Briefing

Health New Zealand
Te Whatu Ora

Options for enhanced capitation and the annual uplift further advice

Due to MO:	2 May 2025	**Reference**	**HNZ00086863**
To:	Hon Simeon Brown, Minister of Health		
From:	Jason Power, Acting Director, Planning Funding & Outcomes		
Copy to:	n/a		
Security level:	In Confidence	**Priority**	Routine
Consulted	Ministry of Health, HAU		

Contact for further discussion (if required)

Name	Position	Phone	1st contact
Martin Hefford	Director, Living Well	S9(2)(a)	x
Jason Power	Acting Director, Planning Funding & Outcomes	S9(2)(a)	

Purpose

1. This paper presents options for your consideration in relation to the connection between enhanced capitation, copayment increases, and the annual capitation uplift.

Summary

2. You recently signalled a preference to progress with enhanced capitation on an implementation timeframe S9(2)(f)(iv) You asked for further information on whether the enhanced capitation funding should be included as part of the 2025/26 uplift process for primary care.

3. S9(2)(f)(iv)

4. While the proposal recommended that the enhanced capitation funding ($90 million) would be *additional* to the annual uplift, this funding could also be *included* in the annual uplift. This would mean it is counted as part of the calculation to determine how much general practices are allowed to increase copayments. It would also impact the amount of revenue that GP providers would receive. As such, it is central to the PHO Agreement Amendment Protocol (PSAAP) group negotiations that are underway.

5. This paper provides you with two scenarios for consideration that pull together options related to the annual uplift process and how enhanced capitation should be applied. In addition, considerations around treatment of existing funding for nurse pay parity and the patient copayments applying to community service card holders and very low-cost access practices are explored. A decision on your preferred option is required by 7 May to inform Health NZ's sector negotiations.

6. Our view is that Scenario 2 would result in the best value in that it caps the financial risk for Health NZ, limits the impact of increased co-payments, and recognises the low threshold for accessing enhanced capitation funding in year one.

7. This scenario would see practices receive an additional $126.3 million in funding from Health NZ over 2025/26, plus an estimated additional $10.2 million in funding through increased co-payments. This includes the S9(2)(f)(iv) of enhanced capitation funding that will be available to practices in 2025/26.

8. If you elect not to include the enhanced capitation in the copayment calculations, we would still need to increase the CSC and VLCA copayments by 6.4% to avoid an unbudgeted negative impact of $25 million on our forecast position.

9. We would welcome your agreement to proceed with our sector negotiations on the basis of Scenario 2, noting that minor adjustments to the overall parameters can be expected as a result of negotiations with the sector.

Recommendations

Health New Zealand | Te Whatu Ora recommends that you:

a)	S9(2)(f)(iv)	**Yes / No**
b)	**note** that Health NZ is subject to contractual provisions relating to the annual uplift calculations and copayments.	**Noted**
c)	**note** that if enhanced capitation funding is counted for the purposes of the annual copayment allowable fees increase calculation this will impact on the level of copayment increases and the amount of additional revenue GP providers receive.	**Noted**
d)	**note** that we have developed two scenarios for your consideration: i. Scenario 1 includes increased co-payments and sees enhanced capitation and nurse pay parity funding added outside the annual uplift calculation (hence not part of the copayment calculation) ii. Scenario 2 includes enhanced capitation and nurse pay parity as part of first contact funding (therefore included in the annual uplift and part of the copayment calculation) but allows for very limited increases to co-payments	**Noted**
e)	**agree** to proceed with Scenario 2 which includes: i. applying $39.4 million in annual funding for nurse pay parity to first contact funding (core capitation). ii. applying the non-committed enhanced capitation funding ($75 million for 2025/26) to the capitation annual uplift for copayment calculation purposes. iii. increasing co-payments for Community Service Card holders from $19.50 to $21.00. iv. increasing co-payments for non-Community Service Card holders at Very Low-Cost Access practices from $29.50 to $31.50. v. not allowing for a general increase to copayments otherwise (subject to negotiations).	**Yes / No**

Hon Simeon Brown, Minister of Health

Date:

Jason Power

Acting National Director, Planning Funding and Outcomes

Date: 2nd May 2025

Background

10. S9(2)(f)(iv)
, and requested further advice on the interplay between the enhanced capitation funding, annual uplifts, and copayment increases.

11. At that time, you asked for further information on whether the enhanced capitation funding should be included as part of the 2025/26 uplift process.

S9(2)(f)(iv)

Table 1: Progressive Requirements related to Enhanced Capitation Funding

S9(2)(f)(iv), S9(2)(j)

Elements	Year 1: Emphasise financial sustainability
Enhanced capitation improved access criteria	Provide data to support future primary care health target
Outcomes measures	Payment contingent on: • improvement in immunisation rates at 3 months and 24 months towards target • providing data to support future indicators and performance monitoring

14. Based on the additional information set out in this briefing, we are now seeking your formal approval to proceed S9(2)(f)(iv)

15. If you agree with this approach we will negotiate inclusion of the requirements from 1 July 2025. The logistics of negotiation and payment processes mean that we need to have a decision on the 2025 parameters by 7 May 2025 to achieve the 1 July milestone.

16. In addition to the approach outlined, we anticipate that the work now being led by the Ministry of Health on capitation reweighting, if approved, could come into effect from 1 July 2026. As this work progresses you can expect additional briefings from the Ministry on the potential reweighting and the impacts on practices.

Links between enhanced capitation and the annual uplift process

17. The contractual provisions relating to the annual uplift calculations and copayments are set out in **Appendix 1**. In brief, GP providers get revenue from patient fees and from capitation. If the real value of capitation falls, then GP providers can increase their fees to compensate (though any increases need to be within agreed limits).

18. You announced on 3 March that the enhanced capitation amount would be additional to the annual uplift. In line with this, Health NZ is making provision for an annual uplift in addition to the enhanced capitation amounts.

19. However, enhanced capitation funding could still be counted for the purposes of the annual copayment allowable fees increase calculation. This choice impacts on the level of copayment increases and the amount of additional revenue GP providers receive. It is central to the current PHO agreement amendment negotiations.

20. S9(2)(f)(iv)

21. Alongside considering how this balance is applied to the annual uplift process, we also need to consider three other funding and copayment related issues:

    a) The treatment of the **nursing pay parity** paid to GP practices in relation to copayment calculations.

    b) S9(2)(f)(iv)

    c) S9(2)(f)(iv)

22. Each of those three issues are set out below (para. 23-33), and options for how to address them alongside the uplifts and enhanced capitation are included in the Scenarios which follow (para. 34 onwards).

Nursing pay parity

23. In 2023 Cabinet approved funding of $39.4 million per annum for GP practices to increase pay to nurses to bring their remuneration closer to that of hospital and specialist nursing pay. That funding was intended to be included in capitation from July 2024, but timing meant that it was unable to be included in the PHO Services Agreement.

24. We are planning to progress with incorporating this funding into general capitation from 1 July 2025, but there are two options for how the funding stream is included:

    - Option A: Add it to capitation outside the annual uplift calculation (hence not part of the copayment calculation)
    - Option B: Add it to capitation and include it for purposes of calculating the annual uplift and allowable copayments.

25. Option B would likely be negatively received by the sector on the basis that they already receive this funding.

26. However, the counter argument is that the cost pressures calculation that informs the annual uplift and allowable fee increases is tied to the labour cost index (therefore already partly reflects nurse salary increases that this funding is intended to compensate for). As such, by not including the funding stream in calculating copayments we may be allowing the cost to be covered twice (at least in part).

27. On balance, we consider that Option A is likely best such that the funding is accounted for outside of the annual uplift calculation as this provides the greatest amount of funding for front-line services.

28. In addition to the nurse pay parity funding for general practice, there is $1.24 million per annum for nursing roles that work to deliver PHO services. It is proposed to incorporate this into the PHO funding lines during the annual uplift.

Community Service Card holder copayments

29. Most practices in New Zealand are part of the community services card (CSC) funding scheme for which they receive additional funding to ensure people pay a lower copayment.

30. The maximum copayment for an adult CSC holder is currently set at $19.50 (GST incl). This amount has not been increased since 2021. Health NZ considers that it is timely to consider an inflation adjustment to maintain the real value of the copayment for CSC holders. Not increasing the maximum CSC copayment has significant unbudgeted cost implications of $25 million for Health NZ because capitation would need to increase by a higher amount.

31. An inflation adjustment for the period since then would increase the maximum copayment to approximately $25.50 (GST incl). An adjustment for the most recent 12 months cost pressures would increase the copayment amount to approximately $20.75 (rounded to $21.00).

Very low-cost access (VLCA) practices

32. Some GP practices receive additional funding in return for keeping their fees lower than the usual amounts even for patients that are not CSC holders.

33. The current maximum copayment for adult VLCA practice patients for those without a CSC is $29.50 (CSC holders continue to have a maximum copayment of $19.50 as above).

34. This was uplifted from $19.50 from 1 July 2024 to recognise that there are no restrictions on who can register with a VLCA practice and to begin to align the VLCA copayment rates for non-CSC adults with non-VLCA practices copayment rates. In comparison, for non-VLCA practices average copayment for non-CSC adults is ~$61.36.

35. Several options are available for the increase for VLCA non-CSC patients: nil, to $31.50 (6.4% increase); by $10 per visit to $39.50 (a 33 percent increase). While the 33 percent increase would see the fee remain significantly lower than the average copayment for adult non-CSC holders, we recommend at minimum a 6.4% increase to maintain current relativities and limit impact on patients.

Scenarios for applying enhanced capitation through the annual uplift process

36. We have developed two key scenarios for your consideration that pull together options related to the annual uplift, application of enhanced capitation, nurse pay parity, and the CSC- and VLCA-related copayment approaches. A decision on your preferred option is required to inform Health NZ's current sector negotiations.

37. The two scenarios, which all assume a 2.5% percent annual uplift applied to first contact funding and zero increase to flexible funding pools other than the rural health funding pool, are as follows:

    a) **Scenario 1** includes: 2.5% uplift; increased co-payments (CSC to $25.50, VLCA non-CSC to $39.50, non-VLCA non-CSC to $67.36); enhanced capitation and nurse pay parity added outside the annual uplift calculation (hence not part of the copayment calculation).

    b) **Scenario 2** includes: 2.5% uplift, enhanced capitation and nurse pay parity both applied to first contact funding (hence part of the copayment calculation); 6.4% increases to co-payments for CSC and VLCA non-CSC ($21.00 and $31.50 respectively).

38. While the specific amounts are set out in Table 1, in terms of impacts the key outcomes are that:

    a) Scenario 1 would result in the largest increase in co-payments and the largest revenue increase for general practices overall.

    b) Scenario 2 would see the largest revenue increase for general practices despite no increase in patient co-payments (however this increase would need to be funded exclusively by Health NZ).

39. We will provide you with further advice on outcome measures and targets after your endorsement of the overall framework.

40. Table 2 overleaf sets out the implications for total funding across all Health NZ funding lines.

Table 2: Implications of the scenarios on funding lines

	Baseline	Scenario 1: maximise revenue to practices	Scenario 2: limit copayment increases
Option parameters		2.5% uplift to GP funding Enhanced capitation and nurse pay parity added separately Increased co-pays (CSC to $25.50; VLCA non-CSC to $39.50)	2.5% uplift Enhanced capitation and nurse pay parity applied to first contact funding No co-pay increases except CSC to $21.00) and VLCA non-CSC (to $31.50)
First contact GP funding increase	$918m	$23.0m	$137.4m
Co-pay buy outs (VLCA, CSC, under 14)	$341m	$28.3m	$28.3m
Other (Flexi, MF, Rural)	$272m	$0.0m	$0.0m
Total uplift for copay calculations		**$51.3m**	**$165.7m**
GP co-pay revenue increase	$494m	$79.9m	$10.2M
Nurse pay parity	$39m	Added to capitation after uplift	included in annual uplift amount
Enhanced capitation		$75.0m	included in annual uplift amount
Total additional GP revenue (excl nurse pay parity)		**$206.1m**	**$175.9m**
% revenue increase		**11.7%**	**7.8%**
Total cost to HNZ		**$126.3m**	**$126.3m**
Co-pay increases (inc. GST)			
18+ non-VLCA, non-CSC (average)	$61.36	$6.06	$0.00
18+ VLCA non-CSC (max.)	$29.50	$10.00	$2.00
18+ CSC (max.)	$19.50	$6.00	$1.50

Recommended option

41. Our view is that Scenario 2 would be the best use of additional Health NZ funds, limit the impact of increased co-payments and recognise that enhanced capitation funding requirements are not onerous this year.

42. We would welcome your agreement to proceed with our sector negotiations based on Scenario 2.

43. Hybrid arrangements are also possible, and we anticipate some changes would occur to these scenarios through negotiation with the sector.

44. If you decide not to include the enhanced capitation in the annual adjustment calculations, it will be important to Health NZ that the CSC and VLCA copayment rates are permitted to increase, to avoid an unbudgeted adverse impact of $25 million to Health NZ financial position.

Next steps

45. Subject to your approval to proceed with Scenario 2, we will engage with the sector and keep you informed of progress with the negotiations. Subject to the outcome of those negotiations we will seek to implement the preferred approach from 1 July 2025.

Appendix 1: Co-payments and the annual uplift process

When capitation was introduced, general practice agreed to reflect the additional funding by reducing co-payments, and the Government signalled its intention to maintain the real value of capitation over time.

The Annual Statement of Reasonable Fee Increases (ASRFI) is the contractually agreed process to quantify the annual cost pressures faced by general practice to inform the annual uplift in capitation and the accepted increase in fees (i.e., patient co-payments).

The ASRFI has a prescribed and agreed methodology from which there is little room to deviate. Results are independently calculated using Statistics New Zealand indices for the year to 31 December to determine the increase to apply from 1 July the next year.

Under the ASRFI, if the annual uplift to capitation is less than the independent cost calculation, then the allowable fees increase can cover the gap (i.e. practices can further increase patient co-payments).

For example, in FY 24/25 the independent cost calculation was 5.88% and the capitation increase was 4%. For GPs with a 50/50 revenue mix of subsidy/copay, this allowed for a 7.76% increase in patient fees, giving an average increase in revenue of 5.88%. If Health NZ had increased capitation by 5.88%, then fees would have been allowed to increase by only 5.88%.