Background and summary

1.1 Background

This health expenditure publication reports on health expenditure in Australia by area of expenditure and source of funds from 1991–92 to 2000–01. It also provides estimates of recurrent, capital and total expenditure by source of funds for 2001–02. Expenditure is analysed in terms of who provides the funding for health care and the types of services that attract that funding.

The bulk of funding for health expenditure is provided by the Australian Government and the state and territory governments. Therefore, as well as consideration of the whole period from 1991–92 to 2001–02, analyses of trends in expenditure have been linked to the periods covered by the health care funding agreements between these two levels of government. These are:

- up to 1992–93;
- from 1993–94 to 1997–98; and
- from 1998–99.

Australia is compared with nine member countries of the Organisation for Economic Co-operation and Development (OECD).

The tables and figures in this publication detail expenditure in terms of current and constant prices. Constant price expenditure adjusts for the effects of inflation using, wherever possible, chain price indexes provided by the Australian Bureau of Statistics (ABS). Where such chain price indexes are not available, implicit price deflators are used. Because the reference year for both the chain price indexes and the implicit price deflators is 2000–01, the constant price estimates indicate what expenditure would have been had 2000–01 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 with reference to the implicit price deflator for GDP.

Some expenditure estimates for 1996–97 to 2000–01 have been revised since the publication of *Health Expenditure Australia 2000–01*: these are detailed in Section 6, page 67.

1.2 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 Government or Commonwealth) 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 an important role. All of these levels of government collectively are called the public 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). Figure 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 professionals (such as physiotherapists, acupuncturists and podiatrists) and pharmaceutical retailers. Delivery of health care can occur in a diverse range of settings—hospitals, residential aged care facilities, hospices, rehabilitation centres, community health centres, health clinics, ambulatory care services, the private consulting rooms of health professionals, patients' homes or workplaces, and so on.

Public, occupational and environmental health interventions can be delivered in several ways—through information in the media, regulation, screening and immunisation programs, and infectious disease identification and containment programs.

In summary, the following are the main features of Australia's health system—

- Universal cover for privately provided medical services under Medicare, which is largely funded by the Australian Government, with co-payments by users where the services are patient-billed.
- Eligibility for public hospital services, free at the point of service, funded approximately equally by the states and territories and the Australian Government.
- Growing private hospital activity, largely funded by private health insurance, is in turn subsidised by the Australian Government through its 30% rebate on members' contributions to private health insurance.
- The Australian Government, through its Pharmaceutical Benefits Scheme, subsidises a wide range of drugs and medicinal preparations outside public hospitals.
- The Australian Government provides most of the funding for high-level residential aged care and for health research. It also directly funds a wide range of services for eligible veterans.
- State and territory health authorities are primarily responsible for mental health programs, the transport of patients, community health services, and public health services such as health promotion and disease prevention.

- Individuals primarily spend money on pharmaceuticals, dental services, medical services and other professional services.

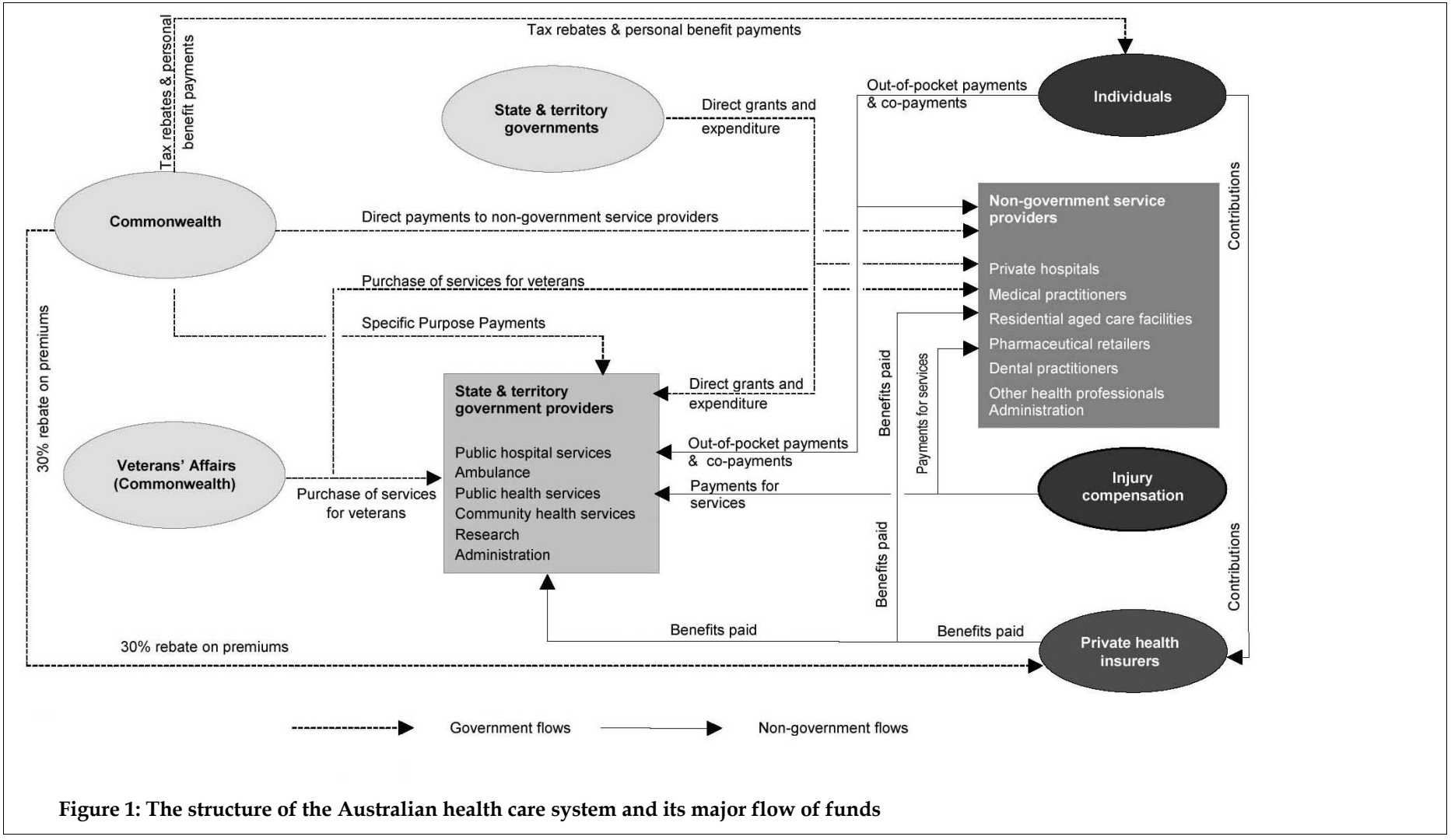

Figure 1: The structure of the Australian health care system and its major flow of funds

1.3 Summary of findings

- Total health expenditure in Australia was an estimated $66.6 billion in 2001–02. This is equivalent to $3,397 per person.
- Health expenditure as a proportion of GDP was estimated at 9.3% in 2001–02, up from 9.1% ($60.9 billion) in 2000–01.
- Governments funded 68.4% of health expenditure in Australia in 2001–02.
- Average real growth in funding by individuals (out-of-pocket expenditures) between 1997–98 and 2001–02 was 7.7% per year.
- The Australian Government spent $2.0 billion on rebates to members of private health insurance in 2001–02.
- Real growth in expenditure on health averaged 4.6% between 1991–92 and 2001–02, with the highest annual growth (6.0%) occurring in 2001–02.
- Pharmaceuticals was the most rapidly growing area of expenditure (9.4% per year over the decade and 11.9% annually from 1997–98 to 2001–02).
- Health prices increased, on average, 0.7% per year more rapidly than the general inflation rate between 1991–92 and 2001–02.

1.4 Revisions to ABS estimates

In *Health Expenditure Australia 2000–01* a number of revisions to key ABS source data for the health expenditure estimates were outlined. Subsequent revisions to ABS estimates of GDP and household final consumption expenditure have again affected the estimates in this 2001–02 publication.

GDP estimates for this publication are sourced from the ABS (ABS 2003). The current price GDP estimates in that ABS publication are lower than those that were published in *Health Expenditure Australia 2000–01*. For instance, the 2000–01 current price estimate of GDP in the December quarter of 2002 was revised down by $2.9 billion, compared with the published number used in *Health Expenditure Australia 2000–01*. This has raised the health expenditure – GDP ratio.

Estimated household final consumption expenditure for medicines, aids and appliances has been revised upwards since the publication of *Health Expenditure Australia 2000–01*, while the estimate for expenditure on doctors and other health professionals has been revised down. Despite the downward revision, the latter shows strong growth for the years of interest and this markedly affects the health expenditure estimates.