Hospital Services Purchasing – A Case Study for South Africa

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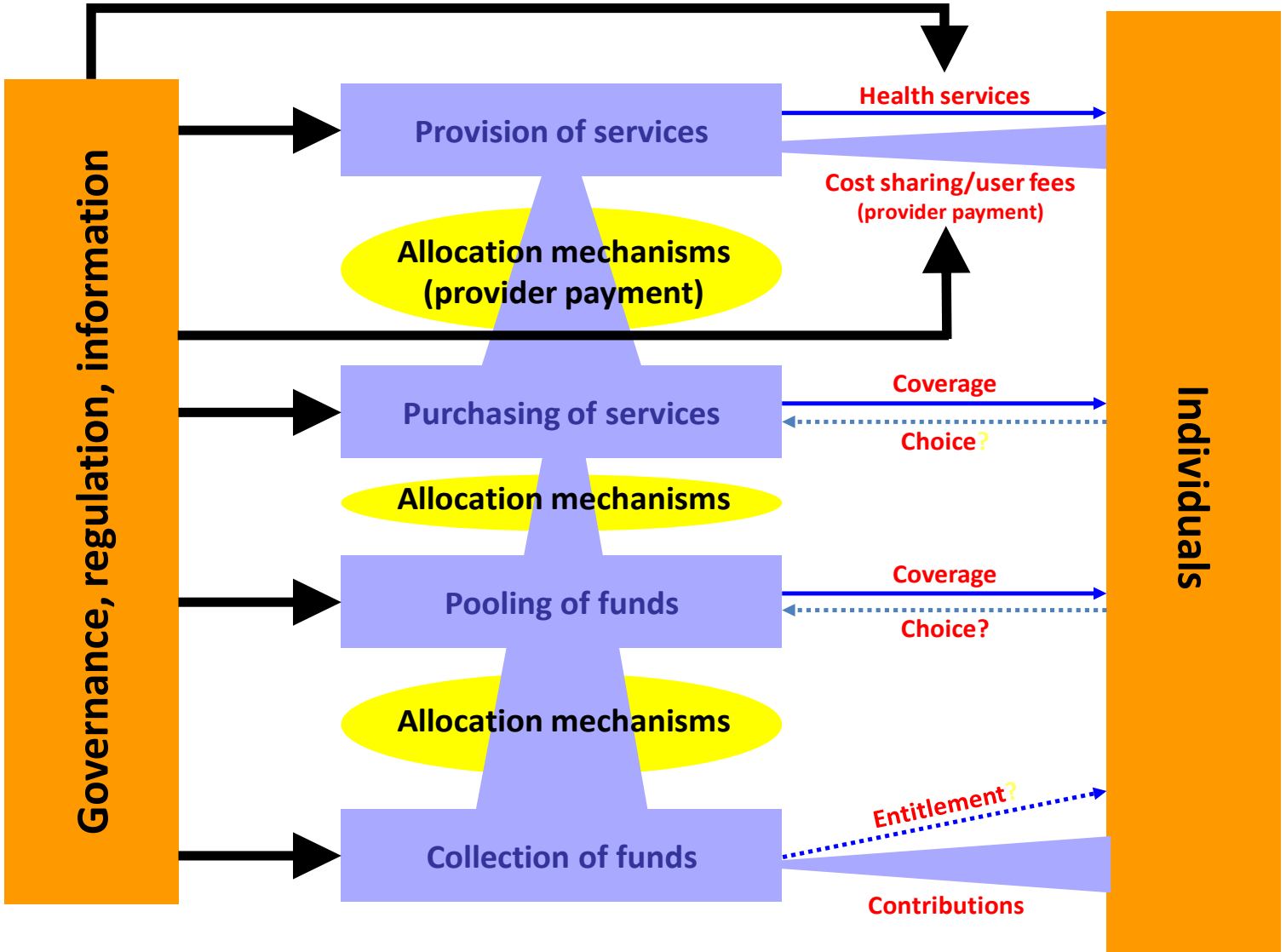
WHO WHR 2010

Category of inefficiency	Details
Medicines	Underuse of generics and higher than necessary prices for medicines
	Use of substandard and counterfeit medicines
	Inappropriate and ineffective use
	Overuse or supply of equipment, investigations and procedures
Human resources	Inappropriate or costly staff mix, unmotivated workers
Health services	Inappropriate hospital admissions and length of stay
	Inappropriate hospital size (low use of infrastructure)
	Medical errors and suboptimal quality of care
Health system leakages	Waste, corruption and fraud
Intervention mix	Inefficient mix/ inappropriate level of strategies

Strategic purchasing



Value chain

Programme objectives →	Inputs →	Outputs
Improve quantity, quality, and access to health service	Health spending, number of doctors and nurses, facilities, equipment, drugs	Outpatient, inpatients, vaccination, ANC, institutional delivery

Outcome →	Impact →	Reach
Health status	Life expectancy MMR IMR	Winners and losers from government programmes

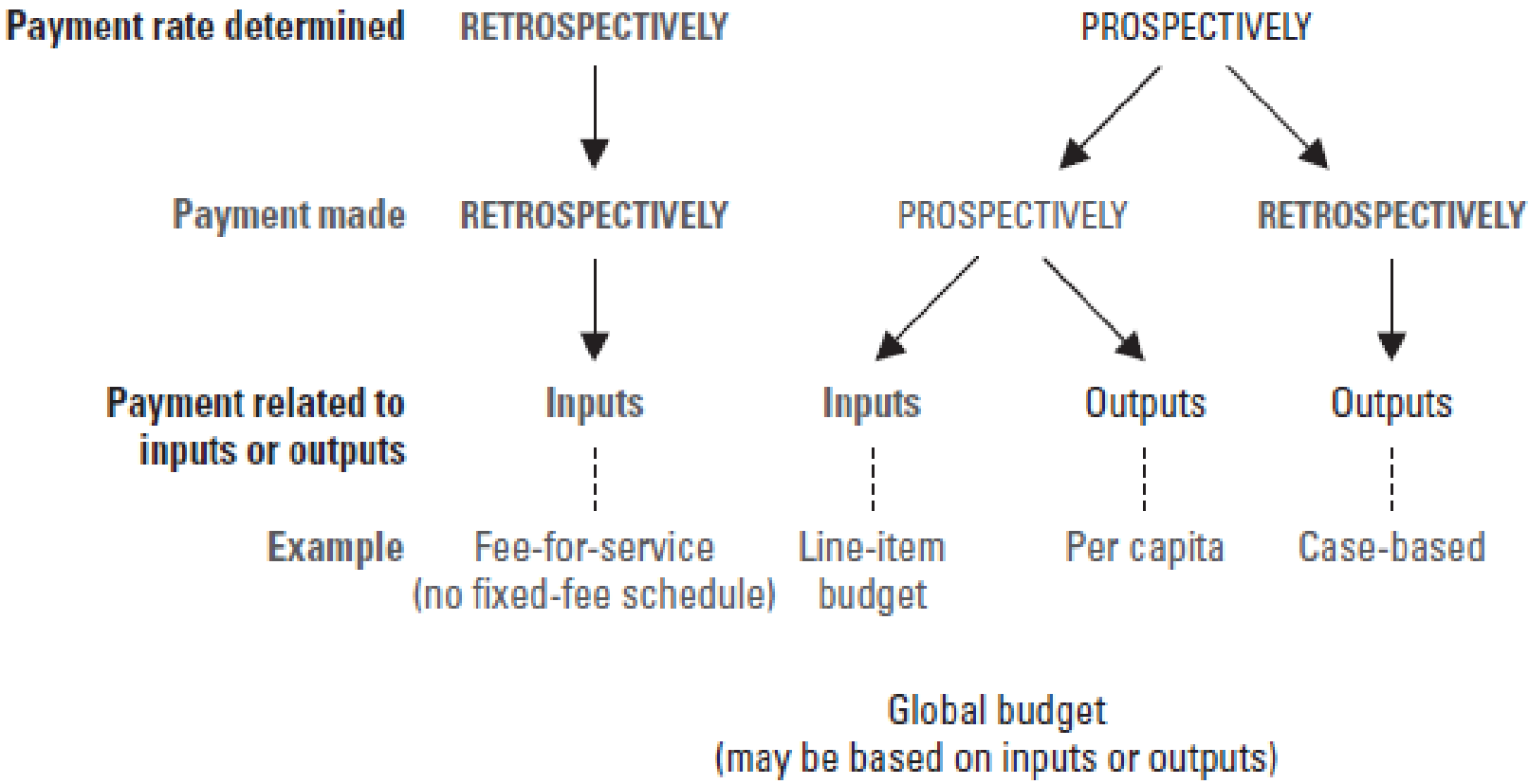
Three ways to link budgeting to value chain

	Line item	Programme	Performance
Content	Expenditure by input	Expenditure for a cluster of activities	Results-based chain to achieve specific objective
Control-focus	Input	Input	Inputs, outputs, results
Management	Hierarchical control Little managerial discretion	Hierarchical control Managerial flexibility over allocation within programme	Managerial flexibility over inputs and programme design

From passive to strategic purchasing

Passive	Strategic
Resource allocation using norms	Payment systems that create deliberate incentives
Little/no selectivity of providers	Selective contracting
Little/no quality monitoring	Quality improvement and rewards
Price and quality taker	Price and quality maker

Provider payment mechanisms



Provider payment mechanisms

Payment mechanism	Basket of services paid for	Risk borne by: Payer	Risk borne by: Provider	Provides incentives to: Increase number of patients	Provides incentives to: Decrease number of services per payment unit(s)
Fee for service	Each item of service and consultation	All risk borne by payer	No risk borne by provider	Yes	No
Case-mix adjusted per admission (e.g. Diagnostic Related Groups (DRG), performance-based financing (PBF), ect.)	Payment rates vary by case type, but not by specific case	Risk of number of cases and case severity classification	Risk of cost of treatment for a given case	Yes	Yes
Per admission	Each admission	Risk of number of admissions	Risk of number of services per admission	Yes	Yes
Per diem	Each patient day	Risk of number of days to stay	Risk of cost of services within a given day	Yes	Yes
Capitation	All covered services for one person in a given period	Amount above "stop-loss" ceiling	All risk borne by provider up to a given ceiling (stop-loss)	Yes	Yes
Global Budget	All services provided by a provider institution in a given period	No risk borne by payer	All risk borne by provider	No	N/A

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Context

- Equitable share and conditional grants play major role in provincial health budgets
- Tertiary, provincial and district hospitals are funded through fixed global budgets, mainly historically determined, not linked to outputs
- Hospital efficiency perceived to not always be optimal

Policy question

- **How can hospital funding be reviewed to improve efficiency?**

Approach

- Document approach to hospital funding
- Examine level of hospital efficiency
- Establish ways to introduce strategic purchasing

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Read Case study

Divide into four groups

- **Group 1:** “Historical line-item budgeting for hospitals is preferable to active purchasing in South Africa.”
- **Group 2**: “Active purchasing for hospitals is preferable to historical line-item budgeting in South Africa.”
- **Group 3**: “Hospital financing reform towards strategic purchasing is notoriously complex, yet full implementation can be achieved within a three year time-window providing there’s strong leadership and political will.”
- **Group 4**: “Hospital financing reform towards strategic purchasing is notoriously complex, and barring some examples, it takes makes much longer than three years to make significant progress in this area.”

Present positions in plenary

Voting on who won

Thank you

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