Western Cape Government

Provincial Treasury

Healthcare Funding and Allocative Efficiencies in the Western Cape

by

Fiscal Policy

David Tseng (David.Tseng@westerncape.gov.za)

Introduction

- South Africa has an inefficient, fragmented healthcare system (McIntyer

How inefficient and fragmented?

Inefficient:

- 8 per cent of its Gross Domestic Product (GDP) vs. WHO's recommended 5 per cent
- other countries (e.g. Brazil, Mexico and Thailand) have far better health outcomes for the poor than South Africa on almost all key measures including life expectancy and maternal mortality rates.

Fragmented:

- private healthcare comprises nearly 50 per cent (4 of 8 per cent of GDP) of the total contribution towards the health sector, yet it caters for only 20 per cent of the population.

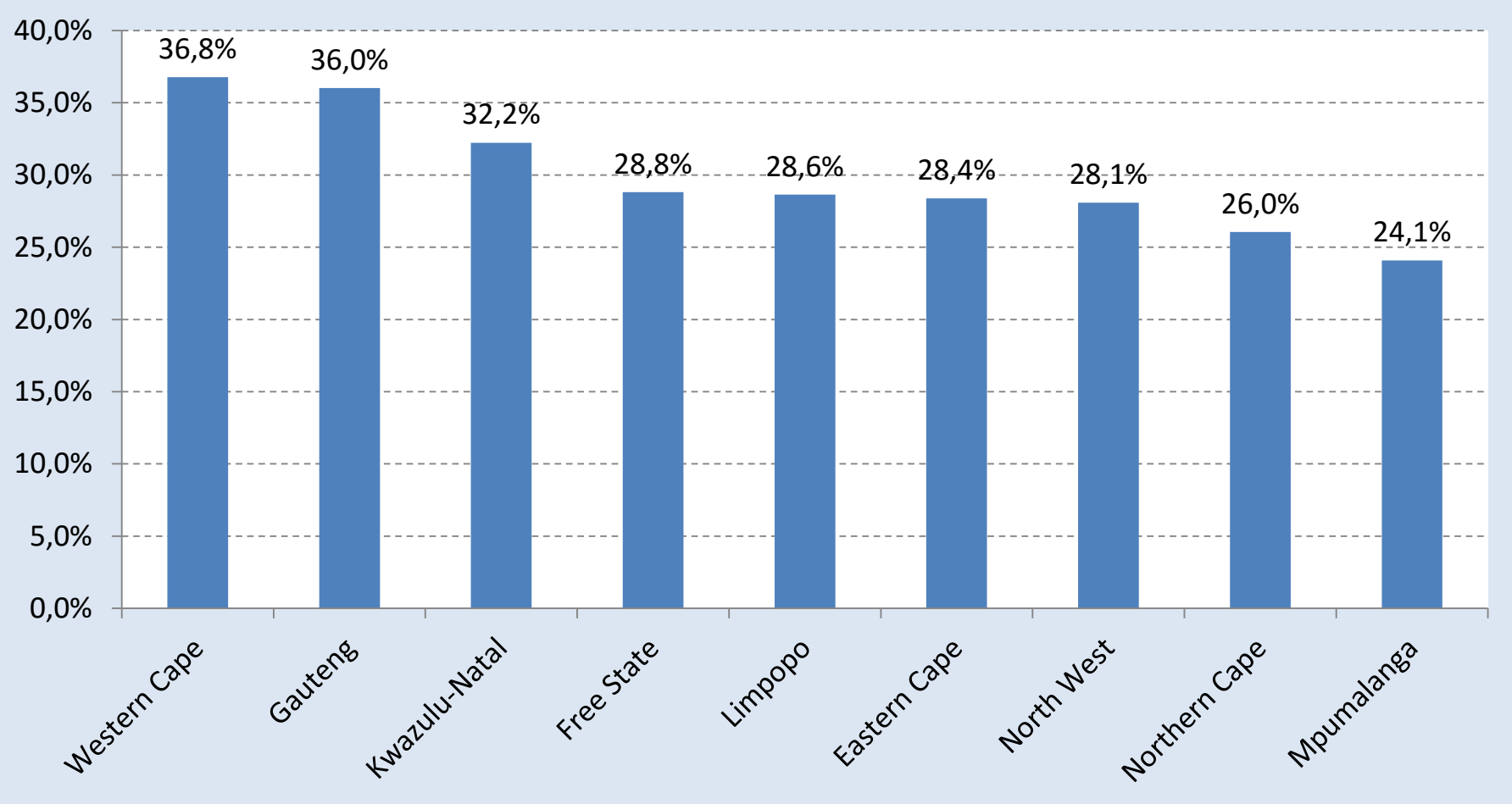
3 Explanations

1. the extreme mal-distribution of funding coverage between public and private medical care services.

2. No computational equilibrating pricing model to regulate its flows between private and public healthcare servicing units.

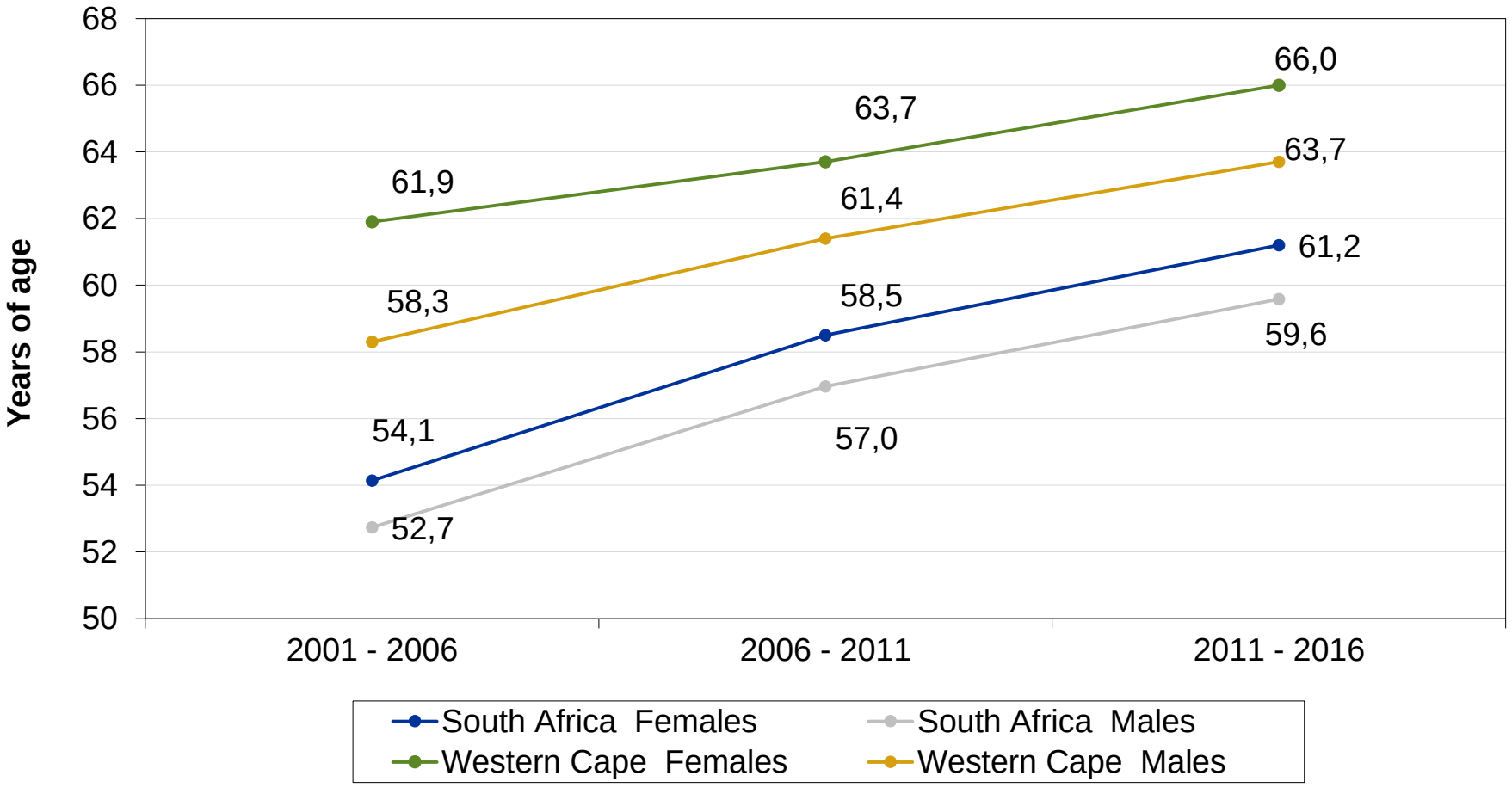
3. High levels of uncertainties on both sides of the demand and supply of the healthcare market.
   - Demand side: patient information asymmetries still distort prices, causing adverse selections for the medical aid insurers as well as the insured.
   - Supply-side: lack of co-ordination and standard procedure between hospitals and doctors offering different quantities and qualities of care results in wasteful duplication, under-utilisation and uneven mal-distribution of infrastructure deployment, equipment and human resources.

Share of Provincial Payments (Budget) by province: 2013/14 Audited



Western Cape Government
Provincial Treasury

WC PERO Chapter 5: Average life expectancy for males and females in South Africa and Western Cape, 2001 - 2006, 2006 - 2011 and 2011 - 2016



Western Cape Government
Provincial Treasury

Source: Statistics South Africa (2015a), Provincial Budget Office (WC 2015)

Provincial Equitable Share – the Health component

Table 1: Risk-adjusted sub-component shares
Source: National Treasury and Own calculation

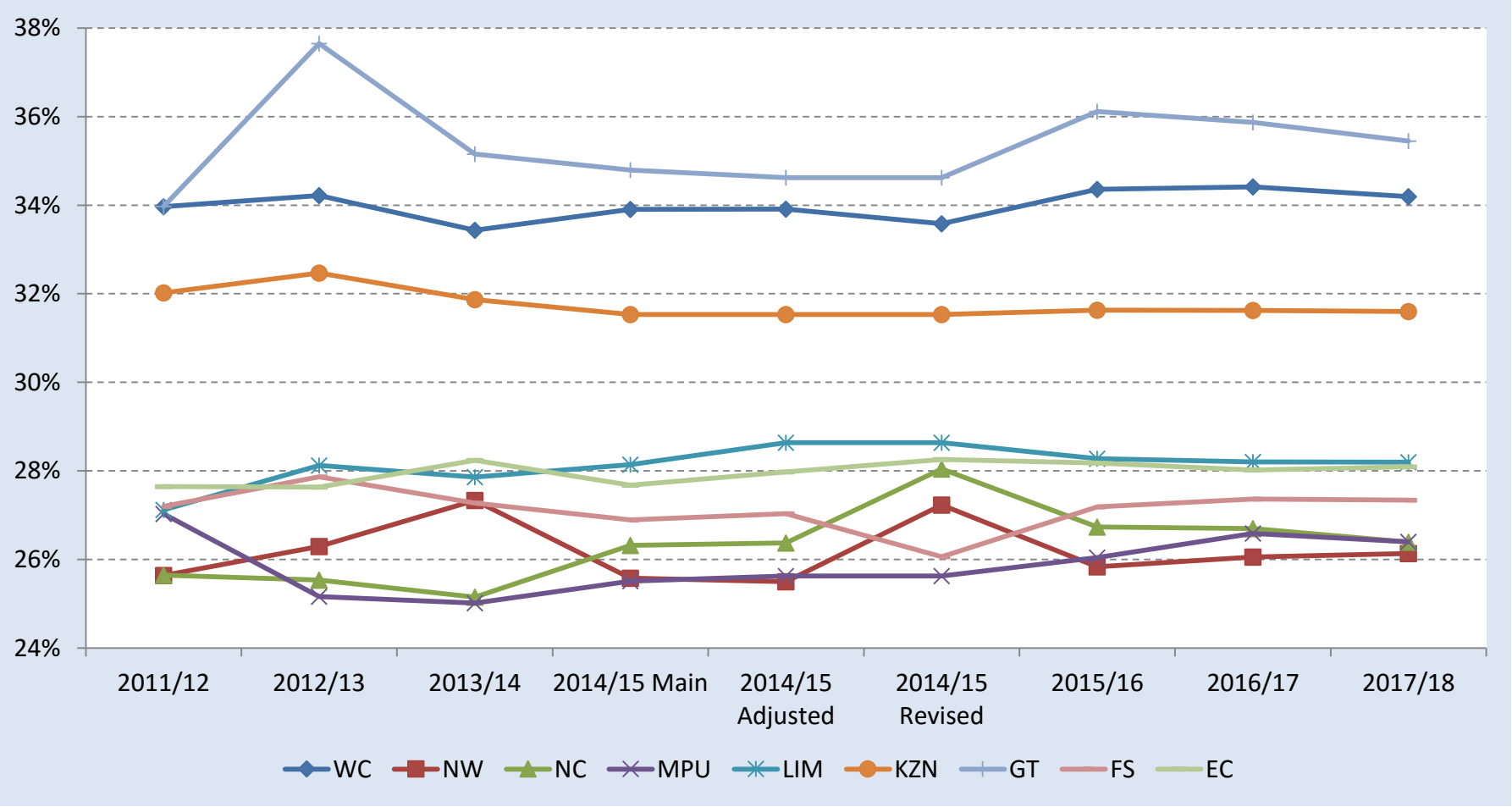
	Mid-year population estimates	Insured population (2013 GHS)	Uninsured population	Risk-adjusted index (Risk Equalisation Fund)	Weighted uninsured population	Risk-adjusted sub-component shares
Thousand	**2014**	**2013**	**2014**		**2015**	**2015**
Eastern Cape	6 787	10.5%	6 074	96.9%	5 886	13.4%
Free State	2 787	17.1%	2 310	103.3%	2 387	5.4%
Gauteng	12 915	29.3%	9 131	105.4%	9 624	21.9%
KwaZulu-Natal	10 694	13.3%	9 272	98.9%	9 170	20.8%
Limpopo	5 631	9.0%	5 124	91.6%	4 694	10.7%
Mpumalanga	4 229	15.6%	3 569	95.7%	3 416	7.8%
Northern Cape	1 167	20.2%	931	100.7%	938	2.1%
North West	3 676	15.6%	3 103	102.2%	3 171	7.2%
Western Cape	6 116	25.7%	4 544	104.0%	4 726	10.7%
Total	54 002		44 059		44 011	100.0%

Provincial Equitable Share – the Health component

Table 2: Provincial Equitable Share – the health component
Source: National Treasury and Own calculation

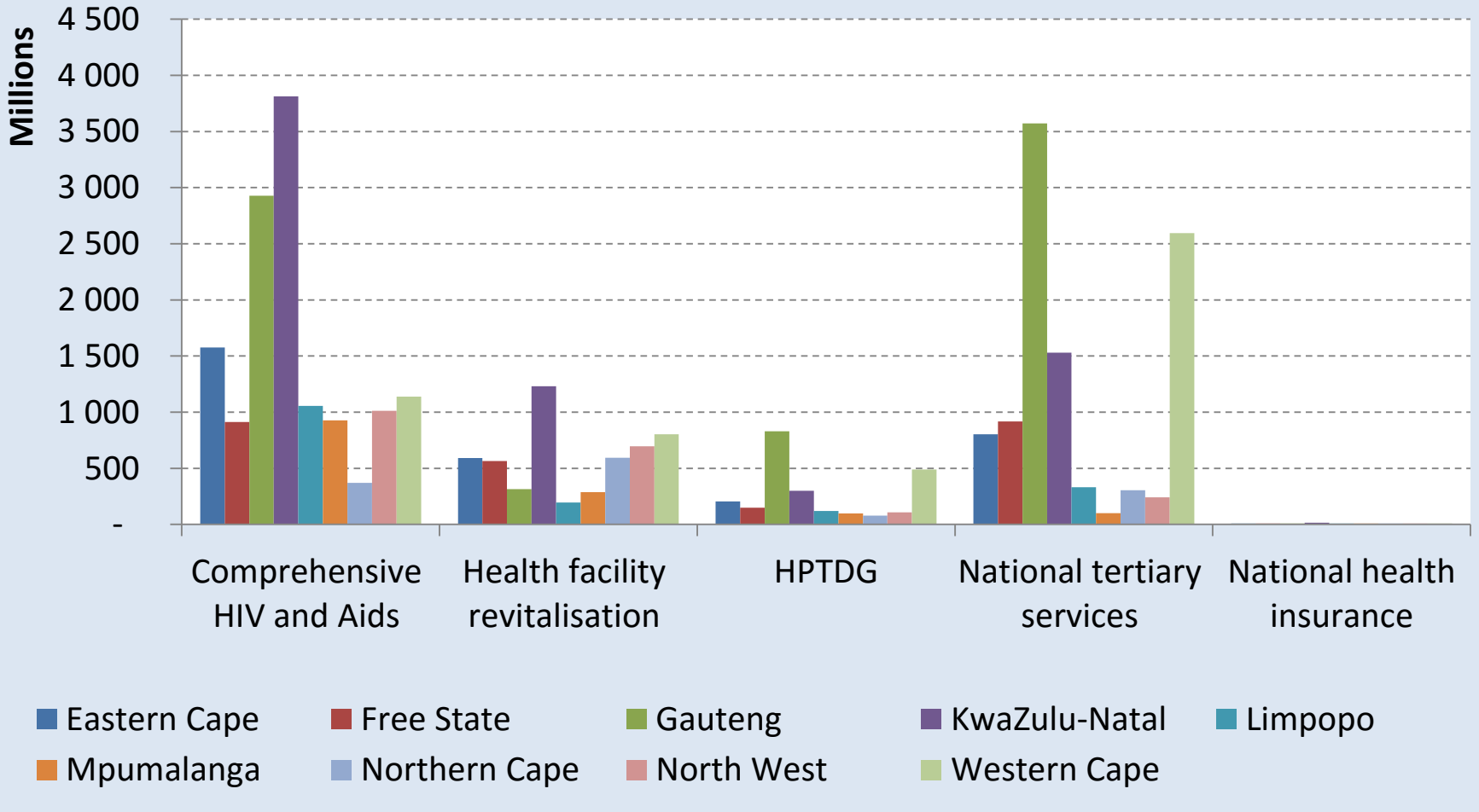
	Risk-adjusted	Primary healthcare visits		Hospital patient-day equivalents		PES - Health Component
		Average	Share	Average	Share	
Weight	**75%**	**5%**		**20%**		**100%**
Eastern Cape	13.4%	17 552	13.6%	4 548	14.1%	13.5%
Free State	5.4%	7 191	5.6%	1 780	5.5%	5.4%
Gauteng	21.9%	23 366	18.1%	6 667	20.7%	21.4%
KwaZulu-Natal	20.8%	31 498	24.4%	8 054	25.0%	21.8%
Limpopo	10.7%	14 293	11.1%	2 910	9.0%	10.4%
Mpumalanga	7.8%	9 100	7.1%	1 875	5.8%	7.3%
Northern Cape	2.1%	3 406	2.6%	520	1.6%	2.1%
North West	7.2%	7 969	6.2%	1 626	5.0%	6.7%
Western Cape	10.7%	14 584	11.3%	4 240	13.2%	11.3%
Total	100.0%	128 957	100.0%	32 219	100.0%	100.0%

Provincial Equitable Share – the Health component



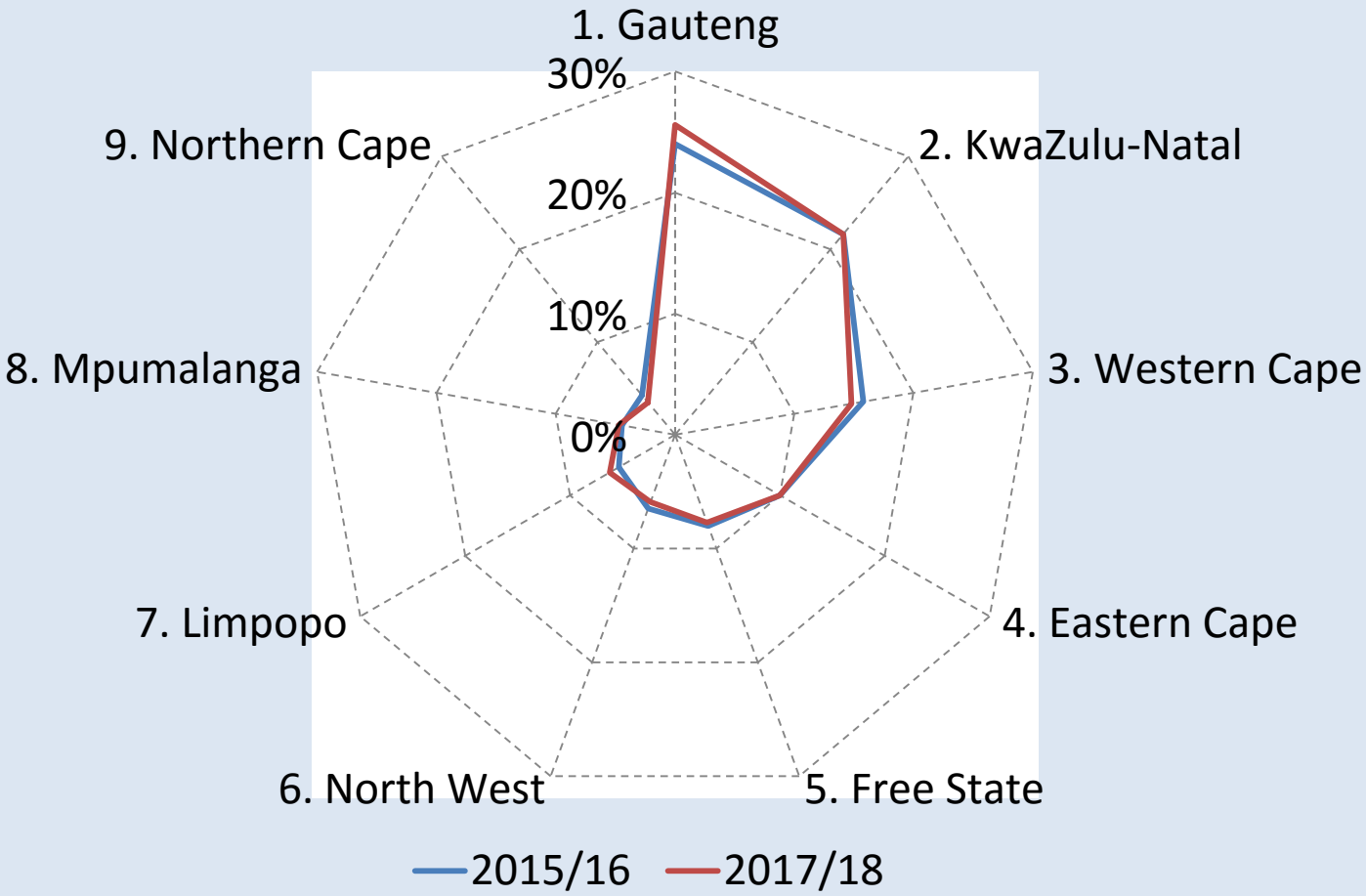
Western Cape Government
Provincial Treasury

Figure 2: Conditional Grants by province – 2015/16



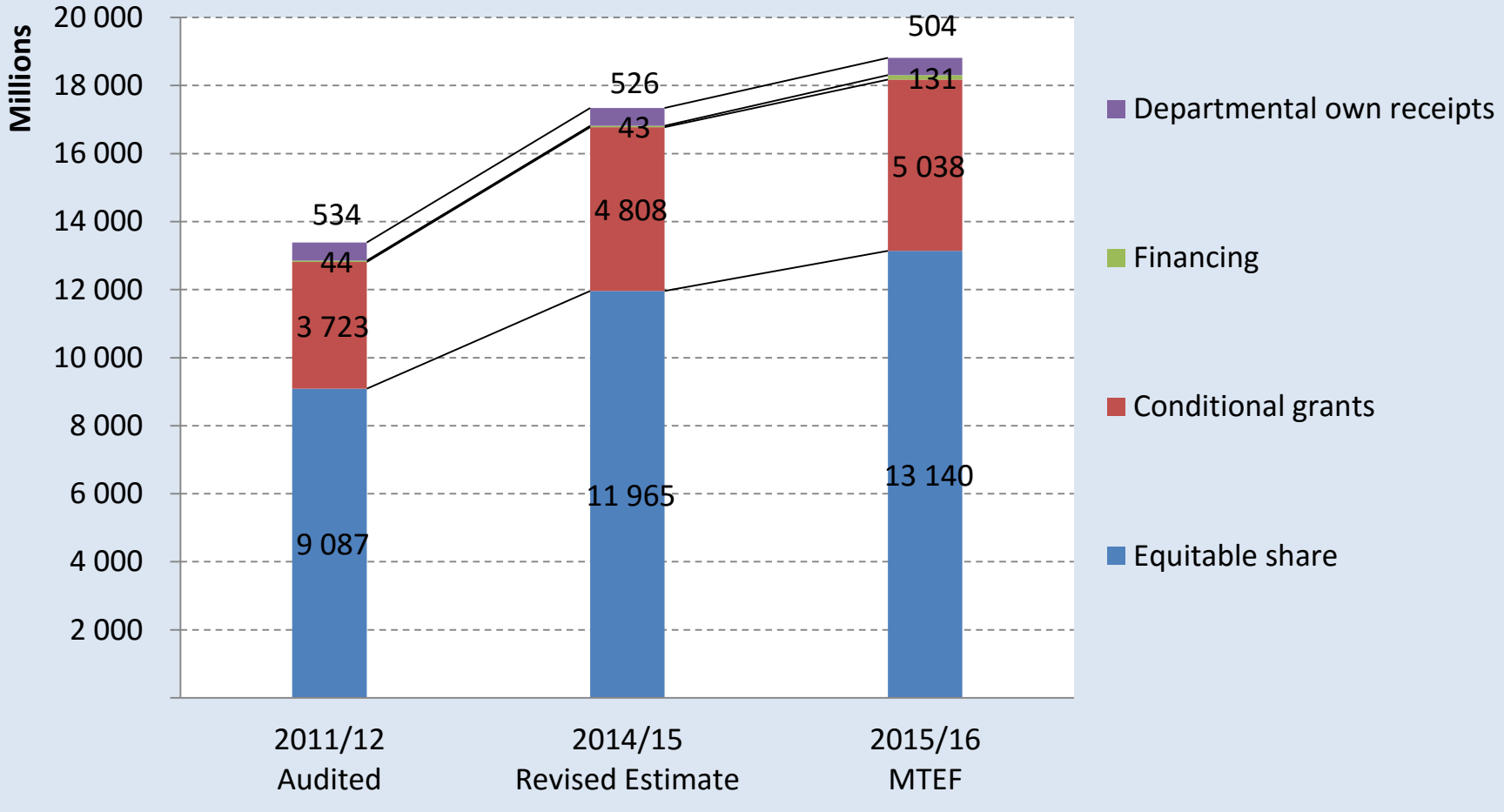
Western Cape Government
Provincial Treasury

Figure 3: Health conditional grants share by province 2015/16, 2017/18



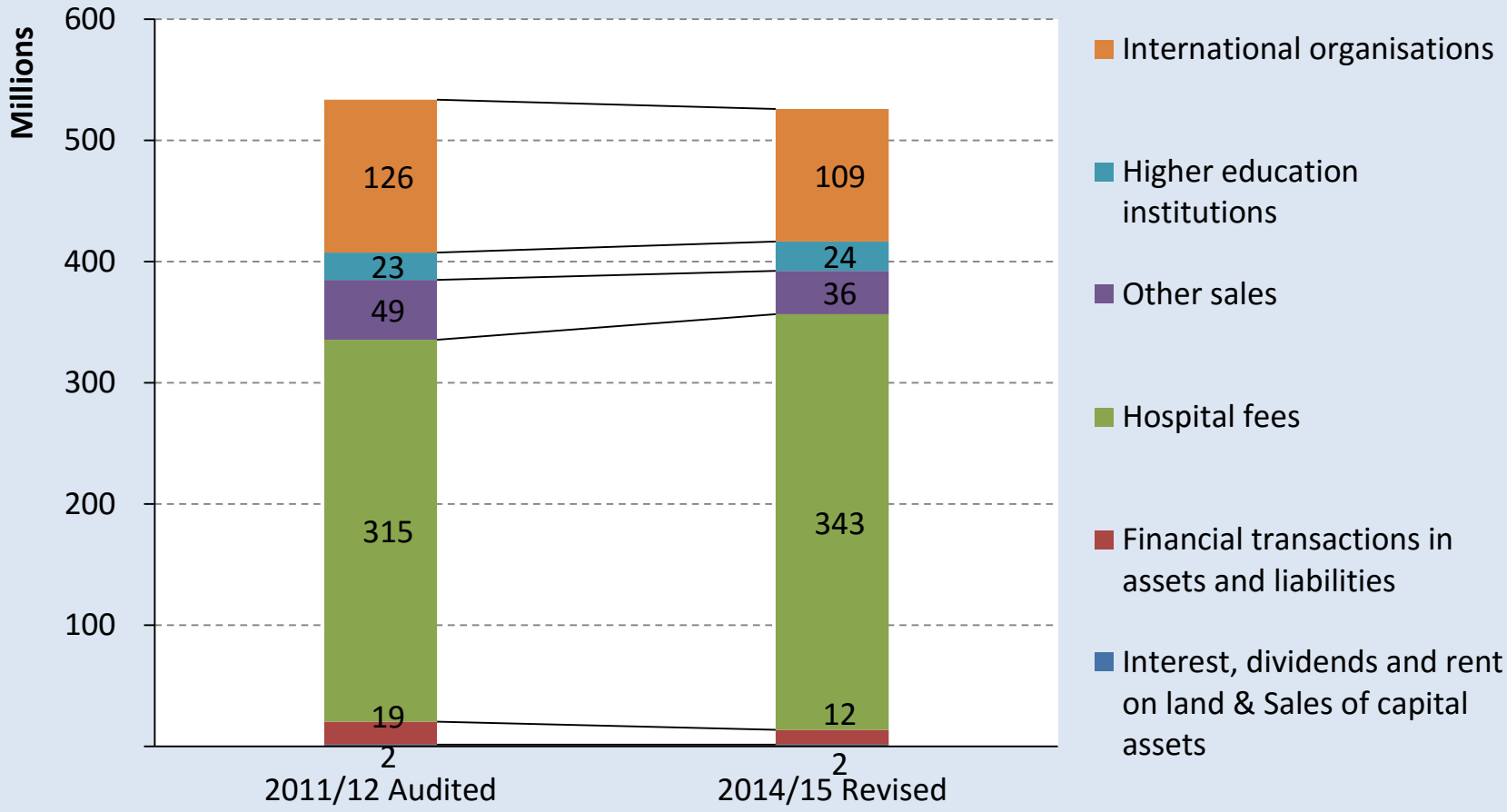
Western Cape Government
Provincial Treasury

Figure 4: Summary of total receipts for health, WC



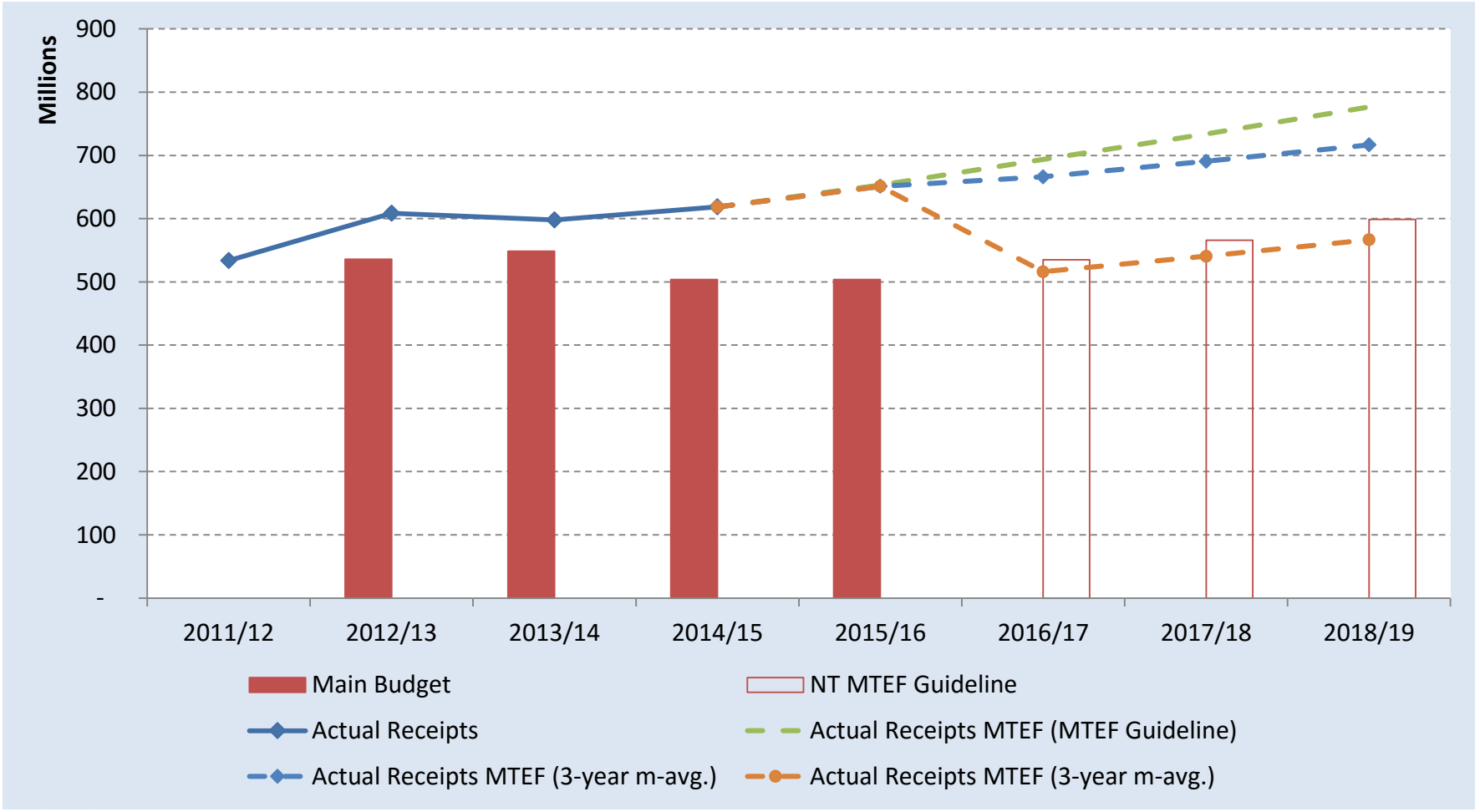
Western Cape Government
Provincial Treasury

Figure 5: Departmental own receipts - actuals



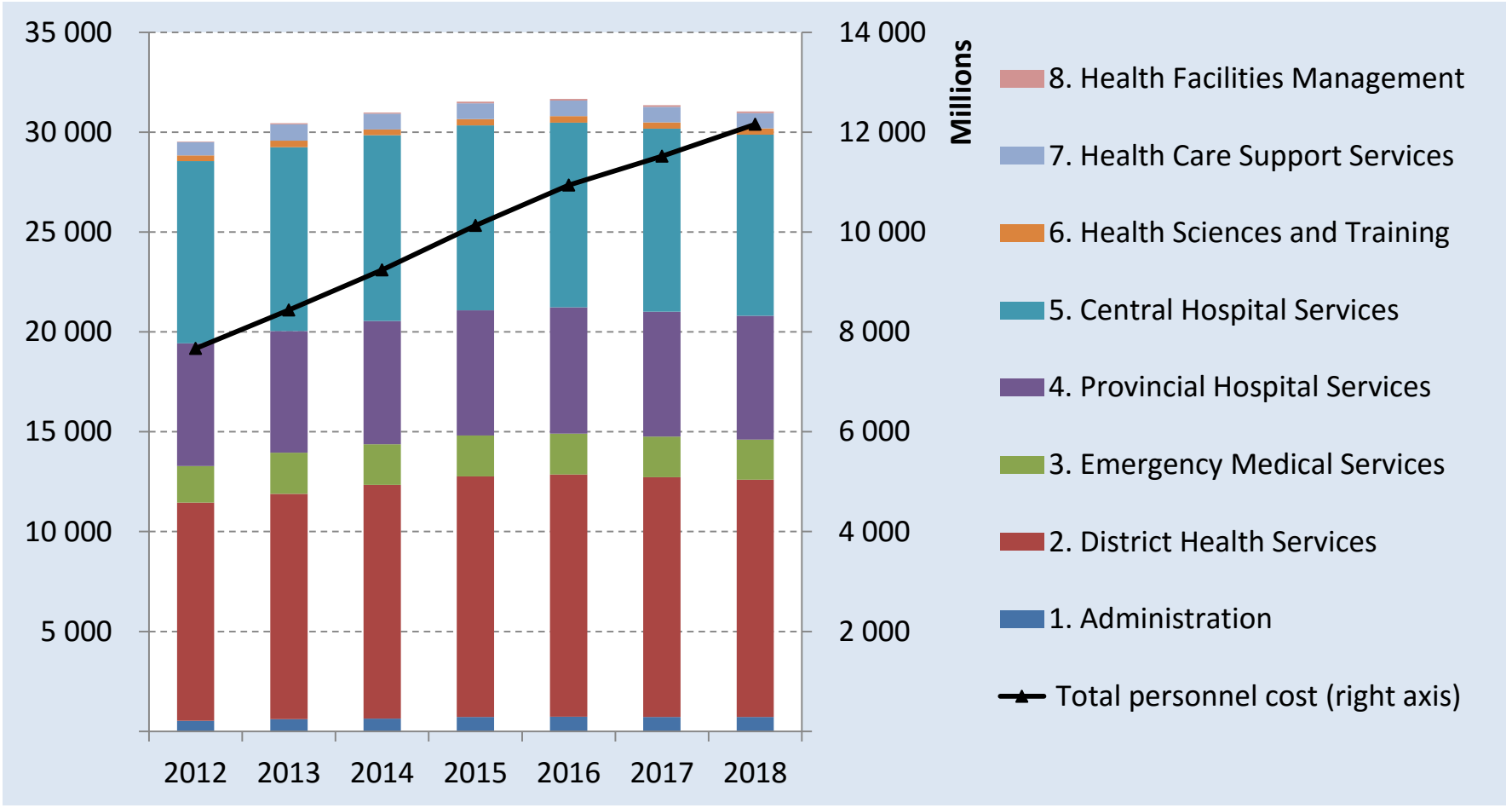
Western Cape Government
Provincial Treasury

Figure 6: Departmental Own revenue Projection, 2016 MTEF



Western Cape Government
Provincial Treasury

Figure 7: Payments by economic classification 2014/15– ranked by COEs

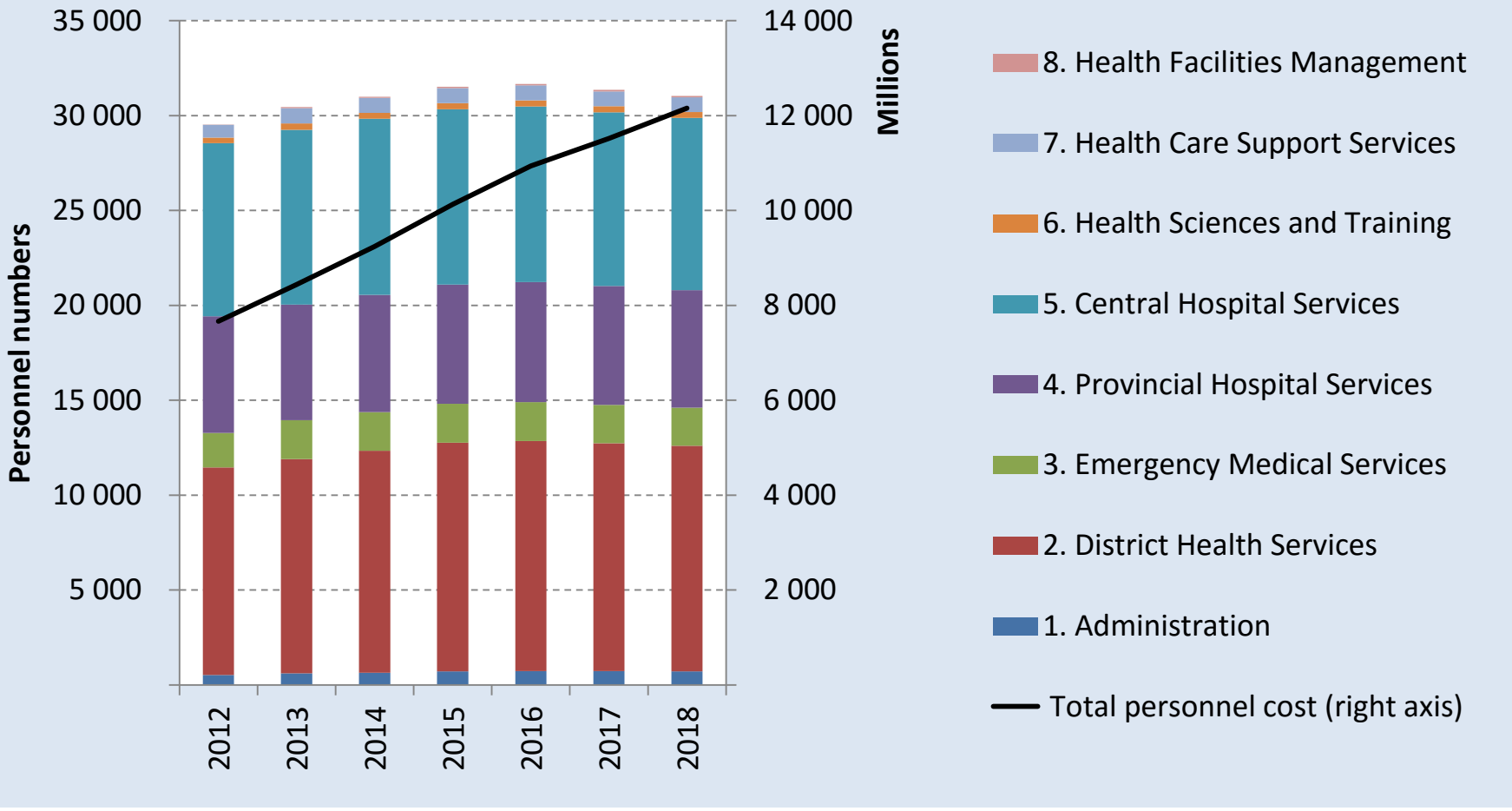


Western Cape Government
Provincial Treasury

Table 3: Top-5 goods and services payment shares by programme 2014/15

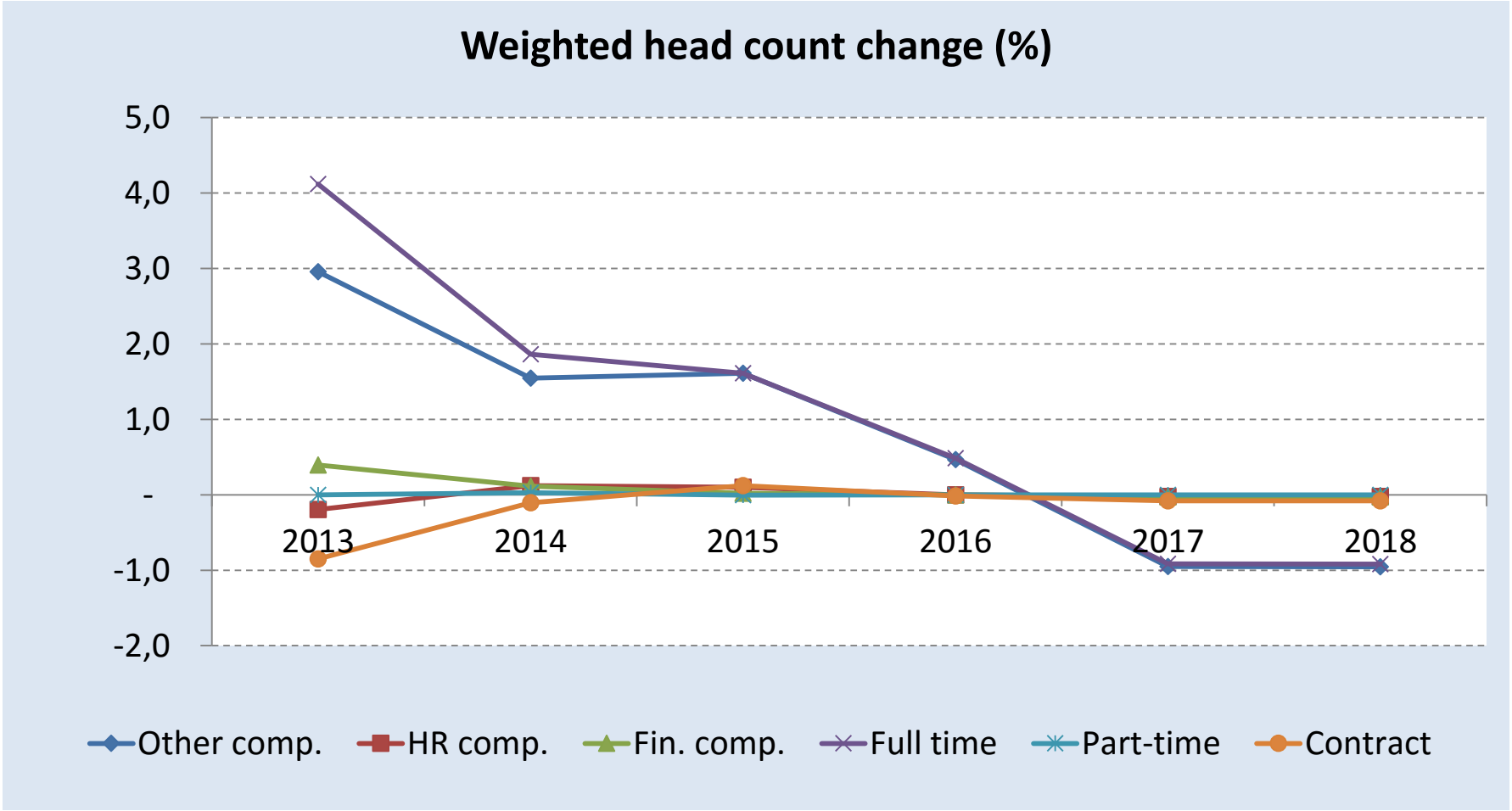
P1: Administration Economic Classification	Share (%)	P5: Central Hospital Services	
Contractors	**36.8**	Inventory: Medical supplies	40.5
Computer services	22.7	Inventory: Medicine	12.8
Advertising	11.5	Cons/prof: Laboratory services	11.9
Audit cost: External	9.2	Property payments	11.8
Cons/prof: Business and advisory services	7.0	Consumable supplies	6.7
P2: District Health Services		**P6: Health Sciences and Training**	
Inventory: Medicine	33.6	Training and development	21.9
Inventory: Medical supplies	14.9	Property payments	14.6
Cons/prof: Laboratory services	14.2	Travel and subsistence	12.8
Agency and support/ outsourced services	11.3	Consumable supplies	12.3
Property payments	9.8	Bursaries: Employees	12.1
P3: Emergency Medical Services		**P7: Health Care Support Services**	
Fleet services (including GMT)	45.6	Property payments	28.6
Contractors	**33.3**	Consumable supplies	15.6
Consumable supplies	6.6	**Contractors**	**8.6**
Inventory: Medical supplies	3.6	Agency and support/ outsourced services	7.5
Communication	3.2	Inventory: Materials and supplies	7.2
P4: Provincial Hospital Services		**P8: Health Facilities Management**	
Inventory: Medical supplies	23.4	Property payments	83.3
Property payments	20.7	Minor assets	14.4
Consumable supplies	9.5	Cons/prof: Business and advisory services	0.6
Cons/prof: Laboratory services	8.8	**Contractors**	**0.5**
Agency and support/ outsourced services	8.3	Training and development	0.5

Figure 8: Personnel numbers and costs



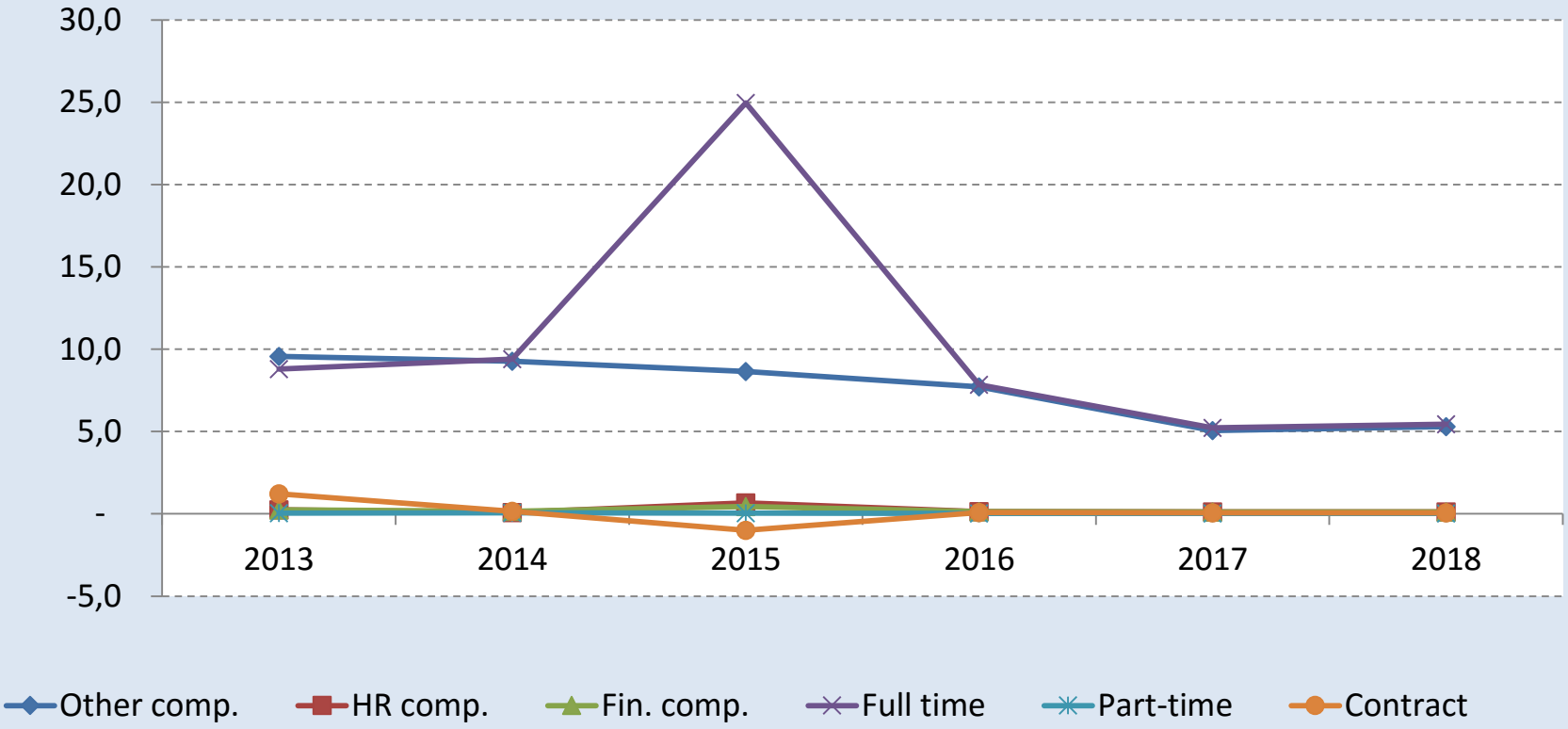
Western Cape Government
Provincial Treasury

Figure 9: Weighted personnel headcount and cost change (%), 2013-2018



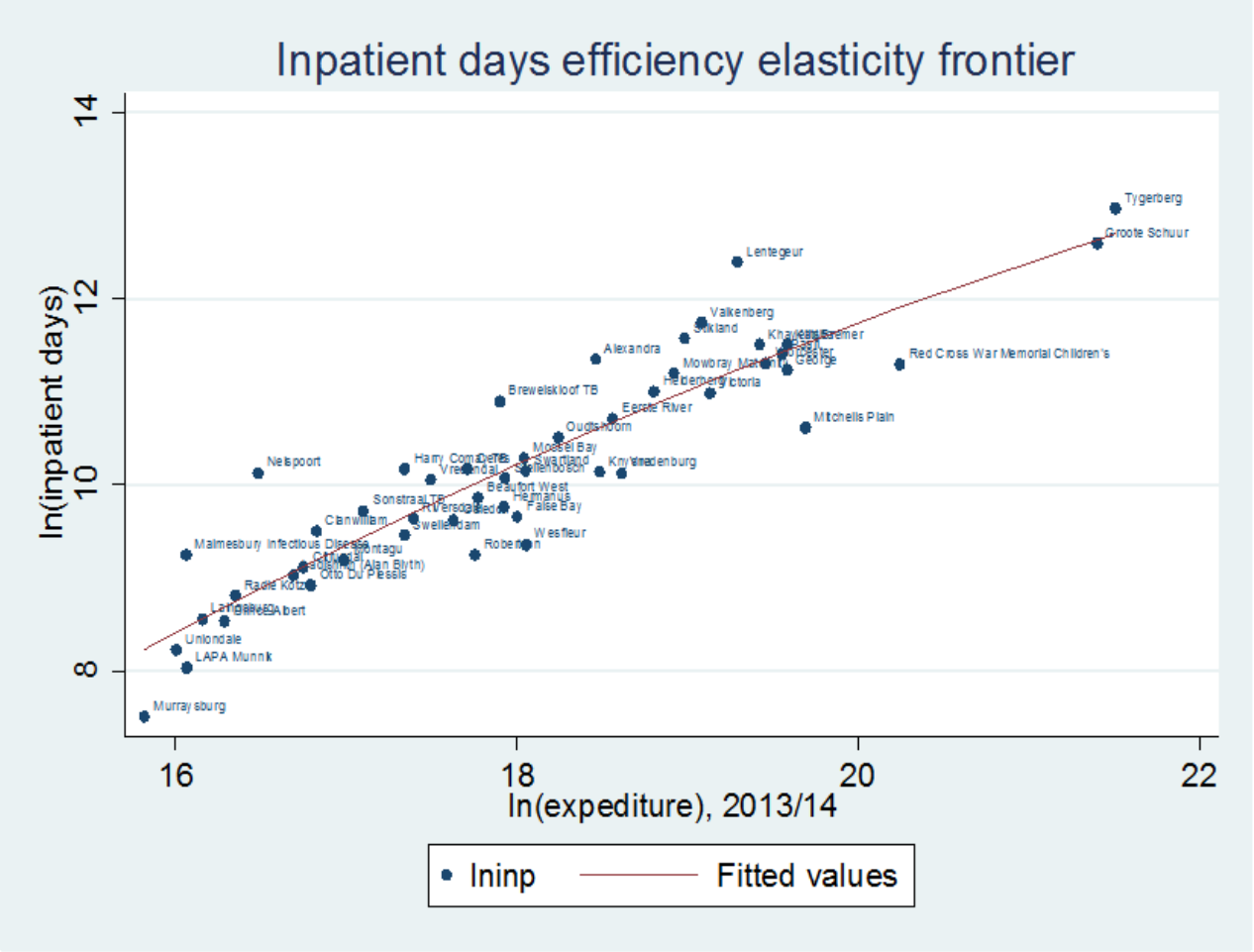
Western Cape Government
Provincial Treasury

Weighted personnel cost change (%), 2013-2018



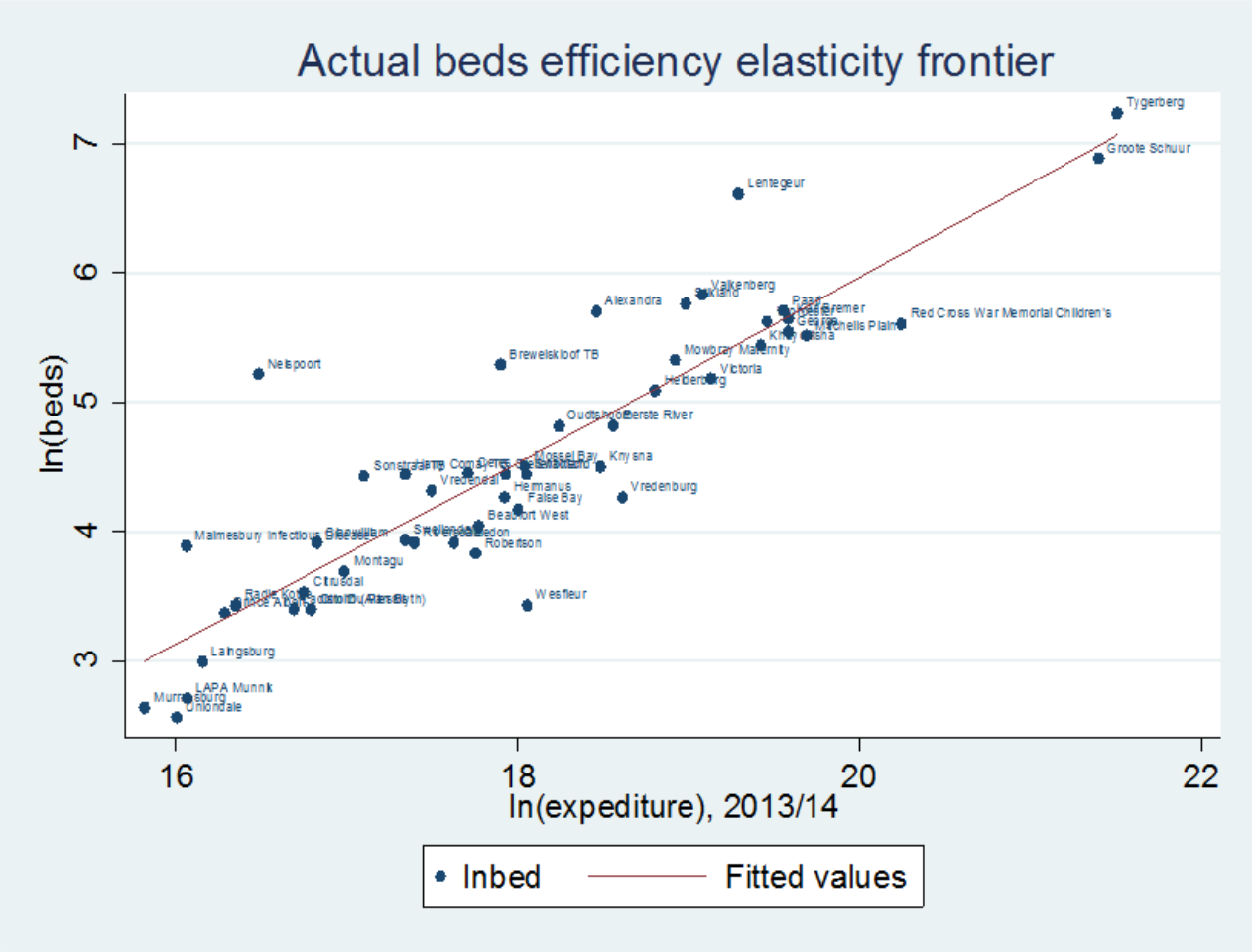
Western Cape Government
Provincial Treasury

Figure 10: Inpatient days efficiency elasticity frontier



Western Cape Government
Provincial Treasury

Figure 11: Actual beds efficiency elasticity frontier



Western Cape Government
Provincial Treasury

Conclusion

- **Higher insured population share** and **lower utilisation of healthcare** determines its PES allocation. Provincially, the Western Cape allocates roughly **34 per cent** of its total PES transfers for health.

- There are some concerns regarding **Health Facility Revitalisation Grant** where in the MTEF period, Western Cape's share will **decrease** by 5.1 per cent while Gauteng will **gain** 8.5 per cent in the baselines.

- Provincial funding and own receipts indicate that despite conservative budgeting, from 2016 onwards, **there may be risks associated with the withdrawal of the Global Fund** in the department's own revenue.

- **Funded programmes and function outlays show that committed fiscal funds are broadly in line with the functions and purposes of the programmes in the department**.

- For the MTEF period, **the CoE** for functions other than administrative and financial **is increasing while the headcount is decreasing**, hence a direct **trade-off** between the two **factors of service production in healthcare**.

- Analysis on the efficiencies of hospitals in the province suggests that **operationally, hospital performance has reached full economies of scale** as indicated by the lack of curvature in the inpatient days – expenditure elasticity. **Actual beds – expenditure** efficiency are found to be a **poor predictor** for performance in the funding efficiency analysis.