Percept NHI Policy Brief Series:

Implementation of a purchaser-provider split

The proposed NHI reforms suggest: 1) that there will be one institution responsible for buying healthcare **(a single purchaser)** and 2) that those who buy and those who provide healthcare will not be from the same institution **(a purchaser-provider split).** These structural changes are believed to be a means of supporting a quality, affordable health system.

Four Functions of a Health System

Purchasing within the Current South African Health System

Public sector

The Government collects money from general taxes and then divides this money between the provinces; provincial treasuries then decide how much to award each provincial department of health (PDoH) who in turn grant money to each health district. Decisions about how to award district funding are based on levels of care (clinics and hospitals for example) and district health plans, which show how the district plans to spend its funds. Because health services are provided by PDoHs, **the purchasers and providers of care are the same institutions.**

Private sector

Medical schemes collect and combine contributions from individuals, families and employers (pooling). Government also contributes to this pool by offering a tax credit for people paying towards medicals schemes. Administrators and private companies are hired on behalf of medical schemes to buy health services. Decisions about what healthcare to buy are based on a few factors: medical scheme benefits (i.e. what is covered including what is mandated by regulation); networks of preferred providers; and rules to access benefits.

The private sector has a purchaser-provider split, since those organisations buying healthcare on behalf of medical schemes are not the same as the ones providing it.

Fragmentation

Both the public and private health systems have divided pools of funds. Each medical scheme (and to some extent, each benefit option) serves as a pool in the private sector, and each province (and to some extent, each district) serves as a pool in the public sector. Neither sector is buying healthcare services in the most fair, effective or co-ordinated way.

A Single Purchaser

The NHI Fund is imagined as a single risk pool and single purchaser of a wide set of healthcare services for all South Africans. The rationale for a single pool is to strengthen social solidarity – i.e. rich supporting poor, healthy supporting sick, young supporting old.

 Is bigger better? 	
A single purchaser can use its **buying power** for the greatest health impact, avoiding the unnecessary spending that comes from many different purchasers buying similar goods and services. A central fund can buy healthcare on a large scale, **bringing down costs** and giving more people access to healthcare that might otherwise have been too expensive.	The Fund would have **market power**, making it more difficult for providers to negotiate with those who pay them. Without alternative purchasers to turn to, providers would have no choice but to deal with low prices, late payment, slow communication and poor decision-making if these occur. As a single purchaser, the Fund is at risk of becoming **slow, unhelpful and corrupt**. Trusting the Fund to spend money responsibly is understandably difficult in the current political economy. While a large-scale approach benefits some aspects of the health system (like the purchasing of medicines), other aspects require attention to **local needs**.

Improving quality	
A central purchaser can set quality controls for providers and base payments on how well they do their jobs. This would require measuring and monitoring health outcomes in a way that is currently not done – no small task.	If the Fund sets too many controls, it might restrict providers in harmful ways. There needs to be enough flexibility for providers to make professional decisions and experiment with new and improved ways of working; but also, enough control to keep healthcare evidence-based, effective and affordable.

A Purchaser-Provider Split

To promote quality, affordable healthcare, the NHI wants to separate those who buy healthcare from those who provide it. The role of provincial health departments is set to shift, limiting their responsibilities to delivering services and giving oversight, rather than also purchasing healthcare. The Minister of Health will continue to have a role across both the purchaser (the Fund) and public providers of care – this raises questions about whether there will be a genuine split.

Accountability	
A purchaser-provider split aims to make providers more accountable to those paying them (i.e. creating an **arm's length relationship**).	This **top-down** approach to accountability needs to be balanced with ensuring that clients are empowered to demand quality care from providers. Accountability can be stifled in a system where both providers and patients can only engage with a single purchaser. Accountability of the Fund needs to be supported by **strong governance**. The governance structures proposed in the Bill have been widely criticised.

Competition	
Healthcare providers will be competing to win contracts. This should motivate them to find new, cheaper and more effective ways of delivering quality healthcare. If the prices paid to providers are capped, providers will be more likely to compete on quality – assuming prices are fair.	Some areas may not have enough providers to drive competition. In order to allow for true competition based on quality, the Fund should follow a fair pricing approach, taking cost structure differences between public and private providers into account. The Fund will need to be careful about how quality is defined and measured. The awarding of contracts should be subject to public scrutiny.

Access to private sector	
The Fund will be able to purchase services from private health providers, mainly primary healthcare providers. This would give more people access to private resources.	To attract enough private providers, government will need to earn their trust. Private providers currently contract with multiple purchasers. Understandably, many are nervous about relying on a single purchaser, especially one that has not always proven reliable and fair.

Conclusion

Neither a purchaser-provider split, nor a single purchaser is enough to ensure high-quality affordable healthcare. The purchaser(s) of healthcare need to be trustworthy and **strategic,** acting responsibly so that quality healthcare can be sustained long-term. Purchasers must also pay attention to how providers are contracted, how their performance is measured, and how poor performance is dealt with. **Both providers and patients will be reliant on a single purchaser to ensure they are valued, supported to improve quality and treated fairly.**