

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates 25-26 February 2009

**Question: aet 27**

**Topic: National Health Care Agreement**

**Hansard Page: Written**

**Senator BOYCE asked:**

1. a) For each year over the next 5 years, how much additional funding will the Commonwealth Government be providing for this package over and above what was already in the forward estimates for the Australian Health Care Agreements over the same period? (Including both the published forward estimates and any amount budgeted for in the contingency reserve for future health care agreement funding over this period)
- b) For each measure in the package what is the year by year funding breakdown over the next five years?
2. In terms of the indexation arrangements under the new national health care agreements, please:
  - a) Provide details of what the individual indexation components of the new 7.3% annual index are, including what the individual indexation components are in this new index to represent population increase, cost increase and volume growth as well as any other indexation factors that have been included in this new composite index.
  - b) Provide an outline of the difference between the indexation factors applied to the general component of the base health care grant in schedule G of the Australian Health Care Agreements 2003-08 and the indexation factors to be applied to the new national health care agreement announced by the Commonwealth in November 2008.
  - c) Provide details of each component in the index of the new national health care agreement announced by the Commonwealth in November 2008, including details of how much it differs from the same component in the base health care grant in schedule G of the Australian Health Care Agreements 2003-08.
  - d) Provide a further explanation of the composition and calculation of WCI1 or whatever wage/cost index has replaced WCI1 under the new agreements if that is the case (including the component indices and the weights attached to them).

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#### Answer:

1(a)

The Government will provide \$60.5 billion over five years from 2008-09 for State and Territory health systems under a new National Healthcare Specific Purpose Payment (SPP). This is an increase of \$4.8 billion over the funding previously included in the forward estimates, as shown in the table below. Funding under the new agreement includes a \$500 million increase in recurrent base funding from 2008-09.

#### Additional funding for the National Healthcare SPP

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
\$ million						
<b>National Healthcare SPP</b>	500.0	674.5	913.5	1,190.9	1,500.1	4,779.0

1(b)

The National Healthcare SPP will be the primary way that the Commonwealth will provide funding support for State and Territory health services. It incorporates the current Australian Health Care Agreement (AHCA) grants as well as several smaller health payments and additional Commonwealth funding of \$500 million into the base.

The States and Territories are required to spend the National Healthcare SPP in the healthcare sector but will have full budget flexibility to allocate funds within that sector as they see fit to achieve the mutually agreed objectives in the National Healthcare Agreement. There are no sub-components of the Healthcare SPP.

#### Total funding for the National Healthcare SPP

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
\$ million						
<b>National Healthcare SPP</b>	10,461.8	11,224.2	12,042.5	12,922.0	13,863.9	60,514.5

2(a)

The growth factor for the National Healthcare SPP is the product of:

- a health specific cost index (the Australian Institute of Health and Welfare (AIHW) health price index) (3.7 per cent);
- growth in population estimates weighted for hospital utilisation (2.2 per cent);  
and
- a technology factor (Productivity Commission derived index of technology growth) (1.2 per cent).

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2(b)

The general component of the Australian Health Care Agreement grants (which represent 97.5 per cent of the total) was indexed by a combination of:

- Wage Cost Index-1 (WCI-1) to measure economy wide wage and price pressures (A);
- a 1.7 percent utilisation factor (applying to 75 per cent of the base grant) (B); and
- population estimates weighted for hospitals utilisation associated with difference age and sex cohorts (C).

$$\text{Growth factor} = 0.75(A \times B \times C) + 0.25(A \times B)$$

The National Healthcare SPP is indexed by a combination of:

- the AIHW health price index (D);
- growth in population estimates weighted for hospital utilisation (E); and
- Productivity Commission derived index of technology growth (F).

$$\text{Growth factor} = D \times E \times F$$

2(c)

***AIHW health price index***

The Australian Institute of Health and Welfare health price index is the ratio of total health expenditure in current prices to total health expenditure in constant prices in the same year.

***Growth in population estimates weighted for hospital utilisation***

Growth in population estimates weighted for hospital utilisation is derived from the Australian Bureau of Statistics population estimates, weighted by age group to represent hospital utilisation.

***Productivity Commission derived index of technology growth***

The Productivity Commission has calculated that expenditure growth associated with technology at 1.9 per cent per annum from 1992-93 to 2002-03. This is a residual measure after accounting for inflation, demographic and income factors. The Commission's methodology includes excess health inflation in this residual. Stripping out excess health inflation covered in the total health prices index gives 1.2 per cent.

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The growth factor for the Australian Health Care Agreement is estimated at 5.6 per cent per annum over the forward estimates period.

The growth factor for the National Healthcare SPP was estimated at 7.3 per cent over the forward estimates at November 2008.

The components in the index of the National Healthcare SPP are different to the components of the Australian Health Care Agreements.

2(d)

The Australian Institute of Health and Welfare (AIHW) total health price index — a health specific cost index calculated by the AIHW — replaces WCI1. The growth in the total health price index averaged 3.7 per cent between 2001-02 and 2006-07.

This index is derived by taking the ratio of total health expenditure in *current* prices in a particular year to total health expenditure in *constant* prices in that same year.

The total health expenditure in constant prices is obtained by adding up the constant price numbers for each area of expenditure. The constant price numbers for each area are calculated by applying specific deflators to each area of expenditure. (See Table 1 below for an illustration of the calculation for 2005–06). In effect, each area of expenditure that comprises this index is weighted according to its constant price expenditure as a proportion of total health expenditure.

In the table below, public hospital services expenditure accounts for 28 per cent of total constant prices health expenditure in 2005-06 so that area of expenditure has a weight of 28 per cent when deriving the 2005-06 total health price index.

Further details of the deflators that are used to produce the total health price index are in the Australian Institute of Health and Welfare report *Health expenditure Australia 2006-07*, pp164-7 and pp108-9.

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**Table 1: Area of health expenditure, by type of deflator applied**

Area of expenditure	Deflator applied	2005-06 (Current prices)	2005-06 (Constant 2006-07 prices)	Deflator
Public hospital services	GFCE hospitals and nursing homes	24,441	25,392	1.039
Private hospitals	GFCE hospitals and nursing homes	6,683	6,943	1.039
Patient transport services	GFCE hospitals and nursing homes	1,470	1,527	1.039
			15,976	
Medical services	Medicare medical services fees charged	15,492		1.031
Dental services	Dental services	5,363	5,663	1.056
Other health practitioners	Other health practitioners	3,038	3,100	1.02
	Professional health workers wage rate index		4,076	
Community health and other		3,882		1.05
Public health	GFCE hospitals and nursing homes	1,467	1,524	1.039
Benefit-paid pharmaceuticals	PBS pharmaceuticals	7,286	7,300	1.002
All other medications	HFCE on chemist goods	4,246	4,335	1.021
Aids and appliances	Aids and appliances	2,802	2,862	1.021
	Professional health workers wage rate index		2,504	
Administration		2,388		1.049
	Professional health workers wage rate index		,110	
Research		2,016		1.047
	Various gross fixed capital formation deflators		4,996	
Capital expenditure		4,860		1.028
	Various gross fixed capital formation deflators		1,360	
Capital consumption		1,321		1.03
<b>Total health expenditure</b>		<b>86,753</b>	<b>89,668</b>	<b>1.034</b>