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# UNDERSTANDING PUBLIC BUDGETING AND BUDGET STRUCTURE FOR HEALTH

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This policy brief was developed by Helene Barroy, Elina Dale and Susan Sparkes from the Health Financing Unit of the World Health Organization (WHO) in Geneva, under the supervision of Joseph Kutzin (Health Financing Unit, Coordinator) and Agnès Soucat (Health Systems Governance and Financing Department, Director). The team is grateful for valuable comments received from XXX.

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# 1. Introduction: Why this policy brief?

Public funds are essential for making progress towards universal health coverage (UHC) (1). Hence, the way public budgets are formulated, allocated and used for health is at the core of the UHC agenda. As part of the general government budget, the health budget is a crucial guiding document, by reflecting government's commitment to implementing priority health policies with actual funds. Therefore, understanding the core principles of budgeting is essential for those involved in dialogue on resource allocation in the health sector (2).

The budget cycle involves several critical steps, including budget preparation, negotiation, approval, execution, reporting, and auditing (2). Adopting credible and well-funded budgets in the health sector entails substantial investment and involvement in the preparation phase from health stakeholders (3). Among the key issues that need careful attention in the budgeting process is the structure of health budget. Budget structure, i.e. the way allocations are presented in budget documentation and the underlying rules for spending, has a direct impact on how well public funds are able to perform in facilitating the attainment of sector results. Yet, there is limited awareness and understanding of the importance of public budgeting and budget structure, in particular among health stakeholders.

As part of a broader WHO Program of Work on budgeting in health, this policy brief aims to raise awareness on the role of budget structure in the health sector for non-public financial management (PFM) specialists working on health financing policies and overall health sector reforms.
The rest of the paper is organized in 5 short sections. To ensure a common understanding of public budget taxonomy, section 2 starts by providing key definitions of public budgeting and budget structure applied to the health sector. Section 3 discusses the role of public budgets and budgeting process for health financing policy and UHC. Section 4 underlines key policy implications of budget structure reforms in health. The final section provides conclusions and recommendations for future policy dialogue.

# 2. What is public budgeting and budget structure?

**Public budgeting:** is the process by which governments prepare and approve their strategic allocations of public resources. From a PFM perspective, public budgeting serves several important functions: it sets budget ceilings, promotes fiscal discipline and financial accountability, and enhances efficiency of public expenditures. For health, it is a critical process in which health stakeholders should engage to ensure alignment of budget allocations with sector priorities.

**Budget preparation:** Every year, technical ministries, such as health, are expected, within an agreed calendar, to lead the preparation of budget proposals on the basis of sector priorities. These are then negotiated with budget authorities in light of fiscal framework and government's national policy priorities, reviewed and adopted by executive, and eventually submitted, in the form of a finance law, for review and final approval by legislative authorities.

**Multi-year budgeting:** refers to the development of a government-wide spending plan that is expected to link policy priorities to allocations within revenue forecasts, usually over a three-to-five year horizon. Some countries have initiated the elaboration of sector-specific multi-year expenditure frameworks (MTEFs), including for health, to help improve predictability in annual allocations for the sector.

**Budget structure:** is related to the presentation and organization of budgetary documents (e.g. a finance law, budget books and annexes) and reflects the underlying rules for spending. Sectors like health generally follow the overall budget structure or can, in some cases, be a pilot for alternative budget structures, in a transition period.

**Types of budget structure:** The structuring of budgets can follow different logics. One approach is to formulate budgets according to inputs. For health, inputs are e.g. health personnel, medicines, equipment. An alternative is to orient formulation toward the achievement of sector goals or outputs. For health, these can include e.g. access to basic services, reduction in maternal mortality, quality of care etc.

**Outputs-based budget**: is typically associated with the introduction of a program structure, where programs replace inputs as the primary basis for budget classification. In health, a budgetary program is in essence a policy, and consists of a set of activities designed to advance specific health policy objectives linked to a budget envelope. It is different from a "health program", which is often defined by a specific disease (e.g. HIV) or intervention (e.g. vaccination). Many health programs are funded with external resources and their operational activities are not directly linked to actual budgetary programs. Rather, health programs can be activities or sub-programs that are part of larger budgetary programs, which often reflect broader health system goals.

**Transition from inputs- to outputs-or performance-based budgeting**: this transition refers to a type of PFM reform in which countries evolve from managing, controlling and accounting for public spending by inputs to relying on expenditure performance by programs or a set of pre-defined indicators to determine budgetary allocations (Table 1). This transition in health has been gradual, and most countries lay on a continuum, with often hybrid budget structures.

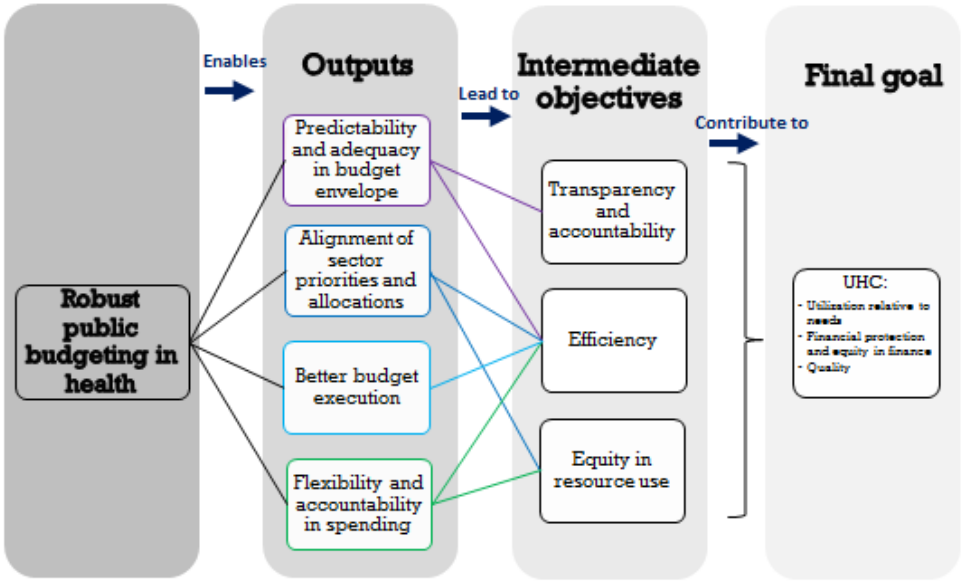
**Figure 1: Inputs and outputs-based budgets: stylized examples for health**

| Inputs-based budget | | Outputs-based budget | |
|---|---|---|---|
| **1.** | Compensation of personnel | **1.** | Basic health services |
| **2.** | Goods and services | **2.** | Tertiary and specialized health services |
| **3.** | Subsidies and transfers | **3.** | Health promotion and prevention |
| **4.** | Consumption of capital | **4.** | Social subsidies |
| **5.** | Other expense | **5.** | Management, stewardship and regulation |

# 3. Public budgeting and health financing policy: framing the issue

WHO sees public budgeting as an important part of health financing and overall health sector policy dialogue needed for countries to progress towards UHC. The dominant reliance on public funds has proven necessary; no country has actually made significant progress towards UHC without relying on a dominant share of public funds (1). Framing health financing in this way places the health sector within the overall public budgeting system and underscores the essential role that budget plays or should play for UHC.

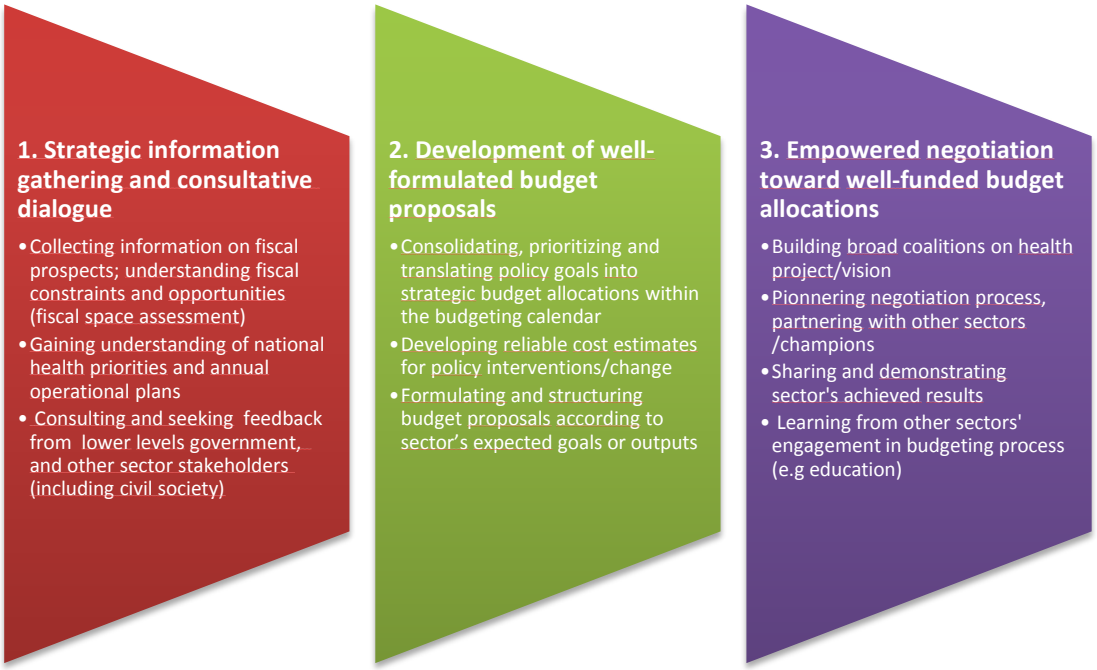
**Figure 1: Why public budgeting matters for UHC**




Public budgeting is a key component of public finance systems that should enable to support progress towards the intermediate objectives of UHC (transparency/accountability, equity and efficiency) (Figure 1). In particular, strong budgeting in health, resulting in well-defined, multi-year spending plans, is likely to improve predictability in the sector's resource annual envelope. Related to this, proactive engagement of health ministries in the budgeting process would facilitate alignment between budget allocations and sector priorities, as laid out in national health strategies. In addition, it is commonly observed that strengthened budgeting systems contribute to better execution rates and are able to reduce underspending, in particular in health (3). Ultimately, if the health budget is formulated according to goals and allows certain level of spending flexibility, it can also facilitate the achievement of sector results, notably through the strategic purchasing for needed health services.

To ensure a robust budgeting process, health ministries should engage throughout the preparation process, from bottom-up consultations to consolidation of sector priorities within fiscal frameworks, and spearheading negotiation with budget authorities. While financing authorities hold the primary responsibility for budget preparation and define macro-fiscal framework and ceilings for sector ministries, strategic engagement of health ministries is essential to ensure that sector priorities are well reflected within the allocated resource envelope. As outlined in Figure 2, the preparation process starts with the collection of strategic information with respect to both revenue forecasts and sector needs. Health ministries should have a good understanding of the macro-fiscal constraints and opportunities under which the health budget operates (4). They also need to engage in broad consultative dialogue with sector stakeholders to be able to consolidate sector priority goals into well-documented budget proposals (5). The formulation of health budgets proposals should meet quality standards and follow instructions on coding and structure, as defined by budget authorities. The negotiating power for health ministries to defend budget plans is recognized as another critical element of a successful budgeting process. By doing so, this is likely to maximize potential for a better alignment between sector needs and adequacy and relevance of funding.

**Figure 3: Role of health ministries in health budget preparation**



# 4. Health budget structure reform: important policy implications

While it can be perceived as a technocratic issue, the way budgets are structured has important policy implications and directly impacts the ability to match resources with sector needs (6, 7). Indeed, budget structure can affect the level and quality of public expenditure on health in a variety of ways:

- **Incentive for priority spending:** budget structure can create financial incentives that link resources to health sector priorities. Budget structure will enable or constrain funds holders to direct funds where they are needed, while also creating incentives for efficiency and quality (3).
- **Flexibility in spending:** budget structure impacts the ability of the sector to fully execute allocated resources for health. The way the budget is structured (whether by health inputs or outputs) directly impacts the ability to spend and re-allocate according to sector needs.

- **Enabler for strategic purchasing:** there is a strong link between the way budgets are formed and executed and the ability of a purchaser, i.e. an agent entitled to "purchase" health services, to move away from passive towards more strategic purchasing. A budget structure can either support or impede the ability of the health sector to allocate resources based on the health needs of the population combined with the information on provider performance (8). When properly designed, a budget structure can facilitate the introduction of results-oriented provider payment methods.

- **Support for monitoring of sector performance:** a budget structure can enable monitoring of the sector performance, as health ministry has to formulate their budget proposals and report on their expenditures in terms of outcomes. In shifting the orientation of the health budget structure towards more programmatic or performance-based criteria, the sector is then responsible to deliver on stated sector objectives or outcomes.

Country experiences seem to indicate that inputs-based budgeting has limitations for the implementation of health financing reforms to serve progress toward UHC (3,9,10). There is increasing evidence that inputs-based budgeting does not match sector's requirements to achieve results. Inputs-based budgets are first associated with the absence of incentives to prioritize allocations according to sector needs. Allocation and, ultimately, spending by inputs also appear to severely constrain countries exploring ways to have more consistent health planning and budgeting systems. Because there is a weak connection between the input-based structure and the actual production function of health services, input-based budgets are likely to induce sector inefficiencies (11, 12).

In light of these constraints, several countries have initiated reforms. Reforming the structure of a budget aims to shift from input controls toward better consistency between sector priorities and

budget allocations, results-oriented accountability, and ultimately making performance-informed budgetary decisions. Program budgeting has been used to structure allocations according to goals, with the view to better align budgets with sector priorities and provide more flexibility to fund managers to spend according to evolving needs (11, 13). Program budgeting is one way to ensure that the priority of the sector policies is also the priority of the budget. While a large majority of countries has initiated a transition toward program budgets in health, there is considerable variation in the way they are implemented, leading to situations with hybrid type of structures where inputs (typically, salaries for health personnel) and outputs-oriented programs can coexist.

Despite the conceptual merits and supposed appropriateness of the reform in terms of better public expenditure performance, countries have been facing design and implementation challenges over the years with regard to budget restructuring in general and in the health sector in particular. Emerging evidence from a large range of countries that has transitioned to some forms of programs-based budgets in health seem to signal some recurring caveats in contexts with weak financial accountability systems (14): poorly defined process of budgetary programs in health, confusion between disease operational programs and budgetary programs, limited use of performance information to define budgetary programs in health, perpetuation of existing programs, limited alignment between budget structure, and expenditure management and reporting systems. As a result, there is limited evidence of the actual effectiveness and effects of budget structure reforms in health.

Overall, while the reform seems relevant from a health financing perspective, its effectiveness depends on country's capacity to process and implement the reform in a way that serves sector results. WHO remains committed to providing guidance and sharing knowledge and country experiences on key enabling factors that can support budget structure reforms in the health sector that can facilitate progress towards UHC.

# 5. Conclusions and recommendations

- Serving as the backbone for the allocation and use of public resources, the structure of a budget is centrally important for health policymakers engaged in the design and implementation of health financing reforms toward UHC.

- Robust public budgeting can support better predictability of the sector's resource envelope, improve execution, and facilitate alignment between resources and sector priorities. If the health budget is formulated according to goals and allows spending flexibility, it can also facilitate the achievement of sector results, notably through the strategic purchasing for needed health services.

- Pro-active engagement of health ministries in budgeting is essential to align sector priorities and budget allocations, and ensure appropriate and timely use of public resources. The budgeting functions of health ministries should be strengthened to enable effective engagement.

- The health sector is poorly served by inputs-based budgets with itemized spending by organization or object of expenditure. Moving toward health budgets that are planned on the basis of goal-oriented programs has the potential to better link funds with health sector priorities.
- The design and implementation of program budgets in health has proved to be challenging in practice, and countries should pay specific attention to the definition of budgetary programs as a first step in securing an effective transition.

- Budget restructuring is only one issue among other PFM issues, and should be considered as part of the broader PFM in health reform agenda. To maximize the impact of budget structure reforms, annual budget's structure should be aligned with medium-term budget's structure and other elements of reform, in particular how expenditures are managed and accounted for. Misalignments between budget structure and expenditure management and reporting would impede the whole public financial management system to function.

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