

3 Funding of health expenditure in Australia

3.1 Broad trends

This section makes broad comparisons between government and non-government funding (as described in Section 1.2). Sections 3.2 and 3.3 will discuss in more detail the funding arrangements within the government and non-government sectors. Chapter 4 provides an analysis of funding of specific classes of health goods and services (including capital).

In 2004–05, government funding of health expenditure was \$59.6 billion, compared with \$27.7 billion from non-government sources (Table 12).

In the decade to 2004–05, funding of health expenditure by governments grew at an average annual real rate of 5.7%. This was higher than total expenditure on health funded from all sources which averaged 5.3% per year (Table 18). As a consequence, the contribution of governments to the funding of total health expenditure increased from 66.3% in 1994–95 to 68.2% in 2004–05 and the non-government contribution declined from 33.7% to 31.8% over the same period (Table 13).

The relative shares of health expenditure funding by the different levels of government varied over the decade. The Australian Government contribution increased from 44.8% to 45.6% – an increase of 0.8 percentage points (Table 13). Over the same period, the contribution from state, territory and local governments increased from 21.6% to 22.6% – an increase of 1.0 percentage points. The Australian Government contribution peaked in 1999–00 at 47.5% and then declined by 1.9 percentage points to 2004–05, whereas the contribution from state, territory and local governments during this time declined by 0.5 percentage points (23.1% to 22.6%).

Table 12: Total health expenditure, current prices, by broad source of funds, 1994–95 to 2004–05 (\$ million)

Year	Government			Non-government ^(a)	Total
	Australian Government ^(a)	State/territory and local	Total		
1994–95	17,551	8,460	26,010	13,205	39,216
1995–96	19,005	9,260	28,265	13,817	42,082
1996–97	19,809	10,391	30,200	15,096	45,296
1997–98	21,450	11,502	32,952	15,336	48,288
1998–99	23,672	11,291	34,963	16,456	51,419
1999–00	26,064	12,675	38,740	16,177	54,916
2000–01	28,855	13,972	42,827	18,791	61,618
2001–02	30,891	14,828	45,719	21,413	67,132
2002–03	33,488	16,471	49,960	23,149	73,108
2003–04	35,960	18,044	54,004	25,110	79,114
2004–05	39,800	19,762	59,562	27,733	87,296

(a) Expenditure has been adjusted for non-specific tax expenditures.

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

Source: AIHW health expenditure database.

Table 13: Total health expenditure, current prices, by broad source of funds as a proportion of total health expenditure, 1994–95 to 2004–05 (per cent)

Year	Government			Non-government ^(a)	Total
	Australian Government ^(a)	State/territory and local	Total		
1994–95	44.8	21.6	66.3	33.7	100.0
1995–96	45.2	22.0	67.2	32.8	100.0
1996–97	43.7	22.9	66.7	33.3	100.0
1997–98	44.4	23.8	68.2	31.8	100.0
1998–99	46.0	22.0	68.0	32.0	100.0
1999–00	47.5	23.1	70.5	29.5	100.0
2000–01	46.8	22.7	69.5	30.5	100.0
2001–02	46.0	22.1	68.1	31.9	100.0
2002–03	45.8	22.5	68.3	31.7	100.0
2003–04	45.5	22.8	68.3	31.7	100.0
2004–05	45.6	22.6	68.2	31.8	100.0

(a) Expenditure has been adjusted for non-specific tax expenditures.

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

Source: AIHW health expenditure database.

Health funding can also be expressed as a proportion of GDP. Over the decade from 1994–95 to 2004–05, the Australian Government increased its share from 3.6% to 4.5% of GDP.

For state, territory and local governments, the proportion increased from 1.7% to 2.2%.

Non-government sources increased their share of GDP at a slower pace, from 2.7% to 3.1% (Table 14).

Table 14: Total health expenditure, current prices, by broad source of funds, as a proportion of GDP, 1994–95 to 2004–05 (per cent)

Year	Government			Non-government ^(a)	Total
	Australian Government ^(a)	State/territory and local	Total		
1994–95	3.6	1.7	5.3	2.7	8.1
1995–96	3.7	1.8	5.5	2.7	8.1
1996–97	3.6	1.9	5.5	2.8	8.3
1997–98	3.7	2.0	5.7	2.7	8.4
1998–99	3.9	1.9	5.8	2.7	8.5
1999–00	4.0	2.0	6.0	2.5	8.5
2000–01	4.2	2.0	6.2	2.7	8.9
2001–02	4.2	2.0	6.2	2.9	9.1
2002–03	4.3	2.1	6.4	3.0	9.3
2003–04	4.3	2.2	6.4	3.0	9.4
2004–05	4.5	2.2	6.7	3.1	9.8

(a) Expenditure has been adjusted for non-specific tax expenditures.

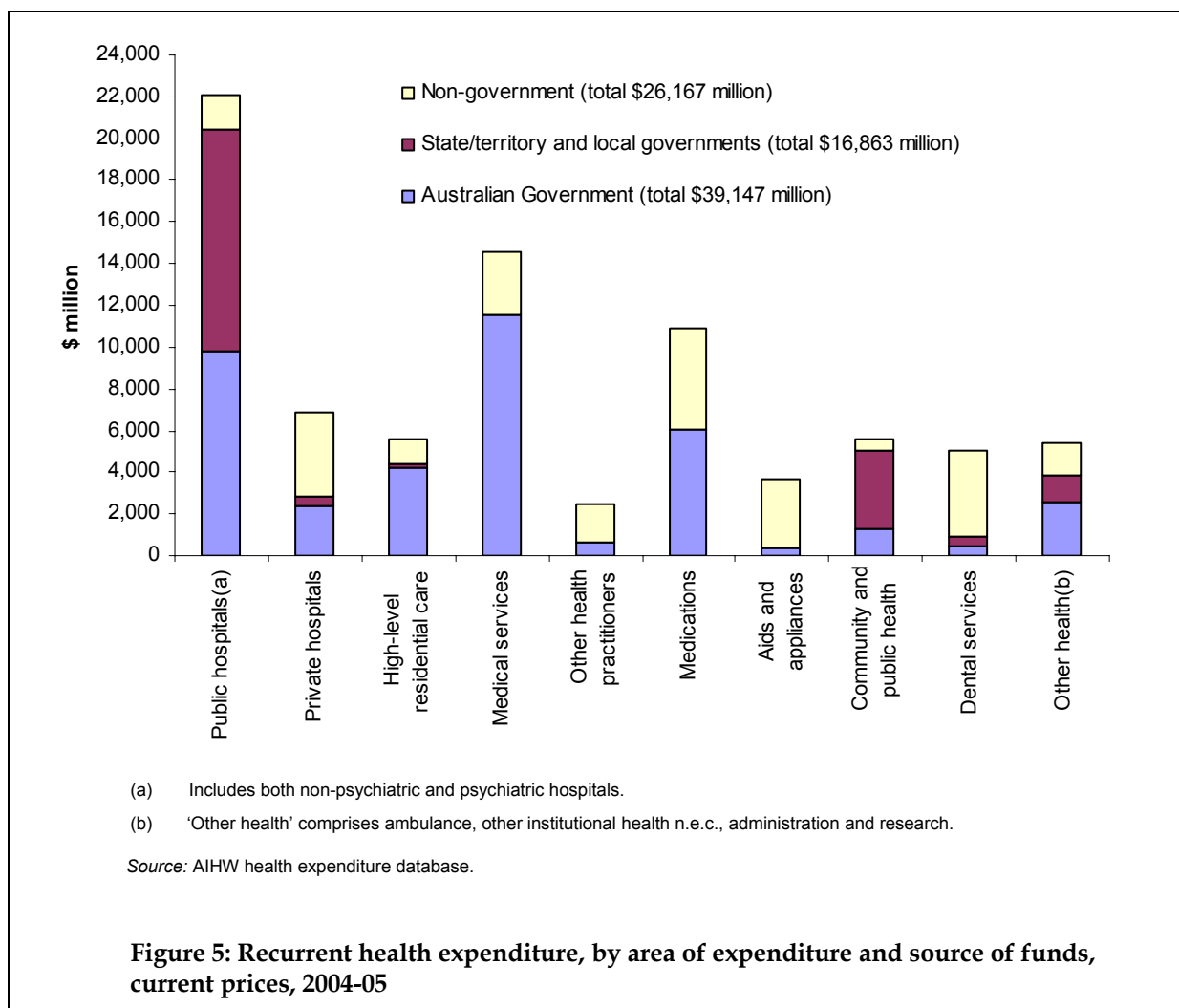
Note: Components may not add to totals due to rounding.

Sources: AIHW health expenditure database and ABS 2006a.

Total recurrent funding

In real terms, recurrent funding of health grew by an average of 5.1% a year from 1994–95 to 2004–05 (Table 17). The government sector's recurrent funding grew by 5.6% per year, while non-government recurrent funding grew by 4.1% (Tables 15 and 16). These growth rates are similar to those for government (5.7%) and non-government funding (4.3%) of total health expenditure (Table 18).

Medications consistently experienced the highest growth in total funding. Real growth of funding for medications averaged 8.9% between 1994–95 and 2004–05. Private hospitals (6.3%), high-level residential care (4.5%) and public hospitals (4.4%) were the next highest in terms of real growth in funding (Table 17).



Government sector funding

Between 1994-95 and 2004-05, the area that attracted the most rapid real growth in government funding was private hospitals – 24.4% per year (Table 15). This was mostly due to the Government introducing subsidies for private health insurance, which is the main source of funding for private hospitals. The increased use of private hospital services by veterans funded by the Department of Veterans' Affairs (DVA) also contributed. There was some small discontinuity because of the inclusion of state government funding of private hospital services starting from 2002-03. This funding was \$404 million in real terms in 2004-05 (Table A6). Removing this expenditure would reduce the growth rate from 24.4% to 22.4% per year.

The period from 1997-98 to 2002-03, during which the Australian Government's private health insurance incentives were being introduced and revised, saw growth in government recurrent funding of 5.8% on average each year. Growth during that period was largely in two areas – private hospitals (25.0% per year) and other health practitioners (14.8%), both of which were strongly influenced by changes to private health insurance arrangements. For the period 1994-95 to 2004-05, growth in government recurrent funding was 5.6% on average each year, with the highest growth again in private hospitals (24.4% per year) and the next highest growth in medications (11.0%) (Table 15).

Non-government funding

The area that attracted the fastest real growth in funding by non-government sources between 1994-95 and 2004-05 was medications – 6.7% per year (Table 16). An area of non-government funding that declined over that period was funding for other health practitioners – down 1.9% per year.

Of the two broad periods looked at – 1994-95 to 1997-98 and 1997-98 to 2002-03 – growth in non-government funding was most rapid in the second, that is, between 1997-98 and 2002-03. It averaged 4.8% over this period, with much of the growth being driven by medications (10.2%).

Between 2003-04 and 2004-05, total non-government funding of recurrent health expenditure grew, in real terms, by 5.7% compared with 5.5% growth for total funding of recurrent health expenditure (Tables 16 and 17).

Table 15: Government funding of recurrent health expenditure^(a), constant prices^(b), by area of expenditure, and annual growth rates, 1994–95 to 2004–05

Year	Public hospitals		Private hospitals		High-level residential care		Medical services		Other health practitioners ^(c)		Medications		Other health ^(d)		Total government 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 (%)
1994–95	12,550	..	304	..	2,664	..	8,268	..	316	..	2,130	..	4,881	..	31,113	..
1995–96	13,116	4.5	367	20.6	2,829	6.2	8,674	4.9	337	6.6	2,557	20.1	5,375	10.1	33,253	6.9
1996–97	13,982	6.6	432	17.8	3,036	7.3	8,821	1.7	332	-1.5	2,767	8.2	5,526	2.8	34,895	4.9
1997–98	14,948	6.9	756	75.2	3,304	8.8	8,888	0.8	346	4.3	2,836	2.5	5,956	7.8	37,033	6.1
1998–99	15,484	3.6	1,172	55.0	3,384	2.4	9,194	3.4	295	-14.5	3,113	9.8	5,753	-3.4	38,395	3.7
1999–00	15,797	2.0	1,603	36.8	3,500	3.4	9,772	6.3	338	14.5	3,552	14.1	7,113	23.6	41,676	8.5
2000–01	16,141	2.2	1,839	14.7	3,504	0.1	9,766	-0.1	712	110.4	4,410	24.2	8,007	12.6	44,378	6.5
2001–02	16,891	4.6	1,892	2.9	3,596	2.6	9,945	1.8	699	-1.8	4,740	7.5	8,263	3.2	46,026	3.7
2002–03	18,182	7.6	2,311	22.1	3,773	4.9	9,889	-0.6	690	-1.3	5,232	10.4	8,952	8.3	49,030	6.5
2003–04	18,761	3.2	2,533	9.6	4,026	6.7	9,972	0.8	679	-1.7	5,735	9.6	9,254	3.4	50,960	3.9
2004–05	19,654	4.8	2,698	6.5	4,240	5.3	10,671	7.0	635	-6.4	6,036	5.2	9,754	5.4	53,687	5.4
Average annual growth rate																
1994–95 to 1997–98	6.0		35.5		7.4		2.4		3.1		10.0		6.9		6.0	
1997–98 to 2002–03	4.0		25.0		2.7		2.2		14.8		13.0		8.5		5.8	
1994–95 to 2004–05	4.6		24.4		4.8		2.6		7.2		11.0		7.2		5.6	

(a) Not adjusted for non-specific tax expenditures.

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

(c) From 2000–01, it includes DVA funding and DoHA hearing services (audiology component) which was previously included in 'other health'.

(d) 'Other health' comprises ambulance, other institutional health n.e.c., dental services, community health, aids and appliances, public health, other non-institutional health n.e.c., administration and research.

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

Source: AIHW health expenditure database.

Table 16: Non-government funding of recurrent health expenditure^(a), constant prices^(b), by area of expenditure, and annual growth rates, 1994–95 to 2004–05

Year	Public hospitals		Private hospitals		High-level residential care		Medical services		Other health practitioners		Medications		Other health ^(c)		Total non-government 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 (%)
1994–95	1,266	..	3,327	..	811	..	1,763	..	2,107	..	2,449	..	5,004	..	16,728	..
1995–96	1,293	2.1	3,588	7.8	841	3.6	1,836	4.2	1,991	-5.5	2,379	-2.9	5,081	1.5	17,008	1.7
1996–97	1,314	1.6	3,836	6.9	866	3.0	1,951	6.3	2,287	14.9	2,640	11.0	5,249	3.3	18,143	6.7
1997–98	1,206	-8.2	3,633	-5.3	898	3.7	1,988	1.9	1,969	-13.9	3,013	14.1	5,133	-2.2	17,840	-1.7
1998–99	1,280	6.1	3,452	-5.0	948	5.6	2,056	3.5	1,951	-0.9	3,255	8.0	5,820	13.4	18,762	5.2
1999–00	1,257	-1.8	3,197	-7.4	769	-18.9	2,125	3.4	1,844	-5.4	3,572	9.7	5,533	-4.9	18,298	-2.5
2000–01	1,382	9.9	3,277	2.5	798	3.8	2,211	4.0	1,883	2.1	3,910	9.5	6,839	23.6	20,300	10.9
2001–02	1,516	9.7	3,592	9.6	843	5.7	2,487	12.5	1,699	-9.8	4,591	17.4	7,146	4.5	21,874	7.8
2002–03	1,421	-6.3	3,593	—	939	11.3	2,713	9.1	1,509	-11.2	4,898	6.7	7,533	5.4	22,605	3.3
2003–04	1,467	3.3	3,949	9.9	1,045	11.4	2,938	8.3	1,626	7.8	4,528	-7.6	8,204	8.9	23,758	5.1
2004–05	1,653	12.7	3,967	0.5	1,144	9.5	2,881	-2.0	1,738	6.9	4,691	3.6	9,040	10.2	25,114	5.7
Average annual growth rate																
1994–95 to 1997–98	-1.6		3.0		3.4		4.1		-2.2		7.1		0.9		2.2	
1997–98 to 2002–03	3.3		-0.2		0.9		6.4		-5.2		10.2		8.0		4.8	
1994–95 to 2004–05	2.7		1.8		3.5		5.0		-1.9		6.7		6.1		4.1	

(a) Not adjusted for non-specific tax expenditures.

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

(c) 'Other health' comprises ambulance, other institutional health n.e.c., dental services, community health, aids and appliances, public health, other non-institutional health n.e.c., administration and research.

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

Source: AIHW health expenditure database.

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Year	Public hospitals		Private hospitals		High-level residential care		Medical services		Other health practitioners ^(c)		Medications		Other health ^(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 (%)	
1994–95	13,816	..	3,631	..	3,476	..	10,031	..	2,423	..	4,579	..	9,885	..	47,842	..	
1995–96	14,409	4.3	3,954	8.9	3,670	5.6	10,509	4.8	2,328	-3.9	4,936	7.8	10,455	5.8	50,261	5.1	
1996–97	15,296	6.2	4,268	7.9	3,902	6.3	10,772	2.5	2,618	12.5	5,406	9.5	10,775	3.1	53,038	5.5	
1997–98	16,155	5.6	4,389	2.8	4,201	7.7	10,875	1.0	2,315	-11.6	5,849	8.2	11,089	2.9	54,873	3.5	
1998–99	16,765	3.8	4,624	5.3	4,332	3.1	11,250	3.4	2,246	-3.0	6,368	8.9	11,573	4.4	57,157	4.2	
1999–00	17,055	1.7	4,800	3.8	4,269	-1.5	11,897	5.8	2,183	-2.8	7,124	11.9	12,646	9.3	59,975	4.9	
2000–01	17,523	2.7	5,116	6.6	4,301	0.8	11,977	0.7	2,595	18.9	8,320	16.8	14,846	17.4	64,678	7.8	
2001–02	18,406	5.0	5,484	7.2	4,439	3.2	12,432	3.8	2,398	-7.6	9,332	12.2	15,409	3.8	67,900	5.0	
2002–03	19,603	6.5	5,903	7.6	4,712	6.1	12,602	1.4	2,199	-8.3	10,130	8.6	16,485	7.0	71,634	5.5	
2003–04	20,228	3.2	6,482	9.8	5,072	7.6	12,910	2.4	2,305	4.8	10,263	1.3	17,459	5.9	74,718	4.3	
2004–05	21,307	5.3	6,665	2.8	5,384	6.2	13,551	5.0	2,373	3.0	10,727	4.5	18,794	7.6	78,801	5.5	
Average annual growth rate																	
1994–95 to 1997–98		5.4		6.5		6.5		2.7		-1.5		8.5		3.9		4.7	
1997–98 to 2002–03		3.9		6.1		2.3		3.0		-1.0		11.6		8.3		5.5	
1994–95 to 2004–05		4.4		6.3		4.5		3.1		-0.2		8.9		6.6		5.1	

(a) Not adjusted for non-specific tax expenditures.

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

(c) From 2000–01, it includes DVA funding and DoHA hearing services (audiology component) which was previously included in 'other health'.

(d) 'Other health' comprises ambulance, other institutional health n.e.c., dental services, community health, aids and appliances, public health, other non-institutional health n.e.c., administration and research.

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

Source: AIHW health expenditure database.

3.2 Government sources of funds

In 2004–05, the Australian Government funded health expenditure worth \$39.8 billion (Table 12). This was 45.6% of total funding for health by all sources of funds (Table 13 and Figure 6). State, territory and local government sources provided 22.6%.

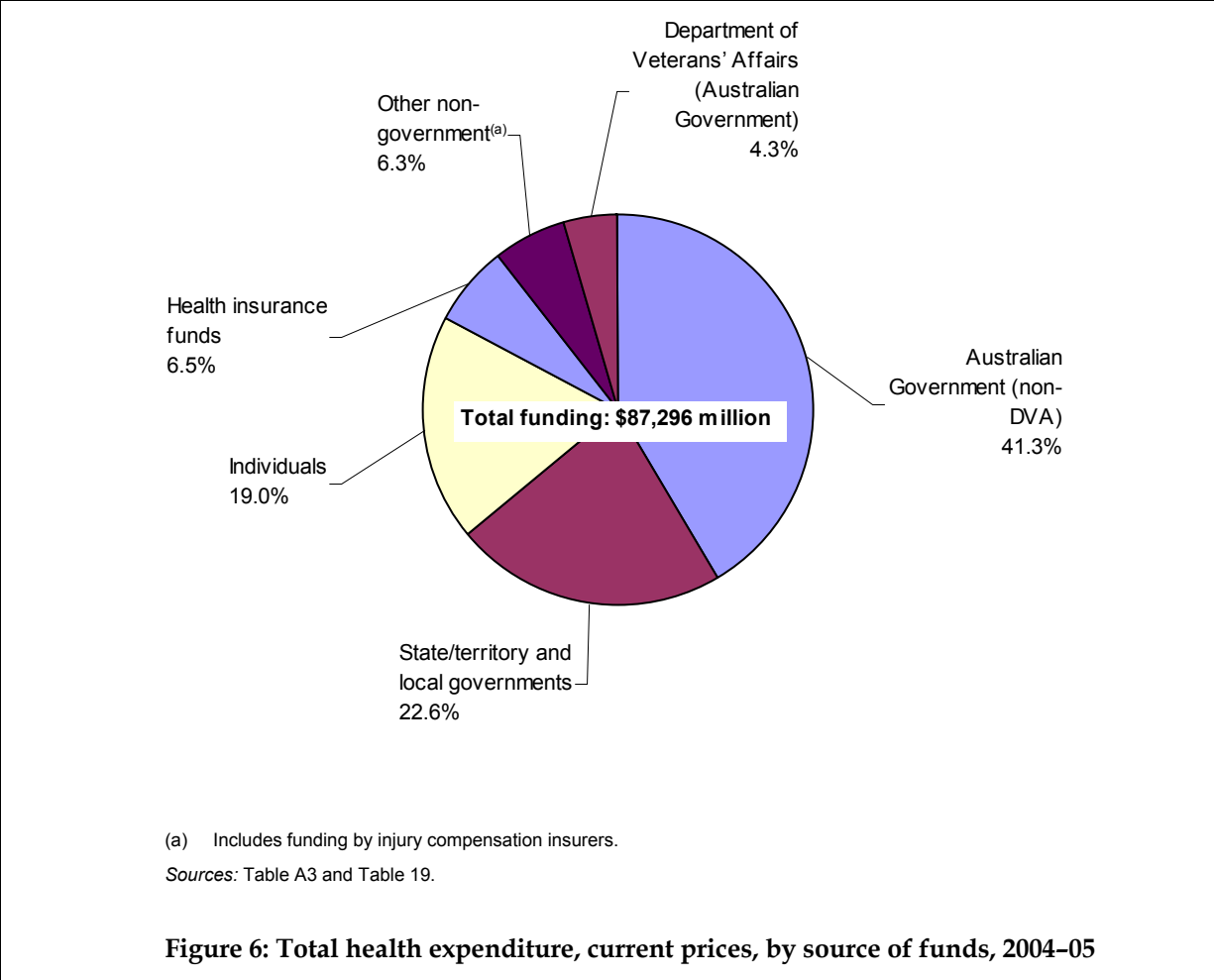


Table 18: Total health expenditure, constant prices^(a), and annual growth rates, by broad source of funds, 1994–95 to 2004–05

Year	Government						Non-government ^(b)		Total	
	Australian Government ^(b)		State/territory and local		Total		Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)				
1994–95	22,382	..	10,374	..	32,756	..	17,478	..	50,234	..
1995–96	23,708	5.9	11,195	7.9	34,903	6.6	17,758	1.6	52,662	4.8
1996–97	24,320	2.6	12,436	11.1	36,757	5.3	19,036	7.2	55,793	5.9
1997–98	25,763	5.9	13,494	8.5	39,256	6.8	18,748	-1.5	58,005	4.0
1998–99	27,715	7.6	12,937	-4.1	40,652	3.6	19,665	4.9	60,317	4.0
1999–00	30,001	8.2	14,243	10.1	44,243	8.8	18,913	-3.8	63,156	4.7
2000–01	32,099	7.0	15,208	6.8	47,307	6.9	21,053	11.3	68,361	8.2
2001–02	33,162	3.3	15,733	3.4	48,895	3.4	23,174	10.1	72,069	5.4
2002–03	34,673	4.6	16,959	7.8	51,631	5.6	24,089	3.9	75,720	5.1
2003–04	35,960	3.7	18,044	6.4	54,004	4.6	25,110	4.2	79,114	4.5
2004–05	38,128	6.0	19,029	5.5	57,157	5.8	26,647	6.1	83,804	5.9
Average annual growth rate										
1994–95 to 1997–98		4.8		9.2		6.2		2.4		4.9
1997–98 to 2002–03		6.1		4.7		5.6		5.1		5.5
1994–95 to 2004–05		5.5		6.3		5.7		4.3		5.3

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

(b) Expenditure has been adjusted for non-specific tax expenditures.

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

Source: AIHW health expenditure database.

Australian Government

In 2004–05, the Australian Government provided \$39.8 billion for health (Table 12), which was 66.8% of total government health funding (Figure 7). This subsection provides more detail on the Australian Government’s funding of recurrent expenditure. Funding for capital formation is discussed in Section 4.2.

The Australian Government’s contribution to funding for health includes:

- payments through DVA in respect of eligible veterans and their dependants
- specific purpose payments (SPPs) to the states and territories for health purposes
- direct expenditure by the Australian Government on health programs (such as Medicare, PBS, high-level residential care subsidies)
- rebates and subsidies under the *Private Health Insurance Incentives Act 1997*
- taxation expenditures.

Australian Government funding of private health insurance rose from zero in 1996–97 to \$3.0 billion in 2004–05 (Table 19 and Figure 15).

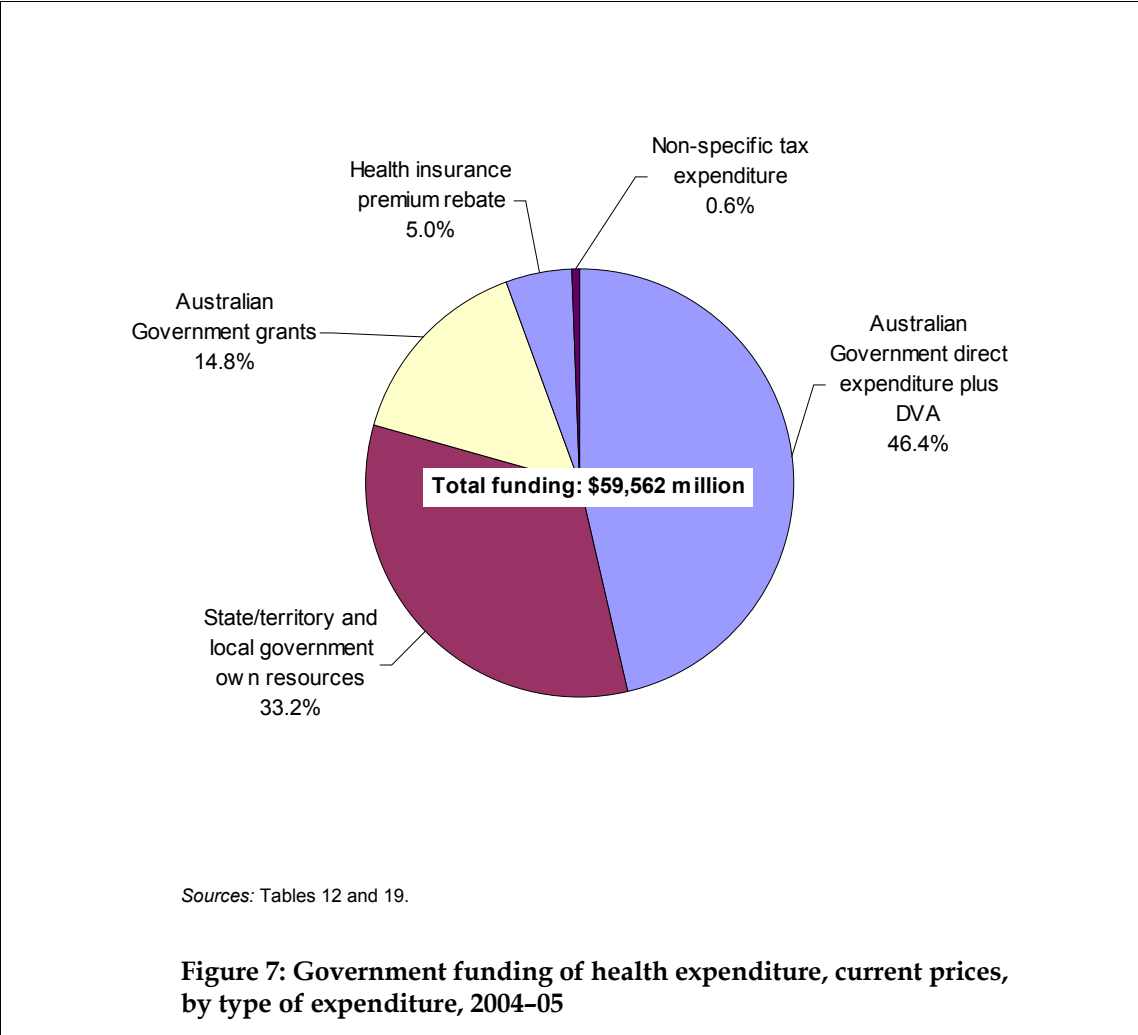


Table 19: Funding of total health expenditure by the Australian Government, current prices, by type of expenditure, 1994–95 to 2004–05 (\$ million)

Year	General expenditure					Non-specific tax expenditure	Total
	DVA	Grants to states	Rebates of health insurance premiums ^(a)	Direct expenditure	Total		
1994–95	1,488	4,729	..	11,242	17,459	91	17,551
1995–96	1,540	5,012	..	12,340	18,892	113	19,005
1996–97	1,658	5,202	..	12,822	19,681	128	19,809
1997–98	1,802	5,656	407	13,439	21,305	145	21,450
1998–99	2,144	6,328	963	14,074	23,509	162	23,672
1999–00	2,399	6,556	1,576	15,361	25,891	173	26,064
2000–01	2,698	6,996	2,031	16,927	28,651	203	28,855
2001–02	2,962	7,391	2,105	18,209	30,666	225	30,891
2002–03	3,340	8,095	2,312	19,485	33,232	256	33,488
2003–04	3,560	8,222	2,539	21,325	35,645	315	35,960
2004–05	3,763	8,843	2,985	23,845	39,436	364	39,800

(a) Includes rebates of health insurance premiums claimed through the taxation system.

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

Source: AIHW health expenditure database.

The Department of Veterans' Affairs

DVA funding of health is through its purchase of health goods and services on behalf of eligible veterans and their dependants. In 2004–05, its funding totalled \$3,763 million (Table 20). Nearly two-thirds of this (62.6%) was for institutional services (mainly hospitals and high-level residential care services).

Table 20: Department of Veterans' Affairs health expenditure, current prices, by area of expenditure, 2004–05

Area of expenditure	Amount (\$m)	Proportion (%)
Public hospitals	812	21.6
Private hospitals	828	22.0
High-level residential care	620	16.5
Ambulance	94	2.5
Medical services	685	18.2
Other health practitioners	118	3.1
Medications	474	12.6
Community health	1	—
Dental services	72	1.9
Administration	55	1.5
Research	2	0.1
Total	3,763	100.0

Source: AIHW health expenditure database.

Other Australian Government sources of funding

General expenditure

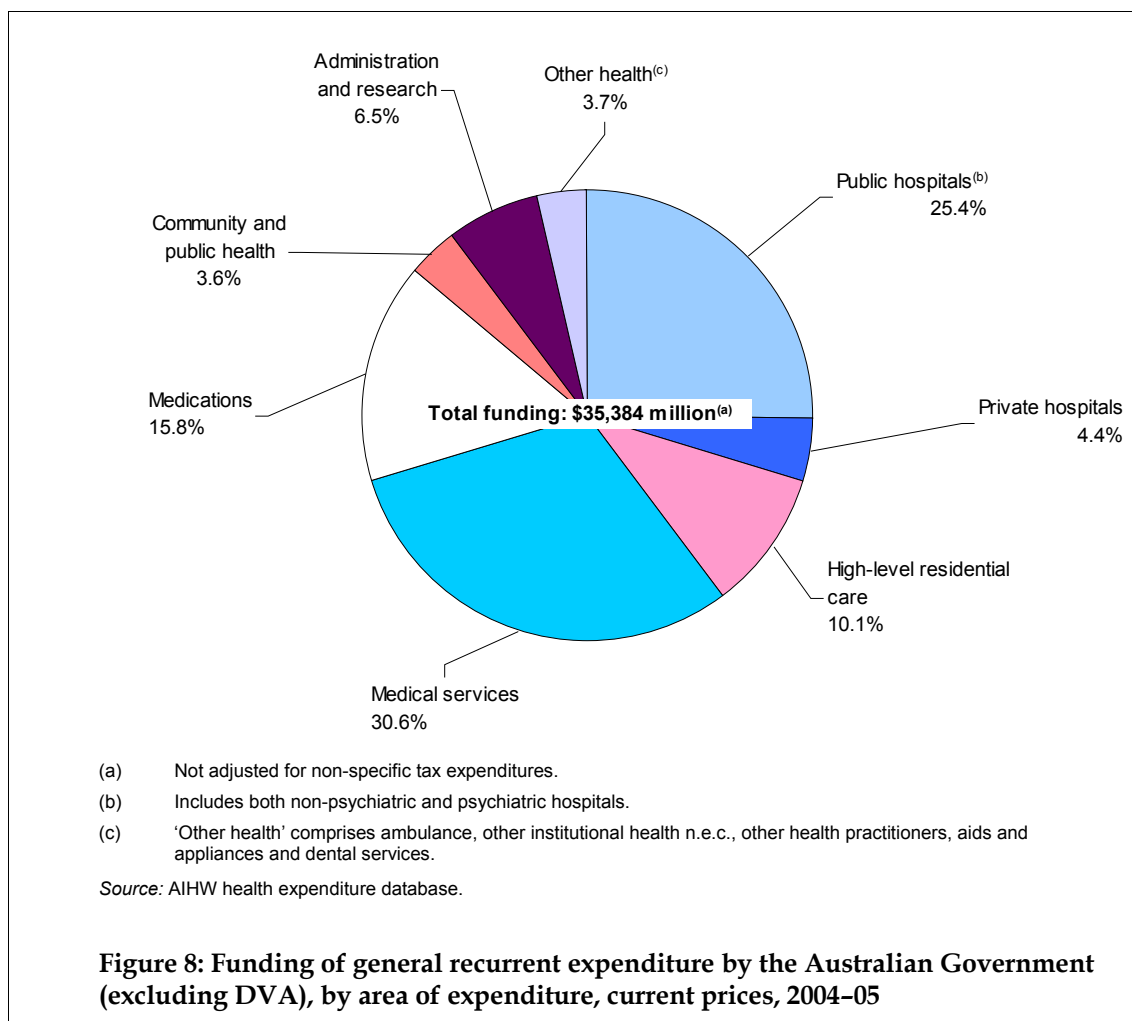
Expenditures recorded as 'general expenditure' are recurrent expenditures paid out of appropriations by the Australian Government. Most of those expenditures are administered by the Department of Health and Ageing (DoHA). They include:

- SPPs to the states and territories for health purposes
- payments of personal health benefits to individuals – for example, Medicare and pharmaceutical benefits
- subsidies and rebates under the *Private Health Insurance Incentives Act 1997* (including amounts claimed through the taxation system)
- subsidies paid to providers of health services – for example, high-level residential care subsidies.

Nearly one-third of all funding by the Australian Government was for medical services – \$10.8 billion – which, in 2004–05, accounted for 30.6% of its general recurrent outlays on health of \$35.4 billion (Figure 8).

Most of the SPPs by the Australian Government to state and territory governments recorded in the general recurrent outlays on health were provided under the AHCAs between these two levels of government. The payments were primarily directed to expenditure in the public hospital systems of the states and territories. Other SPPs that were regarded as expenditure on public hospitals included payments for high-cost drugs and blood transfusion services. A proportion of the 30% rebate on private health insurance was also included as funding by the Australian Government for public hospitals. In 2004–05, payments relating to public hospitals accounted for \$9.0 billion, which was one-quarter (25.4%) of total general recurrent outlays by the Australian Government for health (Figure 8).

The other two main areas where the Australian Government provided funding were medications, which in 2004–05 accounted for 15.8% (\$5.6 billion) of general recurrent expenditures, and high-level residential care subsidies, which accounted for 10.1% (\$3.6 billion).



Rebates of health insurance contributions (30% rebate)

There are two methods for claiming the 30% rebate on private health insurance premiums (Table 19). The first involves a reduced premium being charged by the private health insurance fund (with a subsequent reimbursement to the fund by the Australian Government). The second is where the private health insurance fund charges the full (non-rebated) premium and the person paying the full premium claims the 30% rebate directly from the Australian Government through the taxation system.

During 2004-05, the total value of the 30% rebate was \$3.0 billion. The majority was in the form of subsidies to private health insurance funds with the balance provided in the form of rebates to individuals through the taxation system (Table 19).

Tax expenditures

The 30% rebate for private health insurance premiums claimed through taxation was regarded as part of Australian Government tax expenditures from 1997-98 to 1999-00.

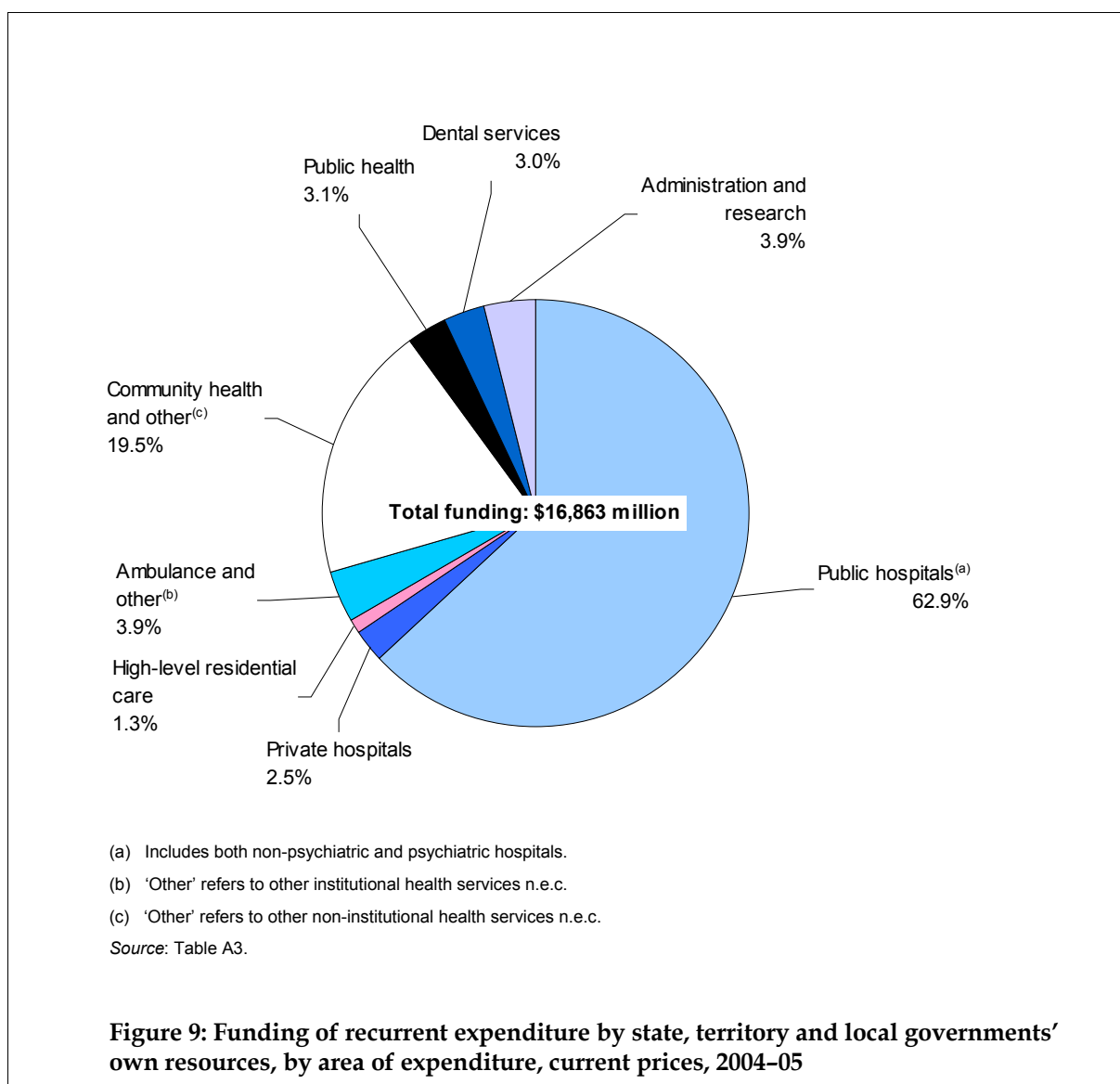
A second form of tax expenditure on health relates to the tax rebate of 20 cents in the dollar that can be claimed in respect of direct health expenditures that exceed a prescribed threshold. In 2004-05 that threshold was \$1,500 per taxpayer. This second form of tax expenditure is referred to in this publication as 'non-specific tax expenditures'. This is because they cannot be allocated to any particular area(s) of health expenditure (see Chapter 6). In 2004-05, the total value of such tax expenditures was \$364 million (Table 19).

State and territory governments and local government authorities

State and territory governments are the main providers of publicly provided health goods and services in Australia. Those goods and services are financed by a combination of SPPs from the Australian Government, funding by the states and territories out of their own fiscal resources, and funding from non-government sources (usually in the form of user fees).

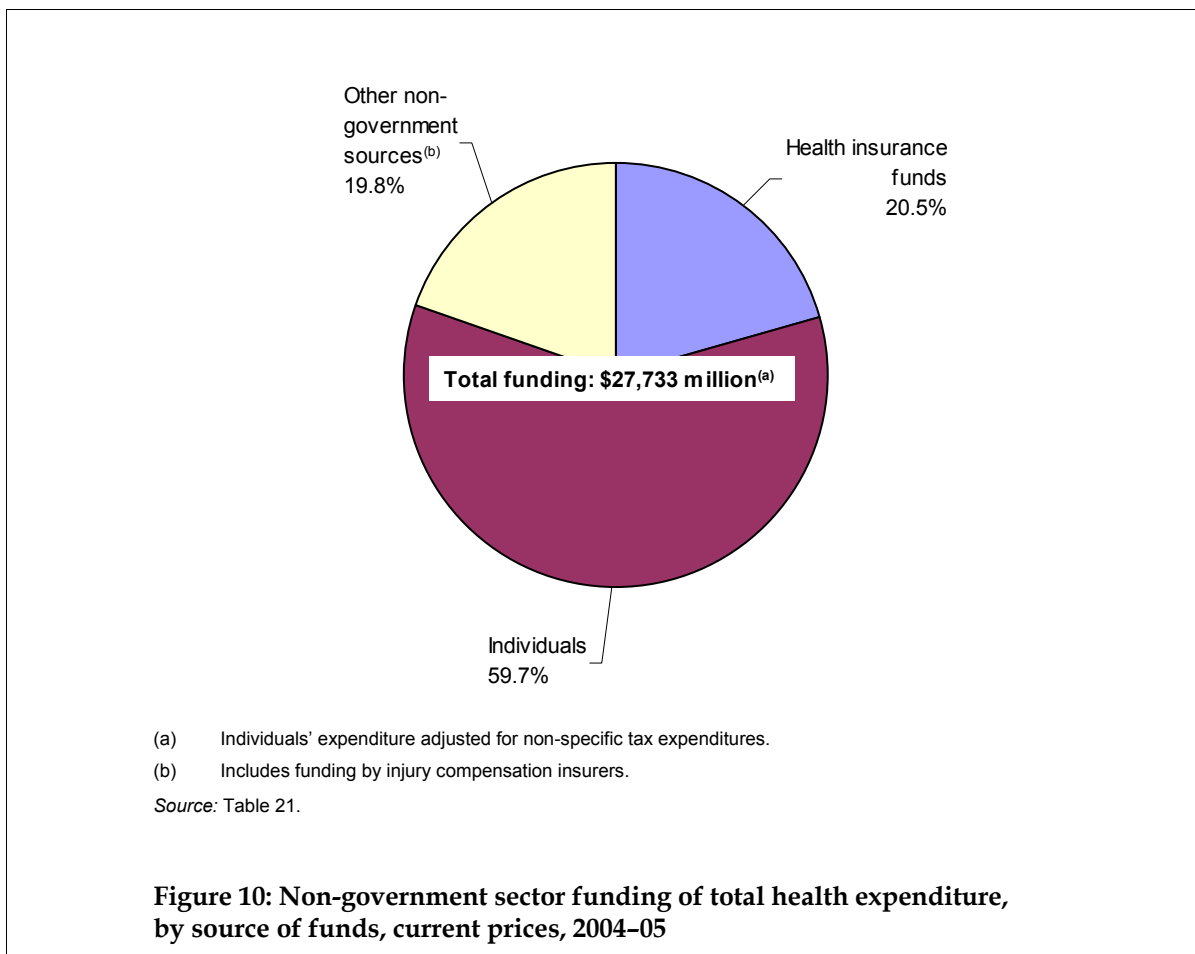
In terms of the types of health goods and services funded by the states and territories and by local government authorities, spending on public hospitals dominates, accounting for 62.9% of recurrent funding provided by these government sources in 2004–05 (Figure 9).

In real terms, funding for health by state, territory and local governments increased, by an average of 6.3% per year between 1994–95 and 2004–05. In comparison, Australian Government funding increased by 5.5% per year in this period (Table 18).



3.3 Non-government funding

Most non-government funding for health goods and services in Australia comes from out-of-pocket payments by individuals. This includes situations where individuals meet the full cost of a service or good as well as where they share the funding of goods and services with third-party payers – for example, private health insurance funds or the Australian Government. Funding by individuals accounted for 59.7% (\$16.5 billion) of estimated non-government funding of health goods and services during 2004–05 (Table 21 and Figure 10). That proportion rose by 8.9 percentage points in the decade to 2004–05. Private health insurance funds provided 20.5% (\$5.7 billion) in 2004–05, down from 31.8% in 1994–95. The remaining 19.8% (\$5.5 billion) came from other non-government sources (mainly compulsory motor vehicle third-party and workers' compensation insurers), whose share of health funding fluctuated in the decade to 2004–05.



Non-government funding was 31.8% of total funding in 2004–05 (Table 13). In 1997–98, non-government funding was 31.8%, a decrease of 1.5 percentage points from 1996–97. The fall after 1996–97 was largely due to the Australian Government's subsidy for private health insurance. The effect of that subsidy is that benefits paid for private health goods and services used by insured people became jointly funded by the Australian Government (through the contribution rebates) and the fund members. Since 2001–02, the non-government share has remained around 31.8%.

Table 21: Non-government sector funding of total health expenditure, by source of funds, current prices, 1994–95 to 2004–05

Year	Health insurance funds ^(a)		Individuals ^(b)		Other non-government ^(c)		All non-government sources ^{(a)(b)(c)}	
	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)
1994–95	4,201	31.8	6,702	50.8	2,303	17.4	13,205	100.0
1995–96	4,426	32.0	6,743	48.8	2,649	19.2	13,817	100.0
1996–97	4,700	31.1	7,541	50.0	2,856	18.9	15,096	100.0
1997–98	4,271	27.8	8,037	52.4	3,029	19.7	15,336	100.0
1998–99	3,855	23.4	9,312	56.6	3,290	20.0	16,456	100.0
1999–00	3,601	22.3	9,503	58.7	3,072	19.0	16,177	100.0
2000–01	4,123	21.9	11,348	60.4	3,320	17.7	18,791	100.0
2001–02	4,975	23.2	12,193	56.9	4,245	19.8	21,413	100.0
2002–03	5,268	22.8	13,329	57.6	4,552	19.7	23,149	100.0
2003–04	5,594	22.3	14,724	58.6	4,791	19.1	25,110	100.0
2004–05	5,685	20.5	16,548	59.7	5,499	19.8	27,733	100.0

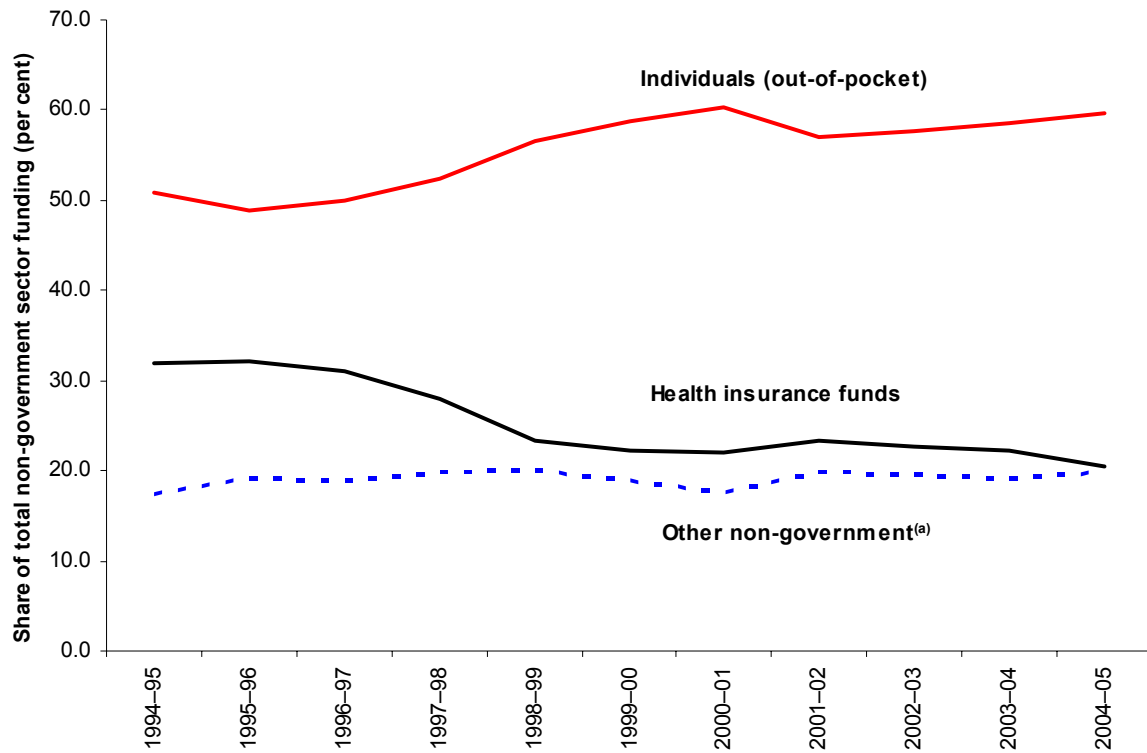
(a) Adjusted for private health insurance incentives subsidy and 30% premium rebates claimed through the tax system for the years from 1997–98.

(b) Adjusted for non-specific tax expenditures.

(c) Includes expenditure on capital formation.

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

Source: AIHW health expenditure database.



(a) Includes funding by injury compensation insurers.

Source: Table 21.

Figure 11: Non-government sector funding of total health expenditure, by source of funds, current prices, 1994-95 to 2004-05

Table 22: Non-government sector funding of total health expenditure, by source of funds, constant prices^(a), and annual growth rates, 1994–95 to 2004–05

Year	Private health insurance funds ^(b)		Individuals ^(c)		Other non-government ^(d)		All non-government sources ^{(b)(c)(d)}	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1994–95	5,585	..	9,001	..	2,892	..	17,478	..
1995–96	5,725	2.5	8,772	-2.5	3,261	12.7	17,758	1.6
1996–97	5,938	3.7	9,628	9.8	3,470	6.4	19,036	7.2
1997–98	5,265	-11.3	9,874	2.6	3,609	4.0	18,748	-1.5
1998–99	4,626	-12.1	11,175	13.2	3,864	7.1	19,665	4.9
1999–00	4,212	-9.0	11,130	-0.4	3,570	-7.6	18,913	-3.8
2000–01	4,652	10.4	12,705	14.2	3,696	3.5	21,053	11.3
2001–02	5,414	16.4	13,228	4.1	4,531	22.6	23,174	10.1
2002–03	5,497	1.5	13,893	5.0	4,699	3.7	24,089	3.9
2003–04	5,594	1.8	14,724	6.0	4,791	2.0	25,110	4.2
2004–05	5,443	-2.7	15,918	8.1	5,285	10.3	26,647	6.1
Average annual growth rate								
1994–95 to 1997–98		-1.9		3.1		7.7		2.4
1997–98 to 2002–03		0.9		7.1		5.4		5.1
1994–95 to 2004–05		-0.3		5.9		6.2		4.3

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

(b) Adjusted for private health insurance incentives subsidy and 30% premium rebates claimed through the tax system for years from 1997–98.

(c) Adjusted for non-specific tax expenditures.

(d) Includes expenditure on capital formation.

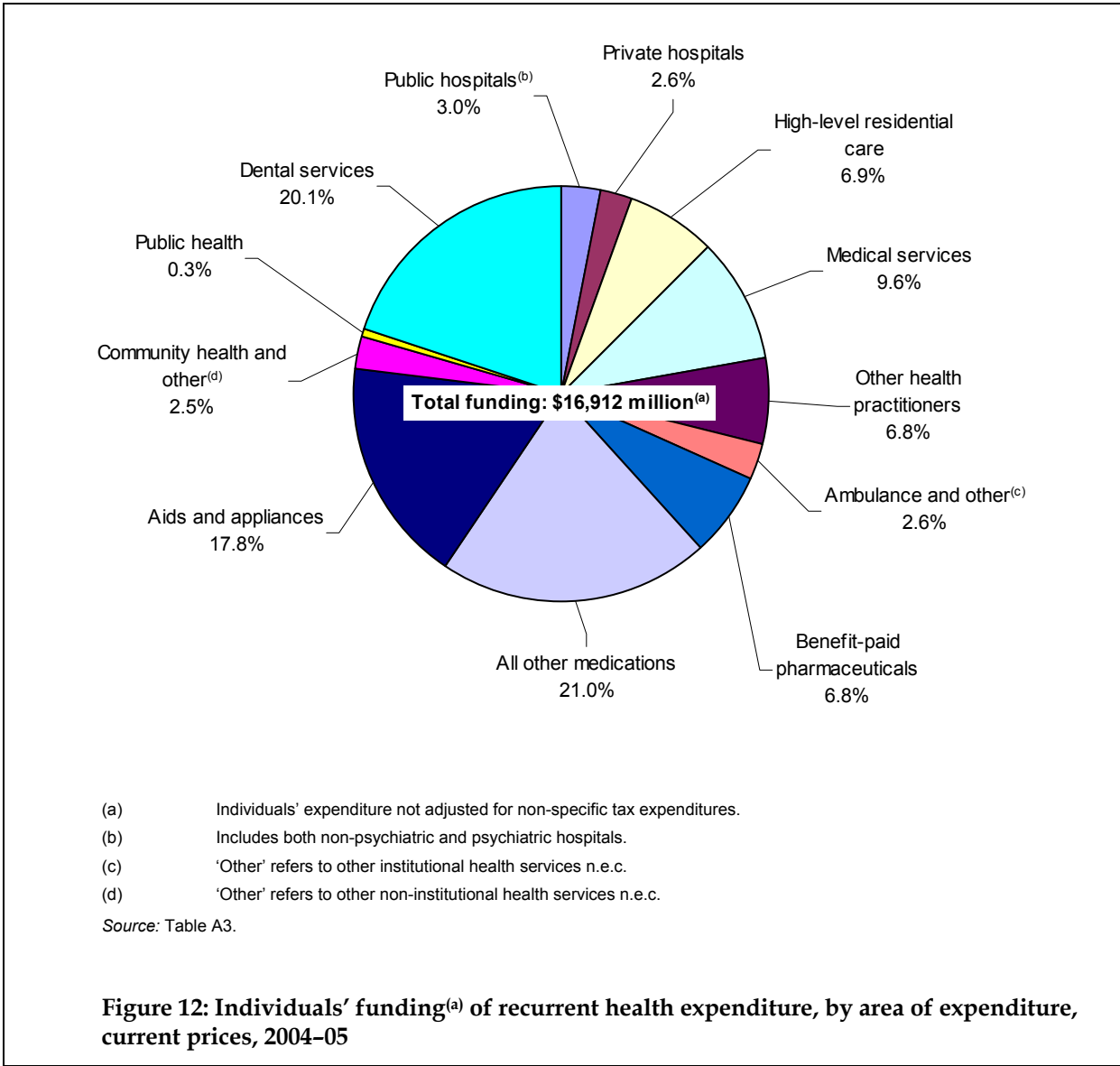
Note: Components may not add to totals due to rounding.

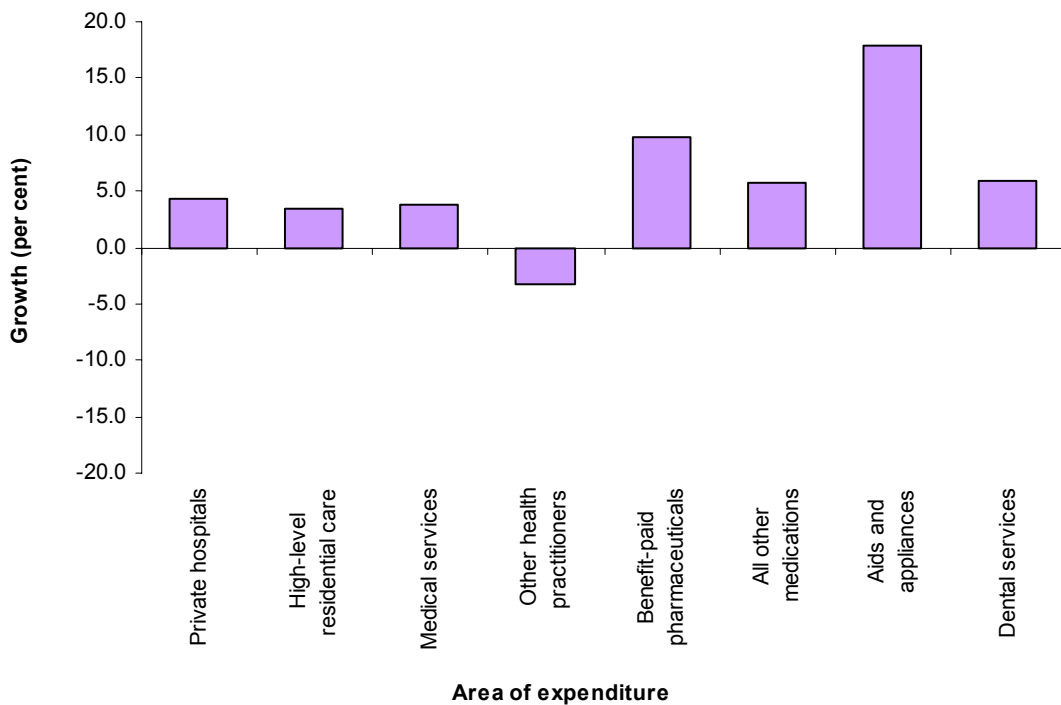
Source: AIHW health expenditure database.

Individuals

In 2004-05, of the estimated \$16.9 billion out-of-pocket recurrent expenditure by individuals on health goods and services (Figure 12):

- 27.8% was spent on medications
 - 6.8% on PBS and RPBS patient contributions
 - 21.0% on other medications (see Glossary for a detailed definition)
- 20.1% on dental services
- 17.8% on aids and appliances
- 9.6% on medical services.





(a) Individuals' expenditure not adjusted for non-specific tax expenditures.
 (b) Constant price health expenditure for 1997-98 to 2004-05 is expressed in terms of 2003-04 prices.
 Source: AIHW health expenditure database.

Figure 13: Average annual growth in individuals' funding^(a) of recurrent health expenditure, by area of expenditure, constant prices^(b), 1997-98 to 2004-05

From 1997-98 to 2004-05, the main areas of real growth in individuals' out-of-pocket funding were for aids and appliances, medications, and dental services (Figure 13).

In real terms, average out-of-pocket health expenditure per person grew by 4.7% a year in the decade from 1994-95 to 2004-05 (Table 23). Over this period, the two areas of out-of-pocket expenditure that had the most rapid real growth were ambulance services, at 15.1%, and aids and appliances at 12.5% per year. In contrast, average per person out-of-pocket expenditure on other health practitioners declined over this decade by 3.4% per annum. This was due to the downward revision of the ABS HFCE estimates for other health practitioners.

Table 23: Average out-of-pocket recurrent health expenditure per person, constant prices^(a), and annual growth rates, by area of expenditure, 1994–95 to 2004–05

Year	Hospitals		High-level residential care		Ambulance and other		Medical services		Dental services		Other health practitioners		Medications		Aids and appliances		Community and public health ^(b)		Total recurrent expenditure	
	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)
1994–95	31	..	45	..	5	..	54	..	118	..	77	..	132	..	45	..	—	..	508	..
1995–96	21	-33.4	46	2.3	8	51.9	56	3.1	116	-2.2	72	-7.0	126	-4.7	46	3.6	—	..	490	-3.5
1996–97	27	27.0	47	0.7	8	5.6	58	5.0	118	1.9	88	22.1	138	9.9	48	3.3	—	..	531	8.4
1997–98	23	-12.2	48	3.1	8	-0.3	62	6.2	116	-1.3	75	-14.4	158	14.1	49	3.3	—	..	540	1.6
1998–99	42	80.6	49	2.1	22	159.1	64	3.5	117	0.7	70	-6.4	168	6.6	67	35.8	5	..	604	11.9
1999–00	40	-5.3	40	-17.7	13	-38.2	64	0.3	116	-0.8	66	-5.4	182	8.3	70	4.8	2	-54.0	595	-1.5
2000–01	46	15.7	41	2.5	16	18.9	66	2.0	136	17.5	65	-1.9	197	8.0	103	47.4	—	..	670	12.7
2001–02	41	-10.9	43	4.2	19	18.3	68	3.5	155	13.8	52	-19.8	228	15.9	83	-19.5	—	..	689	2.8
2002–03	37	-9.6	47	10.1	21	9.9	76	11.7	159	2.4	42	-19.5	240	5.3	94	13.5	—	..	716	3.9
2003–04	43	15.5	52	9.9	20	-5.1	80	5.5	153	-3.9	50	20.1	221	-7.9	116	23.3	17	..	752	5.0
2004–05	45	5.5	56	7.4	21	9.0	74	-7.0	159	4.3	55	8.9	227	2.6	144	23.9	23	30.6	805	6.9
Average annual growth rate																				
1994–95 to 1997–98	-9.5		2.0		16.9		4.8		-0.6		-1.0		6.1		3.4		..		2.1	
1997–98 to 2002–03	9.8		-0.2		19.9		4.1		6.5		-11.0		8.8		13.9		..		5.8	
1994–95 to 2004–05	3.7		2.2		15.1		3.3		3.0		-3.4		5.6		12.5		..		4.7	

(a) Constant price health expenditure for 1994–95 to 2004–05 is expressed in terms of 2003–04 prices. Not adjusted for non-specific tax expenditures.

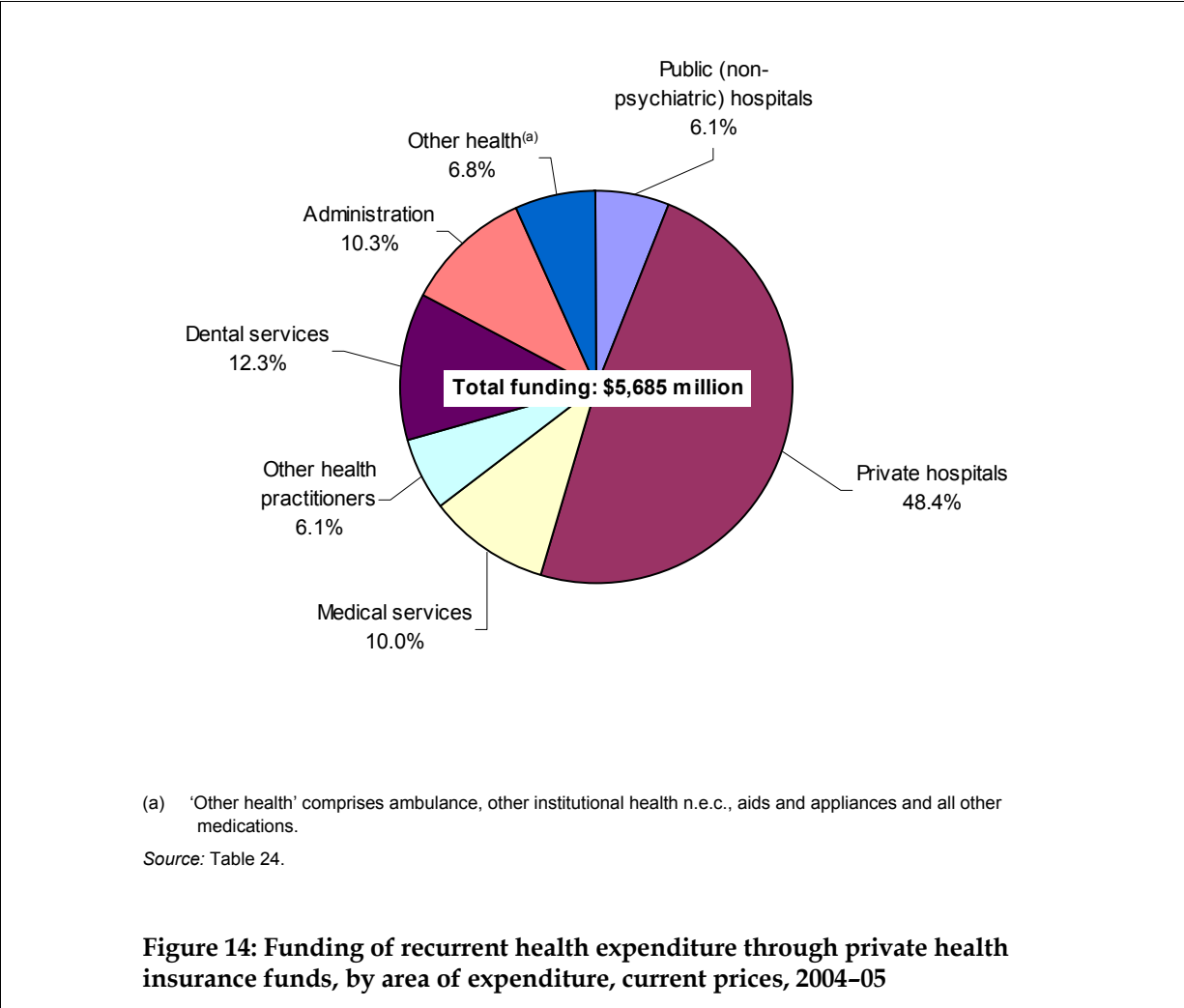
(b) For 1999–00 this also includes administration expenditure.

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

Source: AIHW health expenditure database.

Private health insurance

Funding by private health insurance funds is chiefly directed at private hospital services. During 2004–05, private hospitals accounted for 48.4% of the \$5.7 billion in funding provided by health insurance funds (Figure 14). Other major areas of expenditure that received funding were dental services (12.3%), administration (10.3%) and medical services (10.0%).



General benefits and administration

Gross health benefits paid through the health insurance funds in 2004–05 amounted to \$7,779 million – up \$489 million from \$7,290 million in 2003–04 and up \$1,024 million since 2002–03 (Table 24). A further \$892 million was used to fund administration during 2004–05; this showed a steady increase from \$825 million in 2002–03 and \$843 million in 2003–04.

The position of the health insurance funds overall continued to improve in 2004–05, with the operating profit before abnormal and extraordinary items rising from \$196 million in 2002–03 to \$626 million in 2004–05 (Table 25).

Table 24: Expenditure on health goods and services funded through health insurance funds, current prices, 2002–03 to 2004–05 (\$ million)

Area of expenditure	2002–03			2003–04			2004–05		
	Gross benefits paid	Premium rebates ^(a)	Net benefits paid	Gross benefits paid	Premium rebates ^(a)	Net benefits paid	Gross benefits paid	Premium rebates ^(a)	Net benefits paid
Expenditure									
Hospitals	4,058	1,238	2,820	4,407	1,376	3,031	4,725	1,627	3,098
Public (non-psychiatric)	411	125	285	458	143	315	527	182	346
Private	3,648	1,113	2,535	3,949	1,233	2,716	4,197	1,445	2,752
Ambulance	133	40	92	130	41	89	138	48	91
Medical services	700	213	486	789	246	542	868	299	569
Other health practitioners	470	143	327	499	156	343	527	181	345
Medications	75	23	52	71	22	49	75	26	49
Aids and appliances	341	104	237	367	115	253	376	130	247
Community and public health	1	—	—	1	—	1	1	—	—
Dental services	977	298	679	1,027	321	706	1,070	368	701
Total health benefits and levies	6,755	2,061	4,694	7,290	2,276	5,015	7,779	2,678	5,101
Health administration	825	252	573	843	263	580	892	307	585
Direct expenditure on health goods and services	7,580	2,312	5,268	8,133	2,539	5,594	8,670	2,985	5,685
Items not included in estimates on health goods and services									
Non-health ancillaries	73	22	51	46	14	31	16	6	11
Outstanding claims adjustment	–1	—	–1	62	19	43	88	30	58

(a) Premium rebate is pro-rated across all categories (including change in provisions for outstanding claims).

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

Sources: PHIAC A quarterly reports; Department of the Treasury Tax Expenditures Statement, 2003 to 2006.

Table 25: Health insurance funds reported expenses and revenues, current prices, 2002–03 to 2004–05 (\$ million)

Operating expenses and revenue of funds	2002–03	2003–04	2004–05
Expenses			
Total cost of benefits ^(a)	6,953	7,525	8,238
State levies (ambulance)	102	105	110
Management expenses	826	852	892
Total expenses (not including provision adjustments)	7,881	8,482	9,240
Revenue			
Contributions income	7,885	8,637	9,384
Other revenue	194	296	373
Total revenue	8,079	8,932	9,757
Operating profit (loss) before abnormals and extraordinary items	196	447	626

(a) Includes adjustment to provisions for outstanding claims.

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

Sources: PHIAC Annual reports, 2003 to 2005.

Table 26: Expenditure on health goods and services and administration through private health insurance funds, constant prices^(a), and annual growth rates, 1994–95 to 2004–05

Year	Gross payments through health insurance funds		Reimbursement for rebates allowed by funds		Rebates through taxation system		Net payments from health insurance funds resources	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1994–95	5,585	..	..	..	..	..	5,585	..
1995–96	5,725	2.5	..	..	..	..	5,725	2.5
1996–97	5,938	3.7	..	..	..	..	5,938	3.7
1997–98	5,767	-2.9	307	..	195	..	5,265	-11.3
1998–99	5,785	0.3	943	207.4	215	10.1	4,626	-12.1
1999–00	6,055	4.7	1,619	71.6	223	3.9	4,212	-9.0
2000–01	6,943	14.7	2,094	29.3	197	-11.6	4,652	10.4
2001–02	7,706	11.0	2,118	1.2	174	-12.1	5,414	16.4
2002–03	7,910	2.7	2,239	5.7	174	0.1	5,497	1.5
2003–04	8,133	2.8	2,359	5.3	180	3.7	5,594	1.8
2004–05	8,300	2.1	2,557	8.4	301	67.0	5,443	-2.7
Average annual growth rate								
1994–95 to 1997–98		1.1		..		..		-1.9
1997–98 to 2002–03		6.5		48.8		-2.3		0.9
1994–95 to 2004–05		4.0		..		..		-0.3

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

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

Source: AIHW health expenditure database.

The initial effect of the introduction of the Australian Government PHIIS subsidy in 1997 was a sharp drop in net funding by health insurance funds in each year up to 1999–00, followed by a recovery after the introduction of the lifetime health cover arrangements in the September quarter of 2000. Net expenditure in real terms was almost constant in 2001–02 and 2002–03, at \$5,414 million and \$5,497 million respectively. Net expenditure in real terms rose in 2003–04 to \$5,594 million but declined again in 2004–05 to \$5,443 as the private health insurance rebates climbed to a high of \$2,557 million (Table 26 and Figure 15).

In 2004–05, it was estimated that health insurance funds spent on average \$626 per person covered on health (in 2003–04 prices). Fund members in South Australia on average attracted the highest amount per person covered (\$727) while people in the Northern Territory attracted the least per person covered (\$375). When comparing average annual growth rates in constant prices over the period 1996–97 to 2004–05, all states and territories recorded reductions in the amount spent through health insurance. Fund members in Victoria had the greatest decline in their per person expenditure of 6.7% per annum (Table 27).

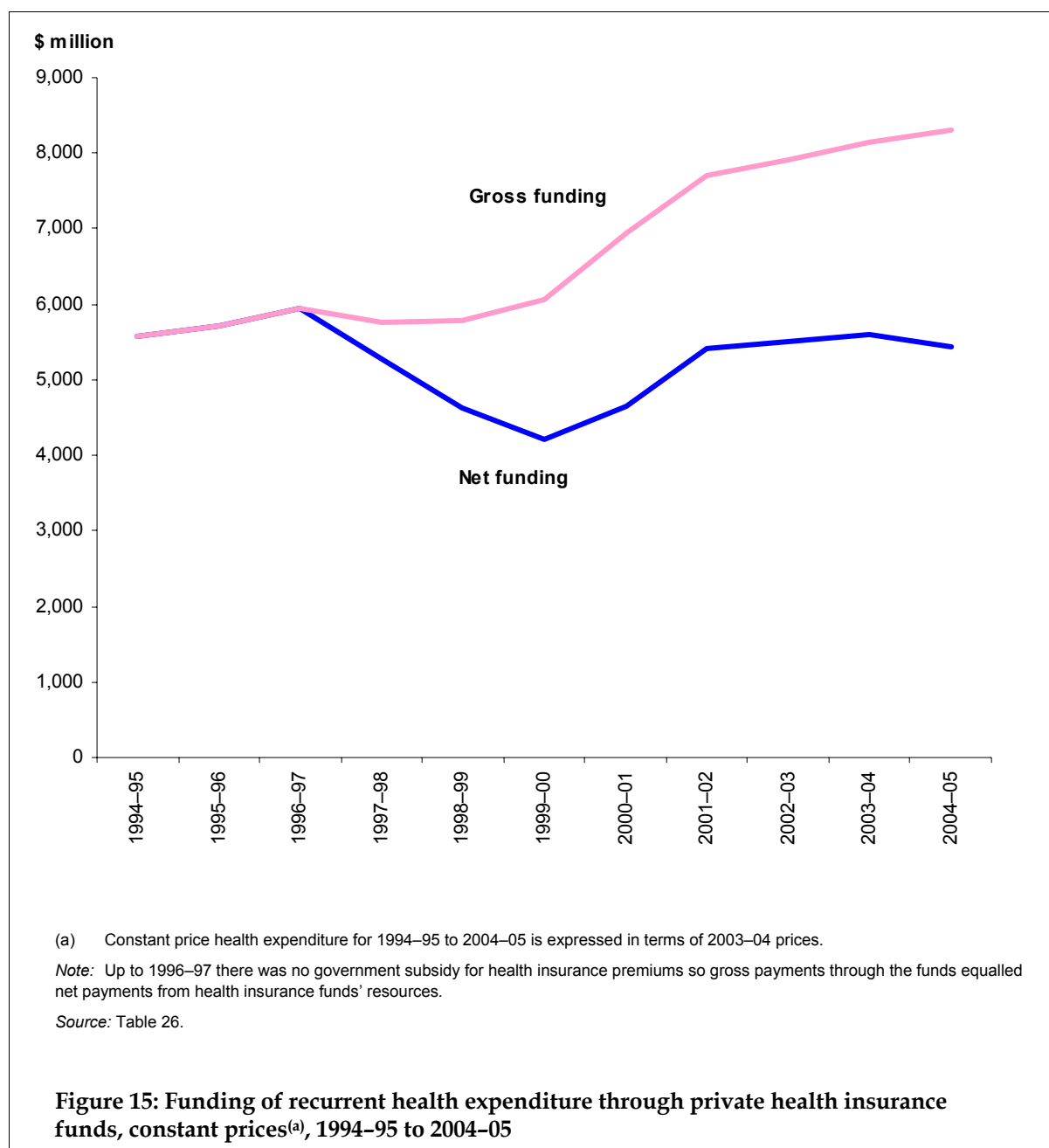
Table 27: Average expenditure on health insurance funds per person^(a) covered, constant prices^(b), by state and territory, 1996–97 to 2004–05 (\$)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	1,003	977	983	916	1,149	971	446	564	982
1997–98	907	911	910	853	1,031	868	451	512	901
1998–99	807	812	822	781	930	770	441	486	808
1999–00	620	652	654	661	745	619	371	385	642
2000–01	526	507	554	551	615	576	325	328	532
2001–02	616	561	667	652	731	675	366	404	620
2002–03	626	574	682	661	754	682	375	394	633
2003–04	646	583	699	666	752	706	404	409	646
2004–05	631	560	676	643	727	664	421	375	626
Average annual growth rate									
1996–97 to 1997–98	-9.5	-6.8	-7.4	-7.0	-10.2	-10.6	1.0	-9.3	-8.3
1997–98 to 2002–03	-7.1	-8.8	-5.6	-5.0	-6.1	-4.7	-3.6	-5.1	-6.8
1996–97 to 2004–05	-5.6	-6.7	-4.6	-4.3	-5.6	-4.6	-0.7	-5.0	-5.5

(a) Based on annual mean resident population.

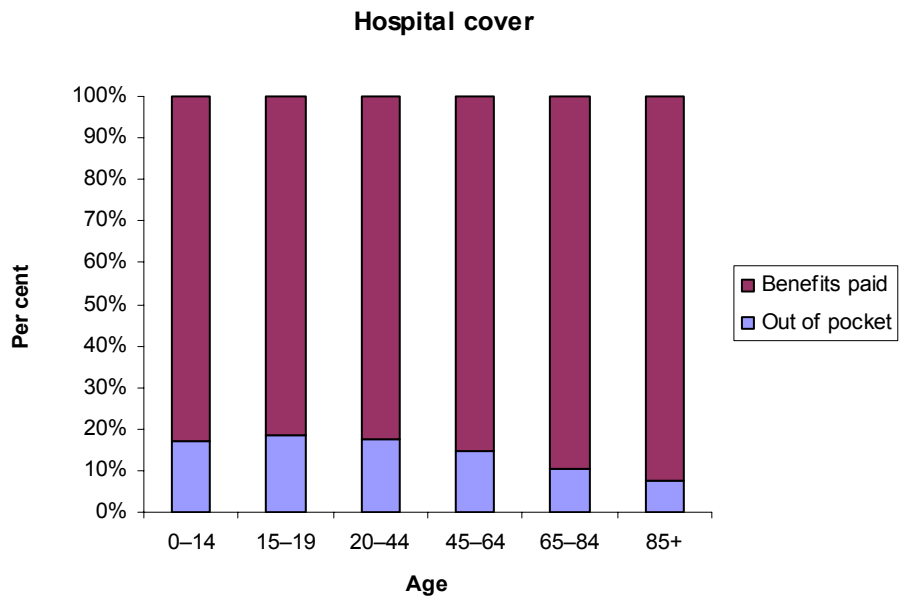
(b) Constant price health expenditure for 1996–97 to 2004–05 is expressed in terms of 2003–04 prices.

Source: AIHW health expenditure database.



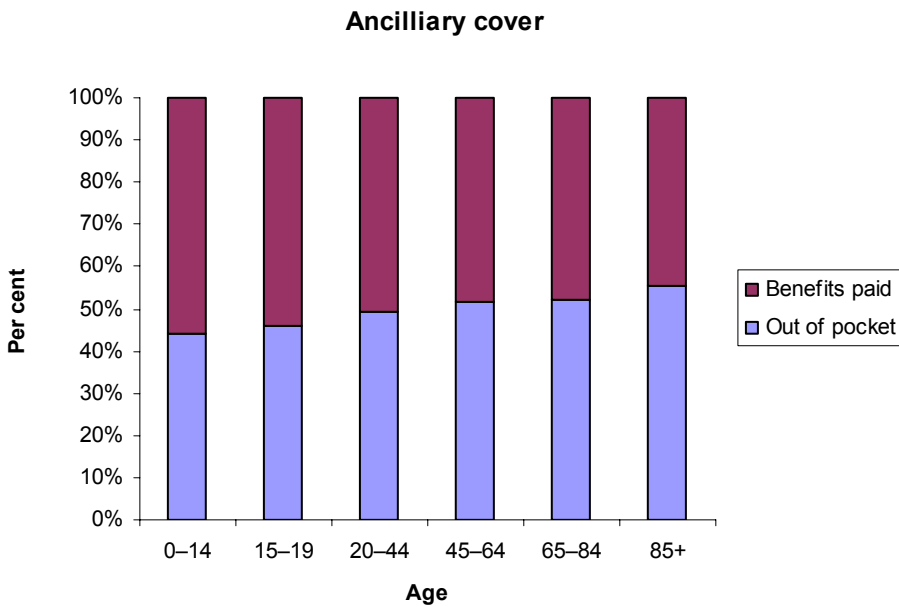
People with private health insurance cover typically incur some level of out-of-pocket expenditure. In 2004-05, the proportion of the total cost of a service that was paid by patients with hospital cover was highest for those in the younger age groups and lowest for those in the older age groups (Figure 16). For patients aged 0-14 years the average proportion paid per person was 16.9% and this dropped to 7.4% for those aged 85 years or more.

The proportion of the total cost of a service that was paid by patients with ancillary cover was higher than for people with hospital cover – around half the total cost depending on the age of the patient (Figure 17). In contrast to the proportion paid for services by people with hospital cover, services by people with ancillary cover increased with the age of the patient. For patients aged 0-14 years the average proportion paid per person was 44.1% and this increased to 55.7% for patients aged 85 years or more.



Source: PHIAC A quarterly reports.

Figure 16: Benefits paid and out-of-pocket expenditure, per person with private health insurance hospital cover, by age group, current prices, 2004-05



Source: PHIAC A quarterly reports.

Figure 17: Benefits paid and out-of-pocket expenditure, per person with private health insurance ancillary cover, by age group, current prices, 2004-05

In 2004–05 the total cost of a service increased as the age of the patient increased. For example, the average fee charged for a service to patients with hospital cover was \$141 for a patient aged 0–14 years and \$3,646 for a patient aged 85 years or more (Table 28). At the same time, for patients with hospital cover, the proportion contributed by patients decreased as their age increased (Figures 16 and 17). Because of the increase in costs for older patients, the out-of-pocket costs for persons aged 45 years or more were higher than for those aged less than 45 years. For example, average out-of-pocket costs for services for patients with hospital cover were \$35 per person for those aged 15–19 years and \$264 for persons aged 65–84 years (Table 28).

Females aged between 15 and 64 years with private health insurance cover for hospital care attracted average out-of-pocket expenditures that were higher than those for males in the same age groups with similar types of insurance cover. For the older age groups (65 years or more) out-of-pocket expenditures by males were higher than for females. Out-of-pocket costs by females ranged from \$20 per person in the 0–14 years age group to \$245 for those aged 85 years or more (\$27 and \$332 per person respectively for males).

The greatest difference between the sexes in out-of-pocket expenditure on services for patients with hospital cover was in the age category 20–44 years. Females in this category spent, on average, more than twice the rate of males. This reflects the additional out-of-pocket outlays on hospital services faced by women in their child-bearing years.

There was less disparity between the sexes for out-of-pocket expenditure for patients with ancillary cover although the cost was higher than for those with hospital cover. Females had greater out-of-pocket expenditures than males at all ages except the 85 years and over age group. Again, the difference was greatest in the age category 20–44 years with males spending, on average, less than three-quarters the rate of females. Out-of-pocket expenditures by females ranged from \$112 per person in the 0–14 years age group to \$318 for those aged 85 years or more (\$99 and \$354 per person respectively for males).

Table 28: Fees charged, benefits paid and out-of-pocket expenditure, per person with private health insurance hospital cover and ancillary cover, by age group and sex, current prices, 2004–05 (\$)

	Age group					
	0–14	15–19	20–44	45–64	65–84	85+
Hospital cover						
Males						
Out of pocket	27	34	52	117	305	332
Benefits paid	127	139	213	668	2,391	3,647
<i>Fees charged</i>	<i>154</i>	<i>173</i>	<i>265</i>	<i>786</i>	<i>2,696</i>	<i>3,978</i>
Females						
Out of pocket	20	36	119	120	229	245
Benefits paid	107	166	595	684	2,077	3,281
<i>Fees charged</i>	<i>127</i>	<i>202</i>	<i>714</i>	<i>805</i>	<i>2,306</i>	<i>3,526</i>
All persons						
Out of pocket	24	35	88	119	264	268
Benefits paid	117	152	417	677	2,221	3,378
<i>Fees charged</i>	<i>141</i>	<i>187</i>	<i>504</i>	<i>795</i>	<i>2,485</i>	<i>3,646</i>
Ancillary cover						
Males						
Out of pocket	99	144	178	313	359	354
Benefits paid	130	174	185	296	326	275
<i>Fees charged</i>	<i>229</i>	<i>318</i>	<i>363</i>	<i>609</i>	<i>685</i>	<i>628</i>
Females						
Out of pocket	112	178	249	412	376	318
Benefits paid	139	207	255	382	348	255
<i>Fees charged</i>	<i>251</i>	<i>386</i>	<i>504</i>	<i>794</i>	<i>724</i>	<i>573</i>
All persons						
Out of pocket	106	161	216	363	368	327
Benefits paid	134	190	222	340	338	261
<i>Fees charged</i>	<i>240</i>	<i>351</i>	<i>439</i>	<i>703</i>	<i>706</i>	<i>588</i>

Source: PHIA C A quarterly reports.

Injury compensation insurers

Worker's compensation insurers and motor vehicle third-party insurers comprise the funding for injury compensation insurers. In 2004–05 injury compensation insurers spent (in 2003–04 prices), \$1,766 million on health goods and services. Workers' compensation insurers and motor vehicle third-party insurers accounted for \$1,113 million and \$653 million respectively of this expenditure. Over the period 1994–95 to 2004–05, expenditure by workers' compensation insurers rose on average by 2.7% per year while the annual increase over this decade was 3.1% for motor vehicle third-party insurers (Table 29).

Expenditure in health funded by worker's compensation and motor vehicle third-party insurers is included in the 'other non-government' source of funds category in the main health expenditure tables.

Table 29: Expenditure by injury compensation insurers, constant prices^(a), and annual growth rates, 1994–95 to 2004–05

Year	Workers' compensation insurers		Motor vehicle accident third-party insurers		Total injury compensation insurers	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1994–95	849	..	480	..	1,329	..
1995–96	888	4.6	451	-5.9	1,340	0.8
1996–97	891	0.3	505	11.8	1,396	4.2
1997–98	873	-2.1	479	-5.2	1,351	-3.2
1998–99	953	9.2	556	16.1	1,509	11.6
1999–00	971	1.9	563	1.4	1,534	1.7
2000–01	967	-0.4	513	-8.9	1,480	-3.5
2001–02	980	1.4	660	28.7	1,641	10.9
2002–03	1,015	3.5	662	0.2	1,677	2.2
2003–04	1,073	5.7	600	-9.3	1,673	-0.2
2004–05	1,113	3.7	653	8.7	1,766	5.5
Average annual growth rate						
1994–95 to 1997–98		0.9		-0.1		0.6
1997–98 to 2002–03		3.1		6.7		4.4
1994–95 to 2004–05		2.7		3.1		2.9

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

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

Source: AIHW health expenditure database.