Session 2: Governance for Strategic Purchasing

System perspective and scheme needs: what are the governance issues & how to assess governance for strategic purchasing

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Overview of the session

- Governance of the Purchaser Market
- Formal Governance of the Purchasing Agency
- Internal Pre-requisites for Governance & Strategic Purchasing
- Key Governance Requirements for Moving to More *Strategic* Purchasing

Governance of the Purchaser Market

KEY ISSUES FOR STRATEGIC PURCHASING -

1.Financial & contractual leverage over provider & whole system
2.Coordination & alignment of strategic objectives
3.Fragmented accountability risks
4.Perverse incentives at boundaries between purchasers/funders
5.Admin & transactions costs

Governance & Market Organisation Type

Options	Governance opportunities…
Single national purchaser pools most funds	**Financial leverage, whole-system leverage, scale economies**
Competing funds, open to all	Competition (P&Q), BP choice, selective contracting may be politically easier
Non-competing sectoral purchasers	Benchmarking may be possible, selective contracting may be easier
National+local purchasers	**Local participation, local government coordination & accountability**
Supply side financing still plays a large role	Supply side levers can complement purchasing esp. In major service change
Out-of-pocket payment still plays a large role	Few! Selective contracting may be easier than when most funds are pooled

Governance & Market Organisation Type

Options	Governance issues…
Single national purchaser pools most funds	Soft budget constraint, no benchmarks, pressure to support troubled providers
Competing funds, open to all	Non-transparent competition, low financial leverage, failure regime needed, high admin cost
Non-competing sectoral purchasers	Soft budget constraint, unequal BPs impede benchmarking, low financial leverage, high admin. cost
National+local purchasers	Cost/responsibility shifting, uncoordinated care across boundaries & diluted accountability if responsibilities overlap or are unclear
Supply side financing still plays a large role	Similar to above + softer budget constraint for public providers; if MOH owns & funds providers risks conflicting interests vs purchaser objectives
Out-of-pocket payment still plays a large role	Little financial leverage if balance billing or informal payment; cost-shifting to private sources if limited & unclear benefits package

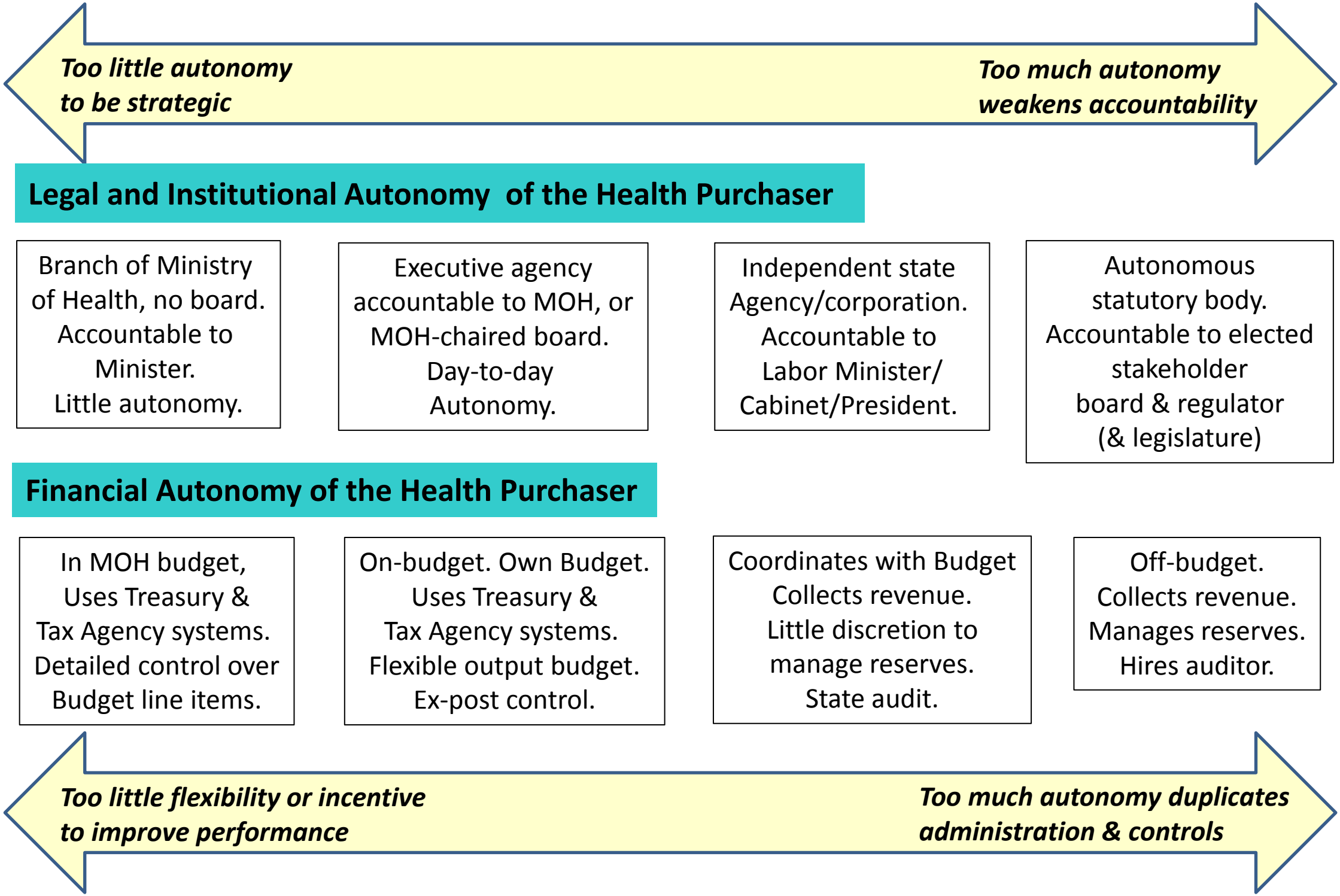
Governance & Regulation Responses

Options	Responses to Governance Issues
Single national purchaser pools most funds	**Credible multi-year budget; sophisticated oversight; Board & Management sanctions**
Competing funds, open to all	Standard basic BP, transparency duties, failure regime, promote mutual or non-profit forms
Non-competing sectoral purchasers	Regulate payment method, price & performance metrics; pool data; benchmark (for Option 2 too)
National+local purchasers	**Clarify responsibilities; develop purchaser coordination; integrate pathways/payment**
Supply side financing still plays a large role	Similar to above; reduce MOH ownership role; strengthen public provider ownership discipline
Out-of-pocket payment still plays a large role	Price regulation for BP services; simple BP; clear public/private boundary; info & advocacy

Formal Governance of the Purchasing Agency

KEY ISSUE:
Ensuring legitimacy, external accountability & internal control – the "basics" of governance and public sector management

"TAPIC" PRINCIPLES APPLY


Too little autonomy to be strategic
Too much autonomy weakens accountability
Legal and Institutional Autonomy of the Health Purchaser
Branch of Ministry of Health, no board. Accountable to Minister. Little autonomy.
Executive agency accountable to MOH, or MOH-chaired board. Day-to-day Autonomy.
Independent state Agency/corporation. Accountable to Labor Minister/ Cabinet/President.
Autonomous statutory body. Accountable to elected stakeholder board & regulator (& legislature)
Financial Autonomy of the Health Purchaser
In MOH budget, Uses Treasury & Tax Agency systems. Detailed control over Budget line items.
On-budget. Own Budget. Uses Treasury & Tax Agency systems. Flexible output budget. Ex-post control.
Coordinates with Budget Collects revenue. Little discretion to manage reserves. State audit.
Off-budget. Collects revenue. Manages reserves. Hires auditor.
Too little flexibility or incentive to improve performance
Too much autonomy duplicates administration & controls

Decision authority by policy issue

Issue	Estonia	Philippines
MODEL	Single payer	Single payer + supply side & FFS
Tax rate/ budget	Parliament (HPA Board – 2% reserves)	Congress
Benefit package	Govt/MOH (HPA advises)	HPA
Provider payment	Govt/MOH (HPA advises)	HPA
Pricing	MOH (HPA advises)	HPA
Quality/ accreditation	Independent agency	HPA & MOH
Clinical Guidelines	HPA	HPA & MOH(few)
Beneficiary complaints	Independent agency & HPA process	HPA process

Internal Pre-requisites for Governance & Strategic Purchasing

Internal Governance & Management Requirements for Strategic Purchasing

1. Data – needed both for more strategic purchasing & more sophisticated governance
2. Information & communication systems
3. Capacity – specialist skills & knowledge
4. Leadership & management

Key Governance Requirements for Moving to More *Strategic* Purchasing

TAPIC-compliant formal governance mechanisms may be *necessary* (please debate!) but not *sufficient*

Legitimacy challenge: balancing political/stakeholder and technocratic perspectives

Key requirement for moving to more strategic purchasing

1. Clear mandate and appropriate objectives for strategic purchasing

2. Firm, credible medium term budget constraint

3. Sufficient purchaser autonomy, commensurate with capacity, data…

4. Sufficient financial leverage over provider & system performance

5. Expert oversight and accountability and transparency to balance increased autonomy

6. Inclusive and meaningful stakeholder participation

Broader governance & health system context matters

- Structural deficit
- Financial goals dominate over health goals
- Public Financial Management &/or provider reform lags behind
- Ambition exceeds capacity, data
- Unstable or conflicting policy – perpetual re-organisation
- Capture, conflict of interest