February 9, 2017

Canada Health Accord Negotiations: The Bottom Line

Briefing Note

Federal health care funding under the Canada Health Transfer (CHT) remains one of the key points of contention in the Health Accord negotiations that have now been abandoned by the federal government in favour of bilateral deals. In December the provinces and territories rejected a "take it or leave it" offer by the federal government of a 3.5 percent escalator for the Canada Health Transfer with additional monies "targeted" for home care and mental health. Following this, the federal government left the table and opted instead to use its political and fiscal might to push through bilateral deals with individual provinces and territories. To date five provinces and three territories have reportedly agreed to bilateral deals that include nominal GDP with a floor of 3 as the funding escalator and additional "targeted" funding for mental health and home care. This funding arrangement was rejected by all the provinces in December as inadequate. Text of the bilateral deals is not publicly available.

Reportedly, all of the bilateral deals contain a "me too" clause which holds that if a deal with a higher funding rate is reached with any province or territory, those provinces and territories that have already agreed to bilateral deals will also get the higher rate. The remaining provinces, representing 90 per cent of the country's population, have not signed on to bilateral deals. Provincial governments and public advocacy organizations across the country continue to call on the federal government to come back to the table to negotiate a 10-year Health Accord with sufficient funding to meet population need for care. Health care advocates are concerned about the process of bilateral deals rather than an equitable national approach leading to inequities across Canada, inadequate funding, and secret language.

The Bottom Line: Proposed Level of Federal Health Funding Not Sufficient to Meet Population Need

The Institute for Fiscal Studies and Democracy released a forecast on Monday February 6 which includes a calculation based on Finance Canada figures of the total health transfer with the additional "target" monies included in the data. The analysis shows federal health transfers including all the monies proposed in the reported bilateral deals.

The projection shows that under the federal government's proposal, the growth in federal transfers for health care – including the additional target monies for home care and mental health - will drop from 6.6 percent in 2016 to 4 percent in 2017; declining to 3.4 percent from 2018- 2021; declining further to 2.6 percent in 2022; then remaining steady at 3.4 percent from 2023 through to the end of the 10-year period in 2026. The average over the 10-year span of the proposal (including the 6.6 percent in 2016) is 3.7 percent. Chart 1 at the end of this briefing note shows this analysis.

In the December Federal-Territorial-Provincial Finance Ministers' meeting, the provinces and territories were calling for a Canada Health Transfer escalator that would match projected health care cost growth at 5.2 percent. In plain language, the expected need for health care funding growth is projected to be 5.2 percent, not 3.7 percent. There is a broad consensus about this projection. It is in line with the Parliamentary Budget Office of the federal government prediction of a funding growth need. The Financial Accountability Office of Ontario set the needed rate at 5.2 percent. The Conference Board of Canada supports the calculation of a 5.2 percent cost projection. Health provider organizations have issued public policy papers and statements supporting the 5.2 percent figure. This figure is also supported by the Canadian Health Coalition, the Ontario Health Coalition and coalitions across Canada.

The bottom line is that the health care funding in the bilateral deals being pushed through by the federal government is significantly short of the best evidence of what is needed to meet population need for health care, and the shortfall will have to be met by provinces that have less budgetary room than the federal government or services will be cut and privatized.

The Trudeau Approach Compared with the Harper Approach

The former government of Stephen Harper unilaterally announced its intention to dramatically cut the CHT funding escalator of 6 per cent per year that had been in the 2004 – 2014 Health Accord. The cut is set to start April 1, 2017. Their plan was to cut the base funding escalator and link funding to economic growth (GDP) with a base of 3 per cent per year so that CHT funding would increase at a base of 3 per cent per year or GDP, whichever was higher. The Harper government announced its plans without consultation, refusing to hold First Ministers' meetings and negotiate with the provinces and territories.

The Parliamentary Budget Office (PBO) of Canada reported that Harper's proposed cut to the funding formula meant that the federal government was insulating itself from the impact of population aging on health costs at the expense of the provinces and territories. It noted that the federal government had budgetary room whereas the provinces did not. The proposed cut to the funding formula, it reported, would increase financial pressures on the provinces and territories and threaten cuts to health services. The provinces and territories calculated that the cut to the funding formula escalator would amount to more than $26 billion over 10 years.

In the 2015 election campaign, the federal Liberal Party promised to work collaboratively with the provinces and territories to negotiate a new Health Accord including a long-term funding deal (no amount specified) and an initial commitment to $3 billion for home care. After the election, the Trudeau government initially adopted Harper's funding formula for the CHT of a dramatic cut from 6 percent to a 3 percent base escalator, or economic growth, whichever is higher. Last fall, it modified its proposal to a 3.5 percent escalator with no fluctuation for growth, plus targeted home and mental health funding (which amounts to an average of 3.7 percent over 10 years as explained in the previous section). This new proposal was not negotiated with the provinces and territories. It was announced as a final position by the federal government in December. When it was rejected as insufficient by the provinces and territories, the federal government began pushing through bilateral deals in a bid to force all the provinces and territories to acquiesce. It has been reported that those who signed the deals have continued to reject the offer of a 3.5% escalator and opted for the former Harper government deal of nominal GDP with a floor of 3%.

How does the Trudeau proposal differ from Harper's?

On the money: Both proposals are significantly lower than the current Canada Health Transfer escalator which is set at 6 percent. Both proposals are also significantly lower than the projected real cost growth for health care, which, according to the best available evidence, is 5.2 percent. Harper's proposal set the bottom rate at 3 percent, but if growth was higher than 3 per cent the escalator would increase in tandem with the higher rate of economic growth. The Trudeau proposal sets the base rate at an average across the 10 years of 3.5 percent plus so-called targeted funding for home care and mental health. With the targeted funds included, the average Trudeau rate is 3.7 percent over 10 years, ranging from a low of 2.6 to a high of 4 percent starting this year. If a reasonable projection for nominal growth is 4 percent, for example, the escalator proposed by the Harper government would be greater than the bilateral deals now being negotiated by the Trudeau government.

On the process: The Harper government unilaterally announced its plans with no negotiations. The Trudeau government held hasty negotiations this fall and then abruptly announced a "take it or leave it" deal in December which was rejected. It has now abandoned negotiations in favour of bilateral deals.

On accountability: The Harper government had no targeted funds, abandoned efforts to create an intergovernmental table on pharmaceutical policies and home care, and did nothing to uphold the Canada Health Act's prohibitions on

extra-billing and user fees for patients. The text, if it is written, of the Trudeau government's bilateral deals is not publicly available. Though the federal government has stated that it is targeting $11 billion towards home care and mental health, home care is not covered by the Canada Health Act and is deeply privatized in parts of the country. The mental health services that might be affected are not defined publicly and could cover a wide range of services, public and private, that are covered and not covered. To date there has been no explanation of how this money is indeed "targeted" and what it is intended to accomplish. Trudeau's Health Minister Jane Philpott has taken the first step towards enforcing the Canada Health Act's prohibition on extra-billing and user fees levied on patients for medically necessary health care. In November, she wrote to Saskatchewan's Health Minister to urge him to stop that province's allowance of private MRIs for which patients are charged more than $900 per medically necessary diagnostic scan. However, in December it was reported that the federal government had negotiated a bilateral deal with Saskatchewan despite the province's abrogation of the Canada Health Act. Health care advocates are demanding that the federal government uphold the foundational principle of equal health care for all Canadians without user fees for needed care in Saskatchewan and across the country. The federal government has the power to levy financial penalties on provinces that fail to protect patients from user fees and extra-billing and advocates are calling on the Trudeau government to act to uphold these protections.

Sources and Supporting Data*

Chart 1. Forecast of Canada Health Transfer Including Targeted Funds -- 10 Years, 2016 - 2026

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
	$ billion, unless otherwise indicated											
December 2016 CHT (3.5% Escalator)	36.1	37.3	38.6	40.0	41.4	42.8	44.3	45.9	47.5	49.1	50.9	473.8
Growth (%, final value is annual average)		*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*
Total New Investments		1.1	1.4	1.4	1.4	1.4	1.0	1.0	1.0	1.0	1.0	11.5
Better home and palliative care		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.0
Support of mental health initiatives		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.0
Home care infrastructure requirements			0.3	0.3	0.3	0.3						1.0
Prescription drugs and health innovation		0.1	0.1	0.1	0.1	0.1						0.5
December 2016 Proposed CHT Forecast	36.1	38.4	40.0	41.3	42.7	44.2	45.3	46.9	48.5	50.1	51.9	473.8
Growth (%, final value is annual average)		*6.6*	*4.0*	*3.4*	*3.4*	*3.4*	*2.6*	*3.4*	*3.4*	*3.4*	*3.4*	*3.7*
Difference (2016 ES and December 2016 Proposal)		1.3	1.6	1.4	1.3	1.1						

Source: excerpt from Institute of Fiscal Studies and Democracy *CHT Conundrum: Ontario Case Study* February 2017 page 7.

Calculation of 5.2 Percent CHT Escalator

The Financial Accountability Office of Ontario (FAO) calculated that to meet inflation, aging and population growth, health spending requires a 5.2 per cent escalator. This calculation echoes the calculations of the Parliamentary Budget Office of the federal government and the Conference Board of Canada. A clear explanation of the calculation was

provided by the FAO:

> " Assuming that the quality and type of health care services provided in 2015 remains the same over the outlook, the FAO estimates that population growth and aging would contribute 2.2 percentage points per year on average to the growth in health spending. A stronger economy, which leads to higher incomes and price inflation would contribute a further 3.0 percentage points. Combined, these factors would lead to 5.2 per cent annual growth in health spending."
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> Source: Financial Accountability Office (Ontario Legislature) Spring 2016.

* The Institute of Fiscal Studies and Democracy has used the Federal offer of 3.5% in their case study. However it is being reported that those who have signed bilateral deals have rejected the 3.5% and opted for the former offer of nominal GDP with a floor of 3%. At this point in time there is no text of the deals publicly available.