

The Ontario Alternative Budget 2002

Health Spending in Ontario: Bleeding Our Hospitals

Technical Paper #4

by Sheila Block

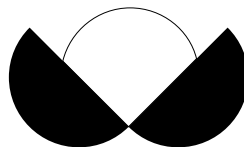


Canadian Centre for
Policy Alternatives/Ontario

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Ontario Alternative Budget
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Introduction

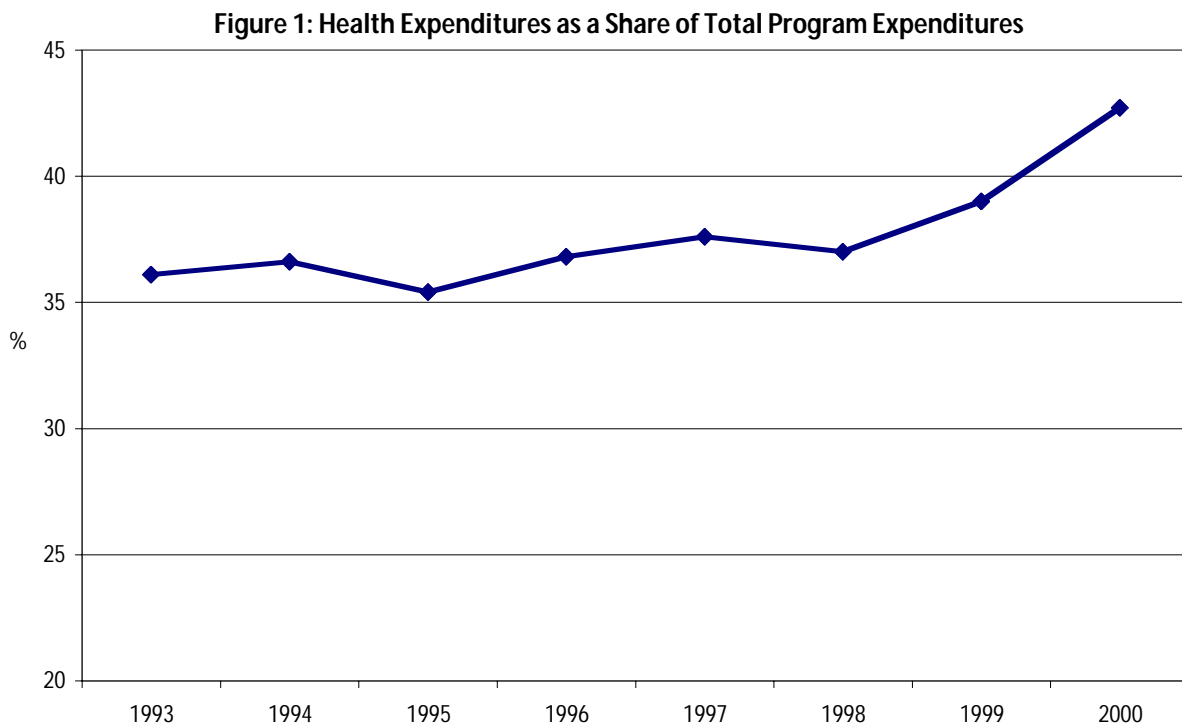
The Tories tell us that “they are investing more in Ontario’s health care system than any other government in the province’s history.”¹ At the same, our health care system continues to show symptoms of underfunding. Since these symptoms continue despite the increased spending, it suggests that the publicly-funded health care system cannot work. That is exactly what the Tories would have us believe—that these problems are so severe that the “Ontario government must take action on health care and cannot afford to wait for the results of the Romanow Commission.”²

We can’t honestly evaluate the future funding needs of the health care system – or how they should be met—unless we have an accurate picture of its current financial state. This paper will address two questions. The first is: How much has

health care spending increased? Using data from the Canadian Institute for Health Information, it will compare various measures of total provincial spending on health. The second question is: Have the Tories been investing wisely in the health care system? Using Public Accounts data, this paper will look at the pattern of spending on hospitals and doctors from the start of the Tories’ mandate to 2000-01, the latest fiscal year for which these data are available.

Health care spending in context

When the Tory government tries to convince us that health care spending is out of control, it generally uses the figures shown in Figure 1. This figure shows the share of health expenditures as a proportion of total program spending in Ontario. And it does show that health spending has in-



source: CIHI 2001, data table B.4.4

creased from about 36% of program spending in 1993 to about 43% in 2000.

Viewed on their own, without any context, these figures could suggest an alarming trend in health care spending. However, when you look more closely at the figures, a different picture emerges. As Figure 2 shows, while provincial health care spending is in fact increasing, all other program spending has either been falling or stagnant since about 1993. It is the interaction of these two trends that has caused health care spending to account for an increasing share of total spending.

To evaluate the increase in health care spending, it is important to control for both population growth and inflation. The Canadian Institute for Health Information produces annual data on real per capita provincial health care spending. Figure 3

shows that per capita real spending dropped in 1995, 1996, and 1997. It began to increase again in 1998 through to 2001. It increased from \$1,755 per person in 1994 to about \$2,100 per person in 2001. Over the seven years, real spending per person increased by about \$345 dollars in total, or about \$50 per year.

Figure 4 shows another important trend in provincial health care spending. It is provincial health care spending as a share of GDP. This measure shows whether an increasing proportion of the province's economic resources is being used for health care. The figure shows that health care spending has moved over a very narrow range between 5.3 and 6.3% of GDP since 1993. This shows that provincial health spending is not taking up an increasing share of the province's resources.

Figure 2: Ontario Program Expenditures on Health and All Other Programs

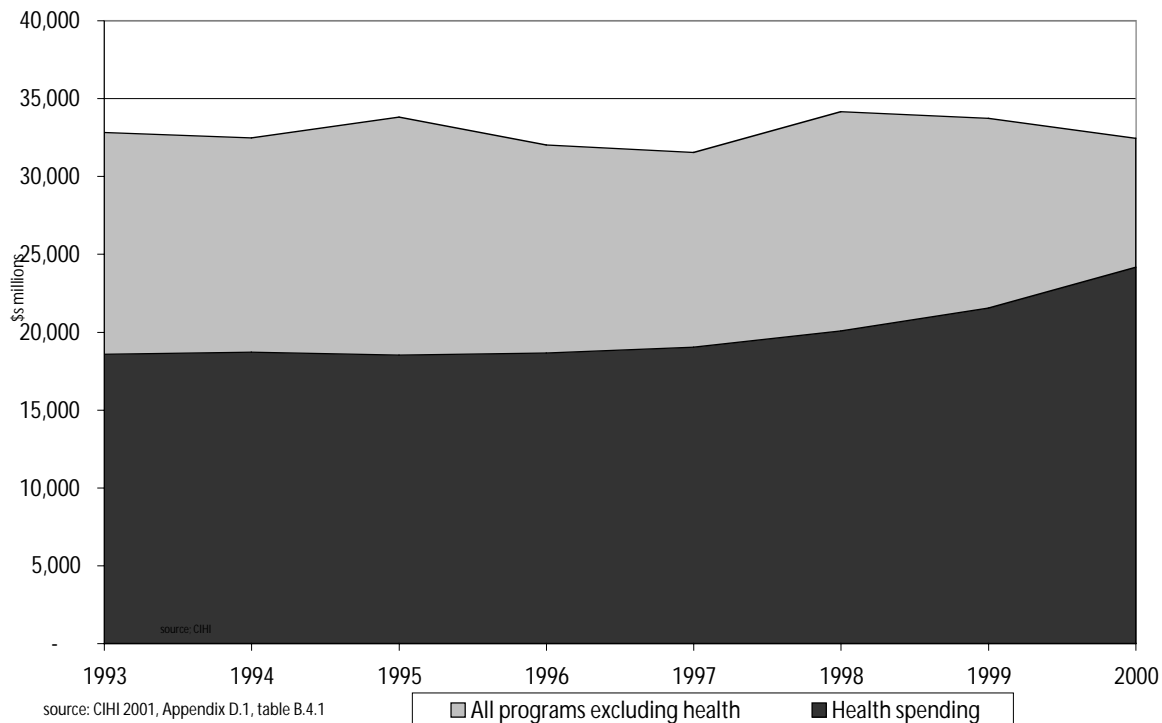
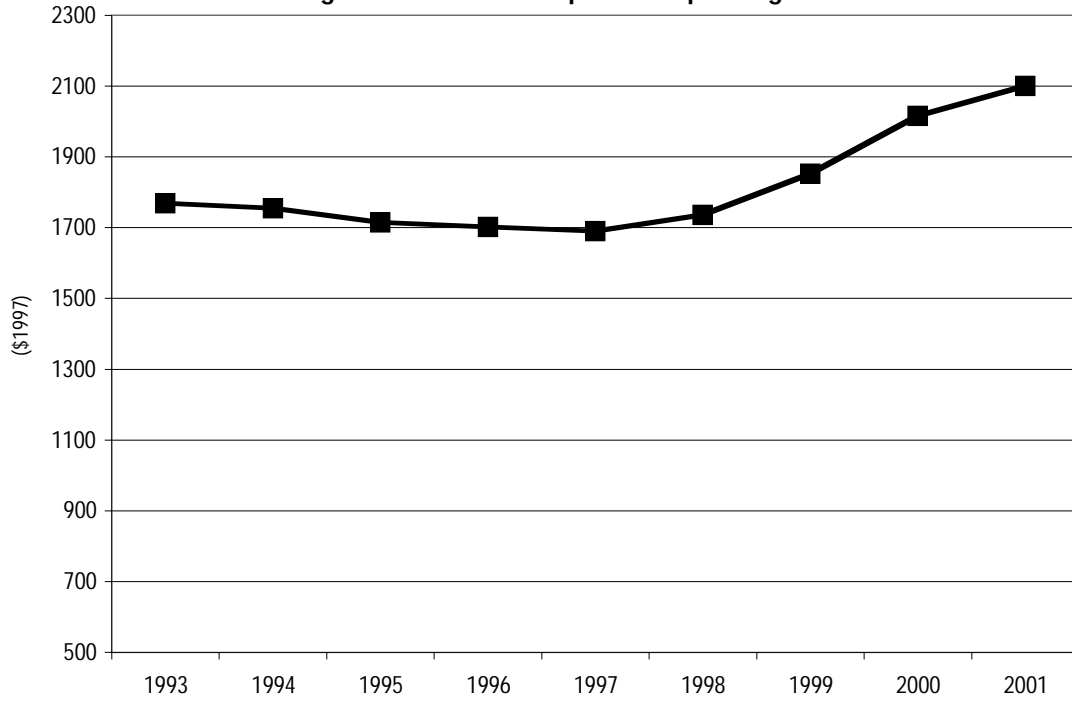
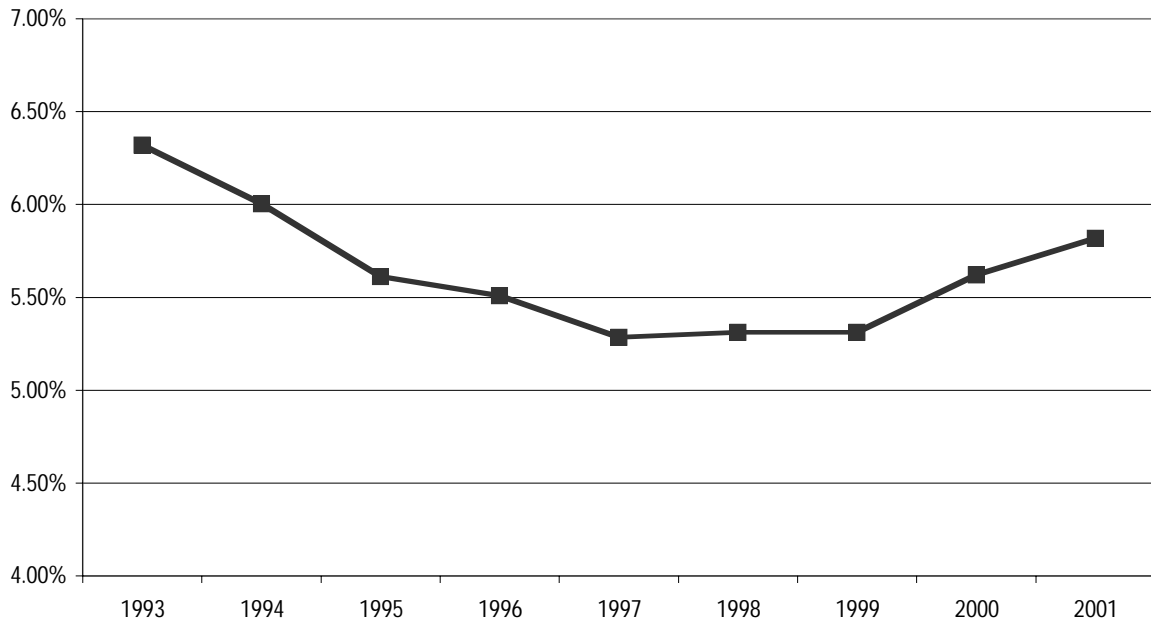


Figure 3: Ontario Per Capita Real Spending on Health Care



source: CIHI 2001, datatable B.4.7

Figure 4: Ontario Health Expenditures as a Share of GDP



source: CIHI 2001 table b4.1, appendix A.1

Health care spending by selected components

The data above show that Ontario spending on health care is not, in fact, consuming an ever-increasing share of the province's resources. There *have* been some modest increases in health care spending—primarily in the government's second term. This section will look at the pattern of operating expenditures on hospitals and doctors from fiscal year 1994-95 to 2000-01. Fiscal 1994-95 was the last complete year before the Tories' first mandate, and fiscal year 2000-01 is the most recent year that Public Accounts data are available. In the Public Accounts, spending on hospitals is included in the category of institutional health care.³ Spending on doctors is included in the category of health insurance.

Spending on Hospitals and Related Facilities

The largest component of spending in the institutional health care category is on hospitals. It also includes operational planning, policy development and operational funding of related facilities, as well as the implementation of the recommendations of the Health Services Restructuring Commission.

Figure 5 shows year-to-year per cent changes in operating spending for institutional health care and transfers to hospitals. What is apparent from the graph are the dramatic swings in funding from one year to the next. These abrupt shifts in funding resulted from the Tories attempting and then abandoning a number of ill-conceived and unsuccessful policy experiments.

The negative impact on the efficiency of operations of hospitals that resulted from

Figure 5: Year over year per cent change in operating spending

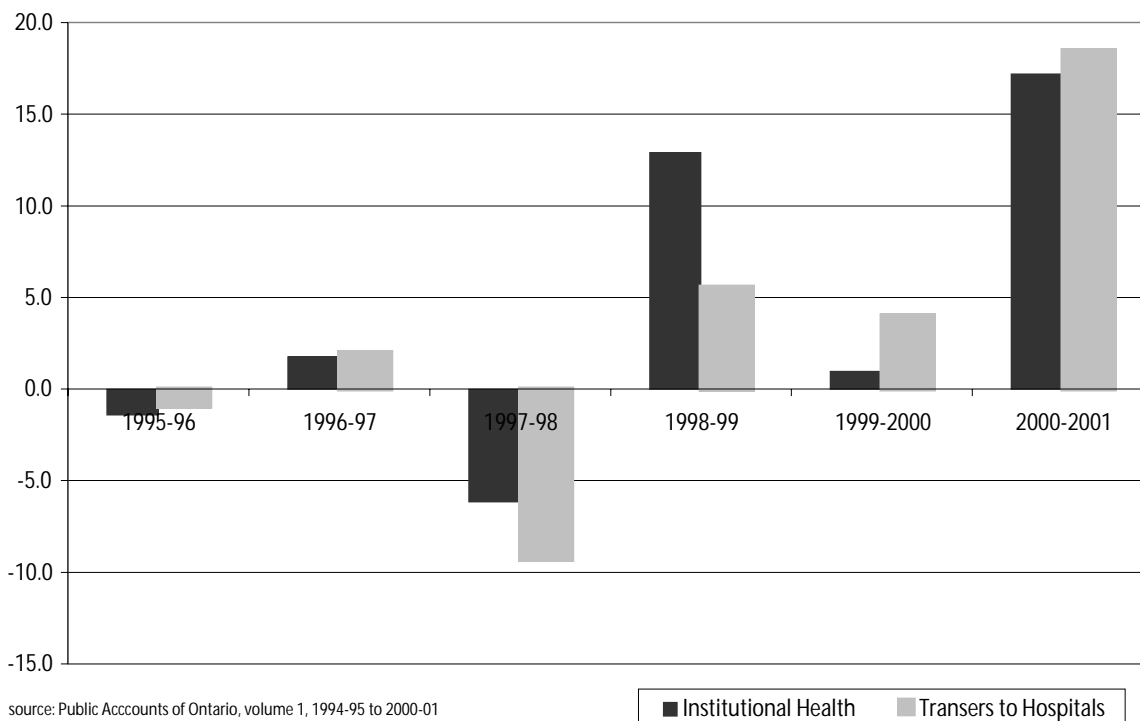
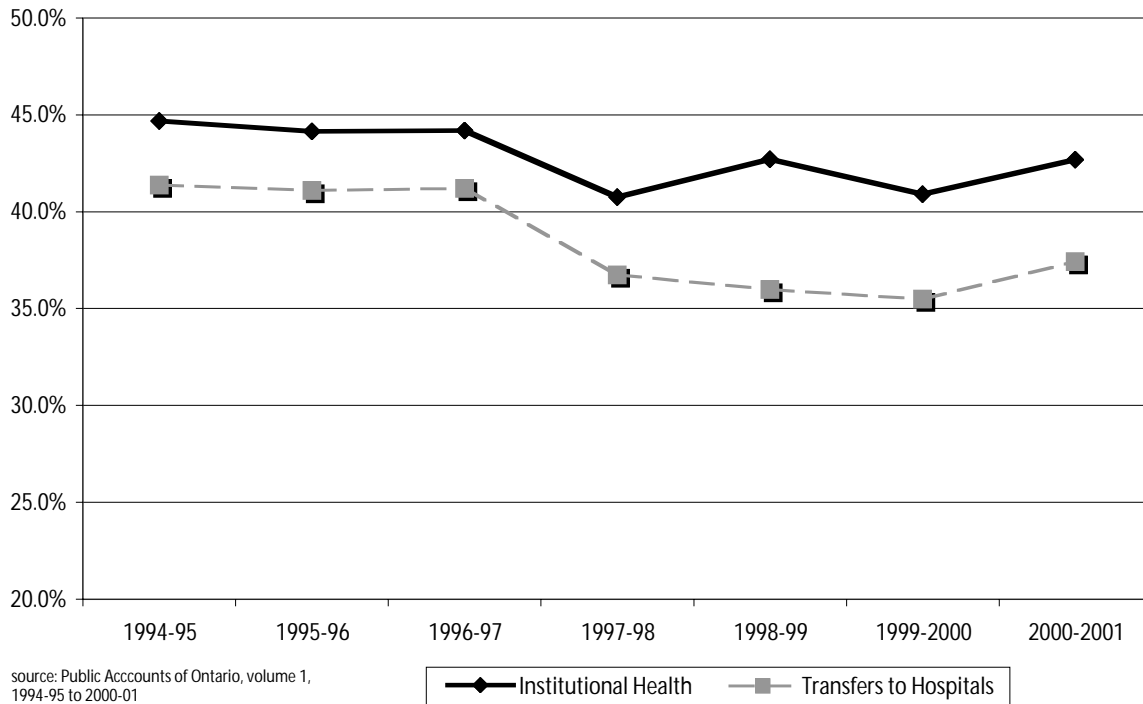


Figure 6: Spending as a share of total Health Operating Expenditures



the large year-to-year swings in funding would be extremely difficult to avoid. In 1995, the Ontario Hospital Association asked the provincial government for multi-year funding to provide more certainty for financial planning. While the government said that they would provide it, they did not. In large part this was because the announced funding cuts, which were even greater than those that occurred, were not sustainable.

Some of the costs associated with these swings in funding would include: layoffs, and rehires; closures and re-opening of beds; and, the resources required to plan for dramatic year-to-year changes in funding.

While spending on hospitals has varied from year to year, it has been declining as a share of total health operating expenditures. As Figure 6 shows, transfers to hospitals accounted for 41% of health operating expenditures in 1994-95. These trans-

fers dropped to 35.5% of those expenditures in 1999-2000, and then rose to 37% of those expenditures in 2000-2001. Despite the increase in that year, there remains a four-percentage point drop in hospitals' share of operating expenditures over the period.

Hospitals have also received a less than proportionate share of the increase in operating spending over the period. While transfers to hospitals accounted for 41% of operating expenditures in 1994-95, they received only 25% of the increase in annual funding from 1994-95 to 2000-01.

Adjusting hospital spending for inflation and population growth can provide a clearer picture of the Tory legacy. Real per capita operating spending on hospitals dropped by 14% between 1994-95 and 1997-98. It began to rise slightly in 1998-99, but remained below the 1994-95 level until 2000-01. By that year, it was \$26 above the level that it had been seven years earlier, an increase of less than \$4 per year.

Restructuring Expenditures

In his 1995 Economic Statement, then Finance Minister Ernie Eves urged hospitals to "continue restructuring to find additional health care savings."⁴ Since 1997-98, the province has spent vast sums of money on the costs associated with restructuring—closing down hospitals and then dealing with the consequences of those closures. This includes spending money on capital costs associated with restructuring, renovation costs, and what are called "restructuring costs." Eligible restructuring costs are: severance costs, benefit costs, legal fees, counseling and training costs for terminated employees, and consulting and auditing costs.⁵

In total, over the four-year period between 1997-98 and 2000-01, the province spent \$1.9 billion dollars on costs associated with hospital closures. This included \$1.2 billion for capital spending, \$55 million for

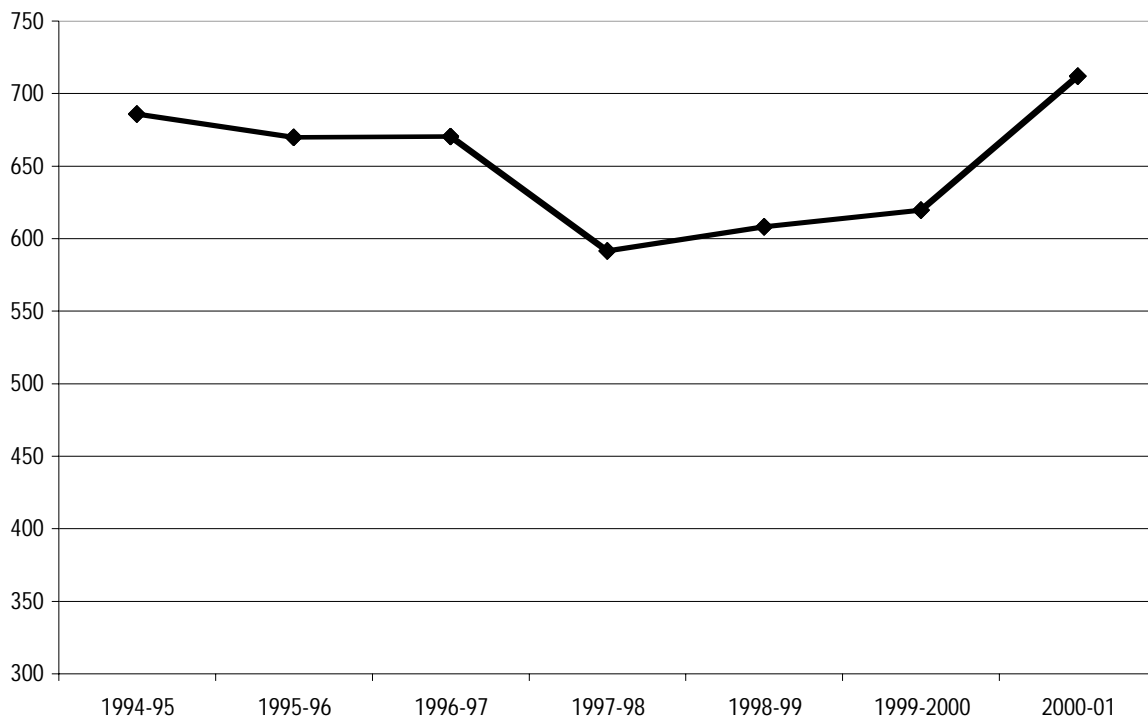
renovations, and \$643 million for restructuring.

- Since Tories' have been in office, the cumulative net increase in operating funding for hospitals and related facilities and in health capital spending was \$3.8 billion.⁶ Total spending on restructuring over the same period accounted for \$1.9 billion. Fully 51% of the increase in hospital spending over the period was accounted for by costs associated with restructuring.

The 1999 Provincial Auditor's report estimated that 78% of the spending on restructuring was associated with severance costs and employee benefits.⁷

- Using the Auditor's estimate, over the four year period, more than \$500 million was spent on severance and benefits for hospital employees who were

Figure 7: Real per Capita Hospital Operating Spending



Restructuring Expenditures	1997-98	1998-99	1999-2000	2000-01	4 Year Total
Total Restruc.- Operating	153,758,526	248,354,216	188,693,515	108,101,495	698,907,752
Restruc. – Hosp Operating	153,758,526	248,354,216	145,936,738	94,954,852	643,004,332
Restruc. –Hosp. Renov (Operat)			42,756,777	13,146,643	55,903,420
Hosp. Restruc. Capital Fund				1,229,017,238	1,229,017,238
Total					1,927,924,990

Source: Public Accounts 1997-98 to 2000-01, volume 1.

being terminated as a result of orders from the Health Services Restructuring Commission.

We do not have an estimate of the costs associated with hospitals trying to recruit and retain nurses and other health care professionals that are now in short supply – but presumably these costs would also be large.

Spending on Doctors and other Practitioners

Operating spending on health insurance includes spending on OHIP, on drug programs and on operations of public health laboratories.

Figure 8 shows different trends in the two major components of health insurance expenditures. Payments to physicians and practitioners for insured services have dropped from 28% of operating expenditures in 1994-95 to 25.4% in 2000-01. At the same time, payments for drug programs have increased from 5.4% to 6.9% over the same period.

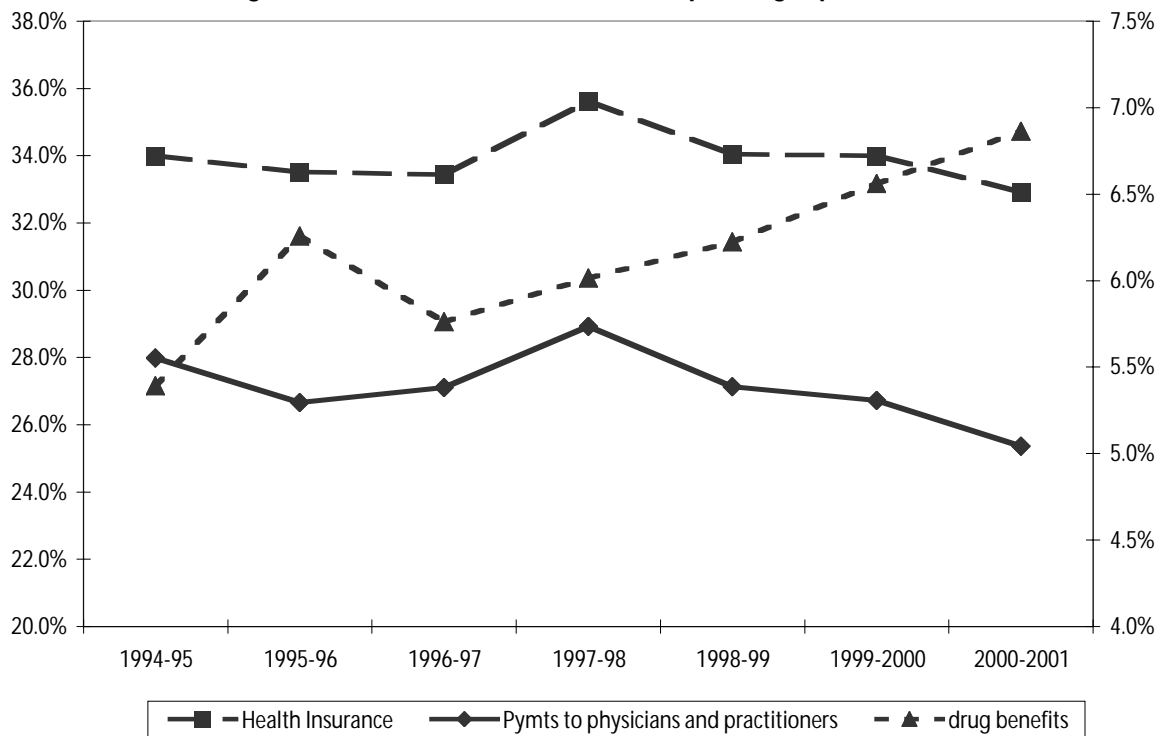
While payments to physicians and practitioners have increased over the period at a compound average annual rate of about

3%, payments for drug programs have increased at a compound average annual rate of 9%. It should be noted that this does not include all provincial expenditures on drugs. It only includes spending on the Ontario Drug Benefit Program, The Trillium Drug Program, and the Special Drug Program.

The increase in spending on these drug programs reflects national trends. From 1987 to 1996, the cost of prescriptions in Canada rose 93% compared to overall consumer price increase of 23%. Nationally, drug costs grew proportionately faster than any other item on the nation's health bill, from 9% of total health expenditures in 1984 to 12.7% in 1994, and over 14% by 1996.⁸ This growth is the result of a number of policy decisions, primarily by the federal government, and reflects a transfer of resources to multi-national drug companies.

Physicians and practitioners have also received a less than proportionate share of the increase in health care operating spending. While transfers to these practitioners accounted for 28% of operating expenditures in 1994-95, they received only 17% of the increase in funding from 1994-95 to 2000-01.

Figure 8: Health Insurance as a share of operating expenditures



Conclusions

The Tory record on health care spending is alarming, but not because it is “out of control.” Throughout its first mandate, the Tory government underfunded the health care system and subjected it to a number of ill-conceived and unsuccessful policy experiments. Since 1999-2000, health care funding has increased. As a result, over the period that the Tories have been in office, annual provincial spending on health care has increased by \$7 billion. This increase in funding was clearly affordable, as provincial health care spending as a share of GDP in 2001 was below the level it was in 1993.

The two areas of health care that are most clearly identified in the public’s mind with the state of the health care system are doctors and hospitals. These two areas are receiving a declining share of total health care spending.

Real per capita spending on hospitals was falling over much of the period under consideration, and rose above the 1994-95 level only in 2000-01.

The government’s Health Services Restructuring Commission was an enormous drain on health care budgets. Between 1994-95 and 2000-01, 51% of the cumulative net increases in hospital spending went toward the costs arising from hospital restructuring.

Endnotes

- 1 “Billions in federal spending spree, but no new money for health care: Harris”, News Release, December 11, 2001, <http://www.premier.gov.on.ca/english/news/archive2001/health121101.htm>
- 2 Canadians suffer while Ottawa studies health care and withholds funds: Harris, January 23, 2002, <http://www.premier.gov.on.ca/english/news/health012301.htm>

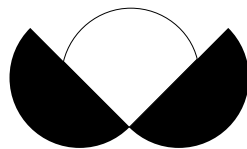
- ³ Long-term care facilities are not included in institutional health care in the public accounts.
- ⁴ Hospital Restructuring in Ontario, Legislation Research Services, Ontario Legislative Library, Backgrounder 40, <http://www.ontla.on.ca/library/repository/mon/2000/10294163.htm>
- ⁵ 1999 Provincial Auditors Report, <http://www.gov.on.ca./opa/english/e99/309en99.html>
- ⁶ Total health capital is being used as a proxy for total hospital and related facility capital spending. .
- ⁷ 1999 Provincial Auditors Report, <http://www.gov.on.ca./opa/english/e99/309en99.html>
- ⁸ CCPA-MB FastFacts, January 23, 2002, Health care panic lead to bad diagnoses, harmful prescriptions, by Peter Hudson

Appendix I – Ontario Health Expenditures, 1994-5 to 2000-1

Ontario Health Expenditures

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Total Operating Expenditures	17,682,546,944	17,643,099,969	17,945,411,827	18,256,098,317	19,675,173,876	20,746,994,531	23,299,928,122
Institutional Health	7,899,681,605	7,788,557,342	7,926,913,061	7,439,752,064	8,400,950,868	8,483,184,413	9,942,924,447
Hospitals and Related Facilities	7,899,681,605	7,788,557,342	7,926,913,061	7,285,993,538	8,152,596,652	8,294,490,898	9,834,822,952
Hospitals	7,316,135,963	7,248,400,712	7,391,337,581	6,703,552,621	7,077,078,570	7,360,208,953	8,718,987,243
Health Insurance	6,010,257,585	5,912,079,536	6,000,848,244	6,500,837,877	6,696,805,131	7,051,290,816	7,668,357,184
Physicians and other practitioners	4,947,141,198	4,703,606,534	4,863,070,597	5,279,011,575	5,336,812,225	5,542,512,864	5,907,372,874
Drug programs	953,110,570	1,103,994,066	1,033,722,342	1,097,677,648	1,224,439,839	1,360,881,553	1,599,052,795
Capital Expenditures	39,626,000	79,436,147	167,256,738	83,947,000	171,992,975	325,756,700	1,336,254,329
Total Expenditures	17,722,172,944	17,722,536,116	18,112,668,565	18,340,045,317	19,847,166,851	21,072,751,231	24,636,182,451

source: Ontario Public Accounts



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