

# Executive statement on assistance given to the Department of Health by Provincial Treasury presented to the KwaZulu-Natal Legislature by Ms B.F. Scott, MEC for Finance, KwaZulu-Natal

22 June 2017

Madame Speaker,

Honourable Members, allow me to table the executive statement on the assistance given to the Department of Health by Provincial Treasury. This executive statement is made in terms of Rule 100.

The KZN Department of Health has been receiving negative publicity from various stakeholders about the poor health service delivery in the province, one of which was the Memorandum issued by the South African Medical Association (SAMA) Coastal Branch which was received by the Department of Health during the protest march held by SAMA on 5 May 2017.

The challenges of the department are not limited to a specific area but cut across a number of areas and are linked to competing priorities. In the main, the issues relate to various elements, some of which can be attributed to internal inefficiencies and others that are beyond the control of the department.

## **Challenges faced by the Department of Health**

Against this backdrop, it is important to contextualise the situation that the Department of Health finds itself in and the determinants that have a profound influence on the operational environment. Some of the key challenges are:

- (i) The economic climate of the country, characterised by high unemployment, high cost of living, fluctuations in the Rand as a result of international financial trends, among others, impact on the public health sector in various ways.
- (ii) Although 8.5% of the GDP is spent on health care, that is approximately R332 billion in monetary terms, half of this amount is spent in the private healthcare sector which caters for the socio-economic elite. According to Census 2015, it is a fact that the equitable share for the health sector is diminishing.
- (iii) While the equitable share allocation may indicate an annual increase, these funds do not entirely cover the needs of the Department of Health. A number of patients who may have relied on the private health sector, are now turning to the public health sector, thereby creating an added financial burden for the public sector. Based on the KZN population totaling in excess of 10 million, 16% (1 729 044) rely on the private health care sector and the remaining 84% (9 077 485) of the population who carry a far greater burden of disease, depend solely on the under-resourced public health sector.
- (iv) It must be noted that 54% of the KZN population reside in rural areas and an estimated 10% of the urban population reside in under-developed informal settlements. This has significant implications for service delivery and health outcomes as a result of under-development and unavailability of essential services, for example, potable water, sanitation, waste removal, as well as adequate employment opportunities. The Department of Health, therefore, faces an added burden which stems from these socio-economic challenges, thus placing more pressures on the already constrained resources and which are associated with poor health status and negative health outcomes.

- (v) The quadruple burden of disease continues to have a profound impact on the quality of life, productivity and life expectancy of citizens. The costs associated with the provision of core service delivery, in addressing the diseases such as TB, HIV and AIDS, chronic non-communicable diseases, among others, further contribute to the financial challenges.
- (vi) The fiscal challenges we face must be considered in the context of what the public Health sector has to deliver, the burden of diseases which is being impacted more so by diseases of lifestyle, the needs of employees, training and development of Registrars and Specialists, ageing infrastructure (maintenance and repair), critical equipment needs, the annual salary increases, just to name a few, as these all have a major impact on the budget of the department. There is always a need to create a balance in terms of the needs on the ground in relation to good governance and corporate citizenship.
- (vii) The expansion of services, where services are taken to community and household level is yielding positive results in that clients in need of further health care are referred to the Health facilities but this, in turn, results in added financial implications.

The public Health sector is facing various challenges and these include Human Resource Management, financial management, Supply Chain Management (SCM), ageing infrastructure and old equipment.

In KwaZulu-Natal, in particular, Health also faces these challenges, as well as the following:

- Budget pressures.
- Poor asset management.
- Substantial accruals that have accumulated over the years.
- Medical equipment that needs maintenance.
- SCM capacity constraints.
- Lack of proper internal controls.
- Increasing medical-legal claims, and so on.

To assist with these challenges, Provincial Treasury deployed resources in the department earlier this year. An assessment was done and it indicates that there are systemic problems that need formal intervention.

The Honourable Premier, the Honourable MEC for Health and myself are working very closely on this matter and have had various engagements in this regard. The officials from Health and Provincial Treasury are working jointly and urgently to provide the necessary support to address the issues identified.

The Executive Council has also been informed of the areas of intervention and assistance in the Department of Health and I will cover these here:

### **1. Pharmaceuticals and Provincial Pharmaceutical Supply Depot (PPSD)**

A sector audit on the department's pharmaceuticals and the PPSD was undertaken by the Auditor-General (A-G) and identified a number of weaknesses in the department's controls, as well as a number of inefficiencies. This is a crucial support function for the department, and some of the challenges facing the department are that the assets are considerably aged and require constant maintenance, the roof is leaking and poses a risk of soilage of medicines in the open area, the air conditioner is not working, and thus medicines are not kept at correct temperatures, among others.

The exact needs in this area are still being investigated and costed by Provincial Treasury and this should be completed shortly.

## **2. Supply Chain Management**

This will effectively mean that Treasury takes over the entire SCM function in the department. This includes the setting up of all bid committees, ensuring that the specifications are done properly, that the procurement legislation is adhered to, and so on. The work also involves taking stock of all tenders, reviewing which of the tenders are stuck in the appeals process, which ones need to be introduced, and so on. There are several contracts in the department that are run on a month to month basis, and these need to be converted into proper contracts. This is the only component that will be implemented as a Section 18 of the PFMA intervention. Some aspects of this intervention, such as finalising a contract register, will be finalised by the end of August 2017, while the preparation of a comprehensive needs analysis for items to go to tender is ongoing, and it is anticipated that all backlogs should have been dealt with by no later than January 2018. It is planned for all period contracts to be finalised by May 2019.

## **3. Internal Control**

Internal controls in the department are weak due to lack of capacity. According to the assessment, there are only 4 officials responsible for this function in the department. This function ensures that all transactions are processed procedurally, the information is accurate, the approvals are done at the correct levels, etc. Given the number of transactions in Health, the existing capacity is insufficient. Treasury will thus deploy resources to strengthen this capacity. Immediate appointment of resources from the various Provincial Treasury panels of consultants will be made available for a period of approximately 8 months. This will be done to identify gaps and shortcomings in the department's internal control environment, to provide training where required, and to assist where required. The Provincial Internal Audit Services (PIAS) unit of Provincial Treasury has agreed to provide a resource to lead the process.

## **4. Assets**

A significant amount of progress has been made in this area and a workable solution can be achieved. The team dealing with this matter is the Treasury Team, the South African Institute of Chartered Accountants (SAICA) unit deployed by the National Department of Health, as well as existing staff. It is believed that a credible Asset Register will be available for the 2017/18 AFS audit.

## **5. Clearing of accruals**

The department is commencing 2017/18 with over R1.200 billion in commitments from the previous year, which will put pressure on the 2017/18 budget and will require careful management to avoid overspending in 2017/18. Work has already started in this regard. There are volumes of invoices that are being reconciled by the Treasury Team to verify whether, in fact, these are due and payable. The exercise has already identified substantial mistakes in the schedules submitted by service providers and work in this area is currently ongoing. The target date for verifying which payments are in fact still due and effecting these payments is end of August 2017.

## **6. Medical equipment**

Some of the medical equipment in some hospitals is not functioning due to lack of maintenance. The reason is partly due to SCM challenges in the SCM processes in the department. The proposed SCM intervention will focus on how best to procure medical equipment to ensure that maintenance arrangements are strengthened so that the risk of equipment "down time" is eliminated or reduced drastically.

## **7. National Health Laboratory Services**

One of the highest expenditure items under the *Goods and services* economic classification is laboratory services. Although the main driver of this expenditure is the additional tests done for HIV & AIDS, there are signs of duplicate and over-ordering of tests. The department is in the process of developing an interim IT solution (referred to as gate-keeping), pending a National system, to address the matter prior to final order. The electronic system will also pick-up duplicate invoices and needs to interface with the NHLS system. The department will require a qualified and experienced IT and data specialist to finalise the interim solution and to develop the interface protocols. If the development is successful, IT hardware will have to be procured for the clinics. It is estimated that the system will be rolled out to all institutions within 12 months after appointment.

### **Conclusion**

Madame Speaker, as government we commit to working together to ensure that the Department of Health is assisted and supported. Once the issues mentioned in this Executive Statement have been addressed, many of the department's issues should be resolved. Once the required systems are in place, this should alleviate many of the budget pressures and therefore release the much-needed funding to allow the department to fill its many critical posts.

I thank you!

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