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How much funding is needed in Budget 2015 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 2015 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

- The Health vote's operational expenses would need to rise by a conservatively estimated 3.8 percent, or $549 million, from $14,442 million to $14,992 million, to maintain the current levels of service. The $549 million is simply to keep up with population and cost increases.
- In addition, the Government has so far announced initiatives and cessation of programmes from the current financial year with an estimated net total cost (less savings) of $79 million. That means the Health vote's operational expenses will need to rise by a conservatively estimated total of 4.4 percent, or $629 million, from $14,442 million to $15,071 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 $11,405 million to $11,851 million, requiring an increase of $446 million or 3.9 percent to maintain the current level of DHB services. It is not clear what part of the new services announced will need to be funded by the DHBs, but additional funding will be required for those.

[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.

- A leaked Cabinet paper, reported in the media in December, shows Treasury recommended giving DHBs just $250 million, while the Ministry of Health proposed $320 million. Treasury warned that under either option, DHBs would face "considerable" financial pressure, and "cost efficiencies" would be needed. If Treasury's recommendation were accepted, our estimates indicate the "cost efficiencies" would need to be in the order of at least $196 million to maintain the status quo but will be higher than that to pay for the additional services.

- The appropriation 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 6.3 percent, or $179 million, to maintain service levels and cover the costs of the announced additional services, taking it from $2,816 million to $2,995 million. This assumes the additional services will all be funded through the Ministry rather than through DHBs: in fact some are likely to be funded by the DHBs as noted above, reducing national health services funding requirements but increasing DHB funding requirements.

- Funding for the Ministry of Health will need to rise from $193 million to $197 million.

- 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 have come to similar conclusions and in some years have estimated much greater shortfalls than ours. This means each year public health services are starting the new financial year worse off than they were the previous year. This shortfall will have accumulated to hundreds of millions of dollars since 2010.

    - The State Services Commission recently reported average public health sector wages fell 2.5 percent behind general private sector wages between March 2010 and June 2014, and the gap is widening.[2] Poor wages, gender pay gaps and the lack of training and development in residential care, as exemplified by Kristine Bartlett's equal pay case (won in principle in the courts and now awaiting hearings as to implementation) and the "in-between" payments to home care workers for their travel between clients (agreed by the Government following court action), are just two established examples of chronic under-funding of the sector. The year 2015/16 is therefore expected to be a significant year for wage negotiations with the added possibility of the need to fund an Employment Court decision on equal pay. After several years of wage constraints, there will be greater pressure for higher increases than previous years. The outcome is unpredictable, so we use the Reserve Bank's forecast for the increase in the private sector Labour Cost Index (LCI) to June 2016 of 2.0 percent as an estimate, which under the circumstances is a conservative one for the public health sector. A one percentage point change in the increase (such as from 2 percent to 3 percent) is worth approximately $92 million.

    - 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 primary care and elective surgery. New Zealand Health Survey data, for

[2] State Services Commission. *Human Resources Capability in NZ State Services*, December 2014, p.15. Available at: http://www.ssc.govt.nz/hrc-survey-2014

example, show one in five children and 27 percent of adults have an unmet need for primary care. Cost is a major factor. While the new policy on free prescriptions and visits to GPs for children under 13 starts on 1 July, it will meet only part of the unmet need, and we estimate the $30 million announced last year to pay for this policy will fall well short of what is required.[3] And while elective surgery volumes have increased, numerous media reports point to growing numbers waiting to get onto waiting lists. Further, it is becoming widely accepted in the health sector that there is unmet need across a range of health care services, such as dental health, mental health, sexual health, disability support and primary services for disadvantaged communities, as well as medical and surgical specialties. A report from Deloitte Corporate Finance for the Home and Community Health Association on the Home and Community Support Sector[4] in March 2015 concluded that "the current funding model is unlikely to be sustainable – particularly in an environment of increasing demand." DHB deficits for their hospital services are growing, in large part being funded by apparent underspending on primary and community health services.

- While PHARMAC has been effective in keeping down pharmaceutical costs, recent PHARMAC figures show there has been an alarming upward trend in the costs of treatments as more drugs are developed and come onto the market. A recent media report showed the overall cost of providing New Zealanders access to medicines was requiring increasing compromises within PHARMAC'S current budget.[5] Our estimates have not provided for PHARMAC'S funding to be increased sufficiently to meet such needs.

Assumptions

Our analysis includes additional expenditures promised for the Budget starting in the 2015/16 financial year such as funding for further elective services (estimated at $28.7 million in 2015/16), "in between" travel costs (for which $36.2 million has been agreed), and free GP visits and prescriptions for the under-13s ($30 million). Other National Party 2014 election promises have not been quantified, including:

- Roll-out of regular comprehensive clinical assessments of each of the 32,000 older New Zealanders living in rest homes from July 2015.
- Increase in hospice funding by $20 million a year.
- $7 million to create new palliative care nurse specialists and educators roles.

Offsetting these additional expenses are some programmes from the 2014 Budget which were for that year only and whose discontinuation would free up funds:

- $3 million for "Community Group Housing Market Rental Subsidy"
- $8 million for "Cancer - Colonoscopy Capacity"

[3] NZCTU. Working Paper No 12: Did the 2014 Budget Provide Enough for Health? Available at: http://union.org.nz/sites/union.org.nz/files/Did-the-Budget-provide-enough-for-Health-2014.pdf

[4] Deloitte Corporate Finance. *Financial Review & Risk Analysis of the Home & Community Support Sector*, March 2015, p.27. Available at http://www.hcha.org.nz/assets/FINAL-Financial-Review-Risk-Analysis-Report-Final-13-April.pdf.

[5] Available at: http://www.stuff.co.nz/national/health/68324546/big-pharma-has-the-upper-hand-and-they-know-it

- $3 million for ”volume pressures” in National Maternity Services
- $1.5 million for “Very Low Cost Access Extra Funding for Nurses in High Needs Practices”

Due to the termination of Health Benefits Ltd, no savings from its activities are counted other than those already documented and assumed absorbed into budgets.

We assume a rise in the CPI of 1.6 percent in the year to June 2016 (the Budget period), which is the NZIER consensus forecast for the year to March 2016. The Reserve Bank forecasted 1.3 percent in both the year to March 2016 and the year to June 2016 in its March 2015 Monetary Policy Statement, while Treasury forecasted 2.0 percent in both the year to March 2016 and 2.0 percent in the year to June 2016 in the December 2014 Half Year Economic and Fiscal Update (HYEFU).

We have described our assumptions regarding wage rises above.

Population growth is a significant driver of health costs. We assume an increase of 2.06 percent during the year, the figure in the Cabinet paper mentioned above. This includes both an increase in the population and the increased expenditure requirements due to the ageing of the population. The paper also noted that the 2014/15 population increase had been underestimated by 11,753 people, necessitating a greater increase in the 2015/16 year, though implying underfunding for the current (2014/15) year.

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.