NHI CONCEPT PAPER

COLLOQUIUM

FINANCIAL AND FISCAL COMMISSION

DNA Economics

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LIST OF ABBREVIATIONS AND ACROYNMS

CCG	Clinical Commissioning Groups
DNA	Development Network Africa
FFC	Financial and Fiscal Commission
NHI	National Health Insurance
NHS	National Health System
NPC	National Planning Commission
PES	Provincial Equitable Share
TBC	To be confirmed
UK	United Kingdom

1 INTRODUCTION AND CONTEXT

South Africa's health care system is divided into two distinct sectors: a public healthcare system responsible for providing health services to 86% of the population and a private health care system that provides health services to the remainder of the population. While, the public health system serves the majority of the population, it is responsible for only 48% of total health expenditure. As a result, the differences in access to, and the quality of services between the public and private sector are stark. For instance, there were 6 775 medical practitioners working in the private sector (around one doctor per 1 200 population) in 2010 compared to 11 309 in the public sector (around one doctor per 3 700 population).[1] Per capita health expenditure is significantly higher in the private sector, and reflects the disproportionate expenditure in this sector.

The higher expenditure in the private sector has had some unintended consequences for the country, including fuelling higher health inflation and excessive bed capacity within hospitals. It also creates incentives for a hospi-centric care health care system, and discourages expenditure on preventative and promotive healthcare. In contrast, the public sector faces different types of problems. The burden of disease in South Africa has increased over the years. The four most common causes of death in South Africa are HIV/AIDs, Communicable Diseases (e.g. TB), Accidents and Injuries and Non Communicable Diseases (NCD). While traditionally, NCDs were seen as diseases of the 'developed' world, increasing incidences of these types of illnesses, place additional financial pressures on the public health system, particularly as NCDs require treatment over the lifetime of the patient. Whereas, expenditure on the public health care system has increased significantly in the last two decades, as government has expanded coverage for health services, it has not kept abreast with the changing profile of disease within the country.

Faced with these problems, the South African government has committed to introducing a National Health Insurance (NHI) scheme. The NHI seeks to provide adequate access to health services for all South Africans irrespective of their socio-economic status. The White Paper summarises the goals of the NHI as follows:

> *"The NHI will create a unified health system by improving equity in financing, reducing fragmentation in funding pools, and by making health care delivery more affordable and accessible for the population."*[2]

The National Health Insurance works on the principle of pooling resources and risks to extend coverage to the entire population. By design, this means that public and private revenues will flow through the publicly administered NHI Fund which will operate at a national level and function as a single-payer and single-purchaser of health services for the population.[3]

[1] (Stassen, 2015)
[2] (National Department of Health, 2015, p. 1)
[3] (National Department of Health, 2015, p. 60)

However, the single-payer and single-purchaser model has potential impacts on the intergovernmental system and the current fiscal arrangements that dictate how revenue is shared and allocated between all three spheres of government.

There are complexities associated with introducing a single-payer system within the current intergovernmental system. As the White Paper notes:

> *"NHI will progressively imply major changes to the existing system of intergovernmental funding arrangements as they pertain to the health sector. The degree to which changes in intergovernmental funding arrangements are made will depend on the extent to which the NHI is structured and organised and the extent to which funds are pooled in a central NHI Fund."*[4]

Health services are a concurrent function, over which national and provincial government share competency. Currently, health services are funded through the provincial equitable share and a series of conditional grants for certain national priorities. Provinces can decide on what and how they spend their provincial equitable share. This decision is based on various factors such as the demographic profile of the province, the burden of disease and the provincial priorities for health care. Conditional grants provide additional financial resources to provinces to achieve national priorities, and have been used to fund health interventions (e.g. HIV/AIDs programmes) and infrastructure.

According to the White Paper, most of the funds will be repatriated from the PES to the NHI central fund. In 2013/14, health expenditure accounted for 30.8% (R130.6 billion) of total provincial expenditure.[5] Therefore, if the proposals go ahead, provinces may experience a substantial change in the amount of revenue they receive.

Additionally, the criteria for allocating funding from the central pool to the provinces will have far reaching ramifications for the intergovernmental fiscal system. If all funding is "tied in" to specific health services and institutions, then provinces will have little discretion on how they utilise the funding. As provinces have limited revenue raising abilities, their ability to correct any vertical fiscal imbalances arising from a single payer system is constrained.

The NHI proposals affect the intergovernmental system at two levels: first, in terms of the current framework for the division of powers and functions, and second, in relation to the intergovernmental fiscal arrangements. As the NHI is implemented, it will change the structure of the health system and impact on the current assignment of powers and functions between national, provincial and local government[6]. Any changes in the assignment of powers and functions will have to be accompanied by changes in funding mechanisms and models for provinces, and to some extent local government.

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[4] (National Department of Health, 2015)

[5] (National Treasury, 2014, p. 30)

[6] Some municipalities provide primary health care services.

While the White Paper identifies potential sources of funding, it is unclear how funding will flow from the central fund to the institutions that deliver services.

While South Africa's intergovernmental system is unique in many respects, other countries have confronted similar challenges in designing the intergovernmental fiscal arrangements that support their National Health Insurance schemes.

International literature reveals that there are different ways of structuring the centralised pool. In Canada, the health care system comprises of a group of provincial health insurance schemes that provides coverage to all residents. Citizens within each province are required to enrol into the health insurance scheme. The health services covered by these provincial health insurance schemes are set by legislation and guidelines established by federal government, although provinces can apply for additional services, if they can demonstrate the need for these health services. Each province receives a block transfer payment, but may also charge premiums to supplement health funding.[7] The block transfer (called the Canadian Health Transfer) is the largest federal transfer to provinces, and prior to 2014/15 consisted of a per capita cash and tax point transfer. The tax point transfer was a system that reduced federal tax rates to allow the provinces to take up the resulting "tax room." Provinces that had the ability to raise tax revenues received a lower cash transfer. This rationale behind this system was to correct the vertical imbalances that existed in the system, if all provinces received the same per-capita transfer, and some provinces choose to augment their health expenditures by raising additional funding through taxation.

In the UK, the National Health System (NHS) receives funding from the Department of Health. The NHS contracts with clinical commissioning groups (CCGs) and local authorities to provide services to communities. CCGs include GPs and other clinicians and they can commission any service provider that meets the NHS standards and adheres to prescribed costs. These can be NHS hospitals, social enterprises or even private sector providers.[8] Therefore, in the UK, the single payer has a direct relationship with the purchaser, and bypasses many of the intergovernmental structures.

Mexico's Segoru Popular programme is one of the more successful NHI schemes in Latin America. It provides universal access to basic health care for about 55 million citizens. The Segoru Popular is built on a system of actuarially-determined premiums, with the Federal government making contributions to the payment of premiums for the unemployed and poor. The single payer pool then transfers these contributions to state level health systems, who are responsible for managing the delivering of health services within a global budget.

Internationally, there are a range of mechanisms used to transfer funding from a single payer to the purchaser. The configuration of this system of transfers depends on various factors such as the complexity of the intergovernmental system, the legal framework and the extent to which different

[7] (Canadian Health Care, 2007)
[8] (NHS, 2016)

levels of government share concurrent jurisdiction over health services. Another important finding emerging from the international review is that transfer payments between different levels of government can easily become complex and cumbersome.

In these early stages of the NHI, international experience offers some key insights into the potential changes needed to support the implementation of the NHI within the intergovernmental system and the current fiscal arrangements. The Financial and Fiscal Commission (FFC), National Planning Commission and DNA Economics are hosting a colloquium that explores the array of issues relating to the linkages between the present inter-governmental fiscal relations system and the proposed NHI.

2 SPECIFIC OBJECTIVES OF THE COLLOQUIUM

The colloquium seeks to promote discussion around the implications of the NHI on the intergovernmental system, and specifically the fiscal relations between national and provincial government. Broadly speaking, the objectives of the colloquium are to:

- Discuss the changes needed to the NHI or intergovernmental system to support the implementation of the White Paper.
- Consult on the potential implications of the NHI on the funding of health services, with a particular emphasis on the fiscal transfers to provinces and delivery institutions.
- Review the international experience to gain insights on the different approaches to structuring the intergovernmental system to support the NHI.
- Establish a research agenda that informs future legislative, regulatory and policy reforms needed to implement the White Paper.

3 STRUCTURE OF THE COLLOQUIUM

3.1 Agenda

The table below outlines the preliminary agenda.

VENUE: GALLAGHER CONVENTION CENTRE, MIDRAND

TIME: 9H00-16H00

NO.	TIME	DESCRIPTION	PRESENTERS
1	**9:00-9:15**	**REGISTRATION**	
2	9.15 - 9.30	Opening remarks	Mr Bongani Khumalo
		Session 1	
3.1	9:30-9:50	Balancing the NHI funding requirements with the economic capacity of South Africa.	Mr Dondo Mogajane
3.2	***9:50-10:10***	***Open Discussion***	
		Session 2	
4.1	10:10 - 10.45	An overview of the NHI and its implications on the intergovernmental system and the current fiscal arrangements.	Dr Ramos Mabugu
	10:45-11:00	***Tea***	
4.2	**11:00-11:30**	***Panel Discussion: Dr Mark Blecher (National Treasury), Dr Anban Pillay (NDOH), Mr Muthoto Sigidi (COGTA)***	
		Session 3	
5.1	11.30– 12.15	Lessons from international experience in implementing National Health Insurance Schemes within an intergovernmental fiscal framework	Mr Fouche Venter/Dr Megan Govender
5.2	***12.15-13.00***	***Panel Discussion: Ms Malijeng Ngqaleni (National Treasury), Dr Jaya Josie***	
	13.00-14.00	***Lunch***	
		Session 4	
6.1	14.00-14.20	What changes to intergovernmental fiscal framework are required to implement the NHI in South Africa?	Ms Wendy Fanoe
6.2	14:20-14:40		Prof Narnia Bohler- Muller
6.3	***14.40-15.10***	***Panel discussion: Dr Mark Bletcher, Prof Di McIntyre***	
		Session 5	
7	15.10-15.40	Towards an IGFR system that supports the implementation of the NHI	Ms Amanda Jitsing
8	15.40-16.00	Way forward	Mr Bongani Khumalo

3.2 Research questions per session

3.2.1 Session 1: An overview of the NHI and its implications on the intergovernmental system and the current fiscal arrangements

In terms of the Constitution, the provinces are responsible for providing health services. They receive funding as part of the provincial equitable share which is not ring-fenced for health care. The NHI proposes a single central NHI fund where all funds will be appropriated for health care. How will this impact on the functions of sub-national spheres which have to deliver health care? What will be the role and responsibilities of the provinces and municipalities in the provision of health services?

3.2.2 Lessons from international experience in implementing National Health Insurance Schemes within an intergovernmental fiscal framework

Several countries have implemented National Health Insurance Schemes. This session highlights the experience of these countries in developing intergovernmental fiscal arrangements to support the implementation of the NHI. In particular, the session will focus on how funds are allocated to the central fund, on what basis funds are allocated from the central fund to provinces or institutions and the different types of transfer payments/ funding mechanisms used by governments to fund health services.

3.2.3 What changes to intergovernmental fiscal framework are required to implement the NHI in South Africa?

This session examines the changes to the intergovernmental fiscal system needed to support the implementation of the NHI, and the potential impact on provinces and local government. The session assesses the extent to which the current intergovernmental fiscal framework can be restructured to suit the NHI, or whether there are any changes by the NHI to align with the existing intergovernmental system.

3.2.4 Towards an IGFR system that supports the implementation of the NHI

This is an open session that aims to identify a future research and consultation agenda.

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