Provisional Translation

# The Economic and Fiscal Revitalization Action Program

## - **Reform with Innovation** utilizing “visualization” and “wise spending” -

## - Overview -

December 24, 2015
Council on Economic and Fiscal Policy

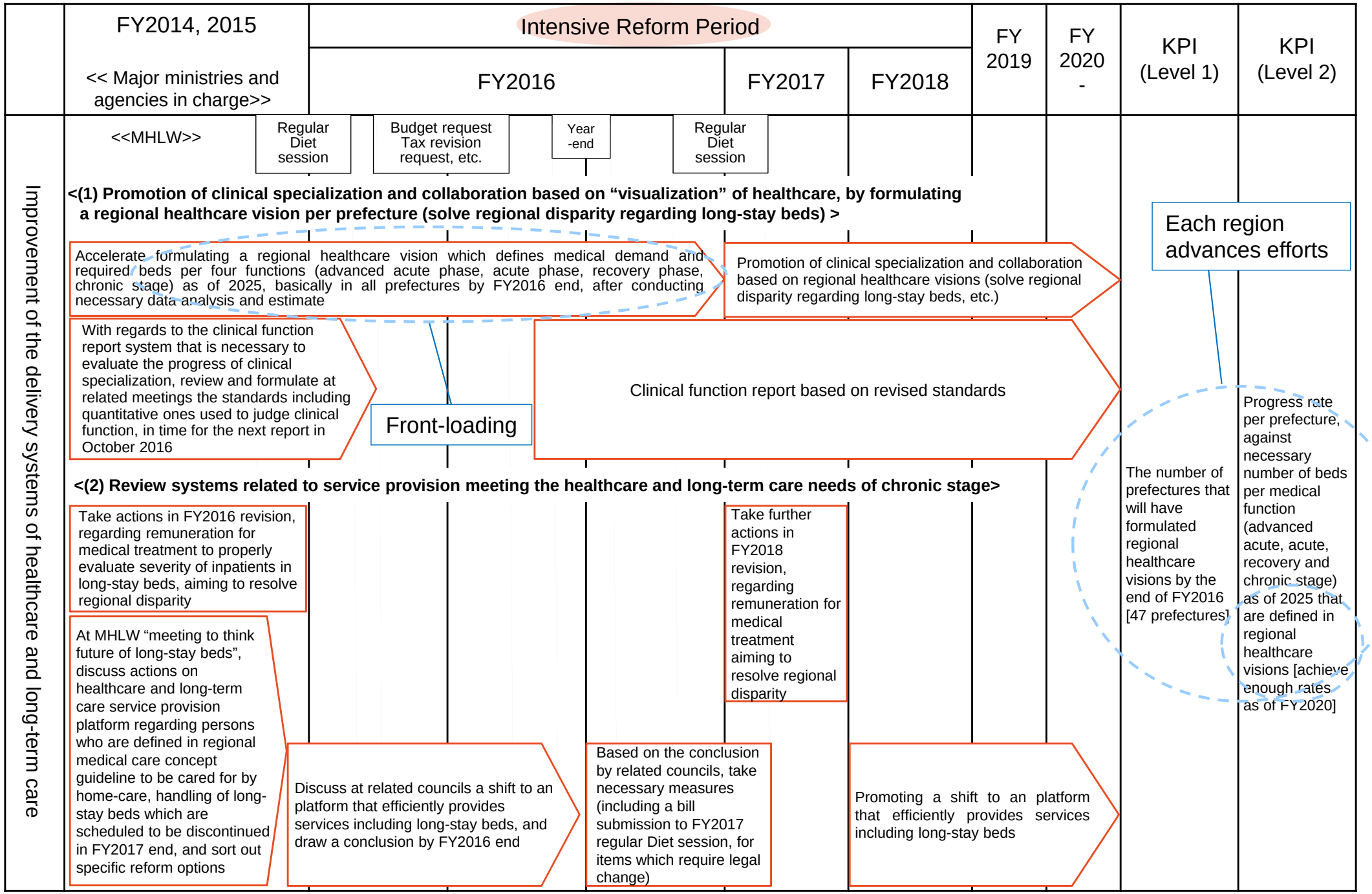
# 1. Key Points

- Dynamic reform advancement is essential. The core is ***reform with innovation*** which utilizes “visualization” and “wise spending”, contributing to realizing Dynamic Engagement of All Citizens.
- “Visualization” enables to — (1) compare and see differences between related organizations and regions, (2) see if there are any or to what degree existing operational issues and achievements of administration, and (3) see where we have issues of the reform, and increase public understanding of and belief in the reform.
- “Wise Spending” is — positive thinking that we drastically rebuild the economic and fiscal situation in a major structural change, allocating well thought-out expenditures with a good balance between strength and constraint while focusing on indispensable expenditures that bring high effects of policy.
- We will clarify specific content, size and timeline for all of major 80 reform items, and develop and systemize KPI (approx. 180) with progress on management, structural change and macro effect levels.
- Commitments over multiple years – It is important that effects of the reform will steadily emerge and we will build an effective PDCA cycle (precise check, ensure reflecting to the next actions and plans). From the start of the first year, we will inform on possible impacts with a certain range of buffers that will accompany reform effects.

# 2. Reform Process <Social Security Area>

- After proceeding to thorough “visualization” of the facts of healthcare and long-term care benefits, we will analyze inputs and regional disparities and advance measures to correct them.
  - Activate incentive/disincentive system
  - Estimate “healthcare plus long-term care” cost per person by prefecture/basic-municipality, visualize it in various aspects
- For the promotion of clinical specialization and collaboration, we will move up formulation of the regional healthcare vision by the end of FY2016 and take actions for improvement of delivery systems of healthcare. By formulating a medical cost optimization plan, we will take the initiative in the moderation.
- In order to promote disease prevention, prevention of aggravation, long-term care prevention, use of generic drugs and proper receiving of treatment, we will establish a framework with incentives to encourage both individuals and insurers to make efforts (insurer support system in National Health Insurance, a rule for increasing or reducing the amount of late-stage elderly support coverage, healthcare points, etc.).
- We will clearly define the planning and execution schedule and the reform direction, regarding fairness in insurance contributions based on ability to pay and optimization of benefits.
- Regarding reforms related to remuneration for medical treatment in terms of drug prices and dispensing and reforms related to pharmaceuticals, we will clarify actions needed for the FY2016 revision of remunerations for medical treatment, etc.

# <Social Security Area (Excerpt)>



# 2. Reform Process <Non Social Security Area>

## [Social infrastructure improvement]

➢Conversion of sustainable city structures and stock optimization

- We will realize compact and sustainable city structures and optimize public stock by “visualization” of information regarding maintenance cost and assets in each city. In addition, PPP/PFI scheme will be widely by establishing nationwide platforms.

➢Strategy for Social infrastructure improvement

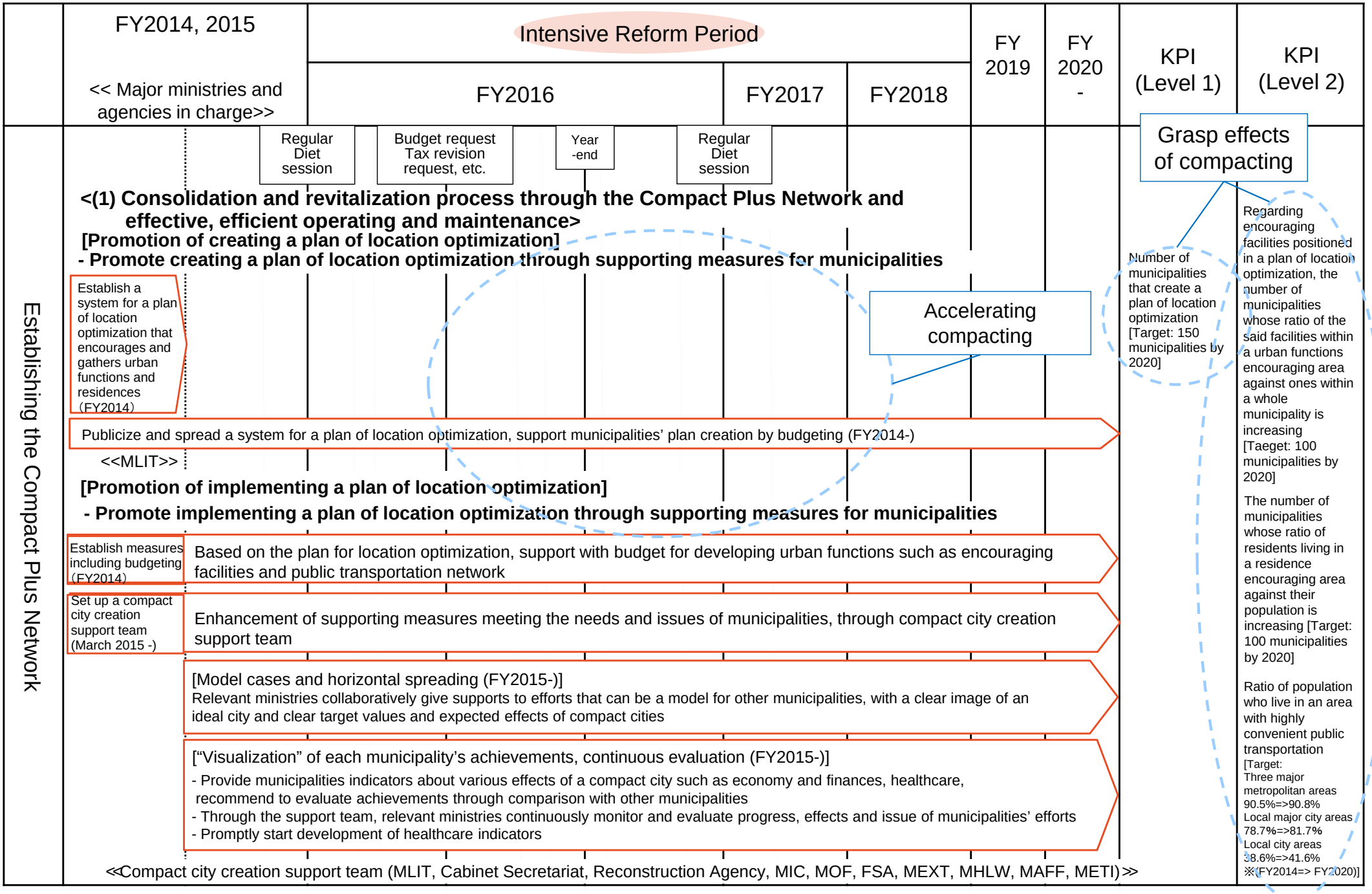
- We will prioritize social infrastructure investment areas to maximize their stock effects. Long-life infrastructure system and infrastructure maintenance related industry will be developed. Construction industry reform will be facilitated to secure labor resources. In addition, productivity of construction will be increased.

## [Education, science and technology, diplomacy, national security and defense]

➢We will emphasize evidence of educational effects and promote experimental studies on education policy. Based on the progress, we will present a midterm vision regarding quotas for teaching staff based on the declining birthrate and school issues.

➢We will introduce private-sector funding to national universities and applied research, and define indexes of quality improvement of education and research.

# <Non Social Security (Excerpt) >



# 2. Reform Process
## <Local-government administrative and fiscal reform, and cross-sectoral initiatives>

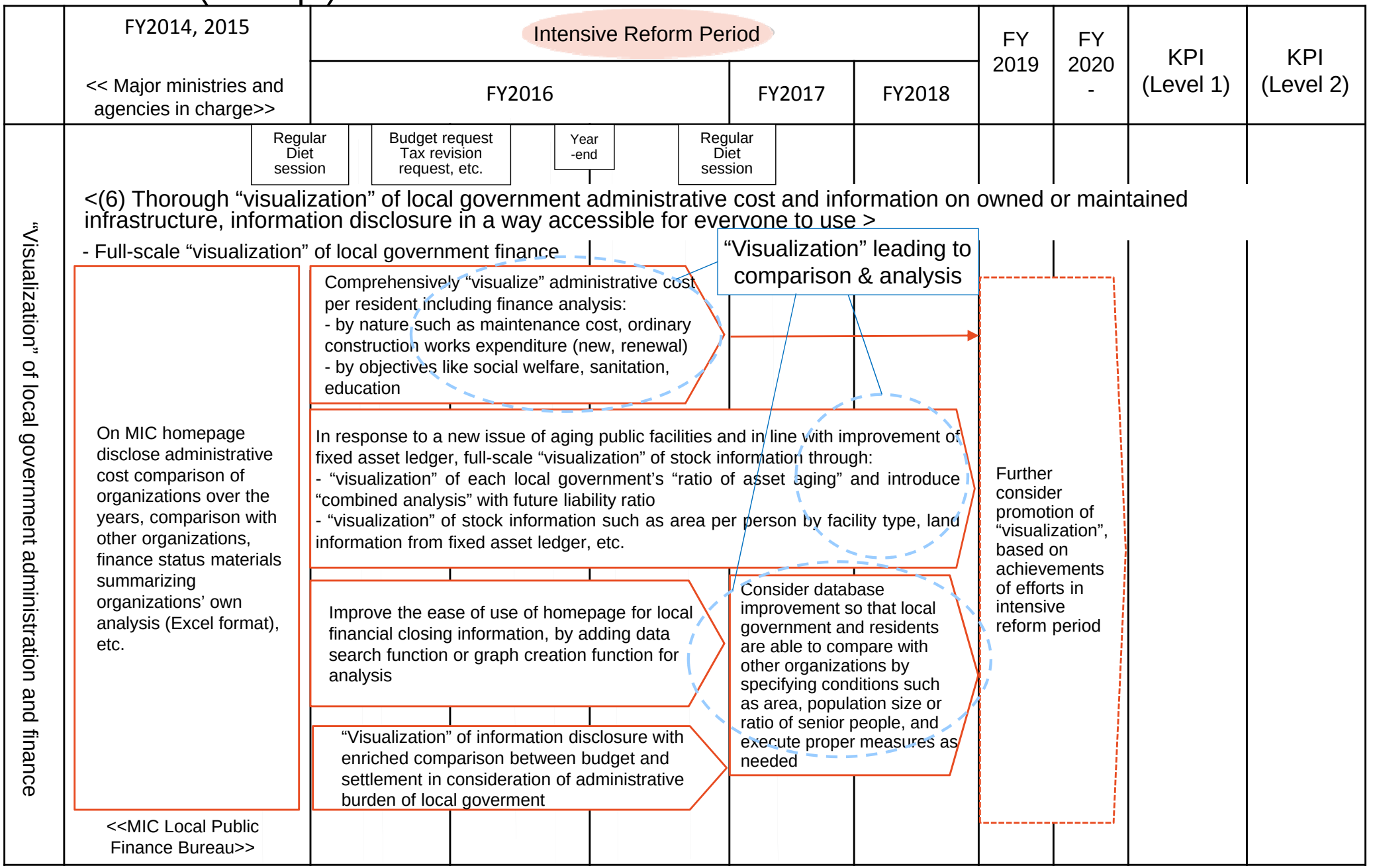
- To encourage local governments' efforts for regional revitalization and administrative and fiscal reform, we will advance incentive reforms by reflecting achievements in calculation of Vitalizing Local Economies project and introducing the Top Runner method (the reflection of the cost levels attained by expenditure efficient entities in calculations of a basic amount of fiscal demand for local allocation tax for the purpose of enforcing efficient expenditures)

  * Promote nationwide adoption of advanced models of operational reforms

- Monitoring wage increase rate and capital investment growth rate as evaluation points for the economic effects derived from local governments' efforts
- "Visualization" of administrative cost per resident by nature and objectives in local government and "visualization" of stock information through improvement of the fixed asset ledger
- To monitor changes of administrative cost per person by prefecture and the breakdown of their revenue source (e.g. local tax, local allocation tax and national treasury disbursement), by conducting "visualization" and generating a comparable situation Building a framework to check an outcome as a result of inputs (cost-effectiveness)
- With model projects of operational reforms and creation of standard outsourcing specifications, accelerating proper outsourcing to the private sector, which leads to innovation in public services and industrialization of public-related services
- Further promotion of innovation in local governments' public services by transition to cloud-computing technology and enforcing operational reforms, support for training persons who can promote IT strategy and securing human resources who can play a CIO role in local governments

  * In proceeding the reform, various geographical conditions of each local government should be considered

# <Local-government administrative and fiscal reform, and cross-sectorial initiatives (Excerpt)>



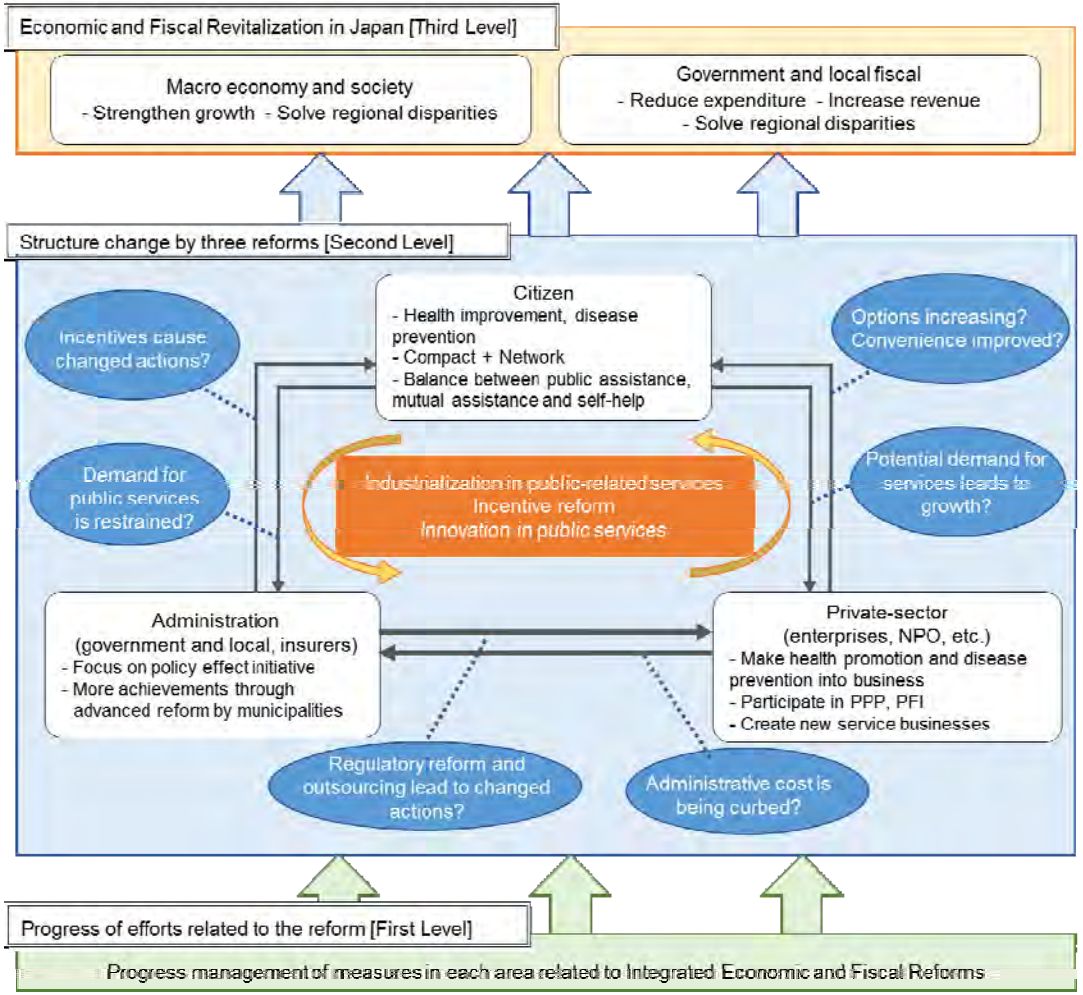
# 3. KPI Structure

- KPI focuses on checkpoints of progress management and a link to macro effects
- Systematize approximately 180 indicators, based on progress management, structural change and macro effect levels

## <Major KPIs in key areas>

| area | Indicator (example) | Numerical Target |
|---|---|---|
| Social Security | Number of prefectures that have front-loaded formulating medical cost optimization plan | Almost half (FY2016 End) |
| | Insurers working on healthcare cost optimization such as decreasing redundant/frequent treatments or redundant dosage | 100% |
| | Number of local government promoting incentives targeting residents on disease prevention and health improvement (NHI insurer, etc.) | 800 municipalities |
| | Regional diff. of healthcare cost/person (age-adjusted) | Gradually decrease until making it is halved |
| | Usage rate of generic drugs | 70% or more (FY2017 mid), 80% or more (at the earliest in FY2018-2020 End) |
| | Insurer who analyzed regional diff. and formulated long-term care benefit moderation measures | 100% |
| Non Social Security | Number of municipalities creating a plan of optimized location | 150 municipalities (FY2020) |
| | Ratio of population who live in areas with highly convenient public transportation | Three major metro. areas: 90.8% (FY2020)<br>Local major cities: 81.7% (FY2020)<br>Local cities: 41.6% (FY2020) |
| | Number of ministries and local gov with 200,000 or more population that have formulated systems to prioritize adopting PPP/PFI methods | 100% (FY2016 End) |
| | Ratio of local gov. working on measures for smaller school size | 2/3 (FY2018)<br>100% (FY2020) |
| System, local administration and finance | Ratio of "outcome" reflected to Vitalizing Local Economies project costs (as the end in view) | More than half after the intensive reform period |
| | Number of municipalities that work on versatile and advanced reform such as the outsourcing of counter services | Double (FY2020) |
| | Number of local governments transitioning to cloud-computing technology | About 1000 (FY2017) |
| | Cost of the local governments' operations | Decrease by 30% (the deadline will be determined within the intensive reform period) |

## <KPI design concept>



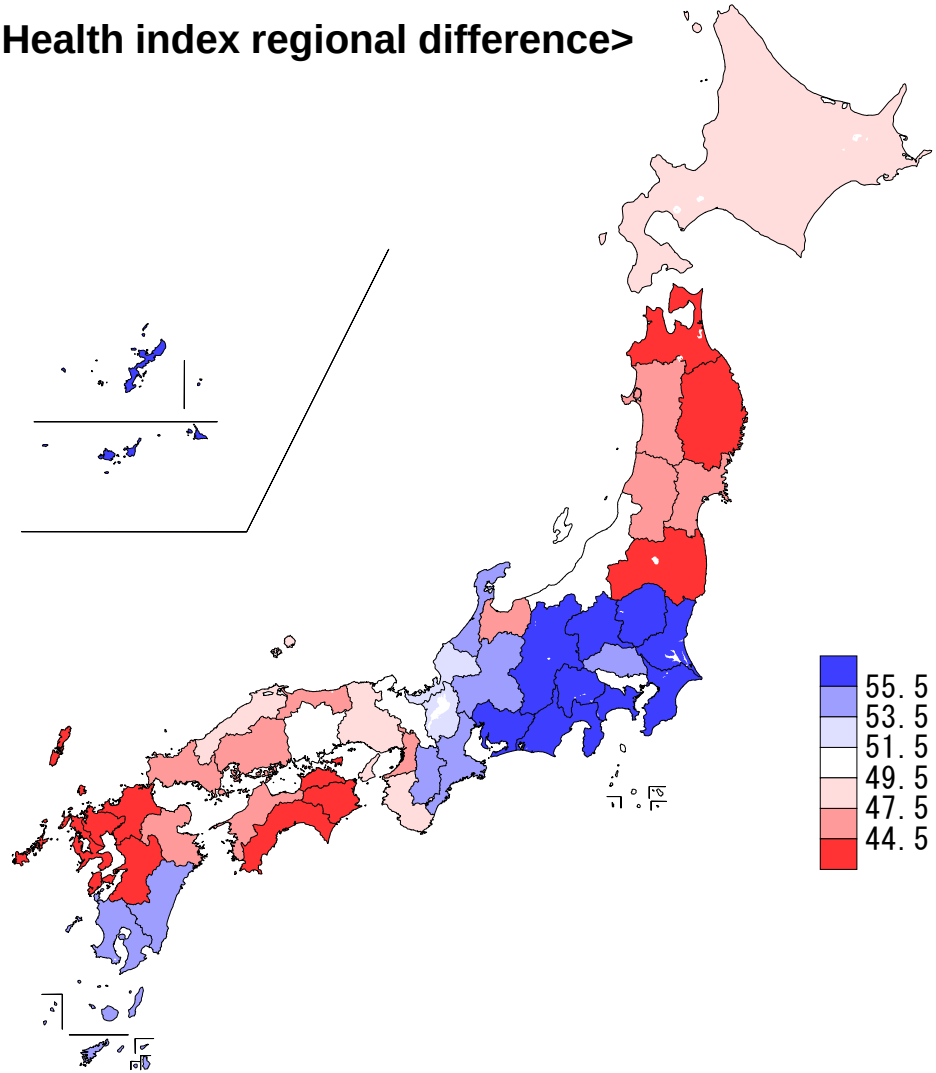
# “Visualization” examples

Note: The following are implemented by the Cabinet Office as a trial, and the results shown are tentative

# ☐ Healthcare cost per person: difference among prefectures

■ Negative correlation is implied between health index (healthy life expectancy, health awareness, consultation rate) and healthcare cost per person

**<Health index regional difference>**




(Remark) Health index is calculated from an arithmetic mean using deviation values of (1) healthy life expectancy (2) health awareness from Comprehensive Survey of Living Conditions 2013 (ratio of Good, Fine) (3) inpatient/outpatient consultation rate. Used 2010 data for healthy life expectancy, 2011 data for inpatient/outpatient consultation rate. With regard to deviations, they are simply used for healthy life expectancy and health awareness, but for inpatient/outpatient consultation rate the deviation value has been adjusted so that deviation grows as figures become smaller since the smaller figure is preferable.

**<Healthcare cost / person (National Health Insurance) >**

| | Pref. with LOW cost | Cost /person (yen) (Actual) | Cost/person (yen) (age adjusted) | Regional Diff. Index |
|---|---|---|---|---|
| 1 | Ibaraki | 280,331 | 311,276 | 0.90 |
| 2 | Nagano | 305,793 | 336,597 | 0.91 |
| 3 | Tochigi | 287,801 | 316,804 | 0.91 |
| 4 | Chiba | 293,209 | 322,114 | 0.91 |
| 5 | Aichi | 296,675 | 325,641 | 0.91 |
| 6 | Shizuoka | 306,899 | 333,126 | 0.92 |
| 7 | Saitama | 297,898 | 323,285 | 0.92 |
| 8 | Gunma | 303,483 | 323,506 | 0.93 |
| 9 | Aomori | 297,717 | 316,983 | 0.94 |
| 10 | Kanagawa | 306,773 | 325,247 | 0.94 |

| | Prif. with HIGH cost | Cost /person (yen) (Actual) | Cost/person (yen) (age adjusted) | Regional Diff. Index |
|---|---|---|---|---|
| 1 | Saga | 390,114 | 324,059 | 1.20 |
| 2 | Kagawa | 389,407 | 343,652 | 1.13 |
| 3 | Yamaguchi | 402,177 | 358,210 | 1.12 |
| 4 | Kochi | 388,381 | 348,057 | 1.12 |
| 5 | Oita | 385,031 | 344,862 | 1.12 |
| 6 | Tokushima | 380,865 | 342,403 | 1.11 |
| 7 | Hiroshima | 390,657 | 353,314 | 1.11 |
| 8 | Nagasaki | 358,861 | 325,284 | 1.10 |
| 9 | Kumamoto | 361,674 | 327,111 | 1.10 |
| 10 | Kagoshima | 361,938 | 326,878 | 1.10 |

(Remark) Created based on MHLW “Analysis on regional difference of healthcare cost”
* Regional difference index is a relative figure of healthcare cost per person in a region with adjustment considering its age-structure, setting a national average index at 1. Regional difference index = healthcare cost per person in a region/healthcare cost per person assuming that the region’s healthcare cost per person by age group is same as the national average
* The figures of each prefecture are calculated from an arithmetic mean using figures per insurer within the prefecture