

## Appendix Five: Mental Health Funding and Expenditure

### Overview

1. The principal funder of health and disability services in New Zealand is the Government, with most funding provided through Vote Health (actual expenditure of more than \$15 billion in 2016/17). ACC and private expenditure also funds health services.

Table 1: Vote Health actual operating expenditure

(\$millions)	2012/13	2013/14	2014/15	2015/16	2016/17
Vote Health operating budget	13,596	14,048	14,345	14,793	15,351

2. Vote Health expenditure on mental health was about \$1.4 billion in 2016/17. DHBs spend almost all of this; the Ministry of Health's expenditure is around \$70 million each year on mental health<sup>1</sup>. In addition, general medical services are funded that help to treat or manage mental health matters (e.g. primary health care doctors and nurses), but aren't part of the reported mental health expenditure.
3. DHBs provide service directly (\$991 million in 2016/17) and also contract NGOs for services (\$434 million in 2016/17). The Ministry of Health contracts NGOs and DHBs for services.

Table 2: Estimated expenditure on mental health services

	Estimated expenditure (\$millions)				
	2012/13	2013/14	2014/15	2015/16	2016/17
Expenditure	1,268	1,297	1,372	1,393	1,425

4. The amount spent on mental health services is similar to that spent on disability support services (\$1.2 billion in 2016/17) and aged care services (\$1.4 billion in 2016/17). By comparison, about \$5 billion is spent on medical and surgical services and \$850 million on community pharmaceuticals.

### The Mental health ring fence

5. Mental health expenditure in DHBs is "ring fenced". This essentially means that the amount a DHB spends on mental health services has to, at-least, increase each year to account for demographic and other cost pressures. This ensures that DHBs don't reprioritise current mental health funding to other services, and that the funding scales to keep up with population growth.
6. What the ring fence doesn't do is ensure that the existing expenditure is sufficient. If the current expenditure is insufficient and it is scaled for population growth, it would still remain insufficient. While the ring fence does mean there is a minimum investment (expenditure expectation), it may also have the unintended consequence of normalising or providing justification for an insufficient level of funding.
7. The ring fence expenditure expectations mean that a DHB can't spend less, however in practice there is nothing to prevent a DHB from spending more to meet the needs of their population if they deem this necessary.

<sup>1</sup> This does not include the workforce centres, some Telehealth and public health services

8. Note: no other area of DHB funding is ring fenced. For example, there isn't a maternity ring-fence or an electives ring fence.

### Current funding mechanisms

9. Most mental health services are Crown funded, so they are essentially funded through general taxation and other revenue gathering by the Crown. The few exceptions are:
  - a. **Problem gambling services** – funded by through a levy on gambling industry operators. The levy is paid to the Crown, who appropriates funding of an equivalent level through the Problem Gambling appropriation in Vote Health. Expenditure is outlined in a Strategy to Prevent and Minimise Gambling Harm (around \$18 million each year). The legislation sets out the process for developing the service plan every three years, focused on public health, which when agreed is recovered from the gambling industry as a levy by regulation. In this situation the legislation sets out a formula for allocating the costs of the service plan across the main gambling operator sectors.
  - b. **Alcohol** – funding to promote the responsible use of alcohol is levied from those who produce or import alcohol commercially. The funding is used to address alcohol-related harm and other alcohol-related activities by the Health Promotion Agency. The levy produces revenue of around \$11-\$12 million each year).
  - c. **Proceeds of crime** – Crown funding equivalent to the revenue received from the disposal of assets from drug-related criminal proceeds is allocated in most years through a “proceeds of crime” round. This provides a small amount of time-limited funding to address drug-related harms (initiatives valued at around \$4-\$7 million each year).
  - d. **ACC funded services** – which are essentially paid for by revenue from the ACC employer and employee levies.
  - e. **Part charges paid by clients** – essentially co-payments, as are also paid for general practice and pharmacy services.
10. All the above except proceeds of crime and ACC funding could be increased subject to legislative changes. Careful consideration would need to be given to the effects of changes in them.
11. Probably the most feasible to increase is the levy on alcohol, an increase in which could fund more health promotion work by the Health Promotion Authority. The levy is set by regulation each year, based on the Authority's intended expenditure.

### Other mechanisms to fund mental health services

#### *Levies*

12. Levies are used throughout the public and state sectors to fund various services. A scan of the levy environment shows two broad categories of levy:
  - a. Those targeted at potential service users to cover costs in providing those services (e.g. the fire levy, ACC employee levies, the Maritime Levy, and the Motor Vehicle Levy)
  - b. Those which recoup costs from actual service users (e.g. the Offender Levy, the Border Clearance Levy, and the Waste Disposal Levy).

### *Applying these levies to mental health*

13. The standard types of levy are aimed at service users, and this seems inappropriate for mental health services. We want to encourage the use of those services, and the levy would act as a barrier or disincentive possibly increasing potential for more harm to be experienced
14. Another approach to raising revenue might be to consider who would be willing to pay (i.e. who benefits from good mental health and wellbeing). Broadly, this would be the individual, their family/whānau, and their employers. Levying or other raising revenue from this group is effectively general taxation.
15. A levy is also a very visible and public way of raising revenue (whereas taxation is general), so using a levy in place of taxation invites scrutiny and decreases the acceptability of the expenditure. This could have a negative impact on the stigmatisation of people receiving mental health services. Levying employers based on their employees uses of mental health services could incentivise them to not employ people who disclose their mental health status.

### **Other specific taxes**

16. Often considered to be similar to levies are sin taxes, which are regarded as targeting providers of harmful goods and services, notably alcohol and tobacco. This is a somewhat inaccurate conception of such taxes, which have their basis in the goods being easily taxable – they are readily identifiable and desirable goods. Recent increases of tobacco excise have been primarily aimed at discouraging use, but this is the exception rather than the rule.
17. Funding from alcohol excise could be directed to mental health and addiction treatment. The total excise on alcohol (excluding the levy discussed above) was \$985 million for the 2016/17 financial year. It may be worth considering a hypothecated fund taken from alcohol excise. This would have the advantage that those buying the most alcohol would contribute the highest amount (actually those selling, but excise will be incorporated into the price).
18. However, the nature of harm from alcohol means a hypothecated fund may not be suitable for general costs. The costs of alcohol harm are broader than addiction – violence, road accidents, fetal alcohol disorders, etc. The causal link between the level of consumption and addiction is also not necessarily straightforward. A hypothecated fund would require strong attribution of effects to causes, which is not required for funding from general taxation.

**END**