

INFORMATION SERVICES: RESEARCH

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SUMMARY AND ANALYSIS OF DEPARTMENT OF HEALTH BUDGET, 2006/07 (VOTE 16)

1. Introduction

The Department of Health's budget should be analysed against the 2006 State of the Nation Address, as well as the Department's Strategic Plan (2004-2009). For purpose of analysis and comparison, the paper utilises the 2005/06 adjusted appropriation and the main appropriation for 2006/07. Furthermore, unless stated otherwise, growth is indicated by the real growth rate, i.e. taking into account the impact of inflation.

2. Context of the Health budget

The Department's budget should be viewed against the backdrop of the 2006 State of the Nation Address, which commits the Department to:

- Continue the expansion of health infrastructure.
- Continue the refurbishment of existing clinics and hospitals.
- Re-open Nursing Colleges with the aim to increase the number of nursing professionals.
- Ensure that by September 2006, the authority and accountability for hospitals is delegated to hospital managers.
- Ensure the restructuring of Provincial Health Departments; in order to perform their function with regard to managing policy issues such as training, job grading and accountability.

In addition, the budget should be considered within the context of the Department's ten-year Strategic Plan (2004-2009), with the following priorities:

- Improve governance and management of the National Health System.
- Promote healthy lifestyles.
- Contribute towards human dignity by improving quality levels of care.

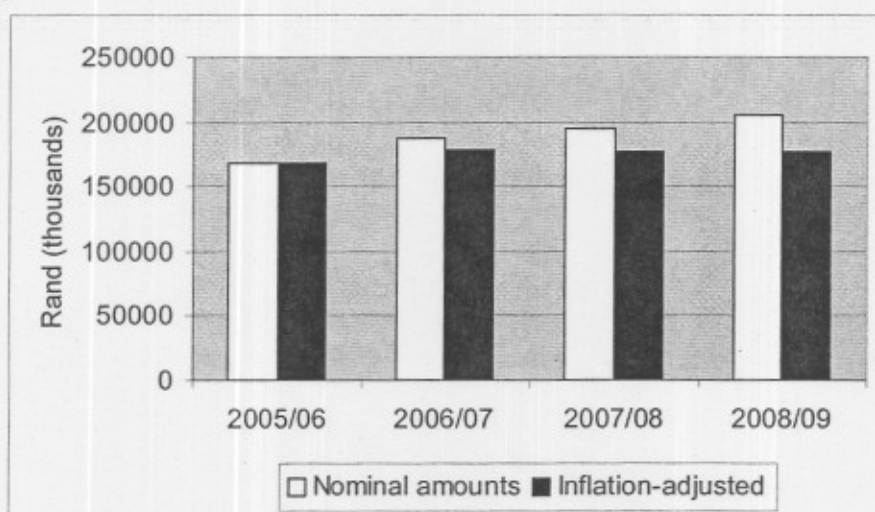
- Improve management of communicable diseases and non-communicable illnesses.
- Strengthen primary health care, Emergency Medical Services and hospital service delivery systems.
- Strengthen support services.
- Human resource planning, development and management.
- Planning, budgeting and monitoring and evaluation.
- Prepare & implement legislation.
- Strengthen international relations.

3. Expenditure trends for 2006/07

Figure 1 below provides an overview of the Department's budget from 2005/06 to 2008/09.

While it is evident that the Health budget is set to increase steadily over the next few years, the increase is significantly less in real terms. In nominal¹ terms, the 2006/07 budget increased with 12,3% from the previous year, which translates into a real increase of 6,7%.

Figure 1: Department of Health budget allocation, nominal and inflation-adjusted amounts



¹ Not taking into account the effect of inflation on the voted amount.

Departmental budget 2006/07

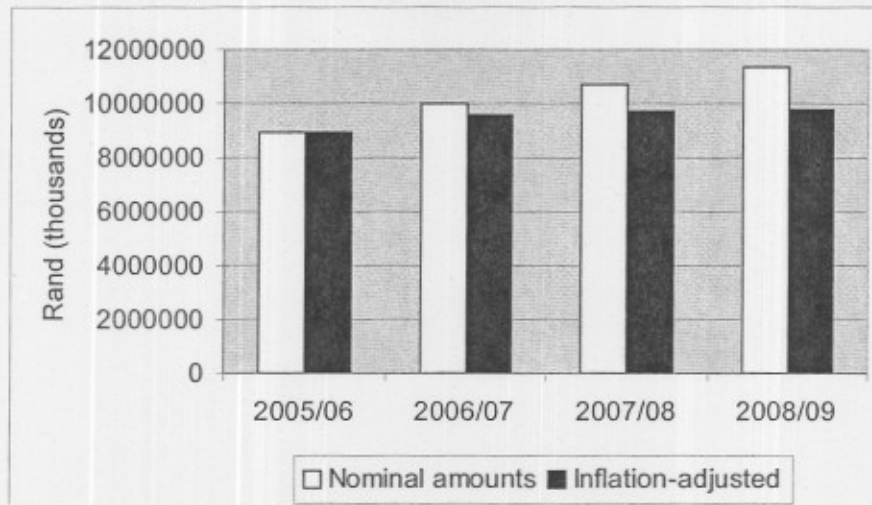
	Adjusted Appropriation	Medium-Term expenditure estimate			Nominal % Increase from last year	Real ² % Increase from last year
	2005/06	2006/07	2007/08	2008/09		
R thousand						
Administration	167771	188067	195467	205914	12.1%	6.56%
Strategic Health Programmes	1689176	2105211	2217976	2330915	24.6%	18.47%
Health Service Delivery	8124917	8907558	9526669	10083100	9.6%	4.21%
Human Resources	57535	69160	75020	82834	20.2%	14.26%
TOTAL	10039399	11269996	12015132	12702763	12.3%	6.71%
Changes to 2005/06 budget estimates	214162	611584	830323	948495		

- The real increase of 6,7% for this year's budget is slightly lower than the 7,2% real increase in the 2005/06 financial year.
- The Department of Health received a budget allocation of R 11,3 billion for 2006/07 financial year, which is set to increase to R12,7 billion over the medium term.
- The main appropriation for 2005/06 was R9,8 billion, which was subsequently adjusted to R10 billion. This year, the Department received an increase of R1,2 billion relative to the adjusted appropriation for 2005/06.
- The programme that experienced the biggest increase is *Programme 2: Strategic Health Programmes*, which experienced a real growth of 18,5% from the previous year's adjusted appropriation.
- *Programme 3: Health Service Delivery*, despite comprising the bulk of the Department's allocation, once again received the smallest increase of all four programmes, i.e. 5,4% real growth.

² Taking into account inflation.

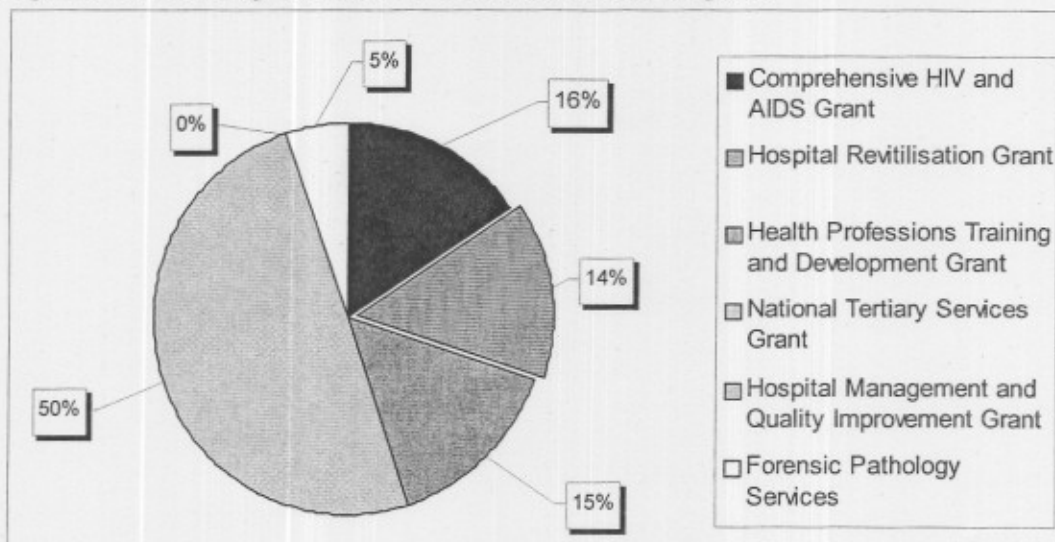
Transfers and subsidies

Figure 2: Conditional grants to provinces, nominal and inflation-adjusted amounts



- Transfers and subsidies for 2006/07 amounts to R10,4 billion, and constitutes 92,6% of the Department's budget.
- The bulk of transfers are intended for provinces, as conditional grants. Conditional grants make up 89,0% of the total Departmental expenditure for this financial year, and a total of R10,0 billion is set aside for this purpose.
- In real terms, funding for conditional grants increased with 7,1% from the previous year.

Figure 3: Percentage allocation to each conditional grant



- The conditional grants are dominated by the Health Professionals Training and Development Grant, which is allocated R4,98 billion in this financial year. However, in real terms this is only an increase of 0,5% from the previous.
- The Forensic Pathology Services Grant's allocation increased with 83,9% in real terms from the previous year's adjusted allocation, to an amount of R525 million.
- No allocation was made to the Hospital Management and Quality Improvement Grant for 2006/07, as this grant becomes part of the Hospital Revitalisation Grant from 2006/07.³
- Both the Comprehensive HIV and AIDS Grant and the Hospital Revitalisation Grant increased significantly in real terms from the previous year, i.e. 29,5% and 28,3% respectively.

3. Programme Expenditure

Programme 1: Administration

Administration provides for the overall management of the department, including policy-making by the offices of the Minister, and Deputy-Minister and Director-General, and for the provision of centralised support services. The *Corporate Services* subprogramme includes transversal functions such as corporate finance, human resources, logistical services, office support, IT, internal audit, and legal services.

The *Property Management* sub-programme was created in response to the fact that as from 1 April 2006, costs for leases and office accommodation charges will be devolved from the Department of Public Works to individual Departments.

Programme 1: Administration

	Adjusted Appropriation	Medium-Term expenditure estimate			Nominal % change from last Year	Real % change from Last year
R thousand	2005/06	2006/07	2007/08	2008/09		
Minister	837	887	934	81	6.0%	0.7%
Deputy Minister	680	721	759	797	6.0%	0.8%
Management	16543	20862	21976	23075	26.1%	19.9%
Corporate Services	117587	130571	133634	139991	11.0%	5.6%
Property Management	32124	35026	38164	41070	9.0%	3.6%
TOTAL	167771	188067	195467	205914	12.1%	6.6%
Changes to 2005/06 budget estimates	31199	48952	48263	51215		

- Programme 1 has been allocated an amount of R188 million for the 2006/07 financial year, signalling an increase of R20,3 million from the

³ Information provided by the Department of Health on 3 March 2006.

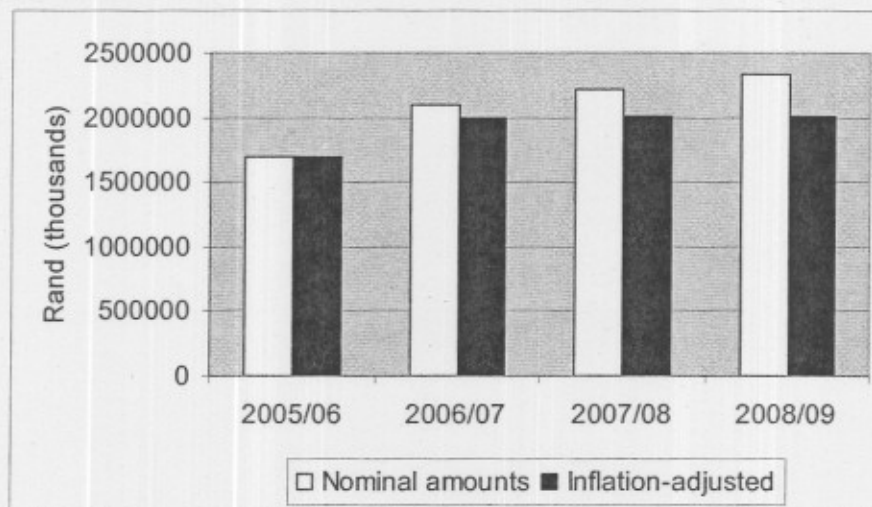
adjusted appropriation for the previous financial year. In real terms, this indicates a growth of 6,6%.

- Expenditure for this programme is expected to grow to R205,9 million over the medium term.
- While the real growth of the *Management* sub-programme has slowed down from the 23,8% real increase the previous year, it is at 19,9% still the sub-programme that has experienced the biggest increase under Programme 1.
- The growth in the *Management* sub-programme is due to strengthening senior management in strategic planning, human resources and legal services.
- The growth of the Minister and Deputy-Minister sub-programmes has also slowed down from the previous financial year. In 2005/06, the *Minister* and *Deputy-Minister* sub-programmes increased with 2,4% and 2,3% respectively, slowing down to 0,7% and 0,8% in 2006/07.

Programme 2: Strategic Health Programmes

The purpose of Strategic Health Programmes is to co-ordinate a range of strategic national health programmes through monitoring, and manages and funds key programmes.

Figure 4: Strategic Health Programmes budget allocation, nominal and inflation-adjusted amounts



- Overall, allocations to Programme 2 have been climbing rapidly over the last few years, and this trend is set to continue the trend over the medium term. In the outer year (2008/09) this Programme's funding is set to reach R2,3 billion.
- For the 2006/07 financial year, Programme 2 increases in real terms with 18,5% from the previous year, to reach R2,1 billion.

- Rapid increases in the programme funding is predominantly a result from the *HIV and AIDS* sub-programme, which also houses the comprehensive HIV and AIDS plan, and consequently related conditional grants to provinces.
- Growth in the *HIV and AIDS* sub-programme reaffirms government's commitment to HIV and AIDS as an important priority for its Programme of Action.

Programme 2: Strategic Health Programmes

	Adjusted Appropriation	Medium-Term expenditure estimate			Nominal % Change from Last Year	Real % Change from Last year
R thousand	2005/06	2006/07	2007/08	2008/09		
Maternal, Child & Women's Health and Nutrition	25025	27093	28819	30391	8.3%	2.9%
Medicines Regulatory Affairs	20994	29093	30554	32221	38.6%	31.7%
HIV and AIDS	1566302	1976920	2082949	2188412	26.2%	20.0%
Pharmaceutical Policy and Planning	29636	24863	26112	27537	-16.1%	-20.3%
Communicable Diseases	47219	47242	49542	52354	0.0%	-4.9%
TOTAL	1689176	2105211	2217976	2330915	24.6%	18.5%
Change to 2005/06 budget estimate	(83755)	(20950)	(13365)	(14032)		

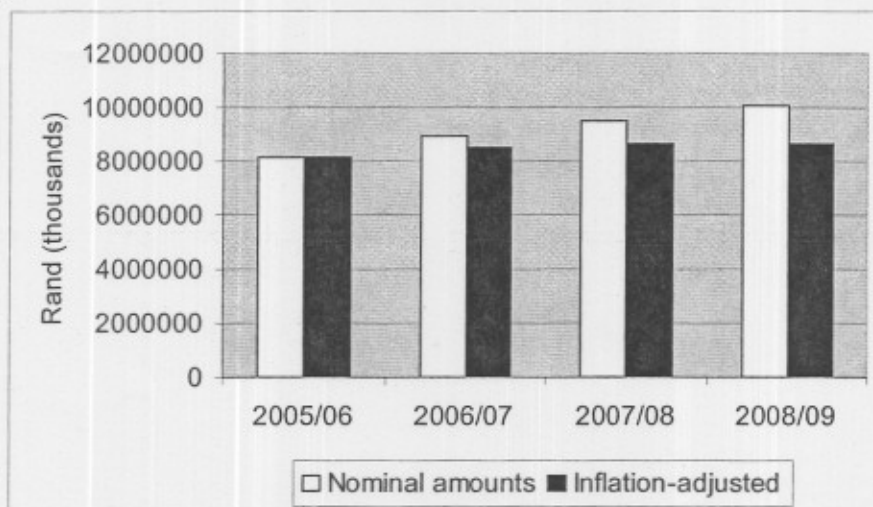
- The *Strategic Health Services* programme experiences the highest real growth rate of all four programmes located within the Department, increasing from R1,6 billion in 2005/06 to R2,1 billion this year.
- Amongst the sub-programmes, the highest growth is experienced in funding for the *Medicines Regulatory Affairs* (31,7%) and *HIV and AIDS* sub-programme (20%). Within the last few years, the *HIV and AIDS* sub-programme has consistently recorded phenomenal real increases, e.g. 50,1% in 2004/05 (which included Tuberculosis), and 19,7% in 2005/06.
- The budget for the *Pharmaceutical Policy and Planning* sub-programme declines with 20,3% from the R29,6 million in 2005/06, to a total value of R24,8 million in 2006/07. This decline is due to the termination of a special allocation for health technology. The substantive allocation to this sub-programme in 2005/06 was partly a result of upgrading the medical stores administration system (Medsas), which was partly done to monitor the R3 billion tender awarded to supply anti-retroviral medicines.
- Funding for the *Communicable Diseases* sub-programme remains stable and shows a 0% nominal growth rate. In real terms, this budget declines with 4,9% from the previous year. Funding for the *Communicable Diseases* sub-programme also includes payments to the Mines and Compensation Works Fund for a particular group of pensioners.

Programme 3: Health Service Delivery

The programme Health Service Delivery supports the delivery of health services, mainly in the provincial and local spheres of Government. It has six sub-programmes:

- Non-Communicable Diseases.
- Hospital Services.
- Health Economics.
- Health Information, Research and Evaluation.
- Primary Health Care, District Health and Development.
- Office of Standard Compliance.

Figure 5: Health Service Delivery budget allocation, nominal and inflation-adjusted amounts



- Growth in the *Health Service Delivery* Programme is steady in both nominal and real terms. While the nominal growth rate remains unchanged from 2005/06 (i.e. 9,6%), real growth is slightly lower from 5,4% the previous year to 4,2% in 2006/07.
- None of the sub-programmes under the Health Service Delivery Programme has experienced any decline in real terms from 2005/06.

Programme 3: Health Service Delivery

	Adjusted Appropriation	Medium-Term expenditure estimate			Nominal % Change from last Year	Real % Change from last year
R thousand	2005/06	2006/07	2007/08	2008/09		
Non-Communicable Diseases	388291	636381	668162	589491	63.9%	55.8%
Hospital Services	7499587	7958670	8544416	9167332	6.1%	0.9%
Health Economics	13947	28567	16371	17190	104.8%	94.7%
Health Information, Research and Evaluation	187214	239866	250507	259513	28.1%	21.8%
PHC, District Health and Development	21403	24141	26279	27593	12.8%	7.2%
Office of Standards Compliance	14475	19933	20934	21981	37.7%	30.9%
TOTAL	8124917	8907558	9526669	10083100	9.6%	4.2%
Changes to 2005/06 budget estimates	269418	584315	793726	905531		

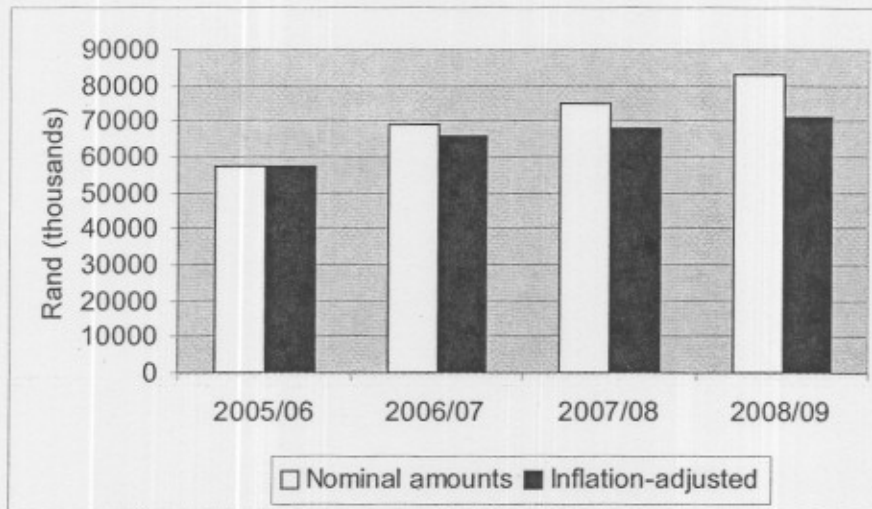
- For the 2006/07 financial year, the Health Service Delivery Programme receives an allocation of R8,9 billion, compared to the R8,1 billion received in the previous year.
- Overall, the *Health Service Delivery* programme receives the bulk of the total funds allocated to the Department, i.e. 79%. However, most of the expenditure is consumed by the *Hospital Services* sub-programme.
- The *Hospital Services* sub-programme is allocated an amount of R7,9 billion in 2006/07, representing a 0,9% real increase from the previous year. The strong funding for this sub-programme is aimed at addressing the need to modernise the national hospital stock. The Hospital Revitalisation Grant is located in this sub-programme.
- The budget of the *Non-Communicable Diseases* sub-programme increased significantly over the medium term to reach R589 million in 2008/09, due to the shift in of forensic pathology (medico-legal mortuary) services from the South African Police Services to provincial departments of health in 2006/07. This service will be funded for five years by conditional grants to provinces. This sub-programme increases with 55,8% from the previous financial year.
- Spending in the *Health Economics* subprogramme more than doubles from the previous year, with a real increase of 94,7%. This hike in funding for 2006/07 is due to an increase in the transfer payment of the Council for Medical Schemes for preparatory work for implementing the Risk Equalisation Fund associated with Social Health Insurance. Funding for this sub-programme is set to normalise over the medium term, declining from R28,5 million received this year to R16,3 in the next financial year.
- Unlike the previous financial year, the *Health Information, Research and Evaluation* sub-programme actually has grown this year, with a 21,8% real increase from 2005/06. This is mainly due to the additional allocation to the Medical Research Council (MRC) for the new requirement that it pays Value-Added Tax (VAT).

Programme 4: Human Resources

The *Human Resources* programme was initiated as a separate programme in 2005/06. It supports human resources-related functions for health from both the national and provincial levels. There are three sub-programmes:

- Human Resources
- Bargaining Council and Employee Relations
- International Health Liaison

Figure 6: Human Resources budget allocation, nominal and inflation-related amounts



- The overall growth in the budget of the *Human Resources* programme remains steady over the medium term. Real increase from the previous year is 14,3% slower than the 23% recorded when the programme was initiated in 2005/06.
- The *Human Resources* programme budget increased from R57,5 million in 2005/06, to R69,1 million this year. The programme funding is set to reach R82, 8 million in 2008/09.

Table 4: Human Resources

	Adjusted Appropriation	Medium-Term expenditure estimate			Nominal % Change from last Year	Real % Change from last year
	2005/06	2006/07	2007/08	2008/09		
R thousand						
Human Resources	9400	15866	16147	16950	68.8%	60.4%
Bargaining Council and Employee Relations	6984	8190	9001	9490	17.3%	11.5%
International Health Liaison	41151	45104	49872	56394	9.6%	4.2%
South African Countries Development Community	9400	15866	-	-	-	-
TOTAL	57535	69160	75020	82834	20.2%	14.3%
Changes to 2005/06 budget estimates						

- The *Human Resources* programme constitute the smallest portion of the total budget of the Department, i.e. 0,6%. However, for 2005/06 it received the second largest increase of all four programmes (next to Strategic Health programmes).
- The *Human Resources* sub-programme was allocated an amount of R15,8 million for 2006/07, resulting in a 60,4% real increase from the previous year.
- The *International Health Liaison* sub-programme accounts for most of this programme's expenditure, amounting to R45,1 million this year, and is set to increase to R56,3 million in 2008/09.
- The *Bargaining Council and Employee Relations* sub-programme is allocated R8,1 million, which is a real increase of 11,5% from the 2005/06 financial year.

4. Public Entities reporting to the Minister

i. Medical Research Council (MRC):

The MRC undertakes scientific research on clinical, health systems issues and public health. It's primary funding is through the Department of Health, with government's allocations determined as part of the overall Science vote, under the Minister of Arts, Culture, Science and Technology.

The MRC's allocation will amount to R358 million in 2006/07, of which R340 million will be in the form of transfers from a variety of local and international sources. The Department of Health contributes R212 million toward these transfers.

i. National Health Laboratory Services (NHLS)

The National Health Laboratory Services Act (No. 37 of 2000) came into affect in May 2001. At present, the NHLA is fully operational as the legislated preferred provider of laboratory services to public health facilities.

The NHLS' major source of revenue is the sale of analytical laboratory services to users such as provincial Departments of health. The NHLS' total revenue is expected to amount to R1,4 billion, R1,5 billion and R1,6 billion over the medium term. In 2006/07, the Department of Health will transfer funds to the following bodies that forms part of the NHLS: National Institute for Communicable Diseases (R30,8 million) and the National Institute for Occupational Diseases (R24,1 million)

ii. Council for Medical Schemes

The Council for Medical Schemes is responsible for regulating the private medical scheme industry in terms of the Medical Schemes Act, (No.131 of 1998). The body is mainly funded through levies on the industry, in accordance with the Council for Medical Schemes Act (No. 58 of 2000), while it also receives a small transfer from the Department of Health.

During the 2006/07 financial year, the Council will receive additional funding of R15,9 million for the implementation of the Risk Equalisation Fund in 2007.

Issues to consider

- In the 2005 Estimates of National Expenditure (ENE), the Department indicated that in terms of TB laboratory services, in 2005/06 it will achieve 100% of all health districts with a turnaround time of 48 hours or less. However, in the 2006 ENE this target was adjusted downward to 80% of health districts. What was the reason for this downward adjustment? Is the Department experiencing problems in achieving its TB-related targets it set for itself?
- In the 2005/06 adjusted appropriation, the Department requested a roll-over of R10 million from the 2004/05 financial year because it ordered a large quantity of condoms, which could not be delivered in time. However, in the 2006 Estimates of National Expenditure (ENE) the Department indicated that the number of condoms is set to increase to 450 million in 2006/07. Does the Department anticipate similar problems in 2006/07, and if yes, what measures have been put in place to prevent the problem for recurring?
- The Department indicated that the conditional grant for the Integrated Nutrition Programme will cease in 2006/07 and be phased into provinces' equitable share from April 2006. However, in the 2005/06 adjusted appropriation, the budget of the *Maternal, Child, Women's Health and Nutrition* sub-programme was adjusted downward from R148 million to R25 million. What was the reason for the adjustment?

- The budget of the *Communicable Diseases* programme shows the same amount allocated in 2006/07 as was the case the previous financial year, and, therefore, shows a decline of 4,9% in real terms from the previous financial year. What is the reason for this decline, especially considering that the Department indicated that the management of communicable diseases is a priority, as identified in their five-year strategic plan?
- Why did the shift of the medico-legal mortuaries from the South African Police Service (SAPS) to the Department of Health not take place as anticipated during 2004/05?
- Does the Department of Health have the capacity to take on the responsibility of the medico-legal mortuaries as anticipated from 1 April 2006, and what are the financial and human resources implications for the 2006/07 financial year?
- In 2005/06, the budget of the Non-Communicable Diseases sub-programme was adjusted from R194 million to R388 million. What was the reason for this adjustment?
- In both 2003/04 and 2004/05 the Department received a qualified audit report relating to conditional grants' non-compliance with the Division of Revenue Act. Taking into account that the State of the Nation Address again identified hospital revitalisation as a priority, how will the Department support provinces in this regard during 2006/07?
- In the 2005/06 adjustment appropriation, the Department requested a roll-over of R11 million from the 2004/05 financial year for a tender for a reliable inventory management tracking system for the comprehensive HIV and AIDS plan due to a delay in advertising the tender. What was the reason for this delay?

Conclusion

The Department's budget continues to show real growth over the medium term, and continues the trend of strong funding for priorities identified in the five-year strategic plan, as well as in the State of the Nation Address. The trend continues in 2006/07 to provide significant funding aimed at strengthening the Department's management function, HIV and AIDS-related programmes, health human resources and hospital services. Conditional grants to provinces still constitute the bulk of the Department's budget and again, in the light of a qualified audit report received in 2004/05, places a burden on the Department to improve its management and monitoring of these grants. This will also have implications for Parliament in terms of how it conducts its oversight function over the Department.

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