

## **NHI revenue could fall in SOE debt blackhole – BizNews 31**

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*The ability of the state to manage the proposed National Health Insurance and more importantly to fund the roll-out of the scheme has been in question since its inception. It is another policy dreamt up by the ANC alliance that sounds good as a utopian ideal. Who does not want free medical care for all as is enjoyed in many developed countries? It is however, as many of its critics have pointed out impractical and unaffordable for a developing nation like South Africa. In practice it will place all medical service providers in South Africa under the control of the state. The Treasury has admitted in the medium-term budget that the National Health Insurance will require an additional R33bn a year from the 2025/26 financial year and that the estimates of the roll-out published in the Green Paper of 2011 and White Paper of 2017 are “no longer affordable.” In view of this a “smaller package of changes” have been recommended. There is another issue that seems to be underestimated and that is the R98bn in state-medico claims that the NHI bill is silent on. A local provider of professional healthcare indemnity cover, EthiQal says there is a “deafening silence in the NHI bill on just where medico legal liability will rest.” The Gauteng Health Department has recently warned public sector doctors that they could be held liable personally for damage claims in medical negligence cases or “adverse events.” Critics of the NHI are not only worried about the cost of the service, but also whether money paid into the NHI will be ring-fenced and “used solely to fund the NHI.” As Anthea Jeffery writes in the Daily Friend, “these monies will be paid into South Africa’s National Revenue Fund and used for all kinds of government spending.” – Linda van Tilburg*

Will your NHI taxes go to Eskom or SAA?

As yesterday’s mini budget shows, finance minister Tito Mboweni has no easy options. He cannot stabilise mounting public debt – set to climb to 71% of GDP by 2022 – by significantly cutting the public service wage bill because the president has promised no retrenchments. He cannot privatise Eskom or other failing SOEs because his communist comrades will not allow this. He cannot persuade the government to stimulate growth through real reform, because that would limit the dirigiste interventions of the developmental state.

Dr. Anthea Jeffery

Increased taxes may thus be the only option to help pay down debt without substantially cutting current spending. However, South Africa’s tax burden is already high by global standards, making it difficult to raise VAT, corporate, and personal income tax rates any further. Fresh justifications for increasing the tax burden must thus be found.

In 2017 a sudden concern with rising obesity rates helped justify the sugar tax – though the proceeds of the ‘health promotion levy’ have not in fact been ring-fenced for anti-obesity initiatives.

In 2018 escalating worries about climate change helped justify the carbon tax that took effect in July this year – though the proceeds of that tax have also not been ring-fenced for mitigation strategies.

Now the many failings of the public health system are being used to justify the introduction of the NHI – and the various additional taxes the new system will require.

No one knows how large those additional taxes might prove to be. In yesterday’s medium-term budget policy statement, the Treasury said the NHI proposal, as set out in the 2017 White Paper, has become unaffordable. It recommends a smaller package of changes –

scrapping user fees at public hospitals, for instance, while expanding HIV treatment, contracting with private sector GPs, and establishing the NHI Fund. But even this limited package, it predicts, will generate a R50bn funding shortfall by 2030. However, the Treasury's pragmatic proposals are unlikely to prevail, for many in the Cabinet will prefer to press ahead with all the NHI interventions set out in the White Paper. On this basis, the NHI revenue shortfall in 2025 will total R165bn, as the Davis Tax Committee estimated in 2017.

Intellidex, a consultancy, has pointed out that raising R165bn in additional revenue would require a new payroll tax, initially levied at the rate of 2.7%; a 2.75% surcharge on income tax; and a 3.5 percentage point increase in the VAT rate (so bringing the total VAT rate to close on 20%).

Most commentators seem to assume that any additional 'NHI' revenues raised – whether for the Treasury's limited package or the White Paper's sweeping changes – will be ring-fenced and used solely to fund the NHI. But the more likely scenario is that these monies will be paid into South Africa's National Revenue Fund and used for all types of government spending.

This second option is also what the Constitution requires, for Section 213 states that 'all money received by the national government must be paid' into this general fund. An exception may apply, but only for money that has been 'reasonably' excluded from that fund 'by an Act of Parliament'.

Hence, if revenues from 'NHI' taxes are to be ring-fenced for NHI purposes, a separate statute will have to be enacted to provide for this. Whether this will occur remains unclear.

In a briefing to the health portfolio committee on the NHI Bill in August 2019, health minister Dr Zweli Mkhize stated that the Treasury was 'not comfortable with earmarking funds' for particular purposes, as 'surplus' revenue was then blocked from being used for other needs.

Dr Mkhize went on to say that the Treasury had not entirely excluded a ring-fencing option for the NHI, thereby suggesting this might still be introduced. This is hardly an iron-clad assurance that the revenues raised from 'NHI' taxes will in fact be used for NHI purposes.

In the absence of the necessary ring-fencing statute, all 'NHI' revenues will automatically be paid into the National Revenue Fund – as already happens with the proceeds of the 'sugar' and 'carbon' taxes (and the 'plastic bag' levy before them).

This will also echo the position in Canada, which has a 'single-payer' health system similar in some ways to the proposed NHI. In Canada, reports the Fraser Institute, a think tank, most people are kept in the dark as to how much of their taxes goes to fund the health system.

The Fraser Institute has filled this gap by identifying what portion of the general taxes paid by the average middle class family goes to the health system. It has also worked out that the tax revenues such a family contributes to the health system have increased in real terms (after adjusting for inflation) by 66% over the past 20 years or so.

In South Africa, major annual 'NHI' tax increases could be declared necessary to help sustain a comprehensive set of NHI health services. In practice, however, additional revenues raised for supposedly 'NHI' purposes could easily be diverted to other priorities: paying the bloated

public service wage bill and bailing out bankrupt SOEs – with Eskom and SAA first in line for this largesse.

The ANC clearly wants this extra ‘NHI’ revenue. Already, it is staging public hearings around the country in which the poor are being misled into believing that the NHI will miraculously meet all their healthcare needs.

Behind the scenes, however, many ANC cadres and tenderpreneurs may have a different vision of what the NHI will provide – new revenue streams to pad out the public service, prop up SOEs, pay inflated prices on a vast stream of healthcare contracts, and keep the patronage machine well-oiled.

The NHI is sure to work badly in practice, but it is also wrong in principle. It will introduce coercive controls over healthcare, rob individuals of choice, and constitute yet another socialist assault on the independent private sector that underpins the liberties of all South Africans.

There is also a fundamental fraud at the heart of the NHI, which is similar to the fraud at the heart of the EWC (expropriation without compensation) proposal. EWC is supposed to provide redress and help the poor, but in fact it will lead to land nationalisation and vastly empower a narrow political elite.

The NHI is also supposed to help the poor, but in fact it will give the state a monopoly over healthcare, further shackle the economy (if only through major additional taxes generally not used for health purposes), and greatly expand the power of that same small group.

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