

NLHCSA

Towards Better Health

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Newfoundland and Labrador
Health and Community
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Tax Cuts and Health Funding

Presentation to the
*Premier's Advisory Council
on the
Economy and Technology*

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Presentation

by the

**Newfoundland and Labrador
Health and Community Services Association
(NLHCSA)**

to the

***Premier's Advisory Council
on the
Economy and Technology***

The Newfoundland and Labrador Health and Community Services Association (NLHCSA) is the federation of regional health boards that serve Newfoundlanders and Labradorians across the province. Through our membership, NLHCSA represents the regional institutional health boards, the regional integrated boards, the regional health and community services boards, the St. John's Nursing Home Board and the Newfoundland Cancer Treatment & Research Foundation. These boards are governed by voluntary trustees who serve in the public interest.

Our mission is to represent our members in maximizing the effectiveness of health and community services delivery by publicly-funded regional Boards through leadership, policy development and advocacy. We are working cooperatively towards a people-centred, quality-driven and cost-effective system serving a broad continuum of care. Our challenge is to advocate for long-term stability and adequate, predictable funding for such a system.

This policy brief has been developed for presentation to the Premier's Advisory Council on the Economy and Technology as part of the Tax Review Consultation Process announced recently by the Premier.

Note: the term "HEALTH SYSTEM" includes all services and programs offered by the regional institutional health boards, the regional integrated boards, the health and community services boards, the St. John's Nursing Home Board and the Newfoundland Cancer Treatment & Research Foundation.

EXECUTIVE SUMMARY

This Policy Brief argues that a review of the tax system should not take place separately from a consideration of the use of tax funds for the benefit of the people in the province. Programs and services are now delivered regionally by regional health boards, but the new system needs predictable, adequate and timely funding to reach its potential. Public funding priorities should be carefully weighed, with the consequences of tax cuts examined in the light of recent research on the benefits to the economy of public investment in the health system. In the Strategic Social Plan, the provincial government has committed to investment in the social infrastructure of our province as a crucial contribution to social and economic development. The NLHCSA therefore advocates a balanced approach in the prudent management of public funds.

Government health care funding has suffered a significant decline in this decade as the federal and the provincial governments worked to control budget deficits. Although both the federal and the provincial governments have recently allotted increased funds to the health system, federal funding is still not back to the 1986 levels. The move to a per capita funding formula seems to indicate that smaller provinces will be financially disadvantaged for social programs for the future. In addition, the lack of designated health funds within the block funding and transfer system of federal funds means that the health system has to lobby the provincial government to ensure a high priority in budget planning. In Newfoundland and Labrador the health system is still not back to the level of funding enjoyed before the cuts began, since inflation, increased levels of services and rapidly advancing technology have eroded any gains. The addition of the social services to the health system without the appropriate funding has placed an additional strain on the system. Halfway through the fiscal year, the regional health boards have not received their budgets and are unable to undertake any long term planning in the absence of predictable and adequate funding.

There are serious unresolved issues to be addressed in the health system: adequate funding for the restructuring process and unfunded gaps in service such as new services and programs for the aging population and shorter hospital time requiring more costly care for the high proportion of acute care inpatients and more community and home care services. Institutional and technological costs are constantly increasing, and require an influx of funds merely to maintain the status quo. Operating funds have to be used to maintain obsolete technology and equipment, aging equipment is not being replaced, there is a dearth of capital funding, and a need for buildings to be renovated for newer approaches to service.

NLHCSA argues that tax cuts should not be attempted in the absence of adequate and predictable funding for the health system to address the unresolved issues resulting from health restructuring and the increased demands for services.

INTRODUCTION

The reform and restructuring of the health care system in the province of Newfoundland and Labrador has resulted in:

- regionalized service delivery
- an extended service continuum which includes a wide range of community services to address a full continuum of care
- regional-based decision-making and priority setting tailored to the needs of the individual region

1.1 Intended outcomes:

The Minister of Health and Community Services has delegated the power to the boards to plan and deliver services in the area of institutional health care delivery and community-based health and other services, including social services and programs previously under the jurisdiction of the Department of Human Resources and Employment. The new roles and responsibilities under the decentralized system are intended to foster:

- effective, responsive and timely delivery of health services
- concentration of funds and effort on the specific needs and circumstances of each region
- increased accountability

1.2 Issues of public funding:

For the system to reach its full potential, however, there is an urgent need to address issues of funding planning which are currently inhibiting the success of the transition.

The intended outcomes and advantages of decentralized decision-making hinge on the boards' ability to plan effectively for the long term within a timely, clear and predictable funding arrangement.

1.3 Purpose of this NLHCSA Brief

The purpose of this Policy Brief is to ensure that the review of the tax consultation takes into account the concerns of the health system on the availability of funding.

Where will the provincial funding for health come from if such taxes as the Payroll Tax are substantially eroded? When this tax was introduced by the Wells government, it was presented to the public as funds that would be devoted to the health and education sectors. We now understand that this may be no longer the case. However, the question still remains: how will the Province finance its share of the health sector if taxes are reduced?

In this brief we argue for a balanced approach, that takes such questions into account and evaluates the respective claims to the public purse from a broadly inclusive perspective.

2.

PUBLIC FUNDING PRIORITIES

In reviewing health funding in our province, NLHCSA recognizes and appreciates the continued commitment of our government to the health and wellbeing of the people in the province as well as to the prudent management of public funds. Our focus is to work with the government on

- balancing any tax reductions with public awareness of health needs during consultations on the provincial tax regime
- maintaining and strengthening the high profile of health in funding priorities
- establishing a long-term, predictable and adequate funding plan for the health system

At this time, however, the funding situation for our member boards is uncertain and unpredictable, and does not therefore allow for the setting of priorities in service provision, long term planning or the most effective use of funds.

NLHCSA recommends that the review of the tax regime include the recognition that the regional Health Boards need to know their annual budgets in advance for planning purposes, in the same way as the tax regime for the fiscal year is presented beforehand to allow financial planning for the year.

2.1 Tax Cuts and Health Funding: a Balanced Approach

2.1.1. *The NLHCSA advocates a balanced approach in the tax cut versus health care spending debate.*

Our members support tax cuts in principle. We recognize that high tax rates in Canada, and in Newfoundland and Labrador in particular, are disincentives for physicians wanting to work here. For medical personnel, the U.S. tax regime is attractive. However, we would emphasise the importance of examining the benefits to individual Newfoundlanders and Labradorians of tax cuts versus increased public investment in health.

The balanced approach follows the direction established by the provincial Strategic Social Plan:

While it is important and acceptable to invest in the province's physical infrastructure, it is equally important to invest in its social infrastructure. This may require a significant shift in thinking for some. Social programs must be viewed not as a drain on financial resources but as a critical investment in the people of our province.

However, in order to reach the goal expressed in the Strategic Social Plan of improved access to, and the quality of, essential services in the area of health, it is essential to have not only sustained but improved investment in the health system.

A recent TD Report on Canadian Government Finances (TD Bank, August 1999) supports a both/and approach:

Although the federal and provincial governments should focus on narrowing the gap in the overall tax burden, that is not and should not be their only concern. There is a trade-off between cutting taxes and enhancing social programs. Canadians have made it clear that they value the country's social programs – especially the universality, high quality of care, and low private cost of Canada's health care system. To maintain and enhance the health care system in the future will require additional funding.

2.1.2. *What is the relationship between the spending on health and increased productivity?*

The Canadian Healthcare Association's *Framework for a Sustainable Health Care System in Canada* enumerates, on a national basis, the advantages of our publicly funded health care system as contributing to:

- the Canadian economy by investing in the human capital of the nation
- the standard and quality of life enjoyed by Canadians
- employment rates
- business decisions to locate international companies in Canada
- economic development (through health research and innovations)
- a healthy population, and
- a healthy workforce

Newfoundland and Labrador can also benefit in all aspects of its economy by developing a system in which the investment in health is in balance with an equitable tax regime. A key component of a sustainable publicly-funded health system is predictable and adequate funding.

2.1.3 *Public investment in health care frees up private funds.*

The decline in public healthcare investment has been met by a corresponding increase in private spending on health needs. A lack of balance between tax cuts and health issues could swallow up any extra income from a tax cut by increases in private health care costs.

Charles Baillie, Chair and CEO of the TD Bank, recently remarked that an increase in private health care costs due to inadequate public investment in the

health system “would cost every business, large or small, more if they had to pay for benefits themselves. It would, in a very real sense, constitute a de facto increase in taxation – for employers or employees or both.”

NLHCSA strongly recommends that tax cuts should not be made at the expense of funding a health system that meets the needs of a healthy population.

GOVERNMENT HEALTH CARE FUNDING

3.1 Federal Contribution to Health Care Funding

3.1.1. *The Canada Health and Social Transfer (CHST)*, the single block of federal funds for health, social services and post-secondary education, was announced in 1995, coming into effect in 1996 to replace the former Canada Assistance Plan (CAP) for social assistance and social services and Established Programs Financing (EPF) for health and post-secondary education.

Funding Composition: Federal health funding is currently composed of tax point transfers and cash payments under the CHST, plus equalization funding to 7 of the 10 provinces, one of which is Newfoundland (see figure 1).

Figure 1

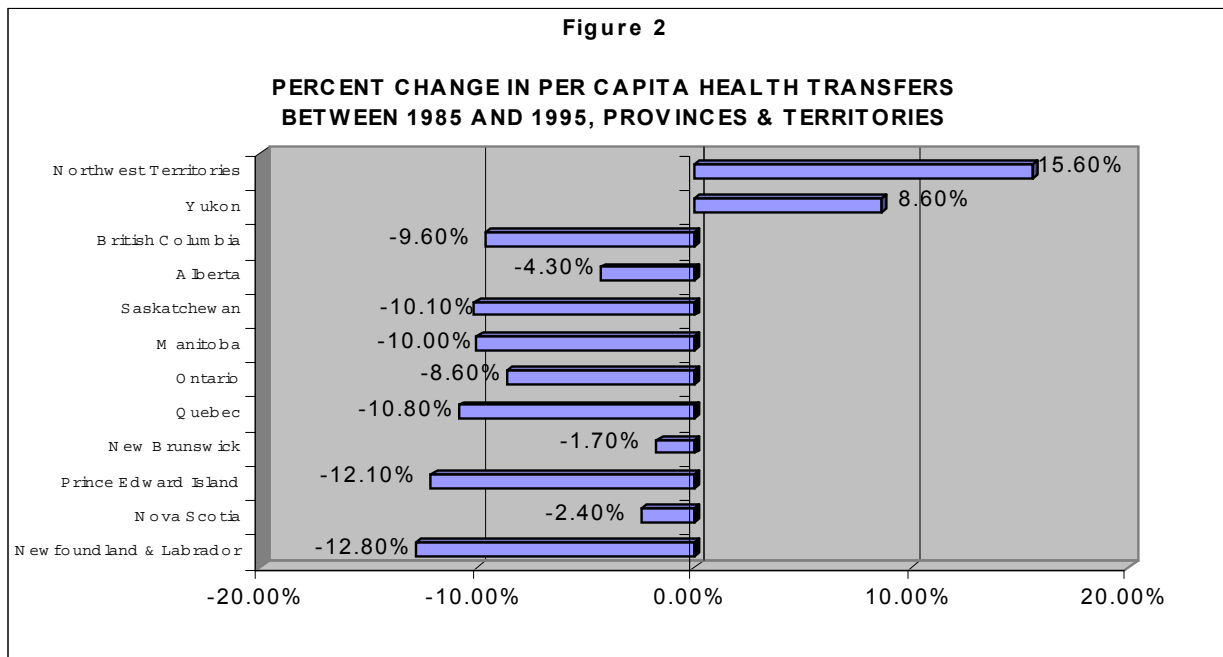
Federal Transfers to the Provinces and Territories 1996-97 to 2000-01 (in \$Billions)				
	1996-97	1997-98	1998-99	1999-00
CHST Total Entitlements	26.9	25.3	26.0	26.6
tax point transfer	12.1	12.8	13.5	14.1
cash payment	14.8	12.5	12.5	12.5
Equalization	8.7	8.8	8.5	8.7
Transfers to Territories	1.1	1.1	1.1	1.1
Other Fiscal Transfers*	0.4	0.4	0.4	0.5
Quebec Abatement	2.0	2.1	2.2	2.3
Total Federal Transfers	39.1	37.7	37.2	39.2
*Other Fiscal Transfers refers to a Youth Allowance Program				
Source: <i>The Budget Plan 1998:64.</i>				

The transfer of tax points, is, of course, less valuable to the poorer provinces with high unemployment and a less active economy. Tax changes in the 1999 federal budget also negatively impact on provincial tax revenues. Not surprisingly, Newfoundland and Labrador and the Northwest Territories have the highest portion of GDP spent on health care.

3.1.2. Total health expenditure in Canada as a percentage of GDP has been falling since 1992.

- *Cuts:* Cash transfers to the provinces for health were cut by over \$30 billion between 1986-7 and 1995-6, and \$6 billion was cut from CHST cash transfers from 1996-7 to 1997-8.
- *Increases:* The last federal budget increased funding for health, so that, by 2003-04, a total \$9 billion extra would be restored to the provinces.
- *Restoration:* Federal funding has still not been restored to the 1986 health funding level.
- *Growth Factor:* No indexing formula was built into the federal financing formula, so the value of the transfer, including the increases, will erode during that period due to inflation.

For Newfoundland and Labrador, the reduction in health transfers, at -12.8 per cent between 1985 and 1995, has been the greatest among all the provinces and territories, and is well below the national average of -8.7 per cent(see figures 2 and 3).



Source: CIHI, 1998

Figure 3

SHRINKING TRANSFERS

Federal transfer payments received by this province through different programs and in total from 1993/94 to 1998/99.

Year	Established Programs	Canada Assistance Plan	Canada Health Social Transfer	Total Transfer Payments
1993/94	\$229.6 million	\$184 million		\$413.6 million
1994/95	\$237.7 million	\$213.8 million		\$451.5 million
1995/96	\$221.8 million	\$202.9 million		\$424.7 million
1996/97	Replaced	\$8.9 million	\$342.3 million	\$351.2 million
1997/98	Replaced	Replaced	\$272 million	\$272 million
1998/99	Replaced	Replaced	\$275 million	\$275 million

Source: The Evening Telegram

3.1.3. *The introduction of a per capita formula for federal funding* to replace the former “needs” basis by which CHST allocations were calculated will have a negative effect on health care funding for our province. This will more than cancel the benefit of the increased federal funding to the provinces.

A smaller population will mean fewer federal dollars, without taking into account any of the other significant factors of geographical difficulties in service delivery and employment.

An assessment of the impact of federal budget funding for health on Newfoundland and Labrador, prepared by the provincial Department of Finance in February, 1999, calculated that under the former “needs” basis formula, Newfoundland and Labrador would have benefitted by approximately \$41.7 million in 1999-00. Using a per capita formula, Newfoundland and Labrador would only receive a total of \$17 million from the enriched CHST, and the three richest provinces, with 61% of the population, would receive 76% of the transfers.

This is a very significant issue. Steps should be taken to avoid provinces with smaller populations from being disadvantaged financially. The per capita formula means that the rich become richer and the poor become poorer.

3.1.4 *Final Funding for 1999-00.* Further negotiations with the federal government in February, 1999 produced more money, through transfer payments or other means, to modify the more drastic implications of the per capita formula for our province for this year. Unresolved issues are:

- *New Formula:* There has been no public explanation of the formula used to adjust the transfer or other amounts
- *Permanent Adjustment:* To date no permanent adjustment of the formula has been announced to avoid these negative impacts on the poorer provinces in the future.
- *Equalization payments for each province:* A restructured equalization formula will be needed to compensate for the negative effects of the move to the per capita formula for health funding.

Actions must be strongly requested by the province to address this serious inequity.

- *Economy Fluctuation:* Currently, equalization transfers depend largely on the economies of the larger provinces which hampers our ability to predict in advance the funds which will be available for the health system. Two negative effects of this arrangement are:
 - the fluctuation of funding allocations according to the economies of the larger provinces
 - impossibility of long term planning due to the lack of predictable funding information in the health sector.

3.2 Provincial Contribution to Healthcare Funding

In Newfoundland and Labrador, health is 13.6% of GDP while the Canadian average is 9.3%. Health funding in our Province has risen by 8.8%, the highest increase amongst the provinces, to \$1.3 billion in health funding, approximately 1/3 of the provincial budget.

NLHCSA urges the provincial government to continue to treat the health system as one of the most urgent priorities for expenditures.

3.2.1 Modest provincial reinvestment in the health system began in 1998, but there are two relevant issues which relate to the continued need to prioritize health in relation to other government-funded services:

- *The addition of social services to the community health mandate*

- In 1998, social programs formerly funded by the Department of Human Resources and Employment went over to the Department of Health
- Funding of at least \$74 million in funding was transferred with the new services and programs
- The provincial health budget, now including the social services, rose by approximately \$63 million

This appears to represent a slight decrease in health funding under the new health and community services mandate.

- *Block funding and transfer payments*
Funding from the federal government is no longer specifically designated for particular programs or sectors.

Advantages are:

- the Province is free to set its own priorities for the funds available according to the needs and particular circumstances of Newfoundland and Labrador.
- The resulting flexibility has fostered the establishment of the broader continuum of care under the mandate of the provincial Health and Community Services Boards

The disadvantage is that the provincial government is unfettered in its use of funding and may not continue to place a high priority on health care in budget planning.

The NLHCSA is concerned that the health sector will be locked into an annual plea for funds without any assurance of a long term, predictable financial plan.

3.2.2. *The need for stable and predictable funding*

Without stable and predictable funding, long term planning at the Board level cannot take place. It is now halfway through the 1999-2000 fiscal year, and the Boards have not received their budgets, although they have been instructed not to cut services or programs. This is very unsettling and frustrating for Boards who are accountable, but who feel that their hands are tied. It is unacceptable to expect Boards to operate each year without having the benefit of an approved budget.

NLHCSA emphasises that efficient and effective financial planning is impossible in such fiscal uncertainty.

HEALTH SYSTEM PRIORITIES

The reform and restructuring of the health system has unresolved issues that need to be urgently addressed in order for the system to achieve its original goals as an innovative, responsive and integrated system.

4.1 Adequate Funding for the Restructuring Process

The health boards have worked hard, without designated funding, to respond to the demands of the restructured system using the budget that was provided to manage the new and existing services and programs. The services and programs that were moved from the Department of Human Resources and Employment (H.R.E.) to the regional health and community services boards were provided with funding, but not enough to compensate for the level of services required.

There is an urgent need to provide ongoing increased funding for restructuring to complete health reform in order to achieve an efficient, responsive client-centred system.

4.2 Gap Funding

The system is suffering from unfunded gaps in service:

- *The aging of the population* requires new and enhanced services, in acute, long term care and community-based programs.
- *Shorter hospital time:*
 - a higher proportion of acute-care patients remaining in hospital, requiring a higher level of care that is more costly to provide. There are also increasing numbers of patients in ambulatory care and day surgery, and requiring new expensive drug therapies.
 - funding is needed for more community and home care services, in order to ensure that all Newfoundlanders and Labradorians have access to needed services as they make an earlier return to the community. Care in the community is currently placing heavy stress and financial debt on family care providers, with alternatives available largely from the private sector. We need bridge funding at the institutional level, while the community system gets better established and appropriately funded.
- *Individual populations*, such as Aboriginal people, people living in rural areas of the province and children, require services and programs tailored to their special needs

and circumstances, in the face of increasing evidence that the existing system has not adequately addressed their situations.

- *Privately-operated health services* are increasing to fill the unfunded health needs. These are available only to those people who can afford to pay. In Canada as a whole, private care now accounts for over 30% of health spending in the country, leading us inexorably to a two-tiered system that a high proportion of people in our province will be unable to afford.
- *Health human resources* need to be developed and funded. Increasing difficulties in attracting and retaining medical, nursing, and other health professionals are a current reality in the health system. This is also leading to more privately-operated services, such as occupational therapy, physiotherapy and others.

4.3 Current v. Capital Allocation

Canada ranks very low in the developed countries with respect to expenditures on medical technology and Newfoundland and Labrador ranks even lower. Institutional and technological costs are constantly increasing, and require an infusion of funds merely to maintain the status quo. This places pressure on the current or operating funds in the system.

- Aging equipment is not being replaced
- The operating budgets are being used to maintain obsolete technology and equipment.
- Capital works funding is sadly lacking.
- Buildings need to be renovated/redesigned to respond to newer approaches in service delivery, i.e., more day care/surgery clinic space.

NLHCSA suggests the development of a plan for the long term financing of capital equipment and capital works. Functional improvements can reduce operating costs.

CONCLUSION

In any discussion of the tax system and financial planning at government level, where funds are limited, funding priorities should be balanced according to the need and beneficial effect from the use of those funds. A well-funded health system is crucial to the social wellbeing of Newfoundland and Labrador. An investment in health is an investment in the whole population, and makes an essential contribution to the success and productivity of the society in the province.

The health system in Newfoundland and Labrador has still not recovered to the level of funding in real dollars that was obtained before provincial and federal cuts in the early nineties. Any dollar increases have been overtaken by inflation and increased demands on the system through demographic change, increased acuity levels of patients, and rapidly advancing technology. The health system has managed to offer an efficient and effective range of services and programs and quality health care under the most difficult circumstances, but is in dire need of extra funding to fill funding gaps and to invest in the future.

Government needs to do an impact analysis to see who would benefit most from the population health point of view. Since the health system is underfunded, there should be no tax cuts until the system is fully funded to meet the needs of the population, unless it can be demonstrated that tax cuts will benefit the health of the population.

A financial plan for long term strategic investment in health is needed for the optimal use and development of a health system that will bring our province into the millennium with confidence and pride. Adequate and predictable funding would greatly benefit the health sector and tax cuts should not be undertaken in the absence of such funding.