



# Queensland's Hospital Challenge

Graham Young  
Manasbi Poudel

---



## **Australian Institute for Progress Report, January 2024**

This report was commissioned by the Nurses Professional Association of Queensland (NPAQ) and written by Graham Young and Manasbi Poudel.

We would like to thank those we have consulted in the medical system and their contribution to this report. The viewpoints expressed in this document solely reflect the author's views and may not be those of the NPAQ, or the Australian Institute for Progress. Any inaccuracies or oversights in the report are the responsibility of the authors.

The Australian Institute for Progress is a policy think tank committed to shaping and advancing public policy through innovative research and active engagement with decision-makers and the community. We specialize in providing evidence-based, pragmatic solutions to critical national issues, striving to inform and influence meaningful policy change for the betterment of society.

## Overview

The budgets of Australian governments face financial pressures, especially in areas related to age, disability, and health.

The rate at which these costs are increasing currently surpasses real growth in GDP and this is forecast to continue. Consequently, governments are confronted with the choice of reducing services, raising taxes, charging users, finding efficiencies, or a mixture of all four.

This paper will deal specifically with the increase in hospital expenditures in Queensland. It will outline the challenges and scope out the size of the issues currently facing this sector.

It is the first in a series of short papers that will analyse the challenges facing Queensland Health.

## Findings

- Gross hospital spending by Queensland has been increasing at 4.25% in real terms.
- Gross per capita hospital spending for Queensland has been increasing at the rate of 2.7% in real terms.
- Within the next 5 years, Queensland will need to secure \$5.322 B pa of additional income in real terms, and within the next 10 years, \$10.281 B pa to support its hospital system..

- Escalations in real hospital costs will add 4.14% to total Queensland government outlays in 5 years, and 10.07% in 10 years, almost guaranteeing that projected surpluses will not be met.
- The size of the increased funding needs of Queensland in 10 years is more than it currently raises from each of land tax, motor vehicle registration, stamp duty or payroll tax.
- The size of the increased funding needs of Queensland in 10 years is the equivalent of 4 Gabba rebuilds, or one and half Cross River Rail projects per year.
- Spending on hospitals is ahead of both population growth and economic growth.
- Health expenditure, which is mostly hospitals, represents 28.8% of the Queensland state government's ~\$75 billion budget. Thus, a budgetary blow-out in hospital spending ranging from 18% in 5 years to 35% in 10 years will have significant implications for the budget.

**Table of Contents**

**Projections of Cost Increases**

**Size of increase in the health budget**

**Conclusion**

6

8

10

## 1. Projections of Cost Increases

Since the fiscal year 2012/13, Queensland's hospital spending has grown in constant dollars at a rate of 4.25% per annum<sup>1</sup>. When accounting for population growth, the growth rate per capita is 2.7%. Projecting these figures forward, considering anticipated population growth, we find:

- In 5 years, Queensland will need an additional \$5.322 billion pa in today's dollars.
- In 10 years, this will escalate to \$10.281 billion pa.

The current rate of growth in GSP (averaging 3.02% in real terms)<sup>2</sup> is insufficient to generate the needed income. Growth in State Gross Product is also expected to remain subdued in the foreseeable future<sup>3</sup>.

The 2023-24 Queensland state budget envisages hospital expenditure increasing by 3.9% per annum in real terms until 2026-27. We think this is far too conservative. Not only has the historical growth rate been 4.25%, but the government is undertaking a significant expansion in the number of hospital beds<sup>4</sup> in the state. Growth in hospital beds ran at 1.73% per annum between 2017-18 and 2021-22.

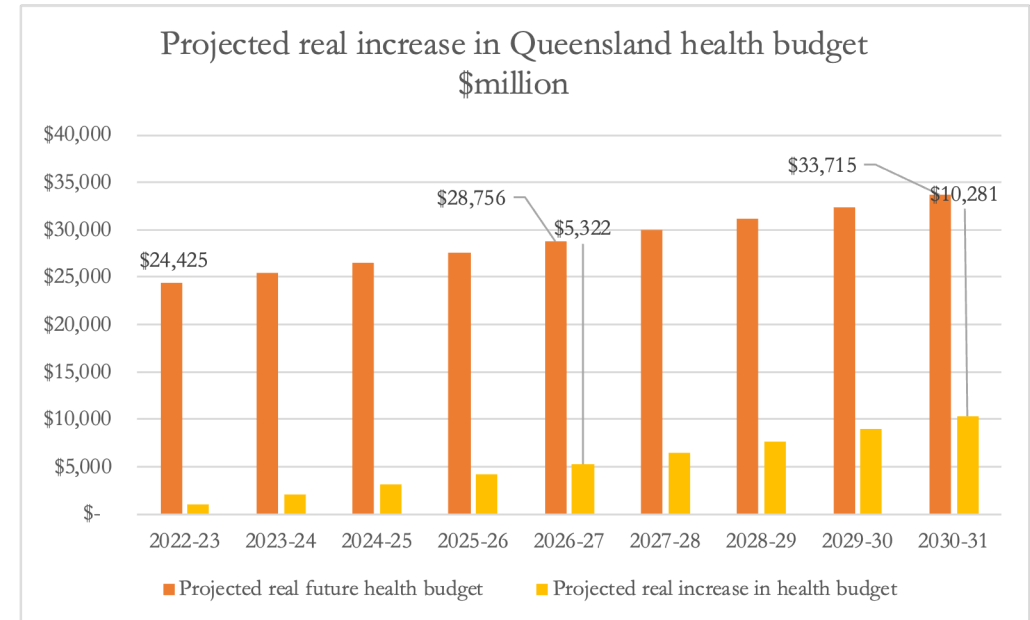


Figure 1: Projected Real Increase in Queensland Health Budget  
Source: Queensland Treasury and AIP Modelling

If the state government delivers its hospital expansion plan on time to deliver an additional 2509 beds by 2028, that growth will amount to 2.66% pa or 0.93% higher than is currently the situation. So, on their own, these imply a 0.93% increase in real costs compared to the historical record.

1. Australian Bureau of Statistics. (2021, April 27). Government Finance Statistics, Annual, 2019-20 financial year | Australian Bureau of Statistics. www.abs.gov.au. Retrieved from <https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/latest-release>  
2. Australian Bureau of Statistics. (2022, November 18). Australian National Accounts: State Accounts, 2021-22 financial year | Australian Bureau of Statistics. www.abs.gov.au. Retrieved from <https://www.abs.gov.au/statistics/economy/national-accounts/australiannational-accounts-state-accounts/latest-release#data-downloads>  
3. World Bank. (2023, November 16). World Development Indicators | Data Catalog. Datacatalog.worldbank.org. Retrieved from [https://datacatalog.worldbank.org/search/dataset/0037712&sa=D&source=docs&ust=1701066619769719&usg=AOvVaw2IPG\\_-7W7ze5UQ7k7W7dex](https://datacatalog.worldbank.org/search/dataset/0037712&sa=D&source=docs&ust=1701066619769719&usg=AOvVaw2IPG_-7W7ze5UQ7k7W7dex)  
4. Queensland Government. (2022). The Queensland Health and Hospitals Plan. Retrieved from [https://www.health.qld.gov.au/\\_data/assets/pdf\\_file/0022/1161571/v15\\_SC2200194-Health-Budget\\_ONLINE.pdf](https://www.health.qld.gov.au/_data/assets/pdf_file/0022/1161571/v15_SC2200194-Health-Budget_ONLINE.pdf)  
4. Queensland Government. (2022). The Queensland Health and Hospitals Plan. Retrieved from [https://www.health.qld.gov.au/\\_data/assets/pdf\\_file/0022/1161571/v15\\_SC2200194-Health-Budget\\_ONLINE.pdf](https://www.health.qld.gov.au/_data/assets/pdf_file/0022/1161571/v15_SC2200194-Health-Budget_ONLINE.pdf)



Current wage deals which affect the hospital sector guarantee public servants and various professionals a 4% wage rise plus 3% cost of living adjustment. This guarantees an increase in wages that will at least match inflation<sup>56</sup> and that cost pressures will continue to mount in the hospital system. For wage increases to be sustainable, productivity will need to lift in hospitals.



Our projections are also consistent with projections made by the Productivity Commission for Australia's total health system. The 2023 Intergenerational Report estimates that by 2042-43 overall health costs will have increased almost 100% in real dollars<sup>7</sup>. In "Economic Implications for an Aging Australia"<sup>8</sup> in 2005, the Productivity Commission estimated that total health expenditure would move from 9.5% of GDP in 2002-2003, to between 16% and 20% by 2044-45.



Since then, health expenditure has risen to 10.6% of GDP in 2020<sup>9</sup>. This is an average percentage increase of 2% of GDP per annum. Simply extrapolating that to 2045 suggests expenditure might be closer to the lower bound of 16% rather than 20%. Our calculations are consistent with these lower bound projections and so must be considered to be conservative.

5. Queensland Industrial Relations Commission 2016). [https://www.forgov.qld.gov.au/\\_\\_data/assets/pdf\\_file/0013/426001/2023-core-agreement-final-clean-version.pdf](https://www.forgov.qld.gov.au/__data/assets/pdf_file/0013/426001/2023-core-agreement-final-clean-version.pdf)  
6. Certified agreement (EB11) . (2022). [https://www.qirc.qld.gov.au/sites/default/files/2022-12/2022\\_cb133.pdf](https://www.qirc.qld.gov.au/sites/default/files/2022-12/2022_cb133.pdf)  
7. Australian Government. (2023). Intergenerational Report 2023. Commonwealth of Australia. Retrieved from <https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf>  
8 Productivity Commission. (2005, April 12). Economic Implications of an Ageing Australia - Productivity Commission Commissioned Study. [www.pc.gov.au](http://www.pc.gov.au). Retrieved from <https://www.pc.gov.au/inquiries/completed/ageing>  
9. World Health Organization. (2023). Global Health Expenditure Database. Retrieved from <https://apps.who.int/nha/database>



On December 6, the National Cabinet agreed to change to health funding which was claimed to take pressure off hospitals by strengthening Medicare and lessening emergency room presentations; and increasing Commonwealth contributions to hospitals from 40% to 45% over 10 years.

However, there was a trade-off with an increase in the contributions paid by the states for the NDIS from 4% to 8%<sup>10</sup>. It is unclear whether there is any net benefit out of these trade-offs to overall State or Commonwealth budgets, and it is an acknowledgement of the cost pressures the hospital systems faces.

We do not think the new arrangements will have a significant impact on our projections.

---

10. Prime Minister of Australia. (n.d.). Meeting of National Cabinet - A Federation Working for Australia. Retrieved from <https://www.pm.gov.au/media/meeting-national-cabinet-federation-working-australia>



## 2. Size of increase in the health budget

The projected growth in the Queensland health budget is a significant problem for the Queensland budget. The anticipated additional \$5.322 billion required after 5 years signifies an 18% increase in real terms on current expenditure of approximately \$17.5 billion. This escalates to a 35.75% increase, or \$10.281 billion, after ten years.

The Queensland government projected to spend \$75.317 B in the 2023-24 Budget, so this would represent an additional 4.14% of spending in 5 years' time and significantly 10.07% in 10 years. While Queensland had a net operating balance of \$12.305 B in 2022-23, this is expected to be a \$2.182 B deficit in 2023-24, with small surpluses in the years following<sup>11</sup>. These projected increases in hospital expenditure represent a serious budgetary problem for Queensland and almost guarantee that surpluses will not be achieved.

This is especially noteworthy considering hospitals account for the majority of health spending. At 28.8% of state expenditure, health is the largest single budget item. In 2032 the increase in the hospital budget will be greater than the state currently receives from each of its largest taxes - payroll tax (\$5.69 B), stamp duty (\$5.209 B), motor vehicle registration (\$2.186) and land tax (\$1.777)<sup>12</sup>.

22/23 ACTUAL BUDGET ESTIMATE

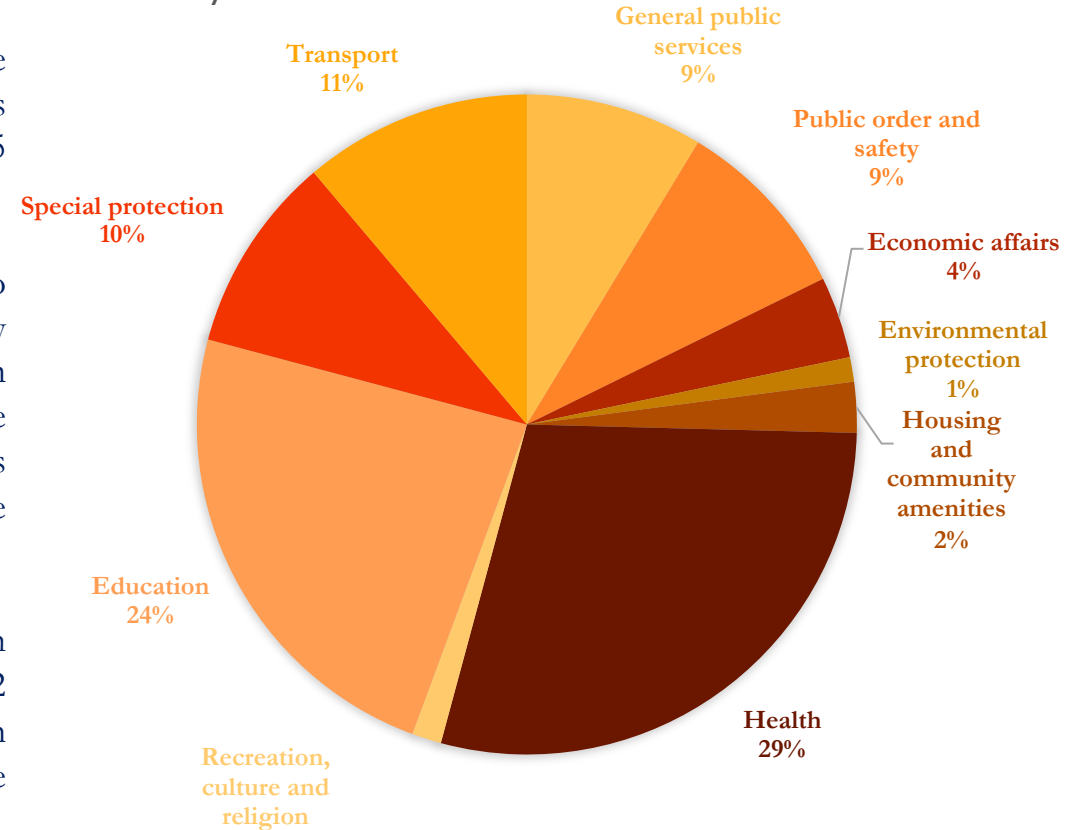


Figure 2: Budget Share of Queensland Government

Source: Queensland Treasury AIP Modelling

11. Queensland Government. (2023). BUDGET STRATEGY AND OUTLOOK. Budget Paper 2 [https://budget.qld.gov.au/files/Budget\\_2023-24\\_Strategy\\_Outlook.pdf](https://budget.qld.gov.au/files/Budget_2023-24_Strategy_Outlook.pdf)

12. Queensland Government. (2023). BUDGET STRATEGY AND OUTLOOK. Budget Paper 2 [https://budget.qld.gov.au/files/Budget\\_2023-24\\_Strategy\\_Outlook.pdf](https://budget.qld.gov.au/files/Budget_2023-24_Strategy_Outlook.pdf)



It will also be the equivalent of 4 new Gabba rebuilds **each year**, or about one and half Cross River Rail projects **each year**.

Recent commentary from Infrastructure Partnerships Australia<sup>13</sup> points out that Queensland will see a collision between the building of new hospitals and a variety of other infrastructure projects related to the Olympic Games and the “energy transition”. This will result in cost overruns. While these are currently in the future, and unquantifiable, they will compound the budgetary problems in health and will manifest in the future as increased operating expenditure in the form of depreciation.

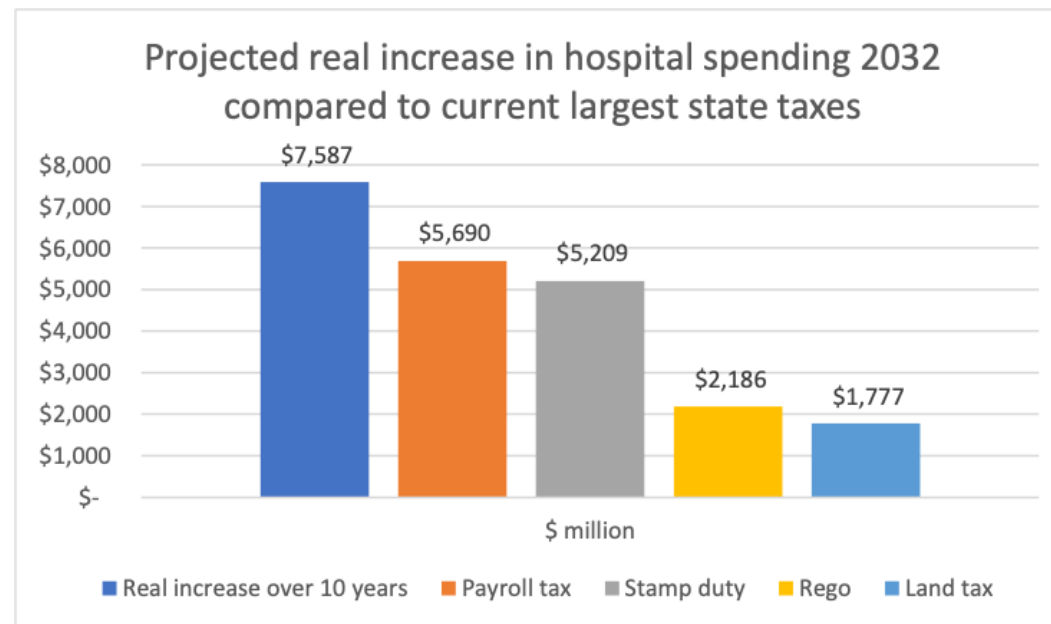


Figure 2: Projected hospital spending

Source: AIP Modelling

13. Sinnerton, J., & Johnson, H. (2023, October 7). Labour shortages, delays and cost blowouts to plague Qld gov \$10bn health upgrades. Courier Mail. Retrieved from <https://www.couriermail.com.au/news/queensland/qld-politics/labour-shortages-delays-and-cost-blowouts-to-plague-qld-gov-10bn-health-upgrades/news-story/363cc7f569651713ebd3565c6c45703a>

## 3. Conclusion

---

Queensland faces funding problems in health in the next 5 to 10 years which will require a larger tax take, reduced services, an increase in efficiency, or imposition of a user charge.

It is best to tackle the issue now and improve efficiency in the system today rather than be forced to increase taxes, charges, or efficiency, tomorrow.

Our next papers will examine how efficient the Queensland Health system is compared to its peers in the Australian public and private systems.



## About the Authors

Graham Young BA (Hons) is Executive Director of the Australian Institute for Progress. The institute specialises in empirical policy analysis, including modelling of economic and financial issues.



**Graham Young**

Manasbi Poudel BBA (Banking & Insurance) is a business analyst. She is also the co-founder and vice president of the Society of Nepali Women in Economics.



**Manasbi Poudel**