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Working Party of Senior Budget Officials

1st ANNUAL MEETING OF SBO NETWORK ON HEALTH EXPENDITURE

Draft Outline for a Discussion Paper on Possible Themes to be Addressed by SBO Network on Health Expenditures

**OECD Conference Centre, Paris
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This draft paper is meant to provide options for discussions in Session 6 on possible issues and deliverables for the SBO Network on Health Expenditures.

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**DISCUSSION PAPER ON
POSSIBLE THEMES TO BE ADDRESSED BY SBO NETWORK ON
HEALTH EXPENDITURES**

1. Increasing health and long term care expenditures are one of the main drivers of governments' fiscal deficits in OECD countries. Most countries now face the challenging task of financing increasing health expenditure while trying to achieve overall fiscal sustainability. With tightening budget constraints, there is growing interest in increasing the efficiency of health system spending to achieve greater value for money. In this context, the OECD has set up a Network on Health Expenditures under the Senior Budget Officials Working Party in order to discuss the sustainability of health financing from a budget perspective. The Network will look at approaches that countries have taken to strengthen the fiscal sustainability of health expenditures while maintaining or improving access to and the quality of services. It will look at different country approaches to financial arrangements, fiscal approaches, payment reform and organisation of care that countries have taken to achieve fiscal sustainability and increase value for money in health spending. It will also explore country approaches to estimating future health expenditures and understanding of the drivers of increased health spending. For the purpose of this discussion paper, health expenditures will include general, acute and long term care.
2. The purpose of this paper is to provide a framework for identifying and prioritising issues for consideration by the OECD SBO Health Expenditures network. It will lay out existing relevant work within the OECD, identify gaps that may need to be filled in light of participant needs and interests, and provide some options for co-operation and/or development of new analysis by the Network. A key objective of this paper is to identify the specific contribution that the Network can make, building on existing definitions, data and frameworks and analysis already developed at the OECD and elsewhere.
3. As the SBO Health Expenditures Network is a subsidiary network of the OECD Working Group of Senior Budget Officials (SBO), indications for possible future work made by this group will be taken back to the next meeting of the SBO in June 2012 for decision as part of the Secretariat work plan (the current SBO programme of work and budget covers the period 2011-12). Summaries of Network discussions and substantive work that is produced through the group may also be further discussed either at the SBO meeting or at one of the other regional or thematic Networks of the SBO.

The proposed scope of work for the SBO Network on Health Expenditures

The potential value-added of the SBO Network on Health Expenditures is its ability to place discussions on health expenditure in a broader context of overall budget needs and current trends in public budget and finance. Proposed work under the Network will therefore remain focused on these areas. Other work, while outside of the immediate scope of the Network, remains important for a full understanding of available approaches to controlling health expenditures and may regularly be brought to the attention of the network in order to inform it of recent developments. The Network could therefore focus on the following issues:

- I. **Institutional arrangements for health care:** institutional characteristics and health system performance/efficiency, including financing arrangements (both public and private) and their consequences for governments' ability to control health care expenditures, including through the use of market mechanisms.
 - Mapping health financing and decision-making arrangements
 - Decentralisation and fiscal federalism
 - Forecasting health expenditures
- II. **Health and long term care expenditure control strategies:** fiscal strategies for estimating, monitoring, and controlling health expenditures, including through regulation of third-party payers.
 - Macroeconomic context
 - Fiscal space for health
 - Roles and tools of Ministries of Finance
 - Consequences of microeconomic approaches to improving health system performance (drawing on the Value for Money work of the Health Division)

I. OVERVIEW OF INSTITUTIONAL ARRANGEMENTS FOR HEALTH CARE

4. In order to improve the overall understanding and comparability of health care financing systems, the Network could contribute to existing and/or on-going OECD work in the Employment, Labour and Social Affairs (DELSA) and Economics Department (ECO) to map trends and institutional approaches to health financing. It could also help to analyse the fiscal sustainability of different approaches to health care expenditures, and to analyse the context and elements of systems that are more successful in containing costs.

I.A. Analysis of health financing arrangements

5. **Analysing expenditure and consumption incentives of different financing arrangements:** Health financing systems usually involve different mixes of private/public insurance, government expenditure, and out-of-pocket expenditures. In order to help countries identify the elements of a sustainable system appropriate for their own needs and conditions, the Network could work with the Health Committee to analyse the expenditure and consumption incentives created through different financing arrangements of member countries.

Questions this set of work would seek to address:

- What institutional reforms have been the most successful in terms of reducing and/or limiting the growth of overall health care expenditure, while maintaining access to and quality of care?
- Are public insurance systems solvent? How is the solvency and sustainability of public insurance and public finance balanced with benefit of the patients?
- What are the pre-conditions for the successful use of market mechanisms to manage health care costs?

Possible areas of co-operation / outputs:

- GOV participation to review national budget systems as part of DELSA country reviews of Systems of Health Accounts (SHA)
- GOV contribution to future DELSA report on health and long term care financing arrangements
- Review of efficiency of insurance systems, including whole transaction cost, impact of health financing fragmentation on the ability to manage costs (GOV & DELSA)
- GOV analysis of the fiscal impact of revenue expenditures (e.g. health care deductions)

I.B. Governance arrangements: Analysis of health decision-making arrangements

6. **Identifying health expenditure trends and drivers:** The balance of cost, access and quality is affected by the level and mechanisms for decision making on health financing, resource allocation, remuneration rates and methods, coverage and investment. Discussion of sustainable health financing systems therefore requires an understanding of how decision-making and accountability are structured. The Network could work with the Health Committee to help identify health expenditure trends and drivers and analyse the effectiveness of different decision-making arrangements for the allocation of health care resources. It could also look at how health objectives could be integrated into other policy areas in order to change user behaviour and strengthen the health focus of public services, thereby to leveraging public interventions to improve health outcomes and to achieve long-term budgetary savings.

Questions this set of work would seek to address:

- Based on functional categories and System of Health Accounts (SHA) definitions and data collected by the OECD, what have been the cost implications and incentives of different decision-making arrangements (e.g. market-based v. central government determined v. decentralised) for health care expenditure systems (e.g. medical treatment fee, pharmaceutical prices, etc.)?
- What is the government's role in ensuring the proper functioning of market mechanisms for the allocation of health care resources?
- What pre-conditions are necessary for arrangements to work?

Possible areas of co-operation / outputs:

- GOV input into public resource allocation and governance of health systems questions in DELSA questionnaire on Health institutions (administered by end-2011)
- GOV participation in the governance section of the updated DELSA report on health systems institutional characteristics (mid-2012?)
- GOV report on fiscal federalism arrangements for health care (in conjunction with DELSA and OECD Network on fiscal arrangements across levels of government)

7. **Examining methods to forecast spending:** Accurate forecasting of overall health and long term care expenditures is critical for understanding the challenges to fiscal sustainability. In particular, forecasting public expenditures for health care enables fiscal authorities to calculate fiscal needs and to create fiscal space, as well as to chart more sustainable expenditure paths. The Network could discuss methods to forecast spending by social insurance and national/sub-national governments to cover the future health and long term care expenditure, based on a project recently launched by the Health Committee on health forecasting. A preliminary report is scheduled for December 2011. It could also look at how health expenditures will affect public finances if left on current trajectories.

Questions this set of work would seek to address:

- How are health expenditure forecasts calculated?
- How are financing forecasts calculated for public expenditure on health and long-term care?
- How have estimates been compared to actual expenditure?
- What factors are used to calculate (e.g. past trends, GDP, national disposal income, aging population)?
- How is the difference made up when real health inflation exceeds estimates?

Possible areas of co-operation / outputs:

- GOV comments on DELSA review of health expenditure forecasting
- GOV review of public expenditure forecasts for health and long-term care, building on DELSA's methodology and in collaboration with DELSA

II. OVERVIEW OF HEALTH AND LONG TERM CARE EXPENDITURE CONTROL STRATEGY

II.A. Creating fiscal space for health expenditures

8. The Network could analyse country experiences and collect case studies on how to increase fiscal space through reallocation and reprioritization of public expenditure, and specific revenue mobilisation strategies (e.g. special taxation) to ensure the fiscal sustainability of health care expenditures. In particular, while existing OECD work looks extensively at health financing agents, relatively less is known about the implications of using different primary sources of funding to cover health expenditures.

Questions this set of work would seek to address:

- Have countries created fiscal space for health expenditure through fiscal consolidation in other spending areas or through general reallocation of public expenditure?
- Can health expenditures be linked to revenue, growth, general inflation or the overall rate of public expenditure increase?
- What are trends in the allocation of cost coverage by government, private insurance, and individuals?

Possible areas of co-operation / outputs:

- GOV report on strategies to raise revenue, including the incentives and market impacts of different types of primary funding (in conjunction with DELSA)
- GOV report on creating fiscal space for 'new' expenditure areas, e.g. setting up insurance for long term care (in conjunction with DELSA)

II.B. Fiscal arrangements for controlling health and long term care expenditures

9. Controlling rising health and long term care expenditures while maintaining quality and access is increasingly becoming a priority for OECD countries, and is one of the biggest issues of the OECD Health Committee. In light of overall public expenditure needs and public budgeting developments, discussions from a budgetary perspective can make a unique contribution to helping build sustainable health finance systems.

Questions this set of work would seek to address:

- What budget reforms have been the most successful in terms of reducing and/or limiting the growth of government spending for health care?
- What budget constraints are health expenditures subject to? And what are the consequences of not meeting expenditure targets?
- Is there evidence that performance regimes have helped improve the efficiency and effectiveness of health and long term care expenditures?
- How can ministries of finance best draw on findings for improving value for money in health care and efficiencies in areas such as public procurement?

Possible areas of co-operation / outputs:

- GOV report on budget strategies to control health expenditure, including through programme authorisation, medium-term fiscal frameworks, and automatic cost containment rules
- GOV report on public procurement in the health sector
- GOV report on use of performance measures and spending reviews to improve the efficiency and effectiveness of health expenditure (in conjunction with DELSA)

III. POSSIBLE LONGER-TERM DELIVERABLES

10. Within two years of launching the Network, analysis discussed and facilitated by the Network could be used to support the following possible deliverables:

- Report analysing the fiscal outcomes of different financing arrangements for health and long term care systems, with country case studies illustrating specific issues and finance strategies for clusters of countries defined by common health financing and delivery arrangements (prepared jointly by GOV and DELSA)
- Report on country use of fiscal arrangements and budget mechanisms for managing health expenditure, with country case studies illustrating specific issues and approaches. (Prepared jointly by GOV and DELSA)
- Increased engagement with non-member countries, including through expansion of participation in the SBO Network on Health Expenditures and through discussions of Health issues in SBO regional networks

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