

Economic

Netcare's strategy to ensure long-term sustainable economic growth is to promote equity of access to quality healthcare by:

- Increasing access to private healthcare for a larger portion of the population by investing in new facilities and partnering with government;
- Developing affordable services;
- Improving the quality of healthcare delivered;
- Developing skills to the benefit of the public and private sectors; and
- Investing in black economic empowerment.

Increasing access to private healthcare

In 2007, Netcare invested R800 million (2006: R849 million) in South Africa in new facilities, upgrades to existing facilities and new medical equipment. This investment is helping meet growing demand and broadening access to private healthcare for a greater majority of the population.

Netcare's SA national network	
Hospitals	56
Registered hospital beds	9 546
Pharmacies	86
Primary care clinics	100
Participating doctors for managed care patients	3 300
Netcare 911 operational bases	68
Netcare 911 emergency response vehicles	246
National Renal Care centres	54
Ampath laboratories and depots	290

Patients attended to by Netcare SA	
Hospital admissions	1 million
Scripts dispensed	3 million
Primary care visits	3,6 million
Managed care lives	177 400
Emergency calls attended to by Netcare 911	1 million
Patients transported by Netcare 911	175 600
Renal dialysis sessions	151 000
Ampath pathology requisitions	4,8 million

Corporate social investment

Netcare's corporate social investment funding is focused on increasing access to quality healthcare particularly to those in need of emergency medical care. During the year under review, 17 100 patients were privately treated at a cost to Netcare of R27 million through Netcare 911, the Accident and Emergency Units and the various healthcare accessibility initiatives such as "Hear for Life", "Sight for Life" and the "Netcare Vodacom Smiles for You" (Cleft Lip and Palate).

Public Private Partnerships (PPP)

In November 2006, in collaboration with National Treasury, Netcare organised a PPP study tour to the UK to expose South African senior health policy makers to the model of private and public interaction in which Netcare and the UK National Health Service (NHS) are currently engaged. More than 12 officials from National Treasury, National Department of Health and five provincial departments participated in the study tour.

The Port Alfred and Settlers hospitals

In May 2007 a 17-year PPP concession agreement for the Port Alfred and Settlers hospitals was signed with Eastern Cape Department of Health. The Consortium – Nalithemba Hospitals (Pty) Ltd – managed by Netcare, with Netcare as a 40% shareholder, and a BEE partner 60%, commenced the facelift of Settlers Hospital in Grahamstown and the re-building of Port Alfred Hospital in Port Alfred. The Port Alfred Hospital is due to be commissioned in 2008 with 90 beds, which includes 30 private beds, and Settlers Hospital in 2009 with 152 beds, of which 32 private patients. Initial capital expenditure on the two hospitals, including new equipment, will be over R200 million, with a further R120 million to be spent over the life of the project. Netcare is funding R24 million of the total investment costs.

Universitas and Pelonomi private hospitals

The Universitas and Pelonomi PPP involves the location of about 270 private beds, six operating theatres and 30 ICU beds at the Universitas and Pelonomi state hospitals for 21 years. Netcare assisted the Free State DOH in recruiting highly trained specialists and also funded R25 million of the total investment of around R130 million. A second phase of Pelonomi Private Hospital will be commissioned in November 2007.

Developing affordable services

The challenge in developing affordable services is to balance the need to increase the access of more South Africans to private healthcare with a sector-wide initiative to contain costs.

Recently, there has been much negative media attention related to escalating private medical costs and the issue of rebates.

In 2007, Netcare maintained its annual price increases within or below inflation, despite the pressure on nursing salaries and the significantly increased cost of training. The weighted effective price increase for hospitals was 5,7%, in line with CPIX and medical inflation and below CPI of 6,3%. The weighted effective price increase for primary care was just 2,6%, well below inflation.

The contentious rebate issue centres round the fact that traditionally private hospitals have subsidised low bed and theatre charges with the margin they make dispensing consumables such as pharmaceuticals and consumables. List prices of consumables are set by the vendors of these products and because hospital groups such as Netcare buy these items in bulk, discounting has been standard practice. Recognising that this is an outdated model, from January 2008, Netcare will remove rebates and invoice schemes the net acquisition price.

Netcare believes that the key to containing costs lies in collaborating with funders and healthcare professionals and sharing the risk with them. This can be achieved through a combination of strategies which includes the negotiation of alternative fee schedules, such as *per diem* and fixed fee structures, which transfer the risk of utilisation of surgical and consumable costs from Netcare. Netcare is currently working with other hospital providers to determine a National Health Reference Price List (NHRPL) for hospitals and will make recommendations to the Minister of Health in 2008.

There is a real need for enabling legislation that will further drive affordability of healthcare. This includes amendments to Regulation 158 which governs the building of hospitals, purchasing of pharmaceuticals at state tender prices and possibly the employment of doctors in specific areas.

Improving the quality of private healthcare

Netcare quantifies the quality of its care in terms of clinical outcomes and infection control, within the overall framework of its clinical governance model. Where possible, Netcare participates in benchmarking surveys such as hospital ratings indexes, in order to understand its position relative to the sector.

In May 2005, in keeping with World Health Organisation (WHO) recommendations, Netcare implemented a broad-based clinical governance framework that built on existing practices. In 2006 the framework was expanded to Netcare's ICUs, trauma and infection control areas. In addition Netcare established a Clinical Governance Operational Committee and Medical Advisory Ethics Committee, a body of doctors elected by their peers to assist Netcare on clinical governance issues.

The Clinical Governance Operations Committee has responsibility for executing all strategic imperatives and establishing national guidelines for Netcare facilities. There are also Clinical Governance Committees within each Netcare hospital or operating division, complemented by Physicians' or Medical Practitioners' Associations and other business units, as well as a Regional Nursing Advisory Committee.

Mortality and infection rates are key factors in ensuring consistently high clinical outcomes and maintaining Netcare's reputation as a high quality healthcare provider. Netcare has invested significantly in training and operational structures that minimise the risk of infection.

Mortality rates

September 2007

% of admissions	Netcare	International benchmark
Mortality rate	1,1%	1,0 – 3,0%
Neonatal ICU mortality rate	3,4%	4,31%

Infection rates

September 2007

Per 1000 patient days	Netcare	International benchmark
Hospital acquired infection	2,6	9,3

Economic *continued*

Investment in skills development

Netcare's biggest challenge is the current nursing shortage, a cyclical phenomenon experienced worldwide. In South Africa, the chronic skills shortage is aggravated by the high demand for local nurses overseas, particularly in the UK, Canada, Australia and the Middle East.

Against this backdrop, Netcare South Africa has increased training expenditure to R100 million this year, a 16,3% increase over last year, and implemented a five-year training programme to address the shortage. The aim is to increase registered nurses qualifying in 2008 from 181 to 500 in 2011. In 2007, 3 700 nurses and paramedics were trained

Training in support of public health sector

During 2007, Netcare invested in the following public health care initiatives:

- A five-day training programme in infection control in Ladysmith for the KZN Department;
- Basic Life Support training for registered nurses from ICU, Paediatric, Theatre and Trauma wards from the Port Elizabeth, Livingstone and Dora Nginza hospitals; and
- A three-month nurse upgrade programme for the Uitenhage Provincial Hospital.

Investment in black economic empowerment

Recognising that broad-based black economic empowerment is a framework that drives South Africa's sustainable growth into the future, Netcare has successfully created economic value through its BEE strategies. In particular, meaningful value has been created for the black empowerment partners in Community Hospital Group (CHG).

Since Netcare's BEE deal in October 2005 whereby 160 million shares were transferred to the Health Partners For Life (HPFL) trusts for a range of beneficiaries in a deal worth about R1 billion, almost R900 million in equity value has been created and capital distributions of R88 million have been paid in respect of these 160 million shares.