

Comment Unit 9

Comments on SHA revision unit 9 "Classification of financial sources"

Summary

We understand the importance of the SHA revision and would like to give some comments on discussion questions and issues presented in proposed revision of SHA unit 9.

During 2008 the National Accounts unit at the Central Bureau of Statistics and the Health Ministry of Israel have worked together filling the WHO questionnaire. As a result of this cooperation, the quality and details of the health accounts were improved and the presentation of health expenditure by financing sector was partly changed since 1995 retroactively. The new sectors are presented now in financial sources format. So the financing sources topic is especially relevant for us. Below are our comments and as background material a description of the definitions and classifications of national expenditure on health, health services, operating and financing sectors used by the Central Bureau of Statistics in Israel.

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1. Comments on questions

The first ***Question: What issues are preventing the completion of health accounts by financing sources?***

The reason is the availability of data about private funds, such as "employer funds", "return on assets held by a private entity".

Options (A) or (B):

In our opinion, **Option (B)** is preferable. First of all, as you mentioned, it is important to know who is the actual payers for health services. In addition, in this approach, passing from financing sources to agents is very simple. Moreover, the expenditure data is more accessible than revenue sources data. So it is easier to present financing sources as entities providing funds for health care. In Israel, as will be described below, in the new presentation of health accounts we estimate health expenditure by financing source.

Question: In the Table 1 version of the financing sources classification scheme includes a classification for return on assets. Does this have a place in the health accounting framework?

In Israel, return on assets is not included in calculation of government health resources. In the private sector we can hardly obtain such information. So, it seems unnecessary to include a classification for return on assets.

Question: Do financial intermediaries add value to the health system?

The health system uses services of financial intermediaries, and the values of these services should be included in expenditure on health.

Question: What are alternative terminologies that could be used?

"Other private" – "Non-profit institutions serving households and other private entities" seems to us more specified.

"Rest of the world" – "Grants from abroad".

2. Definitions and classifications used in health accounts prepared by the Central Bureau of Statistics in Israel

2.1 In the **national expenditure on health** a distinction is made between current expenditure and fixed capital formation. Current Expenditure includes expenditure on

health services, medicines and medical equipment. Fixed Capital Formation includes construction of buildings and acquisition of equipment for institutions that supply health services.

Services defined as **health services** (generally, according to the *Standard Industrial Classification of All Economic Activities 1993*)¹ include: government administration, public clinics and preventive medicine, hospitals and research, dental care and private physicians. According to the *Standard Classification of All Economic Activities*, expenditure on sanitation is not included in expenditure on health.

Direct expenditure of households on medicines and medical equipment purchased from commercial enterprises are shown as one item and are not classified according to the industries in which the goods were manufactured.

The item “**public clinics and preventive medicine**” includes, inter alia, the services of the mother and child care clinics, health services in education institutions, campaigns against epidemics and illnesses, preventive psychiatric care, and inspection of sanitation and medical materials by the Ministry of Health. The item also includes outpatient clinics of hospitals, to the extent that those expenditures could be identified in the financial reports of the hospitals. Expenditures of dental clinics were usually separated, and are listed under the item “**dental care**”.

The item “**hospitals and research**” includes:

1) Various types of hospitals – general hospitals, hospitals for the mentally ill and for the chronically ill; convalescent homes; medical wings in homes for the aged, nursing schools, which are generally integrated within the hospitals in which they operate; research that cannot be separately identified in the financial reports.

The item does not include: services for the frail elderly in geriatric centres and homes for the aged, which are defined as welfare services; medical schools in universities (including medical research).

2) Research - this item includes special units in non-profit institutions that engage in research.

¹ Central Bureau of Statistics and The Public Advisory Council for Statistics, *Standard Industrial Classification of All Economic Activities 1993*, Technical Publication 63, 2nd ed., Jerusalem, 2003.

Units operating on a commercial basis in hospitals (such as Private Medical Services) were separated in the set of data presented here and included in the item “**private physicians**”. Units in other non-profit institutions that operate on a commercial basis, were included in the item “**public clinics and preventive medicine**”.

The item “**dental care**” includes dental laboratories and dental technicians.

The item “**private physicians**” includes private medical institutes and laboratories, nursing services and special treatment.

2.2 The Value of Health Services

There are two kinds of services:

- 1) health services provided by the government and non-profit institutions;
- 2) health services purchased by households directly from commercial enterprises.

The government and the non-profit institutions supply health services, in most cases, at reduced prices or free of charge. Since these services have no market price, their value is estimated at production cost:

- 1) labour cost – wages and salaries paid directly to employees, employers' contributions to funds and savings plans on behalf of employees (e.g., pension funds, national insurance including parallel tax, etc.) and taxes on labour such as payroll tax and employers' tax;
- 2) expenditure on medicines, medical supplies and other current expenditures on purchases of goods and services;
- 3) an estimated imputation for expenditure on depreciation of buildings and equipment;
- 4) imputed government expenditure, representing the government's commitment to pay budgetary pensions to its employees when they retire.

The cost of production does not include disbursement of interest, i.e., the value of the services provided to the public remains unchanged whether the government financed its expenditure by levying taxes or receipt of grants, or whether the government financed the expenditure by taking loans that bear interest.

2.3 Classification of Expenditure by Sector

In the past the national expenditure on health was presented according to the following sectors, according to ownership and legal status:

- 1) The government and local authorities – including the National Insurance Institute and national institutions
- 2) Sick funds
- 3) Other non-profit institutions
- 4) Business (for-profit producers) – business establishments and households

According to SNA 93, since 2003 the economy has been divided according to the following sectors:

- 1) The government and local authorities
- 2) Public NPIs (sick funds)
- 3) Private NPIs
- 4) Market producers – this should include every institutional unit that sells the majority of its production at a price that is economically significant in the corporation sector; even if the unit is organized legally and formally as a non-profit institution, and unrelated to the control of the unit. Therefore, this publication also includes for-profit producers (private hospitals, private doctors and nurses, etc.), and general hospitals owned by the government, sick funds and private non-profit institutions.

In the classification by **operating sector**, the direct expenditure of each sector on labour and on other goods and services was recorded, irrespective of the financing sector. For example: all expenditures on labour and on other goods and services in institutions such as sick funds, were recorded as expenditures of that sector and not as expenditures of other sectors that financed them, such as the government or households.

In the classification by **financing sector**, the financing by each sector is defined as the total direct expenditure on goods and services plus subsidies, grants, transfers and other disbursements (net) to other sectors (not including provision of loans).

The calculation of the share of each sector in financing health expenditures did not include estimations of depreciation in the expenditure of the sector or in the total national

expenditure on health up to 1995, since national expenditure on health includes current expenditures and expenditures on fixed capital formation.

Government financing does not include the subsidy component of government loans granted to other providers of health services (mainly sick funds) at a reduced interest rate or unlinked to the Consumer Price Index

2.4 Departments or items included in each sector

Expenditure on health of government and local authorities includes expenditure on health (in the ordinary and development budgets) by the Ministry of Health, the Ministry of Labour and Social Affairs, the unit for treatment of Nazi victims, the national institutions and the National Insurance Institute, the Health Departments of the local authorities. It also includes the expenditure on medical supervision and dental care in primary schools from the budget of the Education Departments. Expenditures on administration in local authorities are included in the category "public clinics and preventive medicine," since it could not be separated from the other expenditure items in the reports of most of the local authorities.

Expenditure on health by sick funds includes the expenditure recorded in their ordinary and development budgets.

Health expenditure of private NPIs includes the expenditure of health institutions that are not owned by the government, national institutions, local authorities and institutions that sell the majority of their production at a price that is not economically significant. Private NPIs include, among others, non-governmental public hospitals, health organizations, etc.

Health expenditures of market producers includes household expenditures for purchasing medications and medical instruments from commercial bodies, as well as revenue from health services provided by commercial bodies, such as: private hospitals, commercial units in non-profit institutions – such as SHA'BAN (Supplementary Medical Services) and SHA'RAP (Private Medical Services), private doctors and dentists, general hospitals owned by the government, sick funds or private NPIs that sell the majority of their production at an economically significant price.

This sector includes commercial medical activity of institutes affiliated with research foundations or hospital friends' associations (organized as non-profit institutions), such

as institutes for periodic examinations, institutes for special medical examinations, and commercial medical activity (plastic surgery, etc.).

Until the previous year we presented the financing of the national expenditure on health by the following sectors:

1. Government financing is divided into the following:

- a) Health tax, which the National Insurance Institute transfers to sick funds;
- b) Other subsidies provided out of the government budget to sick funds, to other non-profit institutions, and to households;
- c) Provision of current services by governmental health institutions and by local authorities, purchase of health services in other sectors, construction and purchase of equipment by the government – less earmarked receipts.
- d) Parallel tax, transferred to sick funds by the National Insurance Institute up to and including 1996.

2. Financing by households includes:

- a) Disbursements for health services, medicines and medical equipment purchased from the business sector, the government, the sick funds, and other non-profit institutions, as well as donations.
- b) Until 1994, sick fund membership fees were included. In 1995, health tax replaced the membership fees.

3. The remainder, which is presented in the table without a breakdown (other and unknown), mainly includes deficits or surpluses of the sick funds and of other non-profit health institutions, as well as financing from unknown sources.

Since 1995 the revised financing table includes the following sources:

1. Government financing is divided as before. The only change is that the Government budget finance is calculated now using expenditure flows, according to implementation of the Government budget.

2. Private financing includes:

a) Household's out-of-pocket payments that in the past were obtained from the Household Expenditure Surveys, which did not cover all households out-of-pocket expenditure.

b) Financing of private NPI's and General Hospitals in their ownership.

3. Transfers from abroad.

In addition to these changes, the calculation of the share of each sector in financing health expenditures includes consumption of fixed capital.