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How much funding is needed in Budget 2016 to avoid the condition of the Health System worsening?

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The health system needs more money each year just to maintain its current standards and services. This is to cover such things as population growth, general cost increases, including costs of new technology and pharmaceuticals, and salary costs.

This report summarises an analysis of what is needed in the Health vote[1] in Budget 2016 to maintain the status quo so that the public can judge whether announced funding is sufficient, whether it will allow for improvements in their health services, or whether services are likely to deteriorate.

Key points

Needed for rising population and costs plus Government announcements to date –

	To stand still	Plus announcements
DHBs	$551 million	$601 million
National health services	$136 million	$146 million
Ministry of Health	$4 million	$4 million
Total Health Vote	**$691 million**	**$751 million**

- Population pressures are a major driver of funding need in the coming year. The projected increase for the year to June 2017, which takes into account health costs of different age groups, is 2.57 percent, compared to 2.06 percent in the current financial year, and 1.64 percent last year.

- The Health vote's operational expenses would need to rise by an estimated 4.7 percent, or $691 million, from $14,820 million to $15,511 million, to maintain the current levels of service. The $691 million is simply to keep up with population and cost increases.

[1] Note that Budget "Health packages" can include items in budget areas outside the actual Health vote itself. Usually these are relatively small compared to the Health vote and are not part of this analysis.

- In addition, the Government has so far announced initiatives additional to the current financial year with an estimated total cost of $60 million. That means the Health vote's operational expenses will need to rise by an estimated total of 5.1 percent, or $751 million, from $14,820 million to $15,571 million to meet those new costs and maintain the current levels of service. If further new services are announced, the need will increase accordingly.

- The DHBs' combined budget will need to rise from $11,720 million to $12,271 million, requiring an increase of $551 million or 4.7 percent to maintain the current level of DHB services in the face of population and cost increases. If a paper obtained by the Labour Party is correct, the DHBs will receive only $340 million funding for these additional costs[2] – a shortfall of $211 million. In addition the Government has announced $50 million additional funding for Pharmac, $11 million of which has been identified as having to be paid by DHBs and $39 million from new money which is likely to be channelled through the DHBs[3]. This takes the increase needed to $601 million or a 5.1 percent increase.

- Depending on how much of this is funded, the total shortfall for DHBs would be between $211 million and $261 million. By way of example, $211 million would pay for the following (approximate values):[4]

1,000 more hip operations	15,800,000
Regularising jobs of low paid home carers of elderly and people with disabilities	80,000,000
Extend free doctor visits to 13 to 17 year olds	30,000,000
Double the additional funding for medicines from Pharmac	50,000,000
Up to 200 more nurses	16,000,000
Up to 100 more medical specialists	19,300,000
Total	**211,100,000**

- The funding for national health services such as National Child Health Services, Disability Support Services and Mental Health Services (which are funded directly by the Ministry) will need to rise in total by 5.1 percent, or $146 million, to maintain service levels and cover the costs of the announced additional funding for the Health Research Council, taking it from $2,880 million to $3,026 million. This assumes the additional Pharmac funding will all be funded through the DHBs rather than through the Ministry.

- Funding for the Ministry of Health will need to rise from $192 million to $196 million.

[2] Reported by Annette King on The Nation, interviewed by Lisa Owen, 7 May 2016. Transcript available at http://www.scoop.co.nz/stories/PO1605/S00092/on-the-nation-lisa-owen-interviews-annette-king.htm

[3] "$39 million extra for Pharmac", Jonathan Coleman, 4 May 2016, https://www.beehive.govt.nz/release/budget-2016-39-million-extra-pharmac

[4] Cost of hip operations from *The New Zealand Casemix System: An overview*, available at http://www.health.govt.nz/publication/new-zealand-casemix-system-overview-0; cost of regularising home carers' work (regular hours, training and recognition for qualifications) is a mid-point of the costing in the report to the Director General of Health by his 'In Between Travel' reference group, p.10 – see footnote 6 below; extending free doctor visits 13-17 year olds was costed by the Green Party – see https://www.greens.org.nz/sites/default/files/healthy-teens-healthy-futures-full%20%281%29.pdf; staff costs are average full time equivalent costs in the Consolidated Accounts of the DHBs for 2015, obtained from the Ministry of Health.

- These estimates are conservative on several counts, including:
  - Vote Health has seen substantial shortfalls in funding since we began analysing Health budgets in 2010. The Ministry of Health's analyses in Budget documents have come to similar conclusions and in some years have estimated greater shortfalls than we did. This means each year public health services are starting the new financial year worse off than they were the previous year. We estimate that by the current financial year this shortfall had accumulated to $0.9 billion to $1.1 billion a year compared to 2010.
  - The State Services Commission reports that increases in public sector health wage rates were 4.0 percentage points behind general private sector wages measured by the Labour Cost Index (LCI) between March 2010 and June 2015 (a 6.4 percent increase over that period for public sector health compared to 10.4 percent for the private sector).[5] The cost of living measured by the Consumer Price Index rose 9.4 percent over the same period. Poor wages, gender pay gaps and the lack of training and development in residential care are exemplified by Kristine Bartlett's equal pay case (in which the courts have so far found in her favour and for which there are currently equal pay negotiations underway) and the "in-between" payments to home care workers for their travel between clients (agreed by the Government but so far only partly funded – see below). As anticipated in our report last year, 2015/16 was a significant year for wage negotiations although negotiations on equal pay have not been completed. In addition there are likely to be costs resulting from the recently passed Employment Standards legislation. Further cost pressures are therefore likely to emerge.
  - We have not included any provision for the part of the In Between Travel settlement that regularises jobs for low-paid carers of the elderly and people with disabilities in their homes by providing regular hours, training and recognition for qualifications. The report to the Director-General of Health by his reference group[6] estimated this would cost between $60 million and $108 million a year and was due for implementation by September 2016 so should be provided for in this year's Budget.
  - The implementation of the Children's Action Plan related to the Vulnerable Children's Act and the review of Child, Youth and Family will have costs for the Health system. The latter may also lead to significant restructuring of the Health Vote which may make year to year comparisons more difficult.
  - The growing pressures on Mental Health Services are currently the subject of a review and we note a recent Ministry of Health report[7] stating the mental health workforce is "characterised by staff shortages… There are also current shortages within critical specialist

[5] State Services Commission. *Human Resources Capability in NZ State Services*, December 2015, pp.23-24. Available at: http://www.ssc.govt.nz/sites/all/files/HRCReport-2015.pdf

[6] *Towards Better Home and Community Support Services for all New Zealanders: Advice to the Director-General of Health from the Director-General's Reference Group for In-Between Travel,* August 2015, http://www.hcha.org.nz/assets/DG-REFERENCE-GROUP-REPORT-FINAL-AUGUST-2015.docx, p.10.

[7] Ministry of Health (2015). *Mental Health and Addiction Workforce Action Plan 2016-2020: Draft document for feedback*, September 2015. Available at http://anzasw.nz/wp-content/uploads/Mental-Health-and-Addiction-Workforce-Action-Plan-2016-2020.pdf.

areas and anticipated future shortages in some specialist areas, and some rural and provincial areas are experiencing ongoing supply and demand gaps…. Challenges related to supply pressures, are compounded with an increasing demand for services." There is also a review of primary health care funding under way in which Very Low Cost Access (VLCA) services are an important element. VLCA funding reduces cost barriers for high needs populations who are mainly in low socio-economic areas and have complex health and social needs alongside low incomes. A proposal to make such funding available to all general practices would threaten the viability of existing VLCA services (whose funding in many cases is already being cut by DHBs) unless more funding was forthcoming.

- The estimates do not take account of an evidently substantial and growing unmet need for health services and the additional funding that is needed to address it. Discussion on unmet need has usually focused on the few areas where there is information (albeit limited), such as access to comprehensive primary health care and elective surgery. However, unmet need for a wide range of health services is reflected in common health status indicators. Out of all OECD countries, for example, New Zealand is among the worst for suicide rates, infant mortality rates, female mortality rates for cancers and stroke, and male mortality rates for heart disease. New Zealand also has among the highest prevalence rates for diabetes and obesity[8]. While health status indicators are influenced by a number of factors, including poverty and other social, environmental, economic and lifestyle factors, the effectiveness of the health system is also a key factor, the importance of which has tended to be understated.[9] International evidence shows our health system is efficient. Its effectiveness, however, is hampered by poor and inequitable access through lack of resources. The above indicators reflect unmet need in both preventive and treatment services.

Assumptions

Our analysis includes additional expenditures announced for the Budget in the 2016/17 financial year at time of writing. These are funding for Pharmac of $11 million from DHBs plus an additional $39 million; and additional funding for the Health Research Council. The health research funding announced was $97 million over four years to 2019/20 taking annual funding from $77 million in 2015/16 to $120 million in 2019/20[10]. It was not specified how that is to be spread over the years but the figures provided imply that the $97 million will be back-loaded towards later years. We provide for $10 million in this year's Vote.

We assume a rise in the CPI of 1.6 percent in the year to June 2017 (the Budget period), which is the NZIER consensus forecast for the year to March 2017 and the Reserve Bank's forecast to June 2017 in its March 2016 Monetary Policy Statement. Treasury forecasted 2.1 percent in the year to March 2017 and 1.9 percent in the year to June 2017 in the December 2015 Half Year Economic and Fiscal Update (HYEFU). We prefer the lower forecasts due to past inflation performance against forecasts.

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[8] OECD Health Statistics, 2015; International Diabetes Federation. *IDF Diabetes Atlas*, 6th Ed. 2014; Global Health Observatory Repository, WHO 2015.

[9] ASMS. *The Public Hospital Specialist Workforce: Entrenched shortages or workforce investment?* February 2013 (p 32). http://www.asms.org.nz/wp-content/uploads/2014/07/The-Public-Hospital-Specialist-Workforce-web.pdf

[10] Steven Joyce, Jonathan Coleman. "$97m extra for health research", 17 May 2016, https://www.beehive.govt.nz/release/budget-2016-97m-extra-health-research

We note that last year's forecast was also 1.60 percent (based on the same sources) but is likely to turn out at around 0.3 percent. That would reduce costs by only $71 million leaving the sector still underfunded during the current financial year.

The pay increase used for DHB provider services (mainly hospitals) is 2.42 percent which is calculated from the cost of settlement of pay negotiations for 2016/17 provided by DHB Shared Services in response to an Official Information Act request to the Labour Party. This increase is also used for other parts of the vote that make heavy use of hospital services or similar. In addition many employees in the wider Health sector are on the minimum wage which rose 3.4 percent on 1 April 2016. This has been more explicitly included in calculations this year by estimating a 3.0 percent rise for parts of Vote Health most affected. For the remaining areas we use the Reserve Bank's forecast for the increase in the private sector Labour Cost Index (LCI) to June 2017 of 1.8 percent. A one percentage point change in the increase (such as from 2 percent to 3 percent) is worth approximately $90 million.

Population growth is a significant driver of health costs. We assume an increase of 2.57 percent during the year, the figure in the paper the Labour Party obtained showing $340 million additional funding to DHBs. This includes both an increase in the population and the increased expenditure requirements due to the ageing of the population.

An Excel spreadsheet showing the calculations and assumptions is available from http://union.org.nz/health-working-papers.

A further, more detailed analysis will be produced after the Budget announcement.