

The smoke and mirrors of health funding

Is investment in our health system at a record high, as Luxon suggests, or is it being cut?

Kathy Spencer

Our Prime Minister has claimed that the coalition government has made a record investment in our health system. But if that's the case, why are we hearing so much about cuts in spending and staff at Health NZ?

Christopher Luxon has repeatedly referred to a \$16.7 billion investment in health, claiming it to be the "biggest ever" and saying that it's "going in now". Luxon has used this figure to assure us that, while the system is certainly struggling, it's not due to a shortage of funding.

To put Luxon's \$16.7 billion into perspective, the amount provided for Vote Health last year was \$28.2 billion. Therefore, referring to an investment of \$16.7 billion creates an initial impression that funding is being increased by 60%.

But that is not the case – far from it. So, where did the massive \$16.7 billion figure come from?

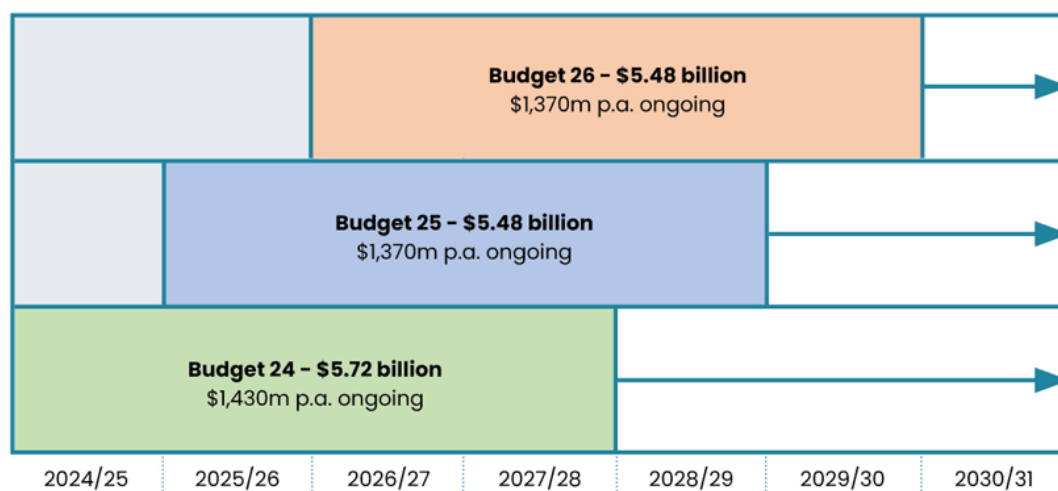
Each year, extra funding is needed to meet the costs of inflation, a growing population, an ageing population, and an expanding range of medical treatments.

The Ministry of Health and Treasury together advise the government on the size of these "cost pressures" and suggest an increase in funding to deal with them. For 2024/25, Health NZ funding included a 6.3% increase for cost pressures. This was accompanied by a commitment from the government to provide a further increase of 5.7% in the 2025/26 year, and 5.3% in the 2026/27 year.

These figures translate to \$1.43 billion provided in this year's budget, \$1.37 billion to be included in Budget 2025, and a further \$1.37 billion to be included in Budget 2026.

Pre-announcing future commitments like this is certainly one way to come up with a big number. But the sleight of hand really kicks in at the next step, which is to multiply the figure in each budget by four.

Officials and ministers multiply by four because cost pressure funding continues into the future (ie it is ongoing rather than for one year only) and each budget has a time horizon of four years. The following diagram from the Ministry of Health shows how the \$16.7 billion figure is derived -



This also explains why the phrase “over four years” is frequently heard at budget time: what it means in practice is that the same increase is being counted four times.

Presenting figures like this is highly misleading, shabby accounting, and does a disservice to both the public and the organisations in the health sector.

Despite Luxon’s claim of a historic investment in health, it’s clear that the \$16.7 billion in funding is only intended to meet cost pressures and maintain the status quo. But the system will have to do much better than that.

In another example of smoke and mirrors, Reti announced five health targets in March this year, describing them as signalling “a vigorous new direction in health”. He stressed the importance of being “ambitious in trying to achieve better health outcomes for New Zealanders”.

Far from being a new direction, targets have been set in our public health system for more than 30 years. A quick look at previous versions shows that Reti’s set of targets is the smallest and least ambitious for many years, especially considering that Health NZ has given itself until 2030 to get the job done.

Looking at two of the “new” targets illustrates the point.

One of Reti’s targets is that 95% of children are to be fully immunised at 2 years of age. In fact, this has been a target for at least 17 years and the actual rate has been as high as 93%.

Unfortunately, childhood immunisation has been affected by the experience with covid and it’s currently very low at 76%. It will take a concerted effort and more primary care funding to increase the rate to 95%.

Another of Reti’s targets is that 95% of patients should be seen by a specialist within 4 months of a referral. Targets about specialist waiting times first appeared in our system in the late 1990s. From 2015, the target was for 100% of patients to be seen within 4 months.

Actual performance has at times been as high as 100%, while the latest actual figure is extremely poor at only 61%. Again, closing this gap will need a far greater commitment of resources than is happening now.

Meanwhile, under Lester Levy’s scrutiny, Health NZ is busy ratcheting its spending down towards the “status quo budget” set by the government – a budget that is not even fit for the purpose of delivering Reti’s very modest targets.

It’s simply not acceptable for ministers to backslide on targets and bamboozle us with over-inflated funding figures.

We need our health system to perform much better than the status quo and we need to aim higher than the weak targets set by our Minister of Health. To get there, the first urgent step is to stop pulling resources out of Health NZ.

Kathy Spencer was a Deputy Director-General in the Ministry of Health, a General Manager in ACC, and a Manager in the Treasury.