–05	5,984	4.6	1,161	10.9	7,145	5.5
2005–06	6,088	1.7	1,248	7.5	7,337	2.7
2006–07	6,259	2.8	1,283	2.8	7,542	2.8
2007–08	6,789	8.5	1,321	2.9	8,110	7.5
		Average annual growth rate				
1997–98 to 2002–03		12.9		9.6		12.4
2002–03 to 2007–08		5.4		6.6		5.6
1997–98 to 2007–08		9.1		8.1		8.9

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

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

Source: AIHW health expenditure database.

All other medications

Between 1997–98 and 2007–08 expenditure on other medications grew at an average of 7.5% per year (Table 4.16). Expenditure by the Australian Government in this category includes that proportion of the private health insurance rebate allocated to other medications.

Most of the funding for other medication items came from individuals. Funding from individuals grew at an average of 7.1% per year over the whole period. There were 2 years of very rapid growth—2001–02, when funding by individuals grew by 14.2% and 2006–07 (13.9%) (Table 4.16).

Table 4.16: Recurrent expenditure on other medications[(a)], constant prices[(b)], by source of funds, and annual growth rates, 1997–98 to 2007–08

	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 (%)
1997–98	21	. .	20	. .	39	. .	2,646	. .	2,725	. .
1998–99	24	16.8	n.a.	. .	35	–7.8	2,888	9.1	2,948	8.2
1999–00	34	42.0	n.a.	. .	37	3.8	3,171	9.8	3,242	10.0
2000–01	116	236.9	n.a.	. .	42	14.6	3,445	8.6	3,603	11.1
2001–02	86	–25.5	2	. .	53	24.6	3,934	14.2	4,076	13.1
2002–03	97	12.4	n.a.	. .	61	15.3	3,597	–8.6	3,755	–7.9
2003–04	122	26.3	n.a.	. .	56	–7.3	3,855	7.2	4,034	7.4
2004–05	172[(b)]	40.7	n.a.	. .	57	0.6	4,204	9.0	4,433	9.9
2005–06	114	–34.1	n.a.	. .	51	–9.6	4,264	1.4	4,429	–0.1
2006–07	297	161.8	n.a.	. .	48	–6.6	4,856	13.9	5,201	17.4
2007–08	308	3.5	n.a.	. .	46	–3.0	5,256	8.2	5,611	7.9
				Average annual growth rate						
1997–98 to 2002–03		36.2		. .		9.5		6.3		6.6
2002–03 to 2007–08		26.0		. .		–5.2		7.9		8.4
1997–98 to 2007–08		31.0		. .		1.9		7.1		7.5

(a) A large component of other medications is over-the-counter medications (see Figure 4.7). Care needs to be taken when comparing data for 2006–07 and 2007–08 with earlier years as some changes were made to the sample size, projection methods and category definitions by Synovate AZTEC (see Section 6.4 for further details).

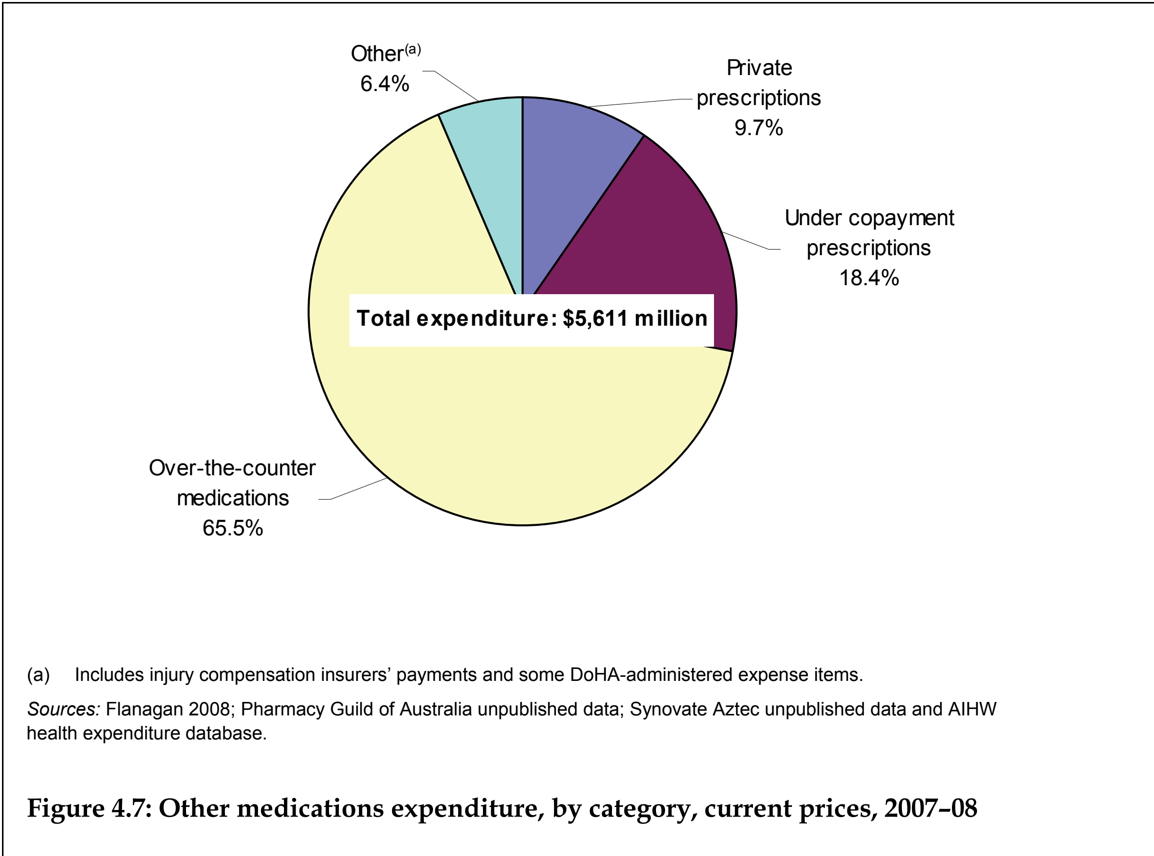
(b) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(c) The large increase was due to pharmacy restructuring grants in this year.

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

Source: AIHW health expenditure database.

In 2007–08, expenditure on all other medication items was estimated at $5.6 billion (Table 4.16). Over-the-counter medicines accounted for the largest share of this expenditure at 65.5% ($3.7 billion). Under copayment prescriptions (that is, PBS-listed items where the full price is covered by the individual) accounted for 18.4%, private prescriptions for 9.7%, and the remainder (6.4%) comprised funding from injury compensation insurers and other DoHA-administered expense items (Figure 4.7).



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

Sources: Flanagan 2008; Pharmacy Guild of Australia unpublished data; Synovate Aztec unpublished data and AIHW health expenditure database.

Figure 4.7: Other medications expenditure, by category, current prices, 2007–08

Expenditure on prescribed medications

In 2007–08, estimated expenditure on prescribed medications was $12.2 billion (Table 4.17). This is made up of prescribed medications in the community setting and medications in hospitals. It does not include expenditures incurred by governments in the purchase, dispensing and administration of vaccines under state, territory and national public health programs.

The majority of the expenditure on prescribed pharmaceuticals was for benefit-paid items (66.5% or $8.1 billion), which were jointly funded by the Australian Government (83.7%) and individuals (16.3%). Expenditure on in-hospital drugs comprised $2.0 billion for those prescribed in public hospitals and $0.2 billion in private hospitals. The private hospital drugs only include Australian Government payments for highly specialised drugs (Table 4.17).

Table 4.17: Expenditure on prescribed medications, dispensed in the community and by hospitals[(a)], current prices, 2007–08 ($ million)

		All other medications		
Provider and funder	Benefit-paid pharmaceuticals	Non-hospital[(b)]	Hospital	Total
Community pharmacies				
Funded by				
Australian Government DVA	461	. .	. .	461
Australian Government DoHA[(c)(d)]	6,329	308	. .	6,636
Health insurance funds	. .	46	. .	46
Individuals	1,321	1,511	. .	2,831
Injury compensation insurers and other	. .	71	. .	71
Total pharmacies	*8,110*	*1,936*	. .	*10,046*
Public hospitals[(e)]	**. .**	**. .**	**1,982[(f)]**	**1,982**
Private hospitals[(g)]	**. .**	**. .**	**175[(f)]**	**175**
Total	**8,110**	**1,936**	**2,157**	**12,203**

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

(b) Includes private prescriptions and under copayment prescriptions.

(c) Does not include $677 million in payments for highly specialised drugs, which are included in the public hospitals and private hospitals rows.

(d) Includes $313 million in Section 100 payments for human growth hormones, in-vitro fertilisation (IVF) and other subsidised pharmaceuticals.

(e) Includes $502 million in Australian Government payments to states and territories for highly specialised drugs.

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

(g) Comprises Australian Government payments for highly specialised drugs only.

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

Source: AIHW health expenditure database.

The cost to government of PBS items in 2007–08 was estimated at $5.9 billion (Table 4.18). This was $0.4 billion higher than in 2006–07 ($5.5 billion).

From 2002–03 to 2006–07 the patient contribution for benefit-paid items, as a proportion of the total cost of benefit-paid items, increased from 15.8% to 17.4%. There was also a corresponding fall in the Australian Government's share of funding over that period, from 84.2% to 82.6%. During the last year of the period (2007–08) the Australian Government's share increased to 83.3% and the patient contribution decreased to 16.7%.

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 2002–03, concessional patients contributed $0.4 billion or 43.0% of total patient contributions (Table 4.18). The following year, this proportion fell to a low for the period of 41.9%. In 2007–08, however, concessional patients contributed $0.6 billion, or 47.1% of total patient contributions. During the same period, the cost to the Australian Government for general and concessional patients under the safety net arrangement increased from $1.1 billion (23.6% of the cost to the Australian Government of the PBS) in 2002–03 to $1.2 billion (22.7%) in 2006–07. In 2007–08, the Australian Government met $1.3 billion under the safety net, representing 22.2% of the cost to the Australian Government of the PBS (calculated from Table 4.18).

Table 4.18: Pharmaceutical Benefits Scheme[(a)], Australian Government and patients' contributions, current prices, 2002–03 to 2007–08 ($ million)

Benefit category	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
Patient contributions						
General patients	489	545	597	634	619	630
Concessional patients	370	393	444	489	533	560
Total patient contributions	*860*	*938*	*1,041*	*1,123*	*1,151*	*1,189*
Share of total (per cent)	15.8	15.8	16.4	17.3	17.4	16.7
Government benefits						
General patients–no safety net	751	824	851	850	890	1,039
General patients–safety net	170	191	223	216	174	173
Total general patients	*920*	*1,015*	*1,073*	*1,066*	*1,064*	*1,213*
Concessional patients–no safety net	2,747	2,972	3,077	3,145	3,334	3,561
Concessional patients–safety net	908	1,005	1,145	1,173	1,067	1,138
Total concessional patients	*3,655*	*3,977*	*4,223*	*4,318*	*4,401*	*4,699*
Total cost to government	*4,575*	*4,992*	*5,296*	*5,384*	*5,466*	*5,912*
Cost to government as share of total (per cent)	84.2	84.2	83.6	82.7	82.6	83.3
Total cost of PBS benefit-paid items[(b)]	**5,435**	**5,929**	**6,337**	**6,508**	**6,617**	**7,102**

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

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

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

Source: DoHA unpublished.

Aids and appliances

Expenditure on health aids and appliances grew by 4.9% per year in real terms over the period 2003–04 to 2007–08. This was marginally lower than the growth in total recurrent health expenditure (5.0%) over that period (Table A8, page 120).

In 2007–08, expenditure on aids and appliances was $3.1 billion, of which 72.7% was funded by individuals' out-of-pocket expenditure (calculated from Table A3, page 115).

Community health and other

In 2007–08 expenditure on, 'community health and other' was estimated at $5.2 billion, up $0.7 billion from 2006–07. Of this $5.2 billion, $4.3 billion (81.8%) was funded by state, territory and local governments (calculated from tables A2 and A3). 'Other' in the community health and other category comprises other recurrent health expenditure that could not be classified to other areas of expenditure (see Glossary for further details).

Public health

Public health covers those activities that aim to prevent illness and injury and protect or promote the health of the whole population, or of specified population subgroups. While reliable estimates are not available for earlier years, since 1999–00 estimates of expenditure on defined public health activities have been compiled on a consistent basis by all governments using a single data collection protocol developed through the National Public Health Expenditure Project (AIHW 2002, 2004, 2006, 2007b, 2008b and 2008c).

For 1999–00 onwards, the expenditures on public health services reported in this report includes DoHA departmental regulator expenses for the Therapeutic Goods Administration (TGA), the Office of Gene Technology Regulator (OGTR) and the National Industrial Chemicals Notification and Assessment Scheme (NICNAS). These have not been included in the reports of government funded expenditure under the National Public Health Expenditure Project. (See public health activity expenditure below, for details of expenditure reported by the National Public Health Expenditure Project).

In each of the 3 years to 2007–08, public health expenditure was estimated at:

- 2005–06—$1.7 billion
- 2006–07—$1.8 billion
- 2007–08—$2.3 billion.

The Australian Government's share of funding was 51.2%, 55.0% and 60.2%, respectively (calculated from tables A1, A2 and A3). State and territory governments' own-source funding of public health was 40.1%, 37.8% and 33.5% respectively (calculated from tables A1, A2 and A3).

Public health activity expenditure

In real terms between 1999–00 and 2007–08, estimated government expenditure on public health activities grew at an average rate of 7.4% per year (Table 4.19). All activities showed real increases in expenditure over the 9 years, with the highest average annual growth rates being recorded for expenditure on organised immunisation (17.0%) and public health research (7.2%) (Table 4.19). Programs for food standards and hygiene (1.9%) and breast and cervical cancer screening (2.5%) showed the lowest growth over this period.

The activities recording the highest real growth between 2006–07 and 2007–08 were organised immunisation (55.9%) and selected health promotion (24.8%) (Table 4.19). Much of the growth in expenditure on organised immunisation resulted from costs associated with the implementation of the human papillomavirus vaccination (HPV) program (AIHW 2009b (in press)). Real expenditure on the communicable disease controls declined in 2007–08 (–2.5%).

Table 4.19: Total government expenditure[(a)] on public health activities, constant prices[(b)], by activity, 1999–00 to 2007–08 ($ million)

Public health activity categories	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	Growth rate (%) 2006–07 to 2007–08	Average annual growth rate (%) 1999–00 to 2007–08
Communicable disease control	201	211	232	241	237	260	267	263	257	–2.5%	3.1%
Selected health promotion	223	242	274	258	251	260	270	294	367	24.8%	6.4%
Organised immunisation	200	218	221	308	312	380	345	452	704	55.9%	17.0%
Environmental health	76	84	90	89	93	94	92	93	96	3.2%	2.9%
Food standards and hygiene	33	45	41	41	41	37	37	36	38	7.5%	1.9%
Breast and cervical cancer screening programs[(c)]	237	237	234	220	230	249	245	271	289	6.5%	2.5%
Prevention of hazardous and harmful drug use	156	183	172	185	195	218	190	215	254	18.4%	6.3%
Public health research	88	85	97	107	110	119	133	153	154	0.4%	7.2%
Total	**1,215**	**1,305**	**1,361**	**1,449**	**1,470**	**1,617**	**1,579**	**1,777**	**2,159**	**21.5%**	**7.4%**

(a) Excludes regulatory expenditures by TGA, OGTR and NICNAS.

(b) Constant price public health expenditure for 1999–00 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(c) Includes bowel cancer screening in 2006–07 and 2007–08.

Source: AIHW public health expenditure database.

Dental services

Individuals funded 64.6% of the $6.1 billion spent on dental services in 2007–08 compared to 20.0% or $1.2 billion funded by governments (Table A3, page 115). For the period 2003–04 to 2007–08, real growth in dental services expenditure averaged 1.9% per year—3.1 percentage points below the average annual real growth in total recurrent health expenditure of 5.0% (Table A8). The majority of dental services (90.0% or $5.5 billion) were provided by private providers, with the remainder by state and territory government providers (10.0% or $0.6 billion).

Research

Estimated expenditure on health research in 2007–08 was $2,732 million or 2.8% of total recurrent health expenditure (tables 4.20 and 4.21). In real terms, estimated expenditure grew at an average of 11.3% per year between 1997–98 and 2007–08 (Table 4.20). Over three-quarters (78.1%) of the expenditure on health research in 2007–08 was funded by the Australian Government, 14.2% by state and territory and local governments and a further 7.8% was funded by non-government sources (calculated from Table 4.20). Note that health research funded by 'for–profit' corporations is not included here, as that health research expenditure is considered to be an intermediate good the cost of which has already been included in the cost of the associated final output.

Table 4.20: Recurrent funding for health research, constant prices[(a)], and annual growth rates, by source of funds, 1997–98 to 2007–08

	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 (%)
1997–98	615	. .	138	. .	186	. .	939	. .
1998–99	710	15.5	130	–5.6	169	–9.0	1,009	7.5
1999–00	956	34.7	215	65.0	107	–36.7	1,278	26.6
2000–01	1,174	22.8	249	15.6	128	19.2	1,550	21.3
2001–02	1,256	7.0	243	–2.3	140	9.7	1,639	5.7
2002–03	1,355	7.9	212	–12.6	151	7.8	1,718	4.9
2003–04	1,433	5.8	243	14.6	158	4.8	1,835	6.8
2004–05	1,545	7.8	265	9.1	166	4.7	1,976	7.7
2005–06	1,757	13.8	298	12.2	182	9.7	2,237	13.2
2006–07	1,905	8.4	338	13.6	196	8.0	2,440	9.1
2007–08	2,133	11.9	387	14.4	213	8.3	2,732	12.0
Average annual growth rate								
1997–98 to 2002–03		17.1		9.0		–4.1		12.9
2002–03 to 2007–08		9.5		12.8		7.1		9.7
1997–98 to 2007–08		13.2		10.9		1.3		11.3

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

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

Source: AIHW health expenditure database.

The proportion of health expenditure on health research and development since 1998–99 has varied across the states and territories from less than 1% in Tasmania and the Northern Territory to more than 8% in the Australian Capital Territory (Table 4.21). Caution should be taken with the interpretation of these ratios as the research is based on the location of where the research has taken place, rather than the population which the research serves.

Table 4.21: Proportion of recurrent health expenditure spent on health research[(a)] and development, 1998–99 to 2007–08

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1998–99	1.2	2.0	1.3	1.3	1.9	0.7	6.2	1.5	1.6
1999–00	1.4	2.7	1.3	1.6	2.4	1.4	6.8	1.2	1.9
2000–01	1.6	2.9	1.4	1.9	2.5	1.8	8.0	1.9	2.1
2001–02	1.7	3.0	1.5	1.8	2.4	1.2	8.1	1.6	2.2
2002–03	1.7	2.9	1.4	1.7	2.2	1.9	8.1	1.2	2.2
2003–04	1.8	3.1	1.5	2.0	2.3	1.9	8.6	1.2	2.2
2004–05	1.8	3.1	1.6	2.1	2.3	2.0	8.8	0.9	2.3
2005–06	2.1	3.5	1.7	2.2	2.5	2.1	8.4	0.7	2.5
2006–07	2.3	3.7	1.7	2.2	2.6	1.7	7.7	0.8	2.6
2007–08	2.6	3.9	1.8	2.3	2.7	1.8	7.7	0.8	2.8

(a) Excludes commercially oriented research carried out or funded by private business, the costs of which are assumed to be included in the prices charged for health goods and services (e.g. pharmaceuticals that have been developed and/or supported by research activities).

Source: AIHW Health expenditure database.

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 government capital consumption from ABS government finance statistics (GFS). In this report, government capital consumption has been included as an expense in each individual category of recurrent health expenditure, in contrast to previous reports where government capital consumption was tabulated separately to other areas of health expenditure. This means that:

- government and private capital consumption are treated consistently
- there is consistency in the way that Australia reports health expenditure internationally, reporting depreciation as part of recurrent expenditure.

Table 4.22 shows the total for government capital consumption in the one table, but all other tables in this report include that capital consumption expenditure in the appropriate detailed health expenditure category such as public hospital services.

Capital consumption by governments was estimated at $1.4 billion in 2007–08 (Table 4.22). This was a decrease, in real terms, of 2.3% from 2006–07.

Because capital consumption is, essentially, the using up of fixed capital in the process of providing health goods and services and capital expenditure is the measure of additions to the capital stock, it is useful to examine the ratio of capital expenditure to capital consumption (Table 4.23).

For most years since 1998–99, capital expenditure exceeded the rate of consumption of capital in all states and territories, except the Northern Territory. This resulted in a capital

expenditure to capital consumption ratio that was greater than 1 for those other jurisdictions, which implies that their capital stock was growing, not eroding. In the case of the Northern Territory, which consistently had a ratio of less than 1, the data suggests that the capital stock was being used up at a faster rate than it was being replaced. In 2007–08, Western Australia recorded its highest ratio (2.8:1) since 1998–99 (3.1:1) and suggests there was substantial on-going investment in health assets in Western Australia.

Table 4.22: Capital consumption by governments, current and constant prices[(a)], and annual growth rates, 1998–99 to 2007–08

Year	Current prices ($ million)	Constant prices ($ million)	Real growth (per cent)
1998–99	865	749	. .
1999–00	896	813	8.5
2000–01	935	854	5.1
2001–02	940	892	4.4
2002–03	973	965	8.3
2003–04	1,037	1,101	14.0
2004–05	1,107	1,187	7.8
2005–06	1,238	1,335	12.4
2006–07	1,337	1,408	5.5
2007–08	1,375	1,375	–2.3

(a) Constant price health expenditure for 1998–99 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: AIHW health expenditure database.

Table 4.23: Government[(a)] capital expenditure as a proportion of government[(b)] capital consumption expenditure by health care facilities, 1998–99 to 2007–08

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1998–99	0.6	1.2	1.2	3.1	1.2	1.7	2.0	0.9	1.1
1999–00	1.0	1.7	2.2	1.3	1.4	0.5	0.9	0.4	1.5
2000–01	1.3	1.6	2.1	1.5	1.3	0.5	1.5	0.4	1.5
2001–02	1.4	1.9	1.8	1.4	1.5	0.9	1.9	0.3	1.6
2002–03	1.4	3.0	1.0	1.4	1.8	0.5	1.2	0.6	1.7
2003–04	1.1	1.0	1.1	1.8	1.7	1.2	1.5	0.7	1.2
2004–05	1.2	1.6	1.3	2.2	2.1	1.7	1.9	0.9	1.5
2005–06	1.5	2.1	1.4	1.9	1.6	1.6	2.1	0.7	1.6
2006–07	1.2	2.6	1.6	1.8	0.5	1.7	1.3	0.9	1.6
2007–08	1.4	1.0	2.0	2.8	1.2	1.5	1.9	0.6	1.5

(a) Excludes local government.

(b) Expenditure on publicly owned health care facilities

Source: AIHW Health expenditure database.

4.2 Capital expenditure

Capital expenditure on health facilities and investments in 2007–08 was $5.5 billion, 5.4% of total health expenditure (tables 4.22 and A3).

The Australian Government's capital funding was mostly by way of grants and subsidies to other levels of government or to non-government organisations.

State, territory and local governments use capital for the provision of government health services (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 that state's aged or run-down capital stock was replaced.

Typically, capital expenditure by the non-government sector accounts for around 50% to 60% of all capital expenditure in any year and tends to fluctuate less than government capital expenditure (Table 4.24).

Table 4.24: Capital expenditure, current prices[(a)], by source of funds, 1997–98 to 2007–08 ($ million)

	Government			
Year	Australian Government	State/territory and local	Non-government	Total
1997–98	65	1,405	994	2,464
1998–99	113	936	1,516	2,565
1999–00	36	1,383	1,587	3,006
2000–01	130	1,243	1,917	3,291
2001–02	78	1,437	2,062	3,577
2002–03	70	1,559	2,347	3,976
2003–04	87	1,037	2,485	3,609
2004–05	119	1,559	2,602	4,280
2005–06	97	1,944	2,711	4,752
2006–07	108	2,128	3,253	5,489
2007–08	108	2,010	3,429	5,546

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: AIHW health expenditure database.

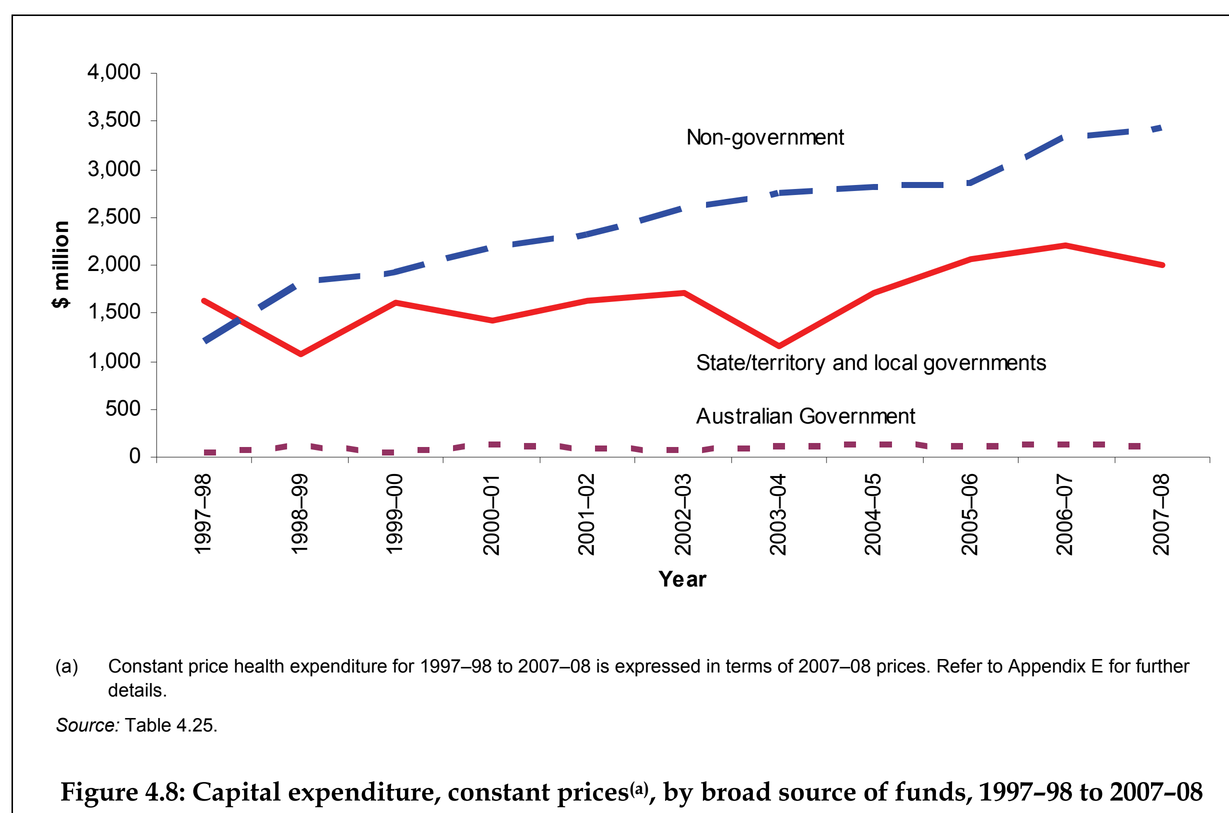
The lives of such facilities and equipment can be very long (up to 50 years is not uncommon for buildings). Because investments in health facilities and equipment involve large outlays, capital expenditure can fluctuate from year to year (Table 4.25 and Figure 4.8).

Table 4.25: Capital expenditure, constant prices(a), by source of funds, 1997–98 to 2007–08 ($ million)

	Government							
	Australian Government		State, territory and local governments		Non–government		Total	
Year	Amount ($ million)	Growth (%)	Amount ($ million)	Growth (%)	Amount ($ million)	Growth (%)	Amount ($ million)	Growth (%)
1997–98	51	. .	1,639	. .	1,195	. .	2,886	. .
1998–99	96	86.8	1,070	–34.7	1,819	52.2	2,985	3.5
1999–00	33	–65.5	1,601	49.6	1,910	5.0	3,545	18.7
2000–01	121	264.1	1,419	–11.4	2,187	14.5	3,726	5.1
2001–02	74	–39.0	1,626	14.6	2,319	6.0	4,019	7.9
2002–03	70	–5.4	1,708	5.0	2,587	11.5	4,364	8.6
2003–04	93	33.5	1,156	–32.3	2,748	6.2	3,997	–8.4
2004–05	128	38.2	1,701	47.1	2,801	1.9	4,630	15.8
2005–06	105	–17.9	2,062	21.2	2,856	2.0	5,022	8.5
2006–07	114	8.6	2,196	6.5	3,329	16.6	5,640	12.3
2007–08	108	–5.6	2,010	–8.5	3,429	3.0	5,546	–1.7

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: AIHW health expenditure database.



(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: Table 4.25.

Figure 4.8: Capital expenditure, constant prices(a), by broad source of funds, 1997–98 to 2007–08

4.3 Non-specific tax expenditures

In this report the only non-specific tax expenditure that is reported is the 'medical expenses tax rebate'. The term 'non-specific tax expenditure' has been used by the Department of the Treasury to denote a particular form of tax expenditure on health, which is available to taxpayers in respect of health expenditures they incur in a year.

The medical expenses tax rebate applies to the amount by which a taxpayer's total net health-related expenditures exceed a statutory threshold in any year. For 2007–08 the tax rebate was 20 cents for each $1 by which a taxpayer's net health expenses exceeded $1,500. Net health expenses are the expenses that have been paid by the taxpayer in respect of her/himself and dependants, less any refunds they have received, or could receive, from Medicare, a private health fund or any other third-party payer.

The medical expenses tax rebate applies in regard to a wide range of health expenditures, not just expenses associated with medical services, as its name might suggest.

These are referred to as non-specific tax expenditures because they cannot be allocated to any specific areas of health expenditure.

Non-specific tax expenditures were estimated at $382 million in 2007–08. This was a decrease in real terms of 2.3% from 2006–07. The average annual real growth over the decade from 1997–98 was 7.5% (Table 4.26).

Table 4.26 Non-specific tax expenditure, current and constant[(a)] prices, and annual growth rates, 1997–98 to 2007–08

Year	Current prices ($ million)	Constant prices ($ million)	Real growth (%)
1997–98	128	185	. .
1998–99	145	203	9.7
1999–00	162	221	9.0
2000–01	173	228	3.3
2001–02	203	259	13.5
2002–03	225	276	6.6
2003–04	250	294	6.5
2004–05	291	329	12.0
2005–06	332	359	9.1
2006–07	376	391	8.8
2007–08	382	382	–2.3
Average annual growth rate			
1997–98 to 2007–08			7.5

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: AIHW health expenditure database.