



# STRIKING A BALANCE IN NHI FUNDING: REQUIREMENTS AND IMPLICATIONS ON THE INTERGOVERNMENTAL SYSTEM

---

Bongani Khumalo

17<sup>th</sup> Annual Board of Healthcare Funders Southern  
African Conference

17 – 20 July

*For an Equitable Sharing of National Revenue*

# OUTLINE

---

- Context
  - FFC DNA NHI Colloquium
- The Colloquium Deliberations
  - Intent of NHI
  - Problem Statement
  - Constitutional implications
  - Funding follows function
  - Function clarity
  - Accountability/Governance
  - Contracting and service providers
  - Inefficiencies/value for money
  - Funding options
  - Need for collaboration
- Conclusion and Way Forward

# CONTEXT

---

- Government has committed to introducing a National Health Insurance (NHI) scheme
  - In keeping with the Bill of Rights (Section 27(1)(a) and Section 27(2)).
  - Responds to Goal 8 of the NDP of universal health care coverage
- While universal access to quality health care a desirable end, it is a monumental task requiring overhaul of entire health care system
- Input focuses on requirements and implications on the IG system of NHI

# FFC DNA NHI COLLOQUIUM

---

- The presentation is based on a colloquium on the implications of the NHI on the intergovernmental system, specifically the fiscal relations between national and provincial government held on 1 June 2016
- Among the major points on striking a balance in NHI funding and requirements and implications on IG system are
  - NHI will require public funding over and above that already allocated to the health budget, which will mean finding additional revenue sources in an environment of fiscal consolidation and debt stabilisation.
  - An appropriate balance NHI funding will have to be achieved in order to ensure that the tax structure continues to support economic growth, job creation and savings.

# INTENT OF NHI

---

- NHI scheme seeks to provide adequate access to health care services for all South Africans, irrespective of their socio-economic status
- The NHI works on the principle of pooling resources and risks to extend coverage to the entire population
- 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

# PROBLEM STATEMENT

---

- Issues from the Colloquium included
  - White Paper's problem statement is thin and insufficiently addresses the issue.
  - The underlying problem is that South Africa already spends approximately 9% of GDP on health care, which is very high compared to other countries
  - There are huge inefficiencies in both private and public sectors that need to be addressed
  - NHI is often misunderstood to refer to a pure insurance model where those who pay receive services, whereas the intention is a NHI *scheme*.
- The White Paper is unclear about how the institutional and funding arrangements will be organised under the NHI
  - This ambiguity can destabilise the entire system of intergovernmental relations.

# CONSTITUTIONAL IMPLICATIONS

---

- Schedule 4 of the Constitution deals with health services but does not define “health services”
  - It may be necessary to relook at Chapter 13 of the Constitution – Section 214(1)
- Chapter 13 is prescriptive in terms of equitable share and does not leave much room to reorganise the state
- The NHI Fund (a single pool of funding for health care), which would have consequences for provinces, is not necessarily unconstitutional so long as the provinces have some role to play

# FUNDING FOLLOWS FUNCTION

---

- When a function shifts to another sphere, “funds should follow function”
- This means that the provincial equitable share (an entitlement) and conditional grants must be transferred to the receiving sphere
- The PES is intended to fund provincial mandates, which include health care service
- Before redesigning the financing system, it’s necessary to know where the functions are located: There are two possibilities
  - Centralisation - whole function becomes competency of national government
  - Partial assignment - some functions performed by national government and others by province



# FUNCTION CLARITY

---

- NHI proposes a shift in the function especially in terms of management and financial flows
- Clarity is required on who delivers the functions, as National Treasury and the FFC cannot give advice about funding if the functions are not clearly defined
- The White Paper mentions 2 of the following possible 5 options that are all legally possible but have very different consequences
  - The function shift approach
  - Sharing of functions approach between national and provincial spheres
  - Function shift with delegation or agency arrangements of some kind
  - Provincial fund option
  - Changes to the Constitution

# ROLE OF PROVINCES

---

- Role of provinces in this system is unclear and needs to be considered carefully
- Provinces have a major role to play especially during the transition period
- Similarly, once facilities assume all their assigned responsibility, provinces, districts and municipalities will still have a major role to play in enhancing the efficiency of the health system
- The question is: How will provinces be able to fulfil their mandates when funding is held elsewhere?

# ACCOUNTABILITY/GOVERNANCE

---

- The NHI creates many layers of accountability
  - PHC structures are accountable to DHMOs, hospitals are held to account by Hospital Boards, and the OHSC by the NHI Fund
- Clarity is needed on how these structures will be integrated into the current IGR accountability arrangements, in particular how provincial structures will report to provincial legislatures
- Accountability should be to the public using the service, and decision-making should be as close as possible to community being served
  - governance procedures should be clear so that NHI can be held accountable to Parliament and to the public

# CONTRACTING AND SERVICE PROVIDERS

---

- White Paper proposes a direct contracting relationship between the NHI Fund and the service providers (Contracting Units)
  - Can be done by either a fee-for-service or capitation approach
- Care must be taken not to end up with fragmented purchasing arrangements in light of inequitable distribution of health facilities and skewed preference for private providers
- Multiple contracts with services providers require a good governance system to avoid fragmentation
- Roles and functions of government spheres in respect of maintaining standards and service levels needs clarity

# INEFFICIENCY AND VALUE FOR MONEY

---

- There are inefficiencies in the current system
  - Need for balance mix of health care professionals and admin personnel as well as harmony in salaries between private and public sector
- Spending time and resources on wrong things creates inefficiencies difficult to identify, but improving these areas could make a difference to service delivery
- Efficiency linked also to prices and choices
  - Price has been distorted by huge pricing power in private sector hands
  - Unit cost of delivery will reduce if public sector delivery is improved, thereby giving patients more choice and reducing private sector power

# FUNDING OPTIONS

---

- Although 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
- Currently over 80% of the funding that provinces get is through the PES
- NHI will require a specific purpose grant to keep in line with the principle of transfer systems
  - Transfers should be simple, predictable and promote revenue adequacy, as well as efficiency by giving transfer recipients autonomy

# NEED FOR COLLABORATION

---

- Health professionals seldom want to work in multi-disciplinary teams
- Preliminary engagements with health professionals suggest they are not interested so much in working as a team as they get paid collectively based on per capita – an incentive problem
- Nurses believe that enrolling patients in the NHI programme (i.e. go to private sector) will mean they lose the patients and then won't have jobs
- Health professionals organising themselves for NHI with the aim of maximising their benefit from the funds
- All these issues need to be ironed out ahead of time

# CONCLUSION AND WAY FORWARD

---

- General consensus on the need for equity, efficiency and Universal Health Care
- A lot of detail still missing in current White Paper
  - Department of Health has put together work streams
- Research is needed into required constitutional and legislative changes and fiscal instruments
- Continuous vibrant discussions and collaborations across all health stakeholders needed to make NHI successful
- The FFC and DNA Economics plan a second NHI Colloquium in September 2016 that will include the private sector