



Budget pressures and health spending

**Royal Children's Hospital
Grand Round**

**John Daley
Chief Executive Officer, Grattan Institute
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Overview

Australian government budgets are under pressure

- Overall, we expect a decade of deficits
- The mining boom and financial crisis masked ongoing deficits due to a rise in spending
- Commonwealth expense and revenue projections are optimistic

Health is the largest budget pressure

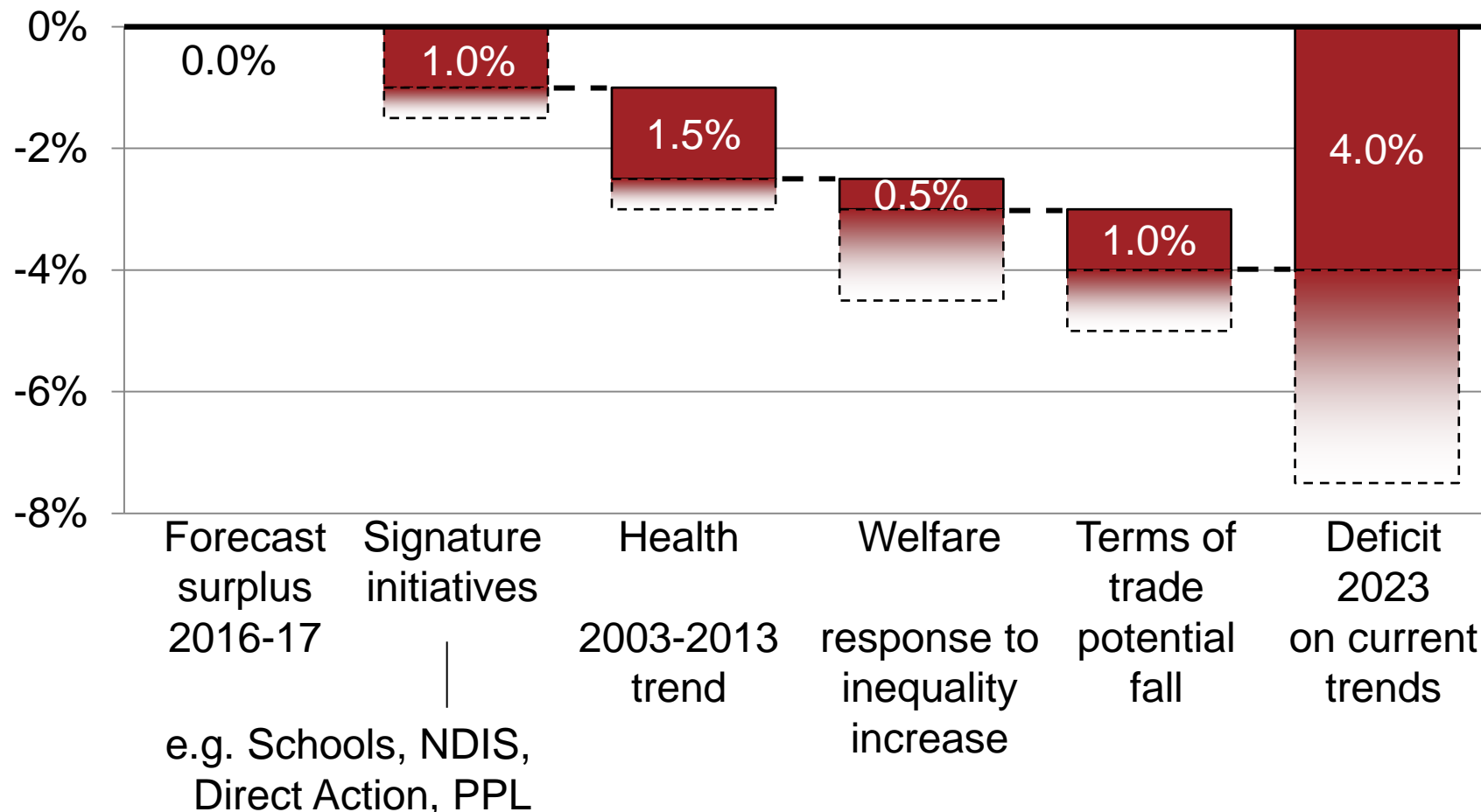
- Health is the second largest spending category for governments overall, and the largest category for State governments
- Health dominates *increases* in government expenditure, both overall and in Victoria
- Hospital spending is the largest category of health spending, and it is growing faster
- Increases in health spending are the result of increased servicing, not ageing
- Research spending has also grown much faster than GDP

Reform will require some difficult decisions

- Australian spending on health is relatively efficient by global standards
- Victorian government spending on health is already less than other States

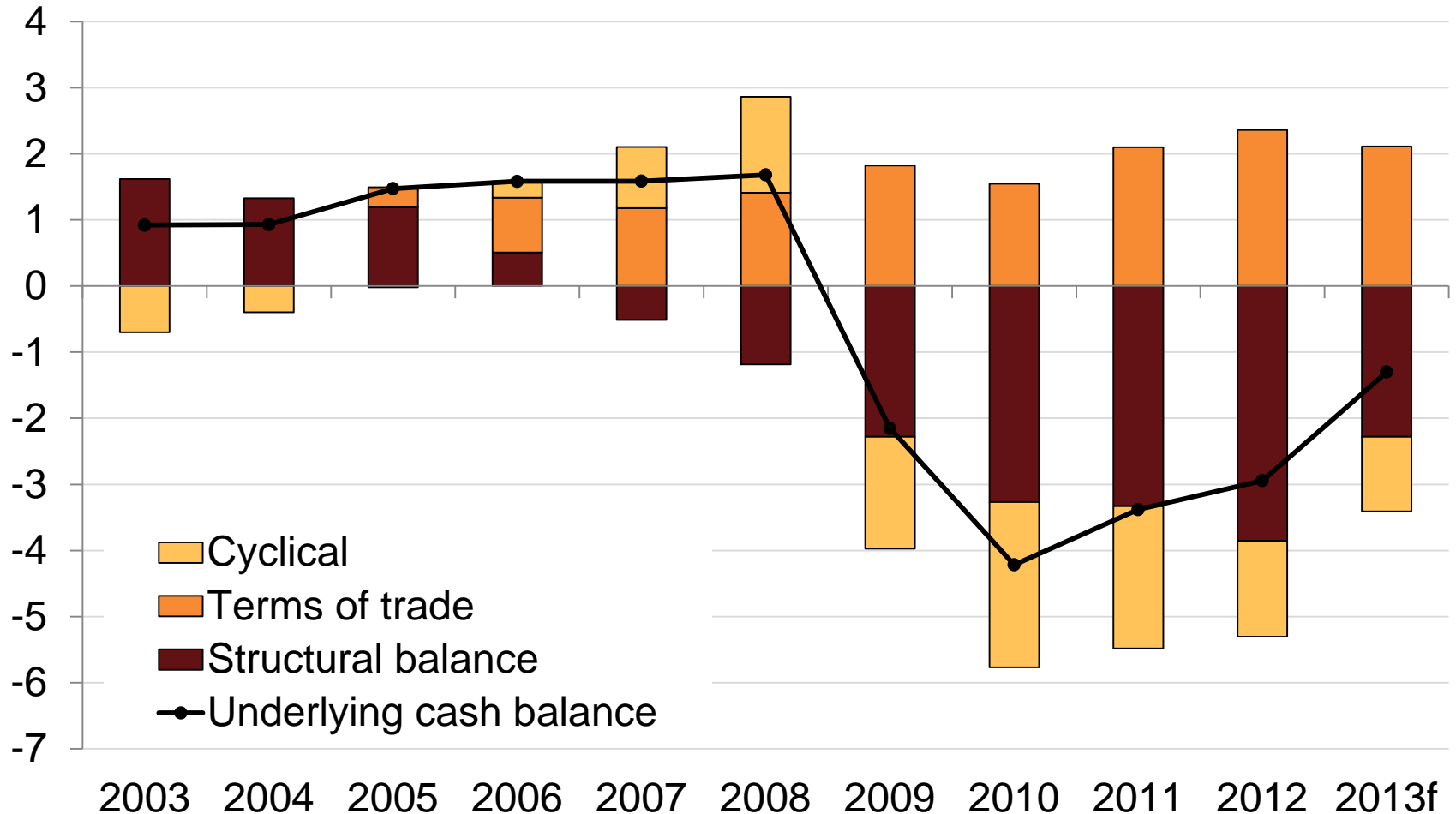
Australian governments face a decade of deficits on current trends

Potential annual deficit of Australian governments' budgets by 2023 (Percent of GDP)



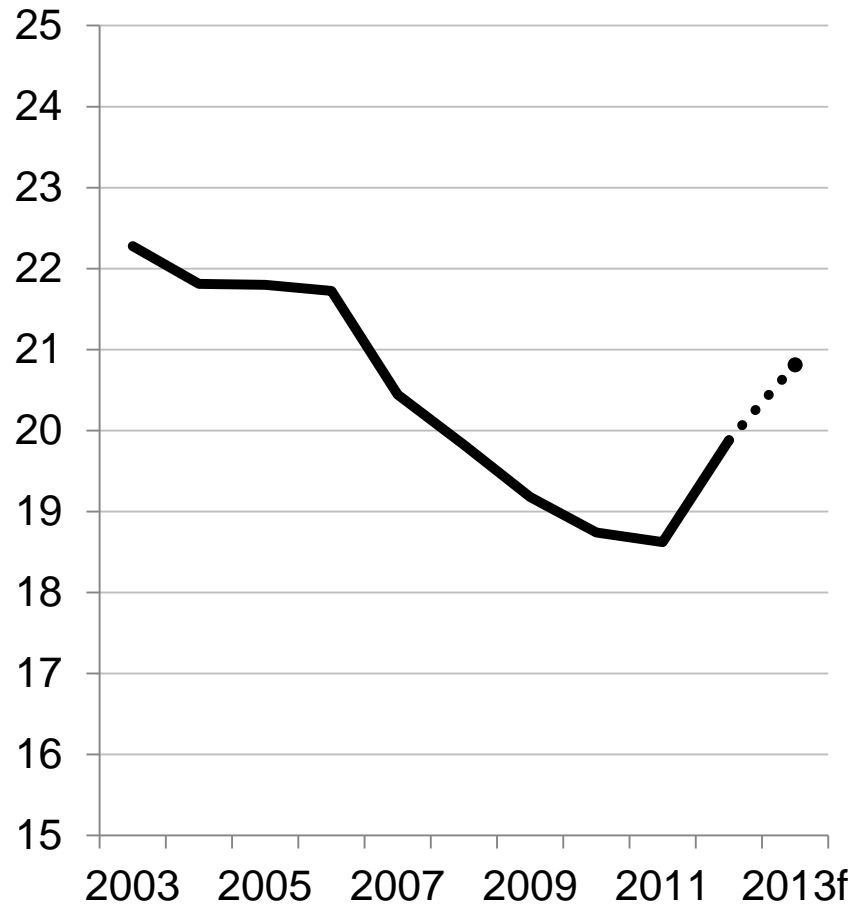
The terms of trade masked a large structural deficit

Commonwealth budget balance Per cent of nominal GDP

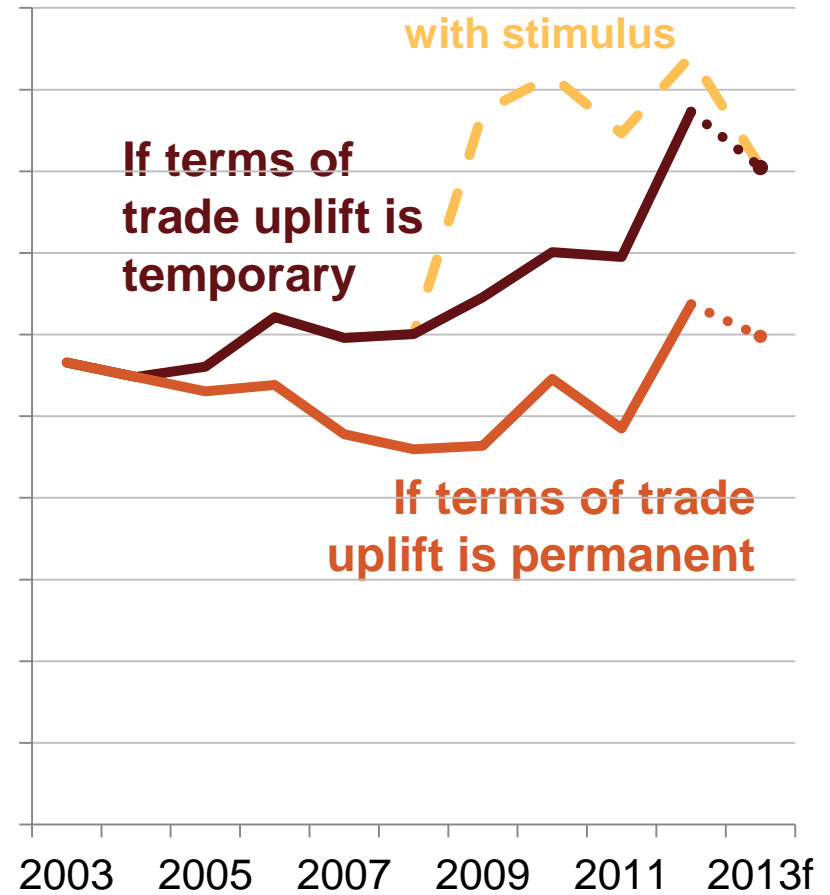


Higher spending drove the structural deficit

Structural income
Per cent of GDP

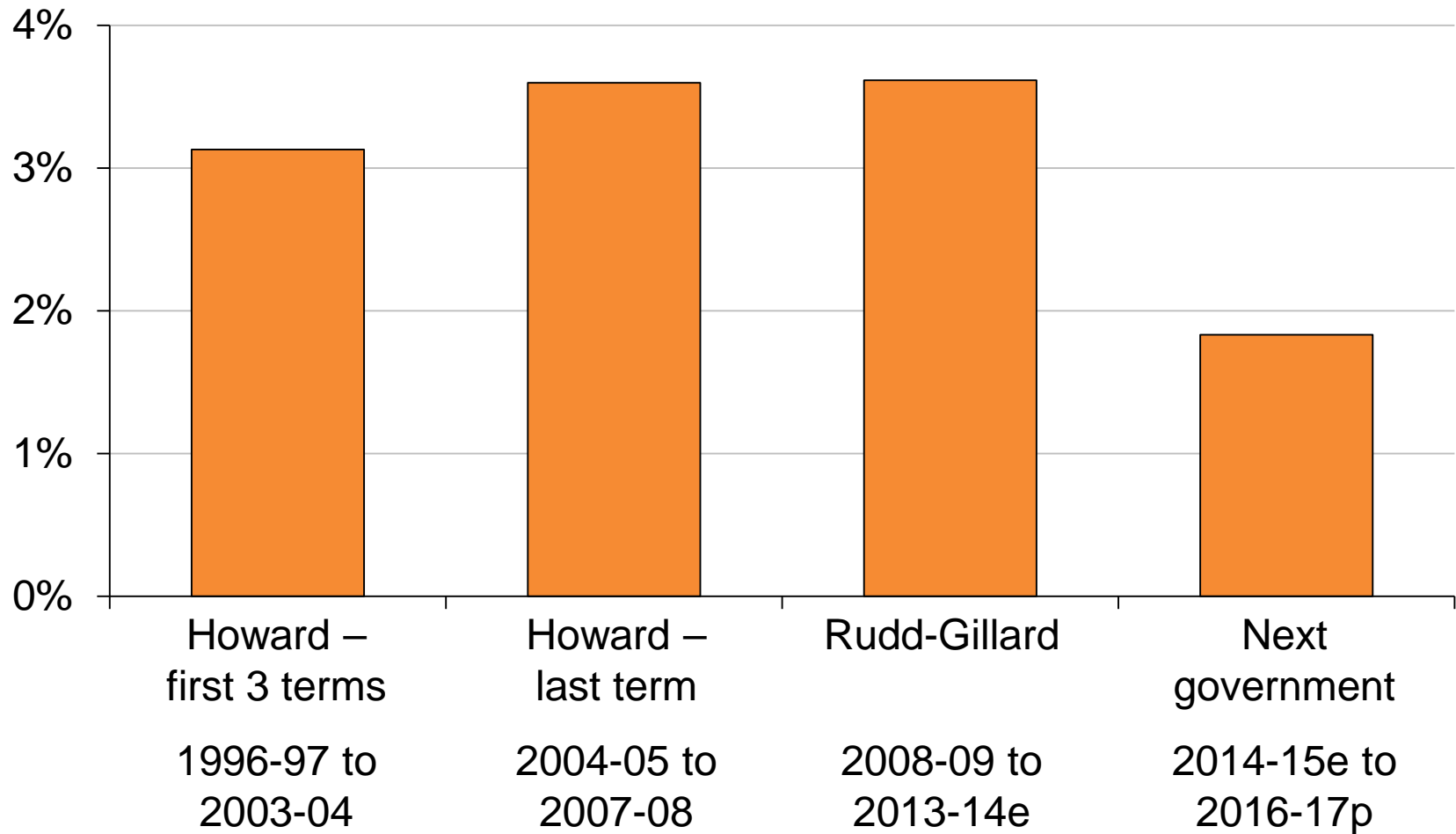


Structural expenditure
Per cent of GDP



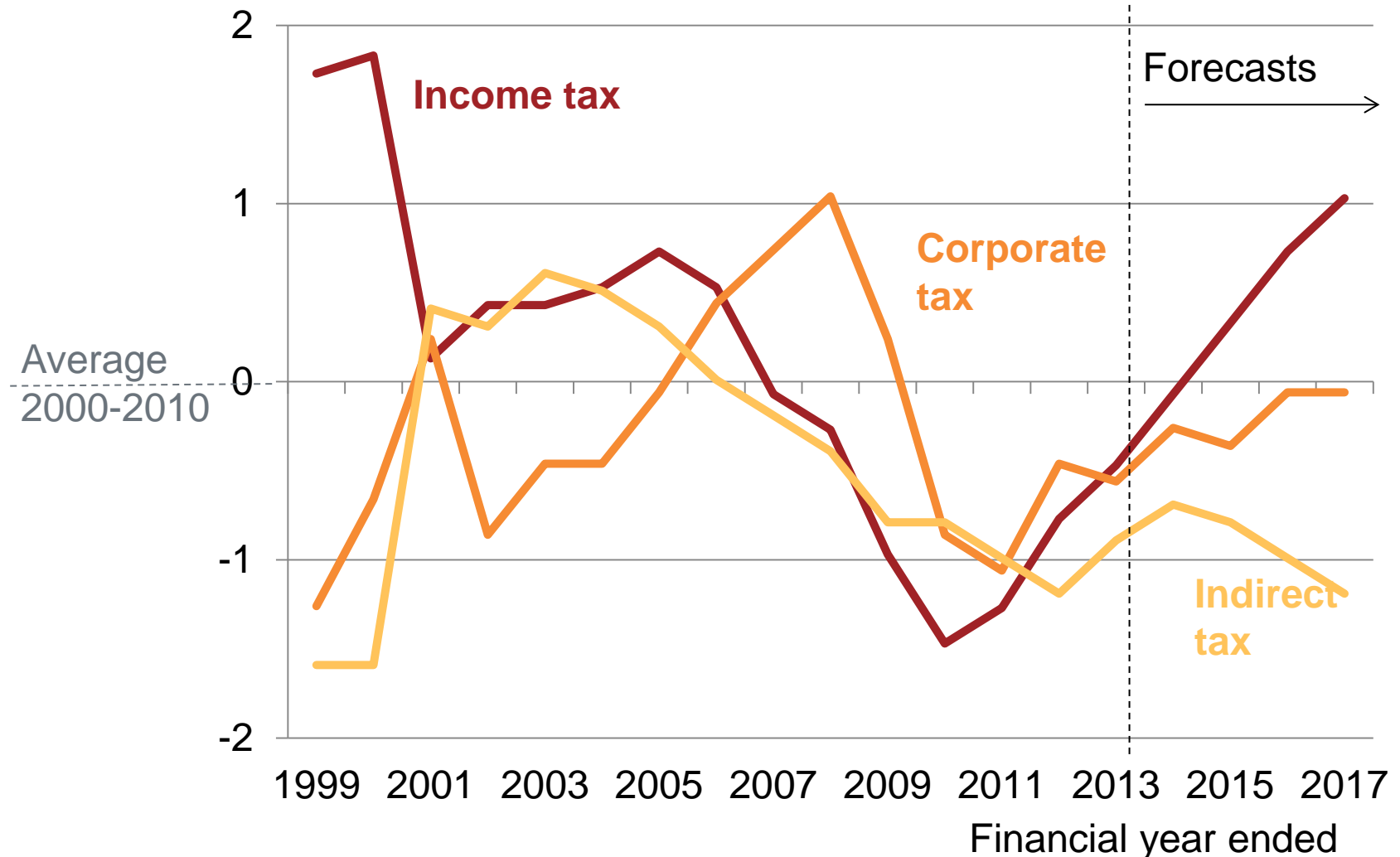
Expenditure assumptions in the most recent budget are optimistic

Real expenditure growth by Commonwealth government Cumulative annual growth, % per year



Personal income tax is forecast to hit all-time highs

Commonwealth revenues, deviation from long-term average
% of GDP, 0 = average 2000-2010



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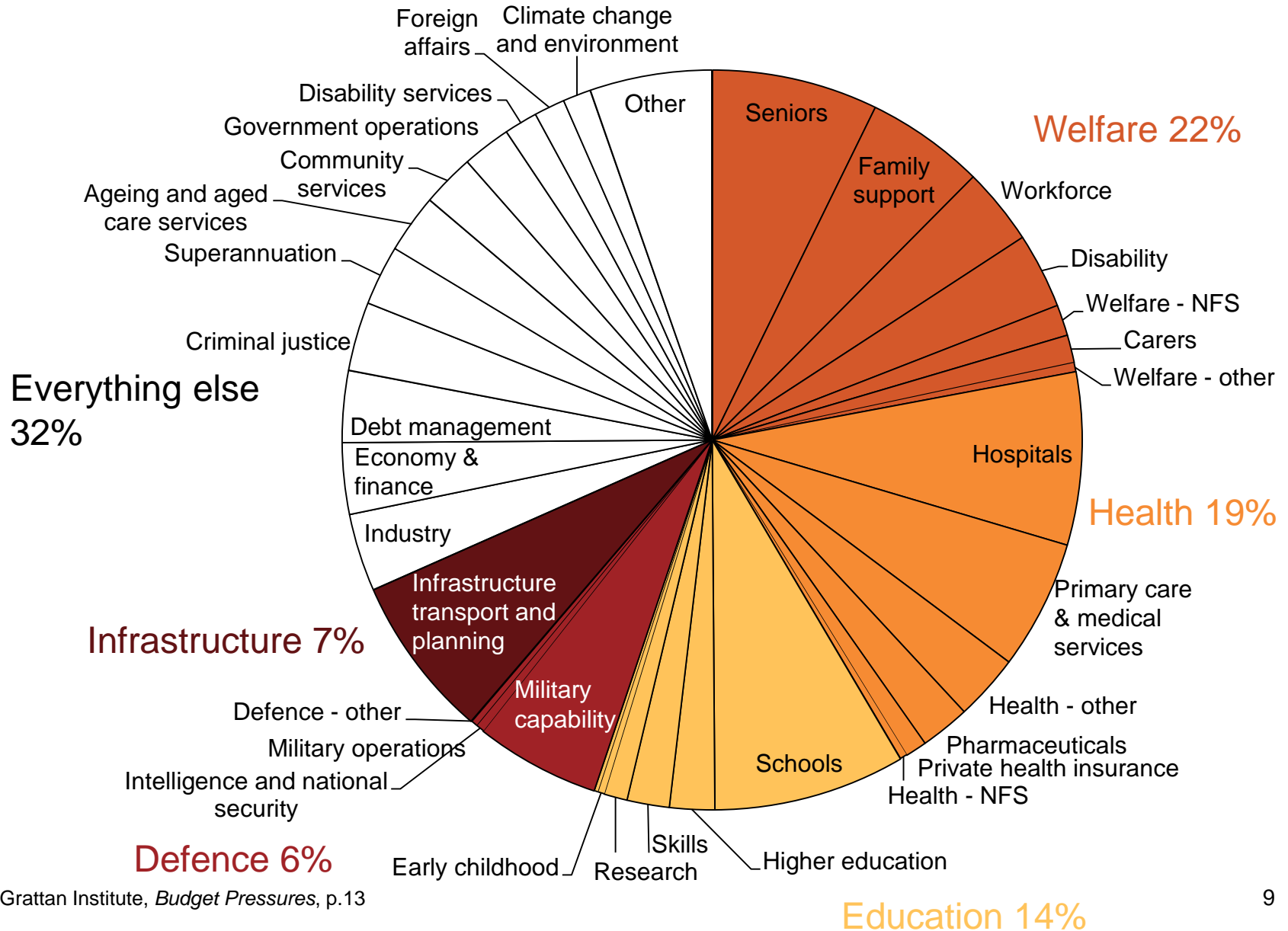
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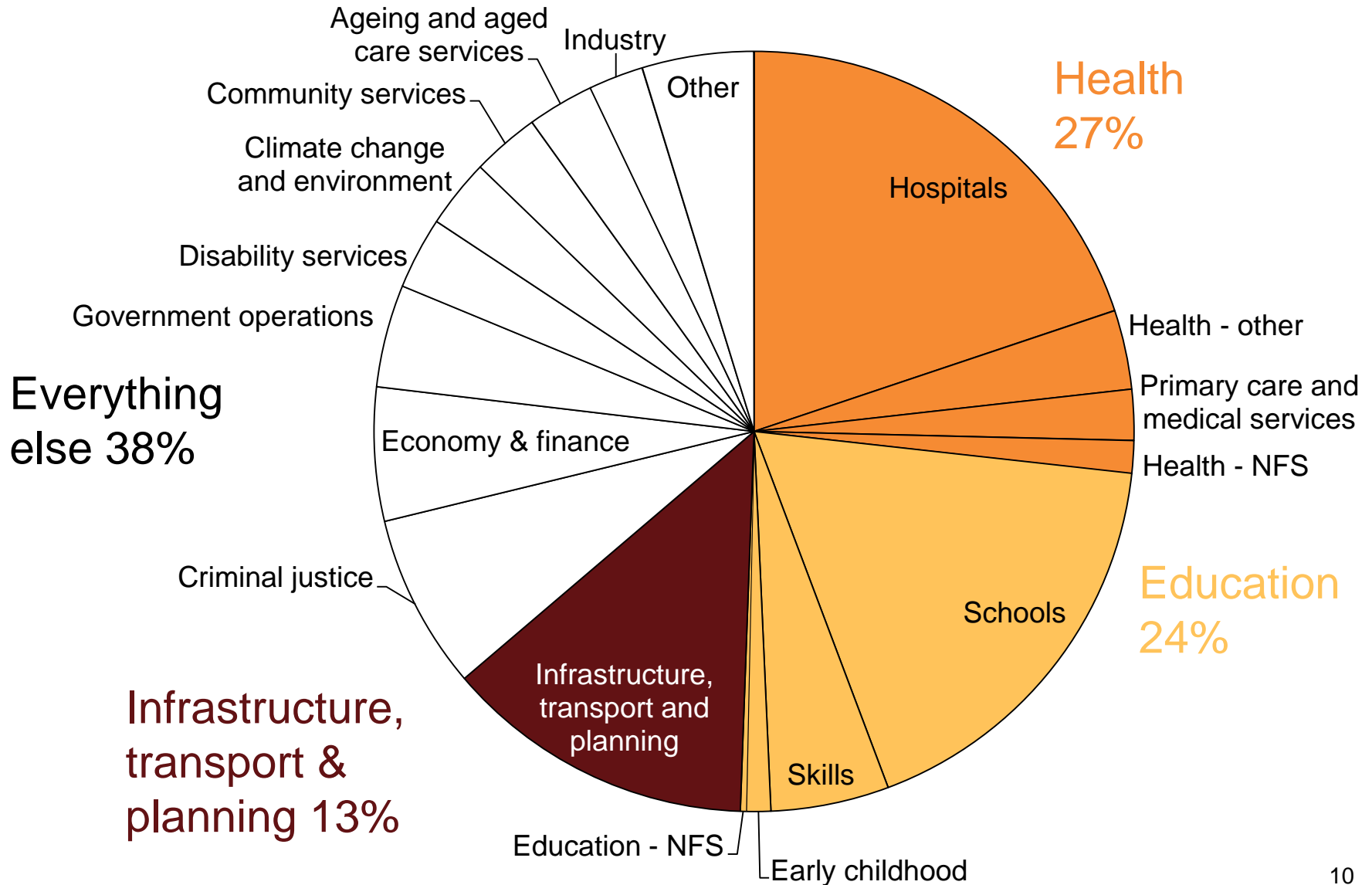
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Welfare, health, education, defence and infrastructure are 2/3 of expenditure



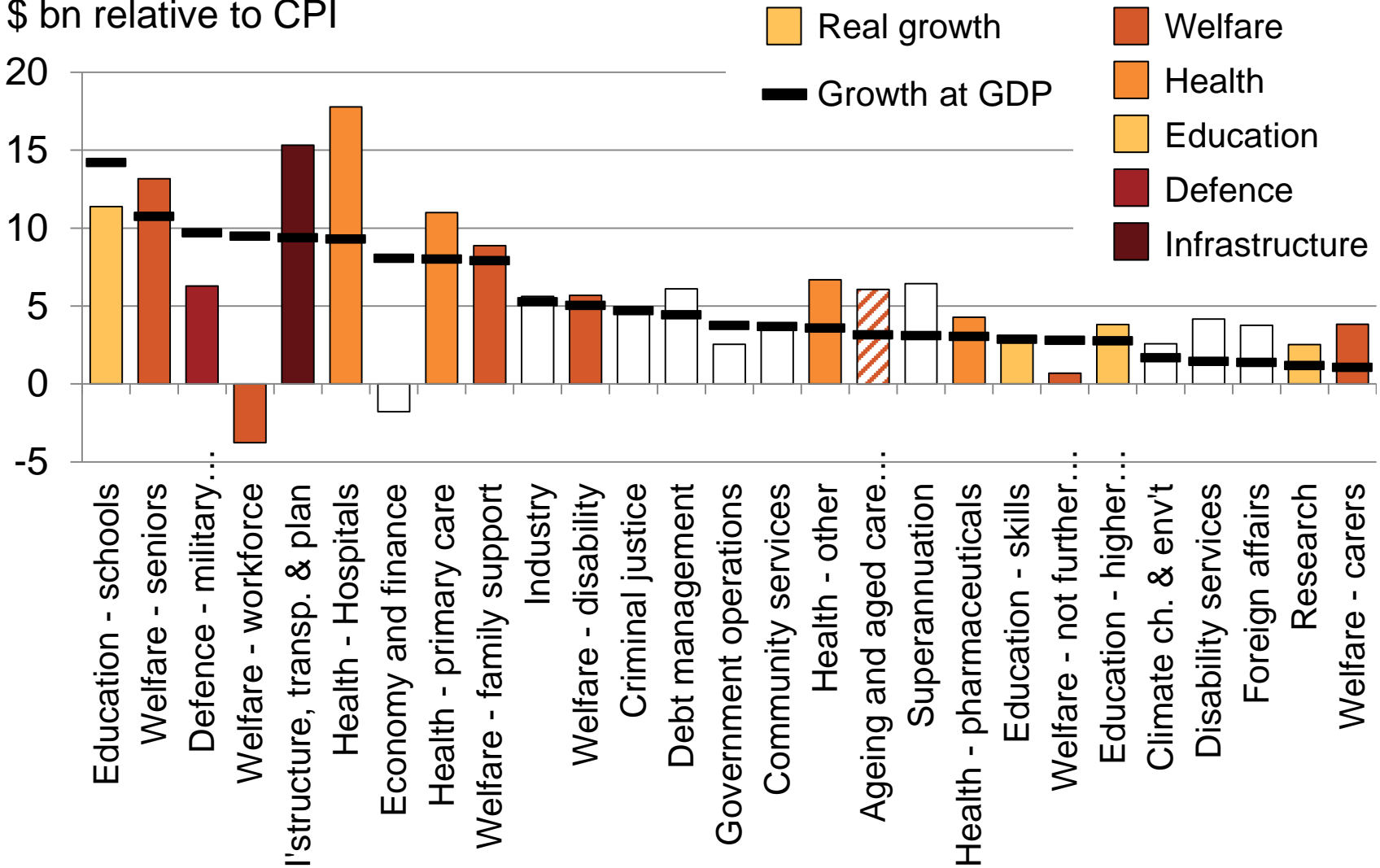
Health is over a quarter of Victorian government spending



Hospital, seniors, and infrastructure spending grew much faster than GDP

Change in Australian governments' expenditure 2003-2013

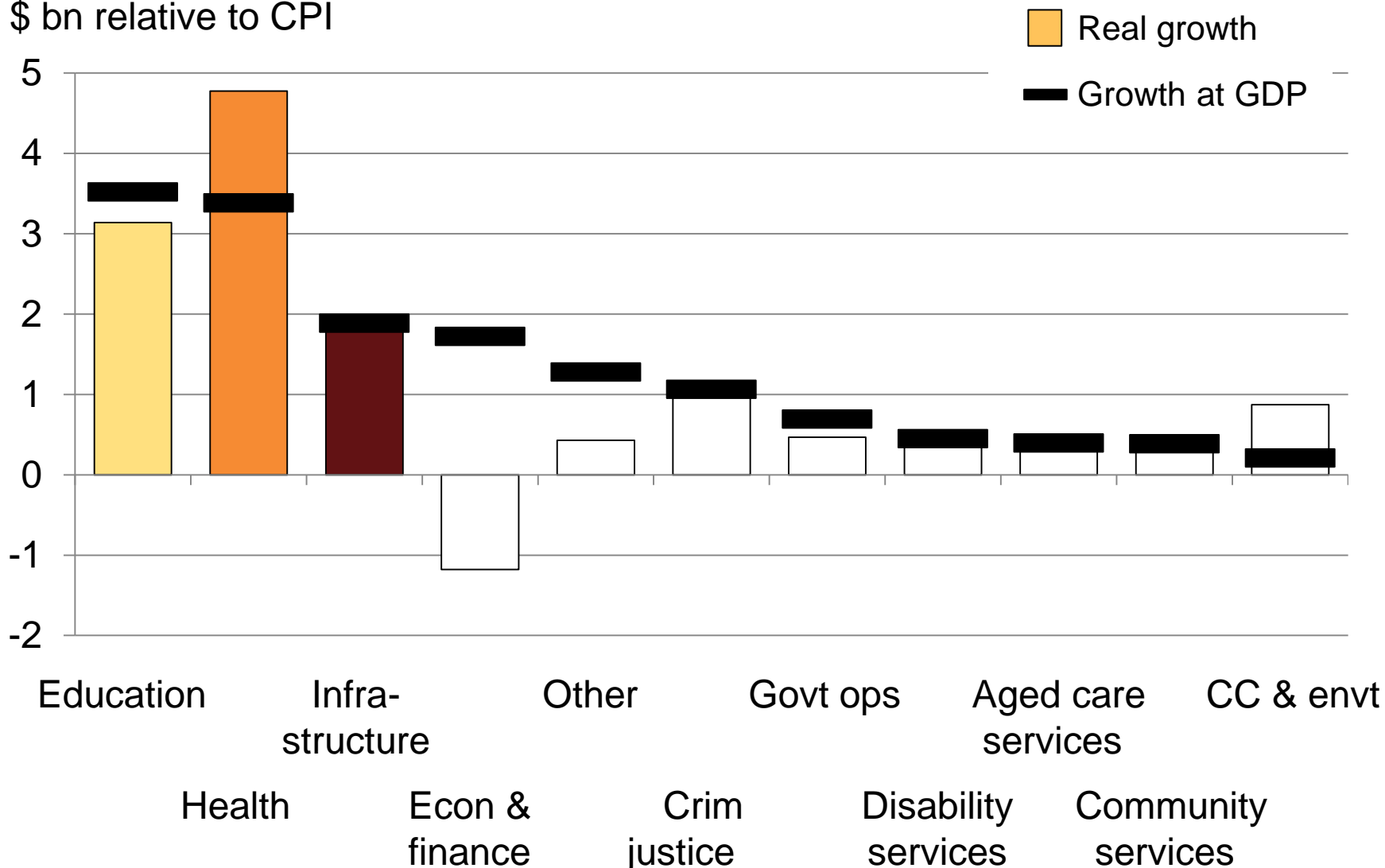
\$ bn relative to CPI



Victorian spending grew slightly faster than GDP, largely due to health

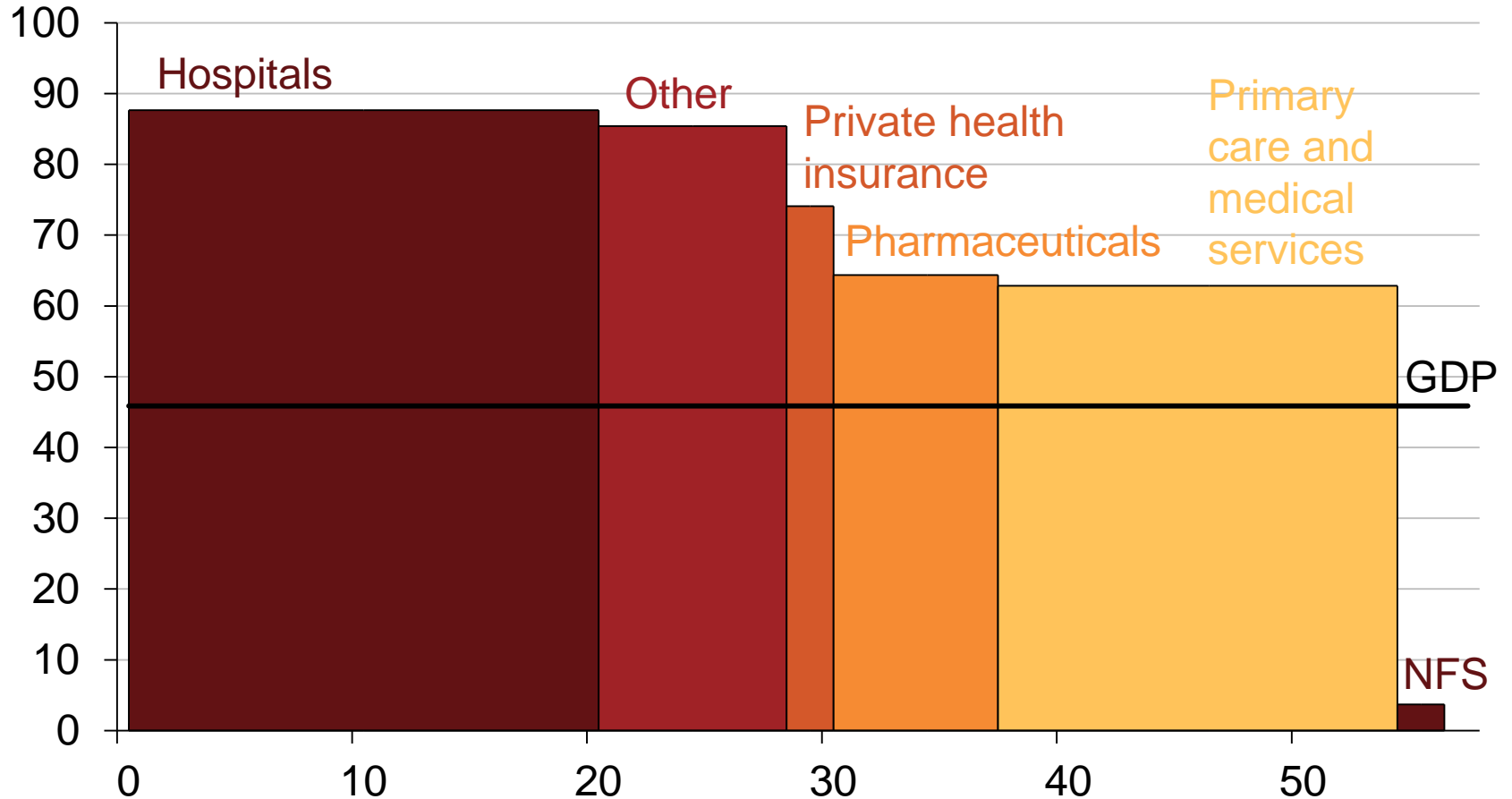
Change in Victorian government expenditure 2003-2013

\$ bn relative to CPI



Hospitals are the biggest driver of increases in health costs

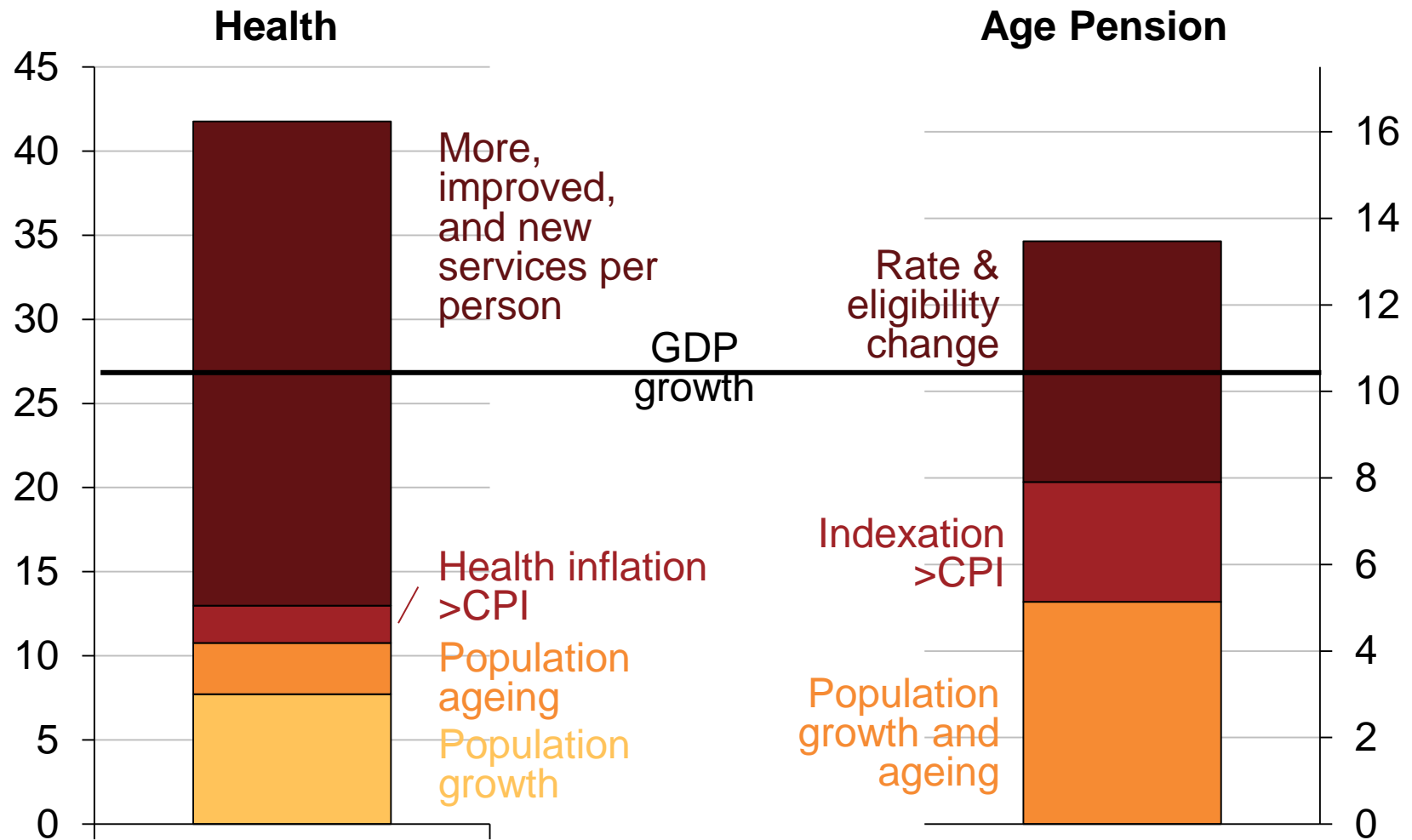
Change in all government health expenditures
2002-03 to 2012-13, % change above CPI



\$bn spent in 2002-03, in \$2012

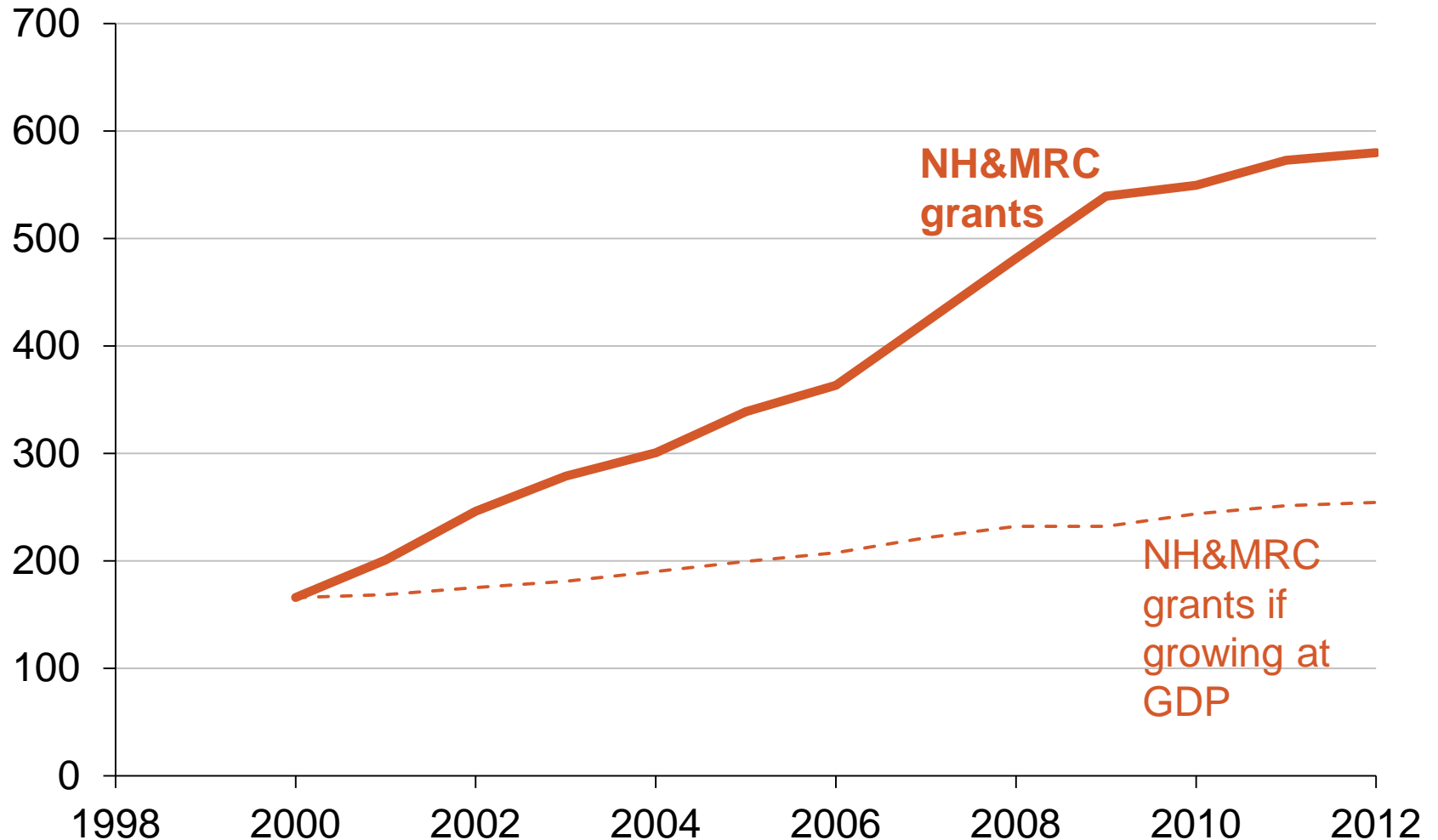
Health and Aged Pensions (but not ageing) are the biggest pressures

Real increase in expenditure 2003-2013
(\$2012 billion)



Medical research spending tripled in a decade

NHRMC grants to universities, \$2011 m



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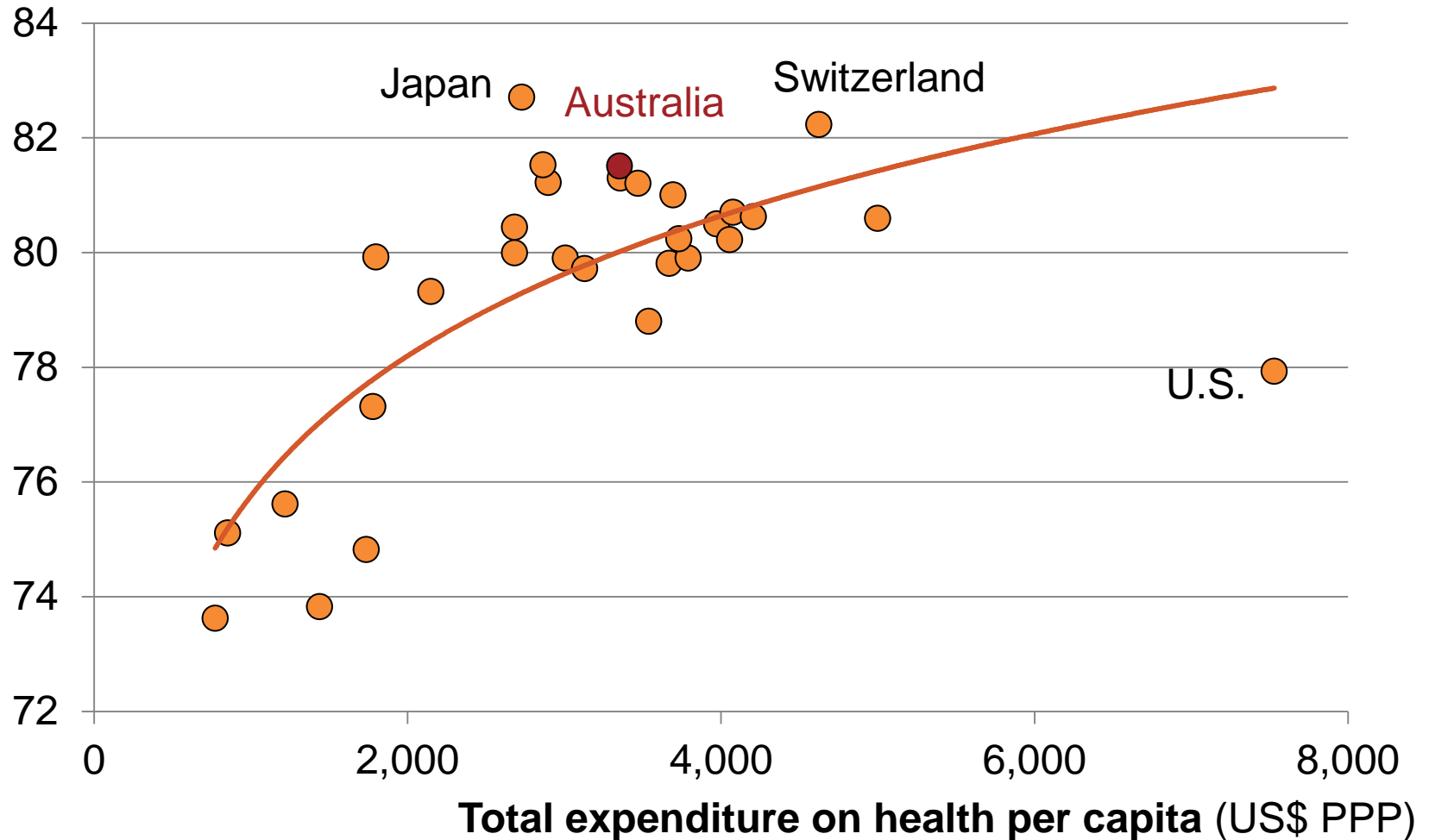
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Australia already gets relatively good value for money in health spending

Life expectancy at birth, years, OECD countries, 2008 or latest available



Victorian government spending on health is relatively low

Larger State government expenditure/resident
\$ per capita, 2012-13

