

3 Funding of health expenditure in Australia

3.1 Broad trends in funding

In this section broad comparisons are made between the government and non-government sectors (defined in Section 1.2). Sections 3.2 and 3.3 of this chapter will discuss in more detail the funding arrangements in the government and non-government sectors. Analysis of funding of specific items of health goods and services (including capital formation and capital consumption) is provided in Chapter 4.

In 2000–01, government funding of health expenditure was \$42.5 billion (70.0%), compared with \$18.3 billion (30.0%) for non-government sources. Over the decade to 2000–01, these funding proportions had shifted from 67.7% and 32.3% respectively (Table 12 and Table 13).

Table 12: Total health expenditure, by broad source of funds, current prices, 1990–91 to 2000–01 (\$ million)

Year	Government			Non-government ^(a)	Total
	Commonwealth ^(a)	State and local	Total		
1990–91	13,200	7,958	21,158	10,109	31,267
1991–92	14,167	8,138	22,305	10,818	33,123
1992–93	15,291	8,202	23,494	11,605	35,098
1993–94	16,683	7,868	24,550	12,440	36,990
1994–95	17,551	8,460	26,010	13,205	39,216
1995–96	18,997	9,260	28,257	13,825	42,082
1996–97	19,806	10,271	30,077	15,118	45,195
1997–98	21,443	11,409	32,852	15,508	48,360
1998–99	23,563	11,975	35,538	16,142	51,680
1999–00	26,125	12,960	39,081	16,545	55,630
2000–01 ^(b)	28,845	13,678	42,523	18,257	60,779

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

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Table 13: Total health expenditure, current prices, by broad source of funds, as a proportion of total health expenditure, 1990–91 to 2000–01 (per cent)

Year	Government			Non-government ^(a)	Total
	Commonwealth ^(a)	State and local	Total		
1990–91	42.2	25.5	67.7	32.3	100.0
1991–92	42.8	24.6	67.3	32.7	100.0
1992–93	43.6	23.4	66.9	33.1	100.0
1993–94	45.1	21.3	66.4	33.6	100.0
1994–95	44.8	21.6	66.3	33.7	100.0
1995–96	45.1	22.0	67.1	32.9	100.0
1996–97	43.8	22.7	66.6	33.4	100.0
1997–98	44.3	23.6	67.9	32.1	100.0
1998–99	45.6	23.2	68.8	31.2	100.0
1999–00	46.9	23.3	70.3	29.7	100.0
2000–01 ^(b)	47.5	22.5	70.0	30.0	100.0

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

(b) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

In real terms, government recurrent funding for health grew by 4.8% over the decade 1990–91 to 2000–01, while non-government funding grew by 3.5% (Table 14 and Table 15). These growth rates are similar to those for total government and non-government funding of health (Table 16). The area of recurrent expenditure that attracted the most rapid growth in government funding over the period was private hospitals, which grew by 30.7%. This was the result of the Commonwealth Government's rebate to holders of private health insurance cover and the increased use of private hospital services by veterans funded by DVA. Non-government funding of private hospitals, on the other hand, increased by just 2.7%. For non-government funding the highest growth rates over the period occurred in pharmaceuticals (5.0%) and other professional services (4.5%). These rates, however, were below those recorded for government funding for the same period, that is 10.8% and 9.0% respectively.

The fastest growth in government funding (5.8%) was between 1997–98 and 2000–01, reflecting the strong growth in government funding of hospitals, high-level residential aged care and pharmaceuticals. Growth in non-government funding, however, was much lower at 2.5% in the same period. The period 1997–98 to 2000–01 recorded stronger growth in non-government funding of 8.0% for high-level residential aged care compared to 4.6% for the government sector, and for public hospitals (6.7% for non-government compared with 2.6% for the government sector). In this period, other professional services grew strongly, 19.6% and 9.0% respectively for the government and non-government sectors, reflecting the impact of the Commonwealth's subsidies to private health insurance.

**Table 14: Government funding of recurrent health expenditure, by area of expenditure, and annual growth rates, constant prices, (a)(b)
1990–91 to 2000–01**

Year	High-level resid. aged care		Pharmaceuticals		Medical services		Other prof. services		Private hospitals		Public hospitals		Other		Total government ^(c)	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1990–91	2,377	..	1,511	..	5,312	..	169	..	107	..	9,414	..	4,861	..	23,751	..
1991–92	2,327	-2.1	1,526	1.0	5,530	4.1	176	4.3	126	17.9	9,484	0.7	4,921	1.2	24,090	1.4
1992–93	2,348	0.9	1,812	18.7	5,930	7.2	183	3.8	143	13.2	9,530	0.5	4,887	-0.7	24,832	3.1
1993–94	2,293	-2.3	2,122	17.1	6,405	8.0	186	2.1	190	33.2	9,649	1.3	4,931	0.9	25,776	3.8
1994–95	2,348	2.4	2,326	9.6	6,782	5.9	190	2.2	262	37.9	10,265	6.4	5,009	1.6	27,183	5.5
1995–96	2,494	6.2	2,752	18.3	7,108	4.8	212	11.4	311	18.7	11,046	7.6	5,179	3.4	29,104	7.1
1996–97	2,703	8.3	2,792	1.4	7,199	1.3	225	5.9	378	21.5	11,670	5.6	5,244	1.2	30,210	3.8
1997–98	2,920	1.1	2,821	1.0	7,421	3.1	233	3.9	578	52.9	12,565	7.7	5,583	6.5	32,122	6.3
1998–99	2,952	2.7	3,098	9.8	7,601	2.4	239	2.6	932	61.2	13,202	5.1	5,510	-1.3	33,536	4.4
1999–00	3,162	7.1	3,535	14.1	8,006	5.3	368	53.8	1,305	40.1	13,260	0.4	6,643	20.6	36,279	8.2
2000–01 ^(d)	3,340	5.6	4,199	18.8	7,981	-0.3	399	8.5	1,552	19.0	13,573	2.4	6,971	4.9	38,023	4.8
Average annual growth rates																
1990–91 to 1992–93	-0.6		9.5		5.7		4.0		15.5		0.6		0.3		2.2	
1992–93 to 1997–98	4.5		9.3		4.6		5.0		32.3		5.7		2.7		5.3	
1997–98 to 2000–01	4.6		14.2		2.5		19.6		39.0		2.6		7.7		5.8	
1990–91 to 2000–01	3.5		10.8		4.2		9.0		30.7		3.7		3.7		4.8	

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

(b) Not adjusted for tax expenditures.

(c) Does not include estimated expenditure on capital (see **Error! Reference source not found.**, page **Error! Bookmark not defined.**) and capital consumption (see **Error! Reference source not found.**, page **Error! Bookmark not defined.**).

(d) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Table 15: Non-government funding of recurrent health expenditure, by area of expenditure, and annual growth rates, constant prices, ^{(a)(b)} 1990–91 to 2000–01

Year	High-level resid. aged care		Pharmaceuticals		Medical services		Other prof. services		Private hospitals		Public hospitals		Other		Total government ^(c)	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1990–91	685	..	1,859	..	1,338	..	1,276	..	2,283	..	1,062	..	3,366	..	11,869	..
1991–92	699	2.0	2,061	10.8	1,322	-1.1	1,210	-5.1	2,449	7.3	990	-6.7	3,438	2.1	12,170	2.5
1992–93	647	-7.4	2,071	0.5	1,332	0.7	1,223	1.0	2,573	5.1	960	-3.0	3,826	11.3	12,631	3.8
1993–94	704	8.9	2,144	3.6	1,331	-0.1	1,243	1.7	2,710	5.3	1,100	14.6	4,051	5.9	13,284	5.2
1994–95	717	1.7	2,407	12.3	1,445	8.6	1,299	4.5	2,949	8.9	1,096	-0.4	4,087	0.9	14,000	5.4
1995–96	744	3.8	2,347	-2.5	1,508	4.3	1,298	0.0	3,151	6.8	1,124	2.6	4,264	4.3	14,436	3.1
1996–97	758	1.8	2,460	4.8	1,594	5.7	1,566	20.6	3,358	6.6	1,126	0.2	4,463	4.7	15,325	6.2
1997–98	786	3.8	2,799	13.8	1,669	4.7	1,533	-2.1	3,268	-2.7	1,049	-6.9	4,419	-1.0	15,522	1.3
1998–99	829	5.5	2,911	4.0	1,716	2.8	1,716	11.9	3,117	-4.6	912	-13.1	4,781	8.2	15,982	3.0
1999–00	907	9.4	2,913	0.1	1,631	-4.9	1,790	4.3	2,899	-7.0	1,200	31.7	4,472	-6.5	15,813	-1.1
2000–01 ^(d)	990	9.1	3,042	4.4	1,773	8.7	1,988	11.0	2,987	3.0	1,275	6.2	4,641	3.8	16,696	5.6
Average annual growth rates																
1990–91 to 1992–93	-2.8		5.5		-0.2		-2.1		6.2		-4.9		6.6		3.2	
1992–93 to 1997–98	4.0		6.2		4.6		4.6		4.9		1.8		2.9		4.2	
1997–98 to 2000–01	8.0		2.8		2.0		9.0		-2.9		6.7		1.7		2.5	
1990–91 to 2000–01	3.7		5.0		2.9		4.5		2.7		1.8		3.3		3.5	

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

(b) Not adjusted for tax expenditures.

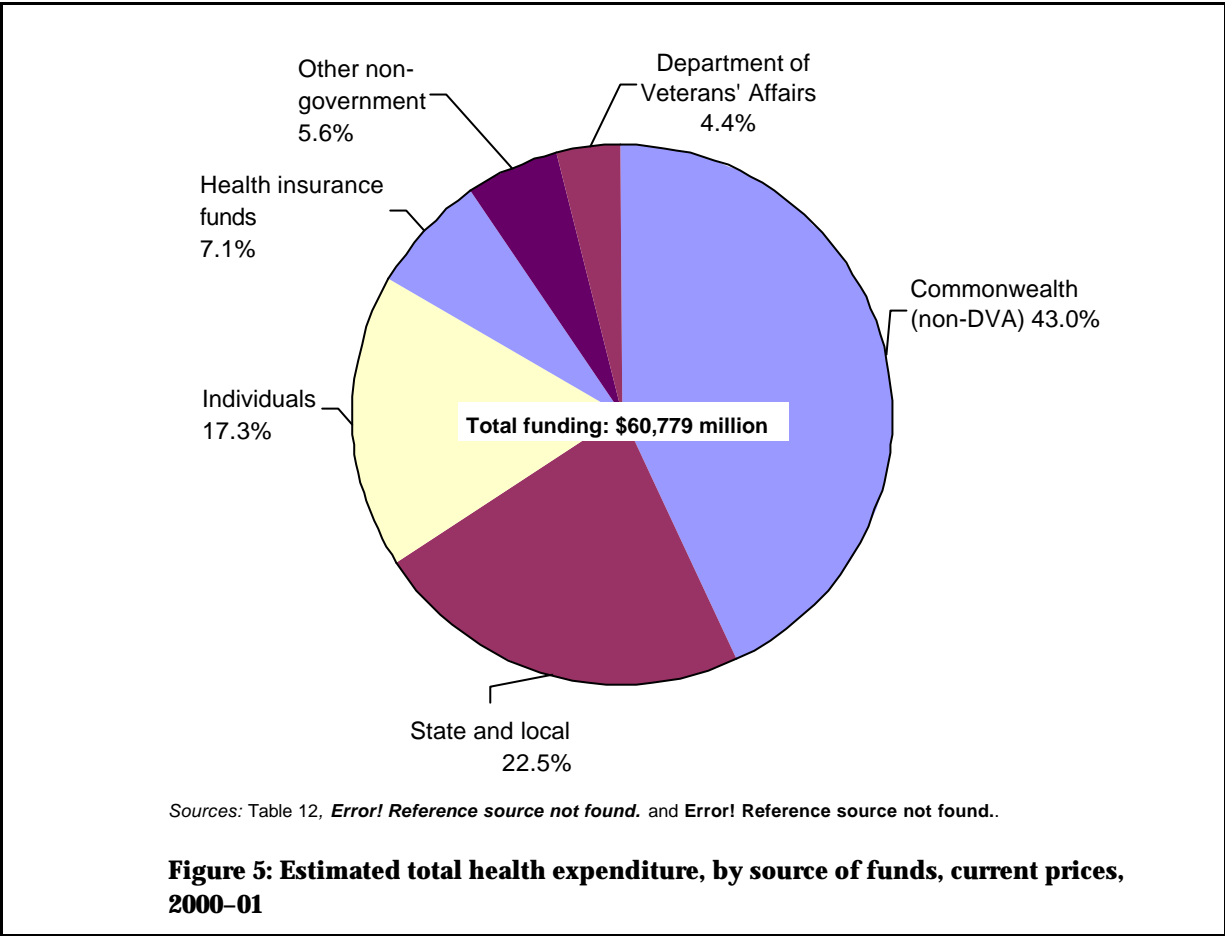
(c) Does not include estimated expenditure on capital (see **Error! Reference source not found.**, page **Error! Bookmark not defined.**).

(d) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

3.2 Government sources of funds

In 2000–01, the Commonwealth Government’s funding of health expenditure was estimated at \$28.8 billion (Table 12). This was 47.5% of total expenditure on health by all sources of funds (Table 13 and Figure 5). State and local government sources provided 22.5% of all funding for health expenditure. The remaining 30.0% was provided by non-government funding sources.



Government policies, both Commonwealth and State, can have marked impacts on the levels and distribution of funding for health. For example, the Commonwealth Government’s subsidisation of private health insurance members introduced in 1997, means that the funding of benefits is now shared by the contributions paid by members and the Commonwealth. It, therefore, effectively moved funding away from non-government sources after 1996–97. It also increased both Commonwealth and non-government expenditure on private health insurance administration by an estimated \$126 million to \$843 million in 2000–01 (**Error! Reference source not found.**, page **Error! Bookmark not defined.**).

Table 16: Total health expenditure, constant prices,^(a) and annual growth rates, by broad source of funds, 1990–91 to 2000–01

Year	Government						Non-government ^(b)		Total	
	Commonwealth ^(b)		State and local		Total		Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)				
1990–91	16,011	..	9,631	..	25,642	..	12,362	..	38,004	..
1991–92	16,396	2.4	9,405	-2.4	25,801	0.6	12,669	2.5	38,469	1.2
1992–93	17,322	5.6	9,267	-1.5	26,589	3.1	13,304	5.0	39,893	3.7
1993–94	18,773	8.4	8,812	-4.9	27,585	3.7	14,129	6.2	41,714	4.6
1994–95	19,548	4.1	9,417	6.9	28,966	5.0	14,792	4.7	43,758	4.9
1995–96	20,757	6.2	10,007	6.3	30,764	6.2	15,141	2.4	45,905	4.9
1996–97	21,089	1.6	10,972	9.6	32,061	4.2	16,163	6.8	48,224	5.1
1997–98	22,513	6.8	11,952	8.9	34,465	7.5	16,224	0.4	50,689	5.1
1998–99	24,130	7.2	12,240	2.4	36,370	5.5	16,656	2.7	53,026	4.6
1999–00	26,125	8.3	12,960	5.9	39,081	7.5	16,545	-0.7	55,630	4.9
2000–01 ^(c)	27,794	6.4	13,254	2.3	41,047	5.0	17,442	5.4	58,490	5.1
Average annual growth rates										
1990–91 to 1992–93		4.0		-1.9		1.8		3.7		2.5
1992–93 to 1997–98		5.4		5.2		5.3		4.0		4.9
1997–98 to 2000–01		7.3		3.5		6.0		2.4		4.9
1990–91 to 2000–01		5.7		3.2		4.8		3.5		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.

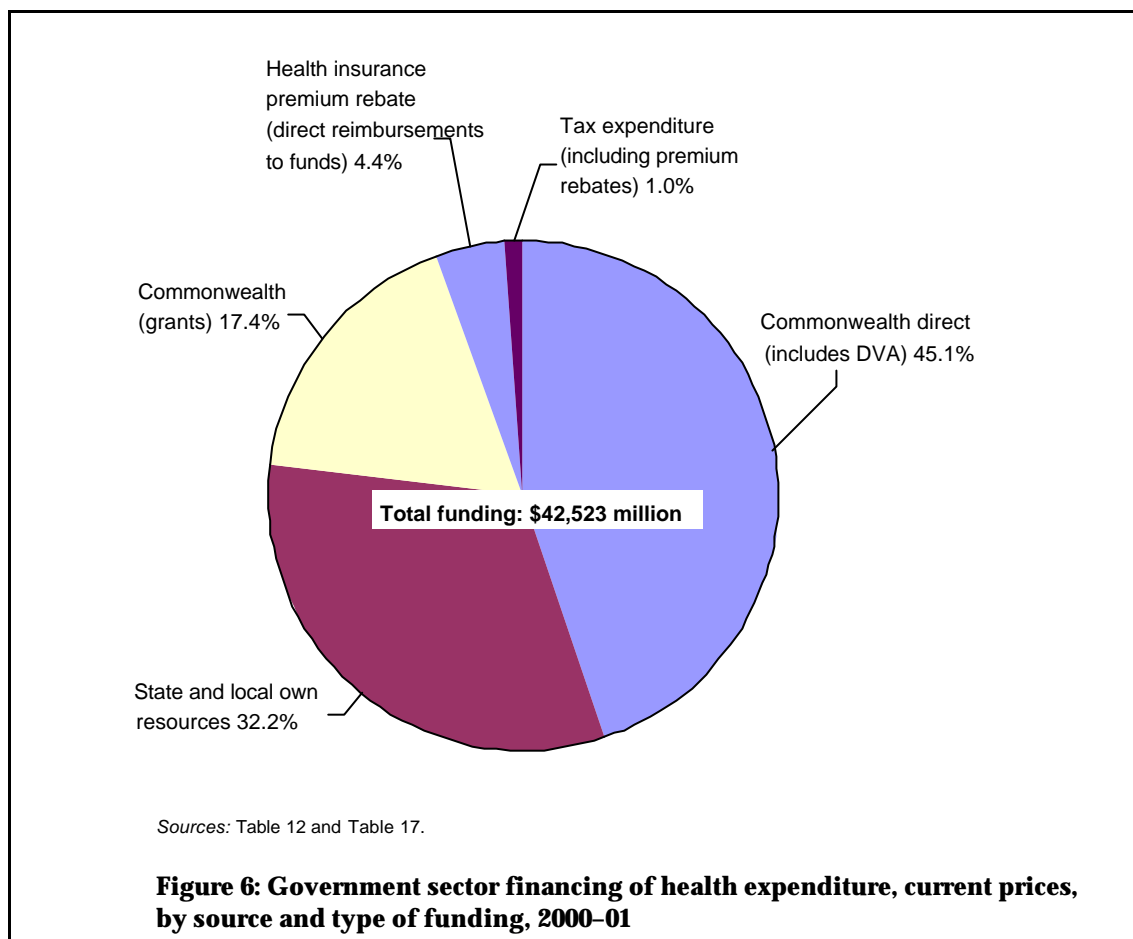
(b) Commonwealth and non-government expenditure has been adjusted for tax expenditures.

(c) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure databas.

In the decade to 2000–01, funding of health expenditure by governments in Australia grew at a higher average annual real rate (4.7%) than did total expenditure on health funded from all sources, which averaged 4.4% per year (Table 16).

As a consequence, the contribution of governments to the funding of total health expenditure increased from 67.7% in 1990–91 to 70.0% in 2000–01 (Table 13, page 19).



Commonwealth

In 2000–01 the Commonwealth Government provided 67.8% of estimated total government expenditure (Figure 6). This sub-section gives more detail on Commonwealth funding of recurrent expenditure. Funding for capital formation is included in Chapter 4.

The *Private Health Insurance Incentives Act 1997* introduced the Private Health Insurance Incentives Scheme (PHIIS) with effect from 1 July 1997. Under the PHIIS, fixed-rate rebates were provided to low- and middle-income earners with hospital and/or ancillary cover with a private health insurance fund. Those rebates could be taken in the form of reduced premiums (with the health funds being reimbursed by the Commonwealth out of appropriations) or as income tax rebates claimable after the end of the income year.

On 1 January 1999, the means-tested PHIIS was replaced with an open-ended 30% rebate on premiums, which was available to all people with private health insurance cover. Like the PHIIS, the 30% rebate could be taken either as a reduced premium (with the health funds being reimbursed by the Commonwealth) or as an income tax rebate.

The first full year of the 30% rebate was 1999–00. In that year total expenditure on the rebate was \$1,580 million. That year was also the transitional year in the introduction of the Commonwealth’s Lifetime Health Cover strategy, which aimed to induce more people to take up and/or retain private health insurance cover throughout their lives. In 2000–01, total expenditure on rebates was \$2,126 million, a 34.6% increase over the previous year (Table 17).

Table 17: Total health expenditure by the Commonwealth Government, current prices, by type of expenditure, 1990–91 to 2000–01 (\$ million)

Year	General expenditure					Tax expenditure			
	DVA	Grants to States	Rebates of health insurance premiums	Direct expenditure	Total	Rebates of health insurance premiums	General health tax expenditures	Total	Total
1990–91	1,199	3,631	..	8,285	13,115	..	85	85	13,200
1991–92	1,256	3,786	..	9,043	14,085	..	82	82	14,167
1992–93	1,276	4,050	..	9,874	15,200	..	91	91	15,291
1993–94	1,412	4,404	..	10,771	16,588	..	95	95	16,683
1994–95	1,488	4,729	..	11,242	17,459	..	91	91	17,551
1995–96	1,540	5,012	..	12,340	18,892	..	105	105	18,997
1996–97	1,658	5,202	..	12,822	19,681	..	125	125	19,806
1997–98	1,799	5,607	252	13,496	21,154	160	130	290	21,444
1998–99	2,142	6,328	778	13,981	23,229	180	150	330	23,559
1999–00	2,478	6,569	1,385	15,334	25,766	195	160	355	26,121
2000–01 ^(a)	2,684	7,380	1,856	16,486	28,405	270	170	440	28,845

(a) Based on preliminary AIHW estimates.

Source: AIHW health expenditure database.

Department of Veterans’ Affairs

Expenditure by DVA on health is for the purchase of health goods and services on behalf of eligible veterans and their dependants. Most of that expenditure is related to the provision of institutional care. Expenditure by DVA on hospitals and high-level residential aged care services accounted for 60.7% of its total expenditure on health of \$2,478 million during 1999–00 (Table 17).

Other Commonwealth sources of funding

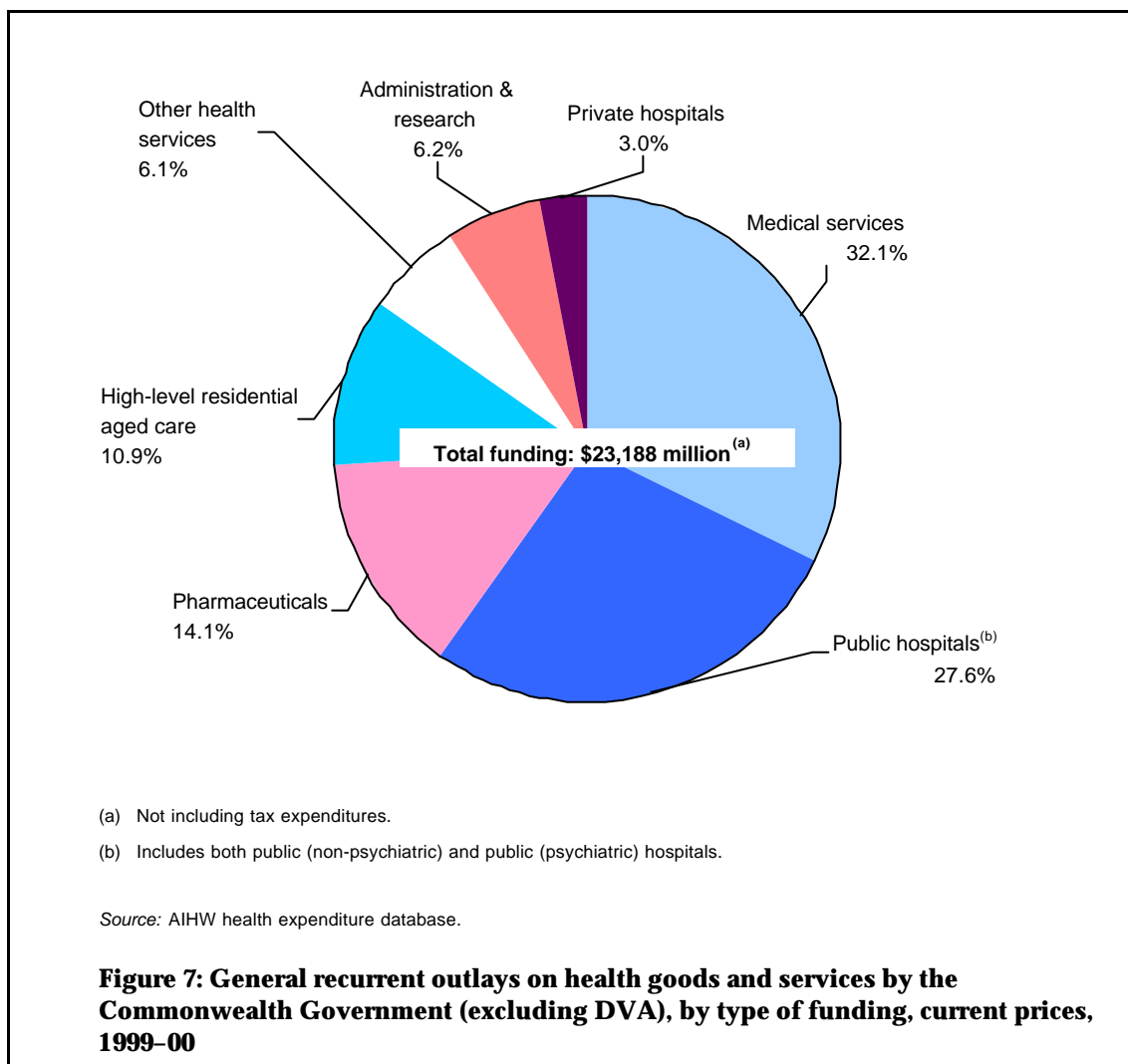
General recurrent outlays on health

Expenditure recorded as ‘general recurrent outlays on health’ are recurrent expenditures paid out of appropriations by the Commonwealth Government. Most

of those expenditures are administered by the Commonwealth Department of Health and Ageing. They include:

- grants to the States and Territories that are specifically targeted to health purposes;
- payments of personal health benefits to individuals (for example, Medicare and pharmaceutical benefits); and
- subsidies paid to providers of health (for example, high-level residential aged care subsidies).

From 1997–98 these expenditures also include reimbursements, out of appropriations, to health insurance funds under the PHIS and the 30% rebate arrangements.



Almost one-third of all funding by the Commonwealth was for medical services. In 1999–00, this accounted for 32.1% of all general recurrent outlays on health by the Commonwealth (Figure 7).

Most of the Commonwealth grants to State and Territory Governments recorded in the general recurrent outlays on health are grants provided under the Australian

Health Care Agreements between these two levels of government. These grants are primarily directed to expenditure in the public hospital systems of the States and Territories, which in 1999–00 accounted for 27.6% of total general recurrent outlays by the Commonwealth.

The other two main areas for which the Commonwealth provided funding are pharmaceuticals, which in 1999–00 accounted for 14.1% of general recurrent outlays, and high-level residential aged care subsidies, which accounted for 10.9%.

Tax expenditures

An additional and growing type of funding for health expenditure by the Commonwealth Government is rebates claimed through the taxation system on health-related expenditures. These are referred to as tax expenditures. There are two types of these rebates that relate to health—general health tax rebates, and rebates on health insurance premiums claimed through the taxation system.

General health tax rebates type is included in the estimates of health expenditure for all years. These are rebates on health expenditures incurred by individuals for themselves or their dependants, less any amount payable to them in respect of those expenses by government or a society, association or fund. Only that part of the total expenditures that exceeds a threshold can be used to claim the rebate. In 2000–01, that threshold was \$1,250 and the total value of general health rebates was estimated at \$170 million in that year.

The second type of tax expenditure comprises subsidies and rebates claimed under the *Private Health Insurance Incentives Act 1997*. From 1997–98, tax expenditures increased substantially due to the effects of the subsidies to private health insurance. Where such rebates were taken as tax rebates the taxation revenues forgone by the Commonwealth were counted as tax expenditures. In 2000–01, tax expenditures related to the private health insurance rebate totalled \$270 million, in current prices.

Tax rebates can only be claimed in years after the one in which the payments that led to them were incurred. Therefore, adjustments are made to ensure that the health-related tax expenditures are actually recorded for the year in which the payments that led to the tax expenditures were incurred. Total tax expenditures in 2000–01 were estimated at \$440 million in current prices (Table 17).

Table 18: Commonwealth taxation expenditures, constant prices,^(a) 1990–91 to 2000–01

Year	General		Health insurance rebates		Total	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1990–91	103	..	..	..	103	..
1991–92	96	-7.0	..	..	96	-7.0
1992–93	105	8.8	..	..	105	8.8
1993–94	107	2.7	..	..	107	2.7
1994–95	102	-4.9	..	..	102	-4.9
1995–96	116	13.2	..	..	116	13.2
1996–97	134	15.9	..	..	134	15.9
1997–98	136	1.5	168	..	304	126.5
1998–99	155	13.7	186	10.9	341	12.2
1999–00	160	3.2	195	4.8	355	4.1
2000–01 ^(b)	162	1.5	258	32.3	420	18.4
Average annual growth rates						
1990–91 to 1992–93		0.6		..		0.6
1992–93 to 1997–98		5.4		..		23.8
1997–98 to 2000–01		6.0		15.4		11.4
1990–91 to 2000–01		4.6		..		15.1

(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.

Tax expenditures resulting from the general health tax rebates grew, in real terms, at an average of 4.6% between 1990–91 and 2000–01 (Table 18).

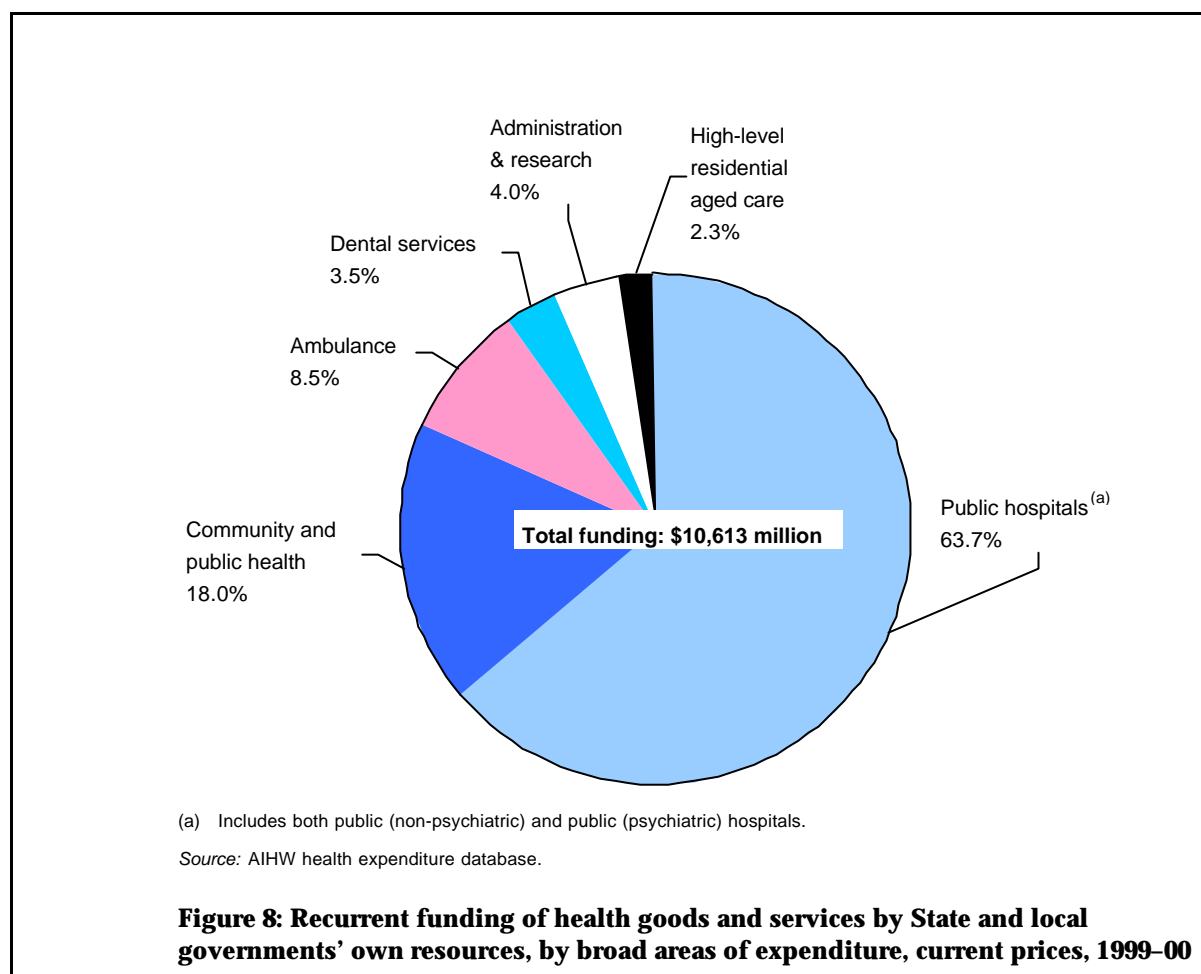
Real growth in general health tax expenditures is affected by the general level of private expenditure on health as well as a number of other factors. Two of the more important of these are variations in the threshold above which rebates on health expenditures are allowed (\$1,250 in 2000–01) and the rate of the rebate (20% in 2000–01).

Another important factor is the level of coverage by private health insurance. The rebate is based on the non-refundable portion of expenditure. The fall in private health insurance cover over the period to 1996–97 and the tendency to ‘self-insure’ meant that an increasing number of people would have been faced with non-refundable expenditures above the threshold. However, increases in private health insurance cover following the introduction of the PHIIS and, more importantly, the open-ended 30% rebate on premiums, have made it less likely that the threshold would be reached and tax expenditures result.

Between 1997–98 and 2000–01 annual average growth in general health tax expenditures was 6.0% in real terms, while growth in tax expenditures resulting from the rebate on premiums increased at an average of 15.4% per year.

State and Territory Governments and local government authorities

State and Territory Governments are the major providers of publicly provided health goods and services in Australia. Those services are financed by a combination of specific purpose grants from the Commonwealth Government, funding by the States and Territories out of their own fiscal resources and funding provided by non-government sources (usually in the form of user fees). Taken together, these sources of funding amount to two-thirds of all government expenditure on those services.

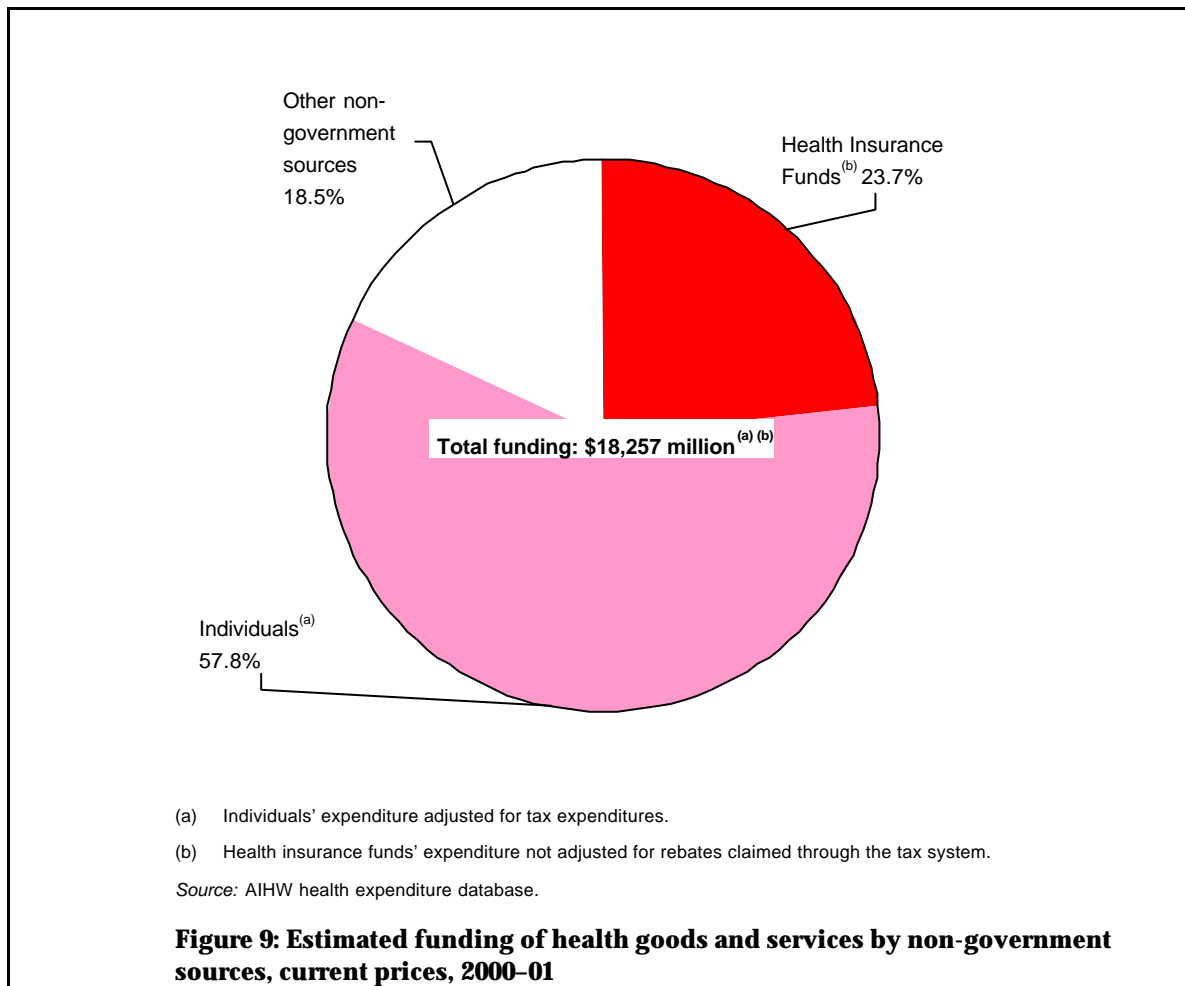


In terms of the types of health goods and services funded by the States and Territories and by local government authorities, spending on public hospitals dominates, accounting for 63.7% of recurrent funding provided by those government sources in 1999-00 (Figure 8).

Expenditure on health by State, Territory and local governments increased, in real terms, by an average of 3.2% per year between 1990-91 and 2000-01, the annual rate of growth having decreased after its peak of 9.6% in 1996-97 (Table 16, page 23).

3.3 Non-government sources of funds

Most non-government funding for health goods and services in Australia comes from out-of-pocket expenditure by individuals. This includes both expenditure when the individual meets the full cost of care and where the individual and third-party payers (for example, private health insurance funds or the Commonwealth Government) share the funding. Expenditure by individuals accounted for 57.8% (\$10.5 billion) of estimated non-government funding of health goods and services during 2000–01 (Figure 9 and Table 19) and rose by almost 8 percentage points over the decade to 2000–01. Private health insurance funds provided 23.7% (\$4.3 billion) down from 34.7% in 1990–91. The remaining 18.5% (\$3.4 billion) came from other non-government sources (mainly compulsory motor vehicle injury insurers and workers' compensation insurers), which experienced a rise in its share of funding of health, by 3.1 percentage points, over the decade.



Non-government financing which averaged around 33% of total health expenditure, each year between 1991–92 and 1996–97, fell to 30.0% in 2000–01 (Table 13, page 19). This was largely due to the influence of the Commonwealth's subsidy to private health insurance. The effect of that subsidy is that the benefits paid for private health goods and services used by insured persons and their dependants are now jointly

funded by a combination of the Commonwealth Government's reimbursements to the funds, rebates claimed by members through the taxation system and the net private health insurance premiums paid by members (Table 22, page 36).

Table 19: Non-government sector funding of total health expenditure, by source of funds, current prices, 1990–91 to 2000–01

Year	Private health insurance funds		Individuals ^(a)		Other non-government ^(b)		All non-government sources	
	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)
1990–91	3,512	34.7	5,041	49.9	1,556	15.4	10,109	100.0
1991–92	3,796	35.1	5,540	51.2	1,482	13.7	10,818	100.0
1992–93	3,979	34.3	5,895	50.8	1,731	14.9	11,605	100.0
1993–94	4,075	32.8	6,272	50.4	2,092	16.8	12,440	100.0
1994–95	4,201	31.8	6,702	50.8	2,303	17.4	13,205	100.0
1995–96	4,426	32.0	6,751	48.8	2,649	19.2	13,825	100.0
1996–97	4,700	31.1	7,562	50.0	2,856	18.9	15,118	100.0
1997–98	^(c) 4,428	28.6	8,119	52.4	2,961	19.1	15,508	100.0
1998–99	^(c) 4,061	25.2	9,023	55.9	3,058	18.9	16,142	100.0
1999–00	^(c) 3,793	22.9	9,688	58.5	3,068	18.5	16,549	100.0
2000–01 ^(d)	^(c) 4,349	23.8	10,534	57.7	3,378	18.5	18,247	100.0

(a) Adjusted for tax expenditures.

(b) Includes expenditure on capital formation.

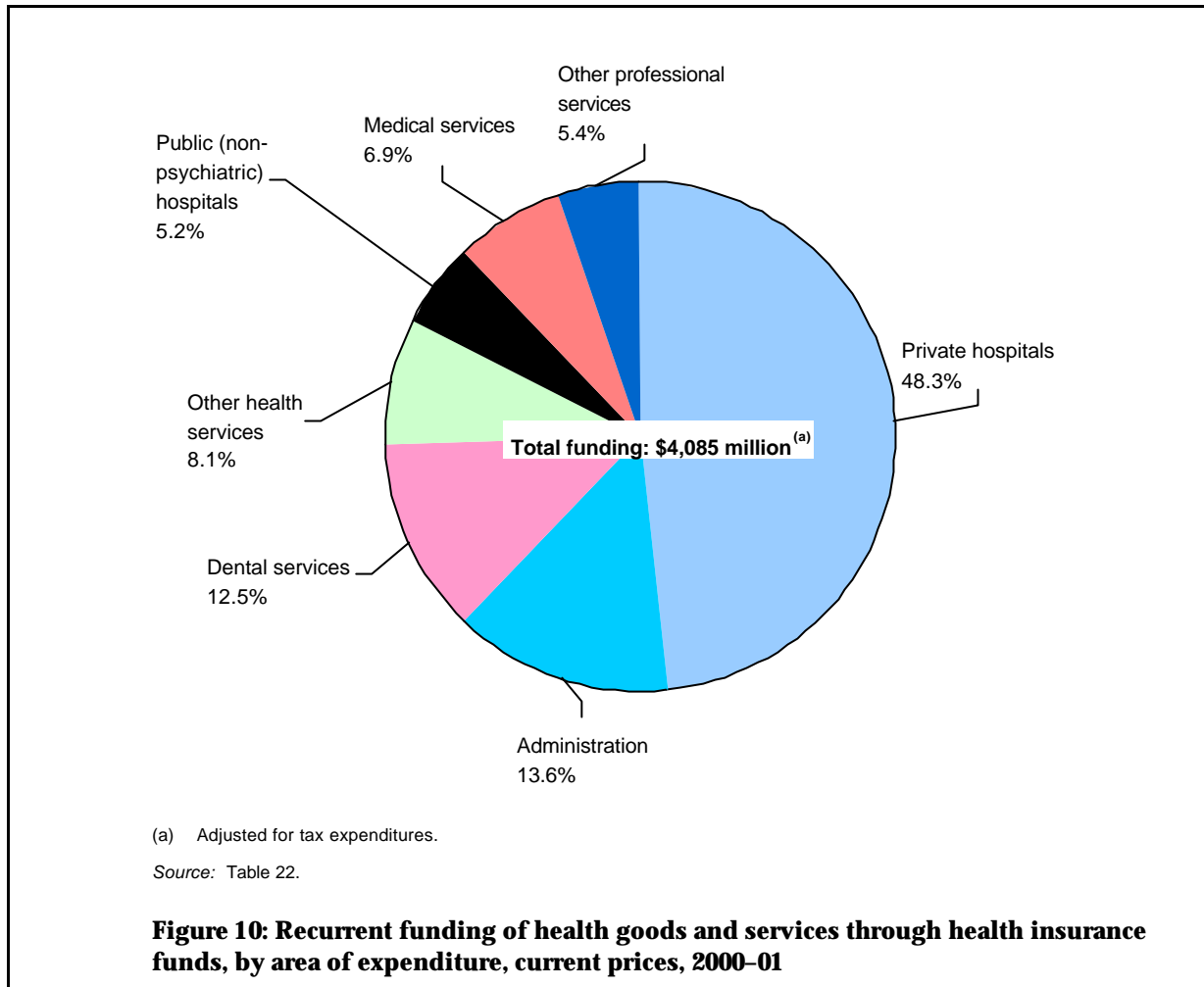
(c) Not adjusted for 30% premium rebates claimed through the tax system.

(d) Based on preliminary AIHW and ABS estimates.

Source: AIHW health expenditure database.

Private health insurance

Expenditure by private health insurance funds is chiefly directed at the funding of private hospitals. During 2000–01, private hospitals accounted for 48.3% of the \$4.1 billion in funding provided by health insurance funds (Figure 10). Other major areas of expenditure that received funding were administration (13.6%) and dental services (12.5%).



General benefits and administration

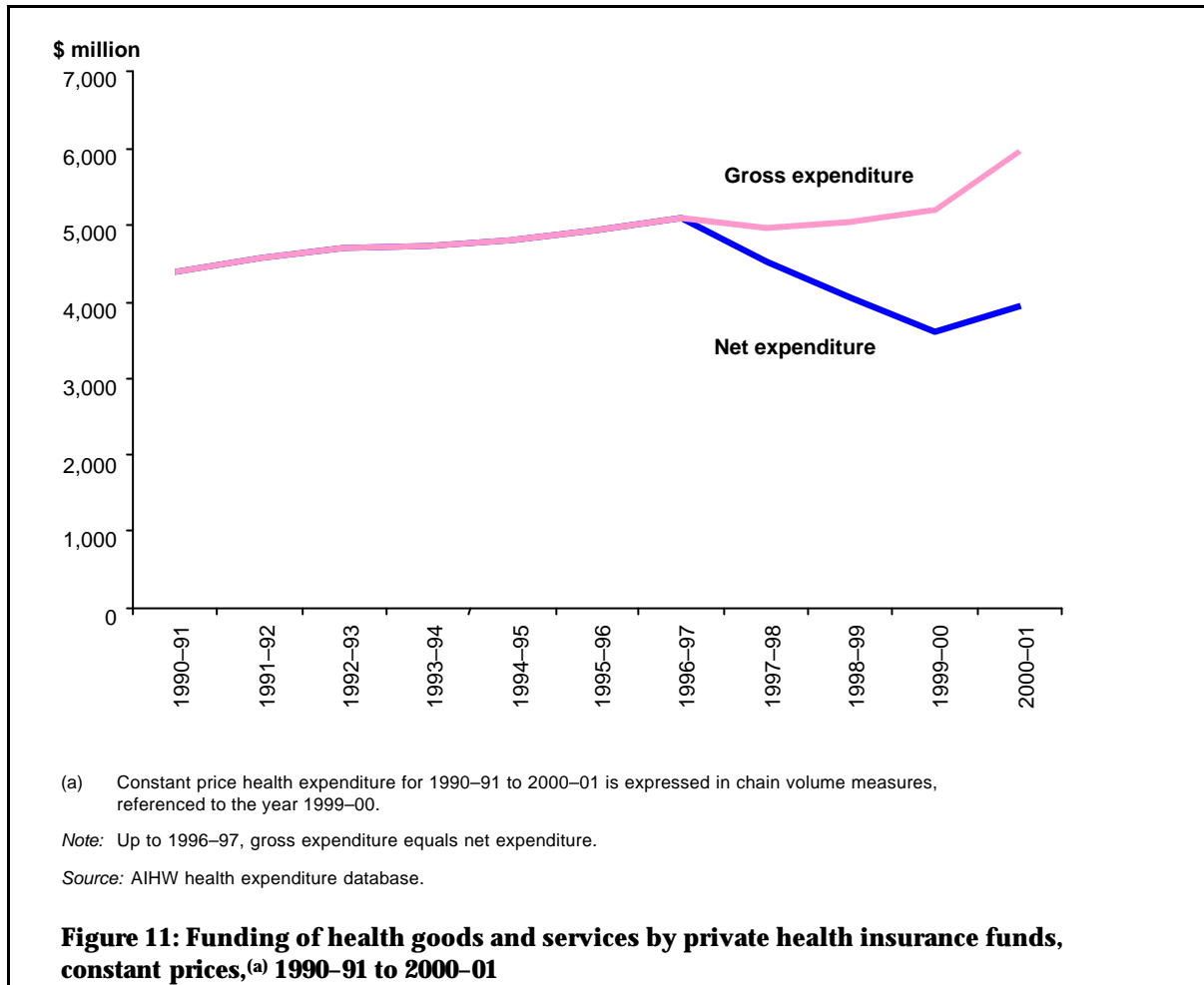
Gross expenditure on health goods and services financed through private health insurance funds grew, in real terms, at an average of 3.1% per year between 1990-91 and 2000-01 (Table 20). The effect of the Commonwealth Government's subsidy to private health insurance, in 1999-00 prices terms, has been that the health expenditure that was financed out of the funds' earnings (that is, the net expenditure of the funds after deducting the Commonwealth subsidy) was \$3.9 billion during 2000-01. This is compared with almost \$4.4 billion unsubsidised expenditure during the first year of the period under review, 1990-91 (Figure 11 and Table 20).

Table 20: Expenditure on health goods and services and administration through private health insurance funds, constant prices,^(a) and annual growth rates, 1990–91 to 2000–01

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 (%)
1990–91	4,380	..	..	..	..	..	4,380	..
1991–92	4,563	4.2	..	..	..	..	4,563	4.2
1992–93	4,688	2.7	..	..	..	..	4,688	2.7
1993–94	4,730	0.9	..	..	..	..	4,730	0.9
1994–95	4,801	1.5	..	..	..	..	4,801	1.5
1995–96	4,937	2.8	..	..	..	..	4,937	2.8
1996–97	5,073	2.7	..	..	..	..	5,073	2.7
1997–98	4,944	-2.5	266	..	167	..	4,511	-11.1
1998–99	5,026	1.7	807	203.8	186	11.1	4,032	-10.6
1999–00	5,178	3.0	1,385	71.5	191	2.8	3,602	-10.7
2000–01	5,952	15.0	1,785	28.9	250	30.7	3,918	8.8
Average annual growth rates								
1990–91 to 1992–93		3.5		..		..		3.5
1992–93 to 1997–98		1.1		..		..		-0.8
1997–98 to 2000–01		6.4		88.6		14.3		-4.6
1990–91 to 2000–01		3.1		..		..		-1.1

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

Source: AIHW health expenditure database.



Health insurance administration

Since 1997-98, when the PHIIS was introduced, expenditure on administration through health insurance funds grew, in real terms, at an average of 14.3% per year, compared with an average growth rate of 4.3% between 1990-91 and 1996-97 (Table 21).

The PHIIS did not markedly alter the growth in volume but the introduction of the open-ended 30% rebate with no means test resulted in a large increase in expenditure on administration by health insurance funds.

Table 21: Expenditure on health administration through private health insurance funds, constant prices,^(a) and annual growth rates, 1990–91 to 2000–01

Year	Gross payments through health insurance funds for administration		Reimbursement for rebates allowed by funds		Rebates through taxation system		Net payments through health insurance funds for administration	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1990–91	411	..	..	..	..	..	411	..
1991–92	439	6.8	..	..	..	..	439	6.8
1992–93	461	5.0	..	..	..	..	461	5.0
1993–94	482	4.6	..	..	..	..	482	4.6
1994–95	495	2.7	..	..	..	..	495	2.7
1995–96	504	1.8	..	..	..	..	504	1.8
1996–97	530	5.2	..	..	..	..	530	5.2
1997–98	540	1.9	31	..	19	..	492	-7.2
1998–99	591	9.4	99	222.8	23	17.5	473	-3.9
1999–00	717	21.3	191	94.3	26	16.5	495	4.7
2000–01	807	12.6	243	26.9	34	28.7	514	3.8
Average annual growth rates								
1990–91 to 1992–93		5.9		..		..		5.9
1990–91 to 1996–97		4.3		..		..		4.3
1992–93 to 1997–98		3.2		..		..		1.3
1997–98 to 2000–01		14.3		99.6		20.8		1.5
1990–91 to 2000–01		7.0		..		..		2.3

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

Source: AIHW health expenditure database.

Health insurance premium rebate

From 1 July 1997, the Commonwealth Government reimbursed the private health insurance funds for income forgone by the funds due to the reduction in premiums required under new legislation to subsidise contributions to the funds.

The reimbursements paid to the funds are treated as Commonwealth subsidies for the types of services that attract payments by the health insurance funds and for changes in the provisions for outstanding claims. Consequently they are distributed to the different areas of expenditure according to the distribution of payments by the funds. For example, because 46.4% of gross payments by the health insurance funds relate to private hospital services, that same proportion of the Commonwealth subsidy is allocated to private hospital services (Table 22).

Table 22: Expenditure on health goods and services funded through health insurance funds, current prices, 1998–99 to 2000–01 (\$ million)

Area of expenditure	1998–99				1999–00				2000–01			
	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
		Direct	Taxation			Direct	Taxation			Direct	Taxation	
Expenditure												
Hospitals	2,813	452	104	2,256	2,900	774	107	2,019	3,312	993	139	2,180
Public (non-psychiatric)	289	48	11	230	287	77	11	200	322	96	13	212
Private	2,524	404	93	2,026	2,612	698	96	1,819	2,990	897	125	1,968
Ambulance	125	20	5	101	136	36	5	95	181	54	8	119
Medical services	253	41	9	203	281	75	10	196	427	128	18	281
Other health professionals	235	38	9	189	262	70	10	182	333	100	14	219
Pharmaceuticals	36	6	1	29	43	12	2	30	53	16	2	35
Aids and appliances	186	30	7	149	210	56	8	146	268	80	11	176
Community/public health	1	—	—	—	1	—	—	—	1	—	—	—
Dental services	603	97	22	484	636	170	23	442	774	232	32	509
Total health	4,252	683	157	3,411	4,469	1,193	165	3,111	5,348	1,603	224	3,520
Health administration	591	95	22	474	717	191	26	499	843	253	35	555
Direct expenditure	4,843	778	179	3,885	5,186	1,385	191	3,610	6,191	1,856	260	4,075
Outstanding claims	10	2	—	8	91	24	3	63	220	66	9	145
Non-health ancillaries	15	2	1	12	17	5	1	12	27	8	1	18
Total expenditure	4,867	782	180	3,905	5,294	1,414	195	3,685	6,438	1,930	270	4,238
Revenue												
Contributions income ^(b)				3,965				3,853				4,932
Other revenue				149				214				226
<i>Total revenue</i>				4,113				4,067				5,158
Operating profit/loss before abnormals and extraordinary items				176				381				852

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

(b) Adjusted to remove the Commonwealth reimbursement to the funds for the 30% rebate on premiums.

Sources: PHIAC quarterly reports and Annual Report: Operations of the Registered Health Benefits Organisations 1998–99 to 2000–01. Department of the Treasury, *Tax Expenditures Statement*, various years.