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Briefing Note

Subject: Federal responsibilities in provincial health care spending

Background:

Federal, provincial and territorial governments share a responsibility for funding health care. This partnership has changed over time, as has the benchmark for determining the appropriate contribution of each order of government. In the last decade or more, defining that balance in terms of funding has been the subject of considerable debate. Provinces argue the federal government is no longer shouldering its traditional share of the rising costs of health care, while past federal governments argued provinces have chosen to finance tax cuts over health care[i].

In 2003, the first ministers agreed on the *Accord on Health Care Renewal*, which provided for structural change to the health care system to support access, quality and long-term sustainability[ii]. Under the Accord, federal government cash transfers (health care) were increased, and the Canada Health and Social Transfer (CHST) was split into the Canada Health Transfer (CHT) and Canada Social Transfer (CST) effective April 1, 2004.

Please see **Appendix 1** for total federal funding towards transfer programs between 2005/06- 2013/14.

Summary:

Since the 2007 Federal Budget, there have been two major changes made to the Canada Health Transfer (CHT). The changes affected the allocation and the growth rate of the transfer.

Move to equal per capita cash allocation for CHT beginning in 2014–15

- Currently, CHT payments are made on a per capita basis that includes both cash and tax point transfers[1][iii], which means that the actual size of the per capita cash transfer differs across provinces.
    - Factors determining the amount of money a province receives in a transfer include: the province's population size, and the amount of money the province is taxed on personal and corporate incomes[iv].
- In the 2007 Budget, it was announced a move to an equal per capita cash allocation for the CHT, which will be legislated to take effect in 2014–15, when the current legislation expires (the *10-Year Plan to Strengthen Health Care* plan)
    - The equal per capita cash allocation to be given to each province will be calculated by multiplying the total amount of cash contributions to be provided to all the provinces by the amount obtained from dividing (a) the population of that province by (b) Canada's total population[v].
- The Government also committed to providing a by-province and territory protection when the CHT allocation is moved to an equal per capita cash basis in 2014–15[2].

1 The tax point transfer corresponds to 13.5 percentage points of personal income tax and 1 percentage point of corporate income tax

2 Rather than provide "CST-style" protection to ensure that no province or territory is worse off under the move to equal per capita cash, as per the 2007 budget commitment, the federal government announced it will now only provide **by-province protection** against year-over-year declines in cash levels. The protection will ensure that no province or territory will receive less than its 2013–14 CHT cash allocation in subsequent years as a result of the move to equal per capita cash.

Lower CHT growth rate beginning in 2017/18 (from 6% to nominal GDP growth)

- Total CHT cash levels are set in legislation up to 2013-14, and will grow by 6 per cent annually as a result of the automatic escalator. In December 2011, the Government announced that total CHT cash would keep growing at **6 per cent until 2016-17**.
    - **Starting in 2017-18**, CHT cash will grow in line with a three-year moving average of nominal Gross Domestic Product, with funding guaranteed to increase by at least **3 per cent over the prior year's funding**.
- **In the long-term, the lower CHT growth rate and limited CHT protection will continue to reduce federal transfers compared to the alternative scenarios.**
- Over the ten-year CHT renewal period, the provinces and territories will receive $36 billion less in federal CHT cash than they would have under the 2007 budget plan with a 6 per cent escalator[vi].

How funding changes will fiscally impact provinces[vii]

The new transfer allocation aims to benefit provinces that receive less CHT cash per capita than other provinces. **Figure 1** provides a hypothetical illustration of the per capita difference in CHT entitlement to provinces under the current transfer method used, and the equal-per-capita cash transfer method that will be implemented starting 2014-15.

- Under current estimates, Alberta would receive an additional $224 per capita, or $850M, if the move to equal-per-capita cash were implemented in 2011–2012, while equalization-receiving provinces would each receive about $23 per capita less in CHT.
- All non-equalization-receiving provinces other than Alberta would receive proportionately less than equalization-receiving provinces, since the value of their personal and corporate income tax points are below average – this includes Newfoundland and Labrador (-$107 per capita, or -$55M), Saskatchewan (-$38 per capita, or -$40M) and British Columbia (-$44 per capita, or -$202M).

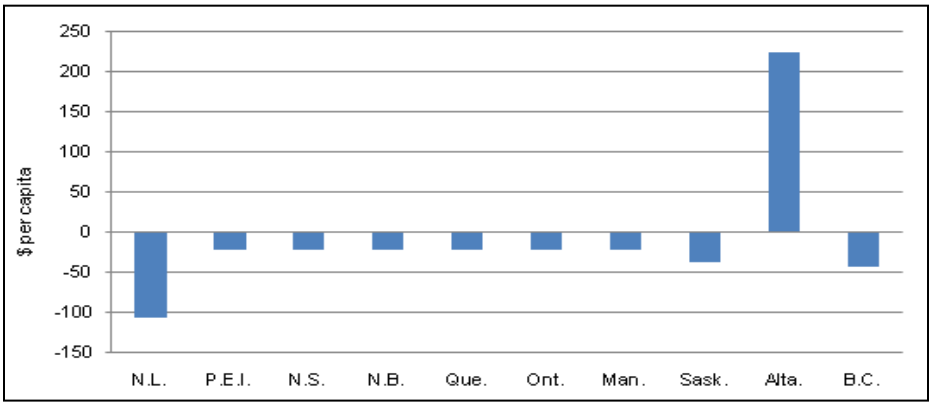

Figure 1: Per capita difference in CHT entitlement between current and equal-per-capita cash transfer (2011/12 figures are used as a proxy)[viii]**;** Note: scenario assumes no new funding in the move to equal-per-capita cash.

Romanow on Federal Funding for Health Care

The Romanow Commission (2002)[ix]

- The Romanow Commission recommended that at a minimum, future federal expenditures should be based on its past cash commitment of **25 per cent** of provincial-territorial costs for services covered under the *Canada Health Act*.
- In 2001/02, the cash value of the CHST contribution was $8.14 billion, which amounted to approximately 18.7 per cent of the current provincial-territorial expenditures on *Canada Health Act* services. This value decreases even further in 2005/06, as the federal share of health expenditures was valued at 16.7 per cent.
- Assuming that the new CHT escalator is maintained indefinitely, the Parliamentary Budget Officer (PBO) projects that the share of federal CHT cash payments in provincial-territorial health spending will decrease from 20.4 per cent in 2010/11 to average 18.6 per cent over 2011/12 to 2035/36; and this value further decreases to 13.8 per cent over the following 25 years[x] (2035/2036 onwards).

Observations

Although equal per capita cash payments may seem like a simple and visibly "fair" distribution of money, this method does not acknowledge the difference between equity and equality. Provinces are not equal in their fiscal capacity, or population demographics. When comparing per capita own-source revenues, Newfoundland and Labrador, Saskatchewan and Alberta are well above the provincial average as a result of their natural resource revenues, while Prince Edward Island, Nova Scotia, New Brunswick and Ontario are below the average. The provinces also have differences in their populations, in terms of their growth, proportion of elderly population, proportion of Aboriginals or immigrants, and/or incidence of various diseases. These factors will affect the amount of funding needed to sustain the provinces' respective health systems.

As a result, these differences can be a factor in provincial variations in per capita health spending. For example, the per capita provincial government health spending in 2011 varied from a high of $5,064 in Newfoundland and Labrador to a low of $3,434 in Quebec. Overall, providing CHTs on an equal per capita cash basis does not account for regional health differences.

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Appendix

Appendix 1: Total federal funding towards transfer programs between 2005/06- 2013/14[xi]

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Major Transfers				($millions)					
Canada Health Transfer[1]	*20,310*	20,140	21,729	22,768	24,476	25,662	26,952	28,569	30,283
Canada Social Transfer[1]	*8,415*	8,500	9,607	10,552	10,857	11,179	11,514	11,859	12,215
Equalization[2]	*10,907*	11,535	12,925	13,462	14,185	14,372	14,659	15,423	16,105
Territorial Formula Financing[4]	*2,058*	2,118	2,279	2,313	2,498	2,664	2,876	3,111	3,288
Offshore Accords[3]	*219*	386	563	663	645	869	787	443	335
Other payments[5]					74	525	952	680	56
Total - Federal Support	**41,909**	**42,680**	**47,102**	**49,758**	**52,736**	**55,271**	**57,739**	**60,085**	**62,283**
Change from 2005–06		+771	+5,193	+7,849	+10,827	+13,362	+15,830	+18,176	+20,374
Per Capita Allocation ($)	*1,301*	*1,312*	*1,432*	*1,495*	*1,566*	*1,622*	*1,676*	*1,725*	*1,768*

[i] Romanow, R. J. Privy Council, Commission on the Future of Health Care in Canada. (2002). *Building on values: The future of health care in Canada – final report* (CP32-85/2002E-IN)

[iii] Parliament of Canada, Library of Parliament. (2011*). Canada Health Transfer: Equal-per-Capita Cash by 2014*. Retrieved from website: http://www.parl.gc.ca/content/lop/researchpublications/cei-14-e.htm.

[iv] Government of Canada, Department of Justice. (2013).*Federal-Provincial Fiscal Arrangements Act*.(R.S.C., 1985, c. F-8)

[v] (Government of Canada, Department of Justice, 2013)

[vi] Council of the Federation (Canada) Working Group on Fiscal Arrangements. (2012). Assessment of the fiscal impact of the current Federal fiscal proposals. Ottawa, ON.

[vii] Health Canada. (2006). *2003 first ministers' accord on health care renewal*. Retrieved from website: http://www.hc-sc.gc.ca/hcs-sss/delivery-prestation/fptcollab/2003accord/index-eng.php.

[viii] Parliament of Canada. (2011). *The Canada health transfer: Changes to provincial allocations*. Retrieved from website: http://www.parl.gc.ca/Content/LOP/ResearchPublications/2011-02-e.htm.

[ix] Romanow, R. J. Privy Council, Commission on the Future of Health Care in Canada

x Office of the Parlimentary Budget Officer. (2012). Renewing the Canada Health Transfer: Implications for Federal and Provincial-Territorial Fiscal Sustainability. Retrieved from: http://www.parl.gc.ca/PBO-DPB/documents/Renewing_CHT.pdf.

[xi] Government of Canada. Department of Finance Canada. (2011b). *History of health and social transfers*. Retrieved from website: http://www.fin.gc.ca/fedprov/his-eng.asp.