

## THE UK HEALTH AND SOCIAL CARE MARKET

**“CHANGE MEANS INVESTMENT OPPORTUNITY”**

*The UK's National Health Service (NHS) is changing, probably irreversibly; expanding and opening up new opportunities for private companies and investors, and attracting interest from market players from all around the world, especially the US and France... At the same time the independent sector supply of health, social care and special education services – estimated to be worth around £40bn a year – continues to grow. The NHS as a public service body in particular is being challenged: the Health and Social Care Act 2012, which legislates for the implementation of substantial structural changes to the NHS, can be interpreted as scrapping the government's duty to secure a comprehensive health service.*

Successive governments' approaches have been labelled 'privatisation by stealth' – as far back as 2003 the previous government outlined reforms which paved the way for multiple providers, and started to seriously challenge some of the 1948 founding principles of the NHS. The recent implementation of major changes to the NHS was announced in a 2010 white paper by the current coalition government, becoming law in 2012. Whilst the NHS remains essentially free at the point of use for any UK resident, and is intended to provide equal care for equal need, this ethos is clearly under threat from the structural changes and the need to make dramatic cost savings.

Although all the major political parties have variously pledged to protect the NHS from spending cuts, financial reality means that change is inevitable. The NHS will struggle to meet its target of delivering £20 billion in productivity savings as part of the Government's overall 'austerity measures'

aimed at rebalancing the books. This target, compared to an annual budget of around £100bn, came after a period of unprecedented growth and has meant a three-year real-terms funding freeze, or close to it.

**IN MAY 2013 RESPONSIBILITY FOR 90% OF THE NHS BUDGET EFFECTIVELY PASSED TO GENERAL PRACTICE DOCTORS (“GPs”).**

In 2012 the NHS Commissioning Board (now “NHS England”) approved the distribution of £88bn core health programme costs to a new commissioning system, in addition to the separate allocations for social care and public health. This system is based on Clinical Commissioning Groups (CCGs), clinically led geographical groups of GPs, which were set up by the Health and Social Care Act 2012 “to organise the delivery of NHS services in England”.

Meanwhile the *Any Qualified Provider (AQP)* programme by which commissioners are encouraged to put services out to tender has effectively opened up much of the NHS to private providers – currently 53 different service areas, such as physiotherapy, eye and ear care, diabetes, weight and smoking education and including some child and adolescent mental health services, diagnostics and dermatology. If a service is put out to AQP, providers can be from the NHS, private or voluntary sectors. It leaves the patient to choose the provider of their care from a *Choose and Book* list.

Of 87 providers running services under AQP in England in early 2013, 26 are within the NHS, 18 are charities, four are social enterprises, one is a voluntary organisation and **38 are from the independent sector.**

In place of a public service we will progress further towards a profit-driven healthcare market, with growing involvement by private sector suppliers, funded by insurers or individuals. *Private healthcare provision has long been a feature of the*

*UK healthcare industry – with some 17% of the population covered by Private Medical Insurance and an established independent supply sector. And now, after a period of stagnation in private demand, due to recession and caution about the new changes, and vastly improved service from the NHS over the last ten years (at a vastly increased public cost), insurers are likely to return to play an increasingly important role in its funding.*

In a recent survey nearly a half of interviewed private sector health professionals considered that the current government had accelerated the expansion of the private sector in the NHS<sup>1</sup>.

**WE ARE NOW IN THE NEXT PHASE OF TRANSITION WHICH WILL SEE THE CONTINUING LONG-TERM EVOLUTION FROM PUBLIC SERVICE TO PROFIT-DRIVEN HEALTHCARE MARKET.**

Any new Government resulting from the next election, most likely in 2015, would face a considerable challenge to reverse these changes. These are fundamental changes to public systems which have been in place for over sixty years in 1948. New opportunities have already arisen (with over £11bn of assets already transferred), are arising (with £5bn of tenders currently out) and will continue to arise ...

**Did you know...?**

*In 2012 just over 1bn prescription items were dispensed in England, at a net ingredient cost of £8.6bn, with the average cost per item reducing to £8.48 from a high of £9.69 (in 2009). Around 90% of prescription items were 'free' to the patient – income from NHS prescription charges to patients totalled £450m<sup>2</sup>. In comparison the self medication market for OTC products in the UK is valued at £2.5bn in 2012 – 960 million packs<sup>3</sup>.*

**CONCLUSIONS: AS A RESULT OF THESE CHANGES...**

**1) The evolution of NHS will provide new opportunities to...**

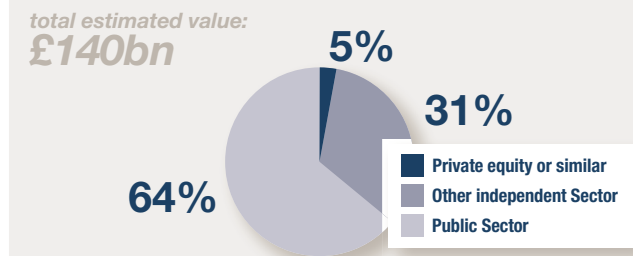
- Capitalise on the growing spend by NHS on private providers.
- Supplement or replace ‘free at source’ service, which is instead funded by insurance (Private Medical Insurance (PMI), 70% of which is funded by corporates) or private individuals as ‘self-pay’.

The recent Healthcare Industry survey reported that over 70% of respondents rated the UK healthcare market as attractive or very attractive to overseas investors<sup>4</sup>.

**2) The independent sector and private equity funded providers already have substantial shares, with opportunity to grow further...**

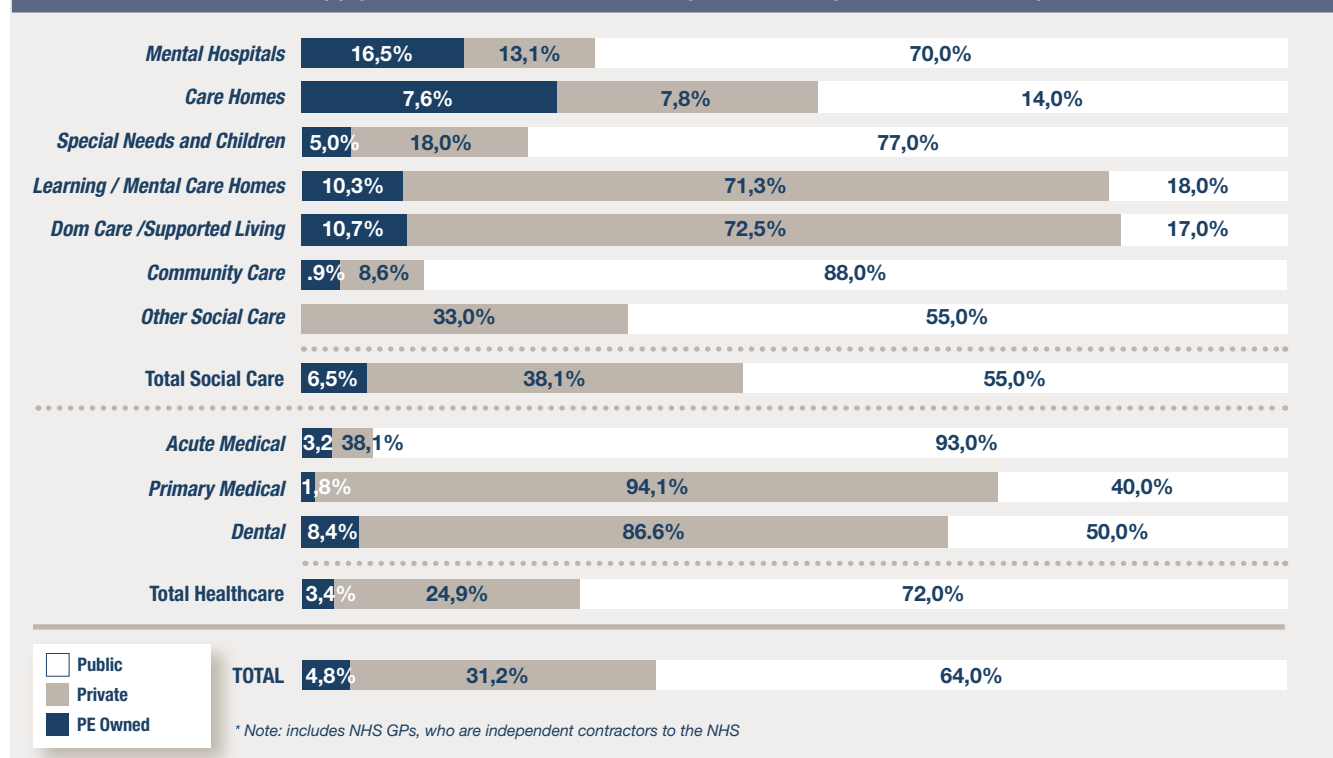
- Currently 1m private operations are carried out each year, compared to 9m on the NHS.
- Whilst only 3% of GP consultations (around 9m per year) are private.
- Last year there were 572 private patient hospital facilities registered in the UK, of which 495 are independent plus 77 NHS run private patient units (PPUs). There are in addition 5-600 private clinics. This compares with a total of around 2,300 NHS hospital facilities in the UK<sup>5</sup>.

**Estimated value of supply of health care, social care and special education services by provider sectors, UK 2012**



\* Note: includes NHS GPs, who are independent contractors to the NHS

**Supply of UK healthcare services by sector and provider ownership**



- The independent sector reportedly takes a 28% slice of market value: according to research from Laing & Buisson the UK independent health and care market was worth in £40bn in 2011/2012. This is of the £140bn total annual value of all relevant services (independent and public supply combined) not counting another £32bn of NHS spending that cannot be allocated to specific services (see chart to the left)<sup>6</sup>.
- Care homes represents by far the largest single segment of the independent health and care services market with an annual value of £13.4bn. This is followed by private acute medical care at £6.4bn and homecare (£6.2bn).

A separate analysis for the BVCA, based on L&B data, categorises GPs as independent contractors to the NHS – an £11.8bn sector, which if included results in an independent proportion of 36%: However, £700m is estimated as truly ‘private’ income. Further analysis also shows the Private Equity and other Private ownership of each sector as at July 2012 (see chart above)<sup>7</sup>. In the case of acute medical services (ie private hospitals) the private sector accounts for around 7% of sector value. However, despite this relatively low overall share, by this measure, a Competition Commission investigation into Private Healthcare (focusing on acute hospitals) has recently

concluded that “many private hospitals face little competition”, leading to “higher prices for insured patients”. As a result it has called for nine luxury hospitals to be sold after finding that the cost of private healthcare has been inflated by millions because of a lack of competition.

**3) Investment: Healthcare is strategically attractive in terms of long term demand...**

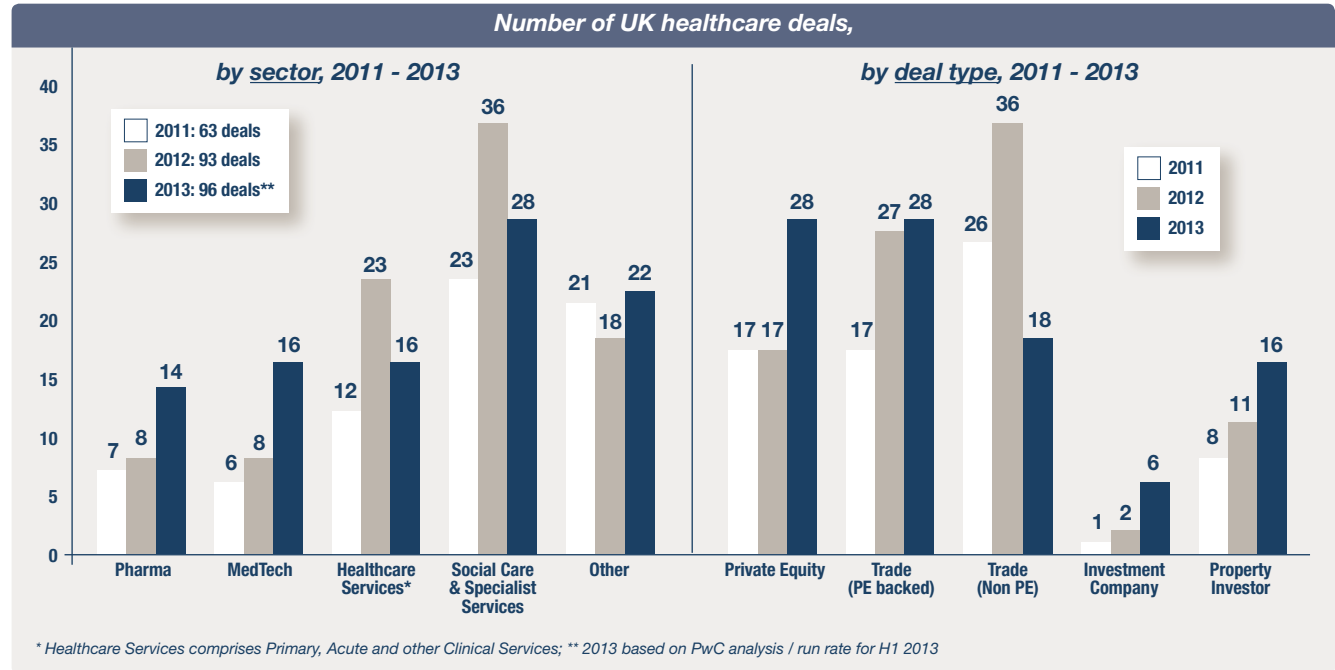
- There will be more older people;
- Sick and injured people will survive longer;
- Clinicians will have greater ability to treat and alleviate chronic illness.

This is illustrated in the UK by some selected headline statistics<sup>8</sup>:

- Over the next 20 years it is forecast that there will be in the UK:
  - 10m more people (from 63-73m)
  - 5m more over 65s (from 11m to 16m)
  - Over 1m more people with diabetes (from estimated number of people with diabetes 20 years ago: 1996: .4m, 2010: 2.8m, 2025: 4m.
- In the last twenty years the proportion of obese men doubled from 13% to 26%, to match that of women (from 16-26% over the same times).
- The NHS conducted 10.6m operations in 2013 – an increase of 60% from 2003.

**4) Return of healthy appetite for investment**

Over the last few years, the total number of investment deals has returned to more healthy levels. Pharma and Medtech investments look to be increasing in significance. At the same time private equity backed deals, often consolidation investments, have become more important in the last year. Healthcare continues to provide opportunities for those interested in ‘asset or product heavy deals’ such as pharma specials manufacturing and property driven deals, as well as investments in ‘asset light’ services or such as IT or support services<sup>9</sup>.



**SUMMARY**

The changing structure and strategy of the NHS is triggering market changes which will generate opportunities for current providers and new investors, with the private sector having an increasingly important role. At the same time, related health and wellbeing services such as social care, mental health services and special education will continue to see growing investment from the private sector. Potential investors of all types – from both the trade and outside – need to be up to speed with the evolving market developments, particularly NHS performance and the related political landscape as the next election date comes into sight. A particularly key time for politics surrounding the NHS will be April this year when the newly formed CCGs will have to publish the results of their first year in charge of commissioning.

Sources:

1. Health Investor / Nabarro: Healthcare Industry Barometer 2013
2. NHS England / Health and Social Care Information Centre (HSCIC)
3. Proprietary Association of Great Britain (PAGB)
4. Health Investor / Nabarro
5. Competition Commission based on various data from NHS and Laing & Buisson
6. British Venture Capital and Private Equity Association (BVCA) / Laing & Buisson
7. BDO analysis of Laing & Buisson / BVCA reports
8. Various NHS and ONS sources
9. HealthInvestor / PwC analysis of Dealogic and Thomson Reuters data

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