BLOEMFONTEIN, SOUTH AFRICA

Case Study (Healthcare)

Project Summary:

The Republic of South Africa has a population of 48 million people, living in nine provinces. Since the abolition of apartheid in the mid-1990s, the government’s objective has been to provide equal services to all citizens. To achieve this will require significant infrastructure redevelopment in a number of sectors, one of which is healthcare. More than half of all the country’s medical facilities suffer from lack of maintenance, many requiring substantial restructuring in order to serve the needs of the entire population. The situation has been exacerbated by the HIV/AIDS pandemic that has been experienced in South Africa.

While this challenge is nationwide, an example at the provincial level best illustrates the positive approach being taken by the South African government. The Province of Free State is in Central South Africa, with the provincial capital at Bloemfontein. About 2.8 million people reside in Free State. Of this population, only 13 percent have private health insurance, and most rely on government-operated facilities for their healthcare needs. There are two academic public hospitals in Bloemfontein: Pelonomi and Universitas. To reduce redundant services, improve cost effectiveness and provide the same level of medical care for all South Africans, the Free State Health Department (FSHD) decided to combine and coordinate the operations of the two hospitals.

A 1997 Health Facilities audit for the Free State showed that an estimated R825 million was needed to address infrastructure backlog in the health sector, with almost R100 million needed for Pelonomi Hospital alone. There simply was not enough funding in the budget to cover these expenses. In 1998, the FSHD began exploring many possible solutions. Realizing that the hospitals already outsourced their catering, gardening, cleaning, and security services, they concluded that they could also lease out the extra space in each hospitals.

By leasing the extra space to a private company, FSHD could generate capital to help offset the cost of hospital operation, while the private company would gain space for private healthcare services at a lower cost because of not needing to build new facilities. In November 2002, an agreement was reached by the FSHD and a consortium of two healthcare companies. Under this agreement, the private hospital beds and operating theaters were colocated within the two public...
hospital facilities, and the private partner funded all of the renovations to both of the FSHD’s hospitals. After eliminating the duplication of services, there was available space in the two hospitals equivalent to 500 beds. In addition, operating room access and other specialized facilities could be shared on a fee basis.

Now Bloemfontein offers all its citizens better healthcare choices. For insured citizens, new facilities are available to them. For the uninsured, Pelonomi and Universitas Hospital offer excellent care in well maintained and up-to-date facilities. For the partially insured, this public-private partnership offers them their choice in services.

**Project Objectives:**

The first objective of this PPP was to address the backlog of infrastructure needs, which had accumulated over time due to years of underfunding. The Pelonomi hospital needed major renovation, and the Universitas Hospital, while not in as deteriorated a condition, also needed to upgrade some of its facilities. This PPP provided funding for both of these hospitals.

An equally important objective was to provide a better level of healthcare for all South Africans. With the funding limitations of the Free State Health Department, it was not possible to address the infrastructure needs and at the same time improve access for everyone to quality healthcare.

A third objective of the PPP was to provide the option of private healthcare in Bloemfontein at a reduced cost. The private sector realized that there was an opportunity to serve partially insured and uninsured people in the Bloemfontein area; however, constructing a new hospital would require a significant investment. By leasing beds and operating theaters within the existing public hospitals, the private company was able to provide service at a reduced cost.

Another, less tangible objective was to exchange and share knowledge between public and private physicians and healthcare providers. By locating public and private staff within the same facilities there could be a greater chance to share expertise and work together in academic and professional settings. This helped to further the second objective of better healthcare for all South Africans.
Project Description:

1. Partners

The PPP for the hospital colocation project is comprised of three partners. The public agency in the partnership is the Free State Health Department (FSHD). The FSHD is the branch of the provincial government that oversees health related issues and all the public health facilities, including hospitals, in the province.

The FSHD selected its partner through a competitive tendering process. After receiving permission from the Treasury to proceed, the department invited interested parties to submit Registrations of Capability (ROC) and held an informational meeting, where approximately thirty interested private parties attended. In the spring of 2000, the head of the health department visited the Victoria State Health Department in Australia to gain more information about PPPs in the health sector. Two Australian experts offered to help and visited Bloemfontein to assist them. FSHD accepted three of the ROC bids, but only two responded to the Request for Proposals (RFP).

The selected private sector partner is comprised of two healthcare companies. One is a South African black empowerment company and the other is a healthcare company that has branches in South Africa and the United Kingdom.

2. Implementation - Legislative

South Africa has been very proactive in the use of PPPs to improve infrastructure and services. In 1999, the national government passed the Public Finance Management Act 1. This created a clear step-by-step process for the development and oversight of PPPs. The Act also established a National Treasury, which in turn issued further Regulations and Practice Notes. The management act was passed to secure transparency, accountability, and sound management of the revenue, expenditures, assets, and liabilities of institutions involved in PPPs, which include departments, constitutional institutions, parliament, and provincial legislatures. It also establishes steps and procedures for the creation of budgets, the opening of bank accounts, and the appointment of financial officers for institutions.

The Treasury issued Regulations and Practice Notes defining the PPP process in substantial detail. All PPPs must meet the specifications of these provisions and go through three rounds of approval from the Treasury before any deal can be concluded. The parties to the PPP must
demonstrate affordability, value of money, and substantial technical, operational, and financial risk transfer before approval will be granted. All potential PPP projects in South Africa must be registered with the Treasury and the institution directly involved must appoint a project officer and a transaction advisor. All projects must have a feasibility study, procurement documentation that has been signed off on by all involved parties, and meet the requirements listed above before it can gain final approval from the Treasury. Under this plan, the financial office is crucial in the process and then becomes responsible for the oversight and functioning of the PPP.

3. Financial Agreement

The private partner is a consortium made of two healthcare companies, with one of these, a South African black empowerment company, holding a 40 percent stake in the consortium. Another 25 percent of shares are owned by the multinational healthcare company. The remaining 35 percent of shares were offered to investors, doctors, and the state at a later date.

The Free State Health Department receives monthly concession fees from the private partner for the bed and operating theater space it uses in both hospitals. The private partner pays variable fees as well, which are set at two percent of patient turnover. By including variable payments related to the private partner’s earnings, some of the operational risk is transferred to the FSHD because a portion of the revenues depends on the success of the private partner.

All construction, renovations, and upgrades are paid for solely by the private partner, which also assumes the risks associated with the construction.


The parties signed a 16.5 year contract on November 25, 2002. Under the contract, upgrades to Pelonomi and Universitas Hospitals were to be paid for and completed by the private partner. The private partner is also required to maintain functional facilities at both hospitals throughout the length of the contract to help ensure patients receive quality care. When the contract expires, all facilities will then be returned to the health department, including the facilities that were upgraded for private sector use.

For the duration of the contract, the health department and the private partner will share access to facilities, such as lifts and clinical services (e.g. radiology). Many of these clinical services require extremely expensive equipment; by sharing them, both partners are able to reduce
operating costs. The private partner was granted use of the 500 beds that exceed the need of the public sector. Five operating theaters are also for private use.

An area of concern for both partners was patient poaching. There is a growing segment of partially insured people in South Africa, and both the sectors wish to capitalize on them. Both sides feared the other would take patients away. To help alleviate that fear, the contract established a liaison committee for dispute resolution of patient and staff poaching. Staff, in both the public and private hospitals, have an incentive to work together and respect the other’s patients.

5. Implementation Metrics

The private partner was selected in August of 2001 as the preferred bid and negotiations with the FSHD took about ten months. Finally on November 25, 2002, the official agreement was signed between the two partners. Renovations at Pelonomi Hospital commenced at that time. The FSHD’s only job in Pelonomi and Universitas Hospitals was to provide patient care; the private partner was responsible for all renovations and upgrades. Approximately R100 million are being invested in the hospital to correct and upgrade the physical condition of the facilities. Areas renovated included the maternity ward, casualty center, the eye block, theater block, CCSD, M-Block, and kitchen. The private partner also built a new trauma unit and pharmacy at Pelonomi Hospital. As of February 2005, the private partner had invested R23 million in the refurbishing process. At the time of writing, the private partner is still completing renovations at Pelonomi Hospital.

Universitas Hospital received upgrades as well. The private partner installed a new roof on the X-Ray Department, fenced in the parking lot, and paved a turn circle for commuter transport vehicles. The air conditioning system was overhauled, with the addition of two new chillers. New office spaces were created and an intensive care unit was built. Renovations took place in the following wards: orthopedic, physiotherapy, and occupational therapy.

The medical equipment at Pelonomi Hospital received attention and upgrades as well. Among the procured items were a CT scanner and an X-Ray machine with the specialized bed. The new equipment markedly improved patient care because they do not have to go to another hospital to receive these services. Universitas added a new MRI scanner to its radiology department.

The upgrades done at Pelonomi and Universitas Hospitals were completed on shared facilities and facilities for the use of the public hospital. Outside of the required renovations for the public
hospitals, the private partner upgraded the facilities that were for their own private patients. These upgrades will benefit the health department when the contract expires and all facilities are returned.

To complete the construction, the private partner hired local contracting companies. During one phase of construction, 26 Bloemfontein companies were subcontracted for about 8 months. This phase of construction amounted to over R10,000,000 going into the local economy. During another construction phase, 35 general workers were hired for 42 weeks.

The Universitas Private Hospital first admitted private patients beginning in October 2003. The first private patients admitted to Pelonomi Private Hospital were admitted in September 2005.

**Commentary:**

1. **Overcoming Impediments**
   One of the initial and major challenges for this PPP was the need for passage of the Public Finance Management Act 1 and the Treasury requirements. This PPP was already in its beginning stage when the act was passed. The FSHD had to review all previous steps in their process to make sure they were in compliance with all requirements of the act before proceeding to the final agreements.

2. **Success/Failure**

   The PPP for Pelonomi and Universitas Hospitals has been extremely successful. The FSHD is better equipped to provide truly equal care to all its citizens. In 2004, Pelonomi Hospital celebrated its 40th year anniversary of operation. The hospital has faced many challenges over the years as the only black academic hospital in Bloemfontein. The upgrades and renovations to Pelonomi have ensured that the building with so much history will continue to survive. By removing the redundant services, this historically black hospital and Universitas Hospital are able to reach and treat all citizens, without services based on race.

   Both hospitals now have facilities that are totally functional. The healthcare needs of the population—whether they are insured or uninsured—are being met on a daily basis. Doctors and staff in both the private and public hospitals are able to share their knowledge more easily because they are located in the same facilities.
The PPP was able to reduce costs for both the FSHD and the private partner. Pelonomi and Universitas Hospitals received the needed renovations at no cost to the province government, which was unable to fund the project. The private partner was also able to reduce the costs of providing private healthcare to citizens in Bloemfontein because they did not have to build a new hospital. Costs were reduced and the quality of healthcare was increased as a result of this PPP.