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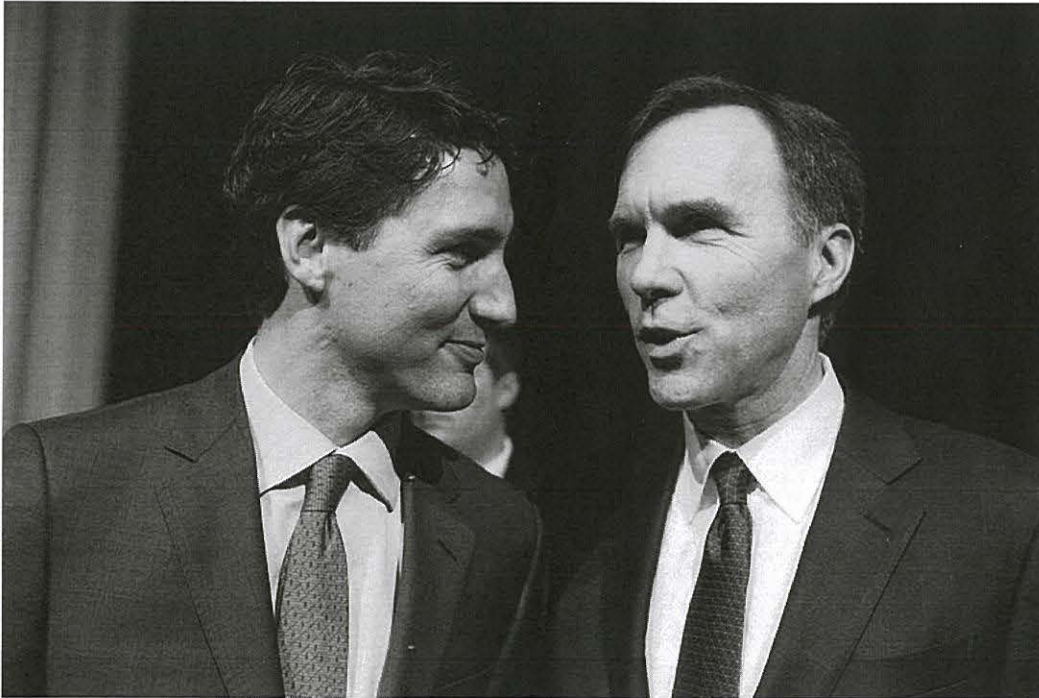
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NEWS

Divide and conquer: How the feds split the provinces in health talks

'They've outflanked their provincial counterparts entirely,' says one source close to the talks.



Prime Minister Justin Trudeau and Finance Minister Bill Morneau, pictured, along with Health Minister Jane Philpott, not pictured, are overseeing a federal effort to replace the expiring health accord with the provinces and territories. *The Hill Times* photograph by Jake Wright

By PETER MAZEREUW

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The Prime Minister's Office had decided weeks before a Dec. 19 meeting between Finance Minister Bill Morneau (Toronto Centre, Ont.) and his provincial and territorial counterparts that it had a "high tolerance for failure" of the talks towards a Canada-wide health agreement, according to sources in the health community close to the discussions.

The provinces and territories saw the 3.5 per cent health increase on offer as a federal negotiating tactic, and underestimated the Liberal cabinet's determination to tie any additional spending to the specific areas the party promised to shore up during the election campaign, they said.

Still, senior federal civil servants continued to work towards a pan-Canadian agreement following a tense mid-October meeting between Health Minister Jane Philpott (Markham-Stouffville, Ont.) and her provincial and territorial counterparts, an agreement that—temporarily, at least—was set aside when the Liberal government began signing individual agreements with provinces a little more than two months later.

"There's no indication that that was a ruse or a cover for a political agenda going on elsewhere," said a source in the health-care community in contact with senior federal officials.

"They were told, 'let's get this done.'"

Prince Edward Island became the latest jurisdiction to reach a deal with the federal Liberals on health Tuesday, leaving Canada's largest provinces in a stare-down with the Trudeau government as time ticks down toward the federal budget, expected later this winter.

Divide and conquer

When the provinces and territories rebuffed Mr. Morneau's offer on Dec. 19—3.5 per cent annual raises to the federal health transfer, and \$11.5-billion over 10 years to be spent on mental health, home care, and other areas—the federal government moved quickly to break apart their united front, inking bilateral health deals with New Brunswick three days later, and Nova Scotia and Newfoundland and Labrador the next day. All three territories would follow on Jan. 16, followed by Saskatchewan the next day, and Prince Edward Island earlier this week, leaving only the five largest provinces—Ontario, Quebec, British Columbia, Alberta, and Manitoba—holding out for better terms.

The provinces and territories had collectively pushed for a spending increase, or escalator, of 5.2 per cent per year, down from the six per cent of the current expiring health agreement, but far above the federal government's offer.

The provinces didn't take the government's offer of 3.5 per cent seriously, viewing it as an opening position in the negotiations, said sources close to the talks in the health community.

"I think they underestimated the resolve of Minister Morneau and the prime minister on the finance side of things. That this needed to buy change, not just help prop up provincial spending," said one.

The Hill Times granted general attribution to sources for this story who were concerned about compromising sensitive relations with the governments involved.

The Saskatchewan deal came alongside a one-year amnesty from federal penalties over the province's decision to offer private MRI services alongside the public system.

"That tells me though, that somebody at the federal level knows that horse trade, and knows what they're doing, and that this divide-and-conquer approach is now absolutely Tactic One for the feds," said another source.

"They've outflanked their provincial counterparts entirely."

The negotiations have been led at the federal level by Ms. Philpott and Mr. Morneau, with input from the Prime Minister's Office.

Ms. Philpott was open with stakeholders during the negotiations that "the government can live with the status quo," meaning a default to a three per cent escalator with no extra cash beginning April 1, if the provinces and territories wouldn't come on board, said one source in the health community close to the talks.

Political staff in the office of Quebec Health Minister Gaëtan Barrette were surprised at how quickly the federal government made a deal with the three Atlantic provinces following the end of the Dec. 19 meeting, in which the provinces and territories pushed together for a pan-Canadian deal, according to a source close to the talks in the Quebec health community.

Some officials in Quebec's health ministry underestimated Ms. Philpott's chops as a negotiator, because of her status as a rookie politician and minister, the source said.

"The interpretation was, 'she's soft, she wants to make friends, and everyone thought her first reaction would be, 'I need to agree with people, to put water in my wine.'"

That changed when Ms. Philpott introduced a stick into the negotiations in September, threatening to withhold federal transfers to Quebec if it didn't stop health providers from adding extra user fees for patients.

"I think she took her job very seriously, and that is maybe where the surprise occurred, that actually, 'holy shit, she means business,'" said the source.

Quebec's health ministry forwarded a request for comment to the office of Mr. Barrette, which did not immediately respond when reached. The Ontario government did not immediately respond to a request for comment, and the New Brunswick government was unable to arrange an interview before deadline.

The federal Liberals campaigned on promises to improve home care and mental health care, and to negotiate a new long-term health accord. The Liberal platform pledged to work out the funding agreement using "collaborative federal leadership that has been missing during the Harper decade."

Former prime minister Stephen Harper extended the long-term health accord negotiated by his predecessor, Paul Martin, until 2017, preserving the six per cent transfer until now. He was also criticized for otherwise failing to engage with the provinces directly on health-care issues during his time in office. The former Conservative government decided in 2011 to reduce the health-transfer growth rate from six to three per cent, but delayed implementation.

Despite the Liberal platform rhetoric, Prime Minister Justin Trudeau (Papineau, Que.) has so far rebuffed calls from the premiers to meet in person to work out a pan-Canadian health accord, apart from informal talks on the subject during a meeting on climate change in early December.

Health-care advocates and experts have long called for serious reform of Canada's health-care systems, which have driven provincial debt to sometimes worrying highs. Moving non-urgent care out of hospitals and into the homes of patients is seen as a way to reduce infection risks for patients, reduce the demand for hospital beds, and cut down on cost in a big way.

Health Minister Jane Philpott hasn't yet flinched in the face of demands from some of Canada's biggest provinces for a faster-growing health transfer, with fever strings attached on money thrown in on top. The Hill Times photograph by Jake Wright

Final offer

Talks between the federal, provincial, and territorial governments on a new health accord progressed well in the months following the Liberal election victory in 2015, sources say.

That changed in July, when the premiers met in Whitehorse for a Council of the Federation summit. They released a statement afterwards calling for "an immediate increase in funding" through the Canada Health Transfer.

Both sides dug in during a mid-October meeting between Ms. Philpott and her provincial counterparts. Ms. Philpott refused to increase the escalator on the health transfer, telling reporters she wanted to know any extra money sent to the provinces was being used to improve specific aspects of their health system, instead of flowing into their coffers with no strings attached.

Some of the provinces, Quebec in particular, took exception to federal dictates on how to spend the money. Mr. Barrette would later say as much

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on Global's *The West Block* program, calling the strings attached to the money "patronizing" in a Jan. 8 appearance.

Still, officials close to Ms. Philpott told one source in the health community around the October meeting that the feds' offer "was not just an opening volley in a negotiation. When Minister Philpott said that 3.5 per cent was the max, she was serious."

Provincial officials, politicians, and even members of the federal Liberal caucus told the same source in the last few months of 2016 that they saw the government's hard line in the negotiation as little more than posturing.

"The script was playing out the way everybody expected, until the second that New Brunswick announced that they had the unilateral agreement. That caught everybody by surprise."

When reached for comment, Ms. Philpott's office responded with an emailed statement, saying "while we would certainly hope to achieve a national agreement, we have previously indicated our openness to bilateral agreements, and remain committed to working with each interested province and territory to deliver on these important investments for home care and mental health."

The Prime Minister's Office did not respond to requests for comment.

Budget looming

The Liberal government entered into the health accord talks with as much leverage as it could hope for. The federal government alone has the authority to determine the size and scope of the Canada Health Transfer, whether or not the provinces agree to it, said Nelson Wiseman, who leads the University of Toronto's Canadian Studies program and studies federal-provincial politics.

Without a legal bargaining position, the provinces must rely on their ability to criticize and embarrass the federal government as leverage.

The upcoming federal budget gives the Liberals another stick to wield. If a multilateral deal—and the extra, earmarked money for home care and other services promised with it—is to be reached this year, it will likely have to come before Mr. Morneau's department finishes divvying up money for the budget due in February or March.

It's not entirely clear what would happen if a few provinces hold out beyond that point. The Canada Health Transfer reverts to an annual three per cent increase beyond April 1, so it is possible the five holdouts would be stuck to those terms, while the eight provinces and territories that signed bilateral deals would enjoy the fruits of their agreements right away.

"Then it becomes a game of blaming," said one source close to the talks.

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The Canada Health Transfer

The Canada Health Transfer is the largest major transfer of cash to provinces and territories, and is intended to support the principles of the Canada Health Act: universality, comprehensiveness, portability, accessibility, and public administration. CHT transfer payments are made on an equal per capita basis.

Total federal CHT transfers

2016-17: \$36.1 billion

2015-16: \$34.0 billion

2014-15: \$32.0 billion

2013-14: \$30.0 billion

2012-13: \$28.6 billion

Source: Finance Canada

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