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**HORIZONTAL PROJECT ON THE FINANCIAL SUSTAINABILITY OF HEALTH SYSTEMS**

**33rd ANNUAL MEETING OF OECD SENIOR BUDGET OFFICIALS**

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*This proposal for the establishment of a Joint Network on the Financial Sustainability of Health Systems is for information and discussion by the SBO.*

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## HORIZONTAL PROJECT ON THE FINANCIAL SUSTAINABILITY OF HEALTH SYSTEMS

### Introduction

Health spending has far outpaced economic growth in OECD countries in recent years. On the one hand, this has led to considerable improvements in the health of populations with rising life expectancy and improved quality of life. It has also been a welcome source of economic growth and jobs. On the other hand, the financial sustainability of health systems is being eroded by ageing populations, new expensive technologies and increasing demands for care from populations. Fiscal sustainability is a particularly pressing problem for those countries seeking to bring their public expenditures in line with revenues, as health is one of the largest area of public expenditure in OECD countries and expenditure forecasts show health spending climbing for the foreseeable future.

No area of public expenditure is more complex than health. Finding policy levers that can deliver greater sustainability without compromising important achievements in access and quality of health care, is no easy matter. Health budget officials from both Ministries of Health and Ministries of Finance met at the OECD in November 2011 to discuss their respective roles for managing health financing and expenditure. They identified a need for a better and more common understanding of the causes of health expenditure growth and what should be done about it (e.g. the direction and variables affecting health financing and expenditure). This requires better co-ordination between Ministries of Health, Ministries of Finance and Social Security Institutions. Subsequent discussions at the Health Committee underlined the value of improved dialogue, provided that it takes existing work into account and focuses on practical comparison of country practices.

The Health Committee, the Senior Budget Officials Working Party, and the Committee on Fiscal Affairs all have an interest in examining policies which might influence the fiscal space available for health spending in the future. They propose a **horizontal project on the financial sustainability of health systems**, building on on-going OECD projects and expertise in health and budget systems, expenditure forecasting, and taxation. The project's objective is to help build the evidence base on good practice in managing the budget of the health sector. This time-limited project would be run by a new **Joint Network on the financial sustainability of health systems** under the authority of the Health Committee and the Working Party of Senior Budget Officials.

### Key issues

The group will address three key issues around the sustainability of health spending:

- 1) **Fiscal space for health spending:** What will future health spending needs be, and how does the level of need compare to the fiscal capacity of economies to pay for it?
- 2) **Paying for health:** What approaches have countries tried to mobilize financial resources for the health sector? Are the approaches adequate, equitable, and sustainable, and what are the incentives and results that arise from them?

- 3) **Governance of health expenditures:** How have countries aligned incentives for different actors in the health sector to build financial sustainability into their decision-making, and to weigh these concerns along with issues of quality, access, and equity?

## 1) Fiscal space for health spending

Warnings that health spending is rising so rapidly that it will exceed realistic limits on what governments, social security institutions or family budgets can afford are commonplace. Recent work by the Health Committee has pointed to major weaknesses in the models used to forecast future health expenditures. Results are driven by assumptions made on a limited evidence base and often very different across countries. Furthermore, such forecasts usually have limited impact on policy, since they provide no guidance on what countries should do, even if a message of unsustainability is accepted. The Network will support efforts to improve the forecasting of overall health and long term care expenditures in order to enable fiscal authorities to calculate fiscal needs and to plan fiscal space, as well as to chart more sustainable expenditure paths. The Network will collect and disseminate good practices for health expenditure forecasting models in OECD countries, building on the review of forecasting models by the Health Committee and the work to be undertaken in 2012 by the Economics Department in collaboration with GOV and ELS on an OECD model of health spending.

Future health spending needs to be put into the context of future developments in public spending more generally, taking into account future revenues for the health system, be they via taxation, social insurance contributions, or private payments by households. The Network will work with countries to improve estimates on future health spending, and to project the impact of health spending on public budgets in the future.

## 2) Paying for health: Resource mobilization for the health sector

Health spending is financed through a combination of taxation, social insurance, private insurance and out-of-pocket payments. There are advantages and disadvantages to each of these components. Particular problems are caused when great reliance is placed on wage-based contributions by either employers or employees, as the changing demographic structure of countries and declining share of wages in the economy narrow the revenue base. Some countries have shifted financing in part to the public budget, thereby widening the tax base; others have earmarked revenues from particular taxes specifically for health purposes.

Health systems need stable financing in order to plan for the future and to achieve procurement efficiencies. The different sources of finance are affected differently by shocks to the economy, so require different budgeting arrangements. For example, when financed by social insurance, expenditures are insulated, to some extent, from general budgetary policies, but are affected by changes in employment. The Network will review options for the financing of health expenditure in the future, including the resilience of different sorts of financing to economic shocks and long-term changes. The Network will also explore different methods of risk-pooling and addressing fragmentation across populations and sub-national levels, for example through the use of resource allocation formulas and risk adjustment.

The Network will explore the potential double dividend that may arise from using "sin' taxes" – taxes on unhealthy behaviours. In complement to the Health Division's 'Economics of Prevention' project, the Network will explore current practice for taxing alcohol and tobacco, and look at new country efforts to develop taxes on dietary products such as fat, sugar, and salt. These taxes have both health (e.g. reducing obesity, diabetes, smoking, alcohol consumption) and revenue objectives, but the impacts are complex and

many countries are still at an experimental stage. The potential of such measures depends on social acceptability, administrative complexity, and fairness and equity considerations.

### **3) Governance of health expenditure: promoting value for money**

In order to promote more realistic expenditure needs and to create incentives for all actors to work together to manage spending to expenditure targets, the Network will look at how health budgets are set (e.g. whether budget limits are hard or soft, and the consequences of exceeding spending limits). In order to address the principal-agent problem, it will look at strategies and arrangements for monitoring expenditure, for reallocation and reprioritization, and for identifying and adopting tools for improving efficiency of public spending. It will also explore the greater emphasis and shift from budgeting for inputs to output-based and outcome-oriented budgeting. In the health sector, there is increasing emphasis on achieving improvements in health outcomes for health spending, but also particular problems in shifting from outputs to outcomes. The Network will therefore disseminate good practice in performance budgeting in the health sector.

In order to ensure that comparisons take into account financial and governance contexts, the Network will review policies and practices in the context of different institutional arrangements for public budgeting for health. It will expand modules on provider payment, governance, and resource allocation in the 2012 update of the Health Committee's survey of health systems institutional characteristics (HSC), which was first launched in 2010, and supplement results with a targeted survey on budgetary institutional characteristics and policies. This will help countries to compare oversight of health spending and the policy tools available, and what budget strategies are transferrable across the wide diversity of organizational and financing systems for health care, particularly between social insurance and publicly-funded health systems.

#### **Proposed timetable and deliverables (June 2012 – December 2014)**

Subject to funding, the horizontal project will organize the following meetings:

- **Fall 2012 – First meeting of the Joint Network on Financial sustainability of health systems:** Hosted in Washington DC, with the participation of Ministries of Health, Ministries of Finance and Social Security Institutions, the objective of this meeting is to build consensus on shared fiscal, service delivery and outcome objectives, and to provide guidance for analytical work that addresses practical issues identified in countries. Issues to be addressed include expenditure forecasting, revenue mobilization strategies, setting and enforcing public expenditure limits, and the institutional characteristics of health systems.
- **Fall 2013 – Second meeting of the Joint Network on Financial sustainability of health systems:** The objective of this meeting is to review analytical work and findings on on-going projects, and to share tools for developing a shared understanding, mutual dialogue and aligned incentives on health spending and revenue mobilization.
- **2012-2014 – Regional discussions on financial sustainability of health systems:** This would be done drawing on the SBO regional networks, and in cooperation with other international organizations particularly WHO.
- **Fall 2014 – High-Level Meeting on Financial Sustainability of Health Systems:** The purpose of this meeting is to diffuse the results of the project, in particular high-level messages for political and institutional actors.

Final deliverable:

- **High-Impact publication on achieving financial sustainability of health systems** (June 2014).

This will include discussion on:

- **Expenditure governance in the health sector:** How to align incentives to promote value for money? This report will look at tools such as expenditure forecasting, fiscal frameworks and practices, and improved dialogue and collaboration between Ministries of Finance, Ministries of Health and Social Security Institutions, taking into account individual country institutional characteristics and traditions.
- **Ensuring fiscal space for health:** How can countries finance future health spending? This report will include options for countries seeking to expand financing beyond employment taxes and looking to mobilize new resources, such as special taxes for health care.

### **Governance of Project**

This time-limited project (2012-14) would be run by a Joint Network on Financial Sustainability of Health Systems under the authority of the Health Committee and the Working Party of Senior Budget Officials (SBO). Guidance for the Network would be provided by a joint bureau with 2-3 country representatives proposed from the Health Committee and 2-3 from the SBO. Regular reports of the Network's activities would be made regularly back to the Health Committee and the SBO.