Policy Round Up: Key Issues Affecting the UK Healthcare Investment Landscape in 2015

Overview
On Monday the 30th of March, parliament was dissolved signaling the beginning of the election process in the UK (General Election 2015 timetable). In our first Policy Round Up we provide an overview of the likely impact of the election on the key areas of interest for investors. As the political parties start to set out their stalls, the main health and social care themes under discussion can be subdivided into two categories; areas of convergence and areas of divergence between the political parties. Most of the policy areas of interest to investors will fall into the former category, and as such, will keep a steady course irrespective of the election outcome. The key themes under discussion are:

Convergence between political parties:

- **NHS Funding**: is increasing
- **New models of care**: changing the shape of the provider landscape
- **Mental health coverage expansion**: a commitment from all parties to improve access
- **Social care funding**: continues to be complex, but presents interesting opportunities

Divergence between political parties:

- ‘**Privatization’ of the NHS**: Labour policy to reduce the number of private providers who hold NHS contracts may not be implementable

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“The money we pay for health care must go on health care and not for excess profit for private firms”

- Ed Miliband, Leader of the Labour Party, speaking on the Labour Party’s plans to cap profits on private health firms (26th March 2015)
Convergence Across Political Parties

NHS Funding
In 2014, NHS England welcomed a new Chief Executive, Simon Stephens. In his first term, he set out a strategic vision for health care in England entitled the Five Year Forward View. The publication states that the NHS could face a £30bn funding gap by 2020/21 if predicted productivity assumptions are not met and funding remains 'flat real per person'. All political parties have signed up to the NHS Five Year Forward View, with the Lib Dems and the Conservatives committing to fund the £8bn, £2bn a year until 2019/2020, required to meet the financial gap after efficiency savings have been made. And, although Labour have not committed to fund the full amount set out in the NHS Five Year Forward View, they have stated that they will commit £2.5bn to a Time to Care Fund to pay for 20,000 nurses, 8,000 GPs, 5,000 care workers and 3,000 midwives. Overall, irrespective of the party or parties elected, we expect that funding for NHS services will be increased; this could be positive news for providers holding NHS contracts.

New Models of Care
In addition to highlighting the financial challenges faced by the system, the Five Year Forward View describes what the future of care provision in the UK should look like, setting out expected 'new models of care', including:

- Multi specialty community providers (horizontally integrated GP's and community providers - providing an extended set of services)
- Integrated primary and acute care systems (vertical integration)
- Urgent and emergency care networks
- Supported small local hospitals - networked with other providers
- Consolidated or networked specialised services
- Modern maternity services
- Enhanced health in care homes

In March of this year, NHS England announced 29 'vanguard' sites from around the UK who will test new models of care (full list in Appendix 1). The progress of these sites will have a significant impact on the shape of services of both private and public provision in the UK in the medium and long term. These models follow international trends, led by providers such as Chen Med and Caremore in the US, and have received cross party support. As such, they will likely be a significant feature of the UK health care landscape irrespective of the election outcome.
These new models represent a number of opportunities. Many of them will require NHS and private providers (where they hold NHS contracts) to reshape their estates, shifting care into different settings – consolidating specialised services into high volume advanced centers and shifting less complex care from acute settings into the communities. In addition, these new models will require significant developments or changes in the support services and networks that service the care models including diagnostics, labs and workforce to name a few.

As the vanguard sites progress we will get a clearer view of the precise opportunities and risks these new models create for both public and private investors.

**Mental Health Opportunities**

Mental health has been an area of sustained interest for investors in the UK market. There have been a stable number of transactions in this subsector since 2010 with a general upward trend evident over the last 10 years.

Recent commitments across political parties to expand access to mental health services indicate that this subsector will continue to be an interesting area, irrespective of the political outcome. Both the Lib Dems and Labour have referenced mental health services explicitly in their election campaign to date. Labour has gone as far as committing to enshrining access to mental health services in the NHS constitution. The Conservatives, working with Lib Dems, have put an increasing emphasis on mental health over their tenure in Government culminating in a commitment to invest an additional £1.25bn in mental health services in the recent Budget.

Currently in some areas of the UK as little as 6% of the health care budget is spent on mental health. As such a large expansion in spending and associated acute and community services, will be required if political commitments are to be met. This trend is good news for the private health care providers who currently provide a large proportion of NHS contracted mental health services, a trend that is certain to continue if new demand is to be met.

![UK-Based Mental Health & Social Care M&A Transactions](image-url)
Social Care Funding
Another subsector that has historically seen a number of transactions is social care, with many funds investing in nursing homes across the UK. A key pillar for both the Labour and Lib Dems election campaigns has been the integration of health and social care. Both parties are considering pooling of health and social care budgets, but they differ over their views on scale and speed of integration, with Lib Dems committing to move much faster. As purchasers of health and social care services pool their budgets, a likely outcome is that it will put an increased emphasis on social care investment as a way of slowing demand for health care services. This could be good news for both health and social care providers, from a financial point of view and a cultural one – social care purchasers are much more likely to contract with the private sector than NHS purchasers are.

However, these changes will be made in a challenging financial context. Over the last parliament, local government (who pay for social care services) have faced significant cuts, up to 37% over five years. None of the political parties have yet committed to protecting local government funding. This throws a shadow over potential opportunities for social care providers as the complexities of pooling an underfunded social care budget with the NHS budget unfold.

Divergence Across Political Parties

‘Privatization’ of the NHS
Privatization of the NHS is a key area of divergence across political parties and, as such, the outcome of the election will have a significant impact on the health care market in the UK.

“When Labour and the Lib Dems use the term privatization they are referring to the provision of NHS services by private providers. The Health and Social Care Act 2012 compelled NHS purchasers to use competitive tendering when it was in the best interest of patients. It also gave the health care regulator Monitor powers to enforce the competition mechanisms. Both Labour and the Lib Dems have committed to repealing the elements of the Health and Social Care Act which support the use of competitive mechanisms for the purchasing of healthcare services. Their assumption is that purchasers of NHS services, if not compelled to put services out to tender, will give all NHS contracts to NHS providers. Should this be the case it could potentially create a difficult landscape for private providers who hold or wish to hold NHS contracts.

However, it will not be easy for either party to achieve this objective. The NHS is covered by the European Public Procurement Directive and European Completion Law. As such, even if the competition clauses are removed from Health and Social Care act of 2012, purchasers of NHS services will still be expected to use competitive tendering mechanisms.

The Labour party has put forward a Private Members Bill setting out how they will extract the NHS from the purview of the European Legislation. Their intention is to change the nature of the NHS so it no longer meets the criteria stipulated in the legislation. This approach has three 3 key issues:
• Most UK mental health services are provided by private providers with no viable NHS alternative;
• A number of NHS providers have commercial operations, which they would have to stop;
• NHS purchasers would no longer be able to purchase services, but rather would have to give grants to providers for care.

All of these factors will make it very challenging to implement the policy. However, Labour recognizing the issues with their policy position has just this week switched tactics, and is now targeting the supply side of the market – promising to cap private sector provider’s income at 5% on contracts over £500,000. The precise implications of this policy have yet to be revealed, but initial analysis would suggest that it would be difficult to implement. However it is clear that Labour is strongly targeting the private sector provision of NHS health services, which will have significant implications for the health care market should they come into power.

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Appendix 1: NHS England Vanguard Sites

Integrated Primary and Acute Care Systems – joining up GP, hospital, community and mental health services

1. Wirral University Teaching Hospital NHS Foundation Trust
2. Mansfield and Ashfield and Newark and Sherwood CCGs
3. Yeovil Hospital
4. Northumbria Healthcare NHS Trust
5. Salford Together
6. Lancashire North
7. Hampshire and Farnham CCG
8. Harrogate and Rural District CCG
9. Isle of Wight

Multispecialty Community Providers – moving specialist care out of hospitals into the community

1. Calderdale Health and Social Care Economy
2. Derbyshire Community Health Services NHS Foundation Trust
3. Fylde Coast Local Health Economy
4. Vitality
5. West Wakefield Health and Wellbeing Ltd
6. NHS Sunderland CCG and Sunderland City Council
7. NHS Dudley CCG
8. Whitstable Medical Practice
9. Stockport Together
10. Tower Hamlets Integrated Provider Partnership
11. Southern Hampshire
12. Primary Care Cheshire
13. Lakeside Surgeries
14. Principia Partners in Health

Enhanced health in care homes – offering older people better, joined up health, care and rehabilitation services

1. NHS Wakefield CCG
2. NHS Gateshead CCG
3. East and North Hertfordshire CCG
4. Nottingham City CCG
5. Sutton CCG
6. Airedale NHS Foundation
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