



Australian Government

The Treasury

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Dear Senator

Clarification of response: sustainability of growth in health expenditure

At this morning's Additional Estimates hearing of the Senate Standing Committees on Economics, Senator Wong asked me a series of questions in relation to an article by Ross Gittins in the Sydney Morning Herald published today. This article discusses the sustainability of the growth in health care expenditure in light of the report *Health Expenditure Australia 2012-13* released recently by the Australian Institute of Health and Welfare (AIHW). At the time neither I, nor other Treasury officers attending this morning's hearing, had read or been briefed on the article. Having now reviewed it, I think it may be useful to the Committee for me to provide information in addition to the answers provided this morning.

I can confirm that the numbers Senator Wong referred to are accurate. The AIHW reported that from 2011-12 to 2012-13:

- total expenditure on health goods and services grew 1.5 per cent in real terms;
- funding of health expenditure across all levels of government fell 0.9 per cent in real terms; and
- Australian Government funding of health expenditure fell 2.4 per cent in real terms.

A number of one-off factors contributed to the real fall in Australian Government health expenditure including:

- large one-off price reductions in the price of some medicines listed on the Pharmaceutical Benefits Scheme stemming from new price disclosure arrangements – these one-off price reductions contributed to a fall in Australian Government spending on pharmaceuticals between 2011-12 and 2012-13; and

- the prepayment by some individuals of private health insurance premiums for 2012-13 in prior years in advance of the introduction of means testing of the private health insurance rebate. This behaviour resulted in a large increase in expenditure on the private health insurance rebate in 2011-12 and a commensurate decrease in expenditure on the rebate in 2012-13.

Due to the one-off nature of these factors, neither is expected to significantly reduce growth in health expenditure in the future.

In the ten years from 2003-04 to 2012-13, Australian Government spending on health goods and services has been growing above the rate of growth of nominal GDP. This growth has not been limited to just one area of health expenditure. Growth in expenditure on the Medicare Benefits Scheme, funding for public hospitals, and the private health insurance rebate, have all outstripped growth in the economy. Growth in health expenditure beyond growth in the economy is unsustainable in the long term.

Estimates of health expenditure over the forward estimates and the medium term prepared for the 2014-15 Budget were calculated off a base of actual Australian Government health expenditure for 2012-13. As such, the Budget projections took into account expenditure for the year to which the AIHW report refers. These projections indicated that prior to the changes in the 2014-15 Budget Australian Government spending was expected to continue to grow faster than the Australian economy.

This is consistent with other projections of Australian Government health expenditure. For instance in 2013, the Productivity Commission in its report *An Ageing Australia: Preparing for the Future* projected that Australian Government health expenditure would grow from 4.1 per cent of GDP to 7.0 per cent of GDP in 2059-60.

The Government's decisions in the 2014-15 Budget are expected to improve sustainability of Australian Government health expenditure in a number of areas. For instance, the costing of the introduction of patient contributions for some services under the Medicare Benefits Schedule anticipated a 1 per cent reduction in attendances at those services in each year.

I hope this information is of assistance to the Committee.

Yours sincerely

Nigel Ray

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