

Health Adviser

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Health sector major beneficiary of Government spend

Health was the beneficiary of more than 40 percent of all new funding for Budget 2009. An extra \$3 billion is budgeted to flow into the health sector over the next four years, including \$75 million in 2009/10.

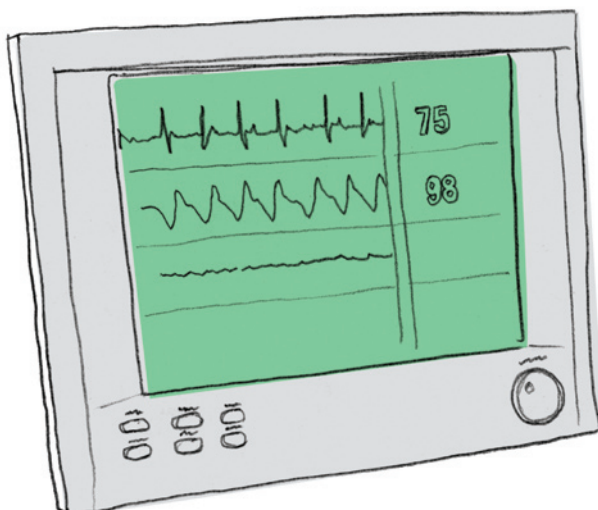
District Health Boards (DHBs) are to receive \$2.1 billion of extra funding over the next four years to improve front line services. Capital infrastructure in health also received a boost with plans to increase elective operating theatre capacity by adding 20 new elective surgery theatres with associated beds and facilities. Funding for 800 additional health professionals will be made available to provide the personnel required to support these new theatres.

No obvious changes to the current funding model for the Primary Care were signaled and the PHO model looks like it is here to stay for a while. Those in the primary health care sector will be relieved that there is continuity.

As predicted there is funding tagged to encourage further devolution of services from secondary to primary care with District Health Boards being encouraged to delegate funding, technical support and services to primary care level so GPs can offer more services.

This should promote more specialist

continued overleaf...



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assessments and postoperative care at the primary health level and improve the ability of GPs to refer patients directly for specialist diagnostic testing where clinically appropriate.

Increased funding has also been allocated for maternity care (\$103.5 million). This is intended to cover longer stays in hospital; consultations with GPs each trimester for 'at risk' pregnancies and fund training for GPs who wish to refresh their obstetric skills. The Government's intention is to increase the number of GP lead maternity carers. The query is whether this carrot will be enough to entice GPs to offer those services again given the risks and the disenfranchisement of GPs in the area of maternity care in the 1990s. Hidden in this bucket is also the allocation of funding to fully support the 24 hour

Plunket Line.

In the rural sector primary health care needs will be supported with funding for further training provided in rural and provincial areas to retain GPs in those areas.

Predictably funding was not specifically earmarked to assist with development of more Integrated Family Health Centres (IFHCs) which bring together a wide range of health services and professionals onto a single site or within multiple sites under one ownership umbrella. Government ownership of such centres was always unlikely but the investment in infrastructure by private individuals and corporates in the health sector will be more attractive if their investment allows easy access to the new primary health care funded initiatives. Effectively the

continued funding of more initiatives in the primary sector provides indirect support for IFHCs.

Further more, 60 new medical training places will be created plus 50 extra places for GP training at a combined cost of \$43 million.

Aged care was not overlooked with \$90 million tagged for improving aged care facilities and respite care for those cared for at home. \$18 million has been allocated to assist in funding the recruitment and retention of nurses, helping to close the significant wage gap between private and public sector pay rates for nurse wages.

As previously touted, the concept of a Voluntary Bonding Scheme to retain trained talent in New Zealand still seems to have Government support with funding also earmarked for this initiative.

Product innovation, not cost-cutting, tops route to increased profitability for NZ firms

Kiwi businesses have found product innovation contributes to increased profitability far more than cost-cutting measures.

Of the New Zealand businesses surveyed in the recent Grant Thornton business survey, 27% rated product innovation as the most successful initiative to increase business profitability - comfortably above the global average of 20% on this score.

Cost-cutting rated highest among only 9% of companies in New Zealand, well below the global average of 18% who had this as their highest profitability source among the 7,200 privately-held businesses surveyed internationally.

Innovate your business out of the recession by:

- looking for new opportunities created by the effects of the economic downturn
- ring-fencing resources for innovation
- tailoring existing products and services to current marketing conditions
- being open to ideas
- carefully managing your risks
- collaborating with customers and suppliers to develop new ideas
- examining innovative processes and business models, as well as products, to improve efficiency.

Outside of product innovation, the other means to increase profitability rated in New Zealand were:



Budget 2009 - a non-event but satisfies international ratings organisations



In some respects the budget was a bit of a non-event, which may sound harsh, for what has justifiably been described as the most important budget in a generation. However, the Government was left with little room to manoeuvre.

Since last year's budget, the full ramifications of the economic situation we find ourselves in have become clearer. We have been a nation of spenders. The Minister of Finance's budget speech told of how, in the past five years, Crown expenditure had increased by 49% while GDP and tax revenue had only increased by 25% - clearly, an unsustainable proposition. Without making any adjustments, public debt would increase to an irrecoverable 70% of GDP by 2023. With the watchful eyes of international rating organisations upon us, the effects on our debt ratings would have catastrophic results on the cost of credit.

As expected, the main thrust of the Budget was to prioritise Government spending into productive, economic enhancing areas. Despite a reduction in the cost of new initiatives compared with previous years, the Budget still delivered net new operating expenditure of \$1.45 billion and new capital initiatives of the same amount. As expected, the main recipients of this new spending were health (DHBs, elective surgery, and maternity services), education (school operations and new building), the home insulation project, Crown research, law and order (new police and increased prison capacity), increased broadband capacity and road infrastructure.

Contributions to Super Fund suspended

Contributions to the New Zealand Superannuation Fund have been suspended. Intended as a home for the previously anticipated budget surpluses, the Government announced it could not afford to borrow to continue the current level of contributions, which would otherwise have risen to \$2 billion a year. The Government did not follow the recent Australian budget announcement to increase the retirement age from 65 to 67. Prime Minister John Key continues to state that he would rather resign his position than increase the retirement age.

With an ageing population this matter will no doubt remain under review.

Sluggish revenue streams

On the revenue side, the Government walks a fine tight rope. Philosophically the current Government believes in tax cuts. Within the first 100 days of office, it legislated tax cuts, the first of which took effect on 1 April 2009 (adding to Labour's long awaited tax cuts of October last year). Further tax cuts were legislated to take effect on 1 April 2010 and 1 April 2011. As was clearly signalled prior to the budget announcement, those last two tax cuts are now off the table. Although the official terminology is that the cuts are "deferred... until economic conditions improve", the more accurate word is "cancelled". For someone on the average wage of \$45,000 per annum, the cancelled tax cuts were only going to provide future tax savings of \$6 per week; for someone on \$100,000, the lost savings are \$17 per week.

The problem still facing the Government is the stagnation of the tax base: business profits are static or falling; unemployment is reducing PAYE takings; low consumer spending reduces the GST take. Without

increasing headline rates there are limited opportunities for increasing revenue. For example, while there are no increases to Inland Revenue's budget for audit activities, neither are there any reductions. Expect increased activity in this area.

Expect changes to Government tax policies

The Government may need to consider broadening the scope of what is taxed. New Zealand stands apart from most of its OECD trading partners in that it has no broad-based capital gains tax (CGT). As most tax advisers will be aware, that is not to say that New Zealand is totally CGT-free: the effects of the recent changes to the foreign investment fund tax rules are a clear example of that (with even unrealised capital gains being subject to tax in certain situations).

Any major tax policy shifts have been delegated to the Tax Working Group, recently announced by the Minister of Revenue. A conference is scheduled for the end of 2009 to debate and discuss the group's findings.

Other tax related initiatives are the proposed cancellation of the recently introduced independent tax credit and the cancellation of the KiwiSaver mortgage diversion facility.

The Government has made prudent financial management and targeted investment the theme of the 2009 Budget. For business, any direct benefits lie in the opportunity to partake in the various infrastructure investments being made. Indirect benefits lie in the anticipated positive effects the budget will have on the economy.

Accident compensation shake down

ACC represents one of three major components of our social security system. However it is despised by those paying seemingly higher and higher levies and has become a source of frustration for claimants trying to get support and rehabilitation.

The recent opening of the books has revealed viability issues not only due to perceived liberal funding of claims but added pressure from loss of investment returns due to the global economic crisis. ACC is beset by a rising volume of claims and increased treatment costs with major cost overruns for non-earners, earners and motor vehicle users.

ACC funding was not addressed in the Budget 2009, but a recent release from ACC Minister Nick Smith announced the allocation of \$500,000 to fund a 'stock-take' of ACC accounts. The stock take will also cover the governance and management of ACC's \$10 billion investment portfolio.

A steering committee, chaired by an independent and advisors alongside various Government departmental representatives will be commissioned to commence work over the next month or so. The objective will be to deliver practical recommendations for improved performance and to ensure the insurance scheme remains affordable.

We would expect to see changes occur on two fronts – raising levies and controlling costs.

Before 1999, ACC was funded on a 'pay-as-you-go' basis with levy income raised only to cover the cash costs paid during the levy year, irrespective of when the injury occurred. The future cost of existing claims remained an unfunded liability.

In 1999 changes were made and the 'full-funded' system established. Across the board levies rose from earnings of workers, the payrolls of businesses, a per litre levy (tax) on petrol purchased at the pump and from vehicle licensing (car registration) fees. Levy rises have been required in all these areas to raise additional monies to provide for a fully funded system by mid-2014.

In view of the current economic conditions, one option the Government may invoke is to move back the deadline for making ACC fully funded from 2014 to 2019 and reinstate the 'pay-as-you-go' system in the interim, but this would mean that ACC would incur higher Government debt to keep

the scheme going. Other options available to ACC to raise levies could be to:

- rate workplaces according to their safety factor with riskier environments facing higher levies and provide incentives for "safer" workplaces;
- rate motor vehicle drivers based on their personal safety records and level of claims, with high risk drivers facing higher ACC levies and low risk drivers facing lower levies; and
- rate vehicle makes and models with lower registration fees for vehicles that have a better safety rating.

Options available to ACC to increase efficiency and control costs might be to:

- tighten up on definition of "medical misadventure";
- more strenuous appraisals of claims for less serious injuries and reduce the apparent "over treating" of some ACC claimants;
- review how wide the 'social net' of ACC should be cast (for example: the extent of payments made to people suffering "trauma in the workplace"); and
- increase competition in the provision of cover for the Work Account so employers can shop around for the best priced ACC workplace cover. Hopefully employers may secure lower premiums in return for the time spent shopping around. This is likely to present additional compliance tasks for the ever-burdened employers. "Increased competition" is a very likely option for the Government to take as employers are seen as an easy target to enhance revenue collection. However, it should not be the only option given that the ACC cost overruns have not occurred in the Work Account.



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