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Did the Budget provide enough for Health?

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The following are the main conclusions of a comparison of the 2012 Budget with the analysis the CTU carried out prior to the Budget[1] which found that $506 million was required to just keep up with rising costs, population growth, and ageing.

- The Health Vote in the 2012 Budget was an estimated $254 million behind what is needed to cover announced new services, increasing costs, population growth and the effects of an ageing population. Using Treasury's inflation forecast it was $290 million behind.
- While the Budget listed services that will receive more funding, these come at the cost of cuts in other services.
- DHBs are underfunded by an estimated $88 million, or $116 million at Treasury's forecast inflation rate.
- National services received $57 million below what they needed on cost, population and ageing pressures alone. In addition, however they have to pay for $85 million in "initiatives", bringing the total shortfall to $143 million.
- National Disability Support Services, the national service that appeared to receive the largest share of "initiatives" the government announced, is estimated to be underfunded by $11 million.

The analysis the CTU carried out prior to the Budget assumed that CPI would rise by 2.0 percent in the year to June 2013, wages would increase by 1.7 percent (1.6 percent in the DHBs), and an increase of 1.56 percent for the growing and ageing population. It took into account $4.7 million in savings as a result of restructuring of some Health agencies and $49 million additional costs[2] as a result of employer Kiwisaver contributions being charged to the Health agencies instead of the State Services Commission. See the report on that analysis for further details.

[1] "How much funding is needed in Budget 2012 to avoid the condition of the Health System worsening?" by Bill Rosenberg, Working Paper on Health Number 7, 22 May 2012. Available at http://union.org.nz/health-working-papers.

[2] Official Information requests by the Labour Party suggest this is an underestimate ("KiwiSaver will eat up DHB cash", by Danya Levy, *Sunday Star-Times*, 27 May 2012, p.A2).

Treasury's Budget forecast of inflation in the year to June 2012 is 2.7 percent compared to our estimate of 2.0 percent. That would increase the additional funding required to meet increased costs and population from $506 million to $541 million. Additional or expanded services come on top of that figure.

How much did the Health Vote increase?

The Health Vote increased by only $337 million in operational funding overall between Budget 2011 and Budget 2012 (from $13,499 million to $13,836 million). This is $169 million short of the $506 million required just to keep up with costs without providing for new and improved health services. However the Budget in addition provided for $85 million in "new policy initiatives" in 2012/13[3], bringing the total needed to $591 million. The total shortfall is therefore $254 million. If the Treasury inflation forecast is used, the shortfall increases by $35 million to $290 million. This was offset by largely unidentified "savings" totalling $47 million. About half of these "savings" ($23.4 million) are from the announced increase in prescription charges and change in the asset value threshold for support for people going into residential aged care. A little of the remaining $23.9 million of "savings" come from identified efficiencies but we can only assume that the others, because they are not identified, come largely from reductions in service or pressures for as yet unknown additional user charges. Such "savings" appear to be increasingly difficult to find: the $47 million is less than half the $109 million listed in last year's Budget. In addition, the Minister has noted a saving of "$30 million from drugs coming off patent". We discuss this further below.

District Health Boards

Health services provided or funded through District Health Boards (DHBs) gained $320 million in funding in the Budget. While described as "new policy initiatives", this was in fact a "contribution to cost pressures" ($156 million) and for "demographics" ($164 million). It was a 9 percent reduction on last year when DHBs received $350 million for these purposes. However in fact they will receive only $297 million additional funding from the government because the estimated reduced expenditure from the rise in prescription charges and the reduced asset value threshold for support for people going into residential aged care which are estimated to save the government $20 million and $3.4 million respectively in 2012/13, have been subtracted from the DHBs' funding. In effect, the DHBs, while receiving the direct financial benefits of these policy changes, are being required to take the risk that the estimates of the proceeds are correct. The Ministry considers that the estimates are on the generous side, but a worst case scenario is that a significant number of low income people avoid picking up prescriptions because of the cost, reducing DHB pharmaceutical costs but increasing the use of expensive hospital inpatient or outpatient services as a result of untreated illnesses, producing a net rise in DHB expenditure.

In fact the vote for the DHBs rose by $322 million from the 2011 Budget (from $10,497 million to $10,819 million) while we estimated that they needed $411 million just to cover increased costs, population and ageing. They are therefore underfunded by $88 million. Using Treasury's inflation forecast, the DHBs would require $28 million more: $116 million. Any expectations of additional or

[3] "Health Sector – Information supporting the estimates 2012/13", p.12-13, excluding the $320 million for DHB Cost Pressures and Demographics. Available at http://www.treasury.govt.nz/budget/2012/ise/v6/.

improved services would add to the cost pressures on DHBs. As noted above, the Minister has highlighted a saving of "$30 million from drugs coming off patent" which would benefit the DHBs making their effective underfunding $58 million (or $86 million on the Treasury inflation forecast). However it is not clear why the government should single out this particular saving in pharmaceutical costs: it is Pharmac's job to find such savings on an ongoing basis, and it apparently does so very effectively. By reducing the funding of the DHBs compared to previous years, the government is taking the benefits of the cost reduction rather than leaving it to the DHBs.

National services

The centrally managed national programmes such as Child Health Services, Emergency Services, Māori Health Services and Public Health, in total gained $31 million in operational funding (rising from $2,768 million to $2,799 million) , which is $57 million below what is needed to stand still on cost, population and ageing pressures alone. In addition, however they have to pay for $85 million in "initiatives", bringing the total shortfall to $143 million. That is offset by $22 million in "savings" which again we can only assume come largely from reductions in service or pressures for as yet unknown additional user charges. We cover this area in more detail below.

The Ministry, capital funding and the total appropriation

In addition, the Ministry of Health itself received $191 million which is $14 million less than last year despite needing a $7 million increase to cover increased costs including taking over Kiwisaver contributions from the State Services Commission (estimated at $2.4 million when announced last year). Most of the Crown Health Financing Agency's functions moved to the Debt Management Office in Treasury, and its demise was estimated to save $1.7 million per year following one-off costs of $290,000 for its disestablishment. Other operational expenses (international health organisations, legal expenses and provider development) were underfunded by $1 million.

Capital funding dropped substantially: from $454 million in Budget 2011 to $289 million in Budget 2012. However this is not necessarily an accurate guide to actual capital expenditure because approval is often obtained to convert unspent operational funding to capital for various purposes.

The total appropriation therefore rose from $13,953 million to $14,125 million or by just $172 million between the 2011 and 2012 Budgets.

What about the "health initiatives" announced by the Minister?

Like last year, Ministerial announcements confuse rather than clarify the funding situation. The Minister of Health asserted in his main Budget media release that there was "$435 million for new initiatives and cost pressures" in 2012/13[4]. Yet the official Budget document, "Health Sector – Information supporting the estimates 2012/13" (p.14) listed "new initiatives" (which included cost pressures as noted above) as totalling $405 million. The difference appears to be the "$30 million from drugs coming off patent" (discussed above) but it does not appear in the estimates as an initiative. However the Minister's release

[4] "Health receives largest increase in spending", Hon Tony Ryall, 24 May 2012, http://www.beehive.govt.nz/release/health-receives-largest-increase-spending.

then goes on to state that there is in fact only $358 million of "new money", though as noted the actual increase comparing Budget 2011 to Budget 2012 is $337 million.

The Minister also states that "District health boards will have around $350 million available this year – as well as additional funding from the Ministry of Health for service contracts". In fact the DHBs were given only $297 million of new funding. Apparently their forecast savings from the increase in prescription charges and lower asset limits for support for aged people in residential care, plus the $30 million in pharmaceutical savings, have been counted as part of what is available to the DHBs.

The "additional funding from the Ministry of Health for service contracts" does not give DHBs any additional room to move: the contracts are to provide services (such as additional elective surgery) which are a cost to the DHBs. The DHBs are funded directly for the great majority of health services: they provide hospitals directly and they also are responsible for funding services from other providers in the community. All the service additions listed as "new policy initiatives" in the Budget papers are from national services funded from Ministry-controlled appropriations rather than DHBs. Many will be administered and provided by the DHBs as a contract to the Ministry, but this does not help the DHBs' funding shortfall. In fact, because the national services are also underfunded for cost increases, the DHBs may well undergo the stress of being expected to provide services on the basis of underfunded contracts as well underfunding of their own directly funded services. Similarly, many of the non-DHB services they fund are under extreme pressure because of inadequate funding rates. The recent investigation into employment equity in aged care by the Equal Employment Opportunities Commissioner, Dr Judy McGregor, is a well documented example[5].

Effects on DHBs

The pressure on DHBs will lead to some combination of service deterioration, reductions in services, new or increased user charges, or increased DHB deficits. We noted last year that in the 2010/11 financial year, news media reported cuts and deterioration in services in a large number of areas including home help for the elderly and sick, residential care for the elderly, eye operations, services for mental health and addictions, community health services, public health, hospital care, cancer treatment, primary health organisations and GPs, and diabetes services. In May 2012, the Waikato DHB wrote to staff about its concerns regarding $12 million savings needed for the 2012/13 financial year, and $19 million the following year, saying that it was likely to impact on staffing levels and salaries[6]. Northland DHB has also warned of possible staff cuts. *The Sunday Star Times* has reported significant staffing shortages, reduced staffing levels of nurses on wards, and shortages of equipment due to a freeze on spending at the Auckland DHB. It included Starship Hospital where a baby was reported to have stopped breathing while there were no nurses on the ward[7].

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[5] "Caring counts: Report of the Inquiry into the Aged Care Workforce", Human Rights Commission, May 2012, available at http://www.hrc.co.nz/eeo/caring-counts-report-of-the-inquiry-into-the-aged-care-workforce.

[6] Waikato DHB, Memorandum to All Staff from Craig Climo, 22 May 2012: "Financial outlook for 2012-13 and beyond".

[7] "Nurses forced to supply own thermometers", *Sunday Star Times*, 3 June 2012, p.A6, available at http://www.stuff.co.nz/national/health/7036222/Nurses-forced-to-supply-own-thermometers.

Possibly because of the high political and public profile of hospital services, and the emphasis of performance indicators on hospital services (currently three out of the six health targets), there is a pattern of DHBs running their "provider" (largely hospital) operations at a deficit, and their "funder" operations at a surplus. The "funder" arms provide funding to a wide range of non-DHB services including aged care, community services, primary care, mental health and preventative health services. In other words, DHBs are spending more than budgeted on hospitals and less than budgeted on (broadly speaking) community health.

Services providing low cost access to high need populations have faced funding cuts and may be unable to continue to provide the needed service. Examples are the Newtown Union Health Service and the Hutt Union and Community Health Service whose patients include refugees, state and council housing residents and which have experienced severe funding cuts resulting in staffing and service reductions. User charges cannot be increased because of the low incomes of their patients[8]. Other providers such as Māori and Pacific services in high deprivation areas are likely to be similarly affected. Added pressure on DHB funding is likely to worsen the situation which will tend to increase the use of more expensive hospital services as a result of lower cost early intervention primary health services being under-resourced.

Effect on national services

The Budget documents for Health itemise new or increased levels of national services worth $85 million. Given that not even increases in costs and population are fully covered by the increase in the Vote, the cost of these items must be met by stopping or reducing other services, increasing user charges, or productivity improvements. Some of this is achieved through a $22 million list of "reprioritised savings" in the Budget documents, covering cuts to spending in seven areas: Health Services Funding[9], Monitoring and Protecting Health and Disability Consumer Interests, National Contracted Services, National Disability Support Services, National Emergency Services, National Māori Health Services, and Public Health Service Purchasing. The rest must largely be met by further cuts as yet publicly unidentified.

All of the fifteen national services except Health Workforce Training and Development, National Advisory and Support Services, National Child Health Services, and Public Health Service Purchasing have been underfunded for existing cost pressures and the additional "initiatives" expected of them. The table on the next page summarises the situation. However, it should be born in mind that while our methodology is a reasonable approximation for the Health Vote as a whole and for substantial subsections of it, at

[8] "Health board cuts to clinic's funds a blow for vulnerable patients", by Kate Newton, *Dominion Post*, 21 November 2011, p.A5; and letter from Hutt Union and Community Health Service to staff and Board members, 10 April 2012.

[9] This appropriation covers several purposes including providing for risks (such as natural disasters or epidemics, and DHB deficits), DHB pay settlements, and Ministerial initiatives not defined at Budget time. Unspent money is often used to fund Ministerial initiatives, converted to capital for various purposes or rolled forward into the next year. Last year, Treasury commented that "the majority of risk reserve provisioning over the last two years has been used (or requested) for new initiatives, not for alleviating or managing risk within Vote Health" and recommended that the Minister not be allowed to request additional funding from the general contingency fund during the year unless he had first used up the risk reserve and found further savings in the Health Vote ("Treasury Report: Vote Health Budget 2011 Package", report number T2010/2278, p.12, 14, available at http://www.treasury.govt.nz/downloads/pdfs/b11-1948935.pdf).

increasing levels of detail there are special circumstances such as one-off costs or changes between appropriations that cannot be taken into account.

National Services 2012/13

Comparison of funding required to meet cost and population pressures compared to actual appropriation, additional spending and "savings"

Shortfalls are in red italics (positive); funding exceeding cost pressures is in black (negative). Note caveats in the text[10].

	Required	Appropriation	*Shortfall* on costs	Initiatives	*Shortfall* after initiatives	"Savings" identified
			$000			
Health Services Funding	171,508	116,755	*54,753*	5,000	*59,753*	4,907
Health Workforce Training and Development	158,513	169,189	-10,676	1,864	-8,812	0
Monitoring and Protecting Health and Disability Consumer Interests	14,405	14,115	*290*	0	*290*	1,116
National Advisory and Support Services	346	340	*6*	0	*6*	0
National Child Health Services	69,706	84,246	-14,540	1,600	-12,940	0
National Contracted Services - Other	115,151	112,013	*3,138*	19,725	*22,863*	2,751
National Disability Support Services	1,064,347	1,052,849	*11,498*	34,485	*45,983*	1,500
National Elective Services	269,146	274,536	-5,390	12,000	*6,610*	0
National Emergency Services	89,866	90,243	-377	2,775	*2,398*	46
National Māori Health Services	8,906	7,635	1,271	0	*1,271*	91
National Maternity Services	149,513	145,129	4,384	3,331	7,715	0
National Mental Health Services	72,645	62,277	10,368	2,000	12,368	0
Primary Health Care Strategy	185,019	175,956	9,063	0	9,063	0
Problem Gambling Services	18,488	16,952	1,536	0	1,536	0
Public Health Service Purchasing	469,566	476,333	-6,767	2,452	-4,315	11,764
Totals	**2,857,127**	**2,798,568**	**58,559**	**85,232**	**143,791**	**-22,175**

As an example, National Disability Support Services, the national service that appeared to have received by far the largest share of the "initiatives" the government announced, appears to be underfunded. The Ministers of Health and Disability Issues stated in a media release that "Budget 2012 will make available $143.7 million over the next four years to improve the lives of people with disabilities"[11]. Its funding rose

[10] This table does not reflect approximately $1 million savings from restructuring of the Health Promotion Agency less additional Kiwisaver employer contribution costs.

[11] "Budget 2012: $144m more for disability support", Tony Ryall, and Tariana Turia, 15 May 2012, available at http://beehive.govt.nz/release/budget-2012-144m-more-disability-support-0.

by $24 million between Budgets 2011 and 2012 from $1,028 million to $1,053 million but this was $11 million short of the $1,064 million required to meet rising costs and population based on continuation of the services in Budget 2011. Budget documents show that in 2012/13 the "initiatives" (which in fact mainly expand existing programmes and so arguably just respond to cost and population pressures) total $34.5 million. Savings of $1.5 million take the announced net increase to $33 million. This appears at odds with the actual increase in appropriation of $24 million. The reason is that the $33 million is measured from the lower baseline for 2012/13 that was projected in the 2011 Budget – not the actual 2011/12 vote or the actual spending against it. In fact, the estimated actual spend for National Disability Support Services for the year ended June 2012 is estimated to be the same as the original appropriation – $1,028 million. It is possible there is some time-limited funding that expires for good reason at the end of the 2011/12 year, but the net $33 million increase is not an actual one. The savings of $1.5 million are from two sources: $1 million for day services, funding of which has been moved to the Ministry of Social Development (for which it has not received an increase in funding), and $0.5 million in needs assessment contracts.

Other pressures

The Health vote has had to absorb numerous additional costs over recent years in addition to general price rises. Cuts in ACC entitlements moved further costs onto health services. The "sleepover" case which ensured carers providing mental health and disabilities 24 hour care were paid at least the minimum wage has significant cost implications. The government has announced "it is committing $27.5m to assist Crown funded employers in the health and disability sector to settle valid back wage claims and up to $90m over three years to support employers phase in the minimum wage for employees who work sleepovers"[12]. However there may be other related costs. Only $10 million is being provided in the 2012/13 year.

[12] "Sleepover Wages (Settlement) Bill passed", Tony Ryall, 6 October 2011, available at http://www.beehive.govt.nz/release/sleepover-wages-settlement-bill-passed.