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Past, Present, Future

Health Care Costs in Nova Scotia

Spring 2017

About this Document

The Institute of Fiscal Studies and Democracy (IFSD) is a Canadian think-tank sitting at the nexus of public finance and state institutions. Fiscal ecosystems include governments, legislatures, the public administration and other key actors and institutions in our political and economic life. This ecosystem, rooted in hundreds of years of political history and economic development, is composed of an intertwined set of incentives, public and private information and a complex and sometimes opaque set of rules and processes based on constitutional law, legislative law, conventions and struggles for power. The actors within this system depend on one another as well as the robustness and transparency of information and processes, all underpinned by a society's standards of accountability. It is at this dynamic intersection of money and politics that the Institute of Fiscal Studies and Democracy @ uOttawa aims to research, advise, engage and teach. The IFSD has been funded by the Province of Ontario to undertake applied research and student engagement in public finance and its intersection with public administration, politics and public policy. The IFSD undertakes its work in Canada at all levels of government as well as abroad, leveraging partnerships and key relationships with organizations such as the World Bank, OECD, IMF and US National Governors Association.

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Key Points

- Over the past 30 years, health care spending in Nova Scotia has followed a similar pattern of peaks and troughs as that at the national level, tied to overall economic activity and fluctuations in federal funding. Since 2005, health spending has remained above the notional health care cost derived from the macroeconomic fundamentals of population growth, aging, real income growth, and inflation. While this spending gap is expected to close somewhat over the next few of years, a persistent divergence between the planned spending and notional health care cost will continue to prevail.

- More specifically, from 2010 to 2014, national health spending slowed relative to the previous decade. In Nova Scotia during this period, average health care spending growth was broadly in line with the national average (3.5% versus 3.4% for Canada). This pace of growth was slower than in the prior decade, and reflected restraint that was broad based and distributed throughout the health system in a manner similar to that observed at the national level. Notable differences between health spending growth in Nova Scotia and Canada as a whole were on public health (18.1% versus 5.3%, respectively) and other health spending (7.0% versus 2.4%). Savings were largely found in reducing capital investment (-14.1% versus -1.3%). Unfortunately, while deferring capital investment may temporarily boost budgetary balances, it raises concern that these costs may arise in the future. This disquiet is particularly acute as capital investment has continued to contract at the same pace (-14.1%) over the past two years. This supported a slowing in overall health spending in the province to an average annual pace of 0.6% per year in 2015 and 2016.

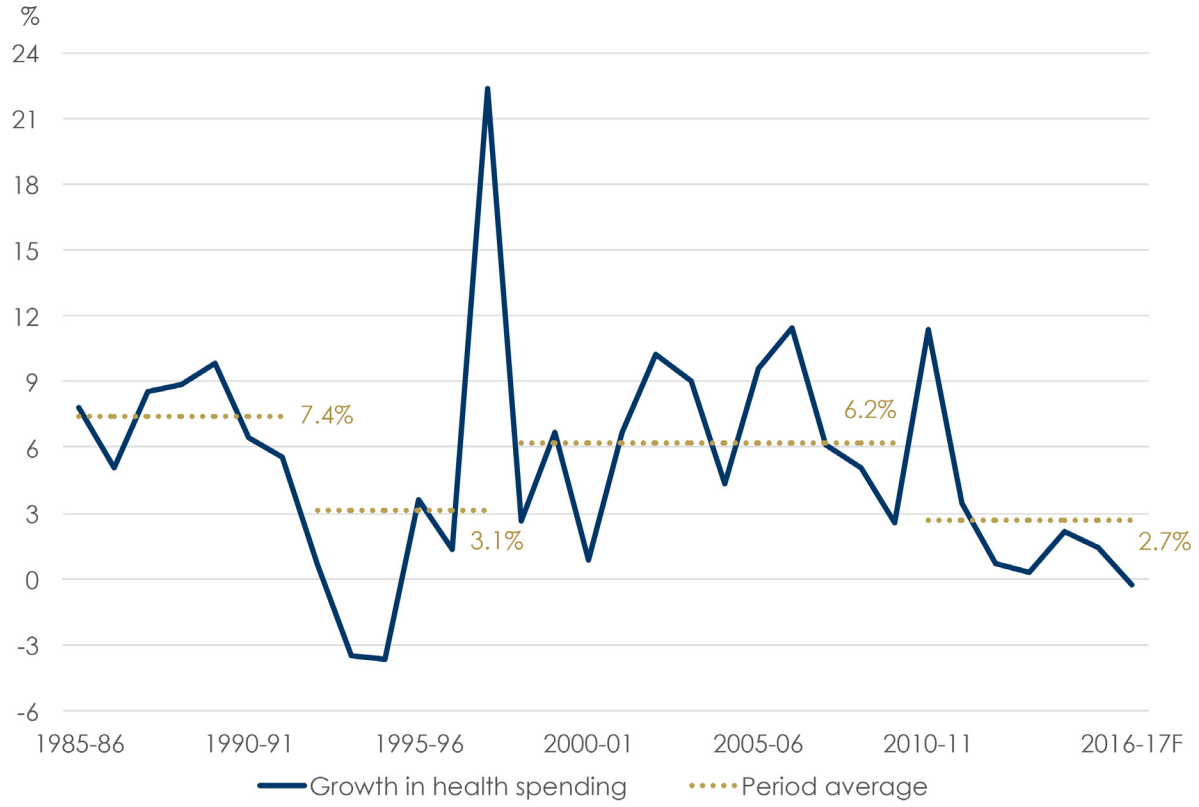
- In 2015, the Council of the Federation called on the federal government to commit to maintaining a 25% participation in provincial health care expenditures (excluding transfers from the equalization program). In order to meet this request, the provinces and territories asked the federal government to commit to grow the Canadian Health Transfer (CHT) by 5.2% annually. Instead, the Government of Canada decided to move forward with an increase in the CHT tied to the pace of nominal GDP growth. An additional commitment of $11.5 billion over ten years was made for federal health priorities, namely mental health and home care, although much of this is back-end loaded to the end of the 5-year budget planning horizon. To date, all provinces have agreed to this offer, with the exception of Manitoba.

- As a result of this agreement, the federal share of national health spending will rise in the next few years as fiscal restraint among provinces and territories continues. This is also true in Nova Scotia. However, as the underlying cost pressures keep rising due to the macroeconomic cost drivers, the Institute of Fiscal Studies and Democracy is forecasting a gradual decline in the federal share of health spending. Indeed, by 2026, the federal share will have fallen below its current level. And if health spending restraint is relaxed, the federal share will fall even further.

- **In summary, while additional federal funds dedicated to home care and mental health will provide modest support to provincial finances, this agreement is neither sufficient nor transformative in helping the provinces to meet the health care needs of their citizens. And given the back-end loaded nature of additional health funding, the larger concern is that health care reforms have been largely punted to beyond the 2019 election.**

In its recent publication, 'CHT Conundrum: Ontario Case Study', the Institute of Fiscal Studies and Democracy (IFSD) outlined an approach to examining historical health care spending while projecting the drivers of health care costs over the coming 20 years.[1] Summarizing the historical results for Nova Scotia here, health care spending growth in Canada can be divided into four distinct periods: 1985–1991, 1992–1997, 1998–2009, and 2010–2016 (see Chart 1). These time periods are important as they overlap with distinct periods of higher economic growth and federal transfers to the provinces in the case of the 1985–1991 and 1998–2009 periods, and the opposite circumstance in the case of the 1992–1997 and 2010–2016 periods.

Chart 1: Annual Growth in Total Health Expenditures in Nova Scotia



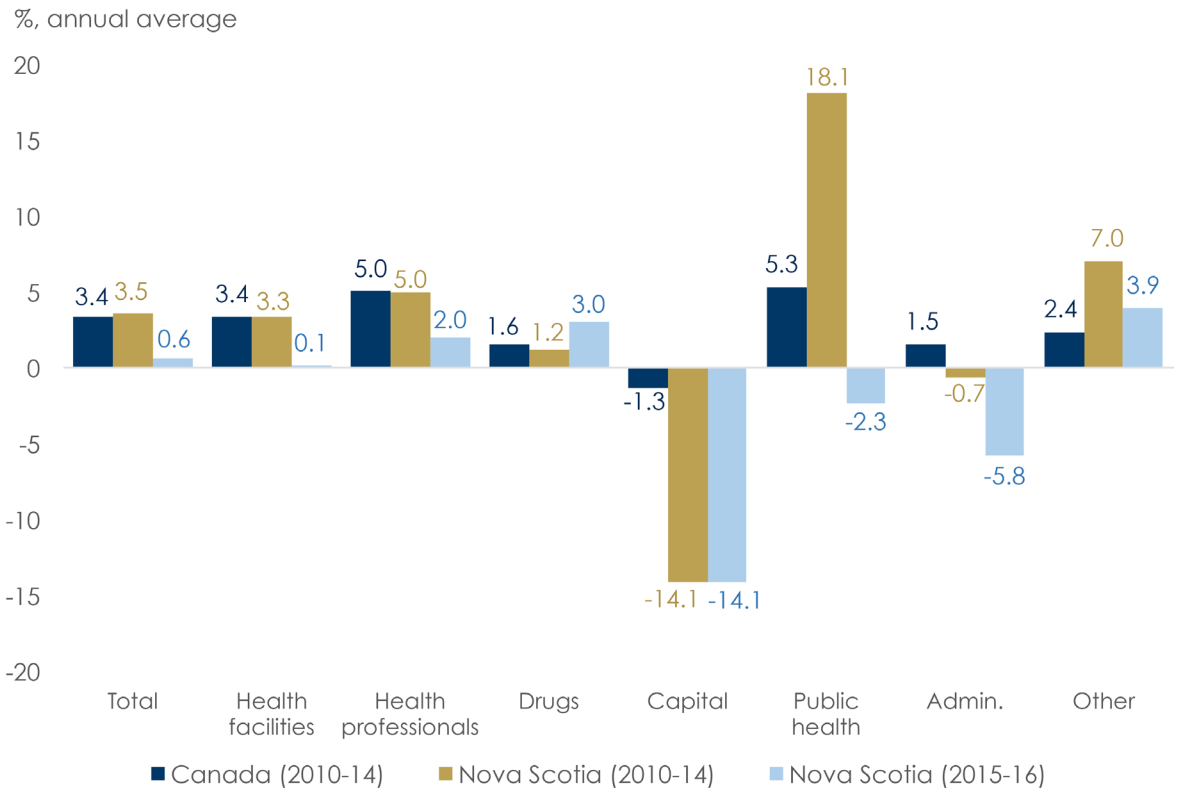
Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.
Note: Years refer to fiscal years. Numbers include both public and private health expenditures. Period ends in fiscal 2016–17.

While each of these periods was characterized by very different economic and fiscal circumstances, they were also reflective of different underlying health care cost drivers in Nova Scotia. For instance, the higher expenditure growth years of the 1980s were the result of significant increases in spending across the board, with the average growth in other health spending (14.7%), drugs (10.9%), and public health (8.9%) topping the list. Then, in the more austere years of the 1990s, health care expenditures averaged a more modest 3.1% annually, as capital investment (-8.4%) contracted. Other areas of health spending remained positive over this period but most advanced at a much slower pace than was previously the case, although other health spending (14.0%) continued unabated through this period. Fast forward to the balanced federal budgets and solid economic growth of the late-1990s and early-2000s, and spending resumed anew. This time, the advance was led by spending on administration (9.2%) and capital investment (12.0%), although most sectors saw spending accelerate, with the exception of public health (0.6%) and other health spending (7.1%).

[1] See 'CHT and the Federation: Past, Present, and Future' for references.

Then the 2008–09 recession hit, and own-source revenue growth in Nova Scotia turned negative. With revenues hobbled by weak economic activity, the provincial government needed to find savings. And, indeed, it did. From 2010 through 2014, average total health care expenditure growth has been constrained to 3.5% annually (see Chart 2), roughly half the pace of the prior decade. Much of the savings were found in declining spending on administration (-0.7%) and capital investment (-14.1%), the latter raising concern that expenditures on capital may be deferred to a later date. Spending growth in most other health expenditure categories was also kept to low levels relative to history. The one exception was spending on public health (18.1%), which rose at its fastest average annual pace on record. In 2015 and 2016, the pace of health spending slowed even more dramatically to an annual average of 0.6%. This, again, reflected significant restraint in capital investment (-14.1%), suggesting caution is warranted in celebrating recent health care cost containment as these expenditures are likely to resurface in the future. Other areas of notable restraint during this period include spending on administration (-5.8%) and public health (-2.3%). Importantly, these aggregate savings took place at a time when the Canada Health Transfer (CHT)—the federal government's dedicated funding for health care—was increasing at an annual rate of 6%, meaning the CHT share of Nova Scotia's health spending rose over this period.

Chart 2: Growth in Health Spending by Category

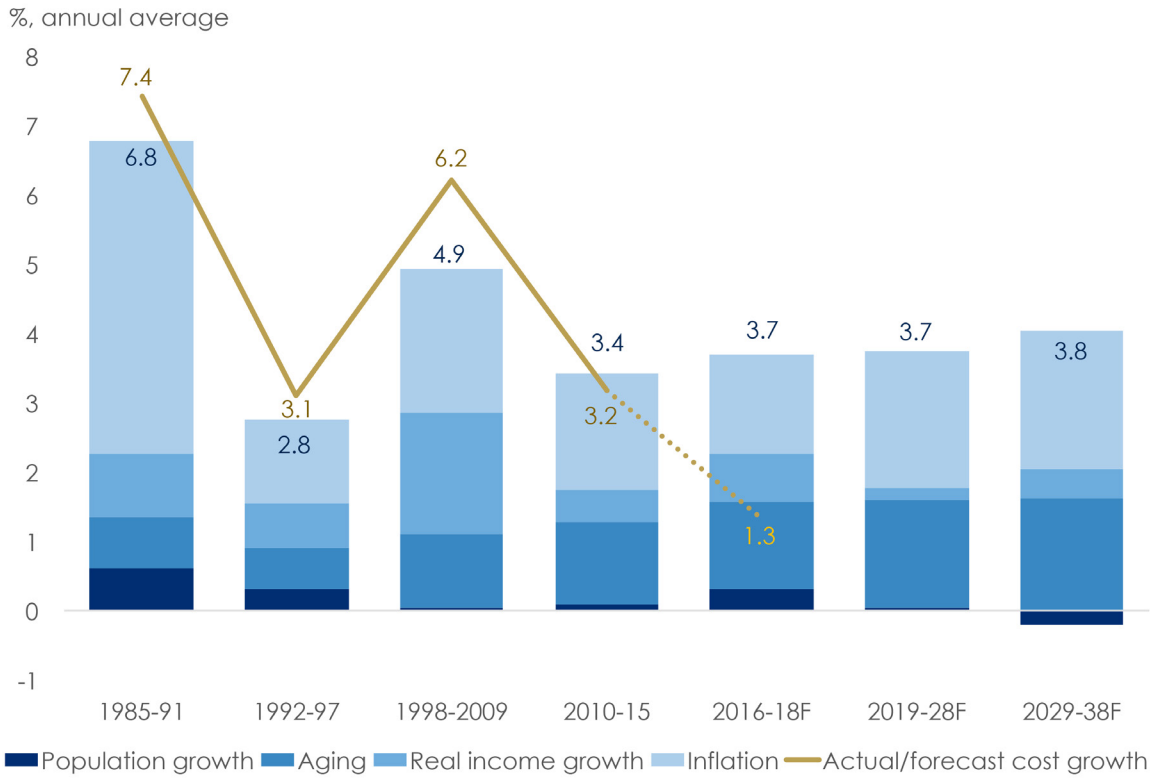


Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.
Note: Years refer to fiscal years. Health facilities include hospitals and other institutions. Health professionals include physicians and other professionals. National health data by spending category is only available through the 2014–15 fiscal year. Numbers include both public and private health expenditures. "Other health spending" includes expenditures on home care, medical transportation (ambulances), hearing aids, and other appliances and prostheses, health research and miscellaneous health care.

Looking ahead to the next few years, growth in health care costs in Nova Scotia is expected to come in well below the 3.2% annual average observed from 2010 through 2015 (see Chart 3). Indeed, official forecasts for the 2016 to 2018 period point to average annual growth in health spending of 1.3%. However, cost containment of this magnitude has never been achieved on a sustained basis. Further, this pace of health spending is also well below where the macroeconomic drivers of health care cost growth—population growth, aging, real income growth, and inflation—suggest cost pressures will be

(see Table 1).[2] Over the next few years, these notional cost drivers are expected to accelerate modestly to 3.7% annually, driven by a pickup in real income growth combined to higher costs stemming from an aging population. And beyond 2018, cost pressures are also expected to advance at an annual pace of around 3.7% for the subsequent 20 years.

Chart 3: Growth in Actual versus Notional Health Care Costs



Source: CIHI, Nova Scotia Department of Finance and Treasury Board, Statistics Canada, IFSD.
Note: The IFSD estimates and forecasts assume no enrichment. Years refer to fiscal years. Numbers include both public and private health expenditures.

Table 1: Actual versus Notional Health Care Spending Growth in Nova Scotia

%, annual average	Actual/Budget	Enrichment*	Notional	Population	Aging	Real Income	Inflation
1985–1991	**7.4**	**0.6**	**6.8**	0.6	0.8	0.9	4.5
1992–1997	**3.1**	**0.4**	**2.8**	0.3	0.6	0.6	1.2
1998–2009	**6.2**	**1.3**	**4.9**	0.1	1.0	1.8	2.1
2010–2015	**3.2**	**-0.2**	**3.4**	0.1	1.2	0.5	1.7
2016–2018	**1.3**	**-2.4**	**3.7**	0.3	1.3	0.7	1.4
2019–2028			**3.7**	0.0	1.6	0.2	2.0
2029–2038			**3.8**	-0.2	1.6	0.4	2.0

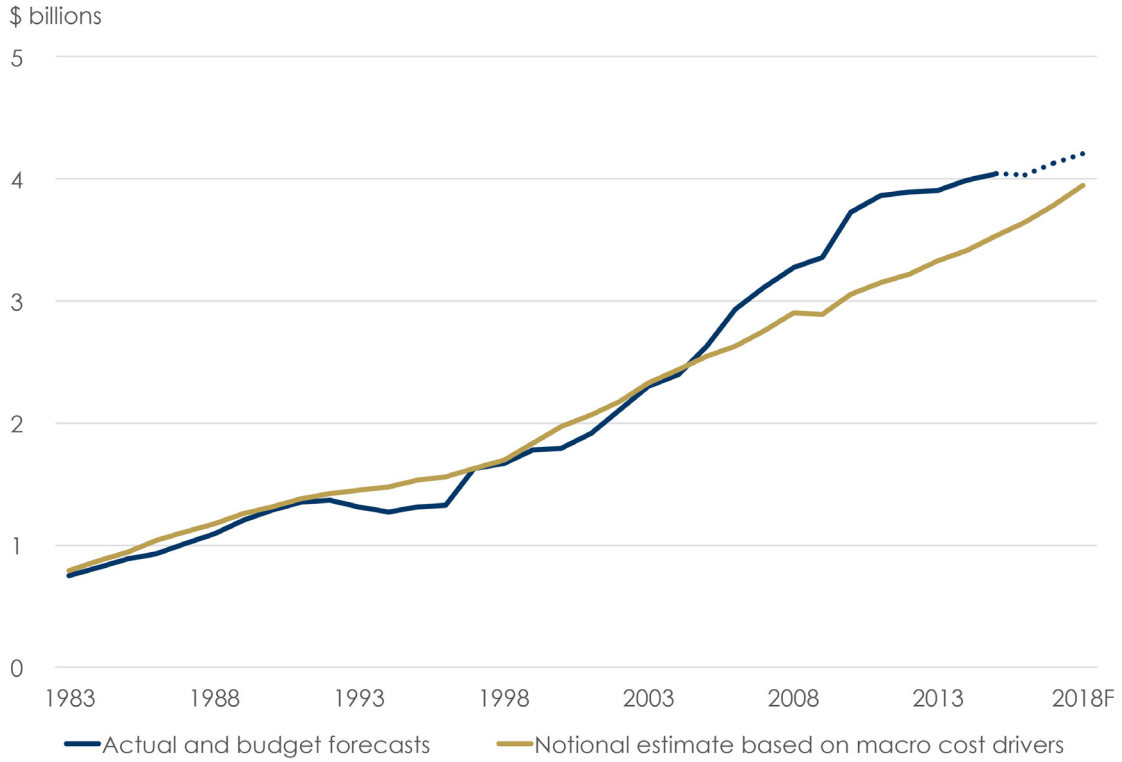
Source: CIHI, Nova Scotia Department of Finance and Treasury Board, Statistics Canada, IFSD.
Note: Growth forecasts for health spending, real GDP, and GDP inflation are taken from the most recent budget documents for the period 2016 to 2018. Population projections are from the M1 (medium) scenario from Statistics Canada. Numbers include both public and private health expenditures.
*Enrichment is equal to actual less notional health spending growth.

Examining the planned savings over the next few years in a historical context, it becomes clear that some cost containment is necessary in Nova Scotia. Indeed, annual health spending has exceeded the level suggested by macroeconomic fundamentals since 2005 (see Chart 4). In order to bring actual health

[2] Similar to the recent work of the Financial Accountability Officer (2017) based on analysis by the Organisation for Economic Co-operation and Development (OECD, 2013), a real income elasticity of health care expenditures of 0.8 was used in this analysis.

care expenditures into line with where these notional costs suggest they should be, spending needed to be restrained. And that is what the Government of Nova Scotia has planned to do. The good news is that, despite actual spending being above the notional costs, per capita health care expenditures in Nova Scotia remain roughly in the 'middle-of-the-pack' among Canadian provinces, according to the Canadian Institute for Health Information (CIHI). However, the Conference Board of Canada has determined that the performance of Nova Scotia's health status is lagging relative to its peers, putting its performance behind neighbouring provinces with similar costs such as Prince Edward Island and New Brunswick (see Table 2). Indeed, this conclusion is further supported by a broad collection of health care indicators compiled by CIHI.

Chart 4: Actual/Forecast Health Spending versus Notional Costs



Source: CIHI, Nova Scotia Department of Finance and Treasury Board, Statistics Canada, IFSD.
Note: The IFSD estimates and forecasts assume no enrichment. Years refer to fiscal years. The notional estimate is indexed to the 1981 level of total health care expenditures, as estimated by CIHI. Numbers include both public and private health expenditures.

Table 2: Relative Ranking of Population Health Status, Health Care System Performance, and Per Capita Cost

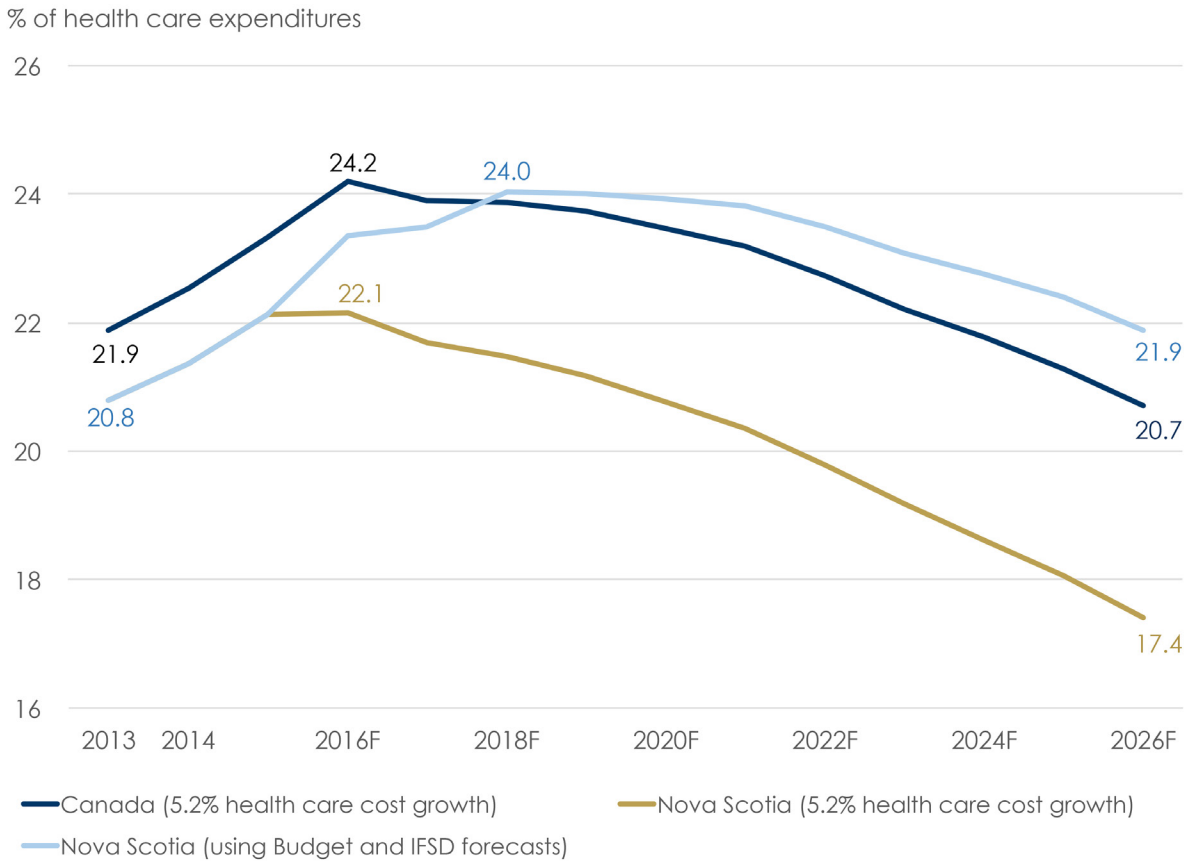
Ranking	Health Status (Conference Board)	Health Care System Performance (CIHI/IFSD)	Per Capita Cost (CIHI)
1	British Columbia	Ontario	Quebec
2	Ontario	Quebec	Ontario
3	Quebec	New Brunswick	British Columbia
4	Prince Edward Island	Prince Edward Island	New Brunswick
5	Alberta	Alberta	**Nova Scotia**
6	New Brunswick	British Columbia	Prince Edward Island
7	**Nova Scotia**	Newfoundland & Labrador	Manitoba
8	Manitoba	Manitoba	Saskatchewan
9	Saskatchewan	**Nova Scotia**	Alberta
10	Newfoundland & Labrador	Saskatchewan	Newfoundland & Labrador

Table 2: Relative Ranking of Population Health Status, Health Care System Performance, and Per Capita Cost			
11	Yukon	Yukon	Yukon
12	Northwest Territories	Nunavut	Northwest Territories
13	Nunavut	Northwest Territories	Nunavut

Source: Conference Board of Canada, Canadian Institute for Health Information (CIHI), Institute of Fiscal Studies and Democracy (IFSD).
Note: Ranking calculations of health care system performance using CIHI data were done by the IFSD, by assigning values to above average (1), average (0), or below average (-1) performance for 15 indicators and then ranking the totals. Per capita cost ranking is from lowest to highest using CIHI data from 2014.

This analysis must now be put in the context of the recent health care funding negotiation between the federal government and provincial-territorial (P-T) governments. The IFSD has found that the Province of Nova Scotia will win in the short run but lose in the long run as a result of signing on to the federal government's CHT offer (see Chart 5). In December 2016, P-T governments were unanimous in their resolve to see the CHT advance at an annual pace of 5.2%, which they projected to be the average annual growth rate in national health care costs over the coming decade. Instead, the federal government's proposal would see federal health funding (the CHT plus new supplementary measures) increase at an average annual pace of 3.6%, well below that desired by P-T governments. As a result, the federal government's contribution to national health care expenditures is expected to fall to just over 20% by 2026. Given that Nova Scotia's per capita cost of health care spending is close to the national average, the CHT makes up a share of its health care expenditures that is broadly in line with the country as a whole. However, if Nova Scotia's health care costs were to advance by 5.2% annually, the CHT share of Nova Scotia's health spending would follow a pattern similar to that observed at the national level over the next decade.

Chart 5: Federal Share of Health Care Costs for Canada and Nova Scotia



Source: CIHI, Nova Scotia Department of Finance and Treasury Board, Finance Canada, Statistics Canada, IFSD.
Note: Years refer to fiscal years. Numbers include both public and private health expenditures.

But the story changes when one takes into account official health care spending forecasts from the Government of Nova Scotia and the IFSD's projections of the macroeconomic drivers of health care costs starting in 2019. With growth in the CHT expected to outpace health care spending growth in Nova Scotia through 2018, federal funding will assume an increasingly large portion of health care expenditures over the next few years (see Table 3). Then, starting in 2019, the CHT share of health spending will begin to decline, ultimately reaching a level in 2026 roughly in line with its 2015 share. And if the CHT were assumed to advance at a similar pace thereafter, the federal share of Nova Scotia's health spending would likely continue to decline.

Table 3: Federal Funding for Health Care in Nova Scotia

$ billions	Federal Health Funding*	Canada Health Transfer	New Supplementary Measures	Amount Received by Province	Projected Provincial Health Costs	Federal Share of Health Costs (%)
2013	30.3	30.3		0.8	3.9	20.8%
2014	32.1	32.1		0.9	4.0	21.4%
2015	34.0	34.0		0.9	4.0	22.1%
2016	36.1	36.1	0.0	0.9	4.0	23.4%
2017	37.5	37.1	0.4	1.0	4.1	23.5%
2018	39.4	38.4	1.0	1.0	4.2	24.0%
2019	41.2	39.9	1.3	1.0	4.4	24.0%
2020	42.9	41.4	1.5	1.1	4.5	23.9%
2021	44.6	42.9	1.7	1.1	4.7	23.8%
2022	45.9	44.4	1.5	1.1	4.9	23.5%
2023	47.2	46.0	1.3	1.2	5.0	23.1%
2024	48.7	47.6	1.1	1.2	5.2	22.8%
2025	50.1	49.2	0.9	1.2	5.4	22.4%
2026	51.2	50.9	0.3	1.2	5.6	21.9%

Source: Canadian Institute for Health Information, Nova Scotia Department of Finance and Treasury Board, Finance Canada, Statistics Canada, IFSD.
Note: Growth forecasts for health spending, real GDP, and GDP inflation are taken from the most recent budget documents for the period 2016 to 2018. The federal health funding forecast from fiscal 2016–17 through 2021–22 is from Budget 2017. Numbers include both public and private health expenditures.
*Federal health funding includes the CHT and modest new supplementary measures from Budget 2017.

Conclusion

While health spending seems to have gotten away from the Government of Nova Scotia in the past decade, anticipated expenditure restraint in the coming few years should help to bring it more in line with the fundamental cost drivers. At the same time, while the cost per capita of its health system is considered to be 'middle-of-the-pack' relative to other provinces and territories, Nova Scotia's health outcomes tend to be poorer than those of its peers. But these challenges are not insurmountable. Indeed, there may be an opportunity for the Province of Nova Scotia to find additional value for money in its health care system going forward. Notably, these future anticipated savings also mean that the CHT will make up an increasingly large share of Nova Scotia's health spending over the next few years. But this won't last long, as the macroeconomic health care cost drivers are expected to be higher than the growth rate in the CHT over the coming decade. Consequently, the federal contribution to health spending will fall through 2026, forcing Nova Scotia to disproportionately bear the burden of the additional health care costs beyond the increases in federal health transfers. Indeed, much of the new federal funding in addition to the CHT is back-loaded to the end of the 5-year fiscal planning horizon, and beyond the 2019 federal election. This leads the IFSD to conclude that the Government of Nova Scotia should have rejected the federal government's recent offer on health funding and held out for a better deal.