



LIBRARY of PARLIAMENT  
BIBLIOTHÈQUE du PARLEMENT

## BACKGROUND PAPER



# ***The Canada Health Transfer: Changes to Provincial Allocations***

Publication No. 2011-02-E  
25 February 2011

**James Gauthier**

Social Affairs Division  
Parliamentary Information and Research Service

***The Canada Health Transfer:  
Changes to Provincial Allocations  
(Background Paper)***

HTML and PDF versions of this publication are available on IntraParl (the parliamentary intranet) and on the Parliament of Canada website.

In the electronic versions, a number of the endnote entries contain hyperlinks to referenced resources.

*Ce document est également publié en français.*

Library of Parliament ***Background Papers*** present and analyze various aspects of current issues in an objective, impartial manner. They are prepared by the Parliamentary Information and Research Service, which carries out research for and provides information and analysis to parliamentarians and Senate and House of Commons committees and parliamentary associations.

## CONTENTS

1	INTRODUCTION.....	1
2	BACKGROUND.....	1
3	HEALTH REFORM FUND.....	3
4	BUDGET 2007 COMMITMENTS AFFECTING THE CANADA HEALTH TRANSFER.....	3
5	BUDGET 2009 COMMITMENTS AFFECTING THE CANADA HEALTH TRANSFER.....	4
6	EXPECTED CHANGE TO THE CANADA HEALTH TRANSFER FORMULA IN 2014 .....	6



# THE CANADA HEALTH TRANSFER: CHANGES TO PROVINCIAL ALLOCATIONS

---

## 1 INTRODUCTION

The primary federal contribution to health care in Canada is provided through the Canada Health Transfer (CHT). The CHT provides block funding to provinces<sup>1</sup> and includes both tax point and cash transfers. The value of the tax point component grows in line with economic activity, while the total CHT cash component is legislated under the *Federal-Provincial Fiscal Arrangements Act*.<sup>2</sup> Initially set at a fixed amount in 2004–2005 and 2005–2006, the total CHT cash transfer increases at a rate of 6% per year until 2013–2014 as part of the 2004 *10-Year Plan to Strengthen Health Care*.<sup>3</sup> The total CHT entitlement (tax plus cash) is currently allocated among provinces on a per capita basis. Since a fundamental principle of the CHT is equalized distribution, and because the value of the tax transfer can differ by province, the amount of CHT cash per capita varies from province to province. In order to qualify for the full federal cash contribution under the CHT, provinces must comply with the criteria and conditions of the *Canada Health Act*.

The purpose of this paper is to provide an overview of recent and expected changes to the CHT, and to determine the impacts of these changes on by-province allocations over time. The paper begins by providing background information on the composition and calculation of the CHT, follows with an explanation of changes to the CHT introduced since Budget 2007 and Budget 2009, and ends with an analysis of the impacts of expected changes to the CHT in 2014–2015.

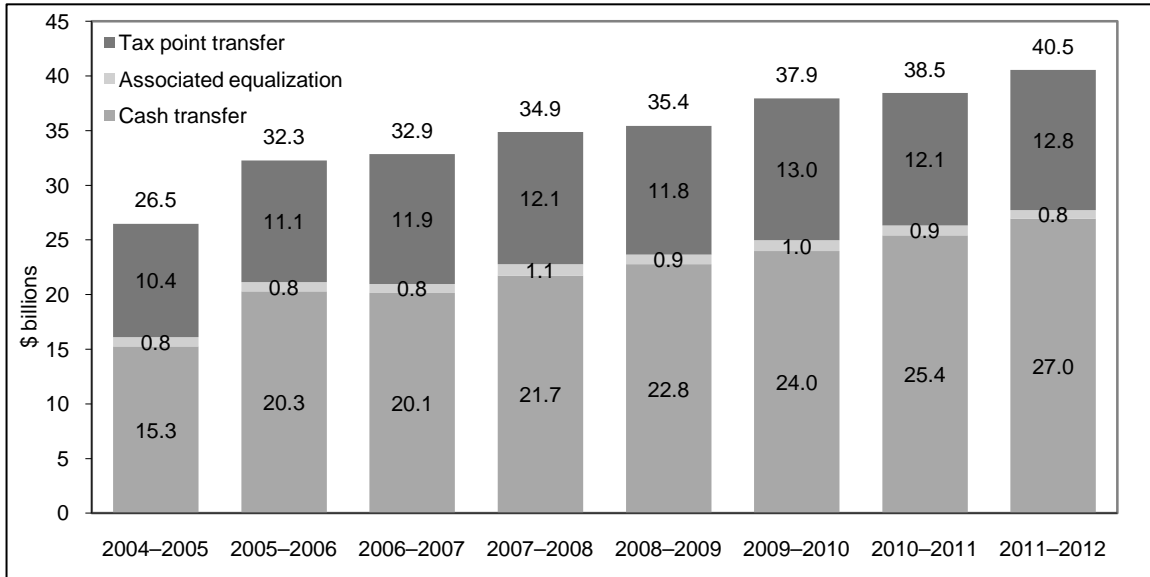
## 2 BACKGROUND

As previously mentioned, the total CHT entitlement comprises two components: a tax point transfer and a cash transfer (plus associated equalization, which is discussed below). The tax point transfer of the CHT dates back to 1977, when the federal government agreed to reduce its personal and corporate tax rates by 13.5 percentage points and 1 percentage point respectively, thereby allowing provincial governments to occupy that tax room.<sup>4</sup> Since economic conditions affect personal and corporate income tax bases, the tax point transfer of the CHT fluctuates over time.<sup>5</sup> In 2011–2012, the value of the tax point transfer will amount to \$12.8 billion.

Because tax points are worth more in some provinces than in others, the federal government agreed to equalize the tax points on an ongoing basis. The annual amount paid to equalize these tax points is called “associated equalization,” because it is the equalization amount “associated” with the tax point transfer.<sup>6</sup> The associated equalization payment relevant specifically to the CHT is expected to be \$780 million in 2011–2012.<sup>7</sup> In the same year, the CHT cash transfer will reach about \$27 billion.

Figure 1 presents the total CHT entitlement from 2004–2005 to 2011–2012.

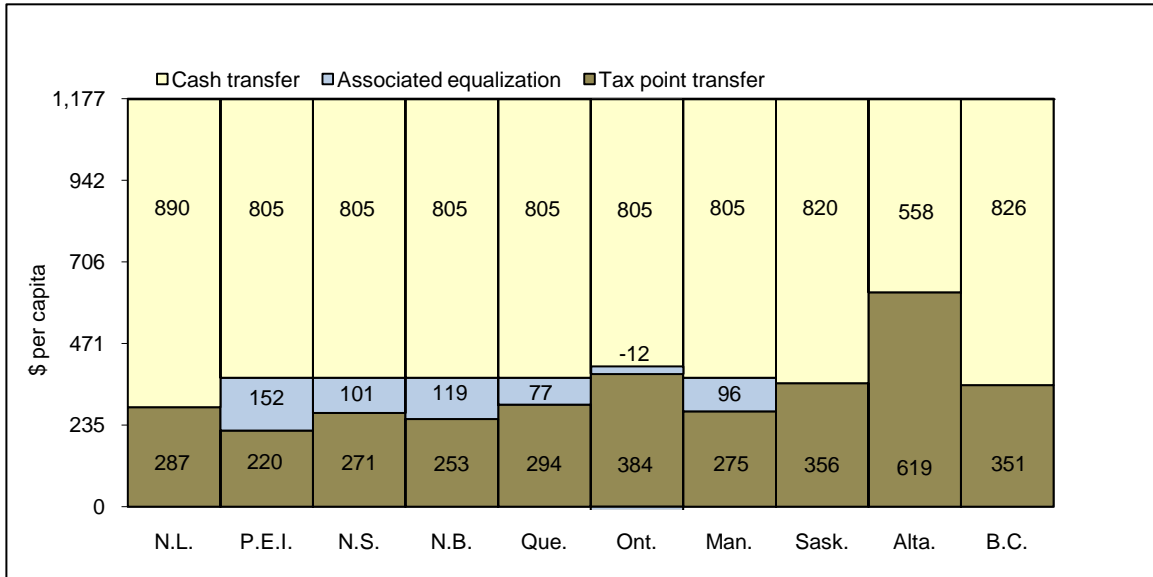
**Figure 1 – Total Canada Health Transfer Entitlement, 2004–2005 to 2011–2012 (\$ billions)**



Source: Figure prepared by the author using data obtained from the Federal–Provincial Relations Division of the Department of Finance on 22 December 2010. CHT estimates follow a regular revision cycle as updated data on population and personal and corporate income taxes are applied to the calculation of the CHT. Available data on CHT estimates are based on final computations for 2004–2005 to 2007–2008; a fourth interim estimate for 2008–2009; a third interim estimate for 2009–2010; a second interim estimate for 2010–2011; and a first interim estimate for 2011–2012. Some figures may not total exactly as shown, due to rounding.

The total CHT entitlement is distributed on an equal-per-capita basis across all provinces. Figure 2 presents the total CHT entitlement per capita and per province (amounting to \$1,177) for 2011–2012. Associated equalization is only triggered for equalization-receiving (i.e., have-not) provinces; this generally brings provinces up to the same standard of average-per-capita fiscal capacity. In general, equalization-receiving provinces receive more per capita CHT cash than other provinces, although exceptions to this general rule can occur (as described in the section below on *Budget 2009 Commitments affecting the Canada Health Transfer*).

**Figure 2 – Total Canada Health Transfer Entitlement by Province, 2011–2012 (\$ per capita)**



Source: Figure prepared by the author using data obtained from the Federal–Provincial Relations Division of the Department of Finance on 22 December 2010, based on a first interim estimate. Some figures may not total exactly as shown, due to rounding.

### 3 HEALTH REFORM FUND

In 2003, through the First Ministers’ Accord on Health Care Renewal, the federal government made a commitment to provide provinces with \$16 billion toward the Health Reform Fund over the course of five years, starting in 2004–2005. The payment, often referred to as the Health Reform Transfer (HRT), was used to accelerate reform in priority areas such as primary care, home care and catastrophic drug coverage, and was distributed to each province on an equal-per-capita basis. The funding allocation over five years was \$1 billion in 2004–2005; \$1.5 billion in 2005–2006; \$3.5 billion in 2006–2007; \$4.5 billion in 2007–2008; and \$5.5 billion in 2008–2009. Starting in 2005–2006, the HRT was integrated into the CHT. HRT funds are consequently included in data provided in estimates of CHT cash provided in this paper, which accounted for some 24% of total CHT cash as of 2008–2009.

### 4 BUDGET 2007 COMMITMENTS AFFECTING THE CANADA HEALTH TRANSFER

Budget 2007 established a new equalization formula; originally based on a five-province standard of fiscal capacity, it began to be determined based on a 10-province standard. This change, in turn, affected the associated equalization as well as the value of the total CHT entitlement. Due mainly to the revenue-generating capacity of Alberta, in recent years the highest of any province, the total value of associated equalization has been increased. Because the total CHT cash transfer is set in legislation, this increase in associated equalization has had the effect of redistributing CHT cash from equalization-receiving provinces to non-receiving

provinces. To partially compensate equalization-receiving provinces for this redistribution, the federal government has provided protection payments over five years to ensure that no province experiences declines in its CHT cash relative to the amount it would have received in 2007–2008, prior to the Budget 2007 changes. Protection payments at the time of Budget 2007 are shown in Table 1 below.

**Table 1 – Budget 2007 CHT Transition Protection Payments, 2007–2008 (\$ millions)**

CHT Payments	N.L.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
Status quo	347	95	639	512	5,246	8,034	807	756	1,784	3,065	21,348
Budget 2007	346	94	636	510	5,225	8,107	804	668	1,804	3,090	21,348
Protection payments	1.4	0.4	2.5	2.0	20.8	-	3.2	87.7	-	-	118.0

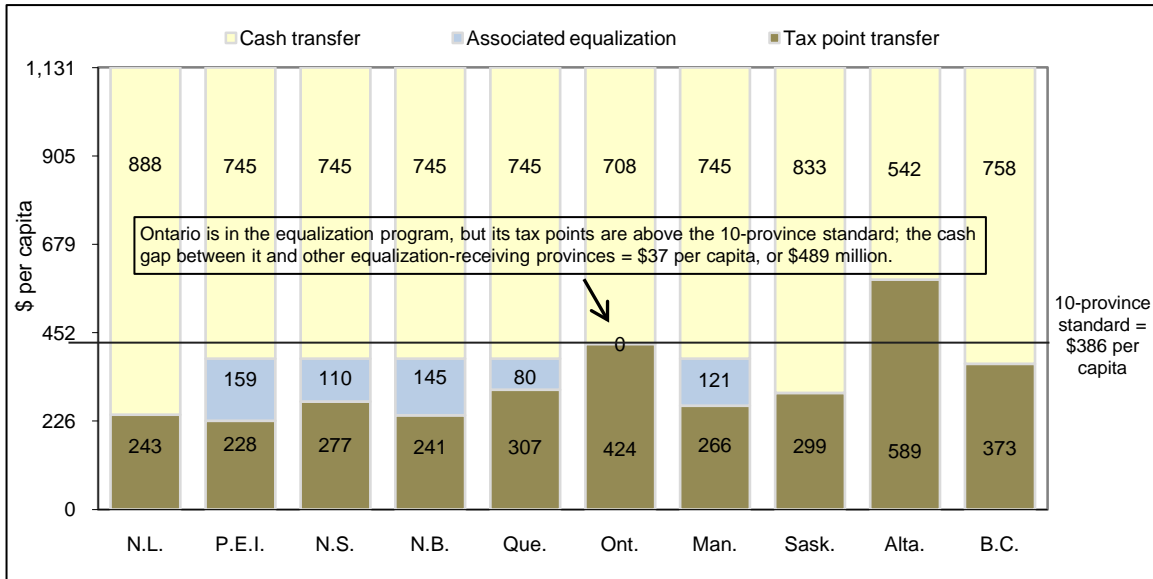
Source: Department of Finance Canada, Table A4.5 in Annex 4, “Restoring Fiscal Balance for a Stronger Federation,” in [The Budget Plan 2007](#). The amounts appearing in the “Total” column include data for the territories (not shown). Please note that the differences shown may not be exact due to rounding.

In addition, the federal government stated in Budget 2007 that it would respect the agreement on the *10-Year Plan to Strengthen Health Care* and that the CHT would move to equal-per-capita cash in 2014–2015. This is reflected in section 24.21 of the *Federal–Provincial Fiscal Arrangements Act*.

## 5 BUDGET 2009 COMMITMENTS AFFECTING THE CANADA HEALTH TRANSFER

Since Budget 2007, several economic shifts have occurred, including high resource prices, a stronger Canadian dollar, and a decline in the manufacturing sector. These shifts have created significant changes in the overall fiscal capacities of provinces, but have not always led to corresponding changes in the value of the transferred tax points.<sup>8</sup> In the case of Ontario, whose economy is largely dependent on the manufacturing sector, economic activity in the province has weakened relative to provinces with abundant natural resources such as Alberta. Along with lower manufacturing activity, Ontario’s fiscal capacity relative to other provinces weakened to a point where it became eligible for equalization in 2009–2010, even though its personal and corporate income taxes remained strong. Left unchecked, the dichotomy between equalization and the equalized tax transfer would result in Ontario receiving less per capita CHT cash than other equalization-receiving provinces (see Figure 3).

**Figure 3 – Total Canada Health Transfer Entitlement by Province, 2009–2010 (\$ per capita)**



Source: Figure prepared by the author using data obtained from the Federal–Provincial Relations Division of the Department of Finance on 22 December 2010, based on a first interim estimate. Some figures may not total exactly as shown, due to rounding.

Budget 2009 set out to correct this anomaly so that all equalization-receiving provinces, including Ontario, would receive the same level of per capita cash.<sup>9</sup> To achieve this, additional funding was allocated to Ontario for 2009–2010 (\$489 million). Because it was not part of the general CHT cash envelope for that fiscal year, the extra funding had no impact on any other province.

Starting in 2011–2012, however, the CHT cash amount is being adjusted so that all equalization-receiving provinces, including Ontario, receive the same per capita cash amount, while ensuring that the general CHT cash envelope grows at the rate of 6% per year put in place through the 2004 *10-Year Plan to Strengthen Health Care*. As shown in Table 2, because the CHT cash envelope is fixed, the increase in CHT cash for Ontario will result in proportionately less CHT cash for other provinces on a per capita basis.<sup>10</sup>

**Table 2 – CHT Cash Allocation for 2011–2012  
Difference Between the Status Quo and Budget 2009 Changes**

Cash Allocation	N.L.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
Dollars per Capita											
Status quo	897	812	812	812	812	793	812	828	565	833	782
Budget 2009	890	805	805	805	805	805	805	820	558	826	782
Difference	-7.3	-7.3	-7.3	-7.3	-7.3	+11.5	-7.3	-7.3	-7.3	-7.3	0
Millions of Dollars											
Status quo	456	116	766	611	6,466	10,592	1,011	874	2,142	3,833	26,952
Budget 2009	452	115	759	606	6,408	10,746	1,002	866	2,114	3,799	26,952
Difference	-3.7	-1.0	-6.9	-5.5	-58.1	+154.1	-9.1	-7.7	-27.7	-33.6	0

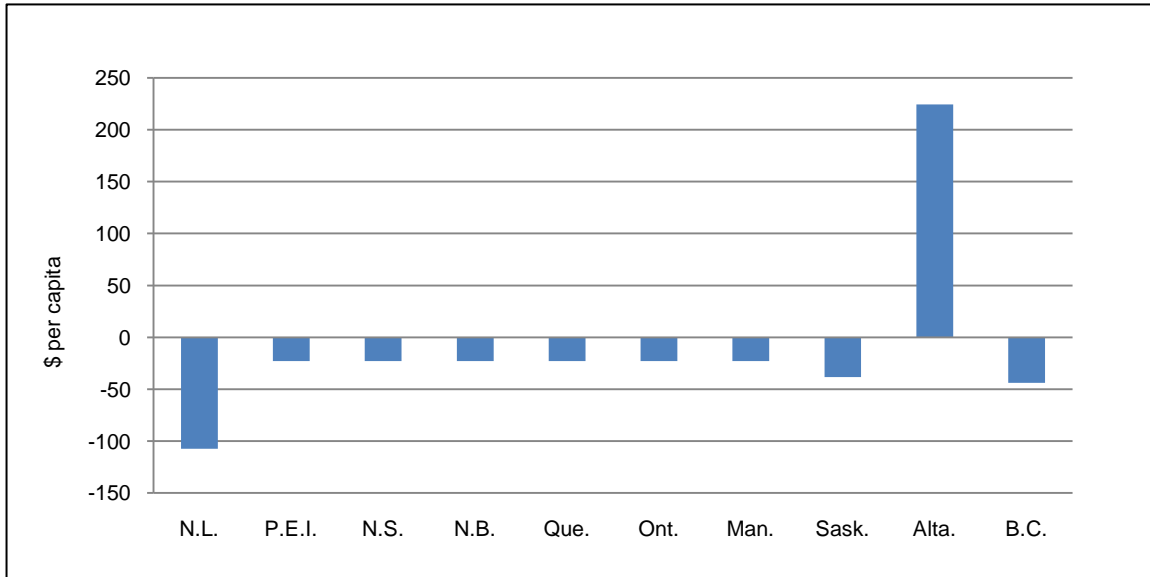
Source: Table prepared by the author using data obtained from the Federal–Provincial Relations Division of the Department of Finance on 22 December 2010. The amounts appearing in the “Total” column include data for the territories (not shown). Please note that the differences shown may not be exact due to rounding.

Budget 2009 also committed to ensuring that, subject to a transition, no province with a high fiscal capacity would receive more than the average CHT cash provided to the equalization-receiving provinces.<sup>11</sup> (As shown in Table 2, this is the case in 2011–2012 for Newfoundland and Labrador, Saskatchewan and British Columbia.) Shortly after the release of Budget 2009, however, due to concerns expressed by provincial governments on how this transition would be achieved, the federal government decided to delay the immediate implementation of this commitment, opting instead to consult with provinces on how best to “facilitate a smooth transition to equal-per-capita CHT cash in 2014–15, as committed to in Budget 2007.”<sup>12</sup>

## 6 EXPECTED CHANGE TO THE CANADA HEALTH TRANSFER FORMULA IN 2014

After the expiry of legislated funding through the *10-Year Plan to Strengthen Health Care* as of 1 April 2014, as committed in Budget 2007, the CHT cash transfer will be allocated to provinces on an equal-per-capita basis. This commitment will benefit provinces that receive less CHT cash per capita than other provinces. Figure 4 provides a hypothetical illustration of the per capita difference in the total CHT entitlement to provinces under the current transfer and the equal-per-capita cash transfer, using 2011–2012 data as a proxy (i.e., the latest year currently available for CHT estimates by province). As can be observed from Figure 4, because Ontario has already entered into the equalization program and is receiving the same per capita CHT cash amount as other equalization-receiving provinces, Alberta is the only province that would further benefit from the move to an equal-per-capita distribution of CHT cash for all provinces. Under current estimates, Alberta would receive an additional \$224 per capita, or \$850 million, if the move to equal-per-capita cash were implemented in 2011–2012, while equalization-receiving provinces would each receive about \$23 per capita less in CHT. All non-equalization-receiving provinces other than Alberta would receive proportionately less than equalization-receiving provinces, since the value of their personal and corporate income tax points are below average – this includes Newfoundland and Labrador (-\$107 per capita, or -\$55 million), Saskatchewan (-\$38 per capita, or -\$40 million) and British Columbia (-\$44 per capita, or -\$202 million).

**Figure 4 – Per Capita Difference in Total CHT Entitlement between Current and Equal-per-Capita Cash Transfer, 2011–2012<sup>a</sup>**



Notes: a. The scenario shown here assumes no new funding in the move to equal-per-capita cash.

Source: Figure prepared by the author using data obtained from the Federal–Provincial Relations Division of the Department of Finance on 22 December 2010. The Department of Finance data for 2011–2012 are based on a first estimate.

It should be noted that negotiations among federal and provincial governments on how best to transition the CHT to an equal-per-capita cash allocation have yet to commence in earnest. It is currently unknown what arrangements might be made among federal and provincial governments, if any, to mitigate the effects of this transition on funding for health care to the provinces through the CHT.

## NOTES

1. Throughout this paper, unless related to the equalization program, the term “province” includes the territories (i.e., Yukon, Northwest Territories and Nunavut). This definition is consistent with that applied within legislation relevant to the CHT, through Part V.1 of the [Federal–Provincial Fiscal Arrangements Act](#), R.S.C., 1985, c. F-8).
2. [Federal-Provincial Fiscal Arrangements Act](#).
3. First Ministers’ Meeting on the Future of Health Care 2004, [A 10-Year Plan to Strengthen Health Care](#), 16 September 2004.
4. This change was part of the Established Programs Financing program for health care and post-secondary education that was negotiated between the Government of Canada and the provinces in 1977.
5. Department of Finance Canada, [Associated Equalization](#).

6. Because the tax points transferred in 1977 represent a means of raising provincial own-source revenue, they are included in the calculation of equalization payments. The value of the tax point transfer to a province is therefore equal to the direct revenues it generates, plus associated equalization that is calculated and paid to qualifying provinces through the equalization program. For background information on the equalization program, see Michael Holden, [Canada's New Equalization Formula](#), Publication no. 08-20E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 10 November 2008.
7. In concert with the Government of Canada's decision to split the Canada Health and Social Transfer (CHST) into the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) effective April 2004, the cash and tax points were allocated to each transfer reflecting provincial spending patterns among CHST-supported areas (62 % for the CHT, or \$0.78 billion out of the total \$1.3 billion for associated equalization, and 38 % for the CST). For more information, see Department of Finance Canada, Annex 3, "[Major Transfers](#)," *Budget 2006*.
8. Department of Finance Canada, "Partnership with Provinces and Territories," in [Budget 2009](#), 27 January 2009, pp. 187-192; and Senate, Standing Committee on National Finance, [Evidence](#), 3<sup>rd</sup> Session, 40<sup>th</sup> Parliament, 17 June 2010 (Alfred Leblanc, Director, Federal-Provincial Relations Division, Department of Finance Canada).
9. Department of Finance Canada, "[Section II: Analysis of Program Activities by Strategic Outcome](#)," in *Departmental Performance Report, 2008-09*.
10. Projections of this impact are difficult to determine, as personal and corporate income tax revenues tend to fluctuate significantly over time.
11. Department of Finance Canada (2009), pp. 187-192.
12. *Ibid.*, p. 191. See also Michael Smart, [The Evolution of Federal Transfers since the O'Brien Report](#), University of Toronto, 7 May 2009, pp. 12-14.