FINANCIAL AND FISCAL COMMISSION

BRIEFING TO PORTFOLIO COMMITTEE ON HEALTH

16 April 2015

For an Equitable Sharing of National Revenue

OUTLINE

1. Health and the Economy
2. Healthcare policy and outcomes
3. Departmental MTEF analysis
4. NHI issues
5. FFC recommendations
6. Conclusion

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ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR and 2 land projects in 2015/16 research cycle

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2. Relationship between Health Care Performance and the Economy

BACKGROUND

- Health care and economic performance are strongly interdependent
  - High standards of living or national income leads to better health conditions (lower mortality)
  - A healthy nation improves productivity
  - High levels of poverty adversely affect life expectancy
  - A 10% ↑ in life expectancy → 0.3 -0.4% ↑ in economic growth
- WHO recommends public health spending account for 5% of GDP
- SA public health expenditure at 3.9% of GDP

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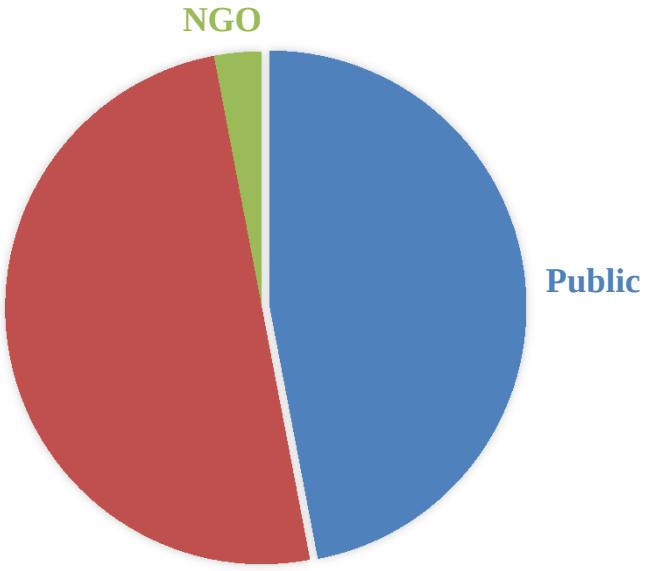
DISTRIBUTION OF HEALTHCARE FUNDING

- When private health care is included, SA spent an estimated 8% of GDP on health
- SA has significant inequities in the distribution of health care funding

50 percent of healthcare funding supports 17 percent of the population



47 percent of health care funding supports 83 percent of the population

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Overview of Heath Care Policy Goals and expenditure outcomes

LONG TERM GOALS – NDP AND MTSF

- The NDP envisions universal access to free quality health care by 2030
  - Emphasises need for balance between prevention, health promotion and affordable curative services
- The 2014 – 2019 MTSF priorities are as follows:
  - Piloting of NHI initiative and finalising the funding model
  - Constructing and refurbishing health facilities
  - Training more health care professionals
  - Increasing number of ARV beneficiaries to 5 million

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MEDIUM TERM GOALS –STRATEGIC PLAN 2018 -2019

- The overall five year strategic goals of the department are to:
  - Expand NHI implementation to 50% of health districts
  - Functional NHI funding model
  - Reengineer primary healthcare
  - Improve the various healthcare management systems i.e. information management systems

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SHORT TERM GOAL – ANNUAL PERFORMANCE PLANS…(1)

- Program 1: Administration
  - Effective financial management and improve audit outcomes
- Program 2: NHI, Health planning
  - Achieve universal access through phased NHI implementation
- Program 3: HIV/AIDS, TB and Child health
  - Reduce maternal mortality to under 100/ 100 000 live births

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SHORT TERM GOAL – ANNUAL PERFORMANCE PLANS…(2)

- Program 4: Primary Health Care
  - Improve access to community based health care services
- Program 5: Hospital, tertiary health services
  - Increase capacity and access equity of central hospitals
- Program 6: Health regulation and compliance
  - Exercise oversight over departmental agencies

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HEALTH CARE EXPENDITURE OUTCOMES…(1)

- Access to primary health care increased from 67 to 128 million visits per annum in 12 years
- Number of ARV recipients increased from 47 000 to 2.4 million over 7 years
- Live expectancy at birth increased from 56 in 2009 to 60
- Infant and child mortality rate dropped by 10% since 2006 – but remains high

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HEALTH CARE EXPENDITURE OUTCOMES…(2)

- Key health indicators essential for development remain high
- Failure to meet NDP targets undermines credibility of other policy targets (FFC 2012)
- Monitoring and evaluation of these targets must be prioritised

Health indicator	MDG goals 2015	SA performance against MDG target - 2012	NDP targets 2030
Maternal mortality	38/1000	500/100 000	100/100 000
Infant mortality	18/ 1000	43/ 1000	20/1000
Under 5 mortality	20 or 21/ 1000	104/1000	30/1000
Life expectancy	70 years (males and females	58 males 62 females	70 years - 2030

3. DEPARTMENTAL MTEF ANALYSIS

DEPARTMENTAL OVERVIEW

- The department consists of 6 programmes
  - Administration
  - National Health Insurance, Health Planning and Systems Enablement,
  - HIV and AIDS, Tuberculosis, and Maternal and Child Health
  - Primary Health Care Services
  - Hospitals, Tertiary Health Services and Human Resources Development
  - Health Regulation and Compliance Management
- The departmental entities and agencies include
  - National Health Laboratory Services
  - The Compensation Commissioner for Occupational Diseases in Mine and Works
  - The Council for Medical Schemes
  - The Office of Health Standards Compliance
  - The South African Medical Research Council of South Africa

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DEPARTMENTAL OVERVIEW

- Mandate:
  - To provide a framework for a structured uniform health system within South Africa
- Contributes directly to achieving the government outcome that calls for a long and healthy life for all South Africans – Outcome 2
- National health insurance is one of priority areas within the health sector for the 2014-2019 Medium Term Strategic Framework

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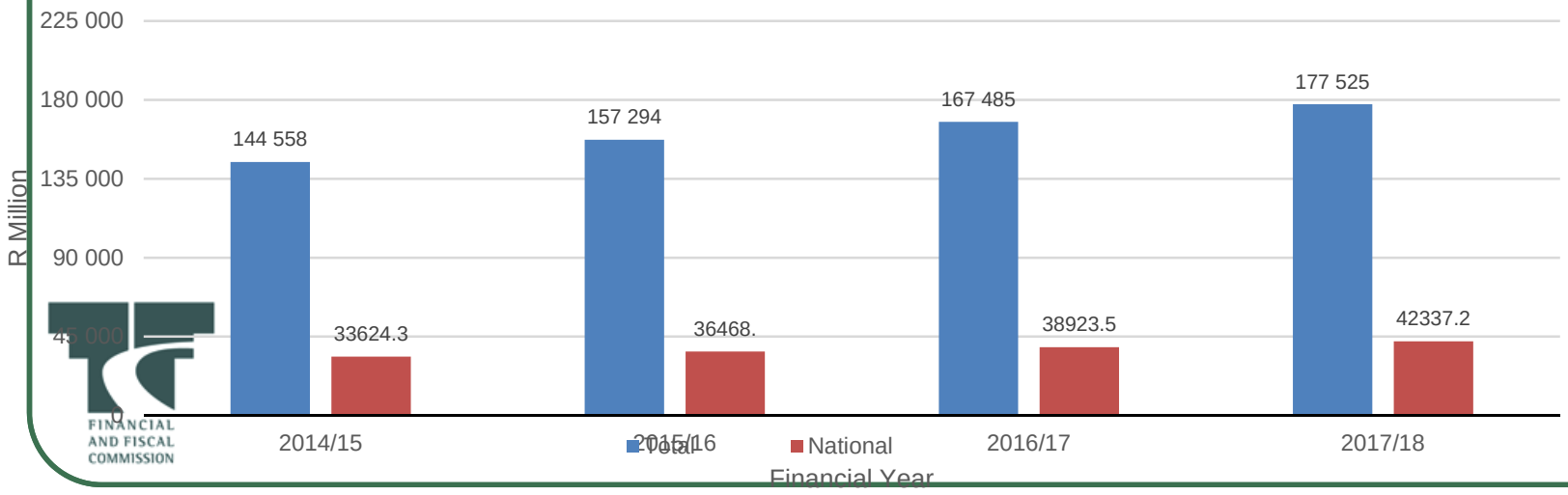
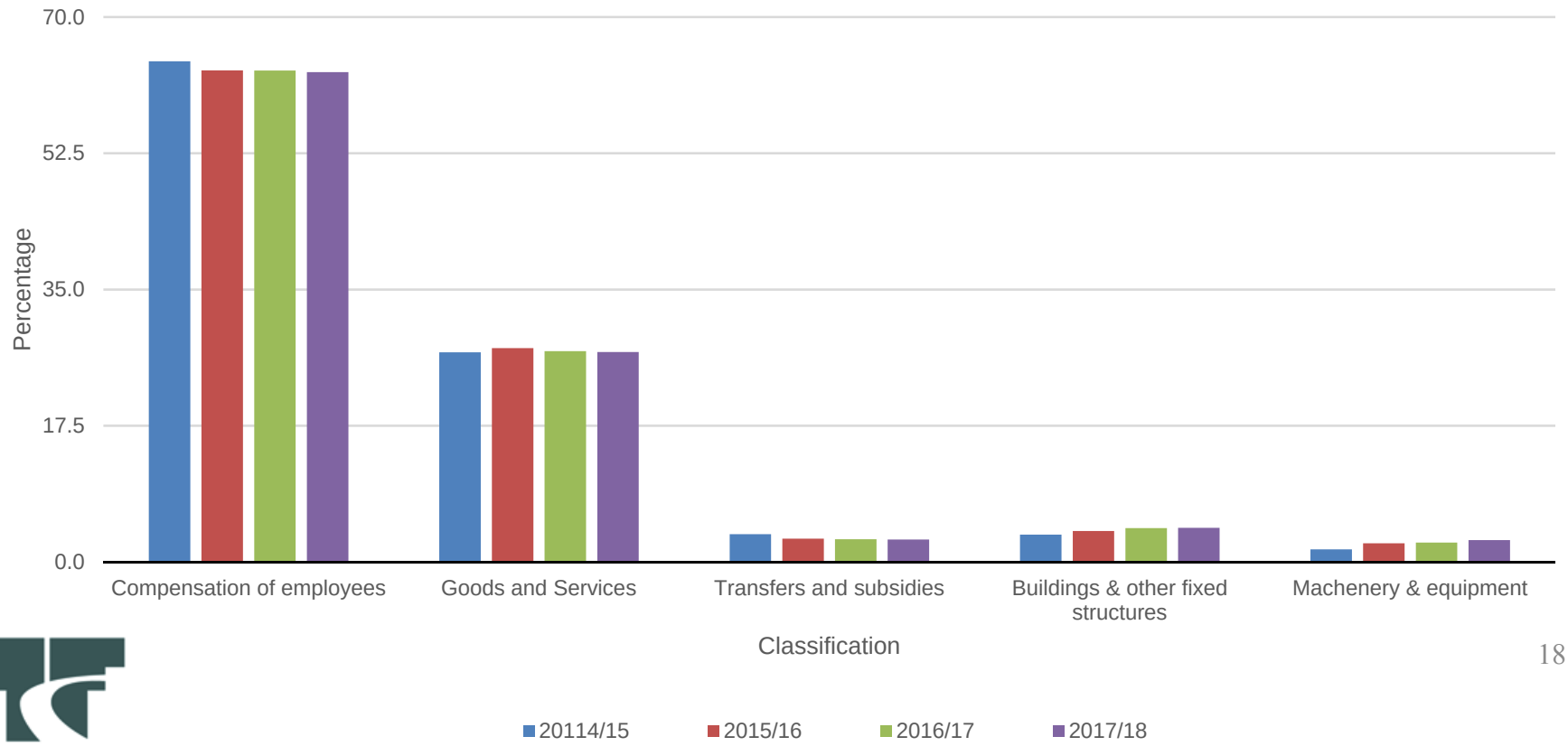
DEPARTMENTAL BUDGET ALLOCATION 2014/15-2017/18

- Over the 2015 MTEF period the DOH is allocated a total of R502.3 billion
  - This represents an average annual MTEF growth of 7.1%
  - The overall baseline for health allocations has been reduced by R2.4 billion in 2015/16 and 2016/17
    - R1.4 billion from direct conditional grants, R239 million from goods and services and R767 million from the NHI
    - Reductions are due to consolidation and reprioritisation
  - Most (80%) of the funds are spent by provinces, entities and agencies



National Department Budget Breakdown

- Compensation of employees consumes a large proportion of department's budget – on average 63.3%



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PROGRAMME SHARE OF TOTAL DEPARTMENTAL SPENDING

- Programs 3 and 5 consume the largest share of DOH's budget over the 2015 MTEF with averages of 51.3% and 41.0% respectively

Program	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Program 1	1.2	1.3	1.1	1.2	1.3	1.2	1.2
Program 2	0.7	1.1	0.7	1.0	1.6	1.5	1.6
Program 3	29.5	31.7	35.6	38.0	39.6	41.1	42.5
Program 4	1.1	0.6	0.6	0.6	0.6	0.6	0.6
Program 5	63.9	61.5	57.9	55.1	52.5	51.3	50.1
Program 6	3.7	3.6	4.0	4.2	4.4	4.3	4.1

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SPENDING PERFORMANCE PER PROGRAM

- Aggregate departmental spending performance for 6 programs is 99.3% for 20011/12 and 2012/13 and 2013/14
- Program 2 is underspending material under-spending
  - mainly due to slow take-off of the NHI indirect grant
- Program 4 - slow spending on the district health information system
- Program 1 – On goods and services invoices not received or not paid timeously among other things

Program	**2012/13**	**2013/14**
Program 1	97%	89%
Program 2	96%	40%
Program 3	99%	99%
Program 4	93%	87%
Program 5	97%	98%
Program 6	93%	95%

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HEATH CONDITIONAL GRANTS

- Health department has a total of 6 conditional grants
- Health conditional grants baseline has been revised downward by R1.4 billion over the MTEF
- An additional 767 million was reprioritised from NHI component of National Health Grant to fund HIV and AIDS grant
  - Reductions may negatively affect implementation of NHI

Grant	2014/15 R in million	2015/16 R in million	2016/17 R in million	2017/18 R in million	Average growth
Comprehensive HIV & AIDS	**12102**	**13737**	**15467**	**17440**	**12.9%**
Health Facility Revitalisation	**5502**	**5276**	**5473**	**5817**	**1.9%**
Health prof training and development	**2322**	**2375**	**2477**	**2632**	**4.3%**
National tertiary services	**10168**	**10398**	**10847**	**11526**	**4.3%**
NHI	**70**	**72**	**75**	**80**	**4.6%**
National health Grant	**1575**	**1411**	**1221**	**1347**	**-1.1%**

CONDITIONAL GRANTS SPENDING PERFORMANCE

- National Infrastructure Grant is beginning to show spending improvements for 2013/14
  - Reasons for poor spending in NHI grant was due to problems in contracting medical professionals
- A new indirect conditional NHI Grant has been created to fast track implementation

Grant Name	2011/12 spending in percentages	2012/13 spending in percentages	2013/14 spending in percentages
Comprehensive HIV & AIDS	**97.9**	**99.1**	**100**
Health Facility Revitalisation	**92.1**	**80.9**	**100**
Health prof training and development	**102.0**	**99.6**	**100**
National tertiary services	**99.6**	**98.9**	**100**
NHI		**52.0**	**100 (Direct) 97 (Indirect)**
National health Grant (Indirect)			**58**

TRANSFERS TO PUBLIC ENTITIES AND AGENCIES

- Office of Health Standards Compliance's has the highest average annual growth of 17.8% over the MTEF

Grant Name	2014/15 R'000	2015/16 R'000	2016/17 R'000	2017/18 R'000	Average annual growth rate
Office of health standards compliance	77.0	88.9	100.5	125.7	17.8%
Medical Research Council	446.3	623.9	657.6	615.0	11.3%
Medical Schemes Council	4.8	2.6	1.6	5.5	5.0%
National Health Laboratory Services	665.3	678.9	711.9	746.5	3.9%
Compensation Commissioner for Occupational Diseases in Mine and Works		171.9			

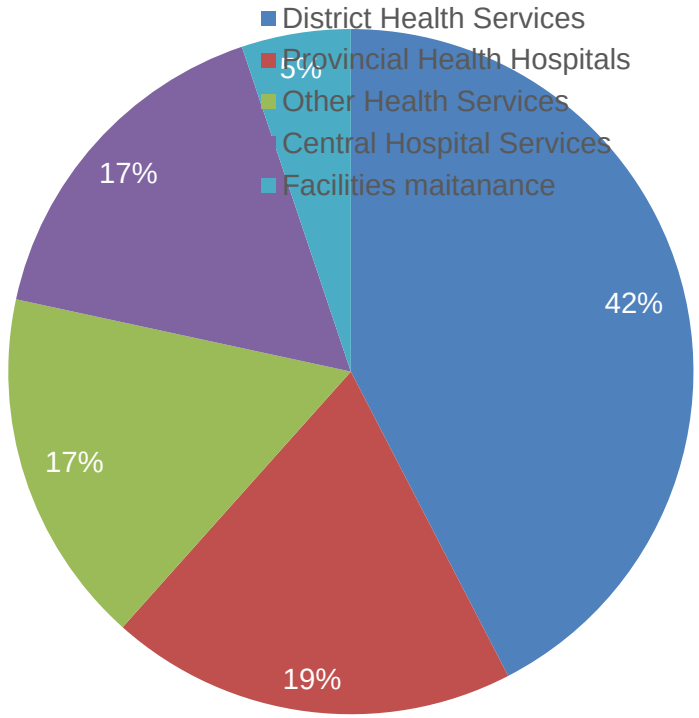
PROVINCIAL HEALTH ALLOCATIONS

- Provincial health allocation are growing at a real annual average growth rate of 8%

Province Million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Real avrg growth rate p/a
Eastern Cape	10 499	12 090	13 273	14 892	15 603	17 062	4%
Free State	4 453	5 208	6 019	6 811	7 612	7 938	7%
Gauteng	15 679	18 396	20 475	23 666	26 834	29 774	9%
Kwa-Zulu Natal	17 103	20 349	20 735	24 791	27 391	29 509	6%
Limpopo	7 960	9 020	10 506	11 366	12 830	13 816	6%
Mpumalanga	4 319	5 593	6 347	7 023	7 501	8 482	10%
Northen Cape	1 742	2 205	2 540	3 006	3 165	3 557	11%
North West	4 485	5 196	5 717	6 380	7 014	8 408	9%
Western Cape	8 656	10 371	12 345	13 388	14 601	15 978	8%

DISTRIBUTION OF PROVINCIAL HEALTH ALLOCATIONS

- District health services accounts for a larger share of provincial health budget
- Allocations are in line with the strategic focus on PHC



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HEALTH AUDIT OUTCOMES – NATIONAL AND PROVINCIAL DEPARTMENTS

- Health audit outcomes are predominately poor
  - Not consistent with the department strategic goals

Province	2008/09	2009/10	2010/11	2011/12	20012/13
National department	Qualified	Unqualified	Qualified	Unqualified	Unqualified
Eastern Cape	Adverse	Disclaimer	Qualified	Qualified	Qualified
Free State	Qualified	Disclaimer	Qualified	Qualified	Qualified
Gauteng	Disclaimer	Disclaimer	-	-	Qualified
KwaZulu Natal	Qualified	Qualified	Qualified	Qualified	Qualified
Mpumalanga	Qualified	Qualified	Qualified	Qualified	Qualified
Limpopo	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
North West	Qualified	Unqualified	Unqualified	Qualified	Unqualified
Northern Cape	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Qualified
Western Cape	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

HEALTH AUDIT OUTCOMES – AGENCIES

- Audit outcomes of departmental agencies are comparatively better than provinces
- Effective financial oversight need to be exercised over provinces

Agency	2008/09	2009/10	2010/11	2011/12	20012/13
National Health Laboratory Services	-	Unqualified	Unqualified	Unqualified	Unqualified
Medical Research Council	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
Council for Medical Schemes	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Office of Health standards	-	-	-	-	-

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ALIGNMENT BETWEEN STRATEGIC PLANS AND BUDGET

- The department demonstrates better alignment between long term strategic goals and short term performance plans
- NHI implementation features prominently in the APP
- Program 1 responsible for improving audit outcomes requires more attention given the prevalence of poor audit opinions
- PHC is prioritised in the provincial health allocations

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5. National Health Insurance and IGFR Challenges

National Health Insurance

- NHI as part of a ten-point plan for health services
  - Will be introduced over a fourteen year period, with the first phase of reform focused on revitalising the public health system.
- Central aim is to achieve universal access to health services financed through an integrated system
- Proposed NHI framework is a single-payer system – Tabling of White Paper for establishment of NHI imminent
- Reform of the present multi-payer system is therefore a critical part of the required transition path
  - New Intergovernmental arrangements for mobilising and combining public and private service delivery capacity are key transition measures
  - FFC not yet formally consulted by MoH

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NHI Related IGFR Issues

- Establishment of NHI entails resolving a paradox
  - Emanates from the principle that 'funds follow function'
  - Inherent in the establishment of the NHI is a purchaser provider split in which the NHI fund is a purchaser but the provincial institutions are the main providers
  - NHI concept involves establishing a national fund which holds and channels the funds, but that provision remains at the facility or district level. However, the intergovernmental system principle entrenched in the constitution says funds must follow the function. Therefore if the MOH wants to shift the funds, they must also shift the function.
- Other issues
  - Potential NHI impacts on provincial fiscal framework & IGFR more broadly?
  - How might an NHI fund interface with the existing conditional grants and the PES?

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6. FFC HEALTH –RELATED RECOMMENDATIONS FOR 2015/16 DOR

Submission	FFC Recommendation
Submission for the 2015/16 DoR	***Provincial government increase their allocation levels to PHC funding, to be in line with the minimum norms and standards for the PHC package set by the National Department of Health.*** ***Response: Government agrees but suggest that new norms and standard be developed rather applying those published in 2000***
	Inefficiencies in the health sector are minimised to be in line with international best practices, particularly, clinical, operational and behavioural waste.

CONCLUDING REMARKS

- The department of health demonstrates better alignment between the NDP, MTSF and its strategic plans
- The budget prioritises key aspects of the strategic plans such as NHI pilot implementation and primary health care
- The key programs responsible for implementing NHI are underperforming (Program 2)
- The implementation of NHI pilot through indirect conditional grant requires careful arrangements because of potential unintended consequences on provinces (National Health Grant)
  - Should be accompanied by capacity building initiative
- Financial performance of provinces and oversight thereof need improvement

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FFC's Website: www.ffc.co.za