Eastern Cape health bail-out set to 'fall short' – analyst

The plush Nelson Mandela Academic Hospital outside Mthatha belies the province's budget dysfunctionality.

Only time – and new senior management intervention – will tell whether the Eastern Cape health department's financial rescue package will fully honour its R1.6 billion accumulated debt, including occupation-specific dispensation (OSD) pay hikes.

This is according to Daygan Eagar who runs the health desk of the Public Service Accountability Monitor (PSAM) at Rhodes University, a unique outfit that has built a country-wide reputation for boosting the transparency of its provincial government.

Eagar told *Izindaba* that the national R793 million 'general base adjustment' for the coming financial year, plus a R400 million overdraft by the provincial treasury (read bail-out), had to cover not only existing debt but also 'carry through costs'.

'So the real question is, is the increase, minus the accrued debt, enough to cover the OSD? Only time will tell. My guess and prediction is that it won't be enough. They'll incur further debt this year,' he stated confidently.

The PSAM has been monitoring Eastern Cape provincial government performance for a decade, during which time the health department had remained within an 'acceptable range' of over- or under-spending by an average of 2%. Over the last 8 years the department has received 5 audit disclaimers, 2 adverse opinions and only 1 unqualified opinion from the Auditor-General. These audit opinions show that while the money is being spent 'they cannot always account for how it is being spent and every year there is evidence of financial mismanagement and corruption,' said Eagar.

What was different in the last financial year was an over-spend of 13%, mainly because of poor budgeting for OSD implementation, HIV/AIDS and a build-up of debt due to infrastructural development.

Provincial health department spokesman, Sizwe Kupelo, said the bail-out meant the department would be able to pay its creditors, which included the National Health Laboratory Services (R150 million), the South African National Blood Services (about R30 million) and Telkom (about R23 million), a process that would be complete by 1 May this year.

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Telkom had blocked incoming calls to his department's head office in Bhisho but officials were still able to make calls out. The province had secured agreement with Telkom that it would 'do nothing that would affect clinics and hospitals'.

Eagar said the provincial health department had to deal with 'unfunded mandates' – unpredictable events over the past year that they were unable to budget for.

These included the cost of litigation by unpaid suppliers (estimated at around R181 million, defending 31 cases for the entire provincial administration, of which the health department was a respondent in 22) and court rulings bringing salaries of former homeland officials in line with those of their newer colleagues (originally due in 2000 but ordered by the courts in 2007).

Homeland tangle still impacting

A special human resources implementation team recommended that 120 officials receive promotions (and associated back-pay) because they should not have been downgraded or did not receive correct promotions in the first place. A further 64 officials were found to have received promotions irregularly and subsequently had their posts downgraded. Payments and promotions in health were only made in the 2009/2010 financial year. Many of these payments appear to be irregular, Eagan noted.

Kupelo urged creditors to 'have patience and think about people's welfare and not just their own financial interests,' and added, 'people must not suffer because of this problem'.

Eagar described this as 'a ridiculous argument'. 'Many of the [health] department's suppliers are small emerging contractors and businesses. Asking them to bankroll the province's debts means they have to take out loans on which they pay interest – they simply don't have the capital,' he said. He cited companies that hold tenders for laundry and security for clinics and hospitals and said the attitude displayed by Kupelo 'completely undermines the BEE approach'. 'We've had reports of businesses facing liquidation or closure because they can't finance their own debt due to not being paid,' he added.

Unpacking the budgeting, Eagar said that R900 million of the province's initial 'equitable share' (a formula for annual provincial funding from national) would be shared equally between the departments of health and education to settle debts.

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'So that top-slicing will have a heavy impact. The additional R793 million covers additional mandates and inflation,' he explained.

Holding officials accountable

Kupelo revealed that the March salaries of four directors in the health department had been held back after they failed to disclose their financial interests, while 35 other officials 'came running' when they heard about impending punitive measures.

The 39 staffers had not submitted disclosures of all 'registrable interests' for 2008/2009, due at the end of April last year, and had been given an extension to 1 March this year.

Eagar said the new punitive measures and sudden scramble had 'a lot to do' with the harder line taken by the new departmental head of the health department, Mr Siva Pillay, appointed this January.

'It's been really positive, things are a lot more transparent now and we're feeling cautiously optimistic about the health administration,' he added. However, in spite of the seemingly new-found political will, the province did not have the resources and ability to effectively deal with the financial chaos in the short term. 'Basically we're dealing with past financial mismanagement, under-funding and unbudgeted mandates. They've known about the OSD issue for well over 2 years. Obviously there was a problem with their modelling. Health is supposed to submit financial reports to the provincial and national treasuries once a month; it's a requirement in terms of the Public Finance Management Act. Many of these problems could have been avoided had treasury stepped in sooner when budgetary pressures were first identified'.

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He emphasised that his sobering analysis of what many hailed as the definitive rescue package was based on 'more than just the budget as reported'. 'It must be read in the light of an accumulation of debt that needs servicing and paying off. What's represented in that budget is not what they have to spend on current mandates and current service delivery. On paper it looks substantial, but a lot will simply go to servicing debt,' he said.

A South African Medical Association (SAMA) industrial relations staffer working with doctors in the Eastern Cape said most seemed to have been paid in terms of the OSD agreement of last year, although not all were satisfied. 'I'd say about 60% of my calls are for help with interpretation of salary slips – but the rest are unhappy about taxes being deducted as a lump sum or about scarce skills allowances not being included. The biggest problem seems to be doctors with about 10 or so years experience not having had their community service year taken into account and being incorrectly graded,' she added.

Chris Bateman