



Australian Government

Australian Institute of  
Health and Welfare

*Authoritative information and statistics  
to promote better health and wellbeing*

Ms Christine McDonald  
Secretary  
Standing Committee on Finance and Public Administration  
PO Box 610  
Parliament House Canberra ACT, 2611

Dear Ms McDonald

Thank you for the opportunity to appear before the Committee yesterday.

I understand that questions were asked of other participants at the hearing about the Australian Institute of Health and Welfare's (AIHW) Total Health Price Index (THPI). It is unfortunate that these same questions were not directed to the AIHW, as we could have provided authoritative responses to the Committee at the hearing.

On the issue of transparency, the AIHW fully explains the method of calculation for the THPI in our annual *Health expenditure Australia* report, which is released around September each year. In this annual publication we also transparently publish the THPI and its component parts for ten years. This information was highlighted in our submission to the Committee provided earlier this week.

The *Health expenditure Australia* report is produced under the guidance of a Health Expenditure Advisory Committee (HEAC), which includes representation from all jurisdictional health departments and Dr John Deeble. Members have been involved in the development and calculation of the THPI over many years, including being provided with embargoed copies of the data prior to publication. In late 2012, when the issue of payments to states was highlighted in the Mid year Economic and Financial Outlook, the AIHW also had additional contact with officers of many jurisdictions, including Victoria, to ensure they understood the basis of the THPI calculation and the recent trends. During this process there were no questions raised with AIHW regarding the transparency or accuracy of the THPI.

I would suggest that the Committee does not confuse the issue of transparency which we have demonstrated with the perspective of those who believe the numbers should be higher in order to produce a higher funding level to state governments.

On the issue of the reliability of the estimate, drawing upon publicly available information:

- The AIHW received advice from the ABS that their *government final consumption expenditure (GFCE) on hospitals and nursing homes* deflator was lower in 2010-11 largely as a result of reductions in the price of medical and surgical equipment (around -20%) and medications. Around this time, the Australian dollar appreciated significantly against other currencies and imported products were cheaper in Australia.
- The *GFCE on hospitals and nursing homes* includes consideration of wages paid by hospitals and nursing homes.
- The *GFCE on hospitals and nursing homes* is derived from the elaborate Australian Bureau of Statistics national accounts process and our investigation of estimates over

recent years shows that these GFCE estimates are subject to no or little adjustment (generally down) from one year to the next.

- The AIHW's THPI is a national estimate that may not necessarily reflect the precise experience in a single jurisdiction.
- The THPI captures total hospital prices, not just those relating to a particular area such as admitted patient care or emergency departments.
- The THPI is a measure of the price paid for the outputs produced by the health system. It is not a measure of the input costs to the system in producing those outputs.
- The low growth in the THPI between 2009-10 and 2010-11 was consistent with low inflation experienced in the broader economy in recent years, with the gross national expenditure based measure of inflation also showing relatively low inflation.

As a final point, I would note that when the federal financial relations arrangements were being negotiated, the most recent available data for these price indices was that published in *Health expenditure Australia 2006-07*. At this stage of negotiation, the available data showed that the THPI had increased by an average of 3.3% over the previous ten years and the *GFCE on hospitals and nursing homes* increased by a slower average of 3.2%. However, since that time, the reverse has tended to be the case, with the THPI increasing by 2.0% and the *GFCE on hospitals and nursing homes* increasing by a greater rate of 2.8% since 2006-07.

Yours sincerely

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Australian Institute of Health and Welfare  
22 February 2013