

Private hospitals' contribution to the South African economy (2016/17)

An economic multiplier study was conducted on HASA's behalf and aims to quantify the overall economic contribution and value of private hospital services activities in South Africa. Private hospitals are crucial to the delivery of healthcare in South Africa. At a time when the healthcare industry as a whole (and in particular the private sector) is under review, it is important to understand how private hospitals fit into the economy and what their contribution is. In 2016/2017:

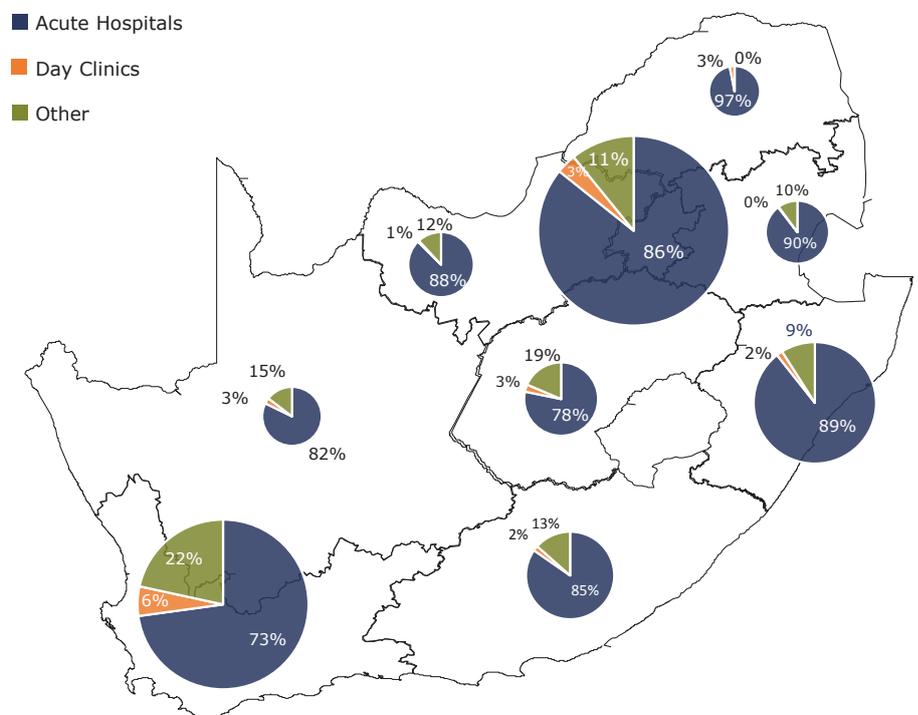
- For every **R100** of private hospital services delivered by private hospital groups, South Africa's GDP grew by **R123**
- For every person directly employed by private hospital groups, almost **5 additional (formal and informal) jobs** are supported in the South African economy
- For every **R10 million** worth of capital investment, private hospital groups create **20 jobs**
- Capital expenditure of **R10 million** stimulated **R7.3 million** in GDP



Private hospital market (beds) in South Africa (2016/17)

A database of private hospital facilities was constructed, which showed that in 2016/17 there were **40,702 licenced beds** in South Africa. This is an underestimation of the size of the private hospital sector, but is the most up-to-date estimate available.

The map shows the distribution of the licenced facilities across provinces. The size of the pie charts indicates the number of beds in each province, relative to the number in other provinces. Each pie chart indicates the distribution of the province's beds by type of facility.



• Acute Hospitals	34,209	• Drug & Alcohol Rehab	664
• Mental Health Institutions	2,160	• Private Rehab Hospital (Acute)	356
• Sub-Acute Facilities	1,761	• Ophthalmology	272
• Day Clinics	1,279	• Unattached Operating Theatre	1

Source: Private hospital groups; Econex calculations

The economic multiplier study was based on data submissions from the three listed private hospital groups (i.e. Life Healthcare, Mediclinic and Netcare). The results are therefore entirely dependent on the accuracy of these submissions. Since the analysis was not based on data from all private sector facilities in South Africa, the results are an underestimation of the economic value added by the private hospital sector as a whole. A detailed description of the data collected, as well as methodological approach is provided in the full report which will soon be made available.

The economic contribution of private hospitals extends far beyond the significant initial economic impact resulting from their operational and capital expenditures. The final economy-wide contribution is the sum of the direct, indirect and income impacts: the first-round effects are the impact of spending on and by private hospitals' direct suppliers (e.g. firms producing consumables) on goods and services, remunerating their employees, and paying taxes. Together, the initial economic impact and first-round effects are known as the direct effects. Next are the indirect effects, which measure the contribution of the suppliers' suppliers (e.g. the firms providing plastic to produce the consumables). These firms again purchase goods and services, remunerate their employees and pay taxes. Finally, all of the suppliers and their employees spend money



in the rest of the economy, e.g. to buy groceries – known as the income effect. Together, the indirect effects and income effects are referred to as the multiplier effect.

The economic impact analysis was done using the 'input-output' method on a 2015 Social Accounting Matrix (SAM) compiled by Econex to represent the South African economy. This was combined with data received from the three listed hospital groups (Life Healthcare, Mediclinic and Netcare). The multiplier effects were then decomposed using a technique known as Structural Path Analysis (SPA). In this analysis the focus was specifically on the private hospital services provided by the three hospital groups (referred to as private hospital groups) and examining the paths linking the hospitals' activities to household income. **As mentioned, the analysis was not based on data from all private sector facilities; the results are an underestimation of the economic value added by the private hospital sector as a whole.** Nonetheless, it provides an indication of the substantial contribution of the sector.



The analyses showed that in 2016:

- For every **R100 of private hospital services** delivered, South Africa's **GDP grew by R123**
- Private hospital groups contributed **R 55.5 billion to the national economy**, equivalent to **1.3% of GDP**:
 - This comprised of the **R19.3bn value added** by private hospital groups, plus the R6.7 bn from the first round impact, plus R9.15 bn from the indirect impact, plus R20.35bn from the income impact;
 - Disaggregated differently, it consists of **R26.4 billion** worth of **salaries to households** and **R29.1 billion in profits for local companies**;

- In addition, private hospital groups' activities generated **government tax revenue of R16.4 bn** throughout the economy;
- The groups' activities **sustained capital stock** to the value of **R144.1 bn**, equivalent to 1.8% of all capital stock in South Africa;



- Private hospital groups' activities **stimulated production of intermediate goods and services** worth **R130.9 bn** throughout the economy:
 - Notably, 34.5% of production was in the real estate, renting and business services sector, 13.4%-points of which was by private hospital groups, and 7.5%-points in the retail, wholesale, hotels and catering sector;
- For every person directly employed by the private hospital groups, almost **5 additional** (formal and informal) **jobs** are supported in the South African economy;
- Private hospital groups **supported 248,504 jobs** throughout the economy,

equivalent to **1.57%** of national employment:

- 53,500 (or 21.5%) of these were directly employed by private hospital groups;
- Other sectors benefitting were real estate, renting and business services (22.2% of jobs supported) and retail, wholesale, hotels and catering (15%);
- Their **capital-to-labour ratio** (2.03) indicates that **for every R10 million of capital investment**, private hospital groups **created 20 jobs**, while their **GDP-to-capital ratio** (0.73) indicates that a R10 million capital investment **stimulated R7.3 million in GDP**;
 - A comparison to the national ratios shows private hospital groups are more efficient in utilising a unit of investment than many South African firms.



The SPA shows that for high-income households the most

important returns from private hospital groups' activities in the economy are via highly-skilled labour and factor capital. Middle-income households benefit from private hospital groups' activities through highly skilled labour, followed by skilled labour. Finally, the economic activities of private hospital groups benefit low-income households via all labour types (i.e. highly-skilled, skilled, semi- and unskilled and informal labour). Also important are the links between private hospital groups and the government, community services and other services sector (e.g. education and training services) which provide an indirect channel of income transmission from the private hospital groups to households.

A descriptive analysis of the private healthcare facilities sector, and in particular the three listed private hospital groups, provides context for the multiplier and SPA results. The database of private healthcare sector facilities constructed is likely an underestimation of the market, but is the most up-to-date estimate available. It shows that in 2016/17:

- There were 525 private healthcare facilities, with 40,702 licenced beds;
 - Of these, 226 facilities were acute hospitals (34,209 licenced beds, 84% of the total number of licenced beds) and 88

were day clinics (1,279 licenced beds, 3%);

- Private hospital groups made up 30,549 licenced beds, 26,919 of which were part of the three listed hospital groups.



Based on the data provided by the three listed hospital groups, a descriptive analysis of their employee profile showed that in 2016/17 these hospital groups had a total of **53,500 permanent employees**. Of these, **82% were female**, which compares favourably to the 43% of South Africa's employed population that was female. The hos-

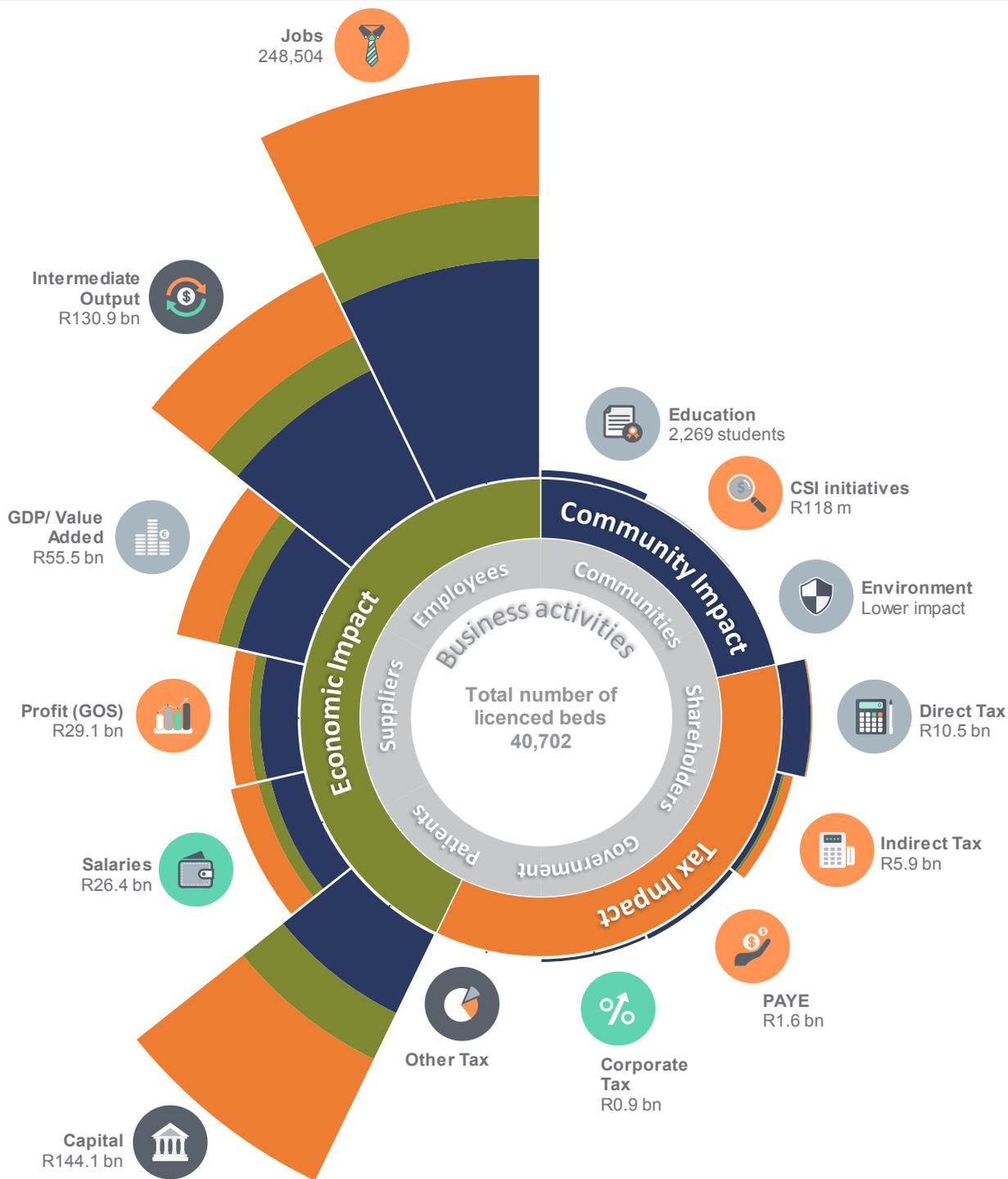
pital groups' employees had a **racial breakdown of 50% African/black, 27% white, 15% Coloured and 8% Indian/Asian**.

In addition to the economic contribution of the private hospitals, they also contribute towards social development. With the shortage of healthcare professionals across the healthcare sector, the training provided to 2,269 (predominantly black female) students in 2017 is essential, along with the groups' financial contributions towards education and training. Furthermore, in 2016/17, the groups spent over **R118 million on CSI initiatives**. The groups have also invested in environmental sustainability initiatives to reduce their environmental impact. This report has shown

that in addition to their contribution towards a healthier society and potential resulting productivity increases, private hospitals make a substantial contribution to the South African economy. Any changes in policies or regulations in the healthcare sector must be carefully considered so as to avoid diminishing the important economic contribution the private hospitals make to South Africa.



The impact of the business activities of the private hospital groups



Key	Bar size represents magnitude of HASA members' impact	Definitions
	The following colours represent a positive contribution	
■	Direct	Direct Impact from business operations
■	Indirect	Indirect Impact through the effects on organisations in the HASA members' supply chain
■	Income	Income Impacts through the spending by HASA member hospitals' employees, suppliers' employees, and supplier's suppliers' employees, in the wider economy
■	Grey lines represent impacts where HASA member hospitals don't yet have robust enough data to report	

Source: Econex calculations based on the South African SAM; Private hospital groups