

# Intelligence MEMOS



From: William B.P. Robson  
To: Canadians concerned about healthcare  
Date: May 2, 2019  
Re: **BUDGET PERIL LURKS IN REVISED HEALTH SPENDING NUMBERS**

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Government spending on health has tended to grow faster than Canada's economy, raising concerns about the sustainability of our healthcare system.

Preliminary estimates of provincial and territorial government spending in the Canadian Institute for Health Information's annual National Health Expenditure (NHEX) report suggest sustainable growth rates, but these figures reflect only intentions.

The revised, actual figures are typically materially higher. These revisions reflect a tendency for governments to overshoot their budget targets generally and in health-related programs particularly. Ensuring that publicly funded healthcare is fiscally sustainable will require better discipline overall and changes to better align the activities of managers, providers and patients with our capacity to pay.

CIHI's annual NHEX report is a unique compilation of the sources and applications of funds used to promote, maintain and restore Canadians' health.

Unfortunately, one element in the NHEX reports that generates a high profile – the preliminary numbers for annual healthcare spending by provincial and territorial governments – has tended to be misleading. CIHI derives these preliminary numbers from government budgets and estimates: i.e., planned expenses. Revisions in later reports based on actual expenses have typically shown higher numbers.

Preliminary numbers in successive NHEX reports earlier this decade showed health-related spending decelerating more than the later numbers. And the preliminary numbers in more recent reports have understated the reacceleration since mid-decade.

Over the NHEX report's 20-year history, the later numbers on average have shown provincial and territorial health expenses growing 0.8 percent annually faster than the preliminary estimates.

Over the 2014-17 period, the overshoots were worse, with the later numbers showing expenses growing 1.0 percent faster. The biggest overshoots relative to budgets occurred in Quebec, Saskatchewan, British Columbia, and the territories. In dollar terms, undershoots occurred in two surprising areas: spending on drugs, where rising costs have been high-profile, and hospitals both tended to come in under budget. The big overshoots occurred in spending on doctors, other healthcare professionals, and institutions other than hospitals.

Overshoots that large across the country, year after year, affect judgments about whether publicly funded healthcare is fiscally sustainable. For example, the preliminary 2018 number for overall growth of healthcare expenses is 3.8 percent – in line with most estimates of potential GDP growth.

But if the actual growth rate exceeds the preliminary one by 0.8 or more, the final 2018 figure will come in at 4.6 percent or more – faster than potential GDP growth and prefiguring some combination of rising taxes, more borrowing and squeezes on other government programs.

As I note in a new C.D. Howe Institute [paper](#) on this experience, two key points emerge.

One is a caution. Governments tend to project smaller increases in healthcare spending than those that actually occur. So any conclusions drawn from preliminary numbers are premature and likely misleading on questions such as whether we have “bent the curve” in healthcare spending.

The other is that governments that wish to sustain their current healthcare systems need to address chronic spending overshoots. Provincial and territorial governments presumably try to budget increases in health-related spending that are fiscally sustainable. They do, however, have trouble making their budget targets stick.

Bringing actual expenses into better line with governments' fiscal capacity will require better budgetary discipline overall and reforms to better align what officials, managers, providers and patients do with what the taxpayer can sustain in the long term. Budgeting sustainable increases in healthcare is easier than achieving them.

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