



Australian Government

Australian Institute of
Health and Welfare

infocus

Health Expenditure

Government health expenditure and tax revenue 2015–16

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This report looks at how health expenditure is paid for by Australian, state and territory and local governments through taxation revenue. This includes an overview of:

- how services are funded
- what types of health care governments fund
- how much of governments' taxation revenue is spent on health care
- changes in health expenditure and taxation revenue over the past decade.



The Australian Government spent 27.0% of taxation revenue on health in 2015–16



State and territory governments spent 23.8% of taxation revenue on health in 2015–16



Hospitals accounted for almost half of all government health expenditure



Health expenditure grew faster than tax revenue over the decade

Health expenditure in Australia

The flow of funds in Australia's health system is complex, determined by the policies and institutional frameworks of both government and non-government sectors. In 2015–16, \$170.4 billion was spent on health across Australia. Almost 67% (\$114.5 billion) of this came from government expenditure, 17% from individuals directly, 9% from private health insurance funds, and the remainder from injury compensation insurers.

How do governments fund services?

Taxation revenue is the main source of government income, used to fund public services including health care.

The Australian Government levies and collects a range of taxes, including income taxes of individuals and companies, excise duty, customs duties, taxes on superannuation funds, fringe benefits tax, wine equalisation tax, agricultural levies, and others (Commonwealth of Australia 2017). The Australian Government collects a portion of other taxes, including those on the provision of goods and services, and redistributes this revenue to other jurisdictions (ABS 2017).

Taxation revenue collected by state governments includes land taxes, employers' payroll tax, taxes on the use of goods and performance of activities (such as motor vehicle taxes and gambling taxes), and others. The goods and services tax (GST) is collected by the Australian Government and distributed to states and territories.

Tax revenue collected by local governments consists only of taxes on property through council rates.

Box 1: Australia's health system

Australia's health system involves coordination and regulation by all levels of government, while the delivery of services is split between the government (public) and non-government (private) sectors.

The public health system provides access to free or subsidised health services provided by the Commonwealth, state and territory and local governments, often referred to as 'Medicare'. Public hospital services, such as emergency departments and hospital admissions, are free for eligible public patients, and funded by arrangements between the Australian and state and territory governments (NHFB 2017).

Medical services (including treatment by health professionals such as doctors and specialists) are subsidised on a fee-for-service basis, according to the prices listed in the Medicare Benefits Schedule (MBS). These are funded by taxpayers who, in addition to general income tax, pay a levy of 2.0% of their taxable income, and a further surcharge if they are high income earners who choose not to take out private hospital insurance cover (ATO 2017).

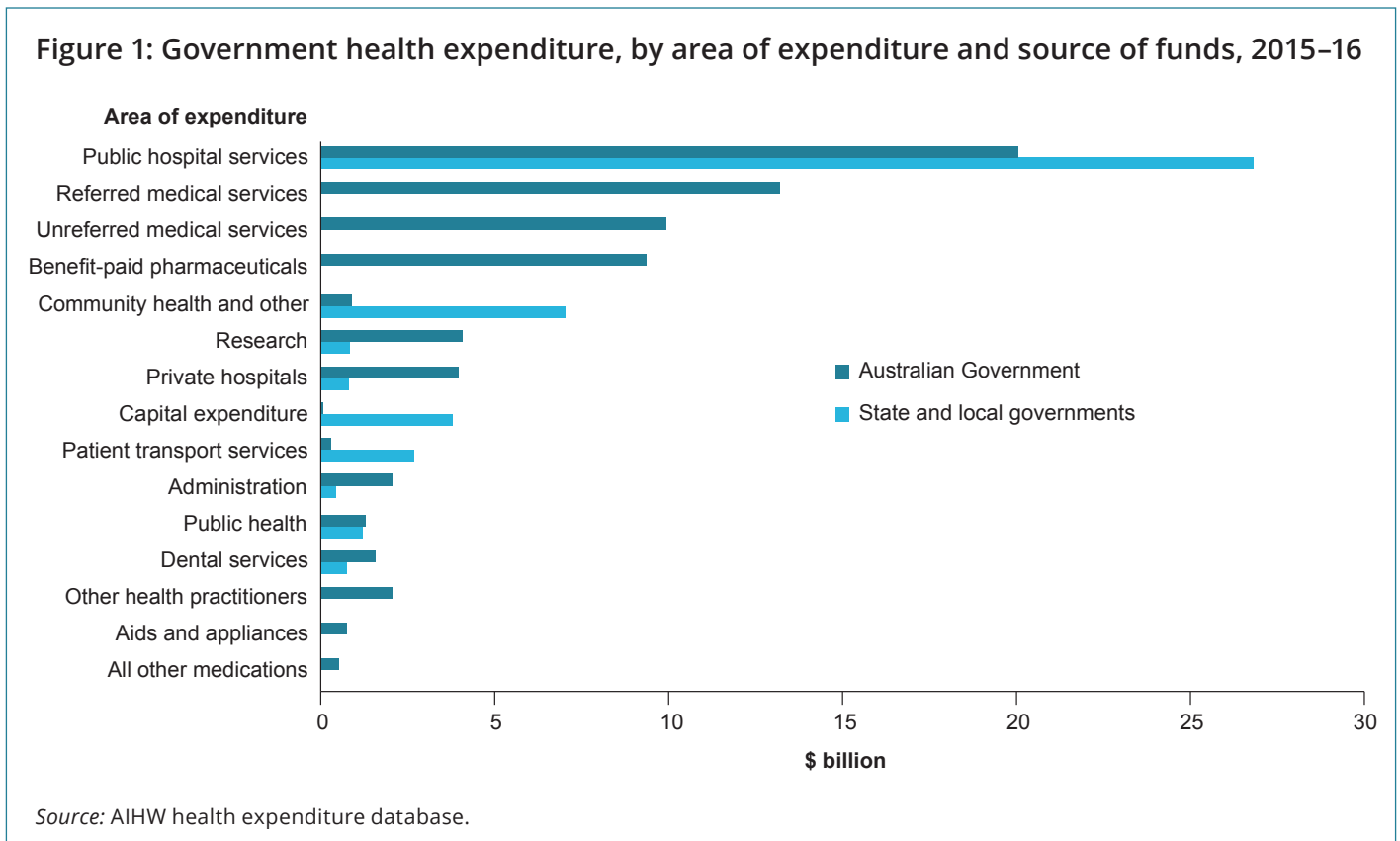
Many prescription pharmaceuticals are funded through the Pharmaceutical Benefits Scheme (PBS), with individuals making a copayment (DoH 2017).

Individuals can pay for the services not funded by the arrangements above in out-of-pocket payments, and some can be covered through private health insurance.

What services do governments fund?

Governments fund a range of health services (see Box 1: Australia's health system). In addition to hospital services, pharmaceuticals and medical services, they also fund services such as public health, emergency dental services, capital expenditure for new health technologies and buildings, and research, among others. The areas of expenditure for different levels of government are based on funding arrangements and policies, with each level having distinct funding responsibilities.

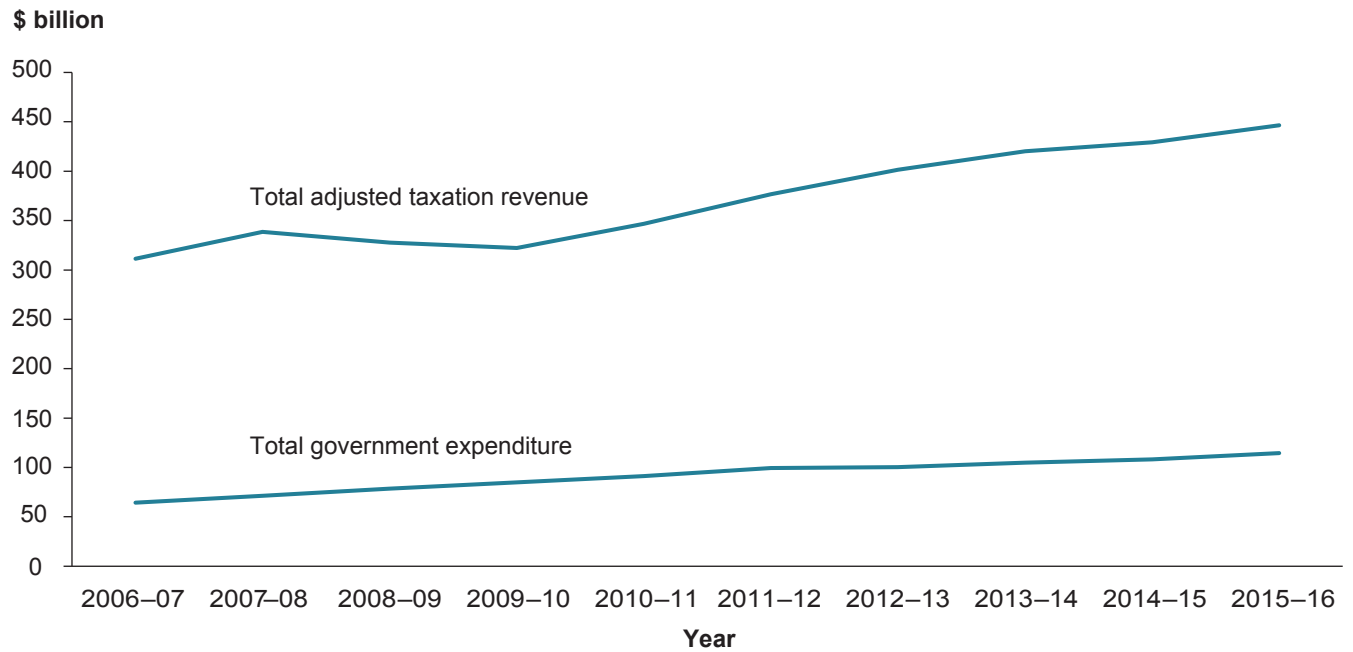
In 2015–16, the Australian Government spent \$70.2 billion on health. State and territory governments spent \$44.4 billion. The majority of expenditure (69%) was for public hospital services, referred medical services, unreferral medical services, and benefit-paid pharmaceuticals (Figure 1).



Government tax revenue and health spending

It is useful to measure the magnitude of government health spending relative to government income. At a national level, growth in government health expenditure was more consistent than growth in tax revenue from 2005–06 to 2015–16. This was largely due to the global financial crisis affecting taxation receipts in 2008–09 and 2009–10 (Figure 2). From 2013–14, growth in both tax revenue and government health expenditure was below the 10-year average. In 2015–16, tax revenue grew by 4.1%, compared with an average annual growth rate of 4.4%. Government health expenditure grew by 6%, compared with an annual average growth of 6.9%.

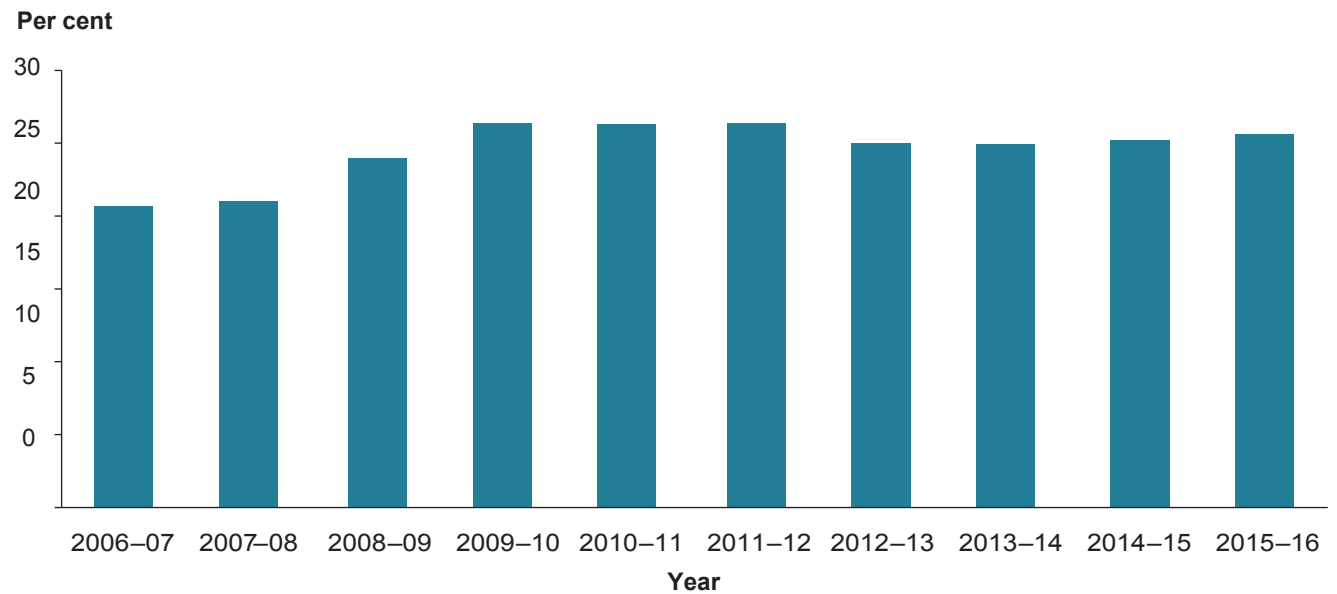
Figure 2: Tax revenue and health expenditure across all governments, current prices, 2015-16



Source: AIHW health expenditure database; ABS 2017.

As a result, the ratio of government health expenditure to tax revenue has remained relatively stable over the 4 years from 2012-13. The ratio was highest in 2009-10 and 2011-12 at 26.4%, before decreasing to 25.0% in 2012-13. The ratio of health expenditure to tax revenue rose slightly to 25.7% in 2015-16 (Figure 3).

Figure 3: The ratio of health expenditure to tax revenue across all governments, 2006-07 to 2015-16

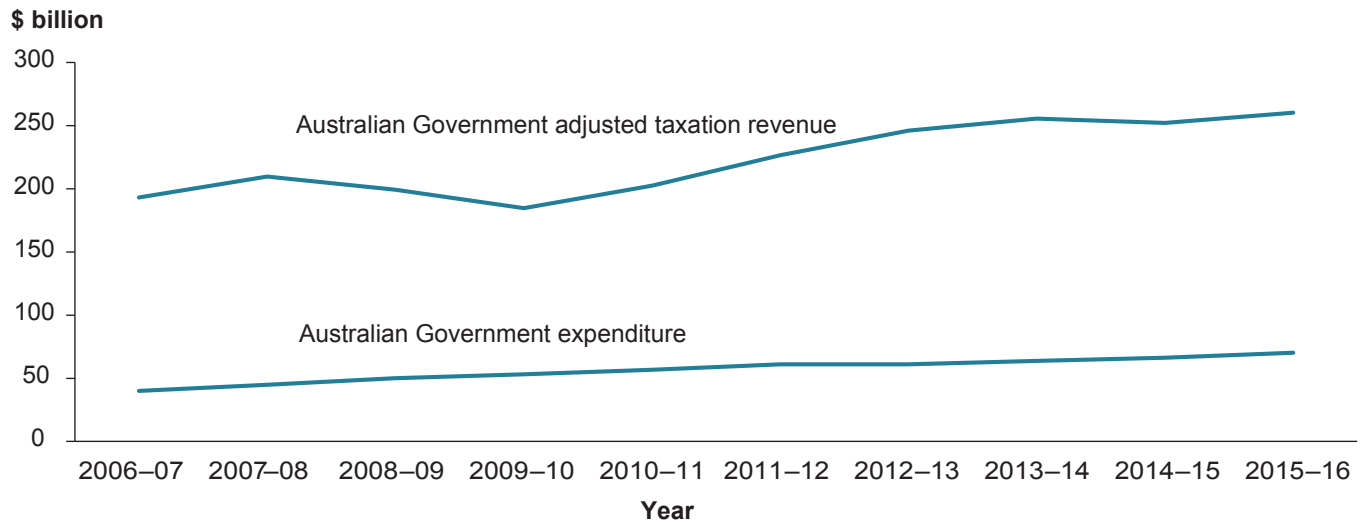


Source: AIHW health expenditure database; ABS 2017.

Australian Government tax revenue and health spending

A decline in Australian Government tax revenues has led to slow growth in overall tax revenue. Tax revenue has been relatively volatile over the decade 2006–07 to 2015–16, as a result of the global financial crisis in 2008–09 causing it to decrease for 2 consecutive years. In 2015–16, tax revenue grew by 3.2%, compared with an average annual growth rate of 3.8%. Government health expenditure grew by 6.0%, compared with an annual average of 6.6% (Figure 4).

Figure 4: Health expenditure and tax revenue for the Australian Government, current prices, 2006–07 to 2015–16



Source: AIHW health expenditure database; ABS 2017.

The disparity in the growth rates led to an increase in the ratio of health expenditure to taxation revenue, from 26.3% in 2014–15 to 27.0% in 2015–16. The ratio has increased each year since 2012–13, when the ratio was 24.8%. The ratio was highest in 2009–10 at 28.7% (Figure 5).

Figure 5: The ratio of health expenditure to tax revenue for the Australian government, 2006–07 to 2015–16



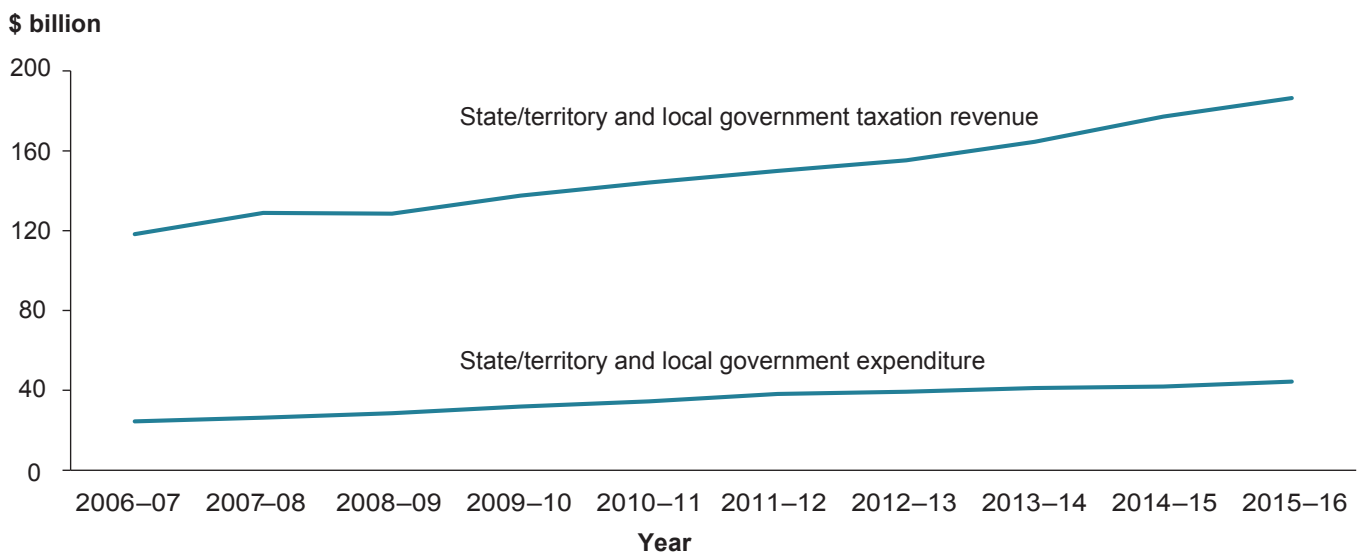
Source: AIHW health expenditure database; ABS 2017.

State and territory and local governments tax revenue and health spending

For reporting purposes, funding for health care received by local government authorities from a state or territory government is included in that jurisdiction's expenditure. 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 health expenditure. Local government taxation revenue is included in the revenue received by state and territory governments.

Unlike Australian Government tax revenue, state and territory and local government tax revenue has grown steadily over the decade. In 2015–16, tax revenue grew 5.2% compared with an annual average of 5.3% for the decade. Health expenditure by state and territory and local governments grew by 6.1% in 2015–16, compared with an annual average growth rate of 7.3% over the decade (Figure 6).

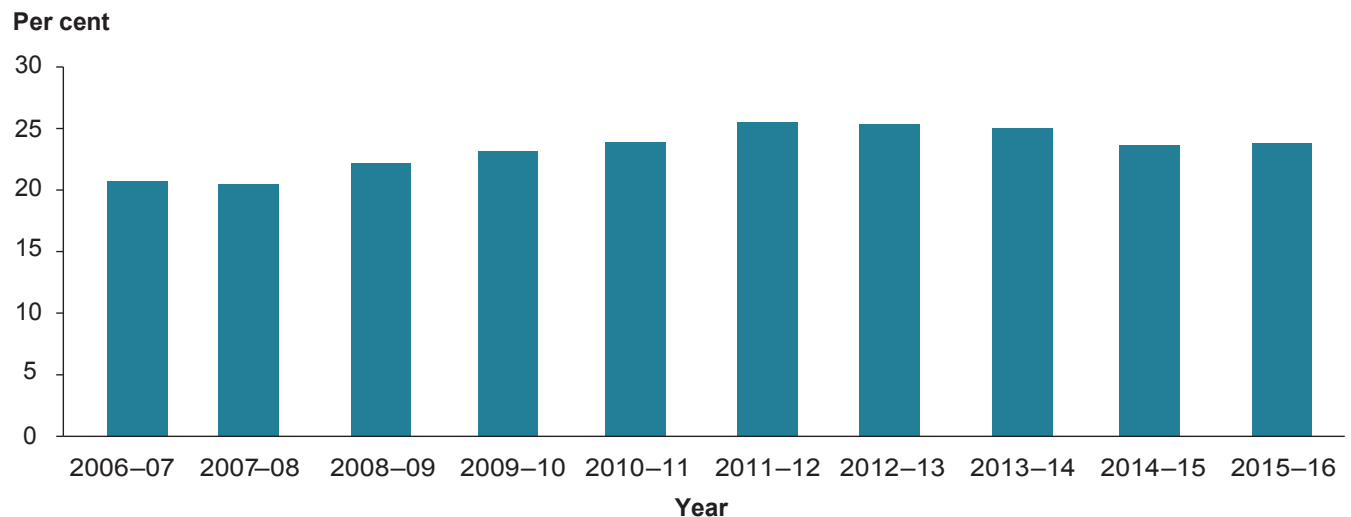
Figure 6: Health expenditure and tax revenue for state and territory and local governments, current prices, 2006–07 to 2015–16



Source: AIHW health expenditure database; ABS 2017.

The ratio of health expenditure to tax revenue for state and territory and local governments increased from 23.6% in 2014–15 to 23.8% in 2015–16. This is the first increase in the ratio since 2011–12 (Figure 7).

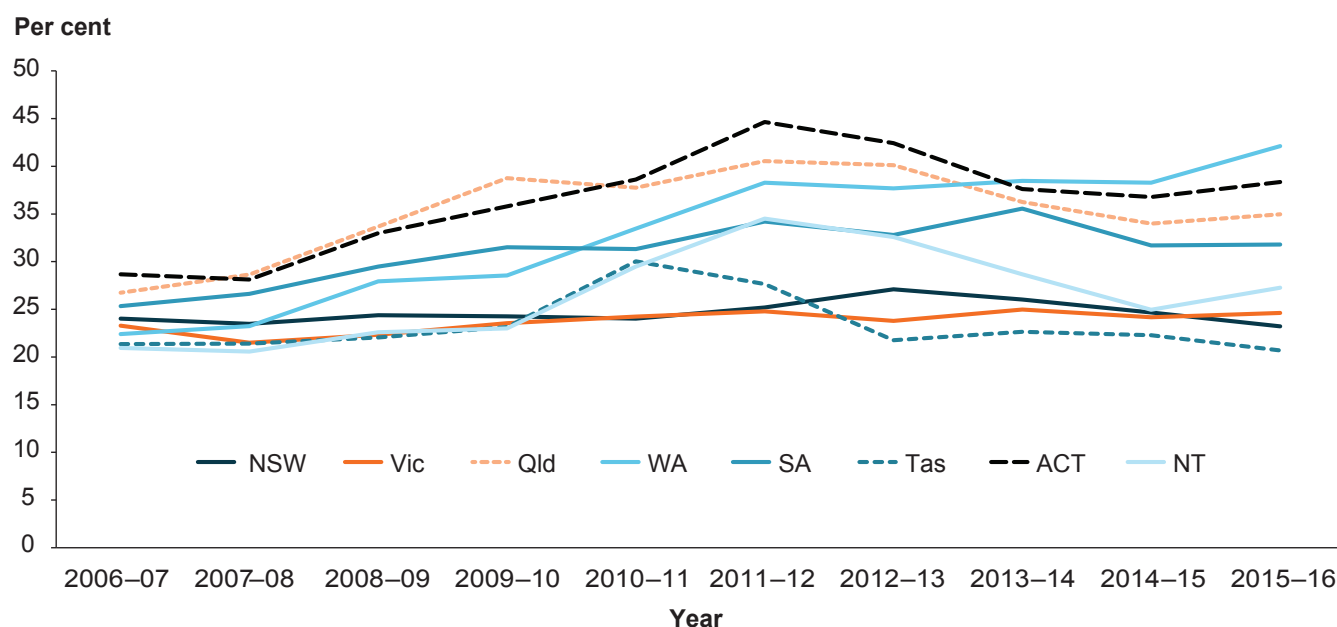
Figure 7: The ratio of health expenditure to tax revenue for state and territory and local governments, 2006–07 to 2015–16



Source: AIHW health expenditure database; ABS 2017.

Most states had an increase in the ratio of health expenditure to tax revenue in 2015–16. The largest increase was in Western Australia (3.8 percentage points). Tasmania had a decline of 1.6 percentage points (Figure 8). The ratios of health expenditure to tax revenue for states and territories prior to the global financial crisis in 2008–09 were between 21% and 28.7%. The ratios then diverged for several reasons, and in 2015–16 ranged from 20.7% in Tasmania to 42.1% in Western Australia.

Figure 8: The ratio of health expenditure to tax revenue for state and territory governments, 2006–07 to 2015–16



Note: Tax revenue in this figure does not include local government.

Source: AIHW health expenditure database; ABS 2017.

Further information

Australian Institute of Health and Welfare 2017. Health expenditure Australia 2015–16. Health and welfare expenditure series no. 58. Cat. no. HWE 68. Canberra: AIHW.

Data visualisation of the AIHW health expenditure data is at <<https://www.aihw.gov.au/reports/health-welfare-expenditure/health-expenditure-australia-2015-16/contents/data-visualisations#>>.

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