

Core crown health expenditure since 2009/10

The Labour Party has asked Infometrics to:

1. use public sources to estimate the change in core crown health expenditure since 2009/10
2. examine how the change in core crown health expenditure aligns with changes in inflation and demographic characteristics.

This note outlines the high-level approach used to estimate crown health expenditure and presents the findings.

Estimating core crown health expenditure

To estimate the change in core crown health expenditure since 2009/10, Infometrics drew predominantly on data from Treasury's 2017 BEFU Fiscal Strategy Model (FSM).

In the absence of health cost weights in the 2017 BEFU FSM, health cost weights from the 2014 HYEPU (the most recent available) were combined with population data from the 2017 BEFU FSM to calculate changes in demographic pressures on demand for health services. The assumption that health cost weights have not changed since late 2014 is based on the weights having not changed in the previous seven FSMs prior to the 2014 HYEPU FSM, dating back to the October 2011 PREFU.

Table 1 shows that core crown health expenditure, in nominal terms, is budgeted to have increased from \$13.128b in 2009/10 to \$17.096b in 2017/18. This change equates to an increase of \$3.968b, or 30.2%, over the period.

Table 1 also shows that forecast growth in demographic pressures on demand for health services is expected to ease from 2.5% in 2015/16 to 2.2% in 2017/18. This easing of demographic pressures is partly because New Zealand's current very strong population growth, due to high net migration, has a degree of concentration in the 25-39-year-old age brackets, which place relatively low demands on health services compared with people aged over 55. Infometrics also notes that Treasury's overall population assumptions see population growth slowing from 2.1%pa in March 2017 to 1.9%pa by June 2017 and 1.7%pa by June 2018.

Comparing health expenditure growth against inflation and population growth

To examine how growth in core crown health expenditure aligns with inflation and demographic changes since 2009/10, Infometrics estimated what core crown health expenditure would need to be if expenditure kept pace with consumers price index inflation and demographic changes.

Infometrics then examined the difference between overall core crown health expenditure since 2009/10 and the core crown health expenditure required to keep pace with inflation and demographic changes.

Table 2 indicates that forecast core crown health expenditure in 2017/18 will be \$17.096b. The cumulative difference between core crown health expenditure and required core crown health expenditure to maintain 2009/10 levels (once growth due to inflation and demographic changes are taken into account) will have increased to \$2.342b.

Table 1

Core crown health expenditure: 2008/09 to 2017/18

Fiscal years

	08/09	09/10	10/11	Historical					Forecast	
				11/12	12/13	13/14	14/15	15/16	16/17	17/18
Core crown (CC) health exp. (\$b)¹	12.368	13.128	13.753	14.160	14.498	14.898	15.058	15.626	16.202	17.096
Core crown health expenditure growth (%)		6.1%	4.8%	3.0%	2.4%	2.8%	1.1%	3.8%	3.7%	5.5%
Growth due to demographics (%)		1.7%	1.4%	1.2%	1.3%	2.0%	2.2%	2.5%	2.4%	2.2%
Growth due to inflation (%)		1.7%	5.3%	1.0%	0.7%	1.6%	0.4%	0.4%	1.8%	1.6%
Growth in volume of CC health exp. after adjusting for demographic changes (%)		2.8%	-1.9%	0.8%	0.4%	-0.9%	-1.6%	0.9%	-0.5%	1.7%
Cumulative growth in CC health exp. (\$b)			0.625	1.032	1.370	1.770	1.930	2.498	3.074	3.968
Cumulative growth in CC health exp. (%)			4.8%	7.9%	10.4%	13.5%	14.7%	19.0%	23.4%	30.2%

¹ Excluding Equitable Pay for Care and Support Workers, the 2017/18 forecast figure would be \$16.817bn

Source: Treasury, Infometrics calculations. Values are in nominal prices

Table 2

Actual health expenditure growth compared to inflation and population changes

Fiscal years

	08/09	09/10	10/11	Historical					Forecast	
				11/12	12/13	13/14	14/15	15/16	16/17	17/18
Core crown (CC) health exp. (\$b)	12.368	13.128	13.753	14.160	14.498	14.898	15.058	15.626	16.202	17.096
Required CC health exp. (\$b) ¹			14.018	14.325	14.613	15.145	15.545	15.996	16.677	17.314
Difference (\$b)			-0.265	-0.165	-0.115	-0.247	-0.487	-0.370	-0.475	-0.218
Difference (%)			-1.89%	-1.15%	-0.78%	-1.63%	-3.14%	-2.31%	-2.85%	-1.26%
Cumulative difference since 09/10 (\$b)			-0.265	-0.430	-0.545	-0.792	-1.279	-1.650	-2.124	-2.342

¹ For spending to keep pace with inflation and demographic changes

Source: Treasury, Infometrics calculations. Values are in nominal prices

Infometrics notes that the forecast figure for core crown health expenditure in 2017/18 of \$17.096b includes \$279m of funding for "Equitable Pay for Care and Support Workers".¹ Infometrics has chosen to include this spending item when calculating its estimate of the gap between core crown health expenditure and required expenditure to maintain 2009/10 funding levels. However, Infometrics recognises that this additional expenditure could potentially be considered as a one-off jump in expenditure that does not accurately reflect the underlying track for health spending. Excluding this spending item from the 2017/18 figures would imply adjusted core crown health expenditure for the year of \$16.817b and a cumulative difference with required expenditure since 2009/10 of \$2.621b.

¹ New Zealand Government. *The Estimates of Appropriations 2017/18 - Health Sector B.5 Vol.6*. New Zealand Treasury. www.treasury.govt.nz/budget/2017/estimates/v6/est17-v6-health-v2.pdf, p12.