

To give an indication of the medium to long term effects of certain proposed National Health and Hospitals Reform Commission (NHHRC) reforms on growth in health expenditures, the Australian Institute of Health and Welfare developed estimates of the expenditure effects of selected reform proposals. This was achieved by factoring those reforms into the model that the AIHW had previously developed to project health expenditures to 2032–33 (the ‘baseline projections’).

The model used to derive the baseline projections and the projections of changed expenditures following the reforms combines both:

- demographic factors – population ageing and population growth; and
- non-demographic factors – changes in disease rates, volume of services per treated case, treatment proportions (the proportion of cases that receive treatment) and excess health price inflation (the difference between health inflation and general inflation).

Assumptions about future changes in these factors are applied to current health and high-care residential aged care expenditure to estimate expenditure for each disease and disaggregated by the different areas of expenditure (such as hospitals, out-of-hospital medical services and pharmaceuticals). It should be kept in mind that it is not certain that the projected expenditures will be realised; there are many unknowns that simply cannot be modelled. More details of the modelling and estimation methods are provided in *Projections of Australian health care expenditure by disease, 2003 to 2033* (AIHW: Goss 2008).

The NHHRC’s reform proposals would impact on two of the factors in the projection model – the disease rates factor and the volume of services per case of disease factor. In broad terms, the projections of expenditure following the reforms were derived by changing these two factors that were inputs to the projection model.

The translation into the input factors for the model was based on advice from the NHHRC on the nature of the reform proposals. The specification of input factors was also informed by a review of the literature or consultation with experts. More details of the technical assumptions are provided in *Estimating the impact of selected National Health and Hospitals Reform Commission reforms on health care expenditure, 2003 to 2033* (AIHW 2009, forthcoming).

Table 1 compares the AIHW's current projections of health and residential aged care expenditure in 2022-23 and 2032-33 with the projected expenditure after taking account the impacts of selected NHHRC reforms. It is estimated these reforms will reduce projected spending by \$4 billion a year by 2032-33. As a proportion of GDP, health and aged care expenditure will be 12.2 per cent of GDP in 2032-33, which is less than the 12.4 per cent in the original projections.

Table 1: Estimated change in projected health and residential aged care expenditure due to selected NHHRC reform proposals

	Expenditure (millions of 2006–07 dollars)		
	2002–03	2022–23	2032–33
Original projected health & residential aged care (high care) expenditure (\$m)	85,063	167,729	246,056
Total health and (high care) aged care expenditure as per cent of GDP	9.3%	10.6%	12.4%
<i>Less net savings due to proposed interventions</i>			
Improved availability of sub-acute care		-127	-190
Reduced rate of increase in obesity		-624	-2,566
Faster decline in smoking rates		-363	-262
Patient enrolment with a primary health care service (Medical home)		-380	-635
Reforms to aged care		-519	1,412
Improved access to basic dental care		-73	-110
Improved treatment of diabetes		-125	-188
Implementation of personal electronic health records		-430	-627
Improved safety and quality of care		-660	-976
<i>Total net savings</i>		<i>-3,301</i>	<i>-4,142</i>
Total health & residential aged care expenditure after net savings from selected NHHRC reforms (\$m)	85,063	164,428	241,914
Total as per cent of GDP	9.3%	10.4%	12.2%

Table 2 – Estimated change in 2032–33 in projected health and aged care expenditure by area of expenditure given implementation of selected NHHRC recommendations

Area of expenditure	Admitted	GP	Other medical	Pharmaceuticals	Residential aged care (high care)	Total health and aged care
	\$m	\$m	\$m	\$m	\$m	\$m
	-3,785	207	-1,401	-337	1,172	-4,142