The cost of everything and the value of nothing: New Zealand's under-investment in health

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In July, Minister of Health Dr Shane Reti dismissed Health New Zealand – Te Whatu Ora's Board, despite most positions already being vacant, and appointed a commissioner, Professor Lester Levy. The commissioner holds all the functions, duties, powers and protections of the Board and has been charged with finding NZ$1.4 billion in savings in the current financial year. In announcing the decision, the minister cited serious concerns about oversight and deterioration in financial outlook, with Health New Zealand – Te Whatu Ora over-spending by $130 million per month.[1] Since then, a public debate has played out between political parties about whether cost overruns are due to financial mismanagement or inadequate funding in the 2024 Budget. Official data and documents suggest New Zealand's health system has been systemically under-funded, and our analysis of the 2024–2025 health budget suggests funding for this financial year is also inadequate. It is unlikely that cost overruns are solely due to financial mismanagement.

Each year, politicians claim "record investment" in health. In context, the cost of providing health services increases annually due to population growth, ageing, inflation and wage growth, and so must the budget. Collectively, these are referred to by the New Zealand Treasury as "cost pressures." On the surface, the 2024–2025 health budget received a large increase of 6.2%, or $1.739 billion, compared to estimated actual spending in 2023/2024. However, most of this increase was in capital spending ($1.647 billion) and of that, $1.379 billion was allocated to remediate historical claims under the *Holidays Act*.[2] This meant Vote Health's operational budget for day-to-day running of the health system increased by just $93 million (or 0.4%) from estimated actual spending in 2023/2024. This relatively small increase is mainly due to the discontinuation of some time-limited funding streams, one-off costs in 2023/2024 funding reductions and savings, which totalled $2,093 million. Much of the "new" additional funding of $1.43 billion allocated in the Budget to meet cost pressures is therefore recycled or relabelled money.[3] Health New Zealand – Te Whatu Ora officials indicated at their annual review hearings in March that this fell short of what was needed to maintain current levels of service.[4]

Budget pressures are also driven by increasing demand for acute care and backlogs of planned care. Demand for acute care has outpaced population growth in the last decade, with presentations at emergency departments growing by 22.5% between 2013/2014 and 2022/2023.[5] Severity of presentations also increased, with immediately or potentially life-threatening events (triage levels 1–3) up 51.1%.[5] Hospital discharge rates suggest demand for acute care is displacing capacity for planned care.[5] Also, the COVID-19 pandemic resulted in a planned care backlog that continues to grow. As of May 2024, 39.8% of patients who were given a commitment to treatment were not treated within 4 months, and 37.1% of patients were waiting longer than 4 months for a first specialist assessment (FSA).[6]

Health targets have been set for the sector, but funding to deliver these targets is not evident in the 2024 Budget. In March, the minister introduced these targets:

- 95% of patients will wait fewer than 4 months for elective treatment, and
- 95% of patients will wait fewer than 4 months for an FSA.

A $110 million time-limited fund to clear planned care backlogs was included in the previous year's budget but was discontinued in 2024.[2] Documents obtained under the *Official Information Act* show the minister sought advice from Health New Zealand – Te Whatu Ora about how much it

would cost to have:

- no patient waiting longer than 15 months for an FSA, and
- no patient waiting longer than 12 months for treatment in the 2024–2025 year.

Officials modelled that additional funding of $723 million would be needed between 2024/2025–2026/2027.[7] This funding was not visible in Vote Health's *Estimates of Appropriations*, suggesting planned care delivery targets are expected to be met from already stretched baseline funding.

Health New Zealand – Te Whatu Ora's performance report for the first quarter of 2024 suggests it does not have enough in the budget for safe staffing and fair pay. The report cites the largest financial risk as unbudgeted care capacity and demand management costs resulting in higher nursing hours than budgeted. It also cites the impact of pay equity, settlement of collective agreements, and *Holidays Act* payments on leave revaluations.[8] This is against a backdrop of its *Health Workforce Plan 2023/24* that estimated a shortage of 1,700 doctors and 4,800 nurses, with a need to recruit or train 1,600 health professionals a year to maintain current staffing levels and meet population growth.[9] The frontline has felt the impact of managing these financial risks, as Health New Zealand – Te Whatu Ora implemented a hiring freeze for non-patient facing roles and a centralised approval process for clinical roles that slowed recruitment. Staffing shortages contribute to clinician burnout, increased waiting times and unmet need. Recent decisions from the Health and Disability Commissioner have demonstrated that under-staffing is a direct factor in patient harm.[10,11]

Significant under-funding of New Zealand's health system was identified in the *Health and Disability System Review*, particularly in infrastructure and data and digital.[12] In 2018, the Treasury estimated a $14 billion repair and construction bill over 10 years for multiple ageing hospital buildings.[13] That figure in 2023 dollars would be well over $17 billion. Over $6 billion has been injected into capital spending since then, but increased costs over time will have absorbed much of that funding.[14] Lack of investment in data and digital systems also poses a significant financial risk. Health New Zealand – Te Whatu Ora's briefing to the incoming minister in November 2023 identified over 4,000 clinical and business system applications, many at or past the end of life, including payroll systems.[15]

A focus on prevention, equity and addressing the social and commercial determinants of health could offer some relief to increasing costs. However, the political appetite for prevention is low, with the coalition Government adopting policies likely to drive ill health and unmet need. This includes the repeal of the *Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Bill*, the directive that Pharmac is not required to consider Te Tiriti o Waitangi in its work and the reintroduction of prescription co-payments, with information obtained from the Ministry of Health suggesting almost $15 million in savings per annum on medicines from prescriptions going unfilled. Research suggests those who cannot collect a prescription due to cost are 34% more likely to be admitted to hospital,[16] and there is a significant relationship between not collecting prescriptions due to cost and absenteeism from work.[17]

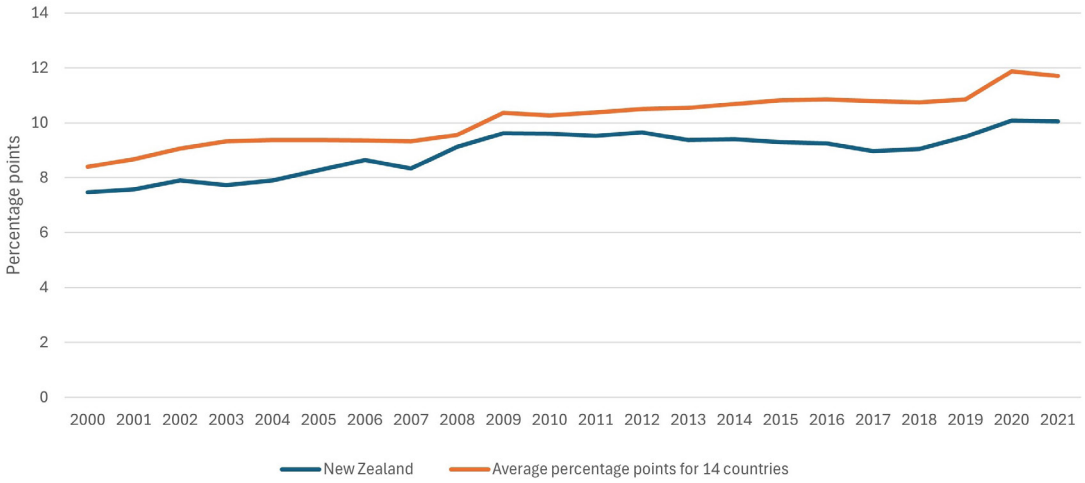
New Zealand's investment in health tends to be lower than comparable countries, and its healthcare productivity higher. In 2021, New Zealand's total public and private health expenditure was 10% of its gross domestic product (GDP), compared with an average of 11.7% (ranging from 9 to 17%)[18] for 14 OECD countries (Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States of America). New Zealand's total health expenditure would have needed to be $5.8 billion higher in 2021 to match the average proportion of GDP of those 14 countries. Recent research ranks New Zealand as ninth out of 28 high-income countries for healthcare productivity,[19] and New Zealand performs well in international comparisons for administrative efficiency.[20] The commissioner has indicated confidence in finding $1.4 billion in savings from efficiencies. However, with comparatively low investment and relatively high productivity, it is difficult to see how a further $1.4 billion of savings will be found without impacting frontline services.

New Zealand can afford to invest intelligently in the health of its population. As of 2023, New Zealand has the sixth lowest government net debt out of 14 comparable OECD countries.[21] Investment in health is good for the economy. A study covering 25 European countries found that each dollar invested in health generated $4.30 in the economy.[22] Ill health is a significant cost to society from direct and indirect costs including healthcare, absenteeism, presenteeism, working

less and unemployment. In 2010, the Treasury estimated the indirect costs of ill health in 2005 as between $4.127 billion and $11.563 billion, or between 2.7 to 7.6% of GDP.[17] For context, the total health budget for 2004–2005 was around $9.917 billion.

Overall, the health budget for 2024–2025 does not provide enough funding to address the cost pressures of inflation, wage growth, ageing and population growth. Nor does it provide funding to clear planned care backlogs from the COVID-19 pandemic, respond to increasing demand for acute care and meet the Government's health targets. Safe staffing and fair pay are viewed as financial risks against budget. Investment to address ailing digital and data and physical infrastructure is lacking. There is an urgent need to open an independent inquiry into how we fund our health system. This includes accounting for the true cost of health services—and the economic gains New Zealand would realise if health was viewed as an investment in our people.

Figure 1: New Zealand's total health expenditure as % GDP, compared to 14 other OECD countries.*



Source: World Health Organization Global Health Expenditure Database, 2024.
*Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States of America.

COMPETING INTERESTS
Nil.

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