



2.2 How much does Australia spend on health care?

Health expenditure is money spent on health goods and services. It includes money spent by governments as well as by individuals and other non-government funders, such as private health insurers. The money is spent so that health goods and services can be provided by hospitals, primary health care providers (such as general practitioners), other health professionals and others.

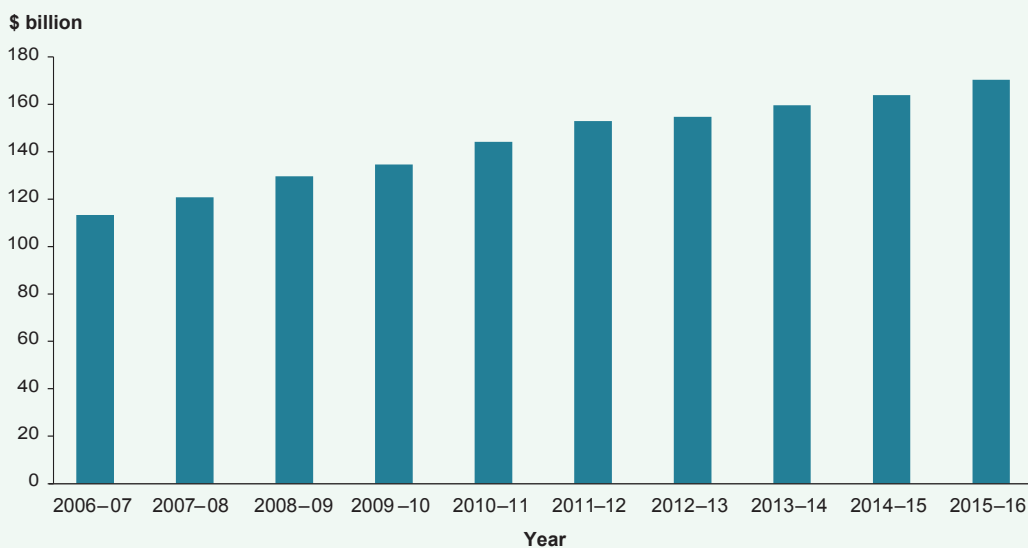
Trends in health expenditure

Changes in health expenditure occur over time due to a range of factors including increased population, government policy changes, new technologies, changes in patterns of care, as well as increases in the costs of health service delivery.

Health expenditure was \$170 billion in 2015–16

Total expenditure on health increased each year in real terms (after adjusting for inflation), from \$113 billion in 2006–07 to \$170 billion in 2015–16—an annual average rate of 4.8% (Figure 2.2.1). This growth slowed from 6.2% per annum between 2006–07 and 2011–12, to 3.4% between 2011–12 to 2015–16.

Figure 2.2.1: Total health expenditure, adjusted for inflation, 2006–07 to 2015–16



Note: Inflation-adjusted prices expressed in terms of 2015–16 prices.

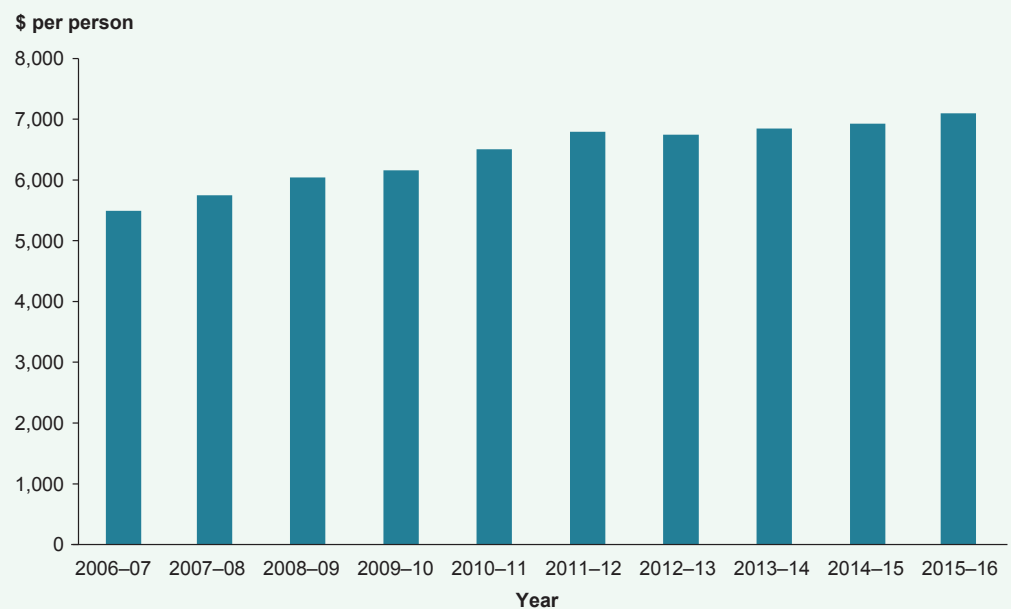
Source: AIHW health expenditure database; Table S2.2.1.



Health expenditure grew faster than population growth

Between 2006–07 and 2015–16, growth in total health expenditure was greater than the growth in the population. The population grew by 17% from 20.6 million in 2006–07 to 24.0 million in 2015–16, while total health expenditure (adjusted for inflation) grew by 50% over the same period. Per capita (per person) health expenditure increased 22% (adjusted for inflation) over this period, from \$5,493 to \$7,096—an increase of \$1,603 per person (Figure 2.2.2).

Figure 2.2.2: Health expenditure per person, adjusted for inflation, 2006–07 to 2015–16



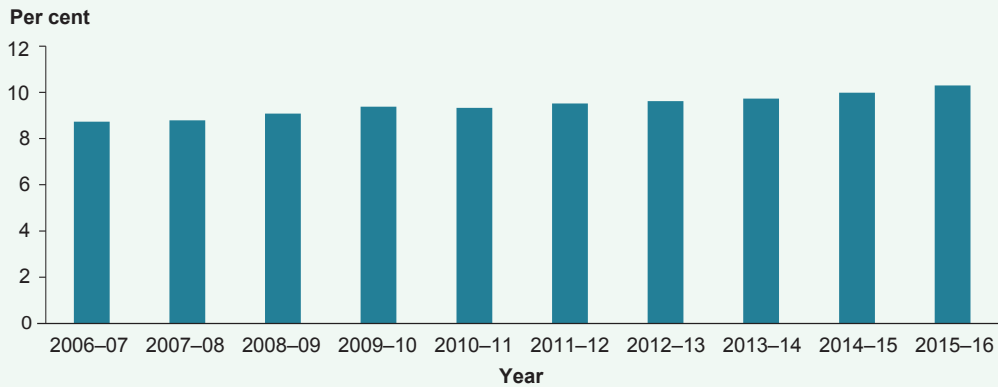
Note: Inflation-adjusted prices expressed in terms of 2015–16 prices.
Source: AIHW health expenditure database; Table S2.2.2.

The proportion of GDP spent on health has increased

The growth in health expenditure was also greater than the growth in the economy as a whole. Gross domestic product (GDP) had an average annual growth rate of 2.8% between 2006–07 and 2015–16. When expressed as a proportion of GDP, health expenditure grew from 8.7% of GDP in 2006–07 to 10.3% of GDP in 2015–16 (Figure 2.2.3).



Figure 2.2.3: Ratio of health expenditure to GDP, 2006-07 to 2015-16

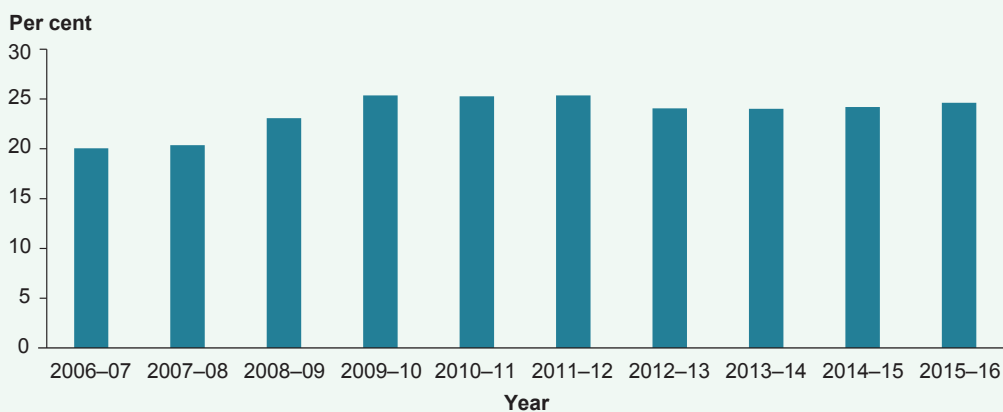


Sources: AIHW health expenditure database; ABS 2017a; Table S2.2.3.

The proportion of tax revenue spent on health rose then fell

Total government health expenditure was equivalent to about 21% of total tax revenue in 2006-07 and 2007-08. Following the global financial crisis, this share increased to 26% in 2009-10, mainly due to a relative drop in tax revenues. The proportion has since remained around 25-26% (Figure 2.2.4).

Figure 2.2.4: Government health expenditure, as a percentage of taxation revenue, 2006-07 to 2015-16



Sources: AIHW health expenditure database; ABS 2017b; Table S2.2.4.

International comparisons

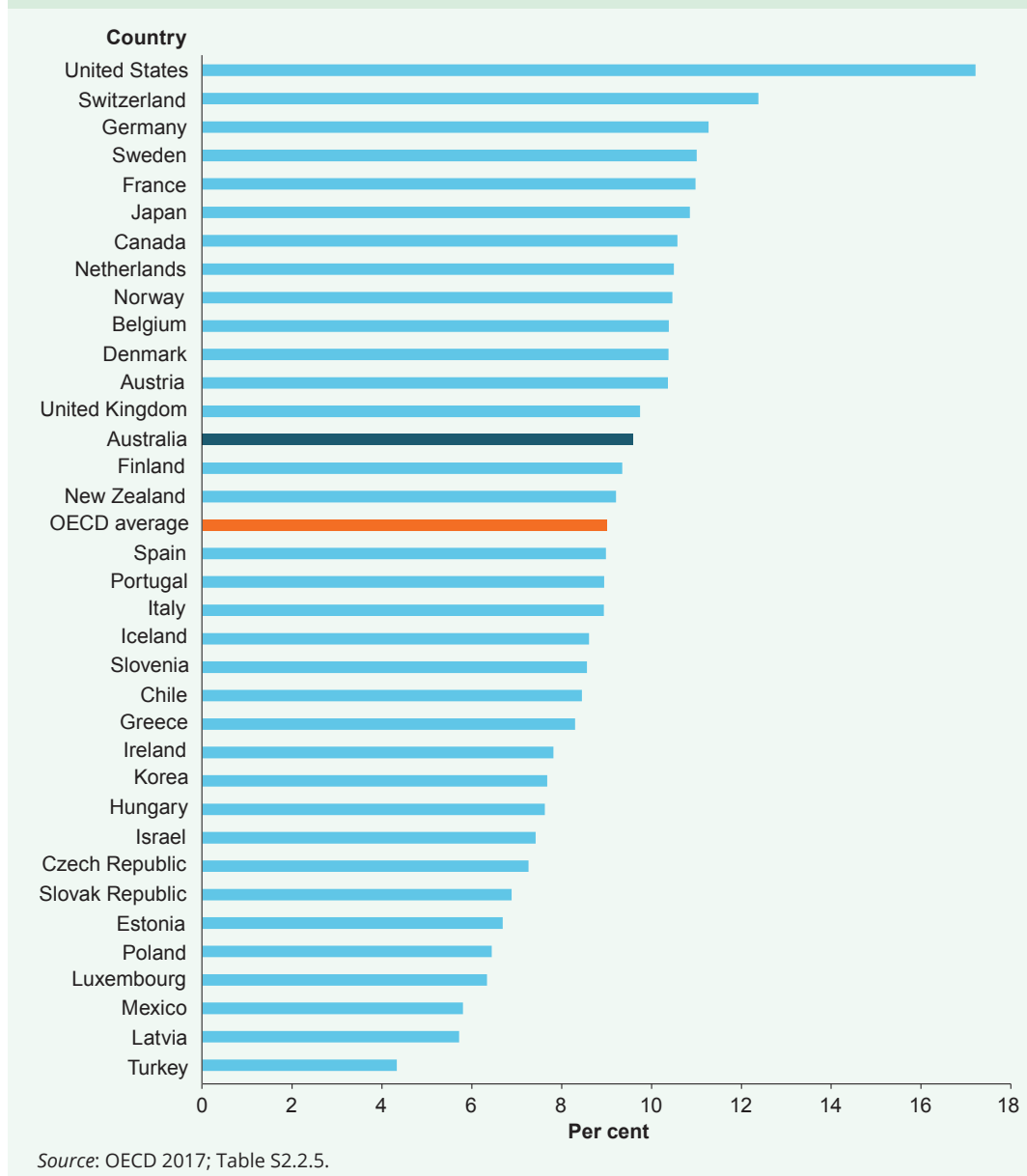
In addition to the National Health Accounts framework the AIHW uses to report expenditure domestically, data is also prepared using the Organisation for Economic Co-operation and Development (OECD) System of Health Accounts. This system is used by OECD member countries to report health expenditure to support international comparisons between member countries.



Australia's proportion of health expenditure to GDP is higher than the OECD average

Using the OECD System of Health Accounts method (OECD, Eurostat & WHO 2011), the proportion of Australia's health expenditure to GDP was 9.6% in 2016. The average for all OECD countries was 9.0% (Figure 2.2.5). The Australian figure is higher than that for New Zealand (9.2%) and lower than that for the United Kingdom (9.7%) and Canada (10.6%). The United States was by far the highest spender, with the health sector making up 17.2% of its GDP in 2016. The System of Health Accounts data are not comparable with the data presented elsewhere in this article as they do not include the same scope of expenditure.

Figure 2.2.5: Health expenditure as a proportion of GDP, using the OECD System of Health Accounts, OECD countries and OECD average, 2016





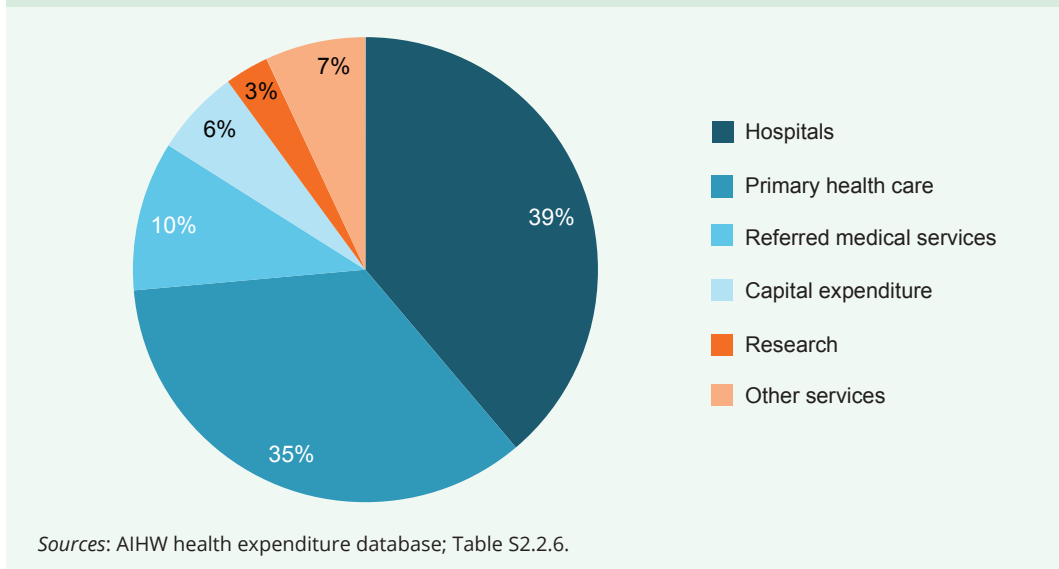
Where is the money spent?

Health expenditure occurs when money is spent on health goods and services, and investment in equipment and facilities. This excludes expenditure that might have a 'health' outcome, such as education of health practitioners. Recurrent expenditure is the expenditure on goods and services, such as medicines, medical services, hospital services, or public health activities. Capital expenditure is the expenditure on fixed assets such as new buildings.

Hospitals and primary health care account for three-quarters of total health expenditure

In 2015–16, recurrent health expenditure was \$160 billion, and capital expenditure \$10 billion. The two major areas of expenditure in 2015–16 were hospitals (\$66 billion) and primary health care (\$59 billion)—together they accounted for 74% of total expenditure (Figure 2.2.6).

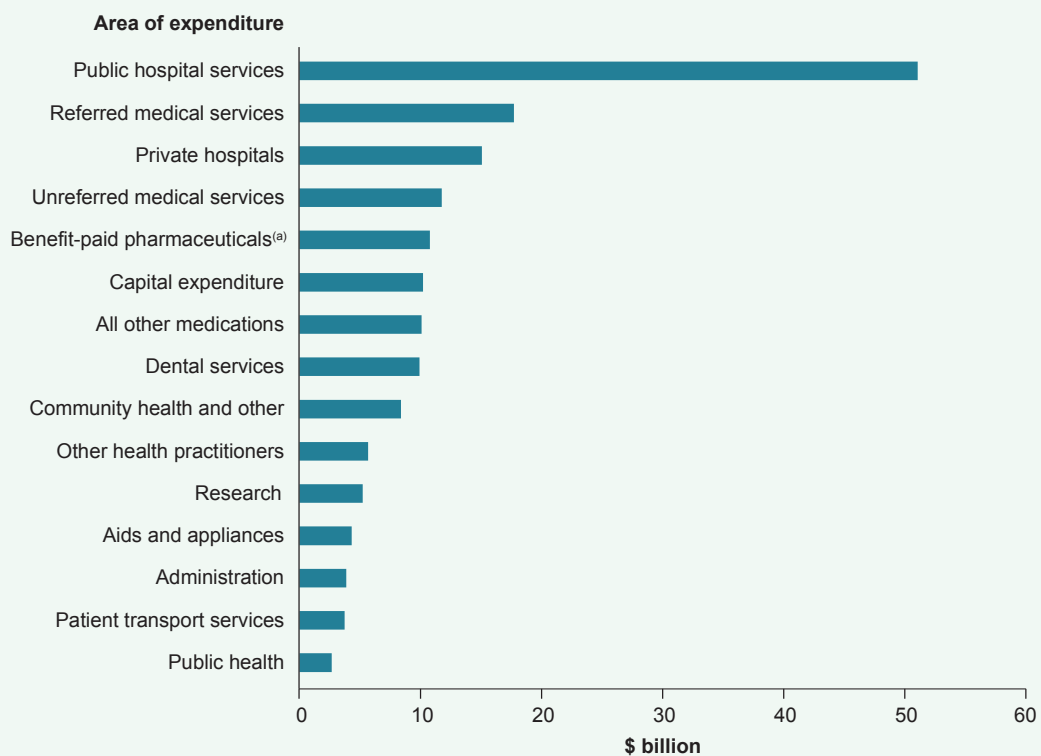
Figure 2.2.6: Proportion of total health expenditure, by broad area of expenditure, 2015–16



Each broad area of expenditure consists of specific components; for example, 'hospitals' consists of public and private hospital services. For these specific components, the largest proportion of expenditure for 2015–16 was for public hospital services (\$51 billion), followed by referred medical services (\$18 billion), and private hospitals (\$15 billion). Expenditure on unreferred medical services was \$12 billion; both community and public health (combined), and benefit-paid pharmaceuticals had expenditures of \$11 billion; the expenditure (for each component) on all other medications, dental services, and capital expenditure was \$10 billion; it was \$6 billion on other health practitioners; and \$4 billion (for each component) on aids and appliances, and on patient transport services (Figure 2.2.7).



Figure 2.2.7: Total health expenditure, by area of expenditure, 2015–16



(a) Benefit-paid pharmaceuticals are pharmaceuticals accessed through the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme.

Source: AIHW health expenditure database; Table S2.2.7.

Who pays for what?

Healthcare in Australia is funded by the Australian Government, state and territory governments, and non-government entities such as individuals, private health insurers, third-party insurers and workers compensation. These sources of funds pay for health care across the health system through various funding arrangements.

Governments funded two-thirds of health expenditure

In 2015–16, governments funded \$115 billion of the total health expenditure (67%) with non-government sources funding the remaining \$56 billion (33%).

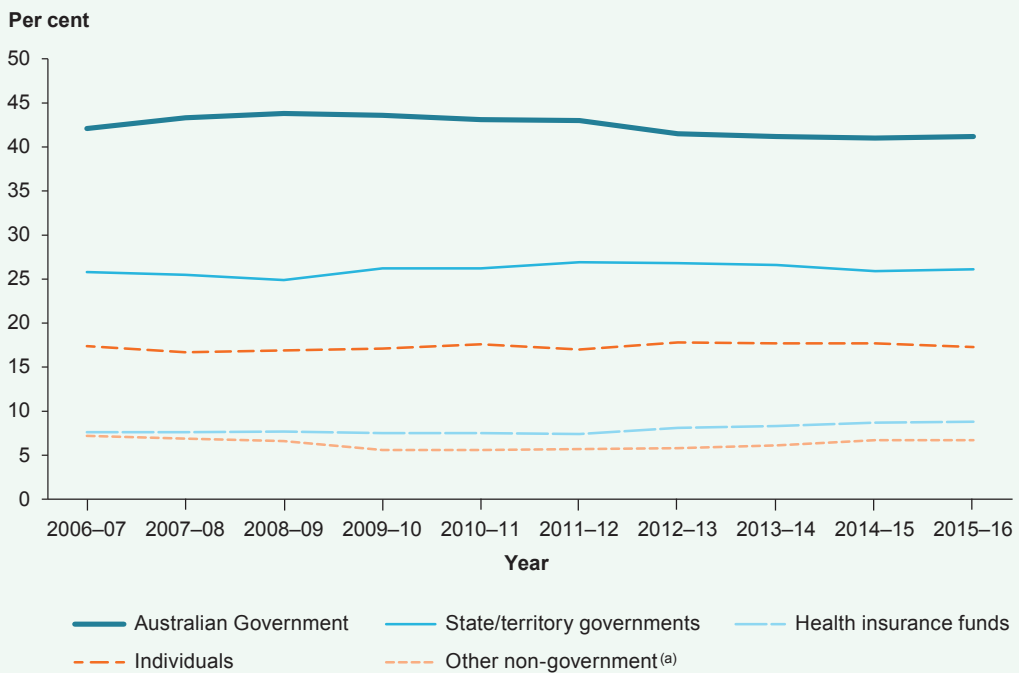
Of the \$115 billion government contribution in 2015–16, the Australian Government contributed \$70 billion (61%), with state and territory governments contributing \$44 billion (39%).

In 2015–16, funding by individuals was \$29 billion. This was 53% of the \$56 billion in non-government funding, or 17% of total health expenditure.



Figure 2.2.8 shows the proportion of total expenditure from each source of funds from 2006–07 to 2015–16. The proportion contributed by the Australian Government was between 42% and 44% from 2006–07 to 2008–09, and remained steady at 41% from 2012–13, following the introduction of means testing of the private health insurance rebate in April 2012. The proportion of expenditure from private health insurance funds was steady at around 7% between 2006–07 and 2011–12, increasing to 9% in 2015–16. State and territory expenditure was between 25% and 26% from 2006–07 to 2010–11, and 26% to 27% from 2011–12 to 2015–16. Expenditure by individuals was steady over the decade, at around 17%. Other non-government expenditure fluctuated between 6% and 7% over the decade.

Figure 2.2.8: Proportion of health expenditure, by source of funds, 2006–07 to 2015–16



(a) 'Other non-government' includes workers' compensation and third-party insurance.

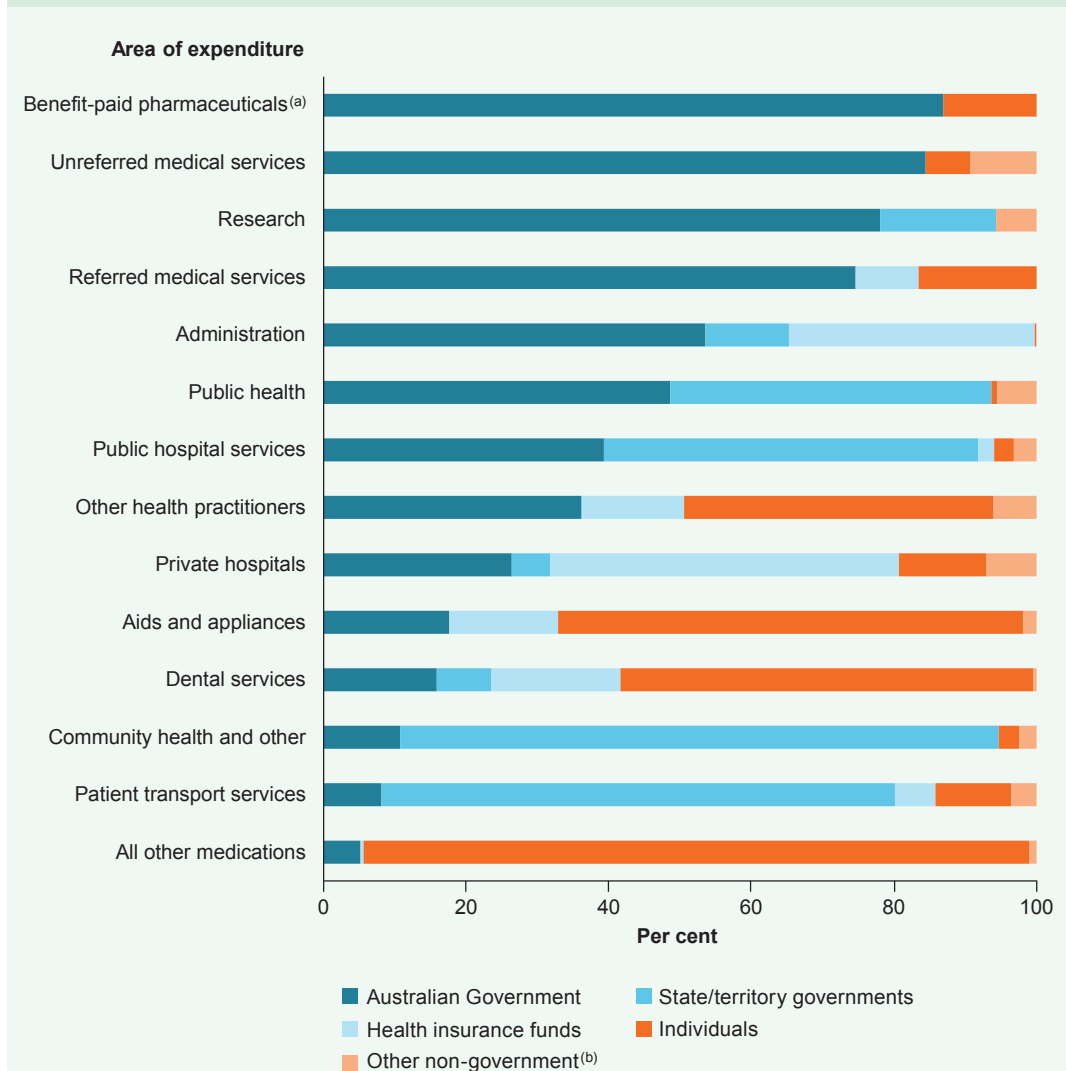
Source: AIHW health expenditure database; Table S2.2.8.



Source of funds varies for areas of expenditure

The funding of different areas of expenditure within the health system is not evenly distributed between the various sources of funding (Figure 2.2.9). The majority of expenditure on benefit-paid pharmaceuticals is from the Australian Government. State and territory government expenditure is the largest component of community and public health expenditure, while individuals paid for the majority of all other medications.

Figure 2.2.9: Proportion of health expenditure, by source of funds and area of expenditure, 2015–16



(a) Benefit-paid pharmaceuticals are pharmaceuticals accessed through the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme.

(b) 'Other non-government' include workers' compensation and third-party insurance.

Source: AIHW health expenditure database; Table S2.2.9.



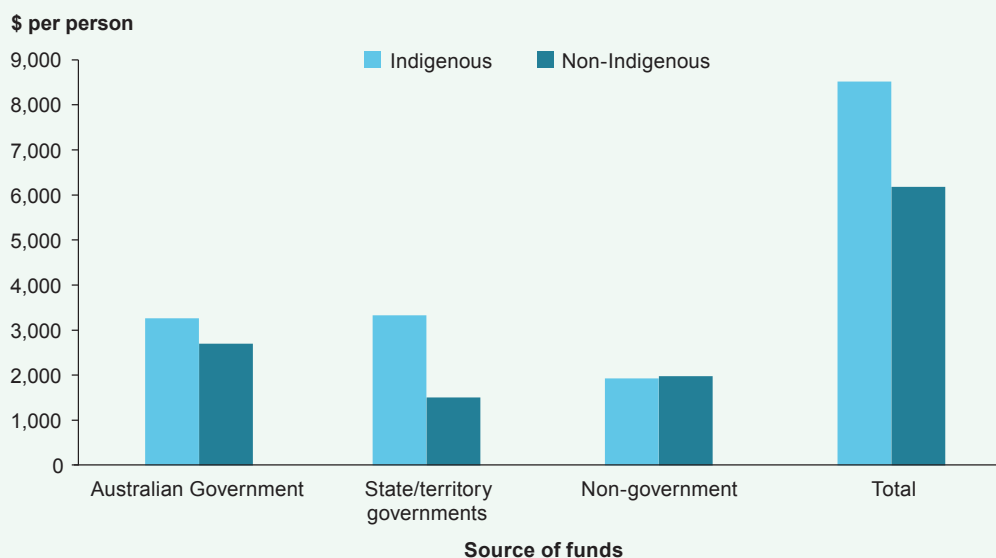
Indigenous health expenditure

Indigenous health expenditure per person is more than for non-Indigenous Australians

The total health expenditure for Aboriginal and Torres Strait Islander Australians differs from that for non-Indigenous Australians. The estimated health expenditure in 2013–14 for Indigenous Australians was \$8,515 per person compared with \$6,180 for non-Indigenous Australians—38% as high. This is not inconsistent with the higher health needs of Indigenous Australians and the higher cost of delivering services in rural and remote areas, where a greater proportion of Indigenous Australians live compared with non-Indigenous Australians (AIHW 2017a, 2017b; SCRGSP 2017). Of the total health expenditure per person for Indigenous and non-Indigenous Australians, in 2013–14:

- the Australian Government provided 38% (\$3,261) of the health expenditure for Indigenous and 44% (\$2,698) for non-Indigenous Australians
- state and territory governments provided 39% (\$3,329) of the health expenditure for Indigenous and 24% (\$1,508) for non-Indigenous Australians
- non-government sources provided 23% (\$1,926) of the health expenditure for Indigenous and 32% (\$1,974) for non-Indigenous Australians (Figure 2.2.10).

Figure 2.2.10: Health expenditure per person, by Indigenous status and source of funds, 2013–14

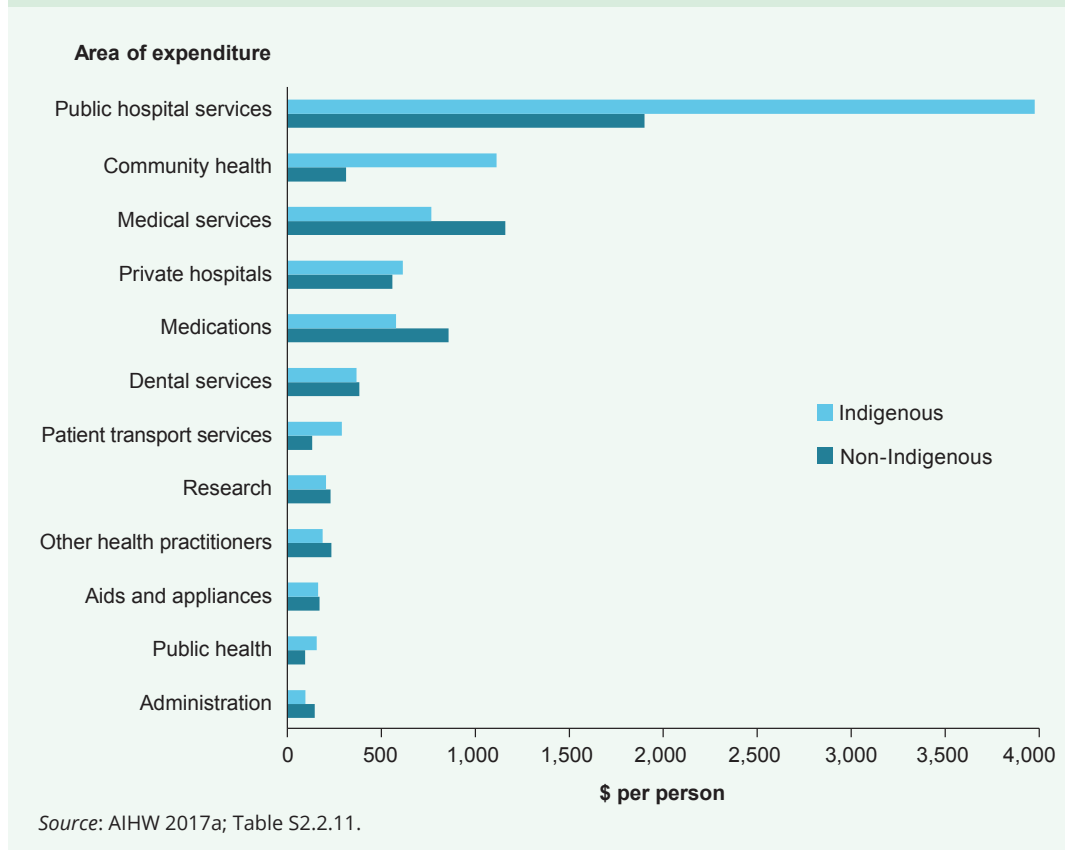


Source: AIHW 2017a; Table S2.2.10.



The distribution of health expenditure across the areas of expenditure for Indigenous Australians differed from that for non-Indigenous Australians. Figure 2.2.11 shows that more is spent per person on hospital and community health services for Indigenous Australians than for non-Indigenous Australians, and less is spent on medications and medical services for Indigenous Australians than for non-Indigenous Australians.

Figure 2.2.11: Health expenditure per person, by Indigenous status and area of expenditure, 2013–14



What is the AIHW doing?

The AIHW is undertaking work in the following areas:

- Improving the compatibility of domestic and international expenditure reporting. The System of Health Accounts framework has been updated to include items not currently disaggregated in the current AIHW methodology. Work is continuing to update reporting to these new methods.
- Considering new and alternative sources of health expenditure information. The AIHW reviews the data sources available and methods employed to estimate health expenditure when necessary. This ensures that the estimates it produces are of a high quality. New sources of health expenditure data are being investigated for items such as out-of-pocket expenditure, private prescriptions, and hospital services.



- Expanding and improving estimations for disease expenditure by developing a formal method for future use. This will enable detailed analysis of the reasons for expenditure in certain areas of the health system.

What is missing from the picture?

The health expenditure data collection does not include information from some funding sources. Health-related costs from the Australian Defence Force or from correctional and detention facilities are not collected for inclusion in the AIHW health expenditure database. Data for programs that are self-funded by local governments (such as public health initiatives funded and run by local authorities or councils) are not included in the health expenditure database collection. Funding for health care received by local government authorities from a state or territory government is included in that jurisdiction's expenditure. Not all expenditure by non-government organisations is included, such as initiatives run from private donations to the organisations. Some payments from the Australian Government are counted as expenditure in the financial year the payment occurred even if it related to services provided and expenditure incurred by service providers in earlier years.

Where do I go for more information?

More information on Australian health expenditure and methods is available at <www.aihw.gov.au/reports-statistics/health-welfare-overview/health-welfare-expenditure/overview>. The report *Health expenditure Australia 2015–16* and other recent publications are available for free download. Information on international comparisons for each country is available at <data.oecd.org/healthres/health-spending.htm>.

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