

Health care quality and access at risk, unless province finds significant efficiencies or increases spending: Watchdog

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Ontario's fiscal watchdog is warning the province must find significant efficiencies in the health care system, or significantly increase spending, or the quality of care will deteriorate.

The report from the Financial Accountability Office of Ontario comes just two weeks before the finance minister is scheduled to release his 2018 budget.

Minister **Charles Sousa** has said his budget will include a deficit of up to 1 per cent of the province's GDP, up to about \$8 billion. Last year, the province "balanced" its books for the first time since the recession — but the balanced-budget claim is disputed by the opposition parties because the auditor general has challenged the province's accounting of pensions assets and borrowing related to the Fair Hydro Plan.

Sousa and Premier **Kathleen Wynne** have signalled there will be new health spending in the 2018 budget as they have emphasized health care, including mental health and pharmacare, in recent speeches.

But overall, the FAO found the province has been restraining health care spending — primarily in hospitals and physician compensation, the two areas of greatest spending — as its primary cost constraining measure as it sought to reach a balanced budget again for the first time since before the 2008-09 recession.

The FAO's report found that from 2005-06 to 2011-12, the province had been increasing health funding by 5.9 per cent a year, but then reined in spending increases between 2011-12 and 2015-16 to an average of 2.4 per cent a year in order to move toward a balanced budget.

However, the health care system faces "core cost drivers" every year. Inflation and the demands of a growing and aging population put pressure on health spending, which equals about 4.3 per cent in the coming years. Those core cost drivers mean, according to the watchdog, that the province has to increase spending by that much to keep pace, or find efficiencies and temporary cost constraining measures, or the quality of care and access to care will deteriorate.

"Since 2012, health-sector spending has not kept pace with the funding pressure from inflation and Ontario's growing and aging population, what the FAO calls the core cost drivers for health care," said FAO chief financial analyst **Jeffrey Novak**. "The province slowed the growth of spending through a combination of temporary and permanent measures, including a four-year

freeze in base operating funding for hospitals, increasing hospital efficiency, and restraining wage growth in the health sector."

Ontario has relied on temporary measures, such as deferred maintenance and restraining wage growth, both of which tend to require additional spending down the road, according to the FAO. Meanwhile, some efficiencies have been found, particularly in the hospital sector, the watchdog observed.

The province restrained wage growth in particular from 2012 to 2016, limiting it to 1.4 per cent a year while wages in all industries climbed 1.9 per cent. The province is preparing to enter binding arbitration with doctors, who are seeking a major award that would compensate them for the years of restraint and cuts.

The FAO looked, in particular, at the first big health care spending increase in the past five years — a \$6.9-billion increase in the 2017 budget, which Sousa had referred to as a major "booster shot" for the health care system.

However, the FAO found that only \$4.2 billion was on existing programs and thus worked toward relieving the pressures on the health care system that have built up in recent years, while \$1.2 billion was a non-cash expense attributed to the accounting of the Healthcare of Ontario Pension Plan and \$1.5 billion was on new programs, OHIP+ in particular.

For those reasons, the health spending increase of 2017-18, and the planned increase for 2018-19, outlined in the government's fiscal plans is not enough to cover the pressure of the core cost drivers, according to the FAO.

To that end, the government has already committed to spending an additional \$187 million in 2018-19, to make more hospital beds available — about a third of 1 per cent of the overall health budget. It remains to be seen what other health investments the government will choose to make in the budget.

The FAO has previously warned that the province is facing a fiscal crunch in the long term, driven primarily by increasing funding pressure in health care due to the aging population, which would fall on the shoulders of a younger generation, unless the province began improving its fiscal position in the near term.

"The pressure you're going to see in the health care system is only going to get more challenging in the years to come," said Novak. "The conclusion of the long-term budget outlook report was that the province needed to take measures now to avoid serious consequences in the future due to demographic shifts, largely the aging of population. To the extent — big picture — that that is not being addressed now, it will only get more difficult in the future."

Health Minister Helena Jaczek released a statement in response to the FAO report, saying the government is planning to run a deficit in order to spend more on health care.

"We recognize that our growing and aging population is increasing the demands faced by our health care system," she said. "We need to be responsive to families that have struggled with access to care by putting patients first, and we know there's more to do. That is why we are making a deliberate choice to run a deficit, so that we can invest more in health care — hospitals, home care, mental health and long term care — across the province."

She also said Ontario's health care system is "something to be incredibly proud of," lauding the jobs done by health-sector workers, and touting progress on wait time and good health outcomes in Ontario.

"Through the biggest expansion of medicare in a generation, we've taken the first step towards universal pharmacare through OHIP+, providing four million children and youth with access to over 4,400 prescription drugs at no cost," she said.