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**Chamber of  
Commerce**  
in business together

## **2011-12 Provincial Pre-Budget Submission**

**November 29, 2010**



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## Executive Summary

The Calgary Chamber of Commerce represents over 3,200 members and seeks to raise the quality and consciousness of public discourse on key issues confronting its members and stakeholders. In a 2011 survey, Chamber members identified fiscal discipline, tax competitiveness, and health care spending and delivery as top provincial fiscal priorities.

### 1 Fiscal Discipline

It is recommended that the province:

- Adopt a bandwidth approach to program spending, by targeting increases within a range delimited by population and inflation growth, and real GDP and inflation growth. For 2011-12, it is anticipated that the smart spending bandwidth will be between 3.8 and 5.6 per cent (inflation 2.1 per cent, population 1.7 per cent and GDP 3.5 per cent).
- The Chamber encourages the province to target the lower end of the bandwidth (3.8 per cent for 2011-12) as, on average, expenditures have exceeded the bandwidth since 1998.

It is recommended that the province:

- Structure the Sustainability Fund as a true resource revenue stabilization fund, so that revenues in the fund can only be used to address unanticipated declines in resource revenues; and
- Cap the value of the Sustainability Fund to the equivalent of long-run average annual resource revenues, estimated at \$5.5 billion between 1982 and 2010.

It is recommended that the province adopt a Deficit Limitation Policy that:

- Allows deficits when negative real GDP is forecast and no balance exists in the Sustainability Fund;
- Limits the size of the deficit, as a proportion of total government expenditures, to the percentage decrease in GDP.

### 2 Tax Competitiveness – A Provincial Resource Wealth Expenditure Policy

It is recommended that the province:

- Adopt a binding resource revenue expenditure rule that caps the amount of resource revenues the province can use for program spending equal to the revenues it would otherwise earn through a 7 per cent consumption tax. The Chamber estimates this cap at \$4.5 billion annually;
- Invest resource revenues in excess of the \$4.5 billion program spending cap into the *Sustainability Fund* to a maximum of \$5.5 billion (as discussed above). Invest any resource revenues in excess of the *Sustainability Fund* cap in the *Alberta Heritage Savings and Trust Fund*, with the interest reinvested in the Fund.



### 3 **Competitive Health Care Spending and Delivery**

It is recommended that the province

- Implement strategies to reduce generic drug costs;
- Include financial evidence in its approach to evidence-based decision making in the health sector, and establish and monitor financial performance targets;
- Invest in long term care facilities to reduce acute care cost pressures resulting from excess demand for long term care services;
- Implement activity-based funding in the sectors of continuing care and acute care to encourage efficient service delivery and improved health outcomes under existing budget constraints, and adopt pricing mechanisms from other jurisdictions that would be applicable in Alberta;
- Amend health legislation to enable competitive private delivery of public funded health care services to reduce costs, encourage innovation and ensure access to timely and appropriate care; and
- Encourage legislative and programmatic change that creates a level playing field for all health care providers (private, public and non-profit) through equitable procurement contracting practices and shared access to cost savings of bulk purchasing arrangements.



## Introduction

The Calgary Chamber of Commerce represents over 3,200 members and seeks to raise the quality and consciousness of public discourse on key issues confronting its members and stakeholders. The Chamber canvasses its membership annually to identify the policy priorities confronting the business community. In 2010, Chamber members identified economic competitiveness as the top priority impacting their business.

The Chamber applauds the government for its prioritization of economic competitiveness through the passage of Bill 1, the *Alberta Competitiveness Act* on March 25, 2010, and the creation of Productivity Alberta to enhance the province's competitive position internationally.<sup>1</sup>

In a 2011 survey, Chamber members identified fiscal discipline, tax competitiveness, and health care spending and delivery as top priorities in the development of the provincial budget and supportive fiscal frameworks.

The Chamber puts forth this submission to assist the government in its objective to "position the province as among the most competitive jurisdictions in the world through enhanced government partnerships with industry, business and Albertans"<sup>2</sup> as identified in the *Alberta Competitiveness Act*.

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<sup>1</sup> Government of Alberta. *Bill 1 increases Alberta's ability to compete globally*. March 25, 2010. <http://alberta.ca/home/NewsFrame.cfm?ReleaseID=/acn/201003/2804695F17939-0A57-B4F6-1BE5F6BB8BAECA93.html>.

<sup>2</sup> Government of Alberta. *Bill 1 increases Alberta's ability to compete globally*. March 25, 2010: 30,



## 1 Fiscal Discipline

Chamber members identified fiscal discipline as a top priority for the Alberta government for the 2011-12 budget. The Chamber recognizes the importance of balancing government expenditure decisions to ensure the province is able to respond to incremental service and infrastructure demands without compromising our long-run competitive position, and encourages the province to utilize macroeconomic benchmarks and sound fiscal governance and management policies to help guide provincial decision-making.

### 1.1 Provincial Expenditure Management Policy: A Smart Spending Bandwidth

Alberta has benefited significantly from the development of its natural resources. Non-renewable resource revenues have contributed an average of 30 per cent of total provincial government revenues since 2001, and were as high as 40 per cent in 2005-06. Correspondingly, on average, provincial government expenditures have increased beyond the rate of inflation and population growth since 1982 and, in Budget 2008, increased by 13.5 per cent – well above the combined rate of inflation and population growth of six per cent for that year.

The government's continued reliance on non-renewable resource revenue for current consumption creates an unsustainable and unhealthy dependence on volatile revenue sources, and distorts incentives to maintain or improve efficiencies in program delivery.

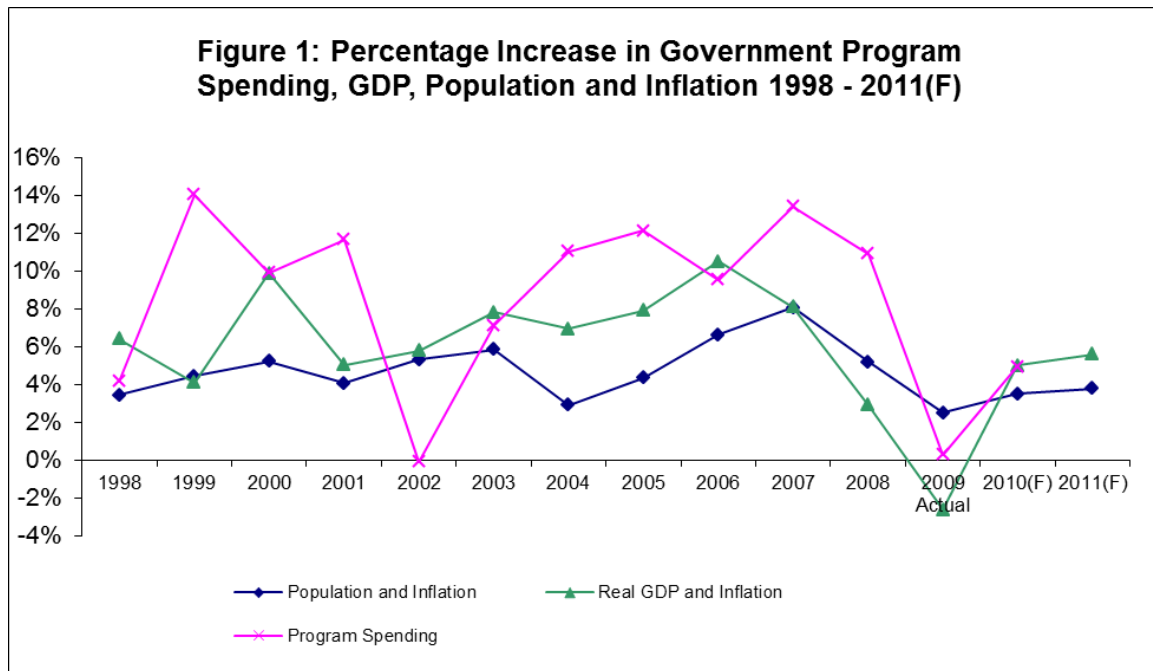
**To help address this challenge, the Chamber recommends that the province adopt a bandwidth approach to government spending, by targeting increases within a range delimited by population and inflation growth, and real GDP and inflation growth.** This bandwidth ensures that the province is able to increase spending in response to increased demands for services as a result of population and economic expansion, while ensuring expenditures do not exceed our collective ability to pay.

With inflation estimated at 2 per cent, population growth at 1.5 per cent and GDP growth at 3.0 per cent<sup>3</sup>, for 2010-11 this range is between 3.5 and 5.0 per cent. According to the second quarter update, provincial spending is forecasted to increase by 5.0 per cent<sup>4</sup> – an amount at the top end of the smart spending bandwidth.

For 2011-12, it is anticipated that the smart spending bandwidth will be between 3.8 and 5.6 per cent (inflation 2.1 per cent, population 1.7 per cent and GDP 3.5 per cent). As Figure 1 indicates, the province has, on average, exceeded the smart spending bandwidth since 1998. Consequently, the Chamber strongly encourages the province to target the lower end of the bandwidth (3.8 per cent) for 2011-12.

<sup>3</sup> Scotiabank Group. *Global Forecast Update*. November 4, 2010. [http://www.scotiacapital.com/English/bns\\_econ/forecast.pdf](http://www.scotiacapital.com/English/bns_econ/forecast.pdf).

<sup>4</sup> Government of Alberta. *Budget 2010 Second Quarter Fiscal Update 2010-2011* (Edmonton: Government of Alberta, 2010).



Source: Alberta Finance, Statistics Canada and Scotia Group

## 1.2 Provincial Revenue Stabilization Policy

In 2003, the government created the *Sustainability Fund* under the *Fiscal Responsibility Act* to help “ensure that government spending doesn’t rise and fall with volatile energy prices.”<sup>5</sup> Under the *Act*, \$5.3 billion of all non-renewable resource revenues can be used for general government purposes, but any excess must be transferred to the *Sustainability Fund*. If actual non-renewable resource revenue is less than \$5.3 billion in any given year, the difference may be allocated from the *Sustainability Fund* to the General Revenue Fund.

The Chamber applauds the government’s foresight in establishing the *Sustainability Fund* to protect the province against resource revenue shortfalls resulting from sudden shifts in energy prices. Between fiscal 2008-09 and 2009-10, resource revenues declined by nearly 50 per cent (from \$11.9 billion to \$6.0 billion),<sup>6</sup> and are forecasted at \$7.7 billion for 2010-11.<sup>7</sup> Much of the ensuing revenue shortfall was made up through withdraws from the *Sustainability Fund*, the balance of which is forecasted to decline from \$16.8 billion in 2008-09 to \$2.8 billion in 2012-13.<sup>8</sup> This illustrates the benefits of the stabilization attributes of the fund, as well as the need for clear and binding guidelines surrounding the use of the fund, which is forecasted to experience a decline of \$14 billion over 4 years – the majority of which will be used to offset the program spending deficit (\$9.5 billion) and fund capital cash adjustments (\$2.4 billion).<sup>9</sup>

<sup>5</sup> Alberta Hansard. *Speech from the Throne* (Edmonton: Government of Alberta, February 18, 2003), 1-6.

<sup>6</sup> Government of Alberta. *Budget 2010 Striking the Right Balance 2010-13* (Edmonton: Government of Alberta, 2010).

<sup>7</sup> Government of Alberta. *Budget 2010 Second Quarter Fiscal Update 2010-2011* (Edmonton: Government of Alberta, 2010).

<sup>8</sup> Government of Alberta. *Budget 2010 Striking the Right Balance 2010-13* (Edmonton: Government of Alberta, 2010).

<sup>9</sup> For a contextual discussion of the volatility of Alberta’s resource revenues, see Landon, Stuart and Constance Smith. “Energy Prices and Alberta Government Revenue Volatility”. *C.D. Howe Institute Commentary: Fiscal and Tax Competitiveness*, 3 (2010): 1-25.



One of the most significant challenges with the *Sustainability Fund* is the multiple purposes for the Funds use. According to the *Fiscal Responsibility Act*, when resource revenues exceed \$5.3 billion, at least \$2.5 billion must be held in the *Sustainability Fund* in anticipation of emergencies, disasters, rebates, First Nation settlements and budget shortfalls. Additionally, the province may access revenues in the *Sustainability Fund* for capital expenditures.

This multi-purpose approach to the *Sustainability Fund* dilutes its effectiveness and ability to mitigate the volatility of resource revenue dependence in the province. This approach also creates confusion and hinders Albertans' ability to hold government to account for its revenue and expenditure decisions. According to the *Alberta Financial Investment and Planning Advisory Commission* “[the *Sustainability Fund*] purposes are vague and include functions that typically should be included within a normal operating budget, such as planning for emergencies or paying for natural gas rebates.”<sup>10</sup>

Consequently, the Chamber encourages the province to develop a clear separation of provincial funding vehicles based on their purpose and, correspondingly, supports the Commission's recommendation that the provincial government “retain a separate *Sustainability Fund* but limit its purpose specifically to addressing unanticipated declines in [resource] revenues in a given fiscal year.”<sup>11</sup> This approach would require the province to increase the size of the contingency in its annual budget (or establish separate funds) for emergencies, rebates and capital expenditures, leaving the *Sustainability Fund* with the sole purpose of stabilizing Alberta's finances as a result of economic booms and busts.

The Chamber also recognizes the need to establish a cap on the value of the *Sustainability Fund*, so as to ensure the Fund does not become excessively large, and create the opportunity for excessive non-renewable resource revenue expenditures on current consumption in periods of budgetary shortfalls. The *Alberta Financial Investment and Planning Advisory Commission* recommended a cap of \$3.5 billion.<sup>12</sup>

However, a cap equal to the value of long-run average annual resource revenues should, sufficiently mitigate unanticipated resource revenue shortfalls for the province in any given year. Between 1982 and 2010, on average, the province collected \$5.5 billion in resource revenues per year.

**The Chamber recommends that the province:**

- **Structure the Sustainability Fund as a true resource revenue stabilization fund, so that revenues in the fund can only be used to address unanticipated declines in resource revenues; and**
- **Cap the value of the Sustainability Fund to the equivalent of long-run average annual resource revenues, estimated at \$5.5 billion between 1982 and 2010.**

<sup>10</sup> Alberta Financial Investment and Planning Advisory Commission. *Preserving Prosperity: Challenging Alberta to Save* (Edmonton: Government of Alberta, 2007), 42.

<sup>11</sup> Alberta Financial Investment and Planning Advisory Commission. *Preserving Prosperity: Challenging Alberta to Save* (Edmonton: Government of Alberta, 2007), 42.

<sup>12</sup> Alberta Financial Investment and Planning Advisory Commission. *Preserving Prosperity: Challenging Alberta to Save* (Edmonton: Government of Alberta, 2007), 41.

### 1.3 Provincial Deficit Limitation Policy

Maintaining balanced budgets has been a long-standing recommendation of the Calgary Chamber of Commerce. In strong economic times, where real GDP is growing, this is a sensible approach that encourages governments to live within their means and pay down debt where possible. However, the Chamber acknowledges that at certain economic periods, this recommendation may not be the most advantageous for the economy. Severely constraining spending during an economic downturn may prevent government from investing in much needed fiscal stimuli.

Chamber members are clearly concerned with deficits and growing debt. The provincial government has worked diligently to eliminate structural deficits and the provincial debt burden. In the event that government chooses to go into deficit to stimulate the economy during an economic downturn, it is important that Albertans be provided with assurances that the recurring deficits of the past do not become normal practice now and in the future.

Consequently, the Chamber proposes that the provincial government adopt a new deficit limitation policy, which would allow deficits on those extremely rare occasions when GDP growth is negative. The proposed approach would limit the size of the deficit, as a proportion of total government expenditures, to the percentage decrease in GDP, provided that the province does not have the *Sustainability Fund* to draw upon.

For example, if GDP is forecast to contract by 1 per cent, the deficit should be a maximum of 1 per cent of total government expenditures. When there is GDP growth, government would not be permitted to run a deficit. This approach enables government to stimulate the economy during tough economic times, while ensuring deficits are eliminated during periods of economic growth.

**The Chamber recommends that the province adopt a *Deficit Limitation Policy* that:**

- **Allows deficits only when negative real GDP is forecast and no balance exists in the *Sustainability Fund*; and**
- **Limits the size of the deficit, as a proportion of total government expenditures, to the percentage decrease in GDP.**

## 2 Tax Competitiveness – A Provincial Resource Wealth Expenditure Policy

For decades now, the Alberta government has relied for its spending on revenue derived from oil and gas production. From 1981 to 2007 it has been the largest single component of the province's own-source revenues (31 percent on average).<sup>13</sup>

This reliance is a mixed blessing. From a taxation perspective, the province is very favourably positioned relative to other jurisdictions in terms of both its marginal effective tax

<sup>13</sup> Landon, Stuart and Constance Smith. "Energy Prices and Alberta Government Revenue Volatility". *C.D. Howe Institute Commentary: Fiscal and Tax Competitiveness*, 3 (2010): 1-25.



rate (METR) on new investment, as well as the personal income tax rate.<sup>14</sup> However, while these revenues position the province competitively relative to other jurisdictions, this approach is unsustainable in the long-run, as resource revenues are both finite and unpredictable.

Reliance on resource revenues for program spending can create an unhealthy dependence on an over inflated level of government spending and, in the event resource revenues decline, the business community could be called upon to shoulder the revenue shortfall – ultimately compromising Alberta’s competitiveness over the long-run.

This reliance also means that the province’s finances have been continuously exposed to the same uncertainty and unpredictability that characterizes energy prices.<sup>15</sup> To illustrate, consider that the price of the oil went from US\$17 per barrel in January 1999 to US\$147 in July 2008. Thus, as energy prices boom and bust the province needs to adjust its spending patterns accordingly, which typically involves a high social and political cost.

Prior to the discovery of oil and gas in Alberta in the 1940s, program spending tracked well with tax revenue – enabling governments to run balanced budgets based on the informed support of taxpayers. Since that time program spending has tracked far more closely with volatile resource revenues.<sup>16</sup>

To correct for these challenges, some suggest the introduction of a value-added consumption tax to diversify the provincial revenue base and tap into underutilized provincial tax capacity.<sup>17</sup> While a value added tax exhibits a number of beneficial economic attributes, the introduction of such a tax could potentially threaten Alberta’s current competitive tax position relative to other jurisdictions and, in a 2011 pre-budget survey, over 65 per cent of Chamber members do not support the introduction of a consumption tax in Alberta.

However, one approach for imposing sufficient fiscal discipline to mitigate the volatility of resource revenue reliance while preserving Alberta’s competitive tax position is for the province to establish a resource revenue expenditure rule that requires the province to set a cap on the amount of resource revenues it could use for program spending (both budgeted and unbudgeted) equal to the value it would otherwise generate through a consumption tax. All remaining resource revenues would then be saved into the Sustainability Fund (until the cap is reached), and then in the *Alberta Heritage Savings and Trust Fund*, (with the interest reinvested in the fund to pay future dividends for Albertans).

The Chamber estimates a 7 per cent consumption tax would generate \$4.5 billion in annual revenues for the province.<sup>18</sup> Under such a rule, the province would have been able to generate approximately \$3.5 billion in 2010 alone.

<sup>14</sup> Price Waterhouse Coopers. *Alberta’s Competitiveness – A Primer for Discussion*. Prepared for Alberta Finance and Enterprise, June, 2010. <http://www.finance.alberta.ca/economic-development/competitiveness/albertas-competitiveness-primer-for-discussion.pdf>.

<sup>15</sup> Kneebone, Ron. “*Imposing Fiscal Discipline on the Government of Alberta*” (Presentation at the Calgary Chamber of Commerce’s Tax and Economic Affairs Committee. Calgary, Alberta, May 27, 2010).

<sup>16</sup> *ibid.*

<sup>17</sup> The School of Public Policy. “Will Alberta Lose its Tax Advantage?” *SPP Communiqué*, 1, no.3 (2009): 1-8.

<sup>18</sup> Derived by the Chamber based on a weighted average of consumption tax revenues collected in other provinces



This approach has the benefits of: preserving Alberta's competitive tax position; instilling fiscal discipline into provincial budget decision-making processes; ensuring citizens recognize the value of the public services provided in Alberta; and solidifying the long-term sustainability of Alberta's fiscal position by mitigating the prospect of a future unfunded tax liability in the event resource revenues decline.

**The Chamber recommends that the province adopt a binding resource revenue expenditure rule that caps the amount of resource revenues the province can use for program spending equal to the revenues it would otherwise earn through a 7 per cent consumption tax. The Chamber estimates this cap at \$4.5 billion annually.**

**The Chamber further recommends that any resource revenues in excess of the \$4.5 billion cap be invested in the *Sustainability Fund* to a maximum of \$5.5 billion (as discussed above), and that any resource revenues in excess of the *Sustainability Fund* cap be invested in the *Alberta Heritage Savings and Trust Fund*, with the interest reinvested in the Fund.**

### **3 Competitive Health Care Spending and Delivery**

Chamber members identified managing health care spending and delivery as a top 2010 provincial fiscal management priority.

#### **3.1 Fiscal Sustainability of the Health Care System**

Public health care encompasses an increasing proportion of the provincial budget. Allocations towards the Ministry of Health and Wellness have increased by approximately 8.5 per cent<sup>19</sup> from the 2009 Second Quarter Fiscal Update.<sup>20</sup> In the 2010-11 budget, health now comprises 40.8 per cent of total provincial expenditures (\$15.8 billion in 2010, total health expenditure per capita by the provincial government reached an estimated \$4,295 per capita (second only to Labrador)<sup>21</sup>. It has yet to be determined if more value is being received for this additional expenditure.

The Calgary Chamber of Commerce recognizes that more spending on health care is not the solution. In a 2008 survey of Calgary and Edmonton Chamber members, 70 per cent of respondents agreed that current health care spending is unsustainable. Alberta's health care system faces a number of challenges that will affect its financial bottom line including population aging, the cost of pharmaceutical drugs, new surgical techniques, and new diagnostic technologies.

Alberta's population continues to grow, from 3,690,531 in 2010 to a projected 4,056,739 in just 5 years<sup>22</sup>. This significant population growth will continue to put pressure on the health system. In addition, Statistics Canada anticipates a growth in the population of individuals

<sup>19</sup> Government of Alberta. *Budget 2010 Second Quarter Fiscal Update 2010-2011* (Edmonton: Government of Alberta, 2010).

<sup>20</sup> Government of Alberta. *Budget 2009 Second Quarter Fiscal Update 2009-2010* (Edmonton: Government of Alberta, 2009).

<sup>21</sup> Canadian Institute for Health Information. *National Health Expenditure Trends 1975 to 2010* (Ottawa: CIHI, 2010).

<sup>22</sup> Government of Alberta, "Interactive Health Data Application." [http://www.ahw.gov.ab.ca/IHDA\\_Retrieval/selectCategory.do](http://www.ahw.gov.ab.ca/IHDA_Retrieval/selectCategory.do).



65 and older in Alberta, from 8.1 percent (340,553) in 2005 to 9.5 percent (767,000) in 2026<sup>23</sup>. As people age, they require increasing resources from the health sector; in Canada, health care expenditures rise from an average of \$362 per year for men under 65, to \$666 for men 65 and over. Women's health care costs increase from \$429 per year for women 65 under, to \$545 after the age of 65<sup>24</sup>. End-of-life care consumes significant resources as men require on average \$29,181 during their final year of life and women \$50,956<sup>25</sup>. The combination of a rapidly growing and ageing population will put considerable financial strain on Alberta's health sector.

Expanding healthcare services to include new surgical procedures and new pharmaceuticals will also challenge the sustainability of the health care system. A 2008 report by the Government of Alberta listed prescription drugs as the fastest growing cost component of Alberta's health system<sup>26</sup>. The Government of Alberta's sponsored drug programs provide drug coverage to approximately 20 per cent of its population (though this 20 per cent accounts for 45 per cent of the prescriptions filled in this province)<sup>27</sup>. In light of this information, the Calgary Chamber of Commerce supports the government's initiative to reduce the cost of generic drugs from 75 per cent of a brand name drug price to 45 percent<sup>28</sup>. This initiative is a positive first step in controlling the costs of prescription drugs while also helping the 25 per cent of Albertans who do not have any form of drug coverage and the 55 per cent of Albertans who participate in a drug benefit coverage program (offered and cost shared with their employers) who could potentially negotiate reduced premiums.

As a province that is largely financed by non-renewable resources, and therefore potentially subject to wide revenue fluctuations, it is imperative that the government stabilize health care spending. A study conducted by the School of Public Policy has demonstrated through simulation that per capita provincial government health spending could rise to anywhere between \$5,339 and \$14,215 in 2030<sup>29</sup>. The study however, also finds that between 1976 and 2007, spending categories such as hospitals, physicians and administration "have experienced long-term growth rates that do not deviate substantially from the economy's long-term growth rate or the government's revenue growth rate"<sup>30</sup>. Other categories such as drugs, capital (expenditures going towards construction, machinery and equipment for hospitals), public health (measures to prevent the spread of communicable diseases, and food, drug and workplace safety), and other professional expenditures (dentists, chiropractors, optometrists, private duty nurses, and physiotherapists), have, over the years, required an increasing share of total health spending that may not be sustainable<sup>31</sup>. Stabilizing health care spending will therefore require an aggressive cost control policy towards these categories of health care expenditures.

<sup>23</sup> Statistics Canada. *A Portrait of Seniors in Canada* (Ottawa: Statistics Canada, 2006).

<sup>24</sup> Health Canada. "Aging and Health Care Reform". *Health Policy Research*, 1, no.1 (2001): 1-20.

<sup>25</sup> *ibid.*

<sup>26</sup> Government of Alberta. *Alberta Pharmaceutical Strategy Phase Two* (Edmonton: Alberta Health and Wellness, 2008).

<sup>27</sup> *ibid.*

<sup>28</sup> *ibid.*

<sup>29</sup> The School of Public Policy. "The Fiscal Sustainability of Alberta's Public Health Care System". *SPP Research Papers: The Health Series*, 2, no.2 (2009): 1-27.

<sup>30</sup> The School of Public Policy. "The Fiscal Sustainability of Alberta's Public Health Care System". *SPP Research Papers: The Health Series*, 2, no.2 (2009): 9.

<sup>31</sup> *ibid.*



It is essential that government, the health care community, and private industry collaborate to build a health care system that offers a competitive advantage, fiscal sustainability, and fosters and supports a healthy population. To help achieve fiscal sustainability in the health care system, it is essential that government collect financial, program and service data, capable of providing consistent accurate, comprehensive and transparent accounting of all costs, including the recognition of capital and operating expenditures. Baseline measurements to evaluate cost-effectiveness, efficiency, quality, access and objective outcomes should also be collected to help guide health care decisions in the province. The Chamber supports the Alberta government in its approach to establish an independent entity to support evidence based decision-making in the health sector as a first step to monitoring and managing costs.<sup>32</sup>

**The Chamber recommends that the province**

- **Implement strategies to reduce generic drug costs; and**
- **Include financial evidence in its approach to evidence-based decision making in the health sector, and establish and monitor financial performance targets in collaboration with the *Health Quality Council of Alberta*.**

### **3.2 Long Term vs. Acute Care**

For some time the level of patients requiring long term care in the community but occupying acute care hospital beds has been rising. According to Alberta Health Services, in Calgary, approximately 190 patients a day wait in hospital for community living spaces<sup>33</sup>. Their stay in hospital costs the province millions in misallocated funds every year and places added pressure on the acute care sector.

AHS has recognized the need to adapt to the changing needs of Alberta's health system. The Calgary Chamber of Commerce supports AHS' commitment to develop and upgrade affordable seniors' accommodations throughout Alberta through initiatives such as Affordable Supportive Living Initiatives, and its Community Care and Acute Care Strategy which aims to create 775 community living spaces in the Calgary and Edmonton areas over a three year span.<sup>34</sup>

On a more immediate level, the Calgary Chamber of Commerce supports AHS's desire to implement an overcapacity protocol by the end of December - an immediate solution to shorten waits for emergency care. The new measures would see patients being moved to other hospital wards or continuing care facilities when emergency rooms become overcrowded (some of these situations include, when the emergency department is 10 per cent over capacity, when the hospital is full, when the proportion of patients in emergency waiting admission to an inpatient bed exceeds 35 per cent)<sup>35</sup>. It is however, important that an overcapacity protocol represent an interim practice until functional acute care capacity is sufficient. Overcapacity protocols cannot be accepted as a standard business practice and the root problems of overcapacity (namely, the lack of community resources and long-term

<sup>32</sup> Government of Alberta. *Putting People First, Part 1 Recommendations for an Alberta Health Act*. P 28

<sup>33</sup> Alberta Health Services. "Community Care and Acute Care Strategy." November 18<sup>th</sup>, 2010, [www.albertahealthservices.ca/1079.asp](http://www.albertahealthservices.ca/1079.asp).

<sup>34</sup> *ibid*

<sup>35</sup> McClure, Matt. "Doctors Skeptical of Plan to Ease Emergency Crunch." *Calgary Herald*, November 20, 2010, Section a, p.4.



care alternatives, lack of available hospital beds) must be addressed in the immediate future.

The Calgary Chamber of Commerce also supports AHS' decision to move forward with activity-based funding. AHS has announced its intention to phase in activity-based funding in the sector of long-term care during the 2010 fiscal year, and in the areas of assisted living, hospitals and emergency medical services in the 2011 fiscal year. Activity based funding is a method of funding health services based on the "activity" undertaken, as opposed to the traditional global funding approach. Activity based funding standardizes health service pricing to encourage improved fiscal management and allocation of resources to the most efficient provider. Activity based funding has been implemented successfully in a number of other provinces and jurisdictions, and the Chamber encourages the province to expand its use in Alberta. This, however, would require the establishment of a standardized pricing mechanism for health services. To minimize costs and avoid unnecessary duplication, the Chamber encourages the province consider adopting pricing mechanisms from other jurisdictions that would be applicable in Alberta.

In light of the commitment to upgrade and increase options for long-term care, an overcapacity protocol and activity-based funding (not to mention the aforementioned desire to reduce generic drug costs), both AHS and government appear to be thinking creatively and appear to be moving in a potentially promising direction.

Still, it remains to be seen whether the government will follow through on a number of these projects as most of these initiatives have yet to take place. In terms of generic drug costs, the province announced the initiative in the second phase of the Alberta Pharmaceutical Strategy on October 20, 2009. Similarly, AHS indicated its intentions to move towards activity-based funding in nursing homes in the start of the 2010 financial year (April 1, 2010). On both counts, there has been no implementation. Implementation is the government's weakest attribute; and failure to follow through on these commitments in a timely manner will result in a considerable loss of credibility.

**The Chamber recommends that the province:**

- **Invest in long term care facilities to reduce acute care cost pressures resulting from excess demand for long term care services; and**
- **Implement activity-based funding in the sectors of continuing care and acute care to encourage efficient service delivery and improved health outcomes under existing budget constraints; and adopt pricing mechanisms from other jurisdictions that would be applicable in Alberta.**

### **3.3 A Competitive and Business Friendly Facilities Market**

Competition encourages technological, clinical, and systemic innovation and productivity enhancements that improve the overall sustainability and accessibility of our system. The current legislative framework inhibits competition by functioning as a barrier for entry into the facilities market. Under the complex regulatory framework of *the Health Care Protection Act*, private providers are effectively precluded from delivering services in a publicly funded system. Conversely, providers that are not covered by the *Health Care Protection Act*, like



diagnostic services and long term care facilities, have experienced success in attracting private capital and encouraging competition. As part of any legislative reform, the Chamber recommends that the Government of Alberta adjust the current legislative framework to encourage competition among public and private providers, both for-profit and non-profit.

The amended legislative framework can facilitate competition in a number of ways: [1] by ensuring that contracts are structured in the same fashion as commercial contracts, with duties and obligations distributed more evenly between the two parties; [2] by facilitating different funding methodologies that encourage competitive internal markets like patient focused funding; and [3] by decreasing Ministerial authority over non-hospital surgical facilities (NHSFs) and the associated red tape when contracting with AHS.

**The Chamber recommends that the province amend health legislation to enable competitive private delivery of public funded health care services as one means to reduce costs, encourage innovation and ensure access to timely and appropriate care.**

### **3.4 Cooperation to Mitigate Cost Escalation**

While enhancing competition, it is important to keep in mind that all providers are operating under the same system and should cooperate in distributing resources especially when for-profit and non-profit facilities are contracted to provide publicly funded care.

For example, because AHS purchases pharmaceuticals for system wide application it can take advantage of bulk purchases and discounted rates. Previously, under the Calgary Health Region, ophthalmological centres could purchase extraordinary pharmaceuticals at rates set by the Region for publicly funded patient care. This allowed for-profit and non-profit providers to address complex cases, of which there may have been 10 or fewer per year, without having to purchase 1000 units (the minimum order) of pharmaceuticals the vast majority of which would go to waste. Since the transition, these providers have not been able to purchase from AHS resulting in significant and unneeded cost escalation, and decreasing system-wide efficiency. Any cost-savings achieved by an equal distribution of resources, pharmaceutical and otherwise, among for-profit and non-profit providers could be captured by AHS thus reducing system wide costs and increasing sustainability.

In principle, the whole system should benefit from the economies of scale generated by AHS. In the event AHS is able to negotiate joint/ equal procurement agreements with non-AHS providers, the entire system should benefit through reduced costs.

**The Chamber recommends that the province encourage legislative and programmatic change that creates a level playing field for all health care providers (private, public and non-profit) through equitable procurement contracting practices and shared access to cost savings of bulk purchasing arrangements.**