HOW WE PERFORMED | SA: HOSPITAL DIVISION

57 owned and managed hospitals
(2015: 56)

10 513¹ registered beds
(2015: 10 421¹)

1 717 ICU and high care beds
(2015: 1 711)

51 retail pharmacies
(2015: 50)

358 theatres
(2015: 352)

43 emergency centres
(2015: 43)

33 hybrid theatres, catheterisation and electrophysiology laboratories
(2015: 32²)

¹ Including Lesotho.
² Restated due to change of classification.

358 theatres
(2015: 352)
Netcare’s hospitals are at the forefront of providing private healthcare in SA. We build longstanding and well-established partnerships with specialists and we continually invest in expanding our hospital network to meet the growing need for quality healthcare services. The latest available technology enables specialists practising at our hospitals to provide our patients with cutting-edge, life-saving treatments.

### High-acuity hospital network

- Theatres comprising standard, maternity and hybrid theatres, as well as electrophysiology and catheterisation laboratories.
- ICU and high care facilities.
- Trauma accredited emergency departments.
- Centres of excellence: cardiac, robotic-assisted surgery, bariatric, transplants, specialised rehabilitation.
- Specialised disease treatment centres.
- Four Public Private Partnerships (PPPs) hospitals in SA and one in Lesotho that contribute to national healthcare for public sector patients.

### Oncology

- Oncology centres for radiation therapy.
- Haematology and bone marrow transplantation centres.
- Paediatric oncology facilities.

### Training

- Netcare Education operates five training colleges for nurses located in Johannesburg and Pretoria (Gauteng), Umhlanga (KwaZulu-Natal), Port Elizabeth (Eastern Cape) and Cape Town (Western Cape).
- Bursaries provided for doctors.
- Continuous professional development interventions for healthcare professionals.

### Financial indicators

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<tr>
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<th>2016</th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td><strong>Revenue (Rm)</strong></td>
<td>17 780</td>
<td>16 119</td>
<td>15 171</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>22.7%</td>
<td>23.8%</td>
<td>23.1%</td>
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### Non-financial indicators (Hospital division only)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Number of practising specialists</td>
<td>2 596</td>
<td>2 432</td>
<td>2 278</td>
</tr>
<tr>
<td>Patient day growth</td>
<td>4.7%</td>
<td>0.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>67.2%</td>
<td>67.8%</td>
<td>68.9%</td>
</tr>
<tr>
<td>Number of staff trained</td>
<td>12 308</td>
<td>9 926</td>
<td>10 122</td>
</tr>
<tr>
<td>Patients ‘definitely recommend’ score(^1)</td>
<td>78.2% (^2)</td>
<td>78.2% (^2)</td>
<td>–</td>
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1. Aligned to US HCAHPS.
Clinical Governance
- Mortality & Morbidity meetings
- Clinical Practice Committee
- Clinical Ethics Committee
- Quality Leadership Review Committee

Unit Management & Heads of Department Committee
- Departmental forums
- Capital Expenditure and Working Capital meetings

Physician Advisory boards and sub-committees

Ethics committees

Sentinel Event Committee

HOW WE PERFORMED | SA: HOSPITAL DIVISION
Operating review

Despite a tough operating year, the Hospital division experienced strong patient day growth of 4.7%. Excluding the growth from our new greenfield hospitals in Polokwane and Pinehaven, patient days grew by 2.4%. Pleasingly, demand in Polokwane and Pinehaven is in line with expectations, yielding occupancy levels above 50% by the end of the 2016 financial year.

The division has been negatively impacted by a higher rate of growth in medical admissions, which have a lower margin than surgical admissions. The changing utilisation patterns and the disparity between tariff inflation and cost increases have negatively impacted the Hospital division’s margins. As a result, the weighted average tariff increase in 2016 for theatre, ward and equipment charges was below annual salary increases. These salary increases are necessary to retain and attract staff, and ensure a stable workforce. However, annual increases for management and executives were kept below that of general staff. Payroll costs as a percentage of total costs reduced slightly, and direct nursing costs were monitored by the ward resource planning tool that matches staffing levels to the number and acuity of patients. Inflation related to key supplies meant that average increases in other overhead costs were higher than CPI. Total overhead costs increased by 6.4% per patient day.

Overall, Hospital and Emergency services achieved a 10.3% increase in revenue and posted EBITDA of R4 029 million (2015: R3 837 million).

Operational excellence remains a critical focus. We have continued to centralise certain functions, including credit control and some debtors functions, to generate efficiencies. Two senior managers have been appointed to strengthen the central oversight of key strategic projects, and in the IT department the Continuous Business Improvement Committee is ensuring more responsive and rapid technology improvements.

In addition to the projects mentioned on page 76, during 2016 we rollout:

> A tool that alerts nursing managers when staffing levels do not align to staffing plans.
> The theatre resources planning tool that ensures the optimal utilisation of our theatres and that the right theatre staff are available when required.
> A consolidated record of patient demographic information to provide a comprehensive view of each patient’s interaction with Netcare.
Continuous Business Improvement

224 requests for operational excellence interventions were successfully completed
(79 enhancements and 145 new developments)

2016 operational excellence projects

Business-to-business processes
We have completed the automation of the end-to-end hospitalisation process with one major administrator and are in progress with another. This allows Netcare to interact with funders electronically on pre-authorisation, admission, case management, final billing and remittance processes.

Get it right first time, real time
MOBILL is a user-friendly app used in wards to capture stock data. It generates real-time billing as items are used and replaces the current manual charge sheet process. Pleasingly, the app is generating better than expected efficiencies.

Similarly, MOBIT is a mobile data entry app for real-time theatre stock charging. It incorporates bill of materials and computer-on-wheels functionality. The scope of the project has been extended to include an electronic theatre booking system. Full implementation of MOBIT is scheduled for June 2017.

Both apps aim to automate around 65% of the cases (events) in the billing process. They will improve billing accuracy and stock management, reduce pre-printed stationery costs and free up nurses to concentrate on providing care.

Strategic priorities
Our focus on sustainable financial returns and retaining preferred provider contracts

Growth projects
Undertaken in 2016

> Netcare Christiaan Barnard Memorial Hospital: completed the construction of the new building located on the Cape Town foreshore.
> Netcare Milpark Hospital: upgraded the catheterisation laboratory, and the computed tomography (CT) and intraoperative magnetic resonance imaging (MRI) scanners.
> Netcare Olivedale Hospital: upgraded theatres and the maternity ward, and constructed a new urology theatre.
> Netcare Linksfield Hospital: upgraded theatres and the general ward.
> Netcare Krugersdorp Hospital: upgraded the foyer and public spaces.
> Netcare Rosebank Hospital: upgraded the ICU.
> Netcare Kingsway Hospital: upgraded the ICU and added four new ICU beds.
> Netcare Margate Hospital: added 43 new beds.
> Netcare Kuilsriver Hospital: upgraded the emergency department.
> Netcare Cuyler, Netcare Mulbarton and Netcare Olivedale hospitals: upgraded theatres.
> Netcare Jakaranda Hospital: converted 14 beds to psychiatry.
> Netcare St Augustine’s and Netcare Pretoria East hospitals: upgraded wards.

Our goal is to selectively grow within our core competency, which is the delivery of high-acuity services. We have identified oncology and psychiatry as strategic disciplines where we can grow our representation.

During 2016, we added 92 new beds to our portfolio, bringing the total number of registered beds in SA to 10,513, and we converted 22 (2015: 94) under-utilised beds to higher demand disciplines. In 2016, we acquired a 60% shareholding in a new ophthalmic day theatre facility in Umhlanga that has 21 beds and three theatres.

We are very considered in our investment strategy, which also serves to enhance our national footprint. Brownfield expansions are a function of existing bottlenecks and greenfield builds are informed by thorough demographic studies and an under-supply of existing beds in an area.

As demand for oncology services increases, cancer treatments are improving with better disease survival rates. Despite a more competitive environment, stereotactic procedures increased 7.5% compared to 2015. We have made good strides in building strong relationships with oncologists, enhanced by our increased investment in
oncology facilities and equipment. The Netcare Milpark Breast Care Centre has received international accreditation, and an alternative reimbursement model for breast cancer is being developed.

Our targeted capital investment for 2017 is R1.2 billion and includes equipping the Netcare Christiaan Barnard Memorial Hospital; 49 new beds; a substantial expansion of Netcare Milpark Hospital; the purchase, cyclical replacement and maintenance of medical equipment; and facility renovation projects. Expansion capital will account for around 23% of this investment.

Netcare has been included in a number of preferred provider efficiency options for 2017, including the GEMS Emerald Value option. We will continue to tender competitively for network arrangements by balancing price and volume.

Project pipeline for 2017

- **Netcare Milpark Hospital:** add 14 new ICU beds, open a new chemotherapy unit with a Gamma Knife facility and construct a new clinical towers building.
- **Netcare Krugersdorp Hospital:** phase 2 of the upgrade project.
- **Netcare Union Hospital:** upgrade the foyer, catheterisation laboratory and emergency department.
- **Netcare Park Lane Hospital:** upgrade wards.
- **Netcare Linksfield Hospital:** upgrade the centralised sterilisation store department and theatre.
- **Netcare Mulbarton Hospital:** expand neonatal high care.
- **Netcare Rosebank Hospital:** upgrade the medical ward.
- **Netcare Pinehaven, Netcare Pholoso and Netcare Montana hospitals:** build new oncology bunkers and chemotherapy units.
- **Netcare Olivedale Hospital:** replace oncology equipment.
- **Netcare Sunninghill Hospital:** start phase 1 of a major expansion project, including an upgrade of the neonatal ICU.
- **Netcare Akasia Hospital:** upgrade theatres.
- **Netcare Krugersdorp Hospital:** upgrade wards.

**To come in 2018 and 2019**

- Add 35 beds at Netcare N1 City Hospital.
- ICU and theatre expansions at Netcare Sunninghill Hospital.
- Netcare Milpark centre of excellence.
- Expansion and renovation of Netcare St Augustine’s Hospital.
- Expansion and renovation of Netcare Unitas Hospital.

**Physician partnerships**

Specialists with existing practices are in short supply and are highly sought after in a very competitive healthcare environment. We provide the nursing care, facilities and modern medical equipment that meet doctors’ needs, which are key factors in attracting specialists to Netcare. We are a doctor-centric organisation and include our doctors in decision-making on all aspects of quality care.

During 2016, we invested R824 million (2015: R640 million) in the refurbishment of our facilities, excluding the relocated Netcare Christiaan Barnard Memorial Hospital, as well as the replacement and upgrade of medical equipment. We extended practising privileges to 201 specialists, 33% of whom were attracted from competitors and 59% who practise in surgical disciplines.

Over the past four years, we have invested R20 million through our CSI initiatives in grants to support registrar doctor training and post graduate fellowships, with 59% of the beneficiaries being black people.
Consistency of care
Key to differentiating a service business like Netcare is how we engage with our patients, their families and all other stakeholders. Consistency enhances quality outcomes and patient experience, as well as resource efficiency. In 2016, we increased our emphasis on delivering care consistently within each hospital system.

Our Leading the Netcare Way programme is supporting tangible growth in EQ and enabling our hospital managers to drive a culture of quality and care in the workplace. It also guides employees through change initiatives more effectively. Overall EQ scores have improved from a pre-assessment score of 75.8 to a post-assessment score of 89.0, which is considered a significant shift. Being more emotionally resilient has helped our leaders to feel more valued and more valuable in their strategic roles. In 2017, the programme will be extended to operational and central executive committee members in the Hospital division.

We are developing the #WeCare programme that aims to address the prevailing personal and professional challenges experienced by our nurses, which we identified through focus groups held with nurses and nursing students. This input has informed the content of the programme that will centre on increasing resilience and capacitating nurses with EQ-based skills to support their interactions with patients and doctors. The programme will be patient-focused and include experiential role play and practical learning. Learning will be supported by a toolkit and guidelines to ensure consistent application of the Netcare Way behaviours and our values.

Environmental sustainability programme
A secure supply of electricity and water is critical in operating our high-acuity facilities and delivering the best and safest patient care. Actively managing our dependency on national utilities also improves profitability and helps us to better manage our environmental risks. Green design principles were included in the building of our new hospitals in Pinehaven and Polokwane; we are pleased to report that both facilities have a 20% lower energy impact than the Netcare Waterfall City Hospital completed in 2011, which was our previous flagship and benchmark for green builds.

Key facts for 2016
Of the Group’s total electricity use in SA, the Hospital division consumed 91% in 2016 (2015: 92%).

More than 85 000 luminaires replaced with more efficient units across 31 hospitals, providing a 43 000 kWh saving per day.

13 photovoltaic installations undertaken with a further implementation scheduled for the end of 2016. Together these systems will generate 4.3 megawatts of energy and provide an annual electricity saving of around seven million kWh.

The unit cost of water increased 10% and the cost of water per registered bed increased by 4.6%.

Boreholes and water filtration plants were installed at three Netcare hospitals, either due to water shortages or poor water quality.

Netcare joined the Global Green and Healthy Hospital Network, a worldwide community of healthcare organisations dedicated to reducing the ecological footprint of healthcare operations. Members commit to implementing sustainable practices and measuring progress over time, and share solutions and best practice.

The national lighting replacement project and the solar photovoltaic systems installed in the Hospital division were the most significant contributors in reducing the Group’s total energy consumption in 2016. The lighting project is expected to result in an annual cost saving of around R15 million at current tariffs, and once completed in 2017, around 135 000 luminaires will have been replaced. Our energy intensity ratio has reduced 2.7% to 109 gigajoules per registered bed (compared to our baseline in 2013), despite patient day activity having grown 10% and our footprint by 13%. 
Assuming no growth, we anticipate electricity usage to reduce by approximately 16 GWh to around 231 GWh in 2017. However, taking into account expected electricity tariff increases, we project our 2017 electricity cost to be around R285 million (compared to R279 million in 2016).

In the short to medium term, water tariff escalations are expected to be high due to the drought, water deficit and poor water infrastructure in SA. The Hospital division accounts for 92% (2015: 99%) of our total water consumption in SA, and following the audit of 70 Netcare facilities (with 50 being hospitals), the following has been highlighted:

> 39% of our facilities are located in water management areas where water deficits can be expected, which is expected to increase to 49% by 2025. These facilities account for 47% of the Group’s total water consumption.

> By 2025, 22 of our hospitals are likely to experience a water supply issue.

We have started installing water meters at our hospitals and expect to complete this project in 2017, following which targets will be set for each facility. Our objective is to reduce our reliance on water service providers by around 401 000 kilolitres per annum through the use of boreholes (subject to receiving water use licences) and water filtration plants. We will also investigate treating our wastewater effluent discharge to deliver potable water that meets the World Health Organisation drinking water standards, with the aim of lowering our reliance on municipal sources for fresh water intake.

Our systems ensure that hazardous healthcare waste is managed and responsibly treated, meeting applicable legislation and standards, and preventing public and employee health risks. The effective segregation of waste has been identified as an opportunity for cost savings. We have rolled out staff training, and introduced posters and colour-coded bins to assist the correct classification and disposal of waste. A set of baseline metrics has been established to measure performance, with the measure of hazardous waste volume per patient day distributed monthly to leadership to track progress.

Corporate social investment
The Albertina Sisulu Rape Crisis Centre at Netcare Sunninghill Hospital was opened in March 1998; today Netcare operates 40 Sexual Assault Centres. Through these centres and the following programmes, we have extended free access to healthcare to over 11 800 patients:

> Hear for Life programme (cochlear implants): since 2007, 55 patients treated of whom 88% are black people.

> Johannesburg Craniofacial programme: since 2008, 83 patients treated of whom 90% are black people.