The Financial and Fiscal Commission

The Commission is a body that makes recommendations and gives advice to Organs of State on financial and fiscal matters. As an institution created in the Constitution, it is an independent, juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) (as amended) and relevant legislative prescripts and may perform its functions on its own initiative or on request of an Organ of State.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between the national, provincial and local spheres of government. This relates to the equitable division of government revenue among the three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly both to Parliament and the Provincial Legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February.

The Commission consists of women and men appointed by the President: the Chairperson and Deputy Chairperson; three representatives of provinces; two representatives of organised local government: and two other persons. The Commission pledges its commitment to the betterment of South Africa and South African's in the execution of its duties.

FINANCIAL AND FISCAL COMMISSION

Policy Brief

Pricing and Costing Health Care in South Africa: A Primer

02 February 2021

Executive Summary

South Africa's health system is already under severe financial strain, despite the high government expenditure on health relative to similar upper-middle income countries, and its vulnerability has been exposed by the Covid-19 pandemic. To assess the adequacy and sustainability of South Africa's public health funding, the Commission undertook a quantitative analysis of the costs and prices of three major health care packages: the primary health care (PHC) package, prescribed minimum benefits (PMBs) and a demand-based (Pareto) health care package. The same approach and cost assumptions were used for all three health care packages. Using data from the Western Cape, the Rand per patient visit per year (inpatient or outpatient) was derived by dividing the cost of servicing patient health care over the number of patient visits. This cost was used as a proxy for the cost-efficiency of the health care services for each package. The analysis found that the PHC package had the lowest cost and lowest coverage that is insufficient for the market demand for public health care, whereas PMBs had the highest cost and a similar coverage to that of the Pareto package. The Pareto health care package demonstrated that a highly efficient health care package can be derived using a demand-based costing approach. The Commission recommends that health care services be costed and priced using an evidence-based approach, an integration national system of patient and doctor registries be developed, and the PHC package be refocused on providing health care services rather than on information.

Background

South Africa's public health care system is under severe financial strain, facing an ever-increasing demand for health services and shortages of staff, equipment and financing. Health spending accounts for 8.11% of gross domestic product (GDP) and 13.34% of general government expenditure, which is high relative to the average spend of upper-middle income countries. The COVID-19 viral pandemic sweeping across the globe has stunned the health care systems of many nations, irrespective of income, wealth, socio-economic status and financing structure. The millions of confirmed cases have exposed the structural imbalances and weaknesses of health systems around the world.

South Africa's health system is among the most vulnerable because of the country's extreme socio-economic inequality and two-tiered health care system. In light of this unprecedented challenge, the adequacy and sustainability of South Africa's public health funding need to be assessed. Therefore, the Commission undertook a quantitative analysis of the costs and prices of three major health care packages: the primary health care (PHC) package, prescribed minimum benefits (PMB) and a demand-based (Pareto) health care package. The data was taken from the Western Cape's consolidated database health facilities for 2018/19,[1] including both financial and non-financial information (e.g. patients admitted, inpatient days). The Rand per patient visit per year (inpatient or outpatient) was derived by dividing the cost of servicing patient health over the number of patient visits. This unit cost was used as a proxy for the cost-efficiency of the health care services.

Research Findings

Table 1 presents the three health care packages, based on one patient, one visit per year, without knowing of the extent of health care required.

Table 1: Costing and pricing of health care packages

	PHC package[2]	PMB[3]	Pareto package[4]
Cost per patient visit per year (2019 prices)	R2,198	R19,764	R12,969
Health care service exposure coverage (%)	27.30%	80.60%	80.00%

[1] It should be noted that the only sub-departmental data available was for central hospitals (Groote Schuur, Tygerberg and Red Cross), regional hospitals (George, Mowbray, New Somerset, Paarl and Worcester) and psychiatric hospitals (Alexandra, Lentegeur, Stikland and Valkenberg)..

[2] The PHC package comprises three components: health promotion and disease prevention; treatment, care and support; and environmental health services.

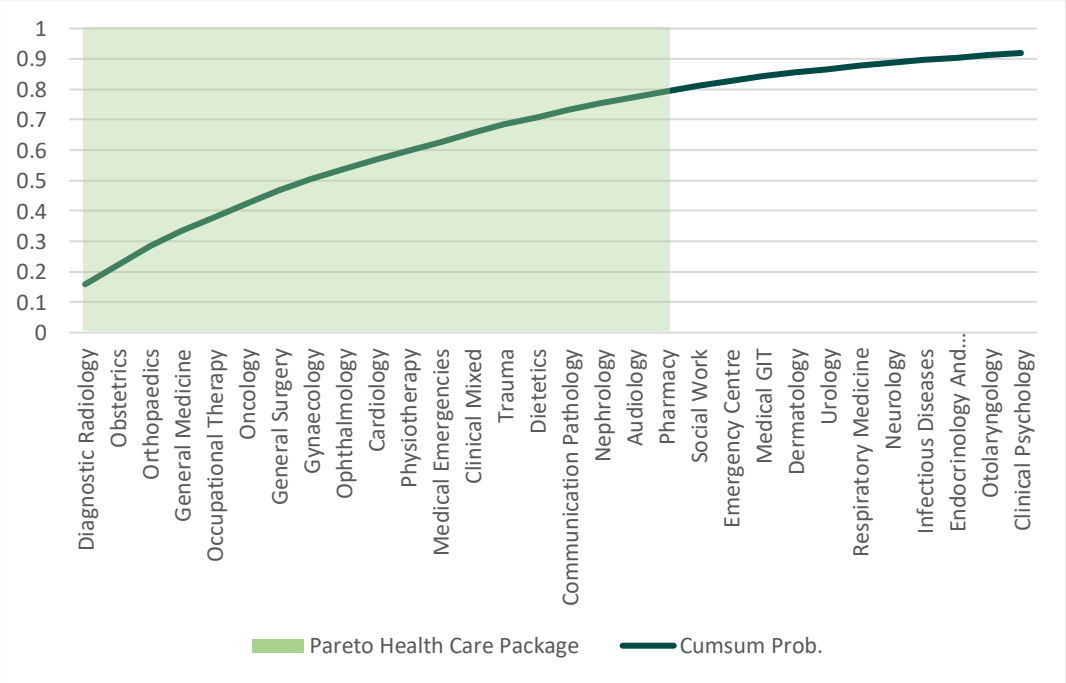
[3] PMB categories and chronic diseases from the Medical Schemes Act (No. 131 of 1998), Regulations GNR.1262 – 20 October 1999 as amended and Council for Medical Schemes

[4] The proposed Pareto package includes diagnostic radiology, obstetrics, orthopaedics, general medicine, occupational therapy, oncology, general surgery, gynaecology, ophthalmology, cardiology, physiotherapy, medical emergencies, clinical mixed, trauma, dietetics, communication, pathology, nephrology, audiology, pharmacy

- The PHC package has the lowest cost of all three packages but covers less than 30% of health care services and so, unsurprisingly, the actual or curative treatment is minimal. The focus is on preventative care and health education, with most cases being referred to hospitals. The emphasis for actual care is on patient stabilisation (including emergencies) and management of minor ailments.
- The PMBs and Pareto health care package offer similar coverage (80.6% and 80% respectively), but the cost of medical scheme cover based on PMBs is over 50% more expensive than the Pareto package, which is the optimal package.

The demand-based (Pareto) health care package was estimated based on the 80-20 rule on the probability of patient visits (Figure 1). The horizontal axis with coloured area indicates the sub-departments, ranked in descending order, that are covered under this package.

Figure 1: Demand-based Pareto health care package



Source: Consolidated data and Author's own calculation

These results were achieved using the same approach and assumptions of costing for all three health care packages. Thus, the proposed Pareto health care package, acting as a proof of concept, demonstrates that a highly efficient health care package can be derived using a simple demand-based costing approach, with data information for output-cost mapping. Naturally, as better and more reliable costing with outputs data is collected, this costing approach can be used as the basis for deciding the extent of coverage and benefits of more cost-effective and efficient health care packages.

Conclusion and Recommendations

A needs-based costing framework was used to understand the pricing and costing structure of health care, to assess whether South Africa's public health funding is adequate and

sustainable. The analysis found that the PHC package, as prescribed by the Department of Health, is wholly inadequate or, at the very least, insufficient for the market demand for public health care. While recognising the importance of preventative services in primary health care, the Commission is concerned about the appropriateness of the current PHC package, which focuses too much on so-called preventative services as opposed to curative services. The fact is most health care facilities and infrastructure are already under-resourced, which means that the majority of cases, even if they fall under PHC, are referred to primary hospitals for testing and treatment. Furthermore, the quantitative analysis of the costs and prices shows that with a similar data system for the whole country and the simple, needs-based costing methodology developed by the Commission, government can improve the adequacy, appropriateness and sustainability of the public health care system via financing, to provide better, more inclusive health care across the country.

The Commission recommends that:

1. The Minister of Health, together with the Minister of Finance, adopt the proposed evidence-based approach for costing and pricing healthcare services, which is simple, efficient and can optimise the coverage while minimise the costs of health care.
2. The Minister of Health, with the support of the Minister of Finance, prioritise the development of an integrated national information system of patient and doctor registries, with the funding of this system to be pronounced in the 2021/22 Division of Revenue Bill and Appropriation Bill, completed by 2022/23 for roll-out in 2023/24, testing in 2024/25 and stabilising in 2025/26.
3. The Minister of Health re-examine the prescribed PHC package based on the needs of the people, refocusing from informing, promoting, identifying, screening, facilitating and educating to providing health care services. This should be supported by reprioritisation from within the current baseline budget allocation of Programme 4: Primary Health Care to ensure that care is available to those who come into the PHC facilities in need of medical attention and curative treatments.

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