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SUBMISSION TO DETERMINE A COST BASED GUIDELINE TARIFFS FOR GENERAL PRACTITIONER SERVICES IN NAMIBIA NOVEMBER 2014

1. *INTRODUCTION*

1.1 ***Background***

The Directorate of the Namibian Private Practitioners Forum (NPPF) has appointed Health Management and Networking Services (Pty) Ltd (HealthMan) to conduct practice cost surveys and studies that will assist to determine appropriate benchmark tariffs for General Practice ("GP") in Namibia.

This will allow GPs in Namibia to set their own tariffs and to assess the appropriateness of tariffs as published by NAMAF and other Medical Schemes in Namibia.

1.2 ***Database of General Practitioners***

The Namibian Private Practitioners Forum represents the interests of 159 general practitioners in Private Practice in Namibia. Its database was not provided to HealthMan and requests to participate in this study were coordinated by NPPF. According to information received from NPPF it appears that there are approximately 332 full-time GP practitioners in private practice nationally.

1.3 ***General practitioner defined – academic training***

General practitioner training involves the MBChB (or equivalent) degree followed by at least one year of hospital work under supervisions. It is the responsibility of the Medical Board to oversee the minimum requirements.

1.4 ***Scope of Practice***

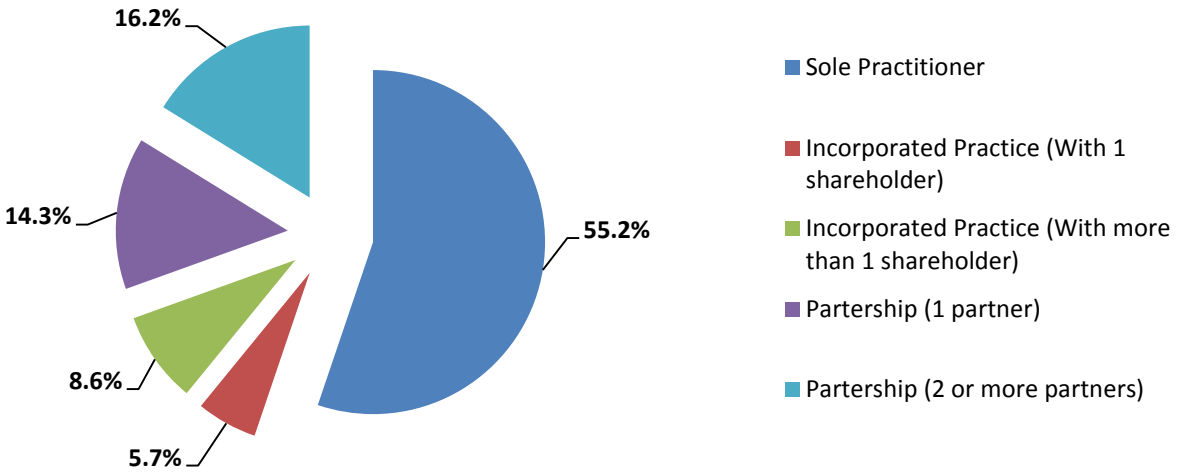
The general practitioner is trained to deal with most medical conditions and procedures, the scope thereof being reflected in the Namaf tariff list and descriptors. More about Namaf later in the report. As there are limited numbers of specialists available in Namibia the scope of medical interventions is quite comprehensive.

1.5 ***Type of Practice***

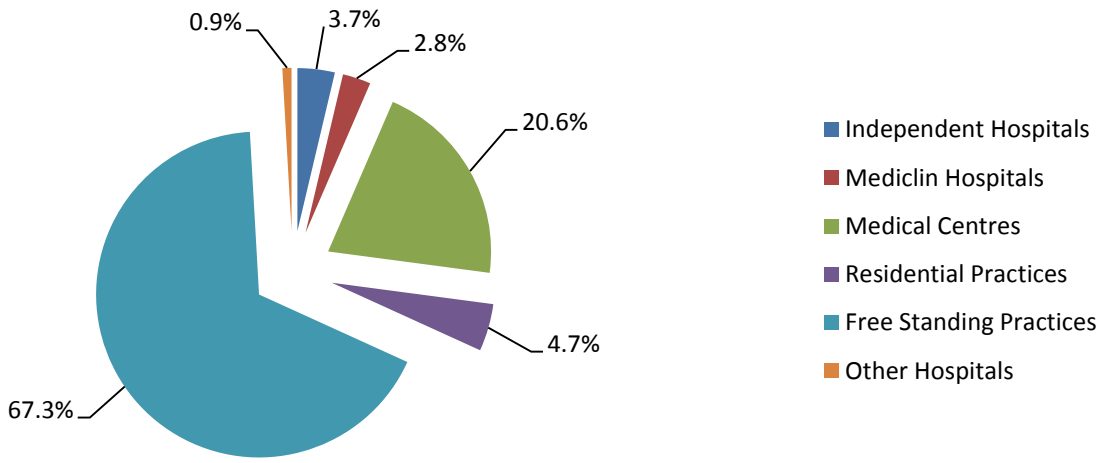
In general, general practitioners practice as sole practitioners for their own account (55.2%). A further 5.7% describe their practices as "incorporated with one shareholder", 8.6% with "more than one shareholder" while 30.5% of general practitioners practice in partnership.

More than half of the sampled practitioners (92.6%) do not practice from hospital premises (working instead from residential, free-standing or medical centre practices). The largest portion of practitioners, admit the majority of their patients to state hospitals (36.6%). This data was obtained from a high-level survey that HealthMan conducted in 2012/13, as set out in Section 2 of this report. The high percentage patients admitted to the public sector is a result of there being no private facilities in many parts of the country.

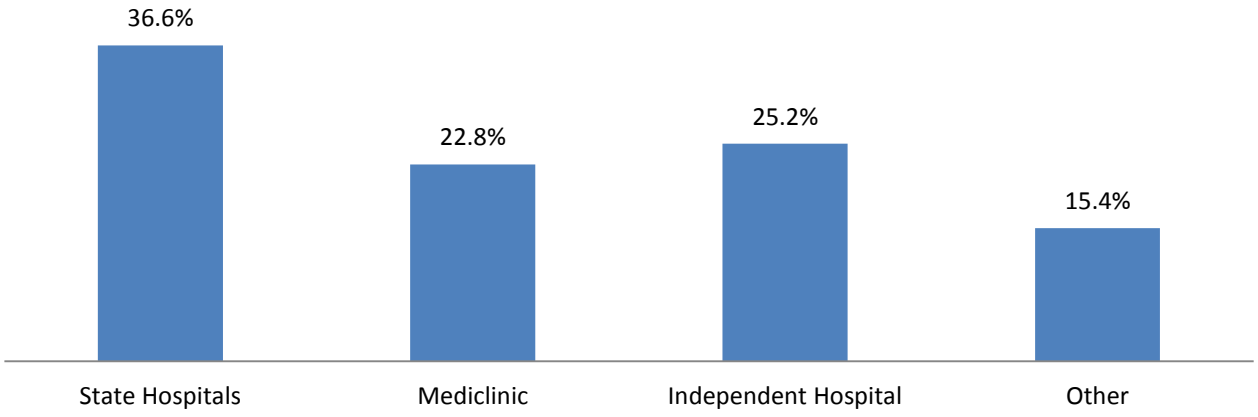
Practice Types



Practice Location



Place of Admission

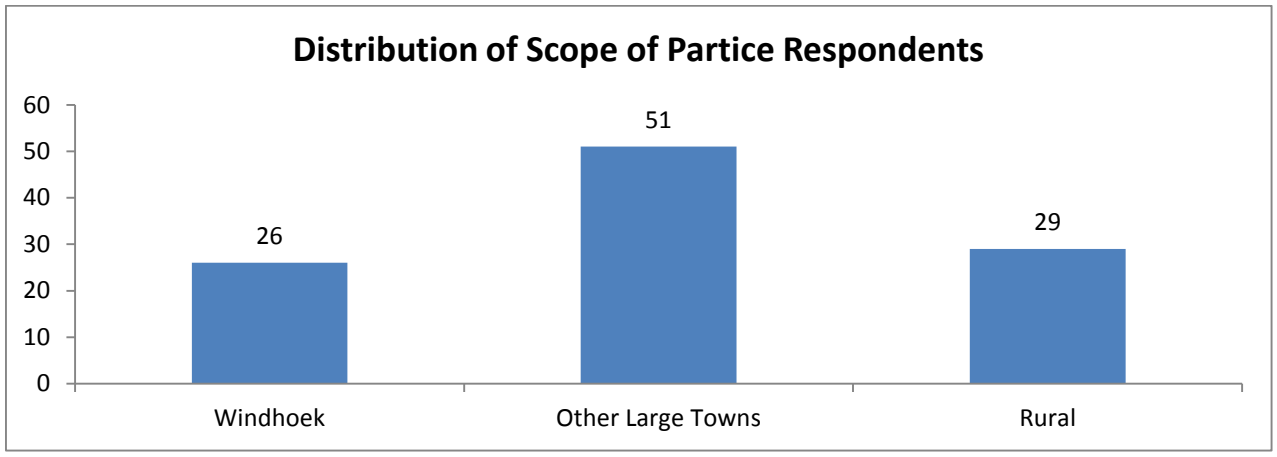


2. REVIEW METHODOLOGY

In carrying out our mandate, we followed the following methodology:

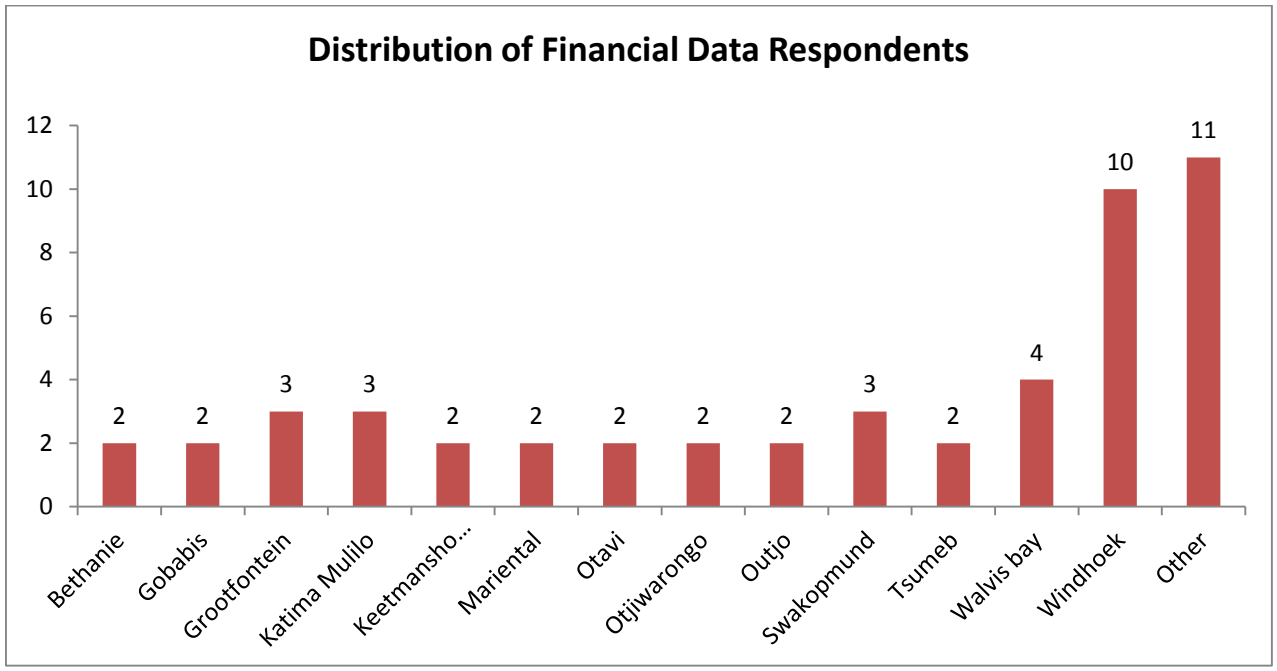
2.1 Scope of Private Practice Review

Obtained high level practice data from 106 independent GP practices across the country. The objective thereof was to understand the various business models and to identify some key areas on which to carry out further reviews. Practice reviews, i.e. site visits, were also carried out in Karrasburg, Keetmanshoop, Marienthal, Rehoboth, Windhoek, Grootfontein, Tsumeb, Gobabis, Okahandja, Otjiwaronga, Walvisbaai & Swakopmund to verify data received and discuss the contents thereof with practitioners. The responses were as follows:



2.2 Financial Data Review

Circulated requests for detailed financial information to 242 practitioners and received the following responses:



* If we take NPPF's database of 332 full-time practicing general practitioners as definitive, then these 50 practices and 88 practitioners' expenditure returns represent a 23% response rate.

2.3 Reviewed the detailed financial information of these 50 practices. The average details from these practices were used to establish the average costs as recorded in the overhead schedules as summarised in paragraph 3.6.

2.4 Analysed the data received and compiled a pro-forma costing model for a standard general practitioners practice. The pertinent data was then transcribed into the prescribed format outlined in Regulation 681 of 23 July 2007 (Regulations Relating to the Obtainment of Information and the Process of Determination and Publication of Reference Price Lists) and further elaborated in General Notice 190 of 04 February 2008. Regulation 681 and General Notice 190 were issued by the RSA Department of Health and is substantially based on the contents of Circulars 8 and 69 of 2005 as issued by the RSA Council for Medical Schemes.

These methodologies were tested with the private sector in RSA and are suitable for a GP environment. Our approach to the tariff costing methodology has been set out in paragraph 3 below. We have also included as Appendix A, "Zero Based Practice Cost Methodology and a Practice Cost Model for Namibia". This submission corresponds to a large degree with a submission made to the Medical & Dental Tariff Committee of the Health Professions Council of South Africa in April 2013 and was used in our submission to the RSA Department of Health in 2008 and 2009.

2.5 Prepared a recommendation in draft form and work-shopped the contents thereof with the NPPF Executive Committee before a final submission was prepared.

3. *APPLICATION OF ZERO BASED PRACTICE COST METHODOLOGY & MODEL FOR NAMIBIA*

3.1 Parameters

Standard Volume for Overheads

We have not applied the standard volume at 90 090 minutes. We believe that the overhead allocation should be based on the adjusted standard volume for labour as this is the labour volume that generates revenue. We believe that the assumption that practitioners employ locums during sick-leave and holiday periods is not correct. In our experience and given the inconsistency in reported payment to locums we suspect that referrals are the preferred method of dealing with patients during these downtimes. This of course means that overhead expenses cannot be recouped at the prescribed standard volume rate. We have interrogated all reported locum payments and the circumstances under which these were made with a view to reducing them ultimately to zero.

Our assumption has been verified by a survey distributed across all specialist disciplines and which received 106 responses. The survey indicates that approximately 71.2% of General Practitioners do not make use of locums. We have accordingly not recorded any expenditure for locum services.

Income Tax Rates

The model prescribes that one use the company tax rate of 33% and the 10% STC in calculating return on investment. Understanding that our treatment of taxation reduces the resultant marginal tax rate to 25.8% and a mark-up of 8.64%.

Our review indicates that around 85.7% of practitioners do not practice as part of a corporate entity. These sole practitioners are therefore subject, not to company tax rates, but to marginal rates levied on individuals. We have calculated this marginal tax rate (25.80%) using the N$ 834 247 taken for professional remuneration. STC is not applicable to individuals and has been set at zero.

Prime Overdraft Rate

Taken at 9.5%.

Risk Provision

Since the cost to set up a practice is not prohibitive, we retained the risk free bankers' acceptance rate at 5.9%. We do however feel that a risk provision is required for practitioners that invest in more expensive infrastructure and equipment, but will address this aspect in future submissions.

CPI adjustment to Overheads

The results obtained from respondents generally pertain to the financial years ending February 2012 and February 2013. The model does not prescribe what inflation index should be used to determine an equivalent 2013/14 overhead amount from these results. We made no adjustment to the 2012 financial submissions as part of a conservative approach.

3.2 Labour

Direct Labour

We have utilised a direct labour remuneration for a General Practitioner at a level of N$ 834 247 per annum cost to practice. This amount is based on the inclusive remuneration of a Senior Medical Officer (Grade 4) with a Medical degree and registration as a Medical Practitioner with the Medical and Dental Council of Namibia, as advertised in the PSM circular Nr. C of 2014 (published on 11 March 2014) by the Department of Public Service Management. We believe this level of remuneration to be fair and market related after considering the following facts:

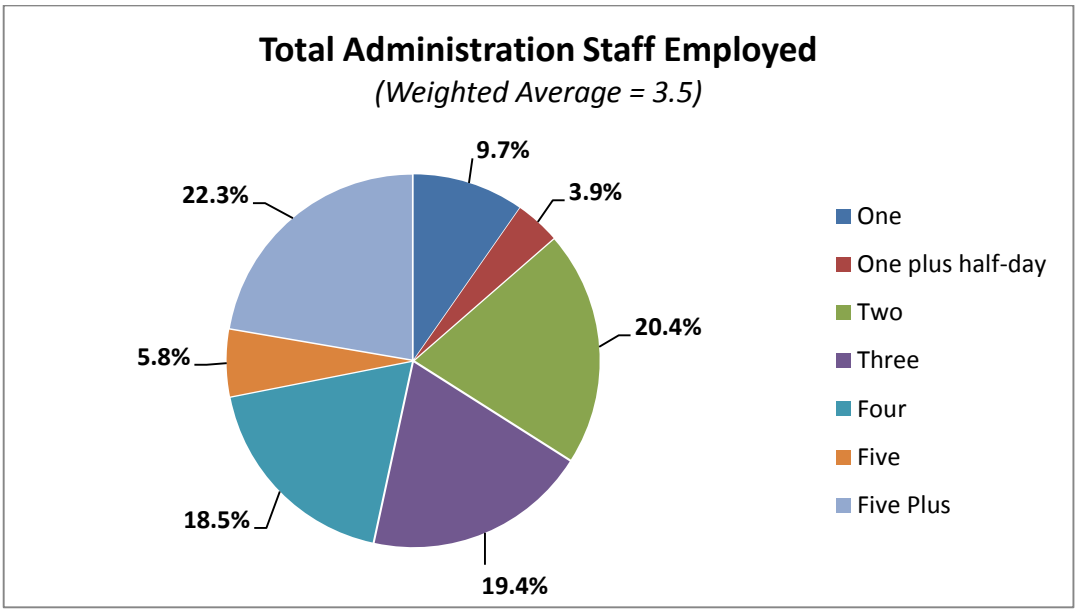
- Risk assumed by the proprietor in setting up a private practice
- 7 years academic training
- Equivalence to a Senior Medical Officer (Grade 4)
- Resource scarcity in Namibia (approximately 332 private practicing general practitioners as per Methealth claims data).
- Discipline maturity (41.5% of general practitioners as per our Scope of Private Practice review have been in private practice for more than 20 years).

Direct Labour Productivity

For purposes of our submission we have retained a productivity percentage of 75%. However we believe a productivity factor of 70% is more realistic. This lower productivity factor ratio follows on the results of our survey, discussions with practitioners and with the NPPF executive. Non-billable time is spent on discussing patient care with nursing staff and referring doctors, commuting between practice and hospitals, spending time with pharmaceutical representatives, time spent on writing reports and additional motivations dealing with patient care. Excluding practice administration, at least three hours a day are taken up on non-billable time.

Indirect Labour

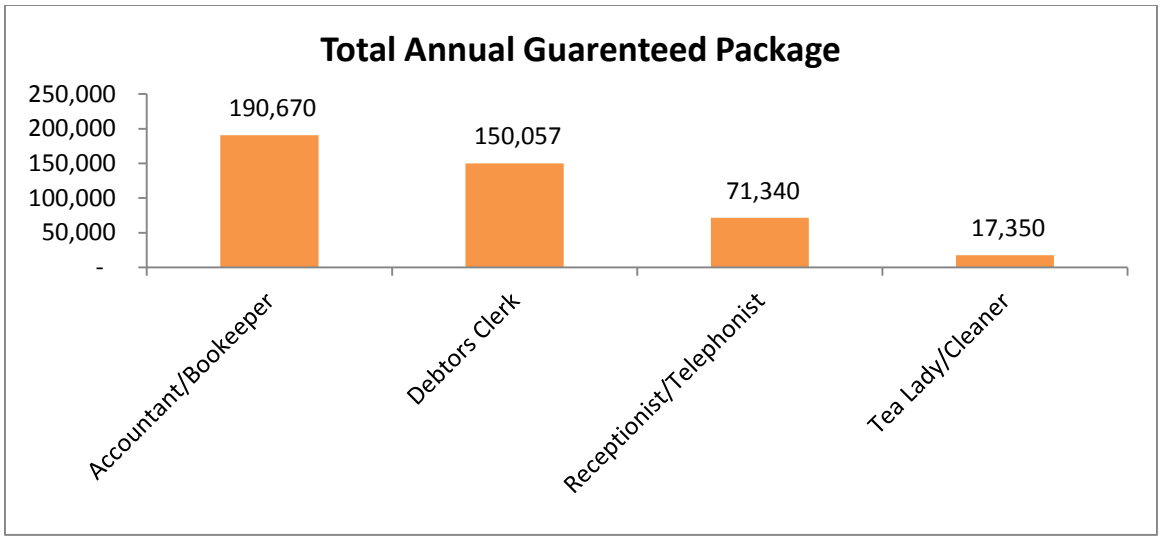
Indirect labour refers to ancillary employees, which in General a Practitioner practice is generally limited to 3.5 administration staff members and an office maintenance staff member. In the overheads model we have used an expected average cost to the practice of N$ 374,648 per annum based on the detailed financial survey results.



HealthMan conducted a market remuneration review of private medical GP practices, dividing support staff into ten capsule roles with clearly defined job descriptions to ensure accurate job matching across practices.

Support and administrative staff remuneration data was received from 23 practices consisting of 48 General Practitioners and specialists. 52.3% of respondents described are sole practitioners.
The annual remuneration calculated at the median for these three positions (total package incl. all benefits and bonus, if guaranteed) is given below.

(* The median is the salary level at which 50% of staff types earn more and 50% less).



3.3 *Responsibility Values*

For purposes of our submission we have retained the responsibility value for consultations and procedures at 1 and will address variations in future submissions.

3.4 *Specialist Equipment*

In general, general practitioners have limited specialist equipment and we have therefore not included the impact thereof in our report.

3.5 *Standard Equipment*

This equipment comprises:

Furniture & Equipment	N$ 144 363
Computers and software	N$ 40 000
Total Standard Equipment	**N$ 184 363**

Quotes have to be obtained for all above items. Although tax law allows assets to be the depreciated over 3 years, the useful lifespan is generally 3 to 6 years and, depending on the specific item, it has been applied accordingly in our review. Maintenance and insurance have been set at 0% and 1% of cost respectively. The standard equipment cost that results from this is N$ 52,860 per annum. We have however trusted the values produced by a number of the respondents and have also tested against values obtained in the RSA surveys.

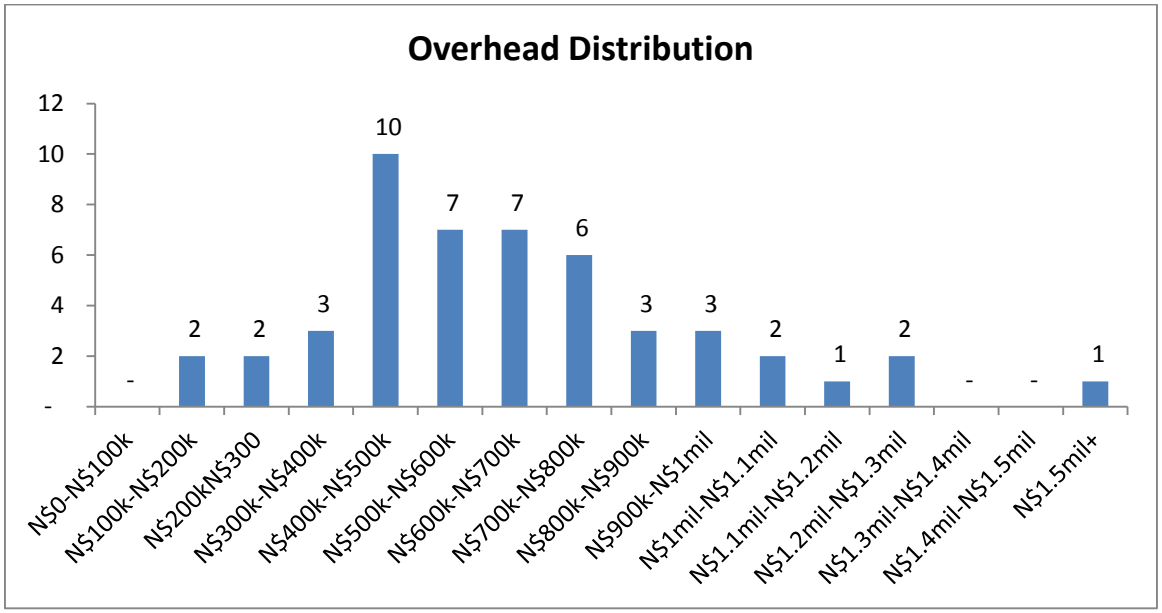
3.6 *Overhead Expenditure*

Overhead expenses as per our detailed review amount to N$ 701,047 comprising:

	Results	Adjusted for 2014
Staff Salaries & Related Costs	N$ 374 648	N$ 397 502
Equipment Costs	N$ 52 860	N$ 52 860
Rent and Utilities	N$ 134 007	N$ 142 181
Practice Management & Admin	N$ 118 826	N$ 126 074
Finance & Insurance	N$ 66 102	N$ 70 134
Indirect Materials	N$ 675	N$ 716
Other Costs	N$ 6 789	N$ 7 203
Total	**N$ 753 907**	**N$ 796 671**

Overhead expenses are based on the results of the surveys done, practice visits and general information on specific cost items. The adjusted predetermined overhead rate for 2014 is calculated at N$10.14 per minute/RVU, excluding VAT.

For more information regarding the overhead distribution, refer to the graph below:



3.7 *Motor Vehicle Expenses*

The range of costs indicated under this item varies extensively and it was evident in certain surveys responses that finance costs (including capital repayments) could have been included. In other instances it is possible that more than one vehicle was included.

Motor vehicle expenses are therefore based on Automobile Association (AA) rates, which assume a 3L diesel vehicle valued at N$ 400,001 to N$ 500,000 (cost price). It was established that the average vehicle would

travel an annual distance of between 30 001km and 35 000km of which a maximum of 24 000km are allocated for business. It resulted that into a fee of N$ 5.41 per kilometer.

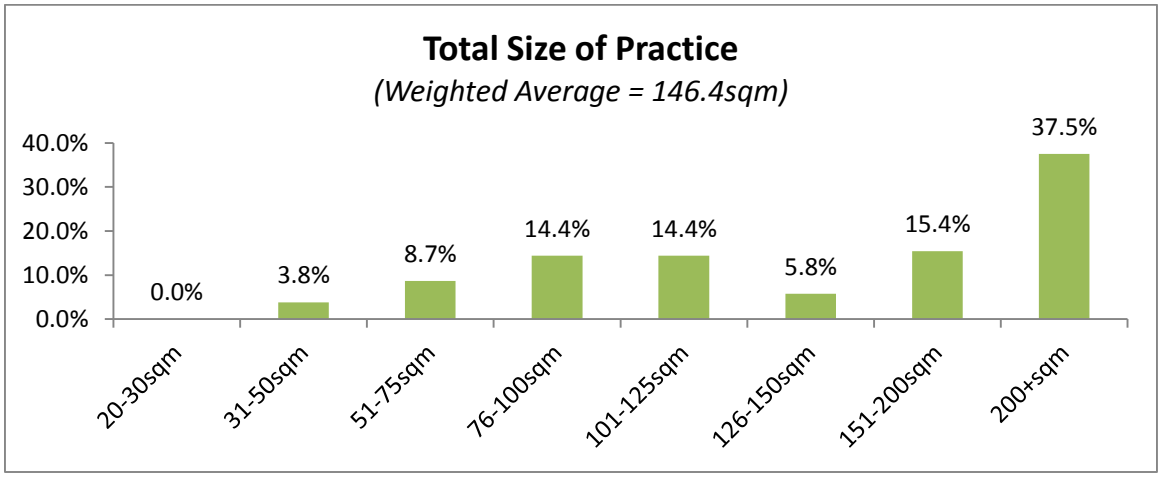
The maximum total motor vehicle expenses for a healthcare practitioner should therefore be limited to N$129 840. The survey average of N$31 199 was used in the overheads summary.

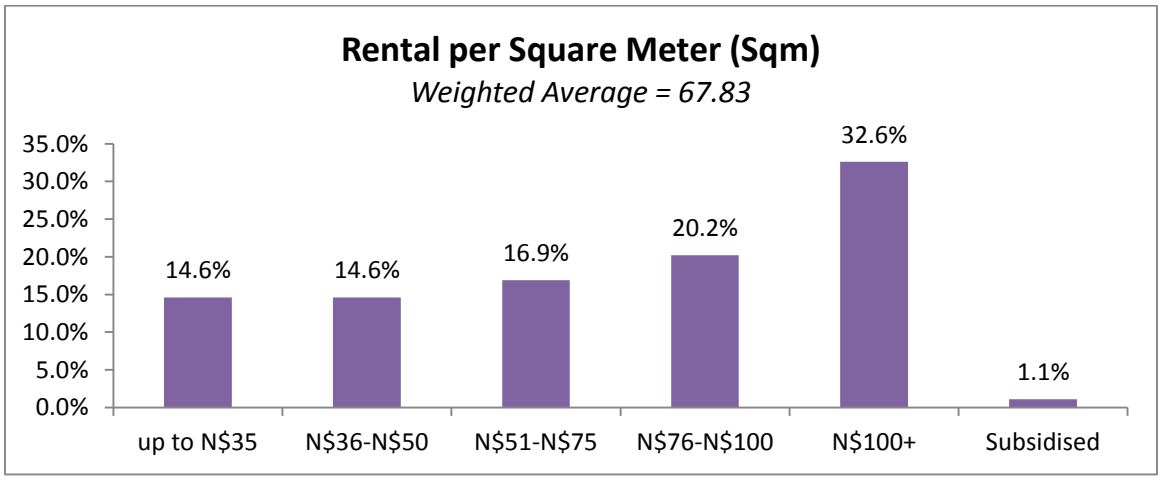
3.8 Rental

Separate data relating to the areas occupied and rental per m^2 were also requested. The weighted averages across the 106 practices that provided data are as follows:

Area	146.4 m^2
Rental per square metre	N$ 67.83

This amounts to an average annual rental of N$119 164. The detailed financial survey average of N$83,499 was used in the overhead cost summary.





3.9 Malpractice Insurance and Practice Risk Insurance

Malpractice insurance is not compulsory for practitioners. Of our respondents, 83% indicated they are insured with list MPS as their insurer of choice. The MPS malpractice premium for general practitioners is established at N$15 820 or N$92 260 per annum (if basic pregnancy scans and obstetrics are performed).

Furthermore, the model set out in the regulations allocates an insurance component to standard equipment equal to 1%.

3.10 Application of Direct Labour and Overhead Rates

The labour and overhead rates were calculated in terms of the Regulations referred to earlier in the report. They have in addition been allocated to the fee schedule of Professional Services tariff codes. The tariff codes used are those published on the NAMAF website and used by practitioners.

The total Direct Labour Cost per minute equals N$ 10.33 with a total N$ Conversion Factor (N$CF) of N$ 20.47(excluding VAT). It thus equates to an amount of N$307.10 (excluding VAT) for a consultation (code 0101).

3.11 Commentary on Namaf Codes

We have not done an extensive review on the codes, however:

It is based on an outdated 2003 RSA BHF Tariff and Coding list.

GPs and Specialists are paid at a fixed time interval of 15 units in the case of a GP and varying for Specialists. There is no justification for these units nor the variations therein. A GP is severely compromised for not being paid for spending more than 15 minutes with a patient.

Code 0108 has been scrapped and should be replaced by a code with 15 units. Code 0109 should be increased by 5 units and the system requires a new hospital visit code for Paediatricians at 22 units.

A GP doing obstetrics is being severely compromised by being paid at a differential unit value to a specialist. The differential should be accommodated in the tariff and not the unit value. Codes 2614 & 2615 also require a major increase in unit values of up to 180 units to allow for the increased cost of malpractice insurance for obstetrics. The value will be an approximate increase of N$ 2000.00 per delivery.

There have been more than a 1000 codes updated and the consultation coding structure has changed more than 10 years ago.

Namaf has no approval to use this coding structure as it is subject to copyright in South Africa.

The tariff list is in many instances irrational, has no science behind it and is not cost based.

4. COMPARISON WITH RSA RPL SUBMISSION – JUNE 2009

Overheads	**RSA 2009**	**RSA 2014**	**Namibia 2014**
Staff Salaries & Related Costs	R 262 383	R 344 036	N$ 397 502
Equipment Costs	R 56 444	R 74 009	N$ 52 860
Rent and Utilities	R 79 375	R 104 086	N$ 142 181
Practice Management & Admin	R 129 022	R 169 174	N$ 126 074
Finance & Insurance	R 77 841	R 102 065	N$ 70 134
Indirect Materials			N$ 716
Other Costs	R 15 461	R 20 272	N$ 7 203
Total	**R 620 526**	**R 813 642**	**N$ 796 671**

5. HEALTHMAN PROPOSAL FOR GENERAL PRACTITIONERS TARIFFS

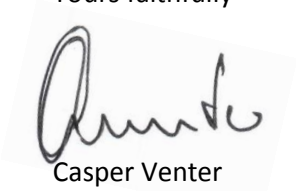
We attach the results of our survey and the application of the principles set out in the appropriate tariff-determination regulations as appendix A. All professional fee codes have been included and are set out therein.
The N$ CF for General Practitioners has been calculated at N$ 20.47 per unit/minute excluding VAT. At this N$ CF a general practitioner will cover overhead costs and earn a salary equal to that of a practitioner in the Public Sector. Should a practitioner however require to earn a net income of N$ 1 200 per hour after overhead expenses have been paid the N$ CF would be at a level of N$ 30.44 or N$ 456.60 for a 0101 consultation.

6. CONCLUSION

Based on our research and application of the regulatory and legislated principles governing the determination of a guideline tariff list we propose a set of guideline tariffs that is well researched.

Please feel free to contact us should you have any queries about issues on which you wish to obtain clarification.

Yours faithfully



Casper Venter
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