



NEW ZEALAND COUNCIL OF TRADE UNIONS

*Te Kauae Kaimahi*

*Working Paper on Health*

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## **How much Health funding is needed in Budget 2019 to maintain current service levels?**

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The health system needs more funding each year just to maintain its current services. This is to cover among other things population growth, inflation in general costs – including costs of pharmaceuticals – and salary costs. This does not take account of the additional funding required to meet unmet health need.

This report summarises an analysis of what is needed in operational funding in the Health vote<sup>1</sup> in Budget 2018 to maintain the status quo so that the public can judge whether announced funding is sufficient, whether it will allow for improvements, or whether services are likely to deteriorate. While capital expenditure requirements are a significant issue, they are not analysed in detail in this paper.

### **Key points**

- The Health vote's operational expenses would need to rise by an estimated \$1,303 million or 7.7 percent, from \$16,972 million in the 2018 Budget (the base used for all these increases) to \$18,274 million in 2019/20, to maintain the current levels of service. The \$1,303 million is simply to keep up with population and cost increases including the various pay settlements (but note the proviso below regarding certain other pay increases). However this is likely to understate the need depending on how costs rise in the current financial year as a result of the impact of collective employment agreement settlements and increased staffing that will take spending above the 2018 Budget.
- For the Health vote to regain the spending power of the 2009/10 Health vote and pay for the initiatives and additional costs announced over that time, it would need to increase by \$3.2 billion in the 2019 Budget to \$20.2 billion.

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<sup>1</sup> 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.

- The District Health Boards' (DHBs') combined budget needs to rise from \$13,236 million to \$14,282 million, requiring an increase of \$1,046 million, or 7.9 percent, to maintain the current level of DHB services and cover population and cost increases. Any new or expanded services or costs would be in addition to that. Note that this does not include Care and Support Workers' nor Mental Health and Addiction Support Workers' pay equity funding which are accounted for separately.
- The appropriations 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 \$250 million, or 7.1 percent, to maintain service levels. Any new or expanded services or costs would be in addition to that. Note that this includes pay equity funding for Care and Support Workers' as approved in 2017 and Mental Health and Addiction Support Workers' as approved last year, before distribution to DHBs.
- Funding for the Ministry of Health will need to rise from \$207 million to \$213 million to meet increased costs.
- Additional to this are expectations of the Budget. For example, one of the objectives of the Budget is "Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds" which almost certainly will include a response to the Mental Health Inquiry, called as a result of the high public concern at the state of mental health services.
- We estimate that \$515 million will be needed for pay settlements such as those for nurses, midwives, allied staff and doctors, and it does not include any pay increases for management, for which we could not obtain data. Some of the claims are not yet settled. We have included estimates for those we are able to calculate, but we are not able to estimate the value of a number of pay equity claims such as the New Zealand Nurses Organisation nurses and midwives claim which the DHBs have agreed to progress.
- Population pressures are projected to increase costs by 2.33 percent for the year to June 2020. This takes into account health costs of different age groups.

### **Compounding shortfall**

This analysis does not take into account the findings of our previous analyses which were that each year, with the exception of the last one, public health services have started the new financial year worse off than they were the previous year. This shortfall has accumulated to billions of dollars since 2010. We have estimated the cost to bring the purchasing power of the 2019 Health vote back to 2009/10 levels, including paying for the various initiatives and added costs (such as the transfer of responsibility for superannuation contributions from the State Services Commission to the DHBs), less "savings" by way of discontinued services. This would require an increase in operational expenses in the Health vote estimated at \$3.2 billion, bringing it to \$20.2 billion. This estimate uses actual rises in DHB full-time-equivalent employee wage costs over past years, the rises in the Health Care and Social Assistance average wage for other employees, and CPI for other cost increases. Net additional initiatives and costs over those years are added.

## Assumptions

At time of writing only three initiatives have been announced affecting Vote Health in the 2019 Budget:

- *Breaking the cycle of family and sexual violence*<sup>2</sup>, with total cost of \$320 million over four years has a Health element, but it is not yet clear how much will come from Vote Health.
- *A rheumatic fever initiative*<sup>3</sup> will receive \$12 million, but it is unclear over how many years.
- *Additional funding for ambulance services*<sup>4</sup> comprises \$21 million over two years and \$17.2 million over four years, which if equally allocated over years would provide an additional \$14.8 million in the 2019/20 financial year.

It is unlikely that these will make more than a marginal difference to our findings and they are not included in this analysis but will be in our post-Budget report.

There is likely to be a significant step up in mental health funding but the size of this is not yet available. One of the objectives of the Budget is “Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds” and this will almost certainly include a response to the Mental Health and Addiction inquiry, called as a result of the high public concern at the state of mental health services. To make a significant difference it will need to be several hundreds of millions of dollars per year on top of the \$1.35 billion ring-fenced funding that the Mental Health and Addiction inquiry estimated was devolved to DHBs in 2016/17, plus \$30 million in primary mental health services and \$69 million that year in nationally funded services. The inquiry estimated this provided for 3.7 percent of the population with severe needs whereas a New Zealand Mental Health Survey analysis<sup>5</sup> published by the Ministry of Health put the severe need at 4.7 percent of the population in 2006 (and Ministry statistics on demand for services show the need has increased since then), while the inquiry estimated that 20 percent of the population had mental health needs, including those with less severe needs. We will provide a more detailed analysis in our post-Budget report.

There have been substantial commitments in pay settlements, or likely pay settlements, for DHB staff impacting on both the current and the next financial year. We have obtained estimates for most of these from Central Region Technical Advisory Services Limited (TAS) which provides services to all DHBs, and we have estimated a small number. We have been unable to estimate increases for management staff of DHBs, so to that extent our estimate is low. In addition, there is a number of pay equity claims such as the New Zealand Nurses Organisation nurses and midwives claim which the DHBs have agreed to progress, which we have not attempted to estimate.

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<sup>2</sup> See <https://www.beehive.govt.nz/release/breaking-cycle-family-and-sexual-violence>.

<sup>3</sup> See <https://www.beehive.govt.nz/release/wellbeing-budget-supports-new-rheumatic-fever-initiative>

<sup>4</sup> See <https://www.beehive.govt.nz/release/securing-future-ambulance-services>

<sup>5</sup> MA Oakley Browne, JE Wells and KM Scott (eds). 2006. Te Rau Hinengaro: The New Zealand Mental Health Survey. Wellington: Ministry of Health. [www.health.govt.nz/publication/te-rau-hinengaro-new-zealand-mental-health-survey](http://www.health.govt.nz/publication/te-rau-hinengaro-new-zealand-mental-health-survey).

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

	2018/19	2019/20
Settlements <sup>6</sup>	\$m	\$m
<b>Medical staff</b>	97.2	95.0
<b>Nursing staff</b>	164.1	276.8
<b>Allied health staff</b>	79.2	90.9
<b>Other staff</b>	28.6	52.4
<b>Total</b>	<b>369.0</b>	<b>515.1</b>

Note that in line with our usual practice we have not revised the amounts funded for 2018/19 which were announced in Budget 2018 to allow for settlements applying to for that year, but the supplementary estimates made available on Budget Day should show the extent to which the 2018/19 requirements, which are significantly more than budgeted, have received additional funding. To the extent that they exceed Budget 2018, our estimate of a need for \$1,303 million in additional funding will be insufficient.

We estimate pay settlements for the current year (2018/19) at \$369 million. This does not include other aspects of the settlements such as employment of newly graduated nurses within 6 months of graduation and implementing an enrolled nurses supported transition into practice programme in the New Zealand Nurses Organisation settlement, which we cannot cost. However we include the \$48 million provided in their settlement for 500 additional nurses for immediate relief of DHB staffing and workload issues, and support for the implementation of a safe staffing methodology (CCDM). There will however be other staffing increases (which the \$369 million does not provide for) so the 2018 Budget is likely to be significantly exceeded.

The estimated \$515 million total pay increases for 2019/20 is also in addition to those other improvements in workforce development and working conditions and before allowing for any increases in staffing numbers (aside from the above staff increases that were agreed as part of the New Zealand Nurses Organisation settlement).

They imply increases in wages and salaries in the year to June 2020 of 4.7 percent for medical staff, 11.0 percent for nursing staff, and 7.4 percent for other staff, an average increase in DHB wages and salaries of 7.9 percent. A difference of 1 percentage point in the medical staff increase would increase or decrease total expenses by \$23 million. For nursing staff a 1 percentage point difference would change expenses by \$29 million, and for other staff by \$22 million.

For other wage and salary costs we assume 3.3 percent growth, Treasury's HYEPU forecast for the growth in the average ordinary time hourly wage in the year to June 2020. A difference of 1 percentage point in the rise of these costs (such as 4.3 percent or 2.3 percent rather than 3.3 percent) would increase or decrease total expenses by \$34 million.

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<sup>6</sup> 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.

In addition, 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 last year, require the funding in the table below. If this follows the pattern of the 2017 and 2018 Budgets, it will be funded separately at a central level and distribution of it to the DHBs will only be made public later.

	2018/19	2019/20
	\$m	\$m
<b>Care and Support Workers</b>	348,000	377,000
<b>Mental Health and Addiction Support Workers<sup>7</sup></b>	29,100	31,600
<b>Total</b>	377,100	408,600

We assume a rise in the CPI of 2.0 percent in the year to June 2020 (the Budget period). This is Treasury's forecast in the Half Year Economic and Fiscal Update (HYEFU) 2018. CPI is the standard price index used for non-labour costs in the Health vote. A difference of 1 percentage point in the rise of these costs (such as 3.0 percent or 1.0 percent rather than 2.0 percent) would increase or decrease expenses by \$62.5 million.

Population growth is a significant driver of health costs. We estimate an increase of 2.33 percent during the year to June 2020, including both an increase in the population (1.54 percent) and the increased expenditure requirements due to the ageing of the population (0.79 percent). These were calculated using the latest (2018) Ministry of Health demographic projections and age, sex and ethnicity cost weights.

An Excel spreadsheet showing the calculations and assumptions is available from [http://www.union.org.nz/category\\_media/health-working-papers/](http://www.union.org.nz/category_media/health-working-papers/).

<sup>7</sup> Estimated based on proportional funding to the Care and Support Workers funding (5,000 workers compared to 55,000 workers) including an allowance for separate funding from ACC.