

# STRATEGIC PURCHASING FOR UNIVERSAL HEALTH COVERAGE: A CRITICAL ASSESSMENT

## THE SOUTH AFRICAN INTEGRATED PUBLIC SYSTEM



RESEARCH BRIEF | Financing research theme

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With universal health coverage included among the health-related Sustainable Development Goals, the issue of how to finance health for all remains at the centre of global policy debate. A core function of healthcare financing is purchasing – the process by which funds are paid to healthcare providers to deliver services. If designed and undertaken strategically, purchasing can promote quality, efficiency, equity and responsiveness in health service provision and, in doing so, facilitate progress towards universal health coverage.

The RESYST Consortium, in collaboration with the Asia Pacific Observatory on Health Systems and Policies, has critically examined how healthcare purchasing functions in ten low and middle-income countries to identify factors that influence the ability of purchasers and other key actors to take strategic actions.

This summary provides an overview of how health service purchasing functions in the South African integrated public system (i.e. government budgeted financing of healthcare provision using government sector healthcare providers). It examines the provincial Department of Health (PDoH) as purchaser and how PDoH interacts with three key groups: health service providers, the national government and citizens. It compares actual purchasing practices with ideal strategic purchasing actions to identify design and implementation gaps and the factors that influence effective purchasing. Finally, it draws policy implications for what needs be done to produce the desired actions by groups involved in purchasing.

**Figure 1: Description of the purchasing mechanism in the public integrated model in South Africa**

<b>Purchaser</b>	PDoH, led by a provincial health minister, is responsible for transferring budgets to provincial public health facilities to fund operations and pay staff salaries.
<b>What services are purchased?</b>	Comprehensive range of services from primary healthcare through to highly specialised services including emergency and chronic care.
<b>Who uses the services?</b>	Whole population; mainly used by those without private health insurance e.g. low-income formal sector workers, informal sector workers, the unemployed and the poor (83% of population).
<b>Who provides the services?</b>	Services are purchased from public sector health facilities, although some (non-profit) private providers supply disease specific services e.g. HIV/AIDS, TB.
<b>How are providers paid?</b>	Budget for facilities, salary for staff.

### WHAT IS STRATEGIC PURCHASING?

The purchasing function of healthcare financing involves three sets of decisions:

1. Identifying the interventions or services to be purchased, taking into account population needs, national health priorities and cost-effectiveness.
2. Choosing service providers, giving consideration to service quality, efficiency and equity.
3. Determining how services will be purchased, including contractual arrangements and provider payment mechanisms.

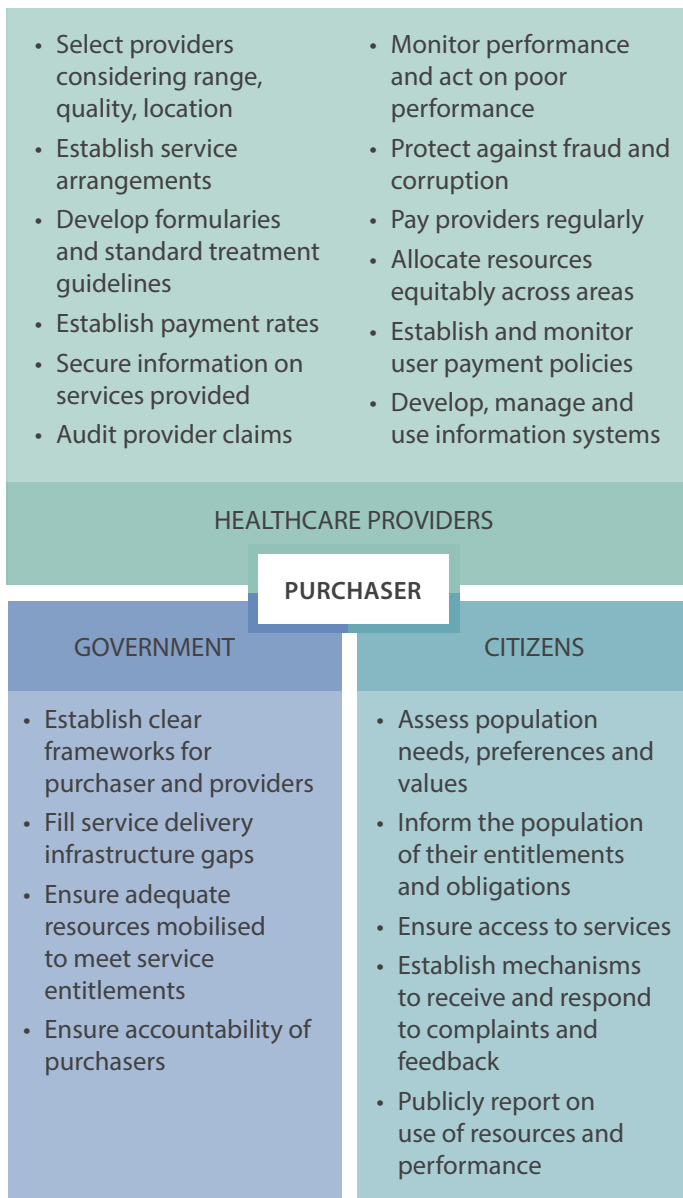
A critical factor in health system performance is the extent to which purchasing decisions are linked to provider behaviour and encourage providers to pursue equity, efficiency and quality in service delivery. This is strategic purchasing.

In strategic purchasing, a purchaser is an organisation that buys health services for certain groups or an entire population. The purchaser can use levers to influence the behaviour of providers to improve quality and efficiency in health service provision and facilitate equity in the distribution of healthcare providers.

However, purchasing mechanisms operate within each country's regulatory framework and, in strategic purchasing, government is required to play a stewardship role by providing a clear regulatory framework and appropriate guidance to ensure that public health priorities are linked to resource allocation and purchasing decisions.

As the purchaser buys health services for people, it is important for the purchaser to ensure there are effective mechanisms in place to determine and reflect people's needs, preferences and values in purchasing, and hold health providers accountable to the people. The key strategic purchasing actions are shown in Figure 2.

**Figure 2: Strategic purchasing actions relating to healthcare providers, government and citizens**



## KEY FINDINGS

### 1. STRATEGIC ACTION BY PURCHASERS IN RELATION TO PROVIDERS

In South Africa, the PDoH pays public sector health facilities and workers to provide health services to the people in the province. Purchasing decisions, such as how health workers are paid, what package of care is provided and what indicators monitor performance, can influence the behaviour of providers and improve or hinder their responsiveness and efficiency.

#### Payment of healthcare providers

- Public health facilities receive line-item budgets and staff are paid salaries. Tertiary hospitals are required to contribute revenue from patient fees to the provincial health budget. PDoH uses past expenditure patterns and demographic and disease burden data to determine budgets for health facilities at the primary healthcare

(PHC) level. PDoH also uses a deprivation index to allocate additional resources to specific regions to improve equity in access to health services.

- Provider payment mechanisms (i.e. line-item budget for health facilities and staff salaries) do not send signals to encourage the efficient use of resources or improve the quality of health services. Current payment mechanisms make some front-line health workers feel that providing quality health services 'punishes' them rather than rewarding them, as providing quality care increases patient numbers and creates more work at health facilities already experiencing a heavy workload.

#### Packages of care

- Packages of care provided by public sector health facilities are defined according to the level of the health facility and based on the national packages of care. Public sector healthcare providers feel constrained by the service packages that health facilities are required to deliver, as the standard formula used to determine what type of health facility will operate in a particular community does not always consider community needs. Service package restrictions are felt more seriously in rural sub-districts where the availability of health facilities, both public and private, is extremely limited. Residents in rural areas face considerable constraints in accessing referral services.

#### Monitoring and accountability

- Monitoring mechanisms emphasise the use of financial resources to confirm adherence with the budget. A range of efficiency indicators are used by PDoH to monitor health facility performance, including bed utilisation rates, theatre utilisation rates, and laboratory costs per patient day. However, quality indicators appear to be limited to patient complaints, safety checks and limited indicators, such as surgical site infection rates.
- Reporting and accountability mechanisms are clearly defined (i.e. upward reporting mechanisms from providers to provincial health administrators and policy decisions flow from higher level health administrators to health facilities). However, purchasers (health administrators) and healthcare providers are not always adequately accountable to each other – health administrators do not always know what is occurring at the frontline of healthcare service provision; and health facility staff do not always have adequate knowledge of what has been decided by health administrators, how and why decisions are made, and the implications of decision-making.
- PDoH supplies healthcare providers with line-item budgets, salaries, guidance, support, and monitors healthcare service provision. Although these mechanisms can be considered as tools for the public purchaser to use in strategic purchasing and influence health providers to supply quality services in an efficient manner, the tools are embedded within existing public sector health systems and do not send specific signals for efficiency and quality improvement.

## 2. GOVERNMENT RESPONSIBILITIES IN STRATEGIC PURCHASING

In South Africa, the PDoH works with the national Department of Health (NDoH) and the provincial Treasury (P Treasury). PDoH provides health services based on the norms and standards developed by NDoH and manages public finances according to the requirements of P Treasury.

### *Role of NDoH in health service purchasing in the context of a quasi-federal system*

- NDoH provides leadership and coordinates health services throughout the country. In order for the health service provision norms and standards established by NDoH to be implemented at the provincial level, provincial governments need to pass legislation. The NDoH has limited authority to enforce provinces' adherence to central-level decisions.
- The NDoH's suggested interventions often do not come with additional resources and PDoH needs to determine whether the suggestions can be met within their budget and, consequently, whether interventions will actually be implemented.
- Although NDoH uses a number of mechanisms to monitor the performance of provincial health departments, it has no legal authority to actively intervene in provincial health issues (except in some exceptional cases defined under Section 100 of the Constitution).

### *Ensuring sound management of public resources*

- The national treasury provides guidance and stewardship to public sector organisations on the management of public finances according to the Public Finance Management Act (PFMA) and ensures transparency, accountability, and sound management of revenue and expenditure.
- Provincial treasury uses various levers to encourage PDoH to operate in adherence with the PFMA and maintain financial soundness in the health sector. P Treasury has hired people with health backgrounds who participate in strategic planning and budget development at PDoH and who monitor PDoH performance against the PFMA framework; P Treasury makes ad-hoc health facility visits to validate the quality of the performance monitoring information that they receive from PDoH; and P Treasury has developed a monitoring system that will allow monitoring information to be received in a timely manner.
- In the Western Cape province, PDoH has endeavoured to establish a 'trust' relationship with P Treasury by adhering closely to the planned budget, providing quality evidence when requesting budget increases and engaging P Treasury in the process of strategic planning and budget development. As a result of this strong relationship, together with the health needs evident in the province, the health sector receives the largest share of the provincial budget of all government sectors.

NDoH stewardship is limited due to federal mechanisms that provide strong decision-making authority to PDoH, and the PDoH works within its own political and local context, while the national treasury, through provincial treasuries, uses a number of strategies to ensure PDoH adheres with the Public Finance Management Framework when spending its allocation of nationally collected government revenue.



## 3. STRATEGIC PURCHASING ACTIONS IN RELATION TO CITIZENS

In strategic purchasing, the relationship between purchasers and citizens concerns the existence of mechanisms through which purchasers obtain and reflect the needs, preferences and values of the people they serve, and hold health providers accountable to the people.

### *Public participation*

- The National Health Act (NHA) requires provincial governments to facilitate public participation in the planning, provision and implementation of health services.
- Public sector hospitals are required to establish hospital boards, whose members are appointed by the provincial health minister, to represent the community being served by the hospital. In practice, the role of the hospital boards often remains nominal due to: (1) questions about the ability of board members to represent the people in the community; (2) uncertainty in the ability of board members to provide appropriate advice on planning, operation and management; and (3) unclear contractual and accountability arrangements between hospital boards and hospital managers.

### *Community accountability*

- At the PHC level, the community accountability mechanism dictates that clinic and community health centre committees (CHCC) must include at least one local government councillor, at least one member of the local community, and the head of the health facility in question. The function of CHCC is not prescribed by the NHA, but determined in provincial legislation.

- All health facilities are required to erect a complaint or suggestion box so that patients can anonymously express views on the healthcare services at the facility. With some exceptions, the use of these boxes is limited and people in the community are not encouraged to make their opinions known.
- Informal mechanisms are in place for citizens to express their opinions through civil society organisations, community-based organisations and the media. However, these mechanisms often lack a platform to establish constructive relationships between people in the community and the health administration.
- While formal mechanisms exist to determine people's needs, preferences and values, many of the mechanisms do not currently function as government policy intends. Implementation gaps are triggered by policy design gaps, but are also influenced by problems specific to each group of actors at the implementation level.

## CONCLUSION AND POLICY IMPLICATIONS

Strategic purchasing does not currently occur in the South African public integrated health system, providing an opportunity for policymakers and academics to carefully design and introduce a system that allows each key group to undertake strategic purchasing actions.

The PDoH should be made aware of how various purchasing tools can be used strategically to influence the performance of health service providers, and encouraged to explore how strategic purchasing elements can be introduced so that current tools function more effectively.

Governance arrangements and delegation of decision-making authority between centralised and decentralised groups of actors may influence the ability to undertake strategic purchasing in tax-funded health services in South Africa. To realise true community participation and accountability, public purchasers must give clear guidance, undertake frequent communication, and provide technical support and resources to front-line health workers and the community.

## ABOUT THE BRIEF

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### Further information

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### Related resources

McIntyre D. (2015) **Is strategic purchasing feasible in publicly funded health systems with integrated purchasing and provision functions?** Presentation at iHEA World Congress, Milan. [http://resyst.lshtm.ac.uk/resources/SP\\_McIntyre](http://resyst.lshtm.ac.uk/resources/SP_McIntyre)

Honda A. (2015) **A critical analysis of purchasing arrangements operating under the tax-funded health system in South Africa.** Presentation at the iHEA World Congress, Milan. [http://resyst.lshtm.ac.uk/resources/SP\\_Honda](http://resyst.lshtm.ac.uk/resources/SP_Honda)

RESYST topic overview and fact sheet (2014) **What is strategic purchasing for health?** <http://resyst.lshtm.ac.uk/resources/what-strategic-purchasing-health>

Hanson K. (2014) **Researching purchasing to achieve the promise of Universal Health Coverage.** Presentation at the BMC Health Services Research Conference, London. <http://www.slideshare.net/resyst/researching-purchasing-to-achieve-the-promise-of-universal-health-coverage-37722050>

