1 Background and executive summary

1.1 Background

This publication reports on health expenditure in Australia, by area of expenditure and source of funds for the period 1994–95 to 2004–05. Expenditure is analysed in terms of who provides the funding for health care and what types of services attract that funding.

Box 1: Defining health expenditure and health funding

Health expenditure

Health expenditure is reported in terms of who incurs the expenditure, rather than who ultimately provides the funding for that expenditure. In the case of public hospital care, for example, all expenditures (that is, expenditure on accommodation, medical and surgical supplies, drugs, salaries of doctors and nurses, etc.) are incurred by the states and territories, but a considerable proportion of those expenditures is funded by transfers from the Australian Government.

Health funding

Health funding is reported in terms of who provides the funds that are used to pay for health expenditure. In the case of public hospital care, for example, the Australian Government and the states and territories together provide over 90% of the funding; these funds are derived ultimately from taxation and other sources of government revenue. Some other funding comes from private health insurers and from individuals who choose to be treated as private patients and pay hospital fees out-of-pocket.

The bulk of funding for health expenditure is provided by the Australian Government and the state and territory governments. Therefore, as well as consideration of the whole period from 1994–95 to 2004–05, analyses of trends in expenditure have been linked to the periods covered by the major health care funding agreements between these two levels of government. These are:

- from 1 July 1993 to 30 June 1998
- from 1 July 1998 to 30 June 2003
- from 1 July 2003 to 30 June 2008.

Australia is compared with other member countries of the Organisation for Economic Co-operation and Development (OECD) as well as other countries in the Asia–Pacific region.

The tables and figures in this publication detail expenditure in terms of current and constant prices. Constant price expenditure adjusts for the effects of inflation using, wherever possible, chain price indexes provided by the Australian Bureau of Statistics (ABS). Where such chain price indexes are not available, implicit price deflators are used. Because the reference year for both the chain price indexes and the implicit price deflators is 2003–04, the constant price estimates indicate what expenditure would have been had 2003–04 prices applied in all years.

Box 2: Constant price and current price expenditures

Wherever expenditures in 'constant prices 'are shown, they have been adjusted to reflect the prices of the reference year, 2003–04. The aim is to remove the effects of inflation. Hence expenditures in different years can be compared on an equal dollar-for-dollar basis, using this measure of changes in the volume of health goods and services. The constant price method is used because it is not possible to derive estimates of volume by directly adding, say, the number of surgical operations to the number of pharmaceutical prescriptions.

Constant price estimates for most expenditure aggregates have been derived using the annually re-weighted chain price indexes produced by the ABS. In some cases, however, these indexes are not available, and ABS implicit price deflators have been used instead.

The term 'current prices' refers to expenditures reported for a particular year, unadjusted for inflation. So changes in current price expenditures reflect changes in both price and volume.

Throughout this publication there are references to the general rate of inflation. These refer to changes in economy-wide prices, not just consumer prices. The general rate of inflation is calculated using the implicit price deflator for gross domestic product (GDP).

Some expenditure estimates for 1998–99 to 2002–03 have been revised since the publication of *Health expenditure Australia 2003–04* (AIHW 2005a): these are detailed in Section 6.5.

1.2 The structure of the health sector and its flow of funds

The flow of money around the Australian health care system is complex and is determined by the institutional frameworks in place, both government and non-government. Australia is a federation, governed by a national government (the Australian or Commonwealth Government) and eight state and territory governments. Both these levels of government play important roles in the provision and funding of health care. In some jurisdictions, local governments also play a role. All of these levels of government collectively are called the government sector. What remains is the non-government sector, which in the case of funding for health care comprises individuals, private health insurers and other non-government funding sources (principally workers' compensation and compulsory motor vehicle third-party insurers, but also includes funding for research from non-government sources and miscellaneous non-patient revenue received by hospitals). Figure 1 shows the major flows of funding between the government and non-government sectors and the providers of health goods and services.

Most non-hospital health care in Australia is delivered by non-government providers, among them private medical and dental practitioners, other health practitioners (such as physiotherapists, acupuncturists and podiatrists) and pharmaceutical retailers. Delivery of health care can occur in a diverse range of settings—hospitals, residential care facilities, rehabilitation centres, community health centres, health clinics, ambulatory care services, the private consulting rooms of health practitioners, patients' homes or workplaces, and so on.

In summary, the following are the main features of Australia's health system (see Figure 1):

- Universal access to benefits for privately provided medical services under Medicare, which are funded by the Australian Government, with co-payments by users where the services are patient-billed.
- Eligibility for public hospital services, free at the point of service, funded jointly by the states and territories and the Australian Government.
- Growing private hospital activity, largely funded by private health insurance, which in turn is subsidised by the Australian Government through its rebates on members' contributions to private health insurance.
- The Australian Government, through its Pharmaceutical Benefits Scheme (PBS) and Repatriation Pharmaceutical Benefits Scheme (RPBS), subsidises a wide range of pharmaceuticals outside public hospitals.
- The Australian Government provides most of the funding for high-level residential care, medical services and for health research. It also funds a wide range of services for eligible veterans.
- State and territory health authorities are primarily responsible for the operations of the public hospital networks, mental health programs, the transport of patients, community health services, and public health services such as health promotion and illness prevention.
- Individuals primarily spend money on medications, private hospitals, medical, dental and other health practitioner services and aids and appliances.

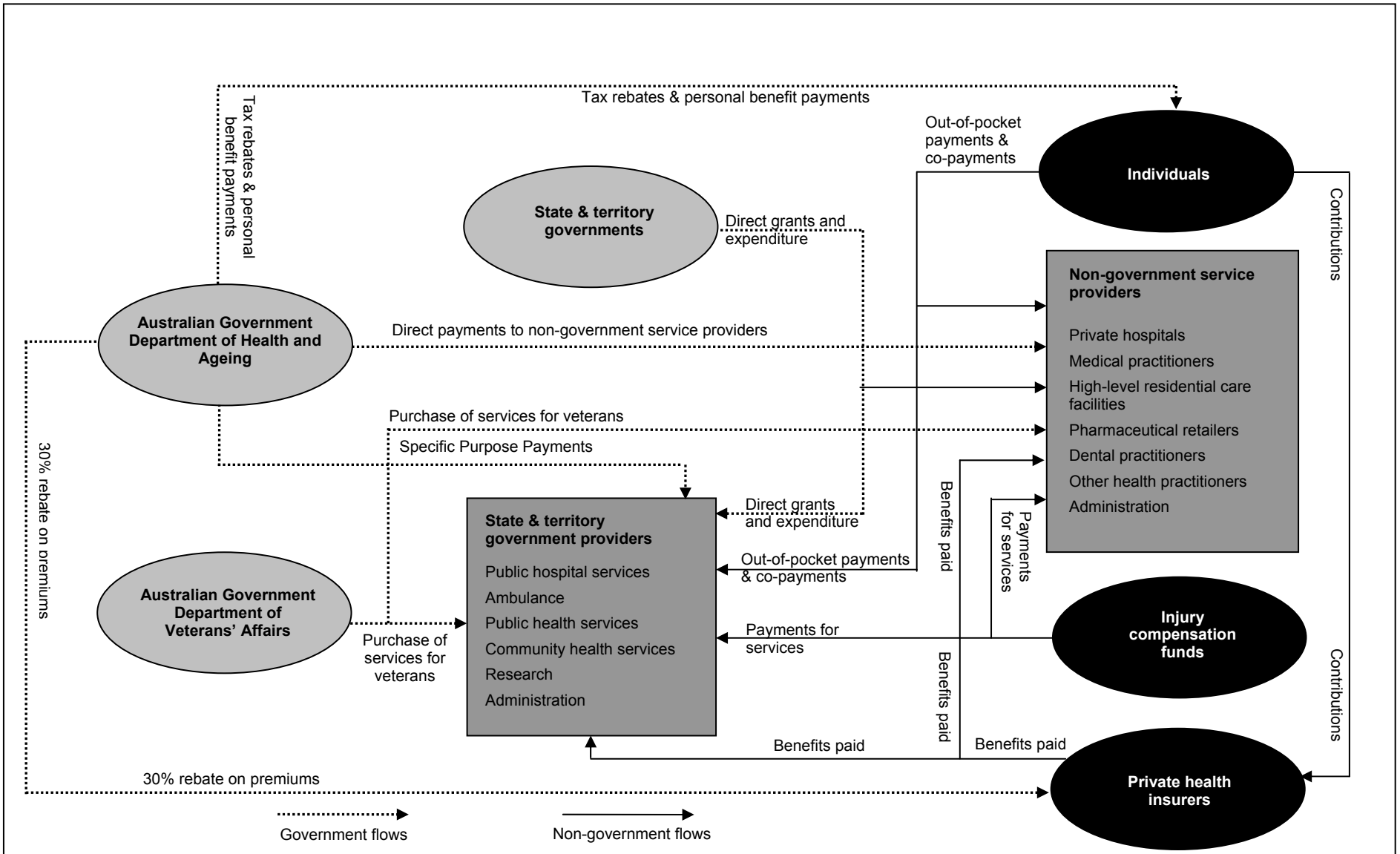

Figure 1: The structure of the Australian health care system and its flow of funds

1.3 Executive summary

- Total health expenditure in Australia grew by 10.3% between 2003-04 and 2004-05 to $87.3 billion or $4,319 per person. This represents an $8.2 billion increase from 2003-04, or $361 more per person than the previous year (Tables 1 and 6).
- This increased health expenditure as a proportion of gross domestic product (GDP) to 9.8%, up from 9.4% in 2003-04 and 8.1% in 1994–95 (Table 2).
- Our health to GDP ratio is comparable to Canada, Austria and Norway, is more than the UK and New Zealand and is considerably lower than the USA which in 2004 was 15.3% of GDP (Table 43).
- Real growth in expenditure on health averaged 5.3% between 1994–95 and 2004–05, with real growth in 2004–05 being 5.9% (Table 1).
- Health prices increased, on average, 0.4% per year more rapidly than the general inflation rate between 1994–95 and 2004–05 (Table 5).
- Total health expenditure increased 10.3% between 2003–04 and 2004–05. The areas showing the highest increases were aids and appliances (27%), public health (14%), medical services (13%), ambulance services (12%), community health (11%), research (10%) and high-level residential care (10%). These seven areas accounted for one-half of the health spending increase between 2003-04 and 2004-05 (Tables A2, A3 and A7).
- Hospital expenditure grew at 8.7% in 2004-05 and expenditure on medications increased 5.8% (Table A7).

Funding

- In 2004–05, the majority of spending in health was funded by governments (68.2%), with the Australian Government contributing $39.8 billion (45.6%) and state, territory and local governments contributing $19.8 billion (22.6%). The non-government sector funded the remaining $27.7 billion (31.8%) (Tables 12 and 13).
- 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). The Australian Government's recurrent funding of health increased by an average of 5.5% a year, compared to 6.3% for state, territory and local government funding (Table 18).

Hospital funding

- Over the decade to 2004–05, governments increased their share of public and private hospital funding by 6.2 percentage points. The Australian Government share increased by 2.5 percentage points from 39.4% to 41.9%. The state and territory government share increased by 3.7 percentage points from 34.3% to 38.0%. The non-government funding of public and private hospitals decreased from 26.3% in 1994–95 to 20.1% in 2004–05 (Table 31).
- Most funding for public hospitals comes from governments—44.2% from the Australian Government and 48.0% from the states and territories in 2004–05 (Table 32).

- Between 1994–95 and 2004–05, the Australian Government share of public hospital funding decreased by 3.4 percentage points from 47.6% to 44.2%. State and territory government funding during this period increased by 4.7 percentage points from 43.3% to 48.0% (Table 32).
- Between 2002–03 and 2004–05, in the first two years of the second Australian Health Care Agreements, the Australian Government share of public hospital funding declined 1.8 percentage points from 46.0% to 44.2%. State and territory government funding during this period increased 1.2 percentage points from 46.8% to 48.0% (Table 32).

Private health insurance and other non-government funding

- Of the $27.7 billion non-government sector funding in 2004-05, private health insurance funds provided 20.5% ($5.7 billion); individual out-of-pocket payments accounted for 59.7% ($16.5 billion); and other non-government sources (mainly compulsory motor vehicle third-party and workers' compensation insurers) accounted for the remaining 19.8% ($5.5 billion) (Table 21).
- Over the decade to 2004–05, non-government sector funding provided by private health insurance funds decreased 11.3 percentage points from 31.8% to 20.5%, funding by individuals increased by 8.9 percentage points and funding by other non-government sources increased by 2.4 percentage points (Table 21).
- The decrease in funding by private health insurance was due to the 30% rebate for private health insurance from the Australian Government. Private health insurance benefits that were previously funded entirely by private health insurance premiums are now funded 30% by the Australian Government.
- Private health insurance funds (including premium rebates) were the source of funding of almost two-thirds (60.7%) of private hospital expenditure in 2004–05 (Figure 20).

Private health insurance and other non-government expenditure

- Private health insurance funding of $5.7 billion in 2004–05 was mainly spent on private hospitals (48%), dental services (12%), administration (10%) and medical services (10%) (Figure 14).
- In 2004–05, out–of-pocket recurrent expenditure by individuals on health goods and services was an estimated $16.9 billion: $4.7 billion (28%) was spent on medications; $3.4 billion (20%) on dental services and $3.0 billion (18%) on aids and appliances (Figure 12).
- Real growth in expenditure by individuals between 1994-95 and 2004-05 was 5.9% per year, 0.7 percentage points above the real growth in health expenditure (5.2%) (Tables 1 and 22).
- In 2004–05, injury compensation insurers spent (in 2003–04 prices) $1,766 million on health goods and services—$1,113 million by workers' compensation insurers and $653 million by motor vehicle third-party insurers (Table 29).
- Bulk-billing rates for medical services were 70.2% in 2004–05, an increase of 0.6 percentage points since 1994–95. The peak was 72.3% in 1999–00 (Table 35).

Hospital expenditure

- In 2004–05, hospitals accounted for over one third (35.3% or $29.0 billion) of recurrent health expenditure. Expenditure on public hospitals was $22.1 billion and expenditure on private hospitals was $6.9 billion (Table A3).
- Over the decade to 2004–05, expenditure on hospitals accounted for the largest proportion of real growth in recurrent health expenditure (34.0%)—public hospitals (24.1%) and private hospitals (9.8%) (Figure 4).
- The private hospital share of hospital expenditure increased in the last decade from 20.8% of hospital expenditure in 1994–95 to 23.8% in 2004–05 (calculated from Table 30).

Pharmaceuticals and other medications expenditure

- In real terms, recurrent expenditure on pharmaceuticals for which benefits were paid grew at an average of 10.5% per year from 1994–95 to 2004–05 (Table 36).
- In 2004–05, the total amount spent on pharmaceuticals for which benefits were paid was $7.1 billion— 82% of this was benefits paid by the Australian Government for PBS and RPBS items; 15% was patient contributions and 3% was other pharmaceuticals (Section 100 drugs) (Figure 22).
- Expenditure on all other medications in 2004–05 was $3.8 billion—77% of which was for over-the-counter medications (Figure 23).
- Expenditure on all medications grew in real terms at an average of 8.9% per year from 1994–95 to 2004–05 (Table A8), but in 2003-04 growth was only 1.3% and in 2004–05 only 4.5%.

1.4 Revisions to ABS estimates

Revisions to ABS estimates of GDP, household final consumption expenditure (HFCE) and Government finance statistics (GFS) have affected the estimates in this publication, as in previous issues.

GDP estimates for this publication are sourced from the ABS (ABS 2006a). The current price GDP estimates in that ABS publication are 3% higher for all years compared to those published in *Health expenditure Australia 2003–04* (AIHW 2005a). For instance, the 2003–04 current price estimate of GDP was revised up in the March quarter 2006 ABS publication by $27 billion, compared with the published number used in *Health expenditure Australia 2003–04* (AIHW 2005a). This resulted in a decrease in the proportion of GDP spent on health goods and services (the health to GDP ratio) for that year from 9.7% to 9.4%.

Estimated total HFCE has been revised down since the publication of *Health expenditure Australia 2003–04* (AIHW 2005a). The major revision related to HFCE for doctors and other health practitioners; it was revised downwards by $470 million in 2000–01, $929 million in 2001–02, $1,307 million in 2002–03 and $1,910 million in 2003–04.

ABS estimates of capital formation have been revised upwards for most years, since *Health expenditure Australia 2003–04* (AIHW 2005a). This is the result of an ongoing review of all accrual time series by the ABS, in consultation with the state Treasuries. Accrual reporting is now established in all jurisdictions and improvements in the quality of the time series data have resulted in some changes to these series. Further revisions are expected progressively over the next year.