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Did the Budget provide enough for Health?

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The Health Vote in the 2010 Budget was barely adequate to keep up with rising costs and population growth and ageing, but not adequate to fund new treatments. Instead it funded increases in services at the cost of cuts in others. In addition there are substantial new cost pressures as a result of inflation, forecast by Treasury to peak at 5.9 percent in the year to March 2011.

That is the conclusion of a comparison of the Budget with the analysis the CTU carried out prior to the Budget¹ which found that \$555 million was required in operational funding to just keep up with rising costs, population growth, and the growth in demand for health services such as that due to availability of new treatments.

Of that, \$512 million was required simply to keep with costs and inflation, very close to the Ministry of Health's own estimate of \$507 million². The CTU analysis also allowed for 0.8 percent additional funding to keep up with the demand for new treatments which become available (based on Treasury long term assumptions, and worth \$83 million) and offset it with a 0.3 percent increase in productivity (reducing the requirement by \$40 million). There were no allowances for either in the Ministry's \$507 million estimate.

The Health Vote increased by only \$508 million in new operational funding³ – only just enough to keep up with cost and population increases. While that sum is described as “new policy initiatives” in Budget papers, the sum is in fact a mixture of compensation for cost and population increases and new or expanded services. For example, by far the biggest part of the increase is \$350 million for increased and ageing population (demographics) and for “cost pressures” in District Health Boards (DHBs). However the total compensation is insufficient to cover the increases that are likely to occur.

¹ “How much funding is needed to avoid the condition of the Health System worsening?” by Bill Rosenberg, Working Paper on Health Number 2, 14 May 2010. Available at <http://union.org.nz/health-working-papers>.

² In a media statement, “Government protects Health's spending power”, the day after the Budget (21 May) the Minister of Health, Tony Ryall, stated: “Advice from the Ministry of Health is that a \$507 million increase would have been sufficient to protect health services against inflation and population growth”.

³ “Health Sector: Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011”, p.11-13.

The Health Vote itemises new or increased levels of services worth just under \$158 million. Of that, over \$8 million is for the work required for the restructuring of the Health system which is not expected to bring any savings in the 2010/11 financial year, leaving \$149 million (after rounding) for improved health services. Given that increases in costs and population account for all of the increase in the Vote, the \$158 million must be met by stopping or reducing other services, deterioration in the quality of other services, or productivity improvements. Treasury's view was that a 0.3 percent increase in productivity (saving \$40 million) was the most that could be expected on average, which would leave an approximate \$118 million gap that must be met by reduced and deteriorating services.

The gap is reflected in a \$111 million shortfall in the funding we calculated was required for District Health Boards (DHBs). These provide the great majority of Health "front line services" through the hospitals and by funding community services. We estimated that an additional \$454 million was required, but only \$343 million was forthcoming. 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 relieve the DHBs of their funding shortfall. The only "new policy initiatives" to directly assist the DHBs' funding position are the already mentioned \$350 million for increased and ageing population and for "cost pressures". The pressure on DHBs will lead to service deterioration, reductions in services, new user charges or increased DHB deficits which at the end of April were forecast to total \$115.5 million for the year to June 2010⁴. The Health Vote includes \$95 million for deficit support in the year to June 2011.

In addition, the Budget papers list \$46 million in "re-prioritised savings" from centrally funded services. It is impossible at this point to tell to what degree these represent reductions in genuinely under-utilised services (a review process which is not unique to this government) or cuts in needed services which the government has decided are "lower priority". Some areas are substantially funded from cuts in their own programmes. For example, Public Health Service Purchasing has "new policy initiatives" of \$12.8 million but "reprioritised savings" of \$18.6 million. The Primary Health Care Strategy has "new policy initiatives" totalling \$27.3 million but "reprioritised savings" of \$14.2 million. National Mental Health Services has \$10.0 million of "new policy initiatives" but "reprioritised savings" of \$2.7 million.

Finally, we note that the position is likely to be even more serious than this analysis indicates. Firstly, the cuts in ACC entitlements being undertaken through legislative and administrative measures are expected to move further costs onto Health services. Secondly, our pre-Budget estimate was based on a forecast inflation rate (CPI increase) of 2.4 percent for the 2010/11 financial year. In the Budget, Treasury forecast the increase in the year to March 2011 to be 5.9 percent. Of that, approximately 2 percentage points will be a result of the GST increase in October, which we understand will have a minimal effect on government-funded Health costs (though it will of course affect costs met directly by people requiring health services). However that would still leave approximately 3.9 percent in cost increases, compared to the 2.4 percent we anticipated. In itself, we estimate that will add another \$58 million shortfall in what the Health Vote requires. However it could also add to wage and salary pressures over and above the assumptions of our baseline estimate, as Health workers' expectations for compensation for inflation increase. Each 1 percentage point greater wage increase would add a further \$90 million to the gap in the needs of New Zealand's Health Services.

⁴ See "DHB Performance Report for the month ended 30 April 2010" on the Ministry of Health web site at <http://www.moh.govt.nz/moh.nsf/indexmh/dhb-financialreport-0910>.