OFFICE OF THE PARLIAMENTARY BUDGET OFFICER

BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

# Federal Financial Support to Provinces and Territories: A Long-term Scenario Analysis

Ottawa, Canada
20 March 2018
www.pbo-dpb.gc.ca

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis to parliamentarians for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

Consistent with the Parliamentary Budget Officer's legislated mandate, this report provides a long-term scenario analysis of Equalization, the Canada Health Transfer and the Canada Social Transfer.

This report was written by:
Trevor Shaw, Economic Analyst-Advisor

With contributions to the analysis from:
Govindadeva Bernier, Financial Analyst

And with comments from:
Mostafa Askari, Deputy Parliamentary Budget Officer.
Chris Matier, Senior Director

Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication.

Please contact pbo-dpb@parl.gc.ca for further information.

Jean-Denis Fréchette
Parliamentary Budget Officer

# Table of Contents

# Executive Summary

This report provides a long-term scenario analysis of the three largest federal transfers: Equalization, the Canada Health Transfer and the Canada Social Transfer.

Alternative scenarios considered in this report do not change PBO's qualitative assessment of fiscal sustainability for the federal government or any subnational governments provided in our 2017 Fiscal Sustainability Report (FSR), except in one instance for Ontario.

Recall that with the exception of Quebec and Nova Scotia, we found that current fiscal policies across provinces and territories were not sustainable over the long term. Further, the amount of policy actions required to achieve fiscal sustainability ranged from 0.4 per cent of provincial GDP in Ontario to 7.2 per cent of territorial GDP for the Territories.

Key results of this report are:

**Equalization**

- Based on our long-term projections and under the status quo structure, fiscal capacities will not be equalized across provinces when the growth in Equalization payments is capped at nominal GDP growth.
- That said, removing the GDP growth cap would have only a marginal long-term impact on federal or subnational sustainability.
- Changes to the rate of resource revenue inclusion affect the distribution of Equalization entitlements to a maximum of (+/-) 0.4 per cent of GDP in receiving provinces, except in Newfoundland and Labrador (1.8 per cent of GDP).
- Removal of the Fiscal Capacity Cap could affect the distribution of Equalization entitlements by as much as 1.7 per cent of GDP in Newfoundland and Labrador.

**Canada Health Transfer (CHT)**

- Similar to Equalization, based on the status quo, growth in the CHT envelope is limited to growth in nominal GDP.
- If CHT payments were to grow in line with provincial and territorial health spending, the federal fiscal gap would deteriorate by 0.3 percentage points of GDP. Subnational fiscal gaps would improve by as much as 0.7 per cent of GDP in Prince Edward Island.
- If the CHT were to cover 25 per cent of provincial health spending, the federal fiscal gap would deteriorate by 0.5 per cent of GDP. Subnational

fiscal gaps would improve by as much as 1.4 per cent of GDP in Newfoundland and Labrador.

**Canada Social Transfer (CST)**

- Under the status quo, growth in the CST envelope is limited to 3 per cent annually.
- If CST payments were to grow in line with provincial and territorial education and social spending, the federal fiscal gap would deteriorate by 0.1 per cent of GDP. Provincial and territorial fiscal gaps would improve marginally.

PBO's scenario analysis shows that by removing the growth caps for Equalization, the CHT and CST, the federal government could address fiscal disparities among the provinces and maintain its financial support for health care and social programs over the long term, without putting federal finances on an unsustainable path. That said, these changes would not be sufficient to put most provinces on a sustainable fiscal path.

# 1. Introduction

### Fiscal sustainability and the fiscal gap

Fiscal sustainability means that government debt does not grow continuously as a share of the economy.

PBO assesses fiscal sustainability using the fiscal gap—the difference between current fiscal policy and a policy that is sustainable over the long term.

The fiscal gap represents the immediate and permanent change in revenues, program spending, or combination of both, that is required to stabilize a government's net debt-to-GDP ratio at its current level over the long term.

A negative gap indicates that net debt is projected to decline as a share of GDP and that there is room available to increase spending or reduce taxes while maintaining fiscal sustainability.

This report provides a long-term scenario analysis of the three largest federal transfers:  Equalization, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). We provide estimates of federal and subnational government fiscal gaps under alternative transfer scenarios. The long-term scenarios presented in this report are based on, and are an extension of, PBO's 2017 Fiscal Sustainability Report (FSR). PBO has undertaken this work in response to parliamentarians' questions on the sustainability of the major federal transfers and the impacts of transfer rules on subnational government sustainability.

Equalization, the CHT and the CST account for one quarter of federal spending. These transfers are well-suited to long-term scenario analysis because the transfer principles for each are enshrined in legislation, and all are implemented through formulaic program rules.

In our 2017 FSR, we assumed that the current policies governing the major federal transfers would continue over the long term. While status quo rules are a useful guide, they are not a given. Throughout history, the rules governing these transfers have been periodically revisited and amended. In this report, we provide alternative scenarios for Equalization, the CHT and the CST to assess the impacts on our fiscal sustainability analysis in FSR 2017.

# 2. Equalization

**Purpose of Equalization**

The Equalization program is for addressing fiscal disparities among the provinces. Equalization payments, defined in Canada's Constitution, are intended to enable less prosperous provinces to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation. In 2016-17, Equalization payments amounted to $17.9 billion.

**How Equalization works**

Equalization is funded through general federal revenue and is an unconditional transfer, that is, there are no restrictions on how receiving provinces can use Equalization payments.

In practice, Equalization transfers federal funds to each province to ensure that each province has revenue-raising capacity that is in line with a national standard. Currently, this standard is defined as the average fiscal capacity of all provinces, that is, the "10-province standard".

Equalization program funding amounts are determined using a formula. While the Equalization formula has gone through iterations throughout history, the current Equalization formula is comprised of two major calculations:

1. Setting the size of the overall program envelope
2. Allocating the program envelope to each province

*Setting the size of the overall Equalization envelope*

The Equalization transfer envelope is determined on a top-down basis, whereby growth in total Equalization payments is capped at a three-year moving average rate of growth of Canada's nominal GDP. Under current rules, the sum of all Equalization payments each year must equal the overall envelope amount.

The top-down growth cap/floor is in place to "ensure stability and predictability while still being responsive to economic growth".[1] However, this top-down structure does not necessarily ensure that fiscal capacities of receiving provinces will match the 10-province standard.

In cases where fiscal disparities are substantial, total Equalization entitlements could exceed the envelope and consequently payments would have to be reduced. Similarly, if fiscal disparities were to narrow significantly, total entitlements could fall short of the envelope and payments would have to be increased.

*Allocating the Equalization envelope*

Once the overall Equalization envelope is established, Equalization entitlements and payments can be allocated across provinces. Allocation of the Equalization program envelope is determined according to a formula approximating fiscal disparities in each province, relative to a national standard—the average fiscal capacity of all provinces.

The Equalization allocation formula consists of four sequential steps:

1. Estimate fiscal capacity without resource revenues: each province's measured per capita fiscal capacity is compared to a national average. Non-resource fiscal capacity in each province is approximated by four generic tax bases: personal income tax, corporate income tax, consumption taxes and property taxes.[2]
2. Estimate resource-based fiscal capacity: each province's measured per capita fiscal capacity is compared to a revised national average, including the four tax bases in step 1 along with 50 per cent of each province's revenues derived from natural resources.
3. Optimize entitlements under the Fiscal Capacity Cap: each province is entitled to the higher per capita benefit amount derived in steps (1) and (2), such that the fiscal capacity in any receiving province does not exceed the fiscal capacity in any non-receiving province.[3]
4. Scale payments to the overall envelope: entitlements derived in step 3 often do not sum to the size of the overall Equalization envelope. Each receiving province's payments are scaled (up or down) on an equal per capita basis until the sum of each province's payments equal the total Equalization envelope.[4]

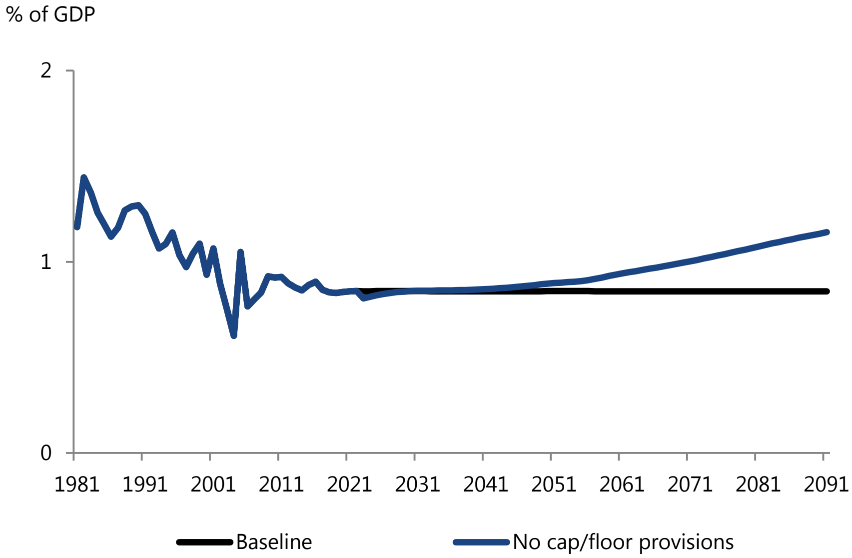
Our projections in this report allow for changes to both the way in which the Equalization program envelope grows, as well as the way in which the envelope is allocated.

Long-term Equalization scenarios (2023 to 2091):

1. No nominal GDP growth cap/floor on the overall Equalization envelope (alternative growth scenario)
2. 100 per cent of resource revenues are included in the determination of the fiscal capacity cap
3. 0 per cent of resource revenues are included in the determination of the fiscal capacity cap
4. Removal of the Fiscal Capacity Cap

Figure 2-1

## Total Equalization program payments




Sources: Statistics Canada and Parliamentary Budget Officer.

Note: The projection period covers 2017 to 2091. The alternative transfer scenario begins in 2023. Alternative allocation scenarios have no effect on total program payments.

**Equalization scenario (1)** demonstrates how Equalization payments would change if the top-down nominal GDP growth cap (floor) was eliminated and entitlements varied only according to changes in fiscal capacity.

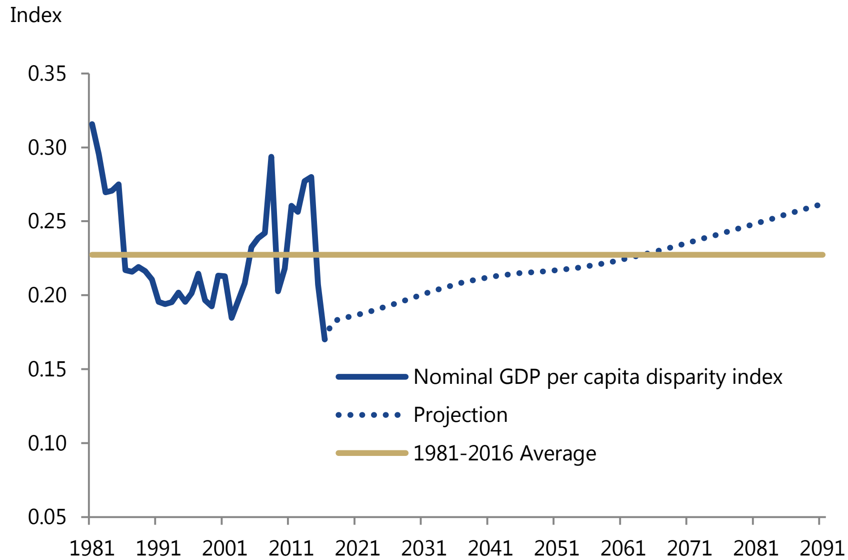
Removing the nominal GDP cap/floor can either increase or decrease total Equalization payments depending on the size of disparities in fiscal capacity across provinces.

In the first 5 years of our baseline projection, fiscal disparities are relatively small, so Equalization payments in our projection are marginally higher under the status quo than would be the case if the top-down nominal GDP growth cap were not in force.

Conversely, when disparities in fiscal capacity rise, total Equalization program payments increase, in turn. Under scenario (1), beginning in 2030, fiscal disparities increase such that total Equalization payments would exceed the baseline projection. By 2091, Equalization entitlements would be nearly 40 per cent higher if the nominal GDP growth cap were not in force (Figure 2-1).

The projected increase in the disparity of fiscal capacities over the long term is driven by a projected rise in disparities in nominal GDP per capita (Figure 2-2). Increased variation in nominal GDP per capita levels across provinces reflect widening differences in both labour productivity and labour market performance over the long term. See PBO's 2017 FSR for a more detailed discussion of provincial economic projections and assumptions.

## Figure 2-2 Index of nominal GDP per capita disparities




Sources: Statistics Canada and Parliamentary Budget Officer.

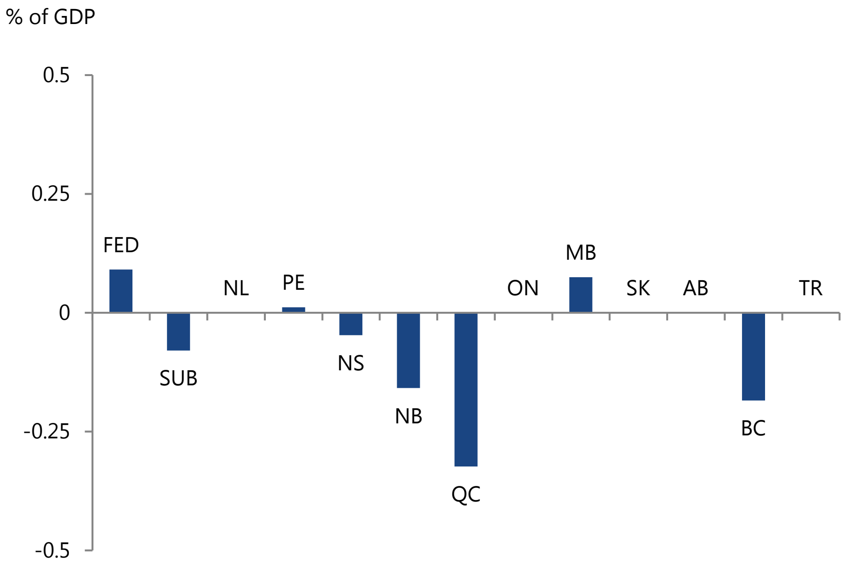
Note: The nominal GDP per capita disparity index is based on the coefficient of variation of nominal GDP per capita among provinces.

In our 75-year fiscal gap framework, eliminating the nominal GDP growth cap on total Equalization payments would result in a relatively small shift in fiscal room from the federal government to subnational governments (Figure 2-3). In this scenario, the federal fiscal gap would deteriorate by 0.1 percentage points of GDP (from -1.2 to -1.1 per cent of GDP), whereas the fiscal gaps in Equalization-receiving provinces would on balance improve by 0.1 percentage points of GDP. All provinces and the territories would remain fiscally unsustainable over the long term (with the exception of Quebec and Nova Scotia). Consequently, the fiscal gap for the consolidated subnational government sector would improve from 0.9 per cent of GDP to 0.8 per cent of GDP.

Scenario (1) increases the overall envelope of Equalization payments, but would not materially affect payment allocations.

Figure 2-3

## Impacts on fiscal gap estimates under the alternative Equalization growth scenario




Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position. A decrease represents an improvement.

**Equalization scenarios (2) and (3)** demonstrate the range of Equalization payments under alternative allocations based on the treatment of resource revenues while the status quo nominal GDP growth and floor provisions remain in place. The total federal cost of the Equalization program is unaffected in these scenarios.

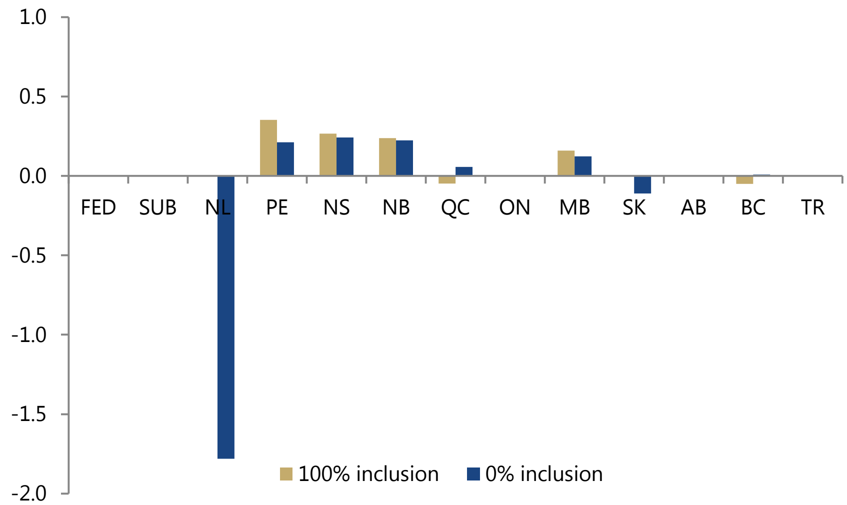
Under the status quo baseline, each province's fiscal capacity is estimated by including 50 per cent of revenues from natural resources. Equalization scenario (2) includes all resource revenues in the estimation of fiscal capacity. Equalization scenario (3) excludes all resource revenues in the estimation of fiscal capacity.[5]

In general, receiving provinces with significant revenues from natural resources bases (e.g., Newfoundland and Labrador) receive larger Equalization payments when a larger proportion of resource revenues are excluded from Equalization (Figure 2-4).

Receiving provinces with fewer natural resource revenues (e.g., Nova Scotia and Prince Edward Island) tend to gain when a greater proportion of resource revenues are included.

## Figure 2-4 Impacts on fiscal gap estimates for Equalization with 0% and 100% resource revenue inclusion

% of GDP




Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position while a decrease represents an improvement.

### The Fiscal Capacity Cap

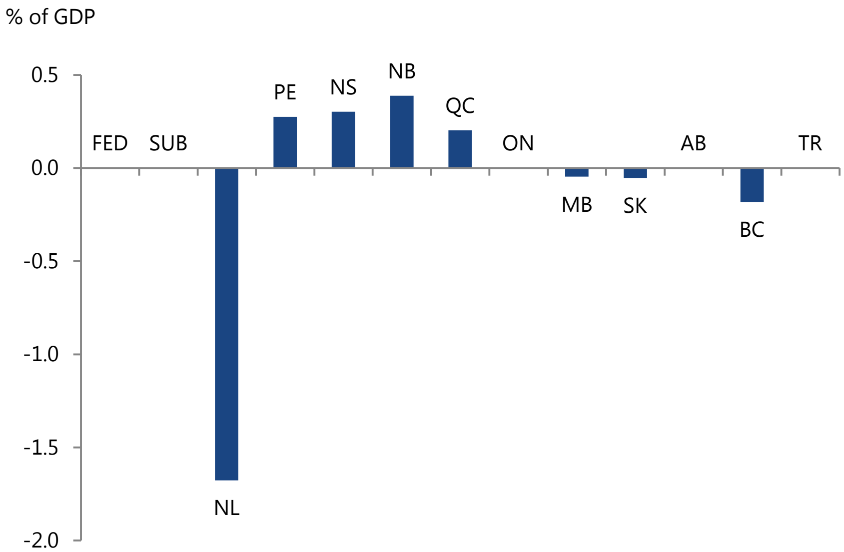
The Equalization formula limits eligible provinces' per capita payments such that post-Equalization fiscal capacity in any Equalization-receiving province cannot exceed fiscal capacity in any non-receiving province. The FCC most likely affects provinces with large natural resource revenues, which are partially excluded from Equalization but contribute to overall fiscal capacity.

**Equalization scenario (4)** demonstrates how Equalization payments would change if the fiscal capacity cap (FCC) was eliminated altogether. Under this scenario, the top-down nominal GDP growth cap (floor) remains in force, so the overall envelope of Equalization payments remains unchanged.

Removing the FCC most benefits provinces that have lower than average fiscal capacity and relatively high resource revenues, most notably Newfoundland and Labrador.

In our baseline estimates, Newfoundland and Labrador would not receive Equalization. In Equalization scenario (4), Newfoundland and Labrador would receive Equalization payments throughout the entire long term projection horizon, improving the province's fiscal gap by 1.7 per cent of GDP (Figure 2-5).

### Figure 2-5 Impacts on fiscal gap estimates under the Equalization with no Fiscal Capacity Cap




Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position. A decrease represents an improvement.

# 3. Canada Health Transfer

**Purpose of the Canada Health Transfer**

The Canada Health Transfer (CHT) is intended to provide long-term predictable federal funding for health care. The CHT is the federal government's largest transfer program, and comprises most of the federal government's financial support for Canadians' health care. In 2016-17, CHT payments amounted to $36.1 billion.

**How the Canada Health Transfer works**

The federal government's contribution to provincial and territorial health spending has gone through various iterations.[6] What began as a cost–sharing program in the 1950s has evolved into a conditional block transfer, with rules revisited periodically.[7]

The Canada Health Transfer is currently calculated in two parts:

1. **Setting the size of the overall CHT envelope**. Starting in 2017-18, the total CHT envelope grows in line with a three-year moving average of nominal GDP growth. If the three-year moving average of nominal GDP growth is less than 3 per cent, the CHT envelope grows at 3 per cent per year.
2. **Allocating the envelope to each province**. CHT is allocated on an equal per capita basis across provinces and territories.

We consider four alternative long-term scenarios for the CHT over 2023 to 2091. Two scenarios relax the nominal GDP growth constraint on the overall CHT envelope. The other two scenarios provide for an alternative approach to allocating transfers within the status quo CHT envelope.[8]

Canada Health Transfer scenarios:

*Growth*

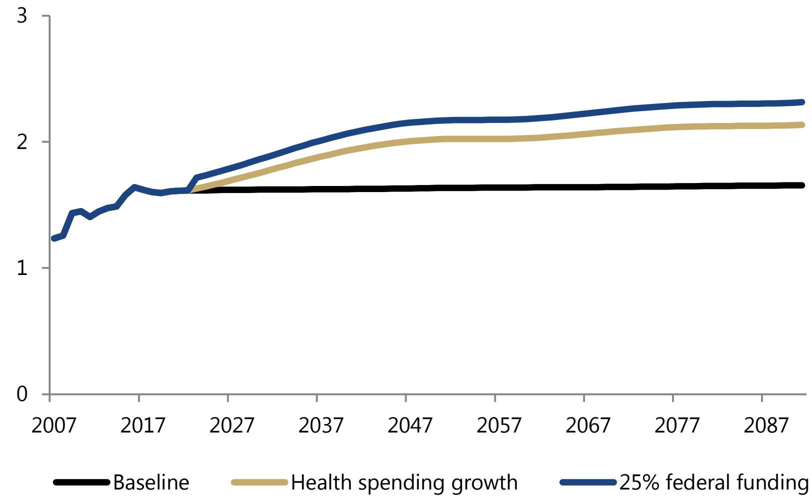
1. CHT payments grow in line with projected health spending in each province and the territories (combined)
2. CHT payments are increased and maintained at 25 per cent of health spending in each province and the territories (combined)[9]

*Allocation*

1. CHT payments to provinces and the (combined) territories are allocated based on their respective shares of the population aged 65 and over
2. CHT payments to provinces and the (combined) territories are allocated based on their respective shares of the population aged 85 and over

Figure 3-1 **Total CHT payments under alternative growth scenarios**

% of GDP




Sources: Statistics Canada and Parliamentary Budget Officer.

Note: The projection period covers 2017 to 2091. Alternative transfer scenarios begin in 2023. Alternative allocation scenarios have no effect on total program payments. Total CHT payments are presented excluding tax transfers.

In our baseline FSR projection, health spending across all provinces and the territories was projected to grow faster than nominal GDP. Moreover, CHT payments relative to provincial and territorial health spending were projected to remain below 25 per cent. Hence, CHT payments for all provinces and the territories would be larger over time under both alternative growth scenarios that more closely tie CHT transfer amounts to provincial and territorial health spending (Figure 3-1).

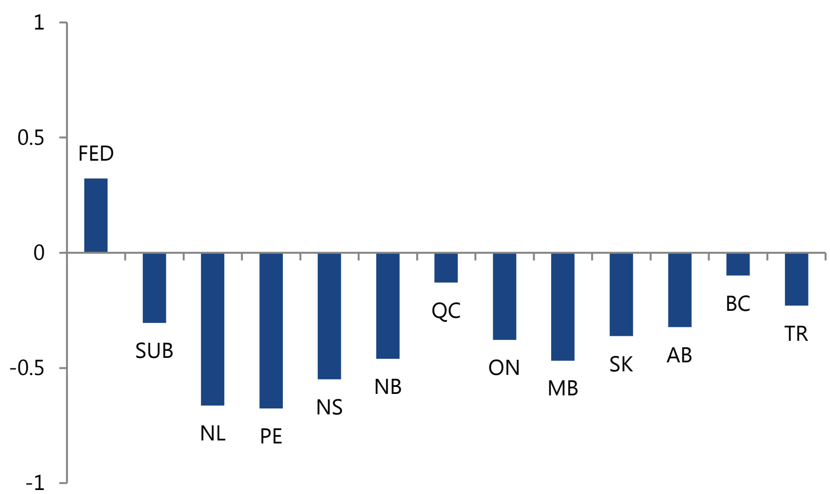
In **CHT scenario (1)**, if CHT payments increased in step with health spending in each province and the territories (combined), total CHT payments would be roughly 30 per cent higher than the baseline by 2091. Consequently, the federal fiscal gap would deteriorate by 0.3 percentage points of GDP while the subnational fiscal gap would improve by 0.3 percentage points. Across provinces and territories, the improvement would range from 0.1 percentage points (e.g., British Columbia) to 0.7 percentage points of GDP (e.g., Newfoundland and Labrador, Prince Edward Island). That said, most subnational governments would remain fiscally unsustainable over the long term.

Provinces and territories with faster growth in per capita health spending would stand to gain the most, under this scenario (e.g., Prince Edward Island, Newfoundland and Labrador).

Two factors contribute to per capita health cost growth in our projections: population ageing and growth in nominal GDP per capita. Provinces with more acute demographic challenges (e.g., Newfoundland and Labrador, Prince Edward Island) and faster growing economies (e.g., Ontario, Alberta) gain relatively more under scenario (1) than provinces with slower ageing and lower growth (e.g., British Columbia, Quebec).

### Figure 3-2 Impacts on fiscal gap estimates under alternative CHT growth: CHT growing with health spending

% of GDP



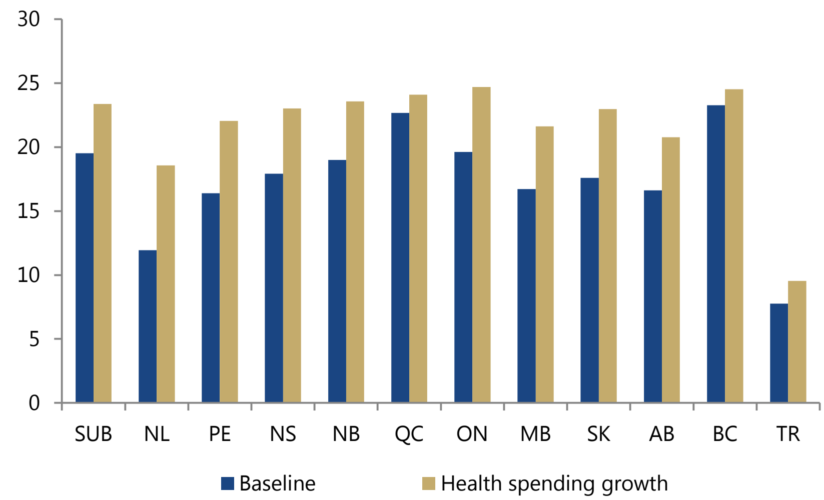

Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position while a decrease represents an improvement. The alternative CHT growth scenario assumes that CHT payments in each province and the territories (combined) grow in line with their respective health care spending over 2023 to 2091.

Figure 3-3

## Federal financial support under alternative CHT growth scenarios: CHT growing in line with health spending

Average CHT payments as a percentage of provincial-territorial health spending




Source: Parliamentary Budget Officer.

Note: Average payments are calculated over 2023 to 2091. Average CHT payments for Quebec and the subnational total include both cash and tax transfer components.

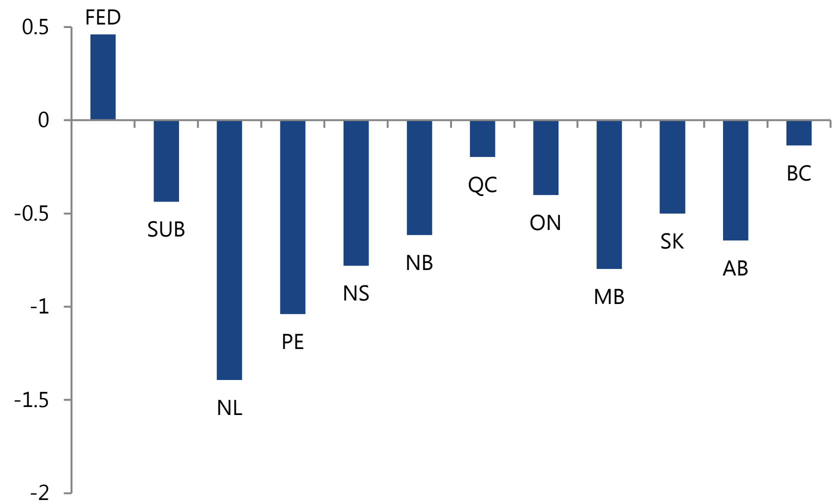
On average, the CHT accounts for roughly 20 per cent of total provincial-territorial health spending, over 2023 to 2091. Under our alternative scenario where the CHT grows in line with each province and the territories' health spending, total CHT payments would increase to roughly 23 per cent of provincial-territorial health spending over the same period.

In **CHT scenario (2)**, beginning in 2023, we increase and maintain CHT payments at 25 per cent of health spending in each province. Under this scenario, the CHT envelope would be roughly 40 per cent higher than the status quo projection by 2091. Consequently, the federal fiscal gap would deteriorate by 0.5 percentage points of GDP while the subnational fiscal gap would improve by 0.4 percentage points. Across provinces and territories, the improvement would range from 0.1 percentage points (British Columbia) to 1.4 percentage points of GDP (Newfoundland and Labrador). Ontario's fiscal gap would be entirely eliminated. That said, most subnational governments would remain fiscally unsustainable over the long term.

Figure 3-4

## Impacts on fiscal gap estimates under alternative CHT growth: CHT maintained at 25 per cent of provincial health spending

% of GDP




Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position while a decrease represents an improvement.

**CHT scenarios (3) and (4)** allow for alternative allocation rules for transfers within the status quo CHT envelope (which grows in line with nominal GDP). In both scenarios, total CHT payments are unchanged from the baseline. Consequently, the federal fiscal gap is not affected.

Under these scenarios, it is the growth in each province and territories' share of their elderly population that determines changes to their share of the CHT envelope. Provinces experiencing population ageing to a greater extent would receive additional CHT payments under the age-based per capita allocation rules considered in scenarios (3) and (4).

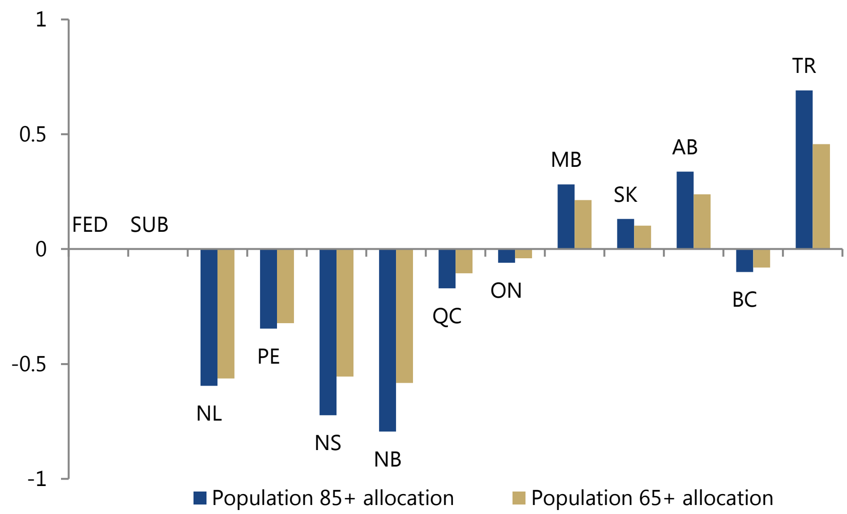
If CHT payments were to be allocated based on shares of the population aged 65 and over or aged 85 and over, the Atlantic provinces would receive the largest gains. The Territories, Alberta and Manitoba would be the most adversely affected.

Under the alternative CHT allocation scenarios, most provinces would remain fiscally unsustainable over the long term. Quebec and Nova Scotia would remain fiscally sustainable.

Figure 3-5

### Impact on fiscal gap estimates under alternative CHT allocation formula

% of GDP



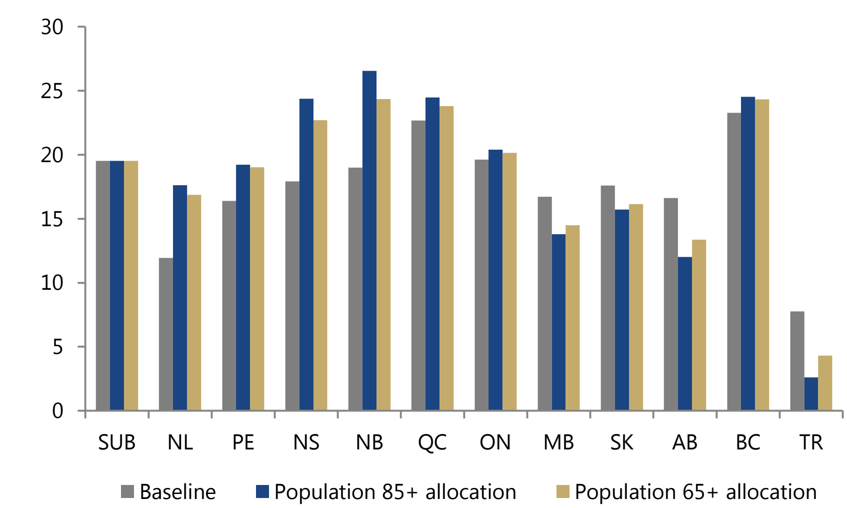

Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position while a decrease represents an improvement.

Figure 3-6

### Federal support under alternative CHT allocation formula

Average CHT payments as a percentage of provincial-territorial health spending




Source: Parliamentary Budget Officer.

Note: Average payments are calculated over 2023 to 2091. Average CHT payments for Quebec and the subnational total include both cash and tax transfer components.

# 4. Canada Social Transfer

**Purpose of the Canada Social Transfer**

The Canada Social Transfer (CST) is a federal block transfer to provinces and territories in support of post-secondary education, social assistance and social services, early childhood development, early learning and childcare. In 2016-17, CST payments amounted to $13.3 billion.

**How the Canada Social Transfer works**

The Canada Social Transfer is calculated in two parts:

1. **Setting the size of the overall CST envelope.** The total CST envelope grows automatically by 3 per cent per year.
2. **Allocating the envelope to each province.** The CST is allocated on an equal per capita basis across all provinces and territories.

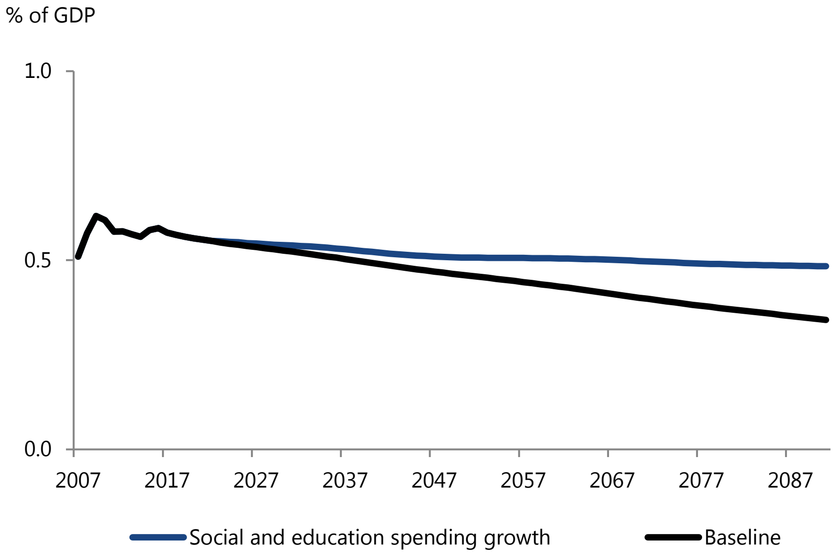
Over 2023 to 2091, the 3 per cent CST escalator is 0.7 percentage points lower, on average, than projected annual growth in nominal GDP in FSR 2017. Therefore, over time, CST payments are projected to decline as a share of GDP.

Canada Social Transfer scenarios:

1. CST payments grow in line with projected education and social spending in each province and the territories (combined)
2. CST payments to provinces and the territories (combined) are allocated based on their respective shares of the prime working-age population (15 to 64 years of age)

Figure 4-1

## Total CST payments under alternative growth scenario




Source: Statistics Canada and Parliamentary Budget Officer.

Note: The projection period covers 2017 to 2091. The alternative transfer scenario begins in 2023. The alternative allocation scenario has no effect on total program payments. CST payments are presented excluding tax transfers.

**In CST scenario (1)**, we relax the 3 per cent annual escalator on the CST envelope. Instead, beyond 2022, CST payments in each province and the territories (combined) are assumed to grow in line with projected spending on “social programs”, which in our Government Finance Statistics (GFS) accounting framework includes social and education spending.

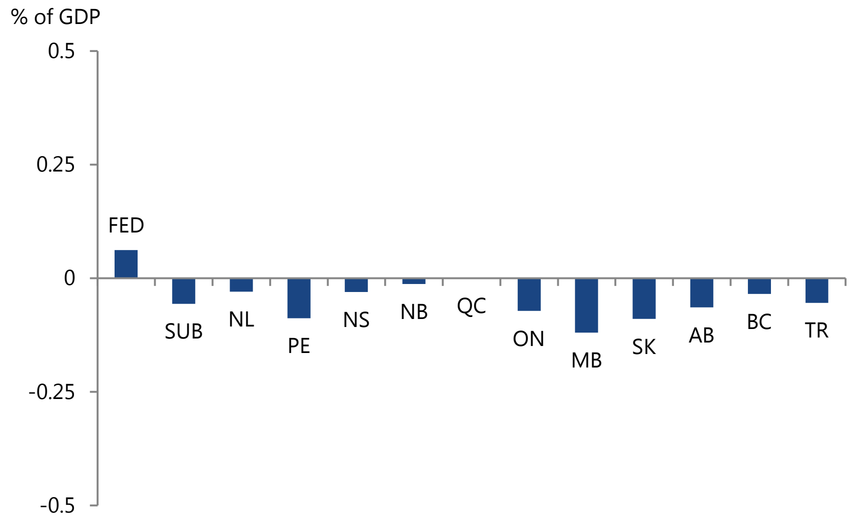
If the CST envelope grew in line with provincial and territorial education and social spending, rather than by the status quo 3 per cent escalator, the federal government’s fiscal room would deteriorate from 1.2 to 1.1 per cent of GDP.

All provinces and territories would see an improvement in their fiscal gaps. That being said, provinces and territories with relatively faster education and social spending growth per capita would stand to gain the most under this scenario (e.g., Manitoba and Saskatchewan). Provinces and territories with slower growth on education and social spending would gain relatively less (e.g., New Brunswick).

Two factors contribute to per capita social spending growth in our projections: population shares of school-age and working-age persons, and growth in real GDP per capita.

Figure 4-2

## Impact on fiscal gap estimates under alternative CST growth scenario

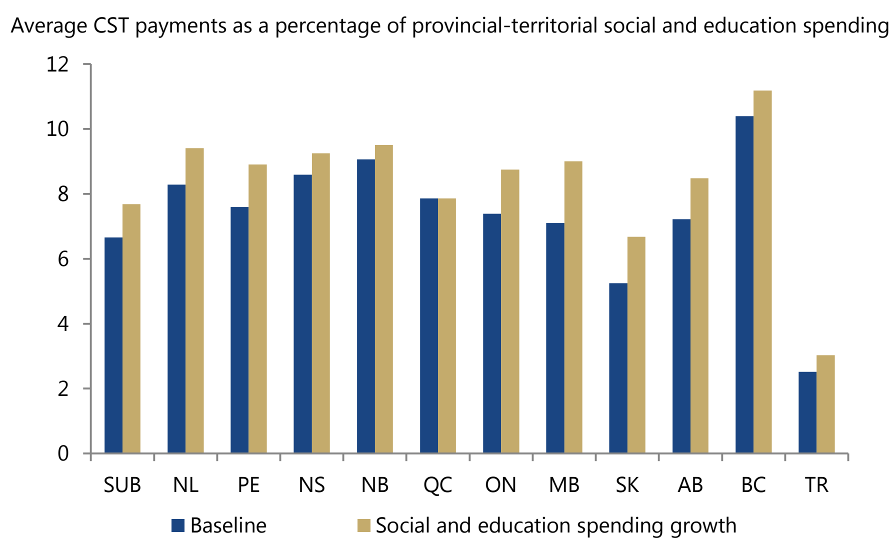



Source: Parliamentary Budget Officer.

Note: An increase in the fiscal gap represents a deterioration in a government's long-term fiscal position while a decrease represents an improvement. The alternative CST growth scenario assumes that CST payments in each province and the territories (combined) grow in line with their respective education and social spending over 2023 to 2091.

Figure 4-3

## Federal financial support under alternative CST growth scenario




Source: Parliamentary Budget Officer.

Note: Average payments are calculated over 2023 to 2091. Average CST payments for Quebec and the subnational total include both cash and tax transfer components.

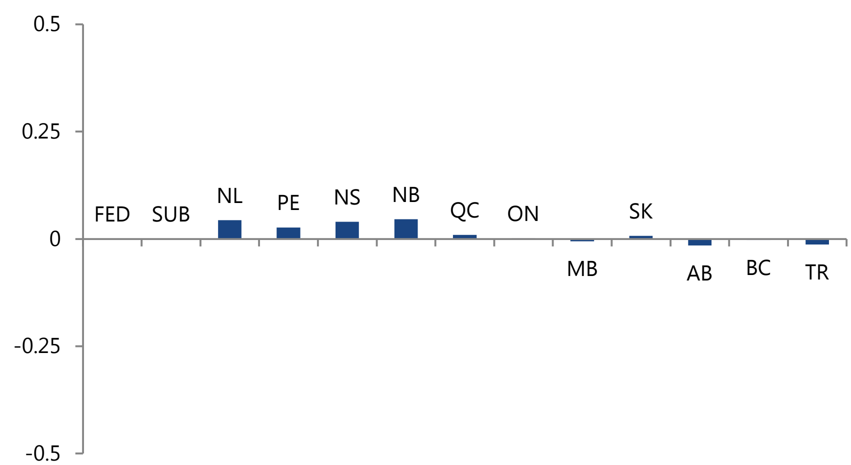
**CST scenario (2)** allows for an alternative allocation rule within the status quo CST envelope. The total size of the federal CST transfer is unchanged in this scenario, so the federal fiscal gap is unaffected. Provincial and territorial shares of the CST envelope vary with growth in their prime working-age population relative to the national average.

Provinces experiencing above average growth in their prime working-age population tend to gain under the CST age-based allocation scenario. That being said, the impact of the reallocation of payments is small.

If CST entitlements were to be allocated based on the share of each province and territories' prime working-age population, Alberta and the Territories would experience the largest gains. The Atlantic provinces would be negatively impacted (Figure 4-4).

## Figure 4-4 Impact on fiscal gap estimates under alternative CST allocation formula

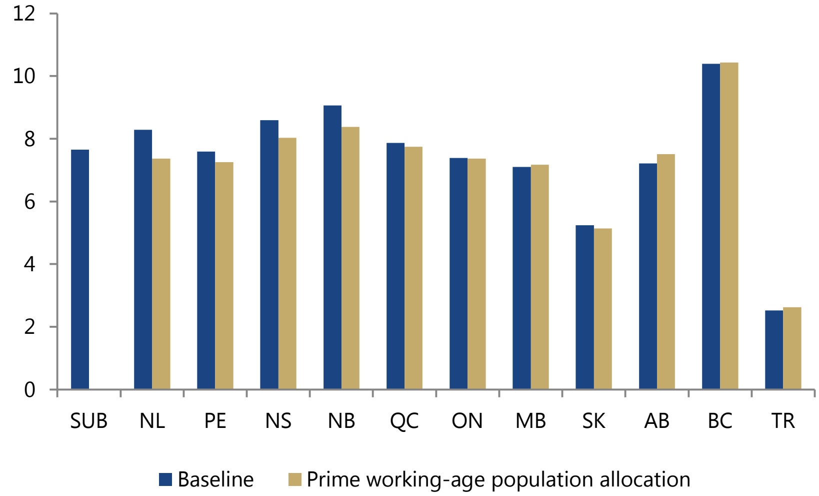
% of GDP




Source: Parliamentary Budget Officer.

## Figure 4-5 Federal financial support under alternative CST allocation formula

Average CST payments as a percentage of provincial-territorial social and education spending

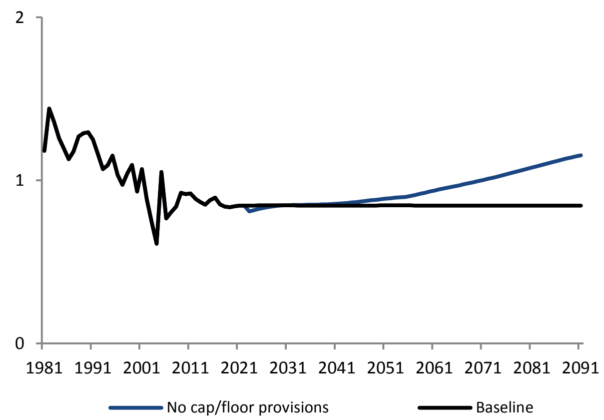



Source: Parliamentary Budget Officer.

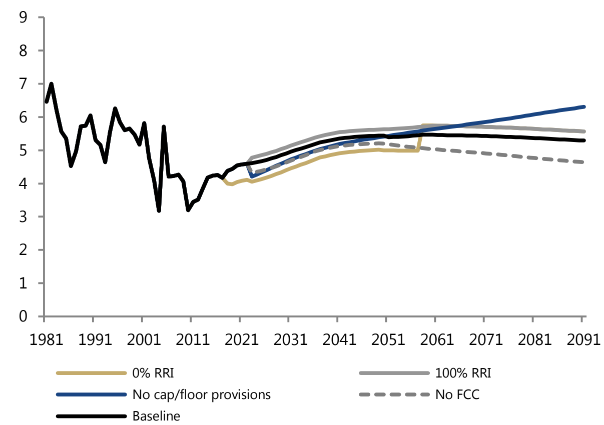
Note: Average payments are calculated over 2023 to 2091. Average CST payments for Quebec and the subnational total include both cash and tax transfer components.

# Appendix

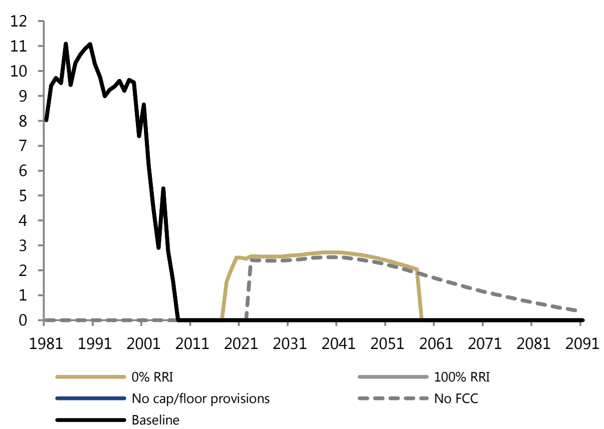
**Federal**
Equalization, % of GDP



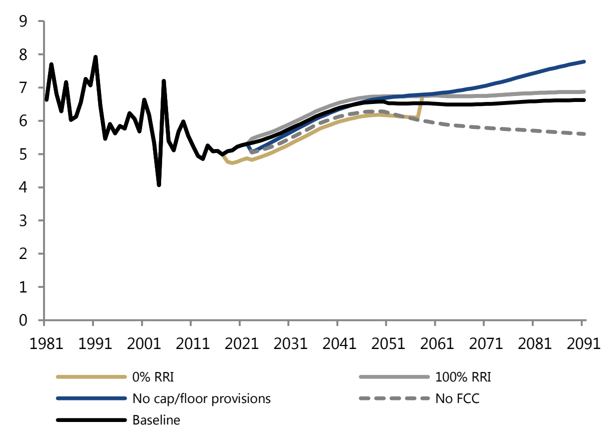

**Nova Scotia**
Equalization, % of GDP



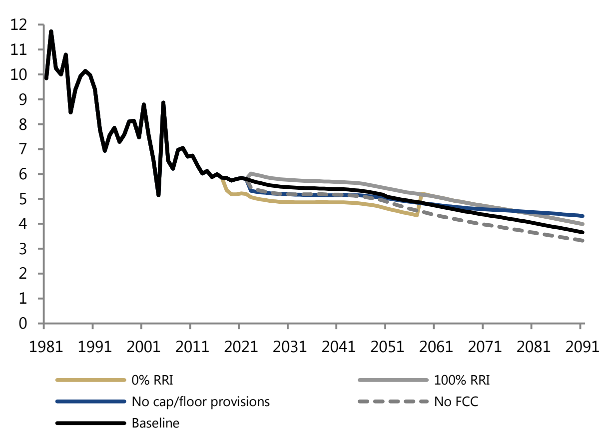

**Newfoundland and Labrador**
Equalization, % of GDP



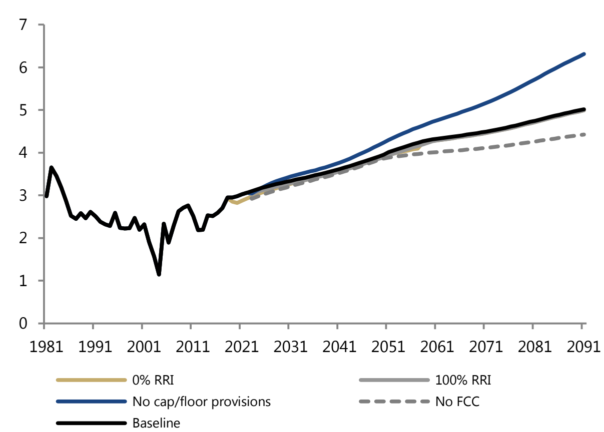

**New Brunswick**
Equalization, % of GDP




**Prince Edward Island**
Equalization, % of GDP



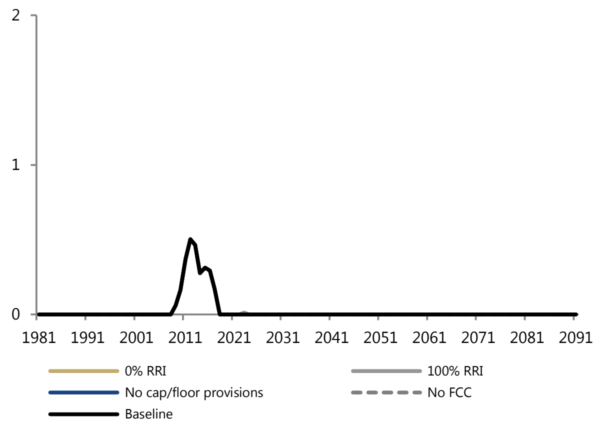

**Quebec**
Equalization, % of GDP




Sources: Parliamentary Budget Officer and Statistics Canada.
Note: "RRI" refers to Resource Revenue Inclusion. "FCC" refers to the Fiscal Capacity Cap.

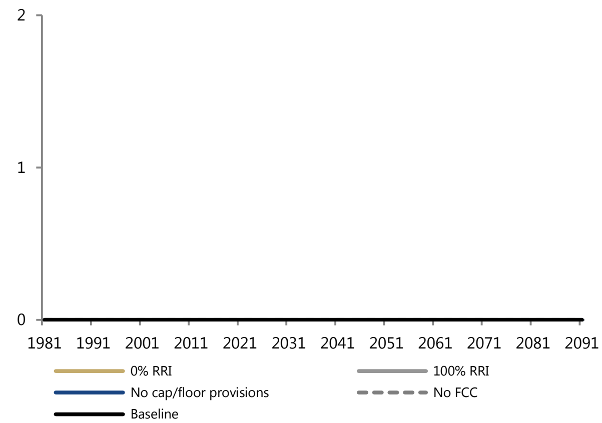
**Ontario**

Equalization, % of GDP



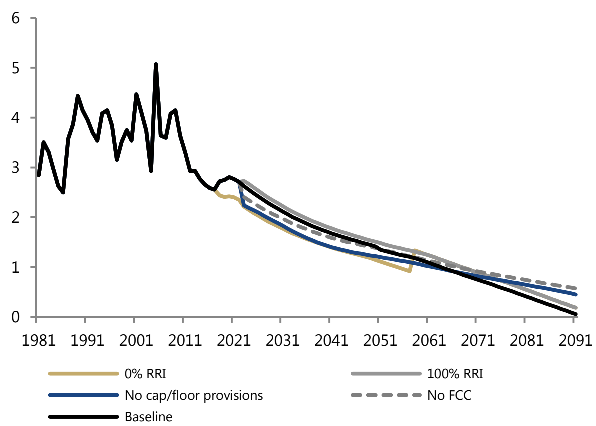

**Alberta**

Equalization, % of GDP



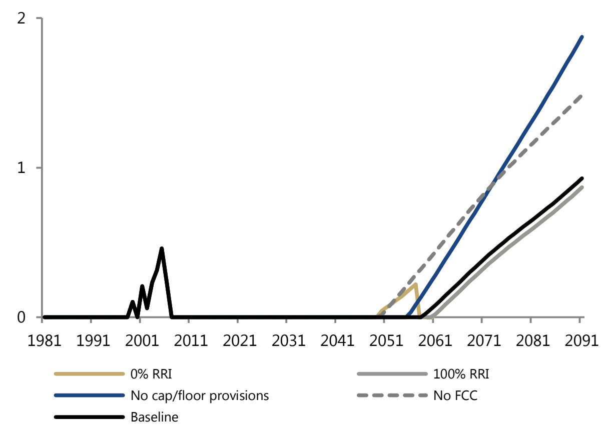

**Manitoba**

Equalization, % of GDP



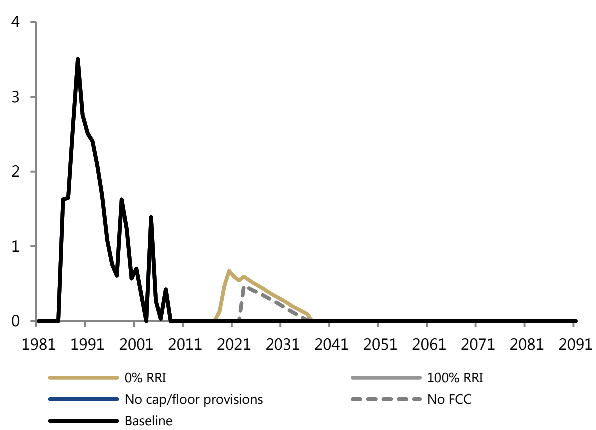

**British Columbia**

Equalization, % of GDP




**Saskatchewan**

Equalization, % of GDP

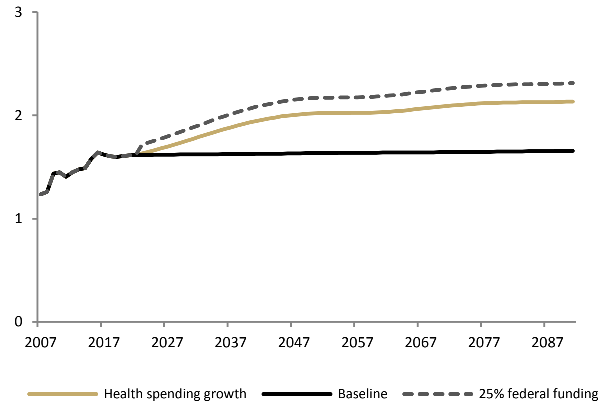



Sources: Parliamentary Budget Officer and Statistics Canada.

Note: "RRI" refers to Resource Revenue Inclusion. "FCC" refers to the Fiscal Capacity Cap.

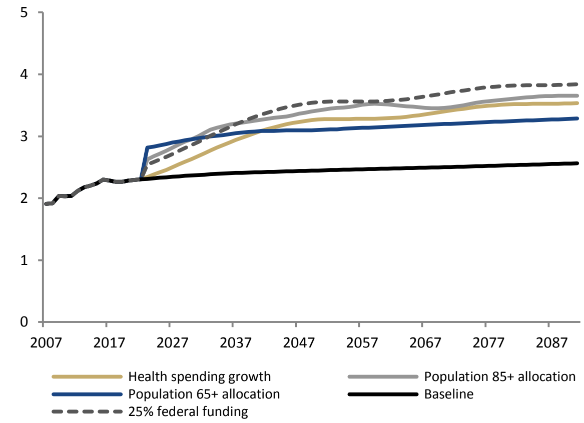
## Federal

Canada Health Transfer, % of GDP



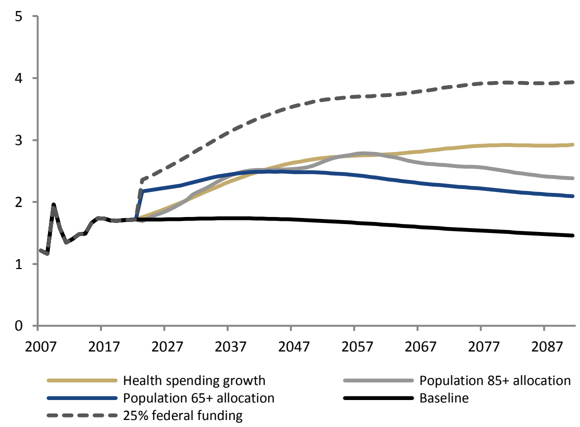

## Nova Scotia

Canada Health Transfer, % of GDP



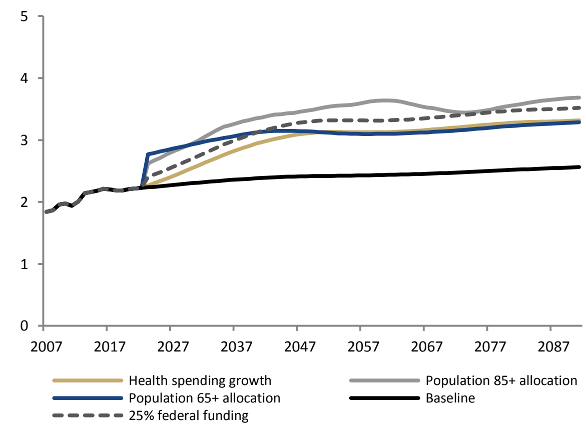

## Newfoundland and Labrador

Canada Health Transfer, % of GDP



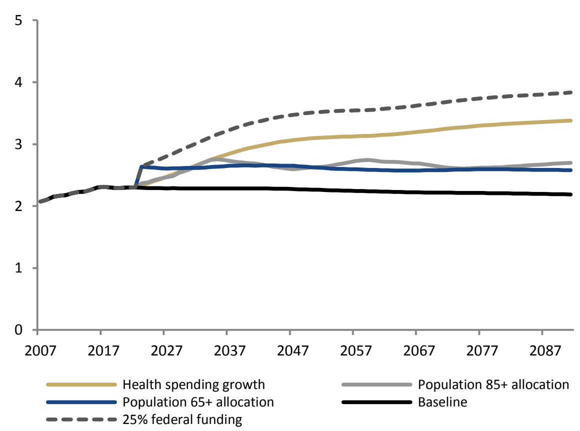

## New Brunswick

Canada Health Transfer, % of GDP



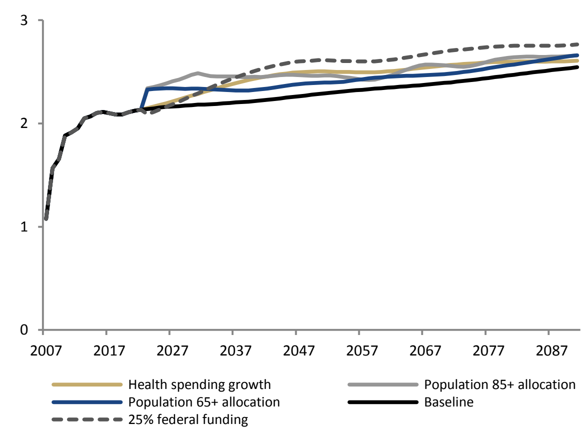

## Prince Edward Island

Canada Health Transfer, % of GDP




## Quebec

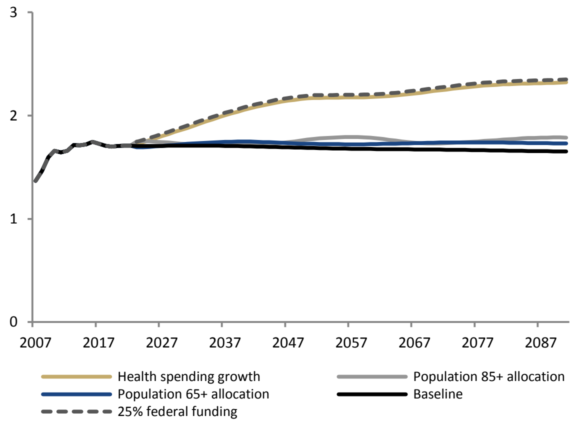
Canada Health Transfer, % of GDP




Sources: Parliamentary Budget Officer and Statistics Canada.

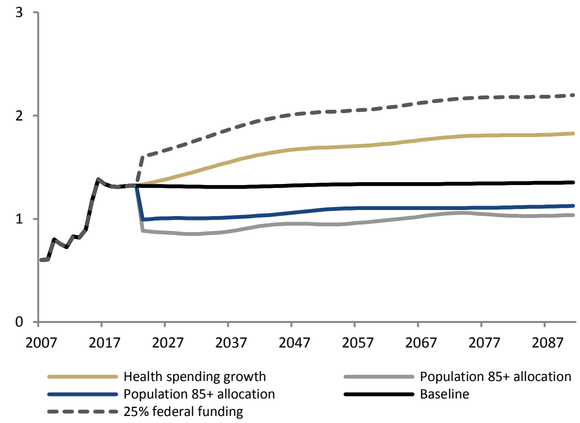
**Ontario**

Canada Health Transfer, % of GDP



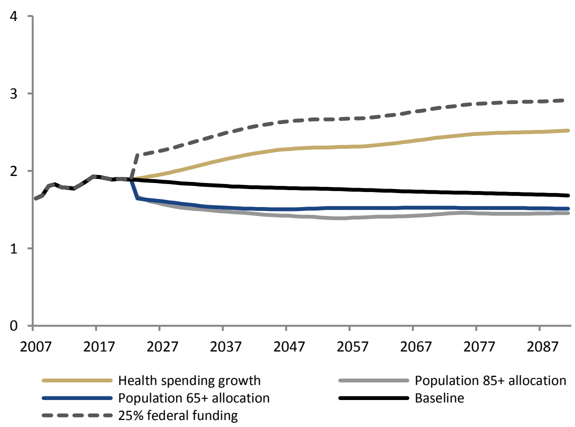

**Alberta**

Canada Health Transfer, % of GDP



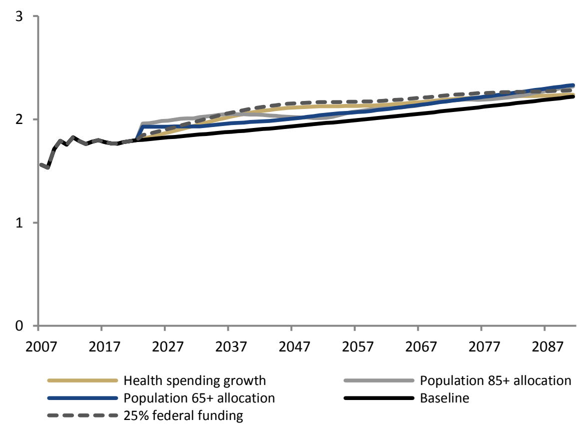

**Manitoba**

Canada Health Transfer, % of GDP



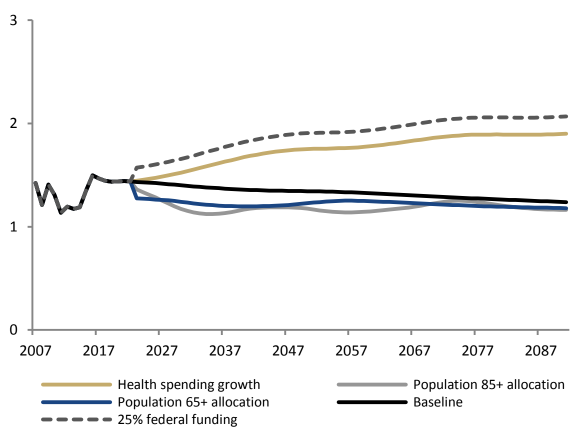

**British Columbia**

Canada Health Transfer, % of GDP



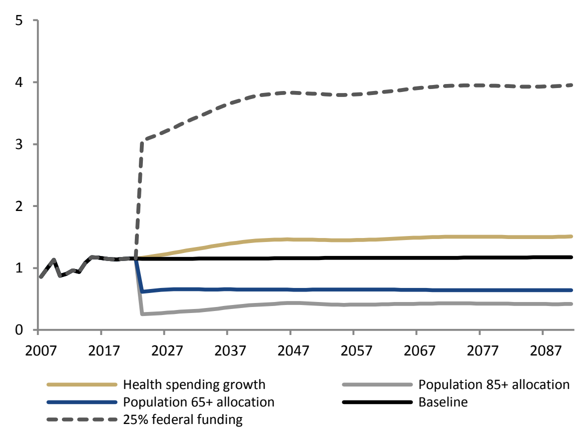

**Saskatchewan**

Canada Health Transfer, % of GDP




**Territories**

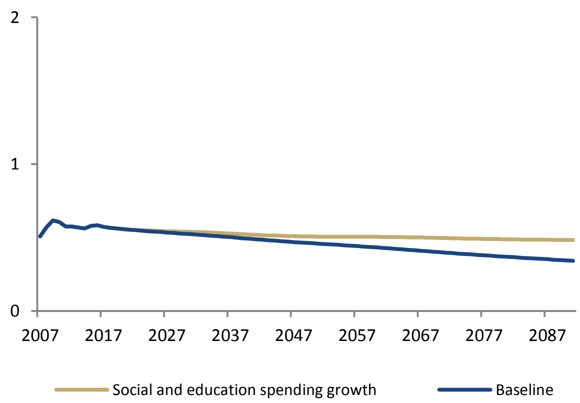
Canada Health Transfer, % of GDP




Sources: Parliamentary Budget Officer and Statistics Canada.

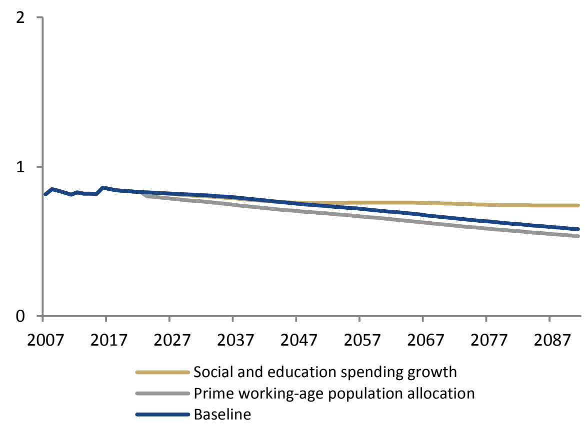
**Federal**

Canada Social Transfer, % of GDP



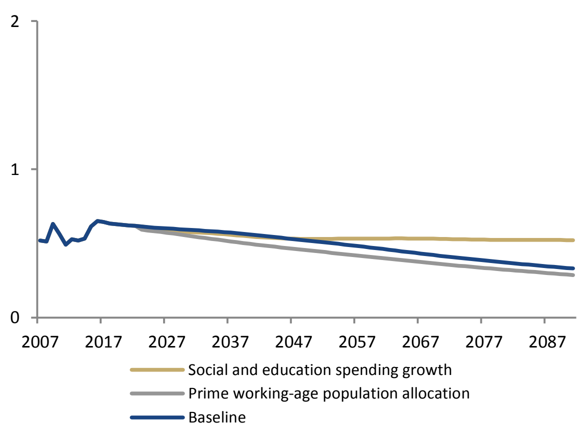

**Nova Scotia**

Canada Social Transfer, % of GDP



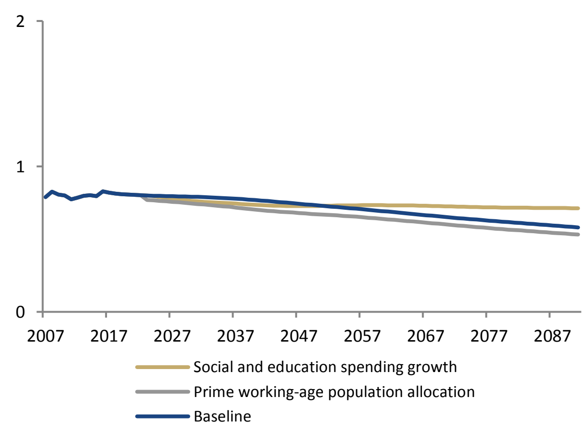

**Newfoundland and Labrador**

Canada Social Transfer, % of GDP



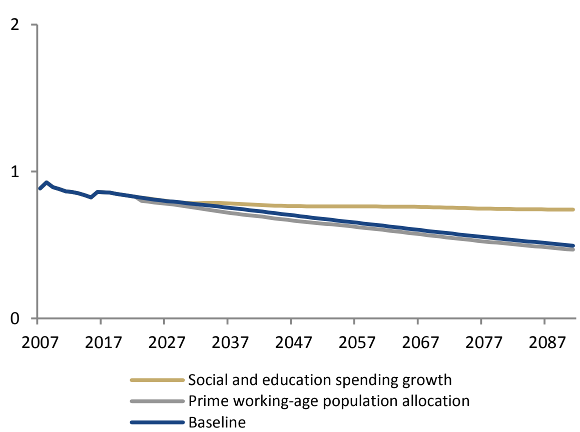

**New Brunswick**

Canada Social Transfer, % of GDP



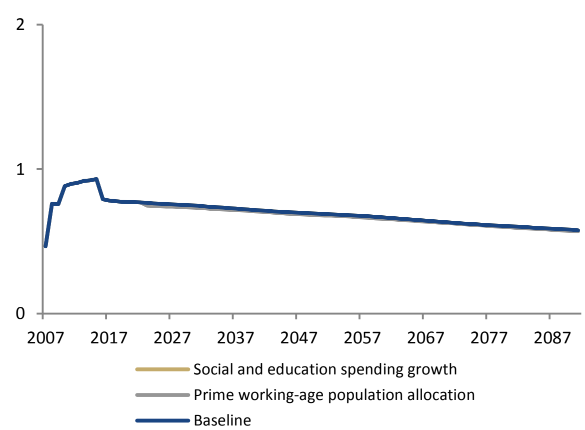

**Prince Edward Island**

Canada Social Transfer, % of GDP



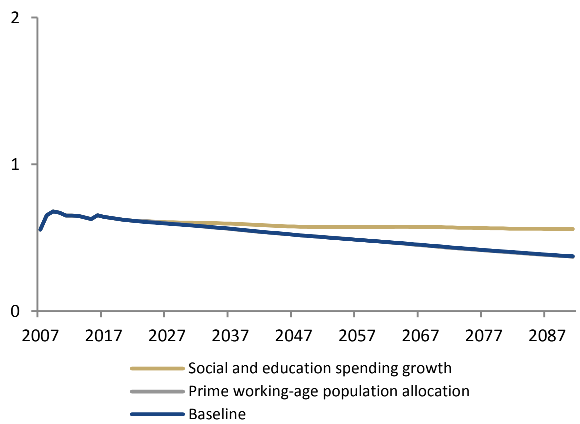

**Quebec**

Canada Social Transfer, % of GDP

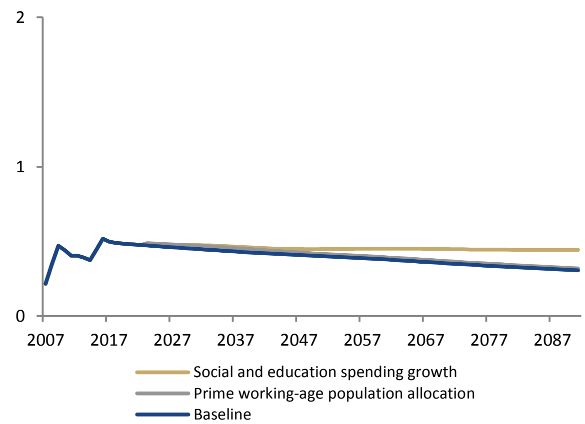



Sources: Parliamentary Budget Officer and Statistics Canada.

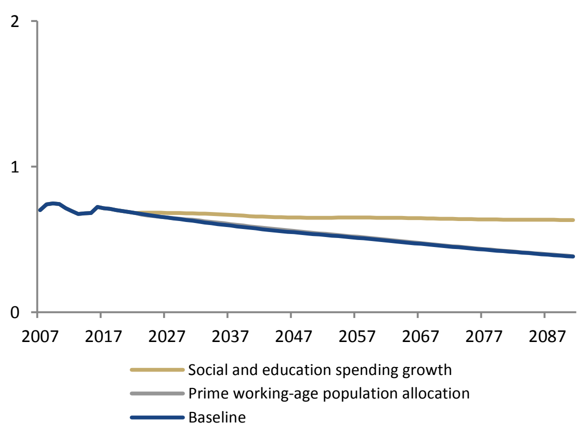
**Ontario**
Canada Social Transfer, % of GDP



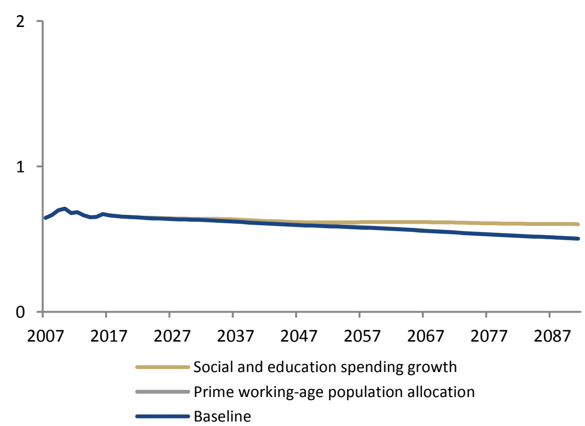

**Alberta**
Canada Social Transfer, % of GDP



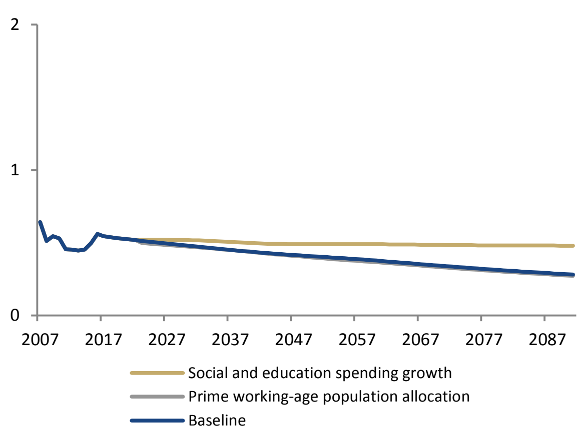

**Manitoba**
Canada Social Transfer, % of GDP



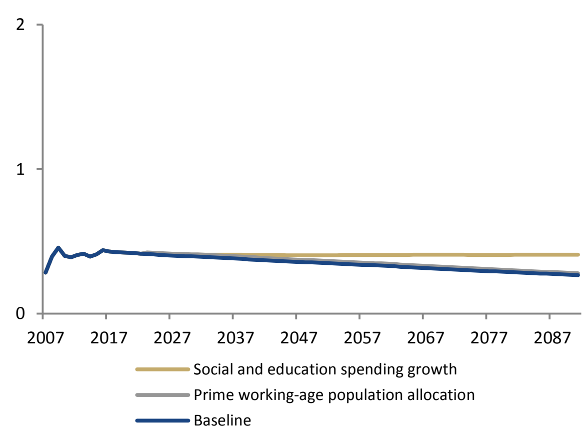

**British Columbia**
Canada Social Transfer, % of GDP




**Saskatchewan**
Canada Social Transfer, % of GDP




**Territories**
Canada Social Transfer, % of GDP




Sources: Parliamentary Budget Officer and Statistics Canada.

# Notes

1. https://www.fin.gc.ca/fedprov/eqp-eng.asp.
2. Approximating the tax bases in each province involves many adjustments and exclusions to promote comparability across the regions. PBO applies a simplified methodology to project future tax bases, whereby the ratio of each Equalization tax base to GDP is assumed to remain constant at 2016 levels over time. We assume that resource revenues (relative to GDP) will remain at 2016 levels. For additional discussion on detailed approximation of fiscal capacity, see *Achieving a National Purpose: Putting Equalization Back on Track*, May 2006.
3. When the population of the receiving provinces is greater than 50 per cent of the population of the ten provinces, the fiscal capacity cap is no longer equal to the fiscal capacity of the lowest non-receiving province, but instead equal to the average fiscal capacity of the receiving provinces. However, this situation never arises in our long-term projection.
4. The adjustment in Step 4 is made such that two conditions hold: (i) no Equalization-receiving province shall have a higher fiscal capacity per capita after Equalization than the lowest non-receiving province, and (ii) the per capita adjustment must be equal for all receiving provinces with fiscal capacity below the standard. Therefore, when Equalization entitlements calculated in Step 3 exceed the overall envelope, the per capita adjustment will be negative, and may, at times, entirely eliminate the Equalization entitlement for a province with fiscal capacity close to the national average. Conversely, when Equalization entitlements calculated in Step 3 are less than the overall envelope, the per capita adjustment will be positive, and may, at times, result in an upward adjustment to Equalization entitlements for a province not eligible for benefits in Step 3.
5. Scenario 3 excludes resource revenues in estimating the Fiscal Capacity Cap. In effect, scenario 3 excludes resource revenue from the Equalization formula altogether.
6. See https://www.fin.gc.ca/fedprov/his-eng.asp for a brief history.
7. Beginning with the *Canada Health Act, 1984*, provinces and territories must meet five broad categories to receive CHT payments, including but not restricted to: respecting public administration, comprehensiveness, universality, portability and accessibility.
8. The Territorial Financing Formula (TFF) is an annual unconditional transfer from the Government of Canada to the three territorial governments to enable them to provide their residents a range of public services comparable to those offered by provincial governments, at comparable levels of taxation. The TFF accounts for roughly 75 per cent of total territorial revenues, and is a major funding source for health, education and social programs. CHT and

CST amounts for the territories should be interpreted in this context. Material increases to CHT or CST transfers could be offset by decreases in TFF payments. https://www.fin.gc.ca/fedprov/tff-eng.asp

9. The 25 per cent cost share scenario is based on the recommendation of the 2002 *Commission on the Future of Health Care in Canada*. The Commission concluded that "at a minimum, future federal expenditures should be based on its past cash commitment of 25% of provincial-territorial costs for services covered under the Canada Health Act.", p. 69. http://publications.gc.ca/collections/Collection/CP32-85-2002E.pdf