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## Ontario Health Sector: Expense Trends and Medium-Term Outlook Analysis Statement by the Financial Accountability Officer

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Good morning and welcome.

My name is David Wake. I am Ontario's Integrity Commissioner. I have been appointed Financial Accountability Officer on a temporary basis, while Stephen LeClair is on medical leave.

Today, I provided to the Speaker, for tabling, a report that reviews how the Province plans to achieve the health sector expense targets in the 2016 Ontario Budget, and whether the low growth rate required to achieve the targets is sustainable after 2018-19.

The report shows how the Province began to restrain the growth rate of health sector expense in 2012-13, as part of its plan to balance the budget by 2017-18. However, although the annual growth rate of health sector expense has been reduced to about 2%, if the Province is to meet its health sector expense targets in the 2016 budget, the Province will still need to implement additional program changes. The FAO estimates that health sector expense savings of approximately \$0.4 billion in 2016-17, \$0.9 billion in 2017-18 and \$1.5 billion in 2018-19 will be required to meet the 2016 budget targets.

Over the longer-term, our review of health sector expense trends and cost drivers raises questions about whether the low rate of growth in health sector expense is sustainable, if health care quality and service levels are to be maintained.

I will ask the FAO's Chief Financial Analyst, Peter Harrison, to provide an overview of the report.

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Thank you, Commissioner.

Because the health sector is the single largest component of Provincial spending, managing the rate of growth in health sector expense is a critical part of the Province's plan to return its budget to balance in 2017-18.

Our report answers three questions:

- First, how did the Province restrain the growth rate of health sector expense starting in 2012-13?
- Second, how does the Province plan to achieve the health sector expense targets set out in the 2016 budget?
- And finally, is the growth rate required to achieve the 2016 budget targets sustainable, from the perspective of maintaining health care quality and level of service?

Turning first to what the Province has done to slow the growth rate of health spending: over the last four years, health sector expense has averaged annual growth of 2.4%, well below the 6.8% average annual growth rate of the previous decade. Our analysis shows that reducing the growth rate in the hospitals and OHIP program areas accounted for three-quarters of the slowdown.

A number of policy decisions allowed the government to achieve this result. The two most significant were a freeze in hospital base operating budgets and reductions to OHIP physician payments in 2013 and 2015.

Turning now to how the Province plans to achieve its 2016 budget targets: the FAO developed a health sector expense forecast for 2016-17 to 2018-19 which assumes that the major policy initiatives that the Province has announced so far are continued through to 2018-19. Among other things, this forecast includes the Province's 2016 budget increase to hospitals' base operating funding and no increase in physician payment rates. Overall, our analysis suggests that, in the absence of further policy changes, the Province will likely miss its 2016 budget targets by approximately \$0.9 billion in 2017-18 and by \$1.5 billion in 2018-19.

Finally, turning to the future course of health spending after 2018-19: if the 2016 budget's health sector expense targets are achieved, health sector expense will average about 2% annual growth from 2011-12 to 2018-19. The FAO's review of health sector expense growth rate trends and cost drivers raises questions about the sustainability of this low growth rate, if health care quality and level of service are to be maintained.

Our analysis shows that since 2011-12, health sector expense on a real per capita basis has declined. The FAO also estimates that demographic changes, income growth and inflation will lead to health sector expense growth rate pressures of approximately 5.3% per year for the next five years.

Going forward, evaluating the impact of the Province's health sector program changes on health care quality and performance will be an important area of future work and a key factor in determining the sustainable health sector expense growth rate. Ultimately, the growth rate of health sector expense after 2018-19 will depend on whether program changes made to date have resulted in efficiencies and quality improvements or simply delayed expenses that will need to be incurred to maintain quality and service levels.

Thank you. I am happy to take questions. Il me ferait plaisir de répondre à vos questions.

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