2.1 How does Australia’s health system work?

A person is likely to use the health system in various ways throughout their life. This pattern reflects their health needs at different life stages, the social and environmental impacts on their health, and personal circumstances. Some people may visit a pharmacy or general practitioner (GP) infrequently; some may have regular appointments with a GP, specialists or other health practitioners; others may need to go to hospital for tests, treatments or emergencies.

The World Health Organization describes a good health system as one that ‘delivers quality services to all people, when and where they need them’ (WHO 2018).

Australia’s health system is a complex mix of health professionals and service providers from a range of organisations—from all levels of government and the non-government sector. Collectively, they work to meet the health care needs of all Australians. Health services are delivered in numerous ways and settings, including through health promotion and education programs, diagnosis, treatment and preventive services in the community, treatment and care in hospitals, rehabilitation in hospitals and the community, and palliative care.

A variety of organisations support these services. Health departments and other government agencies are responsible for policy and service planning. Research and statistical organisations collect and publish information on health conditions and issues (including monitoring, assessing, evaluating and reporting). Universities and health services train health professionals. Consumer and advocacy groups have a role in public debates on health policy and regulation. Voluntary and community organisations support health service functions through activities such as fundraising for research and raising awareness of health issues through education programs.

This article provides an overview of the structure of the health system in Australia and some of the many changes and challenges it currently faces.

Delivery of health care services

The health care system has multiple components—health promotion, primary health care, specialist services and hospitals. To meet individual health care needs, a person may need—or have to engage with—the services of more than one part of the system.

Health promotion

Health promotion focuses on preventing the root causes of ill health through activities such as governance, promoting health literacy, and population health programs. Through prevention and education programs and public awareness campaigns, health promotion is geared to educating the public on health issues, preventing avoidable health conditions...
and improving the overall health of the population. Examples of health promotion include skin cancer awareness campaigns, cancer screening programs (for breast, cervical and bowel cancers), immunisation programs, alcohol and drug abuse prevention programs, anti-tobacco smoking awareness campaigns, and domestic violence education. Health promotion is an important part of primary health care. See Chapter 7.1 ‘Health promotion’ for more information.

Primary health care
Primary health care is often a person's first contact with the health system. It comprises a range of services that are not referred: general practice, allied health services, pharmacy and community health. Various health professionals deliver these, including GPs, nurses, allied health professionals, community pharmacists, dentists and Aboriginal and Torres Strait Islander health workers (Department of Health 2015). Primary health care can also include activities related to health promotion, prevention and early intervention, and the treatment of (and care for) acute and chronic conditions. See Chapter 7.5 ‘Primary health care’ for more information.

Primary Health Networks are coordinating bodies that work directly with GPs, other primary health care providers, hospitals, and the broader community to increase the efficiency and effectiveness of health services and improve the coordination of care for patients moving between different services or providers (Department of Health 2016b). There are 31 Primary Health Networks across Australia, operating since 2015.

Specialist services
Specialist services support people with specific or complex health conditions and issues, such as antenatal services for pregnancy, radiotherapy treatment for cancer and mental health services. Specialist services are generally referred by primary health care providers and often described as 'secondary' health care services. In many cases, a formal referral is required for an individual to access the recommended specialist service. There are a range of medical specialists to whom people can be referred—for example, surgeons, physicians, psychiatrists, obstetricians and gynaecologists, as well as for diagnostic services such as pathology and imaging.

Hospitals
Hospitals are a crucial part of Australia's health system, delivering a range of services to admitted and non-admitted patients (outpatient clinics and emergency department care). See Chapter 7.7 ‘Overview of hospitals’ for more information on hospitals.

State and territory governments largely own and manage public hospitals—which usually provide ‘acute care’ for short periods (although some provide longer term care, such as for some types of rehabilitation). While people needing care for a mental health problem can access specialised units of general hospitals, a small number of public psychiatric hospitals specialise in this care and sometimes provide care for long periods (AIHW 2017a).
Private hospitals are mainly owned and operated by either for-profit companies or not-for-profit organisations; they can include day hospitals as well as hospitals providing overnight care (AIHW 2017a).

Local Hospital Networks are state and territory authorities set up to manage public hospital services and funding. All public hospitals in Australia are part of a Local Hospital Network. Currently, there are 136 of these networks in Australia—122 are geographically based networks and 14 are state-wide or territory-wide networks that may deliver specialised hospital services across some jurisdictions (AIHW 2017d). ‘Local Hospital Networks’ is the term used nationally; terms used in states and territories for these networks vary.

Responsibility for the health system

Australia’s health system may be more accurately described as various connected health systems, rather than one unified system. The Australian Government, state and territory governments and local governments share responsibility for it, including for its operation, management and funding. While the overarching framework for the health system is laid out by government, the private sector also operates and funds some health services. These include operating private hospitals, pharmacies and many medical practices, as well as funding through private health insurance.

The structure of the health system has its roots in Australia’s federal system of government, which initially left the states with primary responsibility for providing health services, including public hospital services. Changes to the Constitution in 1946 allowed the Australian Government to become involved in the funding of public hospital services (Biggs 2003). This resulted in the funding, operational and regulatory arrangements that exist today between the Australian Government and state and territory governments.

Intergovernmental agreements, such as the National Health Reform Agreement 2011, have continued to reshape the health system in recent years (Duckett 2017; Glance 2017). All Australian health ministers are members of the Council of Australian Governments (COAG) Health Council—the forum for cooperation on health issues and the health system (COAG Health Council 2014).

Roles of each level of government

The main roles of each level of government in Australia’s health system are as described here:

- The Australian Government is responsible for leading the development of national health policy, administering Medicare (including funding GP and private medical services), providing funds to states and territories for public hospital services, providing oversight of Primary Health Networks, funding medicines through the Pharmaceutical Benefits Scheme, regulating private health insurance, funding community-controlled Indigenous primary health care, organising health services for veterans and funding health and medical research.
• State and territory governments are responsible for funding and managing public hospitals, regulating and licensing private hospitals, providing oversight of local health networks, delivering public community-based and primary health services, delivering preventive services such as cancer screening and immunisation programs, ambulance services and health complaints services.

• Local governments, in some jurisdictions, are responsible for environmental health-related services such as waste disposal and water fluoridation, community and home-based health and support services and delivery of health promotion activities.

The three levels of government also share some responsibilities, including education and training of health professionals, regulation of health workforces, improvements in safety and quality of health care, and funding of health programs and services (Biggs 2013a; Duckett & Willcox 2015; PM&C 2014).

Funding arrangements

The complex structure of Australia’s health system is reflected in its funding arrangements. The health system is funded by all levels of government. Funding also comes from non-government organisations, private health insurers, and individuals when they pay for some products and services without full, or with only partial, reimbursement.

In 2015–16, an estimated $170 billion was spent on health in Australia—10% of gross domestic product (AIHW 2017c). Total government spending accounted for two-thirds (67%) of health expenditure, and non-government sources funded the remaining third (33%). Individuals funded 17% of total health expenditure in 2015–16 through out-of-pocket expenses, mostly on primary health care, dental services and non-subsidised medicines; private health insurers funded 8.8% (AIHW 2017c).

The Australian Government and state and territory governments funded 41% and 26% of total health expenditure, respectively (AIHW 2017c). The Australian Government usually provides the majority of funding for medical services and subsidised medicines. State and territory governments fund most of the total expenditure for community health services. Funding of public hospital services is shared between the Australian Government and state and territory governments. Government spending accounted for most of the $5.2 billion spent on health research in Australia in 2015–16 (AIHW 2017c).

Figure 2.1.1 shows the funding sources and responsibilities for the various components of Australia’s health system. The figure makes it clear that funding of any part of the system does not necessarily correlate with responsibility for its management or operation. For example, the Australian Government partially funds public hospitals, but is not responsible for managing or regulating them; this is the responsibility of state and territory governments.
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Figure 2.1.1: Health services—responsibility, funding sources and proportion of expenditure, 2015–16

Responsibility for services and health services

<table>
<thead>
<tr>
<th>State and territory governments</th>
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<td>Public hospital services</td>
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<th>Private providers</th>
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<td>Medications</td>
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<td>Medical services (referred)</td>
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<td>Private hospitals</td>
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<td>Medical services (non-referred)</td>
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<th>Combined public and private sector</th>
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<td>Community and public health</td>
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<td>Dental services</td>
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<td>Administration and research</td>
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<td>Other health goods and services</td>
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<td>Other health practitioners</td>
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Note: The figure does not show responsibility, funding sources or proportion of health expenditure for capital expenditure and medical expenses tax rebate.

Source: AIHW 2017c (Table A6); Table S2.1.1.

See Chapter 2.2 ‘How much does Australia spend on health care’ for more information on funding of the health system.

Medicare

Australia’s health system is underpinned by Medicare—a universal public health insurance scheme. Medicare is funded by the Australian Government through general taxation revenue and a 2% Medicare levy (ATO 2017a; Biggs 2016a). Intergovernmental agreements for public hospital funding between the Australian Government and state and territory governments guarantee Medicare cardholders access to fee-free treatment as public patients in public hospitals (Boxall 2014). Medicare also covers a portion of the Medicare Benefits Schedule fee for medical services and procedures, and Medicare cardholders have access to a range of prescription pharmaceuticals subsidised under the Pharmaceutical Benefits Scheme (Biggs 2016a; Department of Health 2018; DHS 2017a). See Chapter 7 for more information.

Some medical and allied health services are not subsidised through Medicare. For example, Medicare does not usually cover costs for ambulance services, most dental examinations and treatments, physiotherapy and optical aids (such as glasses and contact lenses).
Not everyone in Australia can access Medicare. Currently, it is available only to Australian and New Zealand citizens, permanent residents in Australia, and people from countries with reciprocal agreements (DHS 2017b, 2017c). Most people outside these categories have to pay full fees for health services or take out private health insurance (PrivateHealth 2017c).

Private health insurance

Private health insurance is an option for managing health care expenses. People can choose the type of cover to buy. The two types of cover available are:

- hospital cover for some (or all) of the costs of hospital treatment as a private patient
- general treatment (‘ancillary’ or ‘extras’) cover for some non-medical health services not covered by Medicare—such as dental, physiotherapy and optical services (Department of Health 2017d; PrivateHealth 2017d).

As at June 2017, 11.3 million Australians (46% of the population) had some form of private patient hospital cover, and 13.5 million (55%) had some form of general treatment cover (APRA 2017).

Private health insurance works in tandem with the publicly funded system. Part of the cost of hospital admission as a private patient is covered by Medicare (the medical fee) and part can be covered by insurance (Boxall 2014). A person with private health insurance can also choose to be treated as a public patient in a public hospital (PrivateHealth 2017e). The Australian Government offers a means-tested rebate to people who hold private health insurance; the intent is to reduce pressure on the publicly funded system by encouraging people to take up private health insurance (PrivateHealth 2017a). Further, the Medicare levy surcharge is imposed on people who earn above a specified income threshold and do not have private health insurance (ATO 2017b; PrivateHealth 2017b).

Regulation and consumer protections

The Australian Government and state and territory governments are responsible for health system regulation. Various regulatory agencies within the system work to ensure that acceptable standards and quality of care and services are met, and that people are protected when using health goods and services and when dealing with health professionals. These objectives align with the Australian Charter of Healthcare Rights (see Box 2.1.1).

The Australian Government regulates the safety and quality of pharmaceutical and therapeutic goods and appliances. The Therapeutic Goods Administration is responsible for regulating therapeutic goods, including prescription medicines, vaccines, sunscreens, vitamins and minerals, medical devices, blood and blood products (TGA 2017).

State and territory governments manage and administer public hospitals; regulate and license private hospitals; license pharmacies; and regulate, inspect, license and monitor health premises (Biggs 2013a). They are also responsible for regulating industries that affect individual and population/community health, such as the sale and supply of alcohol and tobacco (AIHW 2016).
The different levels of government share responsibility for regulating food standards, the safety and quality of health care, and the health workforce. The Australian Commission on Safety and Quality in Health Care—established by the Australian Government and state and territory governments—sets safety and quality standards to improve the quality of health care in Australia. This includes clinical care standards and national standards in mental health services (ACSQHC 2017b). See Chapter 7.9 ‘Safety and quality of hospital care’ for more information.

Box 2.1.1: The right to health and the Australian Charter of Healthcare Rights

The right to health was first included in the preamble to the World Health Organization Constitution in 1946. It is enshrined in the international human rights framework, recognising the ‘right of everyone to the enjoyment of the highest attainable standard of physical and mental health’ (ICESCR 1966). However, the right to health is not the same as the right to be healthy—it refers to the right to ‘the enjoyment of a variety of goods, facilities, services and conditions necessary for its realisation’ (WHO 2008).

The Australian Charter of Healthcare Rights was endorsed by Australian and state and territory health ministers in 2008 (ACSQHC 2017a). The Charter describes the key rights of patients and health consumers who seek or receive health services. It was developed by the Australian Commission on Safety and Quality in Health Care to support the provision of safe and high-quality health care by educating patients, families and those working in the health system about their rights to health care.

The seven rights in the Charter apply to anywhere health care is delivered, and relate to:

• Access—the right to health care
• Safety—the right to safe and high-quality care
• Respect—the right to be shown respect, dignity and consideration
• Communication—the right to be informed about services, treatment, options and costs in a clear and open way
• Participation—the right to be included in decisions and choices about care
• Privacy—the right to privacy and confidentiality of personal information
• Comment—the right to comment on care and to have concerns dealt with.

The application of the Charter to the health system is informed by three guiding principles:

(i) the right of everyone to access health care
(ii) the commitment of the Australian Government to international agreements recognising the right to health
(iii) the acknowledgement of and respect for the different cultures and ways of life in Australian society.

While the Charter is not enforceable, it reflects accepted standards and expectations. For more information, see <www.safetyandquality.gov.au/national-priorities/charter-of-healthcare-rights>.
The regulation of the health system includes the registration of health professionals. The National Registration and Accreditation Scheme was established to ensure that only suitably trained and qualified health practitioners are registered. The scheme is implemented by national boards and supported by the Australian Health Practitioner Regulation Agency (AHPRA). Currently, 14 health professions are covered, including medical practitioners, nurses, dental practitioners, optometrists, psychologists, pharmacists and physiotherapists (AHPRA 2015). The scheme aims to protect the public and provide access to safer health care by regulating health practitioners (AHPRA 2017a). As well, a National Code of Conduct for non-registered health care workers was approved by the Australian and state and territory health ministers in 2015 (Department of Health 2016a).

Complaints handling mechanisms play a key role in regulating the health system. State and territory health complaints organisations handle complaints about health service providers (individuals and organisations) and work with AHPRA for complaints about registered health practitioners (AHPRA 2017b). The Office of the Australian Information Commissioner takes complaints about privacy breaches of health information and data (OAIC 2017). The Private Health Insurance Ombudsman handles complaints about private health insurers (Commonwealth Ombudsman 2017). As well, complaints handling mechanisms are available to people who have been discriminated against in the provision of and/or access to health services through the various anti-discrimination bodies at both the federal and state and territory levels.

**Health and welfare links**

A person’s health is not isolated from other facets of their life; it is tied to their social, economic and individual circumstances. In a similar way, the health system is connected to other sectors, particularly to welfare. Some examples of this nexus between health and welfare at the service, policy and program levels are the National Disability Insurance Scheme (NDIS) and child care services.

The NDIS uses an insurance-based model to provide individualised support to people with disability. It has markedly changed how services are delivered, requiring people to navigate multiple systems—such as health, disability and housing—and to interact with various government and non-government personnel. See Chapter 5.4 ‘People with disability’ for more information.

Government policies that seek to influence people’s behaviour or respond to a concern can also affect health and welfare outcomes. In 2015, concern about low childhood vaccination rates in some pockets of the country saw the Australian Government implement a ‘No Jab, No Pay’ policy—to encourage parents to vaccinate their children in order to be eligible for child care rebates (Klapdor & Grove 2015). In 2017, laws were passed in New South Wales, Victoria and Queensland, and introduced in South Australia, to give effect to the ‘No Jab, No Play’ policy, preventing children who have not been vaccinated from attending child care (NCIRS 2017; SA Parliament 2017). See Chapter 7.2 ‘Immunisation and vaccination’ for more information on vaccination.

Further, there is a recognised association between poorer health outcomes and lower socioeconomic position, and other forms of disadvantage (ACOSS 2017; Marmot 2016). For example, people with mental health conditions and those who have experienced family, domestic or sexual violence are most likely to be clients of specialist housing services (AIHW 2017b). See Chapter 4.2 ‘Social determinants of health’ for more information.
Changes and challenges to the health system

Health systems are not static but adjust and change to accommodate demographic, social, economic, environmental and technological changes. Challenges currently faced by the Australian health system include:

- demographic changes and the demand for health services
- coordinated management of chronic conditions
- greater availability of and access to health data
- advances in medical research, science and technology.

This section briefly discusses some of these complex challenges facing the health system. The 2015 Intergenerational Report: Australia in 2055 presents a complex picture of Australia’s health care needs over the next 4 decades: changes to the structure of Australia’s population over this time will have implications for demand for health services (Department of the Treasury 2015). A greater proportion of the population is projected to be aged 65 and over by 2054-55, alongside a smaller proportion of traditional working age (ages 15–64).

With increasing life expectancy and improvements in health, people are more likely to remain active for longer, and ‘active ageing’ may see older Australians participate in the workforce and in the community for longer (AIHW 2017e; Department of the Treasury 2015). However, many health conditions and associated disability become more common with age, and older Australians are higher users of health services than younger Australians (AIHW 2016). For example, while people are living longer and healthier lives, the prevalence of health conditions associated with ageing, such as dementia, is projected to increase (see Chapter 3.14 ‘Dementia’).

The health system will need to accommodate changes in the demand for health services. This may mean a demand for different types of health services for a healthier older population to maintain good health, while continuing to provide support and services for those affected by health conditions associated with old age (AIHW 2017b, 2017e). These multiple demands on the health system will require a health workforce that can meet such diverse needs.

Managing chronic conditions is another challenge to the health system (Duckett 2017; Productivity Commission 2017) as these conditions represent a substantial burden in Australia (see Chapter 3.3 ‘Chronic conditions’). The rising prevalence of many chronic conditions and the growing number of patients with complex comorbidities increase the demand for flexible, person-centred treatment models. Mental health is an example of a need for a care model that provides care options of varying intensity to suit people with differing needs (Biggs 2016b; NMHC 2014).

To tackle this issue, the Australian Government and state and territory governments are taking a national approach to coordinated care under the National Health Reform Agreement (COAG Health Council 2016; Productivity Commission 2017). As well, the Health Care Homes initiative aims to provide better coordination and continuity of care.
for patients with chronic and complex conditions through a team of health professionals who develop a shared care plan for the patient (Department of Health 2017a).

Nonetheless, coordination of care remains a challenge, particularly where patient health and medical information are not shared between providers (Glance 2017). See Chapter 7.18 ‘Coordination of health care’ for more information.

Access to more data and their effective use is important in providing the evidence for action on, and changes to, health policy, programs and services. Linking different health information across the health system for use in health care provision presents both opportunities and challenges. My Health Record is an attempt to improve services to patients by tackling the problems of information sharing across different sectors. It will also create the potential for access to far richer health data that can greatly help to deliver a higher standard of clinical care and coordination. See chapters 2.4 ‘Digital health’; 2.5 ‘Secondary use of health information’ for more information.

Advances in medical science, and genomics in particular, have seen a growth in genetic testing services, including in Australia (Aubusson 2017; Vinkhuyzen & Wray 2017). Genomic testing has the potential for early diagnosis of a range of health conditions and diseases, as well as prevention and treatment options for people able access these services (Amor 2017). Genomic testing services pose many ethical and potentially legal considerations, including the high cost to consumers, whether the tests actually inform treatment options, the impact on a healthy person of discovering a predisposition to a certain disease, privacy issues, and how such information may be used by insurance companies (Amor 2017; Vinkhuyzen & Wray 2017).

Technological innovations are also having an impact on health and medical services—from digital health technologies, to the potential use of automated dispensing machines for medicines (Dickinson 2017), through to medical artificial intelligence for diagnostic testing (Oakden-Rayner 2017). These technologies may provide efficiencies and improvements for the health system, but they have implications for patients and the health workforce.

To meet some of these challenges facing the Australian health system, the Australian Government has invested in medical research and technological innovation through the Medical Research Future Fund. The fund complements current research and innovation funding to improve health outcomes (Department of Health 2017c). As well, the Australian Government is investing in information technology and infrastructure to support the health system by replacing the IT system used to deliver Medicare payments in order to improve efficiency and outcomes (Department of Health 2017b).

Other systemic challenges include the rising cost of the health system for governments and individuals (AIHW 2017c; Biggs 2013b, 2016b), the ability to respond to emerging health issues (for example, thunderstorm asthma) (Davies et al. 2017), disparities in access to health services (Biggs 2016a; Russell 2017) and elective surgery and emergency department waiting times (Duckett 2017). These challenges are not unique to Australia, though, and several countries face very similar issues with their health systems.
What is missing from the picture?
The health system provides necessary health services and supports efforts to improve and maintain the health of individuals and the population. Two key elements for improving services and better meeting individual health needs, are understanding their experiences as patients and consumers of health services, and tracking individual pathways through the health system. There are still considerable challenges in being able to track patient experiences and individual pathways through the health system. Data linkage can improve the understanding of pathways through the health system.

Where do I go for more information?
Individual aspects of the health system are discussed in more detail throughout this report. More information on primary health is available on the AIHW website at <www.aihw.gov.au> and <www.myhealthycommunities.gov.au>.


More information on health services and health system regulation in states and territories is available from the various state and territory health department websites.


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