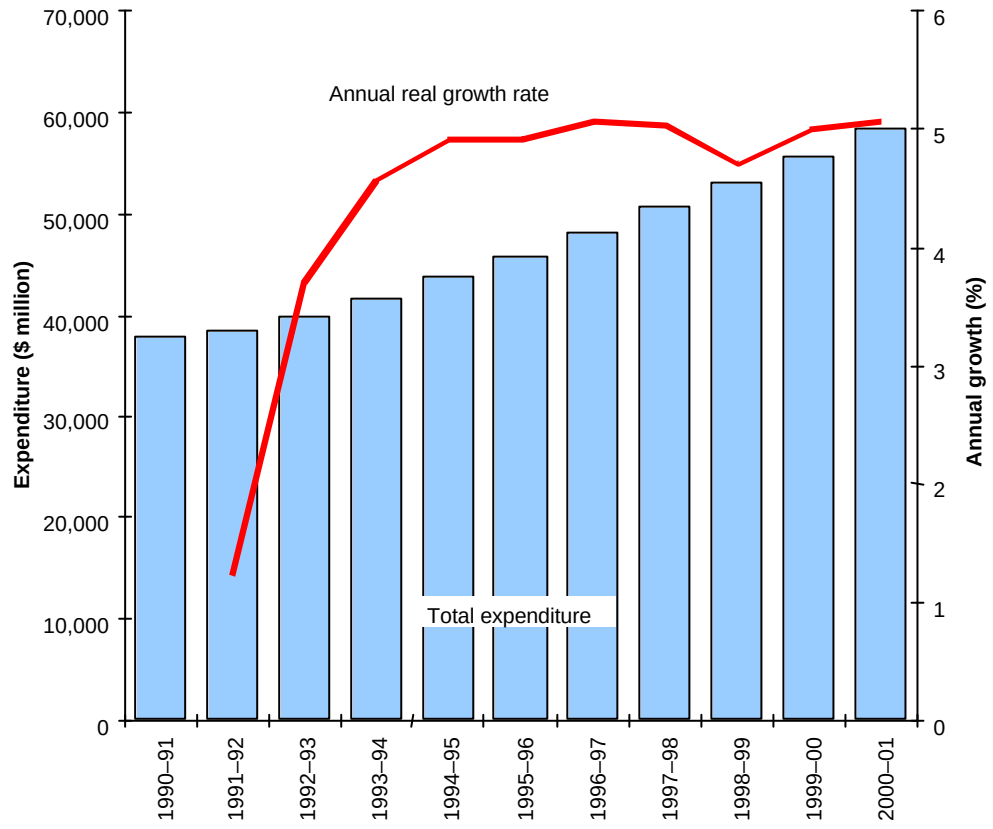
2 Total health expenditure

Total expenditure on health goods and services, health-related services and capital formation in Australia in 2000–01 was estimated at $60.8 billion (Table 2). This was an increase of $5.1 billion over the previous year. Of this, $56.9 billion related to recurrent health expenditure and $3.9 billion capital formation in the health sector. These two aspects of health expenditure will be analysed in Chapter 4.

After allowing for inflation, the growth between 1999–00 and 2000–01 in 1999–00 prices was 5.1%, close to the eight-year average growth rate since 1992–93.



(a) Constant price health expenditure for 1990–91 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

Source: Table 2.

Figure 2: Total health expenditure and annual growth, constant prices,(a) 1990–91 to 2000–01

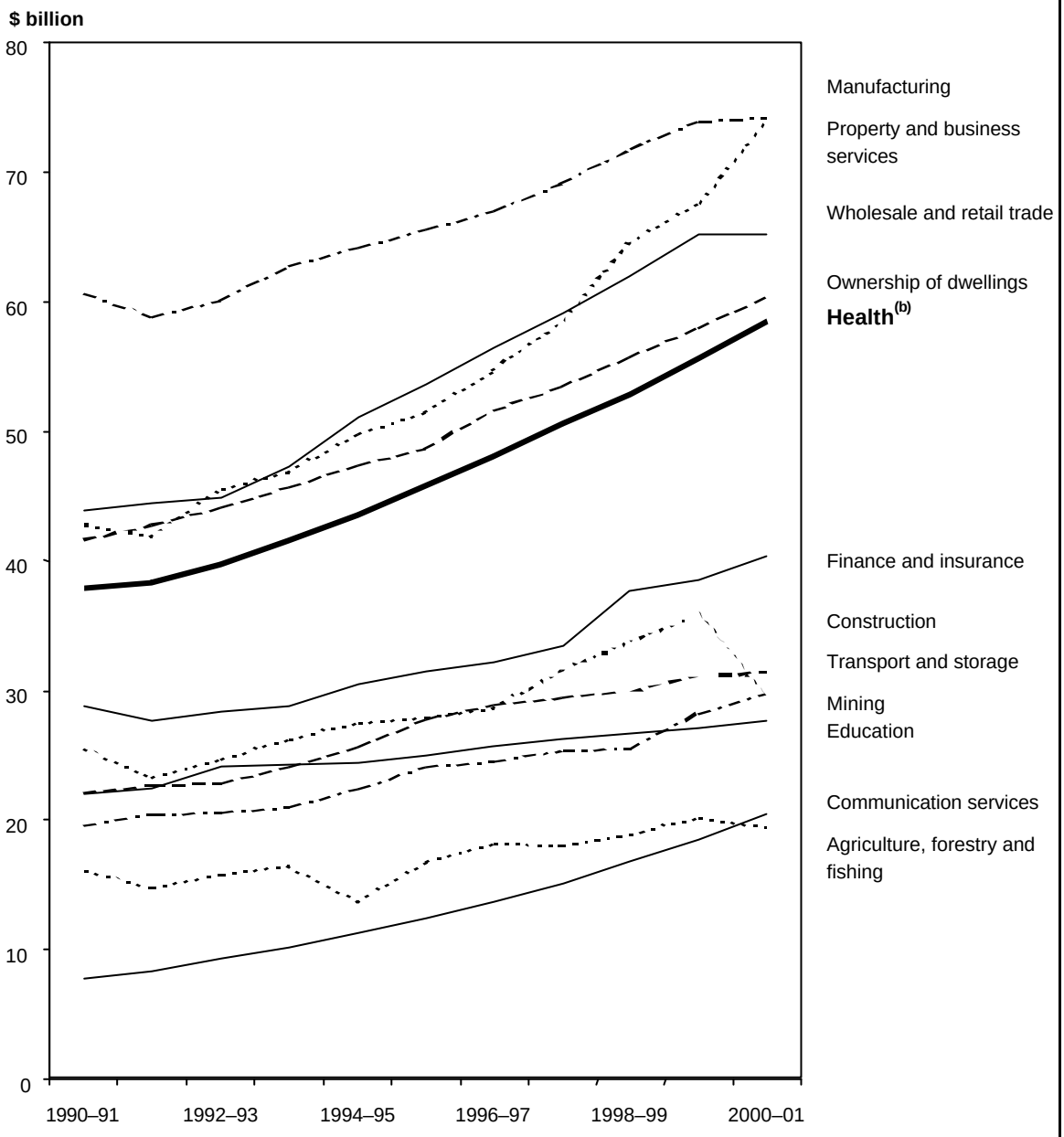
Table 2: Total health expenditure, current and constant prices,[a] and annual growth rates, 1990–91 to 2000–01

Year	Amount ($ million)		Growth rate over previous year (%)	
	Current	Constant	Current	Constant
1990–91	31,267	38,004	. .	. .
1991–92	33,123	38,469	5.9	1.2
1992–93	35,098	39,893	6.0	3.7
1993–94	36,990	41,714	5.4	4.6
1994–95	39,216	43,758	6.0	4.9
1995–96	42,082	45,905	7.3	4.9
1996–97	45,195	48,224	7.4	5.1
1997–98	48,360	50,642	7.0	5.0
1998–99	51,680	53,026	6.9	4.7
1999–00	55,630	55,630	7.6	4.9
2000–01[b]	60,779	58,490	9.3	5.1
Average annual growth rates				
1990–91 to 1992–93			5.9	2.5
1992–93 to 1997–98			6.6	4.9
1997–98 to 2000–01			7.9	4.9
1990–91 to 2000–01			6.9	4.4

(a) Constant price health expenditure for 1990–91 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.



(a) Constant price expenditures for 1990–91 to 2000–01 are expressed in chain volume measures, referenced to the year 1999–00.

(b) Health relates to expenditure on health goods and services, not to the health industry.

Sources: Table 2 and ABS 2002.

Figure 3: GDP by industry, constant prices,(a) 1990–91 to 2000–01

2.1 Health expenditure and the general level of economic activity

Over the past decade the health sector of the economy has grown faster than the economy as a whole (Figure 3).

At the national level, GDP is the main measure used to indicate the overall level of economic activity. It is also a principal measure used to make international comparisons and this is discussed in Chapter 5. The ratio of Australia's health expenditure to GDP provides an indication of the proportion of overall economic activity contributed by the health sector. It is estimated that spending on health accounted for 9.0% of GDP in 2000–01—up from 8.8% in the previous year and from 7.9% at the beginning of the 1990s (Table 3).

The health expenditure-to-GDP ratio can increase during a period because:

- the level of use of goods and services in health increased at a greater rate than the increase in the use of all goods and services in the economy (a quantity effect); or
- price rises in the health sector exceeded economy-wide price rises (excess health inflation—a price effect).

Table 3: Total health expenditure and GDP, current prices, and annual growth rates, 1990–91 to 2000–01

	Total health expenditure		GDP		
Year	Amount ($ million)	Nominal growth rate (%)	Amount ($ million)	Nominal growth rate (%)	Ratio of health expenditure to GDP (%)
1990–91	31,267	. .	397,394	. .	7.9
1991–92	33,123	5.9	406,103	2.2	8.2
1992–93	35,098	6.0	425,706	4.8	8.2
1993–94	36,990	5.4	446,479	4.9	8.3
1994–95	39,216	6.0	471,348	5.6	8.3
1995–96	42,082	7.3	502,828	6.7	8.4
1996–97	45,195	7.4	529,886	5.4	8.5
1997–98	48,360	7.0	561,229	5.9	8.6
1998–99	51,680	6.9	591,592	5.4	8.7
1999–00	55,630	7.6	629,212	6.4	8.8
2000–01[(a)]	60,779	9.3	672,223	6.8	9.0
Average annual growth rates					
1990–91 to 1992–93		5.9		3.5	
1992–93 to 1997–98		6.6		5.7	
1997–98 to 2000–01		7.9		6.2	
1990–91 to 2000–01		6.9		5.4	

(a) Based on preliminary AIHW and ABS estimates.

Sources: AIHW health expenditure database and ABS 2002.

The general trend in the health expenditure-to-GDP ratio was a gradual increase over the eleven-year period. The most significant increase in the ratio was in 1991–92,

when it grew by 0.3 percentage points, with the increase being due to a combination of volume and price effects. Real health expenditures grew by 1.2%, compared with a real GDP growth rate of 0.3% (Table 4), while excess health inflation was 2.7% (Table 5).

Preliminary estimates indicate a further significant increase in the health expenditure-to-GDP ratio in 2000–01 due to a large volume effect—with real health expenditure increasing by 5.1% compared with an increase of 2.0% in real GDP (Table 4). A negative (0.8%) excess health inflation figure, the first since 1995–96, slightly offsets this effect (Table 5).

Table 4: Total health expenditure and GDP, constant prices,[(a)] and annual growth rates, 1990–91 to 2000–01

	Total health expenditure		GDP	
Year	Amount ($m)	Growth rate (%)	Amount ($m)	Growth rate (%)
1990–91	38,004	. .	451,561	. .
1991–92	38,469	1.2	452,779	0.3
1992–93	39,893	3.7	469,355	3.7
1993–94	41,714	4.6	487,610	3.9
1994–95	43,758	4.9	507,945	4.2
1995–96	45,905	4.9	529,355	4.2
1996–97	48,224	5.1	548,815	3.7
1997–98	50,642	5.0	573,244	4.5
1998–99	53,026	4.7	603,447	5.3
1999–00	55,630	4.9	629,212	4.3
2000–01[(b)]	58,490	5.1	641,705	2.0
Average annual growth rates				
1990–91 to 1992–93		2.5		2.0
1992–93 to 1997–98		4.9		4.1
1997–98 to 2000–01		4.9		3.8
1990–91 to 2000–01		4.4		3.6

(a) Constant price health expenditure for 1990–91 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

(b) Based on preliminary AIHW and ABS estimates.

Sources: AIHW health expenditure database and ABS 2002.

Table 5: Annual rates of health inflation, 1990–91 to 2000–01 (per cent)

Period	Health inflation	General inflation [(a)]	Excess health inflation
1990–91 to 1991–92	4.7	1.9	2.7
1991–92 to 1992–93	2.2	1.1	1.0
1992–93 to 1993–94	0.8	1.0	–0.2
1993–94 to 1994–95	1.1	1.3	–0.3
1994–95 to 1995–96	2.3	2.4	–0.1
1995–96 to 1996–97	2.2	1.6	0.6
1996–97 to 1997–98	1.9	1.4	0.5
1997–98 to 1998–99	2.1	0.1	1.9
1998–99 to 1999–00	2.6	2.0	0.6
1999–00 to 2000–01	3.9	4.8	–0.8
Average annual rates of inflation			
1990–91 to 1992–93	3.4	1.5	1.9
1992–93 to 1997–98	1.7	1.5	0.1
1997–98 to 2000–01	2.9	2.3	0.6
1990–91 to 2000–01	2.4	1.8	0.6

(a) Based on the implicit price deflator for GDP.

Sources: AIHW health expenditure database and ABS 2002.

Health inflation

The relationship between movements in health prices and the general level of inflation in the economy as a whole has a strong influence on the ratio of health expenditure to GDP.

The general level of inflation is measured by reference to the implicit price deflator (IPD) for GDP and health inflation is indicated by reference to the total health price index (see Section 6.3 on Deflators and **Error! Reference source not found.**, page **Error! Bookmark not defined.** for discussion of different indexes). Australia's health inflation has tended to move ahead of the general level of inflation.

Between 1990–91 and 2000–01, the average rate of general inflation was 1.8% per annum (Table 5). Health inflation during that period averaged 2.4% per year, giving an excess health inflation rate of 0.6% per year.

2.2 Health expenditure per person

As the population grows, it could be anticipated that health expenditure must also increase, to maintain the average level of goods and services available to each person in the community. By examining health expenditure on a per person basis, the influence of changes in the overall size of the population is removed from the analysis.

During 2000–01, estimated per person health expenditure averaged $3,153 (Table 6).

Real growth in per person health expenditure between 1990–91 and 2000–01 averaged 3.2% per year, compared with 4.4% for aggregate national health expenditure (Table 2, page 8 and Table 6). The difference between these two growth rates is the result of growth in the overall size of the Australian population.

Table 6: Average health expenditure per person, current and constant prices,[a] and annual growth rates, 1990–91 to 2000–01

	Amount ($)		Growth rate over previous year (%)	
Year	Current	Constant	Current	Constant
1990–91	1,820	2,212	. .	. .
1991–92	1,904	2,212	4.6	—
1992–93	1,996	2,268	4.8	2.6
1993–94	2,082	2,348	4.3	3.5
1994–95	2,183	2,436	4.9	3.8
1995–96	2,313	2,523	5.9	3.6
1996–97	2,453	2,617	6.1	3.7
1997–98	2,596	2,719	5.8	4.0
1998–99	2,743	2,815	5.7	3.5
1999–00	2,922	2,922	6.5	3.8
2000–01[b]	3,153	3,034	7.9	3.8
Average annual growth rates				
1990–91 to 1992–93			4.7	1.3
1992–93 to 1997–98			5.4	3.7
1997–98 to 2000–01			6.7	3.7
1990–91 to 2000–01			5.6	3.2

(a) Constant price health expenditure for 1990–91 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

2.3 Total health expenditure, by State and Territory

As well as being affected by national priorities, health expenditure in Australia is influenced by the different policy initiatives that are pursued by the State and Territory Governments. Consequently, while expenditure is generally distributed according to the spread of the population, there are differences between the States and Territories in the way that health expenditure is distributed within their health

systems. Also, over time, there are changes in average expenditures because of different socioeconomic and demographic movements in the States and Territories.

Table 7: Total health expenditure, current prices, by State and Territory, 1996–97 to 2000–01 ($ million)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	15,650	11,242	8,225	3,958	3,574	1,308	762	477	45,195
1997–98	16,581	11,967	8,853	4,563	3,769	1,263	835	527	48,360
1998–99	17,642	12,950	9,555	4,806	3,938	1,319	919	549	51,680
1999–00	18,739	13,889	10,486	5,173	4,353	1,386	990	613	55,630
2000–01[(a)]	20,163	15,461	11,334	5,867	4,690	1,509	1,094	661	60,779

(a) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Disaggregation of total health expenditure on a State/Territory basis has been undertaken since 1996–97. This has enabled some limited comparison of expenditure patterns over time for each of the States and Territories.

It is estimated that, during 2000–01, 58.6% ($35.6 billion) of total national health expenditure was incurred in the two most populous States, New South Wales (33.2%) and Victoria (25.4%) (Table 7). These two States account for 58.6% of the total Australian population.

During the period covered by the 1997 Australian Health Care Agreements between the Commonwealth and the States and Territories, that is, from 1997–98 to 2000–01, four States recorded real average annual growth rates that were above the national average of 4.9%. These were the Australian Capital Territory (6.3%), Western Australia (6.0%), Victoria (5.9%) and Queensland (5.8%). New South Wales (3.5%), South Australia (4.7%), Tasmania (3.2%) and the Northern Territory (3.6%) had growth rates that were below the national average (Table 9).

Table 8: Total health expenditure, constant prices,[(a)] by State and Territory, 1996–97 to 2000–01 ($ million)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	16,911	11,942	8,682	4,183	3,803	1,385	814	505	48,224
1997–98	17,477	12,517	9,201	4,748	3,932	1,317	876	573	50,642
1998–99	18,106	13,238	9,893	4,898	4,036	1,343	947	565	53,026
1999–00	18,739	13,889	10,486	5,173	4,353	1,386	990	613	55,630
2000–01[(b)]	19,396	14,870	10,916	5,649	4,515	1,453	1,054	637	58,490

(a) Constant price health expenditure for 1996–97 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Table 9: Total health expenditure, constant prices,[a] all sources of funding, by State and Territory, annual growth rates, 1996–97 to 2000–01 (per cent)

Period	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97 to 1997–98	3.3	4.8	6.0	13.5	3.4	-4.9	7.6	13.4	5.0
1997–98 to 1998–99	3.6	5.8	7.5	3.1	2.6	2.0	8.1	-1.5	4.7
1998–99 to 1999–00	3.5	4.9	6.0	5.6	7.9	3.2	4.6	8.6	4.9
1999–00 to 2000–01	3.5	7.1	4.1	9.2	3.7	4.8	6.5	3.9	5.1
Average annual growth rates									
1996–97 to 2000–01	3.5	5.6	5.9	7.8	4.4	1.2	6.7	6.0	4.9
1997–98 to 2000–01	3.5	5.9	5.8	6.0	4.7	3.2	6.3	3.6	4.9

(a) Constant price health expenditure for 1996–97 to 2000–01 is expressed in chain volume measures, referenced to the year 1999–00.

Source: AIHW health expenditure database.

On a per person basis, in 2000–01 New South Wales ($3,102), Queensland ($3,151), Western Australia ($3,092) and South Australia ($3,127) had average levels of expenditure that were lower than the estimated national average of $3,153. The Australian Capital Territory, with an average estimated at $3,499, had the highest per person level of expenditure on health (Table 10).

Table 10: Average health expenditure per person, current prices, by State and Territory, 1996–97 to 2000–01 ($)

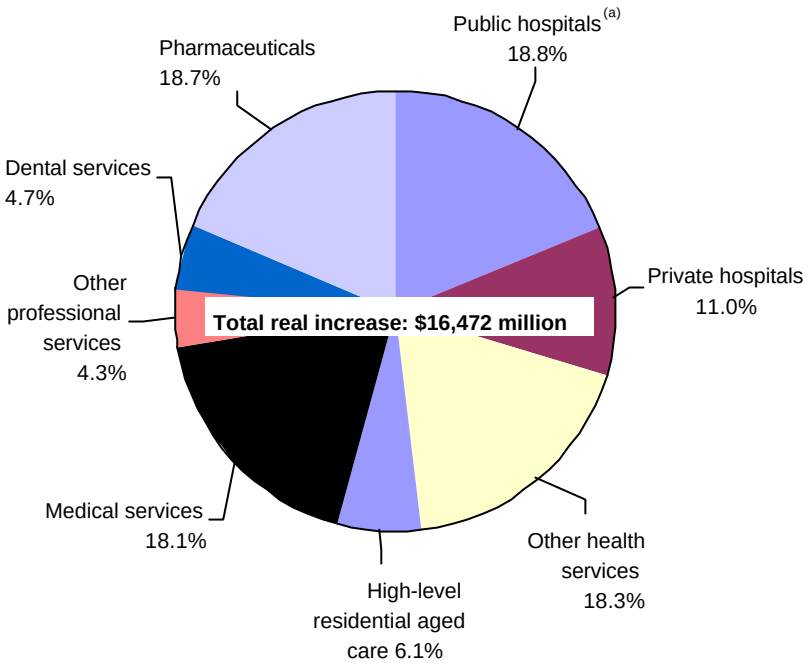
Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	2,507	2,452	2,441	2,220	2,420	2,758	2,469	2,588	2,453
1997–98	2,630	2,585	2,584	2,516	2,542	2,673	2,715	2,799	2,596
1998–99	2,771	2,765	2,746	2,606	2,644	2,798	2,980	2,868	2,743
1999–00	2,914	2,931	2,965	2,764	2,911	2,946	3,193	3,160	2,920
2000–01[a]	3,102	3,221	3,151	3,092	3,127	3,210	3,499	3,363	3,153

(a) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

2.4 Sources of health expenditure growth

Almost one-third of real growth in recurrent health expenditure between 1990–91 and 1999–00 was concentrated in hospitals (Figure 4). Public hospitals, which is the largest area of expenditure, accounted for 18.8% of the growth and private hospitals, 11.0%. The comparison of public and private hospitals over the period is complicated by the fact that, prior to 1991–92, the Department of Veterans' Affairs (DVA) operated its own 'Repatriation General Hospital' (RGH) in each major capital city. Progressively, these RGHs have either been privatised or incorporated into the public hospital systems of the relevant State. Notwithstanding, hospitals, medical services and pharmaceuticals accounted for 66.6% of the growth in expenditure over the decade. Accordingly, their expenditure as a percentage of GDP rose from 5.0% in 1990–91 to 5.6% in 1999–00.



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

(b) Constant price health expenditure for 1990–91 to 1999–00 is expressed in chain volume measures, referenced to the year 1999–00.

Source: AIHW health expenditure database.

Figure 4: Growth in total recurrent health expenditure, by area of expenditure, constant prices,(b) 1990–91 to 1999–00

This expenditure growth was largely funded by the Commonwealth Government. Over the decade, the Commonwealth increased its ratio of health expenditure to GDP from 3.3% to 4.2%. For State/Territory and local governments this ratio remained steady at around 2%, while non-government sources increased their share of GDP by 0.1 percentage points, from 2.6% to 2.7% (Table 11).

Table 11: Total health expenditure, by broad source of funds, as a proportion of GDP, 1990–91 to 2000–01 (per cent)

	Government				
Year	Commonwealth[(a)]	State and local	Total	Non-government[(a)]	Total
1990–91	3.3	2.0	5.3	2.6	7.9
1991–92	3.5	2.0	5.5	2.7	8.2
1992–93	3.6	1.9	5.5	2.7	8.2
1993–94	3.7	1.8	5.5	2.8	8.3
1994–95	3.7	1.8	5.5	2.8	8.3
1995–96	3.8	1.8	5.6	2.8	8.4
1996–97	3.7	1.9	5.6	2.9	8.5
1997–98	3.8	2.0	5.8	2.8	8.6
1998–99	4.0	2.0	6.0	2.7	8.7
1999–00	4.2	2.0	6.2	2.6	8.8
2000–01[(b)]	4.3	2.0	6.3	2.7	9.0

(a) Commonwealth and non-government expenditure has been adjusted for tax expenditures.

(b) Based on preliminary AIHW and ABS estimates.

Sources: AIHW health expenditure database and ABS 2002.