1 Background

Regular reporting of national health expenditure statistics is vital to understanding the characteristics of Australia's health system and how it has changed over time. This publication reports health expenditure in Australia, by area of expenditure and source of funds, for the period 1997–98 to 2007–08. These statistics show the proportion of economic resources allocated through the health care system. They also show the rates of growth in the use of those resources over the period. Expenditure is analysed in terms of who provides the funding for health care and the types of services that attract that funding.

The format that the Institute has used for reporting expenditure on health since 1985 is based on the WHO's reporting structure, which it adopted during the 1970s. That WHO structure was generally referred to as the National Health Accounts (NHA). The Australian version is the Australian National Health Accounts. Australia's reporting format has not changed markedly since the Institute's first national health expenditure report in 1985, despite considerable change in the way health care is delivered and financed.

In more recent times, the OECD has developed a new international reporting framework, known as the System of Health Accounts (SHA). This, in turn is being adopted by WHO as its international health expenditure reporting standard. The Institute has incorporated the SHA framework into its database and reports to Organisation for Economic Co-operation and Development (OECD) each year using that framework. It is also moving to develop a new Australian system of health accounts, which will comply with those international standards.

In chapter 5, the SHA framework is used to compare Australia with other member countries of the OECD, as well as other countries in the Asia–Pacific region.

Box 1.1: Defining health expenditure and health funding

Health expenditure

Health expenditure is reported in terms of who spends the money, rather than who ultimately provides the money for any particular expenditure. In the case of public hospital care, for example, all expenditures (that is, expenditure on accommodation, medical and surgical supplies, drugs, salaries of doctors and nurses, and so forth) are incurred by the states and territories, but a considerable proportion of those expenditures are funded by transfers from the Australian Government.

Health funding

Health funding is reported in terms of who provides the funds that are used to pay for health expenditure. In the case of public hospitals, for example, the Australian Government funded 39.2% in 2007–08 and the states and territories funded 52.8%, together providing over 90% of the funding; these funds are derived ultimately from taxation and other sources of government revenue. Some other funding comes from private health insurers and from individuals who incur an out-of-pocket cost when they choose to be treated as private patients.

The tables and figures in this publication provide expenditure in terms of current and constant prices. Constant price expenditure adjusts for the effects of inflation using either the annually re-weighted chain price indexes produced by the Australian Bureau of Statistics (ABS), or either ABS or AIHW implicit price deflators (IPDs). Because the reference year for both the chain price indexes and the IPDs is 2007–08, the constant price estimates indicate what expenditure would have been had 2007–08 prices applied in all years.

Throughout this publication there are references to the general rate of inflation. These refer to changes in economy-wide prices, not just consumer prices. The general rate of inflation is calculated by the ABS using the IPD for gross domestic product (GDP).

Box 1.2: Expenditure at current and constant prices

Current price estimates

Expenditure at 'current prices' refers to expenditure reported for all years, unadjusted for movements in prices from one year to another (that is, unadjusted for inflation).

Changes in the current price estimates of expenditure from year to year come about through a combination of the effects of changes in:

(a) the quantities of goods and services

(b) the prices of those goods and services.

Price changes vitiate comparisons in expenditure at current prices over longer time periods. This is because the value of the currencies that purchased those goods and services might be very different in different years.

Deflation and constant price estimates

In order to be able to compare estimates of expenditures in different time periods, it is necessary to compensate for the differences in the values of the currencies that purchased those expenditures. This is possible if the second effect (price changes) is removed. This process is known as 'deflation'.

The result of deflation is a series of annual estimates of expenditure that are all expressed in terms of the value of currency in one selected reference year. These are known as estimates of expenditure at 'constant prices'.

The result is the equivalent to changes from year to year in the quantities of goods and services. This same effect could be achieved if it was possible to actually measure the changes in the different goods and services that make up health expenditure. The main reason for expressing the growth in currency values is that this allows the quantities of the individual goods and services to be aggregated (it is possible to sum the estimated expenditure on hospital services, pharmaceuticals, medical services, and so forth and achieve a meaningful total). Aggregation would not be possible if the quantities were expressed in terms of, say, the numbers of the diverse goods and services.

Deflators

The Institute has identified tools that it can use to calculate average changes in prices for each of the health goods and services categories that make up total health expenditure in Australia. These are known as 'deflators'. Deflators are useful for removing the effect of those price changes. Because the prices of different goods and services move at different rates, no one deflator can be used to deflate all expenditures.

Growth in expenditures

Changes in constant price estimates from year to year are referred to throughout this report as either 'growth in expenditure at constant prices' or 'real growth' or simply as 'growth'. These terms are used interchangeably and reflect only the changes in the quantities of health goods and services; they do not include changes that are due to variations in prices of these goods and services from year to year. The reference year used in this report is 2007–08.

Nominal change in expenditures

Changes from year to year in the estimates of expenditure at current prices are referred to throughout this report as 'nominal changes in expenditure' or 'nominal changes'. These reflect changes that come about because of the combined effects of inflation and real growth in the health goods and services that are produced.

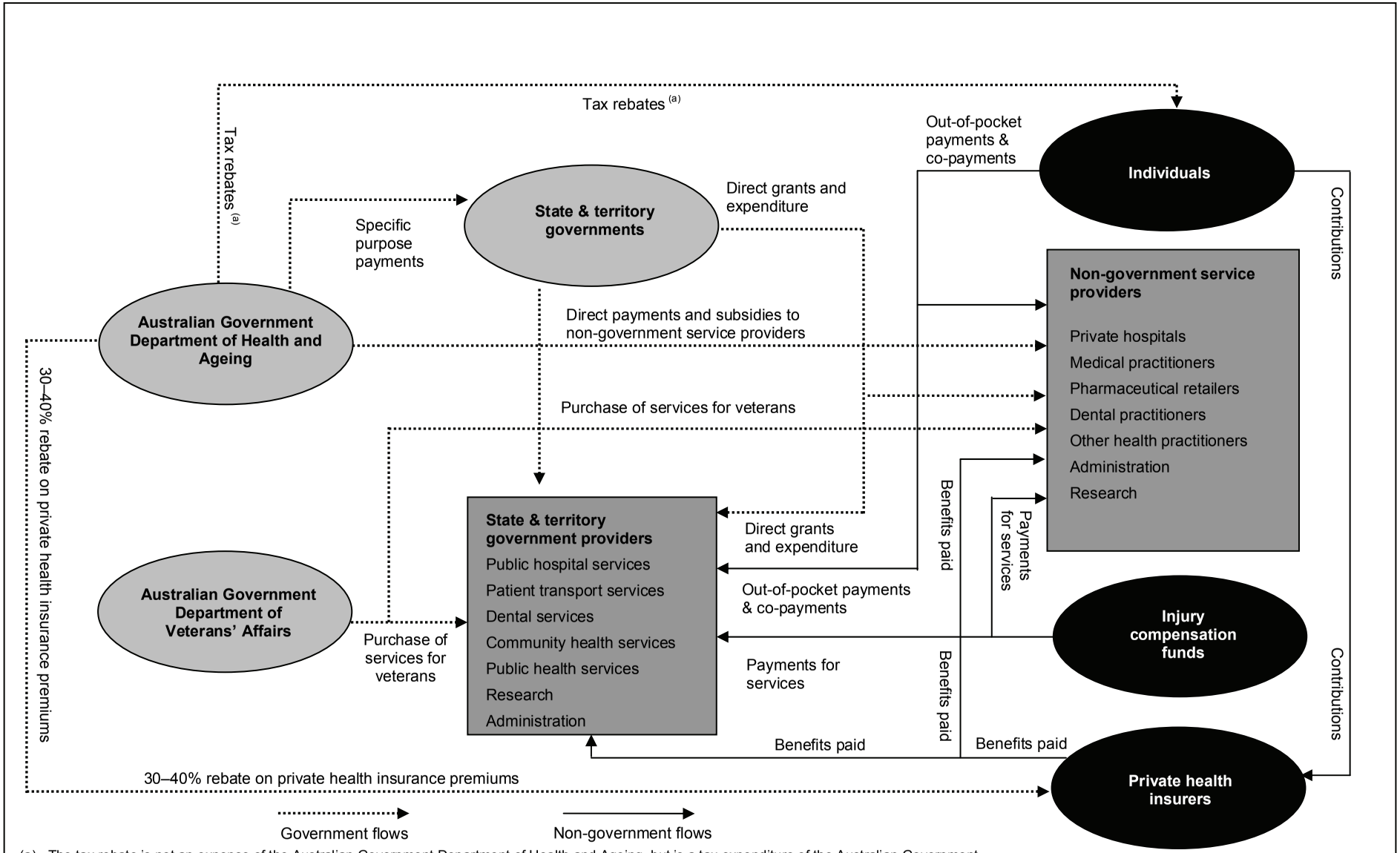
1.1 The structure of the health sector and its flow of funds

The flow of money around the Australian health care system is complex and is determined by the institutional frameworks in place, both government and non-government. Australia is a federation, governed by a national government (the Australian or Commonwealth Government) and eight state and territory governments. Both these levels of government play important roles in the provision and funding of health care. In some jurisdictions, local governments also play a role. All of these levels of government collectively are called the government sector. What remains is the non-government sector, which, in the case of funding for health care, comprises individuals, private health insurers and other non-government funding sources (principally workers compensation and compulsory motor vehicle third-party insurers, but also includes funding for research from non-government sources and miscellaneous non-patient revenue received by hospitals). Figure 1.1 shows the major flows of funding between the government and non-government sectors and the providers of health goods and services.

Most non-hospital health care in Australia is delivered by non-government providers, among them private medical and dental practitioners, other health practitioners (such as physiotherapists, acupuncturists and podiatrists) and pharmaceutical retailers. Delivery of health care can occur in a diverse range of settings—hospitals, rehabilitation centres, community health centres, health clinics, ambulatory care services, the private consulting rooms of health practitioners, patients' homes or workplaces, and so on.

In summary, the following are the main features of Australia's health system (see Figure 1.1):

- Universal access to benefits for privately provided medical services under Medicare, which are funded by the Australian Government, with copayments by users when the services are not bulk-billed.
- Eligibility for public hospital services, free at the point of service, funded jointly by the states and territories and the Australian Government.
- Private hospital activity largely funded by private health insurance, which in turn is subsidised by the Australian Government through the 30–40% rebates on members' contributions to private health insurance.
- The Australian Government, through its Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme (RPBS), subsidises a wide range of pharmaceuticals outside public hospitals for the general public and eligible veterans, respectively.
- The Australian Government provides most of the funding for health research.
- State and territory health authorities are primarily responsible for public hospitals, mental health programs, the transport of patients, community health services, and public health programs and activities (for example, health promotion and illness prevention).
- Individuals primarily spend money on medications, dental services, aids and appliances, medical services, other health practitioner services and hospitals.



(a) The tax rebate is not an expense of the Australian Government Department of Health and Ageing, but is a tax expenditure of the Australian Government.

Figure 1.1: The structure of the Australian health care system and its flow of funds

1.2 Changes to AIHW estimates

There have been some revisions to previously published estimates of health expenditure, due to receipt of additional or revised data or changes in methodology. Comparisons over time should, therefore, be based on the estimates provided in this publication and online data, rather than by reference to earlier editions. For example, estimates in this report are not comparable with the data published in issues prior to 2005–06, because of the reclassification of expenditure on high-level residential aged care from 'health services' to 'welfare services'.

In this report, an important change was made to include capital consumption, which had in previous editions been shown as a separate (non-recurrent) form of expenditure, as part of recurrent health expenditure for all years (see Section 6.4 for details). The Institute's online data cubes also incorporate this change for all years back to 1961.

Revisions and other changes to estimates for previous years that have occurred since the publication of *Health expenditure Australia 2006–07* (AIHW 2008a) are detailed in Section 6.5.

The work of the Health Expenditure Advisory Committee (HEAC) (see Section 6.1) will, over time, further enhance the quality and comparability of health expenditure data reported in *Health expenditure Australia* publications. This may entail revisions and other changes in future issues of this publication.

1.3 Revisions to ABS estimates

Revisions to ABS estimates of GDP and capital expenditure have affected the estimates in this publication, as in previous issues.

GDP estimates for this publication are sourced from the ABS (ABS 2009a). The current price GDP estimates in that ABS publication are the same as those published in *Health expenditure Australia 2006–07* (AIHW 2008a), for all years except 2006–07, which is slightly lower due to ABS revisions.

ABS estimates of capital consumption have also been revised for 1998–99 onwards since *Health expenditure Australia 2006–07* was published. Refer to Section 6.5 for the effects of these revisions.

1.4 Structure of report

The first chapter of this report provides background to the structure of the Australian health sector and how money flows throughout the system. It also clarifies a number of concepts important to the understanding of this report—namely, the distinction between health funding and expenditure, and reference to expenditure in current and constant price terms.

A broad picture of total national health expenditure in 2007–08 (and back to 1997–98) is presented in Chapter 2.

Chapter 3 analyses this expenditure in terms of who ultimately provided the funding for the expenditure —the Australian Government, state and territory and local governments, and the non-government sector.

Chapter 4 contains an analysis of health expenditure and funding by area of expenditure, including expenditure on both public and private hospitals, patient transport, medical services, dental services, other health practitioner services, health goods (that is, medications and aids and appliances), community health and public health services, as well as health research. This chapter also covers expenditure on the investment in health facilities and equipment (capital expenditure), capital consumption (depreciation) by governments and the non-specific tax expenditure.

International comparisons, presented in Chapter 5, show how expenditure on health in Australia compares with selected OECD and Asia–Pacific countries.

Technical information on the definitions, methods and data is provided in Chapter 6 along with information on revisions to previous estimates.

The appendixes include more detailed national and state and territory health expenditure matrices; detailed disaggregations of expenditure on hospitals, medical services, other health practitioner services and medications; estimates of expenditure, by broad disease groups; information on the price indexes and deflators; and population.