

ANSWERS TO QUESTIONS ON NOTICE

TREASURY PORTFOLIO

15 December 2010

Question no: 9

Topic: Commonwealth hospital expenditure projections

Hansard Page: E15

Senator asked:

Senator CORMANN—As very good public servants you would have assessed various alternative funding models and you made a decision to go one way rather than the other way. I would have thought that one way to test the desirability or otherwise of what is proposed would be against a business-as-usual status quo type arrangement. In 1998 to 2003 funding under the healthcare agreement was \$29 billion, the next was \$42 billion—that was then extended by a year—and the next one was \$64.4 billion. So there is obviously a trend there that could be projected forward. I am interested in your information. Did Treasury have an expected growth path for health spending prior to the current changes being developed?

Mr Robinson—I think the *Intergenerational report* covers the issue of health care and healthcare growth.

Senator CORMANN—Indeed it did. Where would that have put Commonwealth health expenditure by 2020? Can you take that on notice?

Mr Robinson—Yes, I can take it on notice.

Answer:

In the 2010 Intergenerational Report *Australia to 2050: future challenges*, Commonwealth hospital expenditure was projected forward on the basis of current Government policy. This required using the indexation factor for the Healthcare SPP as specified in Schedule D of the IGA FFR.

The indexation factor is a composite index that reflects:

- (a) a health specific cost index (the Australian Institute of Health and Welfare health price index);
- (b) growth in population estimates weighted for hospital utilisation; and
- (c) a technology factor (Productivity Commission derived index of technology growth).

The indexation factor over the period 2010-11 to 2013-14 is show below.

	SPP growth factor
2010-11	7.26%
2011-12	7.20%
2012-13	7.11%
2013-14	7.03%

The average annual growth rate in Commonwealth hospital expenditure under the projected Healthcare SPP over the period 2014-15 to 2018-19 (7.0 per cent) closely approximates the annual growth rate over the period 1998-99 to 2013-14 (6.6 per cent).

	Total ACHAs / Healthcare SPP (\$m)	Annual growth rate	Average growth over five year period of agreements	Compound growth rate over five year period of agreements	Aggregate funding provided under each five year agreement	Growth in aggregate funding between five year agreements
1998-99	5,648	...				
1999-00	5,900	4.5%				
2000-01	6,299	6.8%				
2001-02	6,709	6.5%				
2002-03	7,240	7.9%	7.6%	6.4%	31,796	
2003-04	7,500	3.6%				
2004-05	7,981	6.4%				
2005-06	8,349	4.6%				
2006-07	8,802	5.4%				
2007-08	9,785	11.2%	6.2%	6.9%	42,418	33.4%
2008-09*	10,278	5.0%				
2009-10	11,224	9.2%				
2010-11	12,039	7.3%				
2011-12	12,905	7.2%				
2012-13	13,823	7.1%				
2013-14	14,794	7.0%	7.6%	7.1%	64,786	52.7%
2014-15	15,834	7.0%				
2015-16	16,945	7.0%				
2016-17	18,134	7.0%				
2017-18	19,424	7.1%				
2018-19	20,795	7.1%	7.0%	7.1%	91,133	40.7%

* The agreement which ran from 2003-04 to 2007-2008 was extended by one year at the March 2008 COAG meeting.

(Source: Department of Health and Ageing and Treasury projections)

During the committee hearing Senator Cormann asserted that he had commissioned work from the Parliamentary Library which showed the average annual growth over the last three healthcare agreements since 1998 was 8.6 per cent. This work has since been provided to Treasury.

Analysis of this work by the Treasury and the Department of Health and Ageing indicates the amounts detailed for the 1996-97 and 1997-98 years underestimate Commonwealth expenditure by \$850-\$900 million per year. The amounts provided by the Parliamentary Library reflect only the base level of funding and exclude bonus payments, incentives package payments, mental health payments and other health service annual appropriations (such as those for palliative care and AIDS) paid in respect of hospitals. Further, the analysis

incorrectly assumes the first Australian Healthcare Agreement commenced in 1997-98 when it was in fact 1998-99. When these errors are corrected, the average growth rate over the period 1998-99 to 2013-14 is calculated as around 6.5 per cent – which is consistent with the data contained in the table above.

Senator Cormann also suggested that a trend could be drawn through the sum of the funding provided under the five year healthcare agreements over the period 1998-99 to 2002-03, 2003-04 to 2007-08 and 2009-10 to 2013-14 and used to project future health expenditure. While Treasury does not project Commonwealth hospital expenditure using historical trends on the basis that the Government's future expenditure commitment is specified in Schedule D of the IGA FFR, Treasury does not consider that a trend drawn from three data points could be used to accurately project Commonwealth hospital expenditure forward.