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The Hospital Strategy Project in South Africa

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This chapter reviews the critical problems identified and the key recommendations that emerged from the Hospital Strategy Project. It also describes how these fit together to provide an integrated vision and strategy for South Africa's public hospital system.

Critical Problems

Situation analyses carried out by the Hospital Strategy Project identified a complex network of interlinked, systemic, and institutional problems that contribute to some of the failings of the public hospital system. Together, they have led to a negative spiral of declining or static real budgets, increasing demoralization of staff, declining quality of care, and rising loss of public confidence in the system. The following paragraphs describe the problems.

Hospital Funding

Several factors are contributing to the severe and growing funding gap the public hospital system is facing. Tight fiscal policy has led to slow real growth in the overall health budget, despite growing demand for health services as a result of population growth, urbanization, and epidemiological factors. The situation has been made worse by the rapid pace of reallocation of health budgets, both between provinces and between hospitals and primary health care services. This has left large parts of the hospital system facing substantial budget deficits and without the time or resources to adjust to these resource constraints in a rational and controlled way.

This chapter is an edited version of the executive summary of the first volume of the final report of the Hospital Strategy Project, prepared in 1996. A consortium of four companies undertook the project under contract to the national Department of Health, and with the support and involvement of the nine provincial departments of health. Dr. Broomberg (leader of the Hospital Strategy Project) did not present this paper at the conference; instead, he presented some of the preliminary findings of the project. These findings have since been superseded by this executive summary, which is now an official policy document of the national Department of Health.

This situation has been aggravated by the poor and deteriorating capacity of the hospital system to recover costs through user fees. Poor cost recovery is attributable to a combination of problems, including inappropriate revenue and budgetary policies that provide managers with no incentives to collect fees, poor structure of and pricing in the user fee schedule, poor collection systems at the hospital level, and a large and growing shift of paying patients away from public to private hospitals. The current functioning of the user fee system also undermines the equity of the hospital system, because subsidies are not effectively targeted at the poor.

The size of the hospital funding gap and the speed at which hospitals are being forced to adjust to it are having extremely negative effects on the hospital system. In the absence of rational planning approaches and tools, provinces are being forced to make crude—across the board budget cuts—without regard to the particular needs of individual institutions. This undermines staff morale and quality of care and reduces public confidence in the hospital system.

Distribution, Allocation, and Use of Hospital Resources

The hospital system is characterized by inefficient and inequitable distribution of financial, physical, and human resources, with a heavy bias toward urban areas and academic hospitals. The impact of this is made worse by the absence of effective systems and capacity for rationalization, for rational future allocations, and for efficient resource use at the micro level. These problems have been further aggravated by budget constraints and the rapid reallocation of resources away from hospitals to primary health care.

Hospital Management

Management of the hospital system is characterized by extreme overcentralization, with hospital managers having almost no authority to manage their own institutions. This has led to severe underdevelopment of management systems, structures, and capacity at the hospital level and to a distorted management culture. The net effect of all these problems is demoralization of hospital managers and severe undermanagement of hospitals, most of which are simply administered by provincial head offices rather than actively managed. These problems are aggravated by poor remuneration and career paths for managers, which prevents the public system from attracting and retaining good managers. Overcentralization has also undermined the legitimacy and functioning of hospital boards, thereby diminishing the accountability of and public trust in the hospital system.

Labor Relations Policy and Management

Antagonistic labor relations, which have improved only minimally in recent years, have plagued the public hospital system. This situation is due to a combination of problems in labor relations policy and management. On the policy level, an effective labor relations framework for the public service is lacking. On the implementation and management level, severe problems are caused by the highly centralized nature of bargaining and of the handling of all labor relations matters, by poor management systems for handling personnel matters, by extremely limited personnel management and labor relations skills and capacity at all levels, and by resistance by some elements of management to progressive labor relations policies.

These factors have resulted in the isolation of both hospital management and workers from policymaking and negotiations, and have resulted in ignorance, a lack of trust, and a culture of adversity. The overall effect is thus a cycle of poor labor relations, which overwhelms the machinery set up to deal with these problems, which further worsens conflict, lowers morale, and reduces productivity.

Relationship between the Public and Private Sectors

Interaction between the private and public sectors in the hospital system does not generate any of the potential positive effects of such interactions, but instead has a strongly negative net effect on the public sector. This occurs in several ways. To begin with, the rapid expansion of the private hospital sector in recent years has

undermined public provision by draining large numbers of highly skilled staff out of public hospitals and by drawing increasing numbers of paying patients out of the public hospital system. This has been a particular problem in smaller towns and cities, but is manifest throughout the country. The private health insurance system also exploits public hospitals by "dumping" expensive cases on the public system once their benefits have been exhausted in private hospitals. In addition, insured patients frequently claim to be uninsured, and thus do not pay for their care at public hospitals.

Together, these various factors translate into a fairly substantial subsidy from the public to the private sector, a perverse and undesirable situation, particularly considering the already generous public subsidy granted to private health care through tax concessions on contributions to medical schemes. This situation is not, however, attributable simply to exploitative behavior by the private sector. Instead, it is the result of a complex interaction between a poor regulatory environment and gaps in government policy, which private sector players naturally exploit. These regulatory and policy issues will, therefore, have to be comprehensively addressed if the potentially positive contribution of the private sector is to be realized.

A New Vision and Strategy

To address these multiple and severe problems, a new vision is required for the public hospital system. This vision can be expressed through a number of objectives that are consistent with the principles of the national health system currently being implemented by the Department of Health and the provincial health administrations.

The overall goal of the public hospital system is as follows. The public hospital system will create and support a national network of dynamic, efficient, responsive, and accountable hospitals, which will deliver high quality, affordable, and accessible health services to all South Africans and will act as the supportive backbone of the national health system.

To attain this overall objective, the public hospital system has specific goals to ensure

- Equity in access to hospital services, which implies that all citizens should have equal access to adequate standards of hospital care for equal need, regardless of their income or place of residence
- Decentralized management of all hospitals, with as much delegation of authority and responsibility as possible to each hospital
- Maximum efficiency in the distribution and use of all hospital resources
- Accountability to the community and responsiveness to the needs of patients and their families
- Full integration with and support to the district-based primary health care system and the wider health care system
- Responsible stewardship of public funds
- Creation of a safe, fair, and stimulating working environment for all hospital workers.

Strategic Approach

To attain these objectives on a sustainable basis will require a new, integrated strategic approach. This should consist of at least the specific strategies outlined in the following paragraphs.

Ensuring adequate funding. Hospitals will be unable to meet the objectives outlined earlier without sufficient, sustainable funding to ensure adequate capital investment, and to ensure that the system is able to attract and retain adequate numbers of skilled and motivated staff. While the total share of public health spending currently allocated to hospitals is clearly too high in relation to spending on primary health care services, making sure that the extent of reallocation and the pace at which this is done do not damage the already precarious hospital system is vital, especially given the tight fiscal policy environment and its impact on overall health budgets. While these reallocations will be achievable in the medium term, attempts to achieve them too quickly will pose a serious risk of further undermining the hospital system's ability to

support the primary health care system, thereby defeating the original purpose of the reallocation. In this context, the following specific measures will be required:

- *Taking decisions on the affordable size of the hospital system, including the total bed stock and staffing complement.* South African bed to population ratios are already falling behind countries at similar income levels, and they may have to be held at present levels or be reduced over time to ensure sustainability and affordability. The current Hospital Strategy Project recommendation as an ideal for the whole country is 2.64 acute beds per 1,000 people for the public sector. As the recent national facilities audit estimates the current supply at 2.3 beds per 1,000 people, this suggests that current levels are not far off the ideal. However, what ultimately matters is the affordability of the total number of beds in the country, which is itself determined by assumptions as to the numbers and skill mix of hospital staffing establishments and by total hospital budgets.
  The Hospital Strategy Project conducted analyses of affordability using two assumed levels of staffing, the first a realistic lower level and the second an optimum level. Budget estimates were based on current hospital budgets projected to the year 2000, and on the Department of Health's medium term expenditure framework, which assumes additional hospital revenues through user fees and an additional financing mechanism. The population was assumed to continue to grow at the present rate. When current budget estimates were used, application of realistic lower staffing levels indicates that a maximum of 2.18 acute beds per 1,000 people will be affordable in the year 2000, which is 17 percent lower than the ideal level of 2.64 per 1,000 and 5 percent lower than the current level of 2.3 per 1,000. If optimum staffing ratios are assumed, however, the maximum affordable bed ratio is reduced to 1.83 per 1,000, which is 31 percent lower than the ideal and 26 percent lower than current levels.
  The situation is quite different when the medium term expenditure framework estimates are applied. In this case, the ideal level of 2.64 beds per 1,000 will clearly be affordable at the optimum staffing level. This analysis clearly emphasizes the importance of securing the additional funding assumed in the medium term expenditure framework. If, however, additional funds are not secured, difficult decisions will have to be made on the appropriate balance between total bed numbers and the numbers and skill mix of hospital staffing to ensure affordability. In the view of the Hospital Strategy Project, flexibility in regard to patterns of staff numbers and skill mix will be constrained in the short to medium term. This implies that should additional funds for hospital services not be forthcoming, policymakers may have to confront the need to reduce the supply of hospital beds over time, and they may also need to reexamine the planned balance of resources between primary health care and hospital services.
- *Improving cost recovery by public hospitals substantially.* This will require changes in regulations to allow hospitals to retain some proportion of revenue earned through user fees and other income generating activities. Regulations that prevent hospitals from using their property and other capital assets to produce income should also be removed. Changes to the structure and pricing of the user fee schedule will also be required, and to the implementation of cost recovery systems at the hospital level. Critical decisions will need to be made on how to prevent the current hemorrhage of paying patients out of public hospitals to the private sector. This will require difficult decisions on the licensing of private hospitals and on how the public hospital system can and should compete with private hospitals, including whether private wards should be opened within public hospitals.
- *Taking decisions on sources and levels of additional funding for the public hospital system.* This may occur through a mandatory insurance mechanism linked to use of the public hospital system, or through some other mechanism. At a minimum, medical schemes should be obliged to provide a reserve to cover the costs of treating their members in public hospitals. This will prevent the current dumping of patients on public hospitals when their benefits are exhausted.

Rationalizing and reallocating hospital resources. Financial, physical, and human resources should be rationalized and reallocated so as to ensure equitable and efficient distribution between geographical re-

gions, hospital types, and levels of care. To ensure that the rationalization and reallocation process is effective and does not undermine equity or efficiency, the following points are critical:

- *Undertaking rationalization and reallocation on the basis of detailed, nationally acceptable, and affordable guidelines.* These will have to cover such items as bed to population and staff to workload ratios. In the absence of such tools, attempts at reallocation are likely to be crude, and may well undermine an already precarious hospital system.
- *Taking difficult decisions about reallocation.* These decisions will need to be taken about the extent of the shift of resources from the hospital sector to primary health care, as discussed earlier.
- *Undertaking the rationalization and reallocation process in a carefully structured and planned sequence.* Specifically, district and regional hospital services should be developed and strengthened prior to any attempts to devolve services away from central-level hospitals. Failure to follow this sequence will undermine central hospitals prior to lower-level hospitals being ready to manage an increased patient flow.
- *Implementing the process slowly and ensuring support.* The rationalization and reallocation process should be implemented in a slow, controlled fashion, and should use change management processes to ensure full support from hospital staff and communities.

RESTRUCTURING THE HOSPITAL SYSTEM. In addition to the rationalization process, the roles of different hospitals within the system and the referral relationships between them will need to be defined and adjusted. The following points are relevant in this context:

- *Agreeing on a consistent classification method for hospitals and on the relative roles of each hospital type will be essential.* This should be followed by developing clear missions for each hospital, covering specified catchment populations, and determining level of care commitments and expenditure ceilings.
- *Developing referral maps.* These will be necessary to cover referrals within and between provinces.
- *Preparing for transition.* Once hospitals have been classified and referral maps drawn, plans for the transition of hospitals from their current to their new roles should be drawn up and implemented.
- *Developing an effective referral system.* This will need to include clinical and referral guidelines, obligatory referral procedures, and by-pass fees.

DEVELOPING A SYSTEM FOR RATIONAL PLANNING OF FUTURE RESOURCE ALLOCATIONS. Even before full rationalization and restructuring is achieved, ensuring that planning for future resource allocation supports the long-term goals of equity and efficiency will be essential. This will require the following:

- *Preparing service provision and staffing guidelines.* Detailed, nationally acceptable and affordable guidelines for service provision and staffing, as discussed earlier, will be needed.
- *Preparing planning, procurement, and maintenance guidelines.* Detailed guidelines for capital development planning and for procurement and maintenance of equipment will also be needed.
- *Developing capital development plans.* Detailed capital development plans, based on the national affordability guidelines, the capital development guidelines, and the findings of the national facilities audit, will also be called for.

ENSURING EFFICIENT RESOURCE USE AT THE HOSPITAL LEVEL. Even assuming efficient and equitable resource allocation, major changes are still required to attain efficiency in resource use at the hospital level. Critical elements of this strategy include the following:

- *Implementing the necessary strategies.* The various strategies discussed later to strengthen hospital management capacity, structures, and systems will have to be implemented.
- *Developing clinical guidelines.* The development of detailed clinical guidelines for district, regional, and central hospitals will also be necessary.

DEVELOPING EFFICIENT AND ACCOUNTABLE HOSPITAL MANAGEMENT. Many of the objectives cannot be achieved without radical restructuring of the current approach to managing the public hospital system. Specifically,

this will require implementing the national policy on decentralized hospital management. Critical elements of this policy include the following:

- *Delegating authority.* Substantial powers over personnel, finances, procurement, and other critical management functions will have to be delegated to hospital management.
- *Realigning the role of the Provincial Health Administration.* A shift in the role of the Provincial Health Administration is necessary from its current executive and administrative line management role to one in which its main functions are to set guidelines and broad policy and to provide critical support for hospital management.
- *Establishing hospital boards.* The establishment of representative, accountable hospital boards as statutory bodies with clearly defined and significant governance powers is also called for.
- *Developing appropriate structures and systems.* Modern, efficient management structures and systems should be developed.
- *Recruiting hospital managers.* Skilled and motivated hospital managers need to be recruited, developed, and retained.

Ensuring the presence of an effective labor relations policy and management. Substantial improvements to the management of labor relations in the hospital system are essential if the strategies of efficient service delivery and fairness in the workplace are to be achieved. Improving the current poor situation will require the following specific strategies:

- *Developing an integrated, coherent labor relations policy framework for the health sector.* This can be accomplished by integrating current labor relations policy developments and other developments in the public service into health policy and management frameworks.
- *Implementing the principles of cooperative governance into bargaining and other labor relations processes.* This can be achieved by integrating hospital management into these processes, establishing appropriate structures, and developing a joint vision of labor relations between hospital management and other staff.
- *Developing an effective communications strategy.* This will facilitate communication between staff and management at all levels on key labor relations issues.
- *Introducing alternative dispute resolution procedures.* Such procedures as arbitration and mediation should be introduced into the health sector, both to resolve disputes and to develop effective communication and working relationships.
- *Developing capacity to manage labor relations.* This should be done at both the provincial and hospital level through revised recruitment policies and through extensive training and development programs.

Creating an effective relationship between the public and private sectors. Several changes to government policy and regulations are required if the robust and growing private health sector is to make a positive, and much needed, contribution to the public hospital system. These changes will need to address the current perverse subsidies from the public to the private sector, and should reverse this situation. The following specific measures are relevant in this context:

- *Controlling the expansion of the supply of private hospital beds in such a way as to minimize the negative impact on the public hospital system.* Clear criteria for licensing private hospitals are required, backed up by a strong licensing authority. Where a new private hospital will have a negative impact on the public system, licenses should not be granted. Instead, efforts should be made to accommodate the demand for private beds within public hospitals.
- *Having the public hospital system compete with private hospitals to attract paying patients and private practitioners back into the public hospital system.* This will increase revenue generation, and will also have positive effects on the quality of care and on public confidence in the system. If this strategy is to succeed, however, it will require making difficult choices about such issues as allowing controlled private practice and opening up private wards within public hospitals. It will also require charging

insured patients who use public hospitals at least full cost or above, attempting to ensure that such patients declare their status as insured, and making sure they settle their bills.

- *Enacting regulations to prevent the dumping of private patients on public hospitals when their benefits are exhausted.* This could be achieved by requiring that all private health insurance schemes set aside a reserve of a fixed minimum amount to cover the cost of care when their members are treated in public hospitals.
- *Exploring creative public-private partnerships in all aspects of hospital service delivery.* Other countries have successfully used several creative mechanisms that could be applied in South Africa to encourage the private sector to make a positive contribution to the public hospital sector. Examples include using private sector expertise for various aspects of hospital management and service delivery, using spare capacity in private hospitals for public patients, and establishing creative partnerships with private practitioners.

Critical Implementation Steps

A number of critical implementation steps will be required if this new vision for the hospital system is to be translated into reality. These include the following:

- *Developing consensus at the provincial and national levels and with key stakeholders on the goals and strategies outlined.* The Hospital Strategy Project has gone a long way toward developing consensus on several of the objectives and strategies; however, some points remain controversial, and formal adoption within the normal policymaking channels of government is still required. Further consultation with key stakeholders, such as employee organizations, will also increase the chances for successful implementation.
- *Ensuring that hospital policy issues are high on the public health sector's policy and political agenda.* While the emphasis of much of current health policy on primary health care services has been appropriate and timely, ensuring that hospital policy issues are given similar attention is now essential. As noted earlier, hospitals constitute the supportive backbone of the health sector, and failure to deal with the current crises the hospital system is facing will prevent attainment of the primary health care objectives of the national health system.
- *Designing an appropriate, workable timetable for hospital reform.* Many of the objectives and strategies form part of a medium- to long-term vision for the hospital system and will not be achieved in the short term. Failure to realize the distinction between this vision and short-term objectives will lead to poor decisions and to disillusionment, thereby undermining the prospects for genuine reform in the medium to long term. This does not imply that no immediate actions are required. On the contrary, numerous urgent and immediate actions and strategies should be implemented as soon as possible.
- *Developing detailed, systematic implementation plans.* The proposed strategies are numerous and complex. Detailed, carefully developed, and systematic implementation plans will therefore be critical to successful implementation of this comprehensive vision and strategy. Such implementation plans should focus on the sequencing and prioritizing of strategies, on the resources required for implementation, on the respective roles of the Department of Health and of public health administrators, and on the requirements for outside assistance where this is necessary.

Conclusions and Next Steps

The analysis, research, and consultative process undertaken by the Hospital Strategy Project has generated consensus on a new vision for South Africa's public hospital system and on most of the critical aspects of an integrated strategy designed to achieve that vision. Agreement has been reached on a wide range of detailed and far-reaching proposals to restructure the public hospital system. Where consensus does not yet exist or is not required, this project has provided the framework and detailed proposals to allow the Depart-

ment of Health and public health administrators to move rapidly toward consensus positions and policy decisions. This project has thus provided a detailed road map to help the government and other stakeholders in the complex and challenging task of moving from an antiquated, inefficient, and inequitable hospital system to a modern, effective, equitable, and responsive one.

However, none of this will be achievable without careful and systematic attention to the process of implementing these various strategies. While the full project report makes detailed recommendations on implementation, none of this will have any impact unless the relevant authorities at the national and provincial levels devote time, energy, and resources to the implementation process. In this context, the Hospital Strategy Project is concerned that numerous competing priorities and a lack of resources and capacity will prevent adequate attention being devoted to the implementation process. If this occurs, the substantial investment already made in this project and the opportunity presented in the detailed strategies will go to waste. To avoid this, a number of specific measures will be required, including the following:

- A policy decision should be taken at the highest levels that endorses, after any necessary amendments, the vision and strategy outlined here and commits the Department of Health and public health administrators to achieving this vision and implementing the strategies within a defined timetable.
- The Hospital Coordinating Committee should be tasked with coordinating the implementation of the integrated strategy outlined here and should be required to report to the Health Ministers Forum on progress at defined intervals.
- Careful attention should be paid to the respective roles of the Department of Health, public health administrators, and any other stakeholders in the implementation process. The Hospital Coordinating Committee should be given responsibility for drawing up a document that outlines these respective roles and should request stakeholders to commit themselves to taking on these roles.
- Attention should also be paid to the resources, skills, and capacities that the Department of Health and public health administrators will require to ensure successful implementation. Specifically, decisions should be made about whether, when, and to what extent outside assistance will be required in implementing these strategies. Once these decisions are made, funding and technical assistance should be arranged in a timely manner to ensure that the current momentum is not lost.