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Did the Budget provide enough for Health?

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The Health Vote in the 2011 Budget was an estimated $127 million behind what is needed to stand still. While it listed services that will receive more funding, these come at the cost of cuts in other services.

That is the conclusion of a comparison of the Budget with the analysis the CTU carried out prior to the Budget[1] which found that $564 million was required to just keep up with rising costs, population growth, ageing and the growth in demand for health services due to the availability of new treatments.

How much did the Health Vote increase?

The Health Vote increased by only $436 million in new operational funding overall[2], which is $127 million short of the $564 million required. Of that, $479 million was needed simply to keep up with costs without providing for the new treatments that people expect to take advantage of. The increase in the Health Vote fell short even of that. These estimates allow for productivity gains of $41 million using a Treasury estimate.

Health services provided or funded through District Health Boards (DHBs) and centrally managed programmes such as Child Health Services, Emergency Services, Māori Health Services and Public Health, in total gain $452 million in operational funding, partly at the expense of cuts in the Ministry of Health whose funding was reduced by $16 million in real terms. But $452 million is $108 million behind the estimated $561 million needed for these core health services to stand still. Even after removing the allowance for new treatments they would still require $476 million or $24 million more than they received.

[1] "How much funding is needed in Budget 2011 to avoid the condition of the Health System worsening?" by Bill Rosenberg, Working Paper on Health Number 4, 13 May 2011. Available at http://union.org.nz/news/2011/least-564m-more-needed-health-jsut-stand-still.

[2] "Health Sector: Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2012", p.10.

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

These increases may seem inconsistent with the "additional $585 million" the Minister of Health announced was being provided for "health initiatives", but as his Budget-day media statement[3] acknowledged, only $420 million of that was new money and the remaining $165 million came from "savings" – that is, money from cuts in expenditure elsewhere in the health system.

While the $585 million is described as funding "health initiatives" by the Minister or "new policy initiatives" in Budget papers, by far the biggest part of the increase is not an initiative but partial compensation to the DHBs for increased costs. They receive $350 million for increased and ageing population (demographics) and for "cost pressures". This is the same increase as last year and again is insufficient to cover the cost increases that are likely to occur, which we estimated to be $461 million. So compared with last year's Budget, DHBs will have a $111 million shortfall (the same shortfall as last year). The Minister's statement said that the DHBs would get "around" a further $50 million for "service contracts from the Ministry of Health" to give a total increase of "around $400 million". This increase is in relation to the DHB's funding after the Supplementary Estimates which show decisions to change funding during the current financial year. It moved a net $47.8 million to the DHB's funding from central funds – and correspondingly added to their responsibilities, so the additional $50 million this year does not provide significant relief to their situation.

The DHBs are responsible for the great majority of health services to the public through the hospitals and by funding services in the community. Virtually all the service additions listed as "new policy initiatives" in the Budget papers are in central 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.

The pressure on DHBs will lead to some combination of service deterioration, reductions in services, new or increased user charges, or increased DHB deficits. 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.

The Budget documents for Health itemise new or increased levels of services worth $235 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. Treasury's view in its long term projections was that a 0.3 percent increase in productivity (saving $41 million) was the most that could be expected on average, which would leave an approximate $194 million gap that must be met by reduced and deteriorating services and user charges. Some of this is achieved explicitly through $108.6 million in a list of "reprioritised savings" in the Budget documents, covering cuts to spending in 16 areas including elective surgery, public health, maternity services, mental health, child health, primary health, and Māori health. It seems inescapable that the rest must largely be met by another round of cuts by DHBs.

[3] "$2.2b extra to boost public health services", Tony Ryall, 19 May 2011, available at http://www.beehive.govt.nz/release/22b-extra-boost-public-health-services.

Some areas which boast "initiatives" have had more funding cut than added, and others are substantially funded from cuts in their own programmes. For example, Public Health Service Purchasing has "new policy initiatives" of $16.2 million but "reprioritised savings" cutting more than that – $38.1 million. National Contracted Services which funds for example Health Line, Hospital Chaplaincy Services, a Rheumatic Fever initiative and the company, Health Benefits Ltd, created to help DHBs share administrative, support and procurement services, gains $15.2 million but loses $17.1 million. The Primary Health Care Strategy gains $3.4 million but loses $9.9 million. National Mental Health Services has $10.0 million of "initiatives" but "reprioritised savings" of $3.2 million. Health Workforce Training and Development has "initiatives" of $30 million but cuts of $9.8 million.

Other pressures

We note that the position is likely to be more serious than this analysis indicates. Firstly, the cuts in ACC entitlements that have been undertaken through legislative and administrative measures are expected to have moved further costs onto health services. In the supplementary estimates, $2.5 million was added to the National Disability Support Services budget to recognise the reduced coverage of ACC's liability for hearing loss which is likely to rebound onto the Health Vote. There is no provision for that in the new year. ACC have reduced their provision for acute services which they pay the health system for claims on the Non-Earners' Account by $6.9 million from $265.8 million in 2010/11 to $259.0 million in 2011/12. The reduction is due to "expectations of improved negotiations with the Ministry of Health"[4]. Other reductions in ACC coverage are expected to show up in part as a cost to Health.

Secondly, Treasury's estimate of inflation in the year to June 2012 is 2.7 percent compared to our estimate of 2.6 percent. That would increase the additional funding required to stand still from $564 million to $568 million. In addition, there was a minor spreadsheet error in our pre-Budget estimate. Correcting that lifts the additional funding requirement from $564 million to $565 million. Together these would bring the requirement to $570 million – an additional $6 million in total. We have used the original estimates in the above because the difference is not material and could lead to confusion, but have corrected the spreadsheet error in the spreadsheet being released with this report.

Finally, Treasury is also forecasting that the average ordinary-time wage will rise 4.1 percent in the year to March 2012 whereas we allowed only 2.0 percent for most health system employees. If wages and salaries do rise at the forecast rate, it must exert pressure on health sector remuneration as with the rest of the country's work force. However, the forecast increase is unlikely to be felt for the full 2011/12 financial year. Each additional 1 percent would cost an estimated $87 million.

[4] Communication from Department of Labour to NZCTU, 26 May 2011.