WHAT IS STRATEGIC PURCHASING?

The purchasing function of health care 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 health care 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.
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 improvement in the quality of health care 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 health care 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 health care providers are not always adequately accountable to each other – health administrators do not always know what is occurring at the frontline of health care 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 health care providers with line-item budgets, salaries, guidance, support, and monitors health care 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 care 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 care 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 (P 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 National Health Act, but determined in provincial legislation.
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 implementation-level actors and the community.

ABOUT THE BRIEF

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Further information
Purchasing project webpage: [http://resyst.lshtm.ac.uk/research-projects/multi-country-purchasing-study](http://resyst.lshtm.ac.uk/research-projects/multi-country-purchasing-study)
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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)
