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Did the 2019 Budget provide enough for health?

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Introduction

This analysis compares the Health vote in the 2019 Budget with the analysis of operational funding needs which the CTU and ASMS carried out prior to the Budget[1].

While we calculated at the time that last year's Budget was the first in nearly a decade that put more money back in to Health than estimated spending requirements compared to the previous year, that was subject to unquantifiable spending needs during the year, particularly pay settlements. With

[1] "How much Health funding is needed in Budget 2019 to maintain current service levels?", available at http://www.union.org.nz/wp-content/uploads/2019/05/How-much-funding-is-needed-to-avoid-the-condition-of-the-Health-System-worsening-2019.pdf

knowledge of the effect of pay settlements, we now estimate that, comparing actual spending year-on-year, it was $125 million short, with DHBs $160 million underfunded.

This year's Budget presents an even more complicated picture. While funding of mental health has been expanded (though the greatest increases come in future years), we estimate that overall operational funding is $134 million behind what is needed to pay for rising costs, aging and increasing population, and new services announced in the Budget. This is approximately equal to the cost of the new initiatives announced in the Budget. The shortfall lands principally on the already stressed DHBs which we estimate are $139 million short. There is therefore a risk that the worthwhile help for mental health in primary care services will be at the expense of other services, including for those with severe mental health needs. We look more closely at mental health below. The Health Vote had to provide for substantial wage and salary increases, which we quantified in our pre-Budget report. It appears that the DHBs have not been fully compensated for those increases.

On the other hand, capital funding for rebuilding hospitals and other investment in health assets has been hugely expanded.

Among national services administered centrally, the picture is a little murky because of reallocations of responsibilities between them but overall we estimate they are close to being fully funded. Part of this is the large boost to National Mental Health Services. An ongoing concern, which we have documented in previous years, is National Disability Support Services which despite a significant increase from last year's Budget is funded for less than it actually spent during the year.

Overall 'Core Crown' government spending – operational spending of all the main central agencies including Health – is forecast to rise in the 2018/19 and 2019/20 years as a proportion of GDP, breaking the previous Government's downward trend, but Health Vote operational expenses are forecast to fall as a proportion of Core Crown spending. The Health Vote operational expenses as a proportion of GDP has risen from 2017/2018, but the proportion is forecast to be static in 2019/20 compared to 2018/19. In 2019/20, if it were at the same proportion of GDP as in 2010 it would be $1.7 billion higher. However when capital expenditure is included, there is a significant rise in the Health Vote as a proportion of GDP.

In summary, the information outlined here indicates that the rate of growth of New Zealand's health need is still faster than the rate of growth in the capacity and funding of our health services, though some steps have been taken to slow the widening of that gap. The Government has recognised the inability of services to respond adequately to often desperate need in mental health. As they appreciate, it will take several years of rebuilding services, training and recruitment of qualified staff to bring it to a state which meets a much larger proportion of needs than at present. Similarly sustained provision of resources and investment is necessary in many other parts of the system, all of which are interlinked and interdependent.

Key points

- Total operational funding announced was $18,157 million, $1,185 million more than the $16,972 million announced in the 2018 Budget. Capital funding announced was $1,713 million, $460 million more than the $1,245 million announced in last year's Budget, which in turn was almost double the $664 million announced in 2017.

- The Health vote in the 2019 Budget is an estimated $134 million behind what is needed to cover announced new services, increasing costs, population growth and the effects of an ageing population, compared to the 2018 Budget.
- District Health Boards (DHBs) received an estimated $139 million less than they need to cover anticipated increased costs and demographic changes during the year, and to fund $42.5 million in new services (less savings) and the $6 million cost of services shifted from national services.
- We estimate an accumulated funding shortfall in annual spending power of $1.6 billion between the 2009/10 and 2019/20 financial years. It means that in the next Budget the Government will need to find over $2.5 billion extra for 2020/21 if it wishes to restore the value of funding to the 2009/10 levels.
- Health Vote operational expenses are forecast to remain static as a proportion of Gross Domestic Product (GDP) compared to last year, at 5.73 percent of GDP. If it had maintained the proportion of GDP it had in 2009/10, it would be $1.7 billion higher in 2019/20.
- Centrally managed national services such as National Disability Support Services, National Maternity Services and Public Health services together received $4 million less than what they needed to cover cost increases and demographic changes forecast for the year and to fund $170 million in new services, offset by $9 million cost of services being shifted to DHBs and the Ministry.
- National Mental Health Services received $73 million additional funding compared to the 2018 Budget, but DHB ring-fenced funding for specialist mental health services received $55 million less than what it needed to cover cost increases, pay settlements and population growth.
- The pay equity settlement for care and support workers was funded $414 million, this year including Mental Health and Addiction Support Workers ($36 million) following their inclusion, agreed in 2018.
- The Ministry of Health itself was underfunded by $2.3 million and has had significant reductions in staff numbers since 2010.

Assumptions

Our pre-Budget analysis assumed that CPI would rise by 2.0 percent in the year to June 2020 (the Budget period), which was the Treasury forecast in its December 2018 Half Year Economic and Fiscal Update (HYEFU) and that remained unchanged in its Budget Economic and Fiscal Update (BEFU). We assumed wages would rise in line with Treasury's HYEFU forecast of a 3.3 percent rise in the all-industries average hourly wage; Treasury has revised this down slightly to 3.2 percent. To estimate pay increases we use the same method in this post-Budget analysis as we did in our pre-Budget analysis where we estimated the cost of the various DHB staff settlements, largely based on estimates from Central Region Technical Advisory Services Limited (TAS) (see the Table 1, which is before any increases in staffing numbers). We found there was a degree of double-counting in the method we used to insert these into our estimate of funding requirements, and this reduces the impact by an estimated $160 million. For other wage and salary costs we use the Treasury average wage increase.

These assumptions do not include other aspects of the settlements such as pay equity. However as part of the New Zealand Nurses Organisation (NZNO) settlement, the Government committed $48 million in 2018/19 for 500 additional nurses for immediate relief of DHB staffing and workload issues, and support for the implementation of a safe staffing methodology (CCDM) (though only $36 million was spent). We assume the additional staffing needs will continue and so continue to cost in $48 million for DHBs in 2019/20. One of the initiatives announced in the Budget provided $24.5 million over four years ($6.1 million per year) for the employment of newly graduated nurses and implementing an enrolled nurses transition into practice programme, which was part of the NZNO settlement.

Table 1: Estimated costs of DHB wage and salary settlements (based on a static staff level)

	2018/19	2019/20
Settlements[2]	**$m**	**$m**
Medical staff	97.2	95.0
Nursing staff	164.1	276.8
Allied health staff	79.2	90.9
Other staff	28.6	52.4
Total	**369.0**	**515.1**

The funding for the Care and Support Workers' pay equity settlement approved in 2017 and the Mental Health and Addiction Support Workers' pay equity funding approved in 2018, require additional funding. While the Care and Support Workers' funding was set in their settlement at $377 million, we had to estimate the funding needed for the Mental Health and Addiction Support Workers. This proved to be somewhat higher than we estimated: $36,636,000 compared to $31,600,000, giving a total of $413,636,000.

As we did pre-Budget, we allow for an increase of 2.33 percent (provided by the Ministry of Health) for the growing and ageing population (though in a change from our pre-Budget estimate, we allow only the population increase of 1.54 percent for mental health because there is evidence it is not as affected by population aging). See the report on the pre-Budget analysis for further details. An Excel spreadsheet showing the calculations and assumptions is available from http://www.union.org.nz/category_media/health-working-papers/.

Did the Health vote keep up with rising costs?

The Health vote's operational funding increased by $1,185 million between Budget 2018 and Budget 2019, from $16,972 million to $18,157 million. This is $118 million less than the $18,274 million we estimated was needed just to keep up with costs, population growth and ageing without providing for new or improved health services other than the $48 million in the NZNO settlement for safer staffing (see above). The Health vote has a net $178 million in additional requirements, which means

[2] These include multiple settlements in each category. "Allied health" staff include a wide range of professional staff including audiologists, physiotherapists, psychologists, social workers, laboratory and radiology staff. "Other staff" include support, administration and management staff.

that, after the amendments to estimates noted above, Health is $134 million[3] underfunded compared to the previous year. The $178 million is made up of various policy initiatives announced in the Budget amounting to $136 million, plus various additional costs (less savings) announced in previous years.

The Vote listed "new policy initiatives" totalling $1,102 million in operational funding, but like previous Budgets the bulk of that ($966 million, principally $746 million to DHBs) is recognition of cost, population and demographic increases, including the pay settlements, rather than new initiatives. The remaining $136 million constitutes the cost of announced new or expanded services.

There are also additional costs and savings from announcements in previous years. The largest of these costs is the scaling up of the Very Low Cost General Practitioner Visits for Community Services Card Holders initiative announced in the 2018 Budget. The 2018 Budget allowed for $58.6 million for 2018/19 and $100 million for 2019/20, an increase of $41.4 million which has to be funded from the 2019 Health Vote. These costs are partially offset by reducing budgets announced in previous years. For example the previous Government's Budget 2016 and Budget 2017 provision for more pharmaceuticals reduced from $49 million in 2018/19 to $41 million in 2019/20, offsetting the majority of the additional $10 million in funding for pharmaceuticals announced in Budget 2019. The costs are also offset by ramped up savings announced in previous years. For example Budget 2018 deducted from the Health Vote the projected savings from Pharmac's purchasing of medicines, allowing for $29.3 million in savings in 2018/19 and $34.8 million in 2019/20. As we noted last year, counting these as savings to the Health vote, rather than allowing the Health sector to use them to relieve cost pressures, is a continuation of the practice of the previous Government.

District Health Boards

Together, DHBs received $13,980 million, a $745 million increase (after rounding) on the $13,236 million in Budget 2018. This is $91 million less than the $14,071 million we estimate is needed just to keep up with costs, population growth and ageing without providing for new or improved health services. In addition the DHBs have cost increases of $42.5 million (the $48 million in the NZNO settlement for safer staffing less Pharmac savings of $5,500) and also had $5.7 million added to their costs due to the "devolution" of services from nationally funded services during the current year. The outcome is that DHBs were $139 million behind what they needed in real terms compared to the previous year.

The Health Estimates show devolution to DHBs from National Personal Health Services of a $7.3 million responsibility for the Budget 2015 initiative "Palliative Care Innovations", plus a "National Intestinal Failure Service" to Auckland DHB, $0.7 million for the Budget 2018 initiative "Extending Zero Fees Doctors' Visits to Under 14s", less $2.3 million for "Very Low Cost General Practitioner Visits for Community Service Card Holders" which was transferred out of DHBs to the Primary Health Care Strategy National Service.

For 2019/20, $134 million is set aside under capital for DHB "Deficit Support", an acknowledgement of the ongoing financial stress in the DHBs. In the 2018 Budget, $139 million was provided, but in the

[3] After rounding. This is less than the $300 million we estimated on Budget day. The difference is primarily due to the correction of the double-counting noted above.

event $234 million is estimated will be paid out by 30 June 2019 after an additional $95 million was provided during the year. The most recent publically available financial data available shows DHBs recording combined deficits of $263.7 million for the nine months to March 2019, $55.8 million larger than their plans and $6.2 million more than in the full year to June 2018[4]. For the year, "structural deficits" of $341.2 million are expected.

National Services

The centrally managed national programmes such as Primary Health Care Strategy, National Disability Support Services, National Maternity Services, National Mental Health Services, and National Māori Health Services gained $408 million in operational funding (rising from $3,501 million to $3,910 million), which is $157 million more than what is needed to keep up with costs, population growth and ageing without providing for new or improved health services. However there were $170 million in new services, offset by $9 million devolved to the DHBs and the Ministry, leaving the national programmes just $4 million below what we estimate is needed – in effect, meeting costs. See Table 2.

There has been restructuring of some of the National Services, so some of the apparent shortfalls and overprovision need to be interpreted with care. Some have been renamed. Auckland Health Projects Integrated Investment Plan appears to have ceased. National Elective Services has been renamed "National Planned Care Services" with a somewhat broader scope than only elective surgery, though it is not yet apparent how that will change how the appropriation will be used. Programmes have been moved out of National Personal Health Services (some devolved to DHBs), and also out of the grab-bag "National Contracted Services – Other", which provides funding to "other services" including operational funding to Pharmac and health research, and into Public Health Service Purchasing and National Disability Support Services. "Supporting Equitable Pay" was previously "Supporting Equitable Pay for Care and Support Workers", and now includes funding for Mental Health and Addiction Support Workers after their settlement in 2018 ($36,636,000 in 2019/20) on top of the previously committed $377,000,000 for Care and Support and Support Workers.

National Disability Support Services, while receiving $76 million more than in Budget 2018 ($1,345 million compared to $1,269 million) in fact received $7 million less than was actually spent in 2018/19. As with previous years under this and the previous Government, the service ran out of money during the year, and the Supplementary Estimates show that a total of $21.3 million more was found them by running around other parts of Vote Health for their spare cash ($33 million was transferred in this way last year, $16.7 million the year before, and $20.2 million the year before that), plus a further $60.4 million was made available for the 2018/19 year through the 2019 Budget. It appears that the current service model is unmanageable from a financial viewpoint.

National Emergency Services has received a significant increase (more than we calculated was necessary to keep up with costs and population pressures) totalling $20.7 million including two "initiatives" in this Budget totalling $17.7 million, and $3 million from the 2017 Budget. However this

[4] See http://www.health.govt.nz/new-zealand-health-system/key-health-sector-organisations-and-people/district-health-boards/accountability-and-funding/summary-financial-reports

is from a base of chronic underfunding and an ambulance system run as a charity rather than as a critical part of the Health system.

Despite an additional $7.4 million for **National maternity services**, we estimate it will be $4.9 million short of meeting rising costs, which include the pay settlements for midwives who received similar increases to nurses. Perhaps the Ministry is not planning to pass these pay increases on to self-employed midwives, which would only increase the sense of crisis among those providing services outside the DHBs.

Table 2: National Services funding provided and cost of additional services ($000)

Red indicates shortfall

National Service	Required for rising costs and pop'n	Appro-priation	Funding sufficiency on rising costs and pop'n	Initiatives	Funding sufficiency after initiatives	Devolv-ed to DHBs/ transfer	Funding sufficiency after transfers & savings
Health Sector Projects Operating Expenses	3,597		-3,597		-3,597	-3,597	0
Health Services Funding	0	23,681	23,681	0	23,681		23,681
Health Workforce Training and Development	191,899	211,641	19,742	13,888	5,854		5,854
Monitoring and Protecting Health and Disability Consumer Interests	30,362	31,546	1,184	2,000	-816		-816
National Child Health Services	94,761	112,980	18,219	4,976	13,243		13,243
National Contracted Services - Other	30,200	23,488	-6,712		-6,712		-6,712
National Disability Support Services	1,333,956	1,344,646	10,690	220	10,470		10,470
National Planned Care Services *[was: National Elective Services]*	390,874	396,085	5,211	13,223	-8,012		-8,012
National Emergency Services	136,274	150,319	14,045		14,045		14,045
National Health Information Systems	8,264	8,382	118		118		118
National Māori Health Services	7,198	6,828	-370		-370		-370
National Maternity Services	193,350	188,492	-4,858		-4,858		-4,858
National Mental Health Services	73,117	141,296	68,179	75,900	7,721		7,721
National Personal Health Services	84,569	67,005	-17,564		-17,564	-7,277	-10,287
Primary Health Care Strategy	280,121	330,533	50,412	43,034	7,378	1,625	5,753
Problem Gambling Services	22,020	18,698	-3,322		-3,322		-3,322
Public Health Service Purchasing	458,196	440,302	-17,894	17,120	-35,014		-35,014
Supporting Equitable Pay *[was: ... for Care and Support Workers]*	413,636	413,636					
Totals	**3,752,394**	**3,909,558**	**157,164**	**170,361**	**-13,197**	**-9,249**	**-3,948**

It may seem surprising that **National Mental Health Services** appears underfunded, given its high priority in Budget 2019, but this depends on how the many initiatives in the area are regarded. If all were counted as meeting cost and population pressures – and it is arguable that this Budget's action on mental health is simply a recognition of many years of underfunding – then the more than doubling of this appropriation from $68 million allocated in Budget 2018 to $141 million in 2019/20 far more than funds the increase in costs and population since Budget 2018. But we have treated all the announced new services as additional to existing services, which is the current reality. In addition there are new costs coming through from last year's Budget ("Integrated Therapies Pilot for 18-25 Year Olds" which increases by $2.4 million, and "Improving Mental Health Services for Children in Canterbury and Kaikōura" which increases by $2.7 million) leaving existing services without sufficient compensation for rising costs and population. We go into more detail about the Budget's impact on mental health below.

Public Health Service Purchasing is $35 million short of our estimate of what is needed to meet costs and demographic pressures. The reasons are complex, including programmes underspent or incomplete in the previous year and brought forward. For example, in the 2018/19 year, $17.3 million was transferred out of this appropriation to disability and mental health services, and $16.8 million was brought forward to 2019/20 for the National Bowel Screening Programme (in addition to the additional $9 million in this Budget) and $9 million for the Fluoridation Subsidies Scheme. Some funding was brought forward to 2018/19 from the previous year, and has not recurred: this includes funding for the Sanitary Works Subsidy Scheme, Services to Refugees, and Contraceptive Services for Low Income Women.

Provider Development

This appropriation which has been static for many years was proportionately one of the biggest winners in the 2019 Budget. "Provider Development", which supports "the development of health or disability service providers, in particular those supporting vulnerable populations, such as Māori and Pacific peoples", received an increase from $24.3 million to $46.5 million. Programmes included "Supporting Integrated Health and Social Services at Auckland City Mission", "Increasing the Pacific Provider and Workforce Development Fund to Support a Pacific Workforce Pipeline", "Increasing Investment in Pacific Innovation Funds to Improve Pacific Health Outcomes", "Support Programme for Pacific Students to Successfully Complete a Nursing/ Midwifery Undergraduate Degree", "Māori Health Workforce Development Package - Pathways to Ongoing Employment to Enable Equitable Health Outcomes", and "Increasing Te Ao Auahatanga Hauora Māori: Māori Health Innovation Fund to Improve Māori Health Outcomes".

Ministry of Health operational funding

The Ministry of Health received $221 million, including multi-category expenses, which is $7.8 million more than what we estimated it needed to cover increased costs on current services. This makes no allowance for an increasing population. However, Budget 2019 includes additional management and regulatory services to be provided by the Ministry relating to many of the new initiatives, totalling $6.5 million, and a further transfer of responsibilities from Health Sector Projects Operating Expenses which we estimate at $3.6 million, leaving a funding shortfall of $2.3 million.

Successive years of under-funding

The funding shortfall in this year's Budget follows significant shortfalls in each Health vote the CTU has analysed since the 2010 Budget. Data are not available to enable an accurate assessment of how much money has in reality been saved over those years through genuine efficiencies and how much has been "saved" through service cuts and increases in user charges. With that qualification, we estimate an accumulated funding shortfall in annual spending power of $1.6 billion between the 2009/10 and 2019/20 financial years. It means that in the next Budget the Government will need to find over $2.5 billion for 2019/20 if it wishes to restore the value of funding.

This takes account of the costs of new services and claimed savings in each Budget, the actual expenses each year (estimated for 2018/19, forecast for 2019/20), CPI, demographic growth including ageing (supplied by the Ministry of Health)[5], actual increases in wages for DHB employees (from consolidated DHB accounts) and increases in the average hourly wage in Health Care and Social Assistance for most other employees in services funded by the Health vote. Treasury forecasts of CPI and the average wage are used for 2019 and 2020.

Another way to consider the adequacy of the funding trend is as a proportion of the measured economy – Gross Domestic Product (GDP). In 2009/10 Vote Health operational expenses were 6.28 percent of GDP, which had dropped to 5.60 percent of GDP by 2017/18 and are forecast to be 5.73 percent (of forecast GDP at $299,713 million) in 2018/19 and again 5.73 percent (of $316,957 million) in 2019/20. For Vote Health operational expenditure to match 6.28 percent of GDP in 2019/10, it would have needed a further $1.7 billion. So the two different estimates of the shortfall are similar.

However when capital expenditure is included, there is a significant rise in the Health Vote as a proportion of GDP. It was 5.72 percent of GDP in 2017/18, 5.98 percent in 2018/19 and 6.27 percent budgeted in 2019/20. It must be born in mind though that the 2019/20 year includes provision for capital expenditure that will not all be spent in that financial year.

It is often argued by Government that spending more on health would be at the expense of other government expenditure. However, Treasury's figures show that while Vote Health expenses have risen slightly from 19.4 percent of government operational spending (Core Crown expenses) in 2009/10 to a forecast 19.5 percent in 2019/20, the main reason has been that government operational spending as a whole has fallen as a proportion of GDP by 2.9 percentage points over that period – from 32.3 percent of GDP in 2009/10 to a forecast 29.4 percent in 2019/20. While the proportion increased sharply between 2017/18 (27.9 percent) and 2018/19 (29.1 percent), which is when Governments changed, rising further to 29.4 percent forecast for the 2019 Budget, it is forecast to rise only for one more year (to 29.6 percent) and then resume falling under the Government's Budget Responsibility Rules.

The conclusion from this is that the previous Government's overall priority of reducing expenditure has led to a substantial funding shortfall for Health services and an even greater shortfall for other government services combined.

[5] This is applied to the DHBs and to some of the national services, similarly to the calculation for this Budget.

Mental Health and Addiction services

Total cross-vote investment

The Government announced a total of $1.9 billion is being invested into Mental Health and Addiction (MHA) initiatives over five years, including operational and capital expenditure. It spans:

- $1.384 billion operating funding over five years into mental health and addiction across the public sector with $267 million in 2019/20 increasing to $395 million in 2022/23 to reflect the need to build new capability and workforces. This includes investment in frontline mental health services, strengthening existing services, and tackling the social determinants of mental health in, for example, the Justice and Housing sectors.
- $142 million of capital investment into mental health to support the operating spending mentioned above (for example, more transitional housing).
- $213 million additional operating funding for DHBs over four years. This adds to existing ring-fenced DHB funding for delivering mental health and addiction services.
- $200 million capital funding for new and existing mental health and addiction facilities.

There is however a degree of double-counting within the Health vote and across votes. For example, the $213 million additional funding for DHBs is also included in the overall DHB funding allocation to meet cost increases and population growth. The $200 million capital funding for new and existing mental health and addiction facilities is part of the overall $1.7 billion investment in health capital infrastructure. The $1.9 billion also includes $197 million for housing homeless people, which is part of the Housing vote. A further inclusion of $142 million capital expenditure "to support operating investments" is mostly set aside for the housing initiative.

Over half of the $267 million additional funding for 2019/20 mentioned above is included in other votes: Health receives $98.5 million. This rises to $234.7 million in 2022/23.

Table 3: Funding of Mental Health initiatives ($000)

	2018/19	2019/20	2020/21	2021/22	2022/23	Capital
Vote Health	-	98,540	148,578	188,531	234,655	-
Other Votes	12,202	168,393	180,255	192,461	160,390	141,502
Total	**12,202**	**266,933**	**328,833**	**380,992**	**395,045**	**141,502**

National Mental Health Services

Much of the additional operational funding for the Health vote's MHA services in 2019/20 is provided via the 'National Mental Health Services' budget appropriation, managed by the Ministry of Health, which increases by $73 million over last year's Budget and $61 million after supplementary estimates are included ($80 million to $141 million) in 2019/20. This includes $29 million to expand access to primary MHA services and additional funding for specialist alcohol and drug services, suicide prevention, telehealth services, forensic mental health services and school-based services, among others. However, as explained above, when assessing the cost of new or expanded services,

the rising cost of existing services and population growth, we estimate the additional funding for National Mental Health Services is $7.7 million short of what is needed.

Other additional funding is for new initiatives – workforce training and development ($13.9 million in 2019/20), and $2 million for the yet-to-be established Mental Health and Wellbeing Commission – and for mental health support workers' pay equity settlement ($36.6 million in 2019/20). A small part of the Ministry of Health's "departmental" funding is also allocated to mental health.

DHB ring-fenced MHA funding

The bulk of MHA funding is a ring-fenced portion of the overall DHB appropriation and is not included as a separate line item in the Budget documents. This funding is for specialist services[6] to meet the needs of people facing the most severe challenges and is targeted to at least 3 percent of the population in a given year. The figures provided to us by Treasury show that it increased by $54 million for 2019/20. This amounts to a 3.7 percent increase (from $1,476 million to $1,530 million). The Government's *Wellbeing Budget* document indicates this is part of a $213.1 million increase over four years to "cover cost pressures and demand".

However, when the cost of price increases, pay settlements and demographic changes are taken into account we estimate a $1,585 million increase (7.4 percent) was needed just to stay still. This is a conservative estimate as we have allowed for a population increase of 1.54 percent, as explained above, whereas figures published by the Mental Health Commissioners suggest the use of specialist MHA services may have increased at more than twice that rate of population growth since 2011. (The Mental Health Commissioner notes the rise could be due to several variables, including greater accuracy in capturing data, the growing population, improved visibility of and access to services, and stronger referral relationships between providers.)[7] DHB ring-fenced funded services have therefore taken a conservatively estimated $55 million cut.

The overall picture, then, for the vote's MHA services funding for 2019/20 is that on the one hand it has increased by $73 million in national services managed by the Ministry; while on the other, DHB ring-fenced funding has been reduced in real terms by an estimated $55 million, leaving a net increase of just $18 million.

Discussion

The Mental Health and Addiction Inquiry report explains that while DHB specialist MHA services are funded to cover 3 percent of the population, once that "target" is reached, DHBs may use any remaining funding for other MHA services for people with less severe needs. In practice, the Inquiry report says specialist services have been covering about 3.7 percent of the population (though this is conservative as data for older clients is incomplete), which raises questions about how that is being achieved on 3 percent funding levels. Further, a 2006 Ministry of Health study estimated 4.7 percent of the adult population had severe mental health needs in any one year.

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[6]Although these services are called 'specialist services', they are not provided exclusively by specialist clinicians, but include services such as community-based and respite care, as well as social support services. More than 90 percent of specialist services are provided in the community, either by DHBs or by other providers contracted by DHBs.

[7] Office of the Director of Mental Health and Addiction Services Annual Report 2017 (p6). https://www.health.govt.nz/publication/office-director-mental-health-and-addiction-services-annual-report-2017

The Mental Health Commissioner has commented that the 3 percent target, set in the mid-1990s, was based on what was known about prevalence at the time but: "This assessment has not been updated, and may no longer be set at an appropriate level or reflect the mix or design of services needed."[8]

The Inquiry report, among other recent reports, recognises the mounting pressures on MHA specialist services and difficulties in accessing them. But the real funding cut to these services suggest the Government is relying on significantly improved prevention from the additional resources put into primary MHA care and that these improvements will be achieved immediately. Developing greater capacity in primary MHA care will take time, however. Among other challenges, the announced initiatives will require 1,600 more workers over the next five years. There are risks that some of those workers may be sourced from already overstretched acute services.

Assuming all the intended initiatives for 2019/20 are achieved, the task of reversing the trends in specialist service use, which the data suggests increased 23 percent between 2011 and 2017, appears unrealistic. And the risks are significant for those needing access to specialist services, as well as for the (mostly community based) providers of those services.

This does not mean that supporting stronger prevention measures is not good policy. But the evidence shows that reducing the need for acute services through prevention activities is more complex in practice. The increased use of primary care services for MHA clients over recent years has not stemmed the increasing demand for services provided by DHBs.[9] This raises a number of questions.

Has the primary MHA service capacity fallen so far behind needs that relatively small or moderate increases in capacity are ineffective? Are the current models of care suitable for dealing with increasingly complex conditions and multi-morbidity? Are primary care services themselves overwhelmed by failures of policies in other sectors? Are Budget measure to address these sufficient to be effective?

Answering these is perhaps a task for the new Mental Health and Wellbeing Commission. The establishment of a well-resourced and independent watchdog organisation was considered critical by the Inquiry as it found the lack of progress in improving mental health services up until now was at least partly due to "a fundamental disconnect [that] exists between stated strategic direction, funding and operational policy and ultimately service delivery". We note that the Commission has been allocated an annual budget of $2 million, significantly less than that of the former Commission, which was disestablished in 2012. At the time of writing, its specific roles and functions were yet to be announced, as was the timing of its establishment.

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[8] *New Zealand's mental health and addiction services*: The monitoring and advocacy report of the Mental Health Commissioner, February 2018. https://www.hdc.org.nz/resources-publications/search-resources/mental-health/mental-health-commissioners-monitoring-and-advocacy-report-2018/

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