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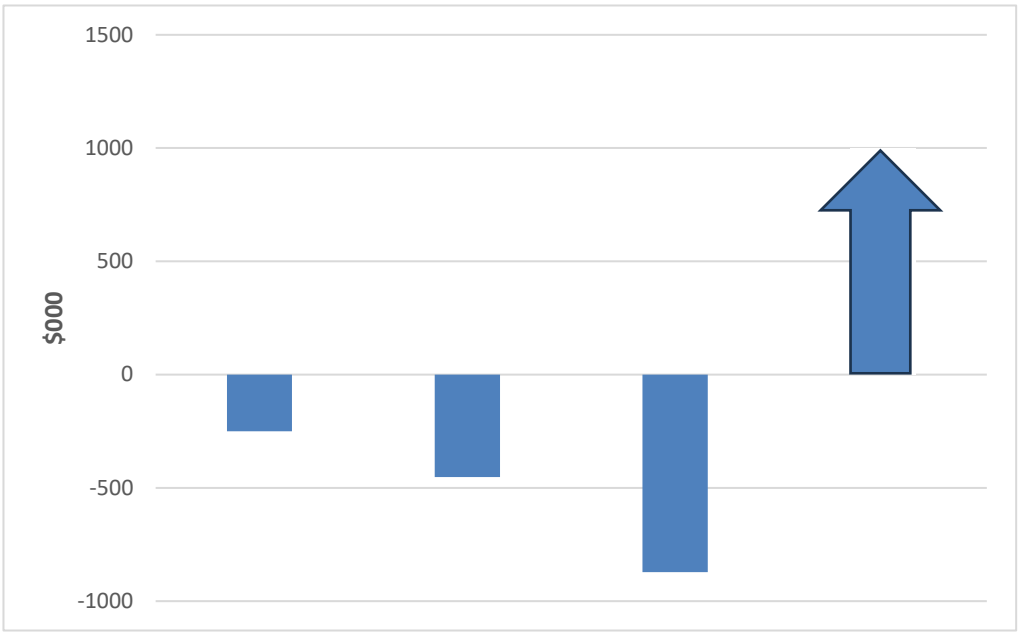
Operational Health Budget 2025: an analysis

- The 2025/26 health budget falls short by nearly $250 million to cover inflation, demographic changes and to pay for new initiatives such as new cancer treatments and urgent care services.
- That does not include cuts or 'savings' totalling $202 million, or previously budgeted but abandoned pay equity settlements of $420 million, or the unrevealed estimated costs of other pay equity claims in the pipeline.
- The true deficit may therefore be more than $1 billion.
- Instead of a potential $1 billion shortfall, there is a compelling case, evidenced by substantial workforce shortages, waiting lists and unmet need for health care, for an additional $1 billion investment this year, over and above cost pressures, and for this to be repeated in the coming years.
- Funding that had previously been allocated to Kaupapa Māori services has now been returned to the centre to meet general primary health cost pressures, contrary to the Government's approach to social investment.
- At the same time, there is an equally compelling case for investments at scale to address the well-known determinants of ill health, not only because it is the right thing to do but also to reduce health care needs in both hospitals and primary care. The need to address these issues is ignored in this budget.
- Currently such investments are hampered by a lack of tax revenue, with Treasury indicating expected revenue per GDP has declined in the last three years. This is due in part to recent tax cuts and a decline in government spending impacting negatively on economic activity.
- The much-needed real investment in health and the determinants of health therefore requires a major change in fiscal policy to better support social and economic goals.

The Health Budget at a glance

The operational Health Budget falls short by a conservative $247 million in 2025/26 to cover inflation, demographic changes and to pay for new initiatives such as new cancer treatments and urgent care services. That figure does not include cuts or 'savings' totalling $202 million. Nor does it include the previously budgeted pay equity settlements totalling $420 million that were withdrawn to help balance the books, or the withheld estimated costs of a range of other health sector pay equity claims in the pipeline. The true shortfall of the Health budget is therefore unknown. It comes at a time when the official figures themselves show the public health system requires significant investment, over and above annual cost pressures, to meet the country's health needs. (Details of the analysis are provided in Table 1.)

Figure 1: Estimates of Operational Health Budget outcomes



As a result of this shortfall, funding will need to be taken from other parts of the health budget in addition to the cuts and claimed savings announced in the Budget, which include data and digital services, primary health care teams and pandemic preparedness.

Funding shortfall consequences

Worsening health care worker shortages

Te Whatu Ora data has acknowledged workforce shortages across the virtually all health care occupations, including an estimated shortage of 1,810 full-time-equivalent (FTE) doctors. Of those, 1,140 are shortages of senior doctors (specialists and medical officers). Te Whatu Ora also estimated the need for an additional 530 FTE senior doctors by 2033, or a net growth of 185 FTES per year. In the year to December 2023, public hospital senior doctor FTEs grew by less than half of that (89

FTEs).[1] [2] There is nothing in this budget to begin to address this shortage of doctors or any other of the health care workforce. The abandoning of current pay equity claims is likely to have the opposite effect in areas such as aged care and primary care nursing, for example.

Longer waiting lists for elective treatment

The Minister of Health says Budget funding will see an additional 21,000 additional planned care treatments – an increase of 6.5%.[3] However, leaving aside that the Budget does not provide additional funding specifically for planned care services, advice on waiting lists to the Minister in January 2025 says "an estimated additional 10-15% of activity in planned care is required to keep up with estimated growth and to progressively treat more patients who have already waited greater than 120 days".[4]

Longer delays in obtaining a specialist appointment

Te Whatu Ora has reported "The growth in the number of patients waiting for a first specialist assessment [FSA] reflects that referrals for FSA are greater than our capacity to treat." [5] One way of reducing the number of FSAs (and subsequent elective treatment waiting lists) with a constrained budget is to raise the clinical threshold to be accepted for a specialist appointment. This is suggested in a redacted Te Whatu Ora document providing advice on waiting lists to former Commissioner Lester Levy.[6] Some hospitals are reported to already be advising GPs to only refer patients in cases of emergency.[7] [8]

Longer waits for specialist care impact primary care

General practices' workloads are growing as they must monitor an increasing number of patients that are declined hospital treatment until they are deemed unwell enough to meet the criteria for a specialist referral. Recent research by the University of Otago has found at least 85,000 people a year are being turned away from seeing a specialist after being referred by their GP. [9] In addition, GPs must also monitor patients that are accepted for a specialist referral but then face a long wait. People with unmet need for hospital care require significantly more primary care consultations than the general population.[10] The effects of this growing workload are likely to be greater than the

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[1] Te Whatu Ora. Health Workforce Plan 2024: Medicine, December 2024. https://www.tewhatuora.govt.nz/corporate-information/planning-and-performance/health-workforce/health-workforce-plan-2024/profession-specific-analysis/medicine

[2] Te Whatu Ora. Health Workforce Information Programme 2025. https://www.tewhatuora.govt.nz/for-health-professionals/health-workforce-development/health-workforce-initiatives/health-workforce-information-programme

[3] Brown Hon S. Record investment in health delivery, Minister of Health media release, 22 May 2025.

[4] Te Whatu Ora. Private Sector Relationships, Aide-Mémoire to the Minister of Health: HNZ00077475, 28 January 2025

[5] Te Whatu Ora. *Quarterly Performance Report*, September 2023.

[6] Te Whatu Ora. Advice on Waitlists Reduction Scenarios, 30 January 2025 (released under the OIA).

[7] Hill R. Wellington doctors told to stop referring women to specialists unless their condition is urgent, *Radio New Zealand*, 22 September 2023.

[8] Hill R. Patients referred for orthopaedic surgery not even making waiting lists, *Radio New Zealand*, 25 November 2024.

[9] Gauld R, Bateman J, Brown N. *Quantifying and understanding the impact of unmet need on New Zealand general practice,* GPNZ, June 2024.

[10] James C, Denholm R, Wood R. The cost of keeping patients waiting: retrospective treatment-control study of additional healthcare utilisation for UK patients awaiting elective treatment, *BMC Health Services Research* (2024) 24:556

Budget's (inadequate) funding for cost pressures and additional funding for initiatives such as additional urgent care services.

Reduction in culturally safe primary preventative care

Priority 4 of the Pae Tū: Hauora Māori Strategy 2023 is Enabling culturally safe, whānau- centred and preventative primary health care. This matters because "health service settings perform best if they engage well, understand Māori lived experience and have the resources and ability to act of what whanau and communities say they need".[11] Budget 2025 sees an annual reduction of almost $35 million per year of funding to support this priority. This includes the non-renewal of time limited funding of

- $25 million to the Whānau Ora Commissioning Agency who have historically been the key providers of culturally safe primary preventative care and the original example of social investment.
- $8.5 million for Māori Kaiāwhina roles as part of the Comprehensive Primary Programme and
- $2.3 million for Hauora Māori providers to deliver the Integrated Primary Mental Health and Addictions programme.

Without a continuation of such Kaupapa Māori programmes, the unmet need and inequitable health outcomes of Māori cannot be even attempted to be addressed and runs contrary to this Government's objectives for social investment.

[11] Ministry of Health. Pae Tū: Hauora Māori Strategy 2023. https://www.health.govt.nz/strategies-initiatives/health-strategies/pae-tu-hauora-maori-strategy.

Table 1: Operational Health Budget 2025

Appropriations	2024/25	Changes to appropriations			Total additional funding for 2025/26[1]	Total needed for adjusted cost pressures[2]	Deficit
		2025/26 Budgeted cost pressures	New initiatives	Cuts or savings			
	Estimated actual ($000)	Budgeted ($000)	Additional ($000)	Reduction ($000)	Budgeted cost pressures & new initiatives ($000)	($000)	($000)
Hauora Māori Services	766,166	38,000	0	(31,427)	6,573	15,309	**8,736**
Hospital & Specialist Services	14,841,006	825,000	117,835	(58,623)	887,685	967,986	**80,301**
Primary Care & Population Health	9,110,085	507,000	162,665	(78,929)	593,342	642,057	**48,715**
Pharmac (departmental)	31,507	0	0	0	1,000	1,000	**0**
Pharmaceuticals	1,689,634	0	70,801	0	70,801	173,869	**103,068**
Ministry	231,321	0	12,000	(14,491)	(2,491)	2,367	**4,858**
HDC, HQSC & MHWC, Aged CC	42,227	0	1,000	(3,400)	(2,400)	(1,513)	**887**
Other	45,807	0	7,517	(15,401)	(7,884)	(7,884)	**0**
TOTALS	**26,757,753**	**1,370,000**	**361,818**	**(202,271)**	**1,546,626**	**1,793,191**	**246,565**

Source: Vote Health Estimates of Appropriations 2025/26

Notes

1. Totals (budgeted cost pressures plus new initiatives minus reductions) are sourced from Vote Health's "Reasons for changes in the appropriations". They may not align exactly with the totals owing to some small changes in appropriation not being included in the Vote Health document. The figures in "Total additional funding" column are the totals obtained from the tables on pages 3-6 in the Vote Health document.

2. This is the total additional funded need with cost pressures of 6.1% for Hauora Māori Services, Hospital and Specialist Services and Primary Care and Population Health, instead of 5.5% provided in the Budget. The 6.1% estimate is based on Treasury advice, released under the Official Information Act, for previous years' budgets and adjusted to the latest 2025/26 Treasury

forecasts for inflation and the Ministry of Health's forecast demographic changes, including ageing.[12] [13]

The Budget does not include cost pressure funding for the other appropriations. We have included cost pressure estimated based on the actual increase to the appropriation of 3.17% for Pharmac (departmental), the Ministry of Health and three commissions (Health and Disability Commission, Health Quality and Safety Commission and Mental Health and Wellbeing Commission). We have also included a 6.1% cost pressure adjustment to the Pharmaceutical budget, which is conservative as pharmaceutical annual cost increases can be substantial.

Details of changes to appropriations

Hauora Māori Services received $38 million additional funding for cost pressures, but we estimate this should be $46.7 million. Other funding has been reallocated to other Te Whatu Ora appropriations, the details of which are not provided. After mostly unidentified cuts/savings totalling $31.4 million, this appropriation sees a net increase of $6.6 million (0.86%). We estimate a deficit of 8.7 million without taking into account those cuts/savings.

Hospital and Specialist Services have increased by $887.7 million or 6% ($14.841 billion to $15.729 billion). Cost pressure funding ($825 million) takes up most of this, but we estimate $905 million is needed. When the net cost of new initiatives is added, a total of $967.7 million is needed. This results in a deficit of $80 million without taking into account the $58.6 million of cuts/savings, mostly from Data & Digital Services. This means the full cost of new initiatives, including $53 million for cancer medicines (not all new money), will need to be taken from other areas.

Delivering Primary, Community, Public and Population Health Services have increased by $593.3 million or 6.5% ($9,110 million to $9,703 million). Most of this increase is to fund cost pressures ($507 million), but we estimate $556 million is needed. When the net cost of new initiatives is added, a total of $642.3 million is needed. This results in a deficit of $49 million without taking into account the $78.9 million of cuts/savings.

This is unlikely to have any overall impact on addressing poor access to primary care. If anything, the increasing demand for primary care will result in unmet need for primary care continuing to grow.

The main new initiative ($81.2 million for urgent care and after-hours services in 2025/26) will be in part paid for by reductions in other areas, such as $35 million from time-limited funding for Comprehensive Primary Care Teams, and $5.8 million from Covid-related funding and pandemic preparedness funding.

Pharmaceutical purchasing received an increase of $70.8 million (4.2%), including $38 million for new cancer medicines and $22 million which effectively extends previous time-limited funding to

[12] Treasury. Lines/facts on Health NZ cost pressures; email from Treasury to Te Whatu Ora, 31 July 2024. And: Treasury: *The 'Residual' in Healthcare Expenditure Modelling: Summary*, 22 November 2023. Released under the Official Information Act Official Information Act Response 20240774 - Health NZ cost pressures advice and correspondence - Received 4 Oct 2024 - Published 10 Dec 2024 - The Treasury

[13] Ministry of Health. Demographic increase (modelling including population growth and ageing adjustments), 2023

address pharmaceutical funding shortfalls. The appropriation did not receive an increase for cost pressures, which we have conservatively estimated as $103.1 million.

Ministry of Health sees a net drop in funding for 2025/26 of $2.5 million. This follows a $10 million drop in spending against the Ministry's budget for 2024/25. Ministry departments most impacted by reduced spending in 2024/25, and reduced budgets in 2025/26 include Equity, Evidence and Outcomes ($8.5 million); Policy Advice and Related Services ($6.4 million); and Sector Performance and Monitoring ($4.1 million). Departments receiving additional funding include Public Health and Population Health Leadership ($7.9 million) and Regulatory and Enforcement Services ($3.9 million).

The Health and Disability Commissioner (HDC), Health Quality and Safety Commission (HQSC), the Mental Health and Wellbeing Commission (MHWC) and the Aged Care Commissioner between them receive a funding cut of $2.4 million. This is the net result from cuts/savings totalling $3.4 million from the HDC budget, offset by $1 million one-off funding being added to the HDC budget to deal with a back-log of complaints. No cost pressure funding has been included in the budget for these agencies. We therefore estimate an overall funding shortfall of $0.9 million without taking into account those cuts/savings.

Assumptions

Cost pressures for 2025/26 estimated to be 6.1% based on Treasury estimates for 2022 and 2024 budgets (6.4% and 6.2% respectively) adjusted to the latest 2025/26 Treasury forecasts for inflation; and the Ministry of Health's unpublished forecast demographic changes, including ageing. Estimated cost pressures for appropriations that do not require a demographic change adjustment are based on Treasury's CPI forecast of 2.1% for 2025/26.

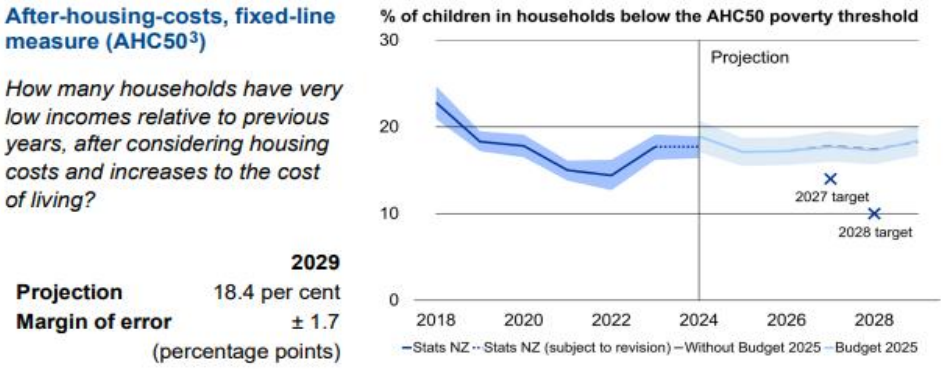
Determinants of ill health

The budget provides little to no real investment in addressing the well-known determinants of ill health – poverty, housing, education, incomes and welfare.

Child Poverty

The key measure for this is the one relating to after housing costs – AHC50. While the Child Poverty report notes the increase in the threshold for Working for Families and there is an adjustment for the boundaries of accommodation supplement, the Treasury estimates show the levels are forecast to remain substantially above the targeted measures, with no improvements.

Figure 2: Child Poverty trends and forecasts



Education

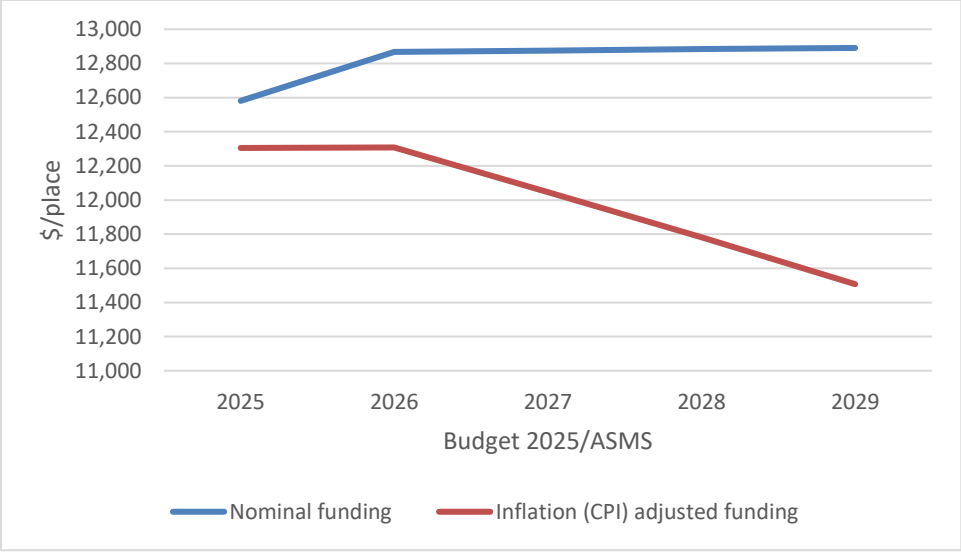
School Lunches

In absolute terms the funding for school lunches is expected to decline from a forecast $275 million in 2025/25 to $116 million in 2026/27. There is also no funding beyond 2026/27, potentially putting the entire programme at risk.

Early Childhood Education

In nominal terms funding has plateaued and on a CPI-adjusted basis it is falling.

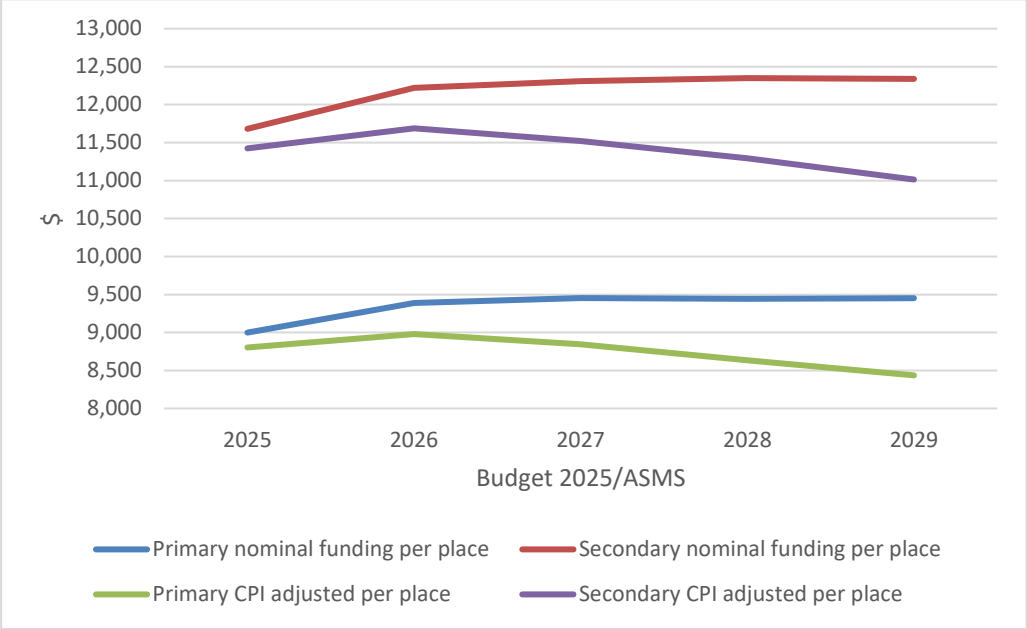
Figure 3: Early Childhood Education Funding per Place – Budget 2025



Primary and Secondary schools

Similarly, funding for primary and secondary education is plateauing in nominal terms but declining in real terms.

Figure 4: Primary and Secondary Funding per Place – Budget 2025



Housing

The government has not allocated any new funding for Vote Housing and Urban Development. Instead, it has simply repurposed around $900 million in operating and capital expenditure that was meant for public housing to purchase services from "community housing providers" (ie, private providers).

The government's effective abandonment of emergency housing provision – a policy choice made at last year's Budget – is now expected to rake in over $1 billion in savings over the next four years.

Social Development

The overall approach has been to further squeeze welfare spending. The first year of the Best Start Tax Credit will now be means tested (the second and third years already are). It means that a couple both working full-time on minimum wage would not be eligible for the full payment.

Unemployed 18- and 19-year-olds will no longer be automatically eligible for Jobseeker support. They will have to undergo a "parental assistance" test, to see if their parents can support them.

To be eligible for the Accommodation Supplement: to be eligible, those who own their own home will now need to be paying 40% of their income towards their housing costs, rather than 30%.

Māori Development

Māori development sees significant cuts. In total, $20 million has been cut from the Māori Development Fund, $33 million from Māori housing, and $54 million by ending the Whai Kāinga Whai Oranga Māori Housing Programme. This comes off the back of almost $98 million in cuts at last year's

Budget, as well as the disestablishment of Te Aka Whai Ora, the Māori Health Authority. Hauora Māori services received an increase of less than 1% in this year's budget – a cut in real terms.

Pacific Peoples Development

Almost $36 million is cut overall from Vote Pacific Peoples, including $22 million from the Tupu Aotearoa programme, which provides career guidance and support with job searching and upskilling.

Lack of revenue

At its heart, all health spending is either funded by taxation or borrowing.

Treasury's Budget Economic and Fiscal Update (BEFU) makes it clear that revenue expectations of the Treasury have declined over the last three Budgets. While Core Crown Tax revenue is now forecast to be around 28% of GDP in the forecast period, Core Crown Expenditure is expected to fall from 33% to 31%. In other words, the size of government is shrinking relative to the wider economy, signalling further tightening of government budgets in the years ahead.

In terms of tax revenue itself, compared to BEFU 2023 forecast tax revenue has declined from $9.3 billion in 2025 to $14.5 billion in 2027, thus reducing the Government's fiscal headroom by approximately $40 billion over those three years.

Figure 5: Crown Tax as a percentage of GDP

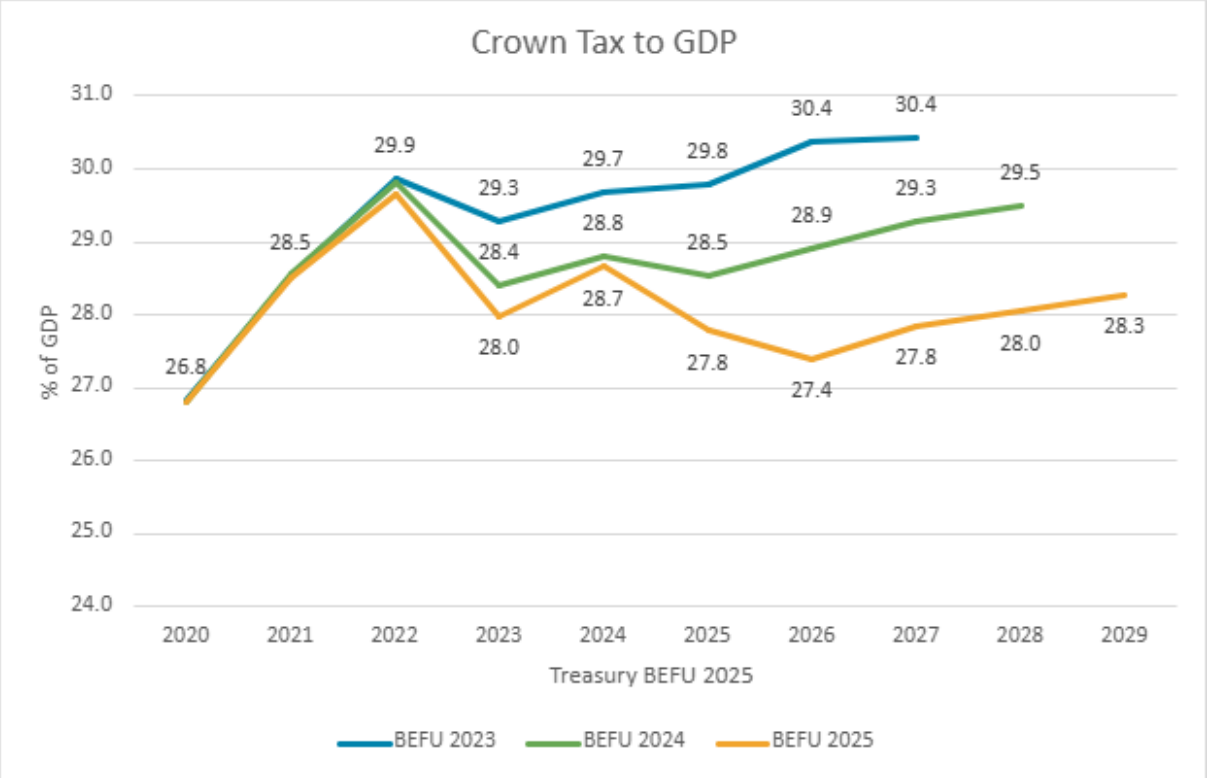
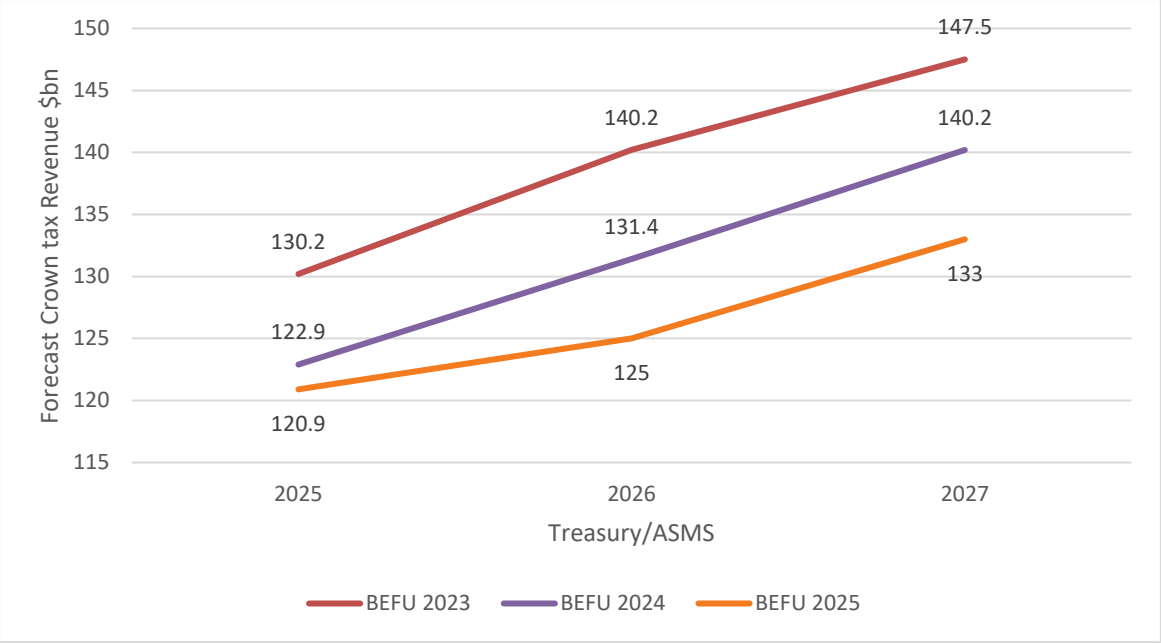


Table 2: Core Crown Tax Revenue Forecasts

Core Crown Tax Revenue Forecast -	2025	Change from previous BEFU	2026	Change from previous BEFU	2027	Change from previous BEFU
BEFU 2023	$130.2bn		$140.2bn		$147.5bn	
BEFU 2024	$122.9bn	($7.3 bn)	$131.4bn	($8.8bn)	$140.2bn	($7.3 bn)
BEFU 2025	$120.9 bn	($2.0 bn)	$125.0bn	($6.4 bn)	$133.0 bn	($7.2 bn)
Net fall in forecast revenue from BEFU 2023		($9.3 bn)		($15.2 bn)		($14.5 bn)

Figure 6: Forecast Crown Tax Revenue



The decline in revenue forecasts arises from two sets of decisions made by the government.[14]

1. A reduction in current and projected spending has exacerbated the previous recession, the details of which are set out in a letter that a group of economists, including the CTU's and the

[14] At Treasury Presentation- Budget '25: Economic and fiscal outlook 3 June 2025, the Chief Economic Advisor Dominick Stephens indicated that the change in tax forecasts were due to 50% policy changes and 50% changes in the economy.

ASMS's economist, have signed[15]. https://ganeshnana.substack.com/p/economists-call-for-immediate-suspension

2. Ill-conceived tax policy decisions. These include:

   a) $2.57 billion per year – over $10 billion over the forecast period in Budget 2024 for **threshold changes** that are now being largely clawed back through the Budget 25 KiwiSaver contribution requirements

   b) $0.73 billion per year - almost $3 billion over the forecast period in Budget 2024 – for **restoring interest deductibility for landlords**

   c) $479 million over the forecast period in Budget 2025 for not proceeding with the **taxation of multinationals digital services in New Zealand**

   d) $293 million over the forecast period in Budget 2025 for halving the **excise on heated tobacco products**

   e) An unknown, but likely to be large, amount for including commercial property and other assets in Investment Boost which will not promote a high wage low carbon economy and instead embed existing low productivity high emitting industries in Aotearoa New Zealand.

"… austerity has returned to many countries, threatening health budgets that are already under pressure from debt-servicing costs and inflation. This is not merely a point about messaging. Investments in health are, in fact, long-term drivers of growth. The debt-to-GDP metric is a ratio: If governments focus on cutting debt (the numerator) and eschew investments that will promote future growth (the denominator), the ratio will not decrease, and may even rise."

- Mariana Mazzucato, 2024[16]

[15] Ahirao G R. Economists call for immediate suspension of spending cuts. Open letter to Prime Minister Christopher Luxon. 21 November 2024. https://ganeshnana.substack.com/p/economists-call-for-immediate-suspension.

[16] Mazzucato M. The Economics of Health for All, Project Syndicate, *May 28, 2024. https://www.project-syndicate.org/commentary/who-economics-of-health-for-all-resolution-why-it-matters-by-mariana-mazzucato-2024-05*