

Chapter 5: Public Sector Funding Sources I – Vote Health and Vote Health Service Providers

5.1 Introduction

Public sector funding is the major source of health funding in New Zealand. Within this source, the government's direct health funding through Vote Health is the largest contributor to the total health and disability funding. This direct health funding also includes a small amount through Vote HSP to cover operational deficits of the HHSs, now the DHBs. In addition, other government agencies provide a significant amount of funding for activities directly and indirectly related to health. The trends in aggregate Vote Health and Vote HSP are discussed in this chapter. Expenditure trends by the other government agencies are presented in Chapter 6.

5.2 Vote Health and Health Service Provider deficit financing

To conform with WHO conventions, Vote Health expenditure excludes capital, on the basis that this expenditure does not directly influence service provision in the year it is incurred. Historically, CHE/HSP deficit financing was also excluded from public health expenditure. However, as noted in Section 3.3, it is now included as part of publicly funded health expenditure and, in this analysis, is included along with Vote Health funding from the time that CHE/HSP deficit financing began in 1993/94.⁵

As also previously noted, the Vote Health annual appropriations are analysed both inclusive and exclusive of 'non-health' items in order to provide a full picture of actual Vote Health expenditure (see Appendices 5A and 6A). The difference between the two categories amounted to \$483 million in 2000/01. The long-term time series (Appendices 3 and 4) follow the WHO definition, thereby excluding 'non-health' items (but including CHE/HSP deficit financing), to preserve a consistent format for international comparison.

Expenditure growth under Vote Health has accelerated in recent years, particularly following the transfer of disability services and funding from other government departments, most notably from the Department of Social Welfare. To give readers the opportunity to gauge the movements in Vote Health excluding these transfer payments, Table 5.1 gives details of Vote Health (exclusive of both transfers⁶ and capital) in aggregate and in per capita terms (nominal and real) and as a percentage of both GDP and

⁵ From 1 August 2000 all capital funding was transferred from Vote HSP to Vote Health.

⁶ The purpose of this exclusion is to ensure a consistent dataset for the period examined.

government expenses for the period 1989/90 to 2000/01. Note that this dataset differs from that presented in Appendix 4.⁷

Table 5.1 Vote Health expenditure (excluding capital and transfers) plus CHE/HSP deficit financing, 1989/90–2000/01*

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Total (\$ million nominal)	3,702	4,015	4,006	4,053	4,425	4,688	4,855	5,263	5,641	5,836	6,114	6,576
Total real (\$ million 2000/01)	4,531	4,780	4,718	4,713	5,092	5,157	5,237	5,611	5,919	6,143	6,309	6,579
Per capita – usually resident population basis												
Per capita (\$ nominal)	1,104	1,190	1,177	1,176	1,267	1,322	1,348	1,441	n/a	n/a	n/a	n/a
Per capita real (\$ 2000/01)	1,352	1,417	1,386	1,368	1,458	1,455	1,454	1,536	n/a	n/a	n/a	n/a
Per capita - resident population basis												
Per capita (\$ nominal)	n/a	n/a	1,145	1,147	1,236	1,292	1,317	1,407	1,493	1,534	1,599	1,712
Per capita real (\$ 2000/01)	n/a	n/a	1,349	1,334	1,423	1,421	1,420	1,500	1,566	1,615	1,650	1,712
Total as % of GDP	5.2	5.5	5.5	5.4	5.4	5.4	5.2	5.4	5.7	5.8	5.8	5.9
Total as % of government expenses*	12.6	13.5	14.0	14.1	15.5	15.9	16.0	16.3	17.0	17.1	17.5	18.3

Source: Ministry of Health

Note: * Government expenditure has been revised.

Table 5.1 shows the following trends.

- Nominal Vote Health expenditure (including CHE/HSP deficit financing) grew steadily throughout the review period, except in 1991/92. Expenditure in 2000/01 was 77.6% higher than in 1989/90 (up on average 5.4% per year).
- Reflecting the trend in total Vote Health expenditure, nominal per capita spending increased throughout the period, in 1991/92 and 1992/93. Estimated 2000/01 per capita spending was 49.4% higher than in 1991/92 (up on average 4.6% per year).⁸
- During the review period, real (CPI adjusted) spending decreased between 1991 and 1993 before beginning a sustained recovery from 1993/94. Real expenditure growth averaged 3.8% per year.
- Real per capita growth followed a similar pattern to growth in real spending, averaging 2.7% per year from 1991/92.
- In the review period, Vote Health (including CHE/HSP deficit financing) as a percentage of GDP was at its lowest at 5.2% in 1995/96. It was 5.9% during 2000/01.

⁷ Following convention, in Appendices 4 to 6, where Vote Health funding relates to the ACC liability for health care costs incurred in the treatment of accident victims, it is treated as an ACC expenditure item rather than as a Vote Health item.

⁸ Because of the changes in the definition of population, data under the new definition are available only from 1991/92; discussion on per capita trends is restricted to the period since then.

- Spending as a percentage of total government expenditure was 12.6% in 1989/90. It has increased steadily since then. The Vote Health percentage of government expenses in 2000/01 was 18.3%.

5.3 Vote Health by major expenditure category

Details of the major expenditure categories in Vote Health for recent years are given in Table 5.2. This table represents Vote Health as appropriated. It excludes CHE/HSP deficit financing and capital but includes transfers.

Table 5.2 Components of Vote Health expenditure (excluding capital and including transfers), 1998/99–2000/01

Expenditure categories	1998/99		1999/2000		2000/01	
	\$000	As a % of Vote Health	\$000	As a % of Vote Health	\$000	As a % of Vote Health
Personal health	4,463,445	70.6	4,637,947	69.1	5,022,533	70.6
DSS	1,535,888	24.3	1,645,384	24.5	1,758,700	24.7
Public health purchasing	107,952	1.7	117,273	1.7	124,755	1.8
Independent service providers	44,802	0.7	34,375	0.5	46,926	0.7
Other payments	115,875	1.8	213,724	3.2	47,989	0.7
Ministry of Health	57,985	0.9	59,220	0.9	126,370	1.6
Total*	6,325,947	100.0	6,707,923	100.0	7,127,273	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.

Table 5.2 shows that the total Vote Health over the three years ended June 2001 grew to \$7127 million.⁹ This figure translates to an annual nominal rate of growth of 6.1% for this period. Discussion of trends in the main expenditure categories outlined in Table 5.2 follows.

5.3.1 Personal health

Funding related to health services provided to individuals for the purpose of improving or protecting their health is identified as personal health expenditure. Personal health funding grew from \$4,463 million to \$5,023 million between 1999 and 2001; this was an annual average growth of 6.1%. Its share of Vote Health was 69.1% in 1999/00, compared with 70.6% in 2000/01.

Table 5.3 gives a breakdown of Vote Health and Vote HSP funding in personal health expenditure by main expenditure category during 2000/01. Medical and surgical expenditure, which accounted for 47.0% of total personal health expenditure, is the largest category, followed by medicaments (mainly pharmaceuticals) at 15.5%.

⁹ This amount differs from Vote Health expenditure as it is set out in Appendices 4A, 4B, 5A and 5B. The difference stems from the exclusion of 'non-health' expenditure and of that component of Vote Health used to fund accident-related expenditure reported by the ACC (see Section 6.2 and footnote 10).

Table 5.3 Personal health expenditure by main service category, 2000/01

Institutional *	\$ million	% of total	Community *	\$ million	% of total
Medical and surgical **	2360.2	47.0%	GP	298.4	5.9%
Mental health	196.5	3.9%	Maternity	134.7	2.7%
Dental	77.0	1.5%	Specialist	0	0.0%
Maternity	285.2	5.7%	Referrals	288.6	5.7%
Other	251.4	5.0%	Dental	22.2	0.4%
			Mental health	260.5	5.2%
			Medicaments	777.6	15.5%
			Other	70.3	1.4%
Total institutional[†]	3170.3	63.1%	Total community[†]	1852.3	36.9%
			Total personal health[†]	5022.7	100.0%

Source: Ministry of Health

Notes: * For definitions of institutional and community, see Appendix 1.

** Includes clinical training.

† Totals may be affected by rounding.

5.3.2 Disability support services

Individuals are eligible for disability support services funded by Vote Health if they have a physical, psychiatric, intellectual, sensory or age-related disability (or a combination of these) which is likely to continue for a minimum of six months and reduces independent functioning to the extent that ongoing support is required.

DSS purchased by Vote Health cover personal care services, including assistance with daily activities such as dressing, personal hygiene and eating, along with household management services, including assistance with meal preparation, cooking, cleaning and shopping. Care may be provided in a rest home or hospital, community residential home, or a person's own home. A full explanation of DSS is provided in Appendix 2.

From 1997/98 to 2000/01, DSS funding increased at an average of 6.6% per year, from \$1,453 million to \$1,759 million in 2000/01, while its share of Vote Health decreased from 25.1% to 24.7%. As noted in Section 3.4, part of this change is due to the progressive transfer of services from Vote Social Welfare to Vote Health, which started in 1993/94 and continued through to 1995/96.

Since the last major tranche from Vote Social Welfare was transferred in 1995/96, funding has grown at least the rate of the DSS demographic adjuster¹⁰ and will continue to do so unless there are further funding level adjustments.

¹⁰ This adjuster increases funding in line with age, gender and other characteristics of the population.

Table 5.4 Continuing impact of Vote Social Welfare transfers to Vote Health (\$ 000)
1997/98–2000/01

1997/98	1998/99	1999/2000	2000/01
433,637	438,974	447,490	456,887

Source: Ministry of Health

Table 5.5 gives a breakdown of DSS funding for 2000/01 by disability type. It shows that age-related disability receives the largest amount (48.3%) of funding.

Table 5.5 Disability support expenditure by disability category, 2000/01

Disability category	\$ 000	% of total
Age-related disability	848,938	48.3
Psychiatric disability	444,955	25.3
Intellectual disability	274,586	15.6
Physical/sensory disability	190,221	10.8
Total	1758,700	100%

Source: Ministry of Health

Note: * Totals may be affected by rounding.

5.3.3 Public health

Public health funding is for services concerned with the whole population or population groups; this broad focus distinguishes it from funding for individual personal health services. Public health services are primarily concerned with health protection, improvement and/or promotion. Specific objectives include:

- ensuring that health and disability services meet population needs, and that health gains are maximised and provided efficiently
- improving regulatory frameworks so that they better protect the health and safety of New Zealanders while minimising industry compliance costs
- improving the health status of at-risk groups, especially Māori, by increased responsiveness to their needs.

From their inception, regional health authorities (RHAs) were charged with the responsibility of purchasing public health community services. At the end of 1994/95, RHAs, and later the Health Funding Authority (HFA), assumed responsibility for purchasing some national operations programmes. The Ministry of Health retained responsibility for the purchase of some public health service programmes that had a national focus; the categories of such programmes are shown in Table 5.6. From 1 January 2001 the Ministry of Health became responsible for funding public health services.

Table 5.7 shows that public health funding grew from \$107.9 million in 1998/99 to \$124.8 million in 2000/01, representing an annual average increase of 7.5%. During this period public health's share of Vote Health increased slightly to 1.8%. The table also gives the breakdown of estimated public health expenditure by main purchasing responsibility (the HFA and the Ministry of Health) from 1998/99 to 2000/01.

Table 5.6 Categories of public health expenditure by the Ministry of Health, 1998/99–2000/01

Expenditure categories	1998/99		1999/2000		2000/01	
	\$ million	% of total	\$ million	% of total	\$ million	% of total
Science services to support field work	11.3	71.8	11.7	62.2	11.9	46.9
Surveillance and surveys of health status and outcomes	2.4	14.9	2.4	12.8	1.4	5.5
Health education and promotion	0.4	2.6	0.4	2.1	0.4	1.6
Other national programmes	1.7	10.7	4.3	22.9	11.7	46.0
Total *	15.8	100.0	18.8	100.0	25.4	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.

Table 5.7 Estimated public health expenditure, 1998/99–2000/01

Purchaser	1998/99		1999/2000		2000/01	
	\$ million	% of total	\$ million	% of total	\$ million	% of total
HFA as purchaser	92.1	85.4	98.5	84.0	99.4	79.7
Ministry of Health as purchaser	15.8	14.6	18.8	16.0	25.4	20.3
Total *	107.9	100.0	117.3	100.0	124.8	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.

5.3.4 Independent service providers

Independent service providers represent a residual category of health funding outside personal health, DSS and public health. As Table 5.8 shows, the main expenditure categories are provider development at \$15.6 million and health and disability advocacy services at \$12.3 million.

Independent service providers accounted for around 0.7% of Vote Health in 2000/01, having increased at a rate of around 2.3% per year since 1998/99.

Table 5.8 Independent service provider expenditure, 2000/01

Service category	\$ million	% of total
International health organisations	2.5	5.3
Legal expenses	8.8	18.8
National advisory and support services	4.9	10.5
Residual health management	1.2	2.5
Health and disability advocacy services	12.3	26.2
Advice on food standards	1.7	3.5
Provider development	15.6	33.2
Total *	46.9	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.

5.3.5 Other payments

The figure of \$48.0 million for other payments in 2000/01 accounted for approximately 0.7% of total Vote Health. This was essentially the operating costs of the HFA between 1 July 2000 and 31 December 2000.

5.3.6 Ministry of Health

Table 5.9 provides a breakdown of funding by output class for the Ministry of Health in 2000/01. It shows that a one-off output class relating to the restructuring (transitional health management) is the largest, accounting for \$36.3 million (or 29.1% of total operational expenses). Funding for health regulation and protection is the next largest output class at 18.8% of operational expenses.

Table 5.9 Ministry of Health expenditure by output class, 2000/01

Output class	\$ million	% of total
Health and disability policy advice	19.1	15.3
Performance management	3.9	3.1
Ministerial support services	2.9	2.3
Health regulation and protection	23.5	18.8
Transitional health management	36.3	29.1
Health sector development	13.1	10.5
Hospital monitoring	2.8	2.3
Health benefits	13.4	10.7
Screening programmes	1.5	1.2
Information services	8.5	6.8
Total *	124.9	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.

5.4 Trends in uses of Vote Health funding

The trends in Vote Health funding from 1998/99 to 2000/01, in relation to private and public institutions and community care services by category, are presented in Table 5.10. These figures exclude expenditure on capital and 'non-health' items.

Table 5.10 Destinations of Vote Health funding (excluding capital and 'non-health' items), 1998/99–2000/01

	1998/99		1999/2000		2000/01	
	\$000	% of total	\$000	% of total	\$000	% of total
Public institutions						
Personal health	2,456,573	42.6	2,739,226	45.0	2,829,713	43.7
Disability support	369,046	6.4	402,604	6.6	436,666	6.7
Total public institutions*	2,825,619	49.0	3,141,830	51.6	3,266,379	50.5
Private institutions						
Personal health	146,151	2.5	212,508	3.5	265,504	4.1
Disability support	502,182	8.7	536,815	8.8	562,653	8.7
Total private institutions*	648,334	11.2	749,323	12.3	828,157	12.8
Total institutional care *	3,473,953	60.2	3,891,153	63.9	4,094,536	63.3
Community care						
Personal health	1,752,681	30.4	1,615,562	26.5	1,852,316	28.6
Disability support	257,149	4.5	248,387	4.1	275,898	4.3
Total community care*	2,009,830	34.8	1,863,949	30.6	2,128,214	32.9
Public health	110,000	1.9	93,229	1.5	99,385	1.5
Teaching and research	72,234	1.3	70,650	1.2	75,000	1.2
Ministry of Health expenditure	102,787	1.8	167,219	2.7	72,296	1.1
Total expenditure*	5,768,805	100.0	6,086,199	100.0	6,469,431	100.0

Source: Ministry of Health

Note: * Totals may be affected by rounding.