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Europe's elective surgery backlog – a boom for private clinics?

Europe's predominantly public funded health systems have been struggling for many years to meet the demand for elective surgery. Aging populations, surgical advances and increased incidence of lifestyle related diseases are all contributing to the capacity challenge. With public health systems facing growing workforce and financial pressures, Marwood explores whether the evolving landscape provides opportunity for private providers.

The onset of the Covid-19 crisis this year saw most health systems in Europe suspend elective surgery as they scrambled to meet the demand surge from patients affected by the pandemic. This means waiting lists for elective surgery have burgeoned significantly across most of Europe. Countries like Germany, which traditionally has overcapacity in hospitals, are the exception rather than the rule in Europe.

Although the private hospitals industry in Europe is dwarfed by the public sector, it is crucial in filling the gaps left by the public system. With the 10 largest operators of private hospitals in Europe generating an estimated total revenue of over €27bn in 2018, (delivering primarily elective services) the importance of this sector cannot be overlooked The gaps in public sector provision are only expected to grow, if not accelerate given the current crisis.

In this note we look at some key European countries and examine whether it may present an opportunity for the private hospital/clinic industry in Europe.

Key themes

Covid-19 has left a massive trail of latent demand for elective surgeries globally as hospital and health systems repositioned their activities to meet emergent demand from the pandemic.

A study by the Global Health Research Unit on Global Surgery of the National Institute for Health Research estimated that the quantum of cancelled elective surgeries during the peak 12 weeks of Covid-19 crisis numbers approximately 28.5m operations globally.

It is estimated that even if country health systems managed to ramp up the surgical delivery capacity by 20%, a Herculean task at the best of times, it would take them a median of 45 weeks to clear the backlog. In order to address this problem it is anticipated that the commissioners will turn to private providers to help shift this backlog. Private providers who have the physical and surgical capacity to deliver can be expected to do well in this environment.

Fig. 1 looks at the potential backlog for elective surgery for benign diseases accumulated in the 12 weeks peak of the pandemic by specialty globally and it is abundantly clear that the problem is severe.

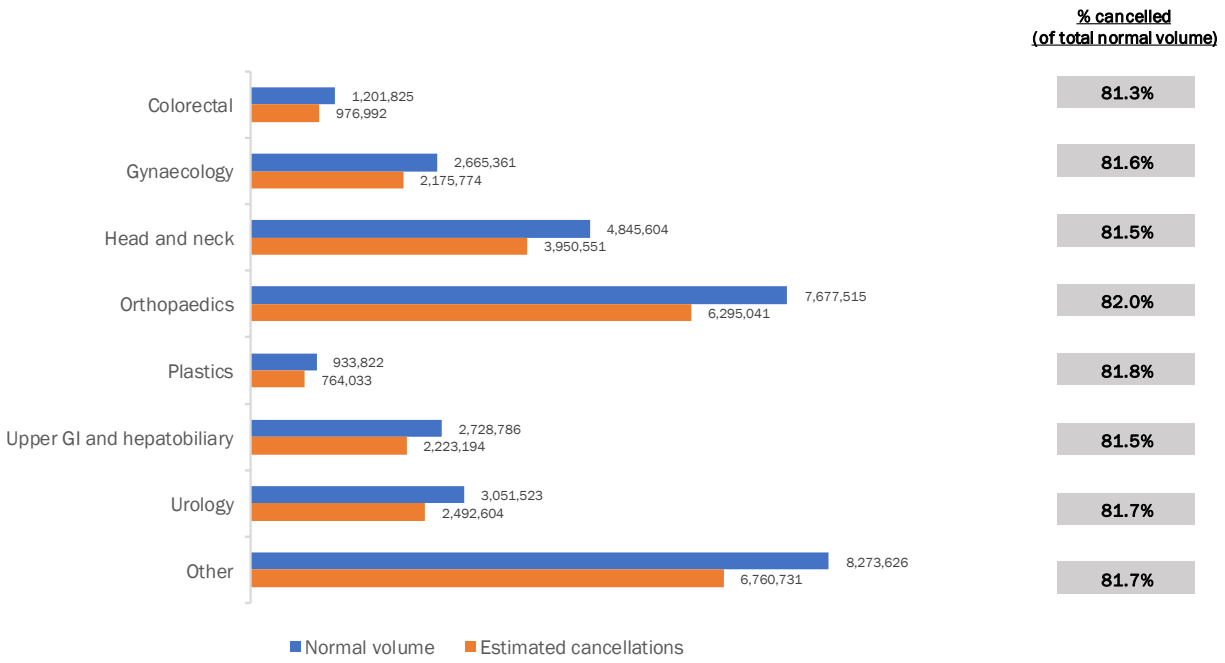

Fig. 1: Estimated cancellation volume of elective surgery for benign disease by specialty globally in 12 weeks of peak pandemic, adapted from NIHR report on global surgery

The current situation in key European markets and its potential impact on private clinics

United Kingdom – a system scrambling again to reduce waiting list backlogs

The NHS in England co-opted all private capacity at the beginning of the pandemic to be able to deal with covid-19 related demand surge. Now they are engaged in a reverse scramble to address the accumulated electives backlog.

The President of the Royal College of Surgeons of England, Prof. Derek Alderson, estimated that the NHS will need at least five years to address the backlog of elective surgeries. This will be a huge undertaking, requiring theatre capacity and surgical capacity optimization, co-operative working across organizations, sectors and regions, alongside increased staffing wherever possible.

This presents a unique opportunity for the private sector to leverage its capacity and staff not engaged in pandemic efforts and help the NHS deliver its targets. The need for this participation is well recognized and is reflected in current tendering activity taking place in England for elective list management.

Studies vary in their estimations of the size of the problem, but data reported in the Health Services Journal (HSJ) indicates that lists have nearly trebled in most regions in England as demonstrated in Fig. 2.

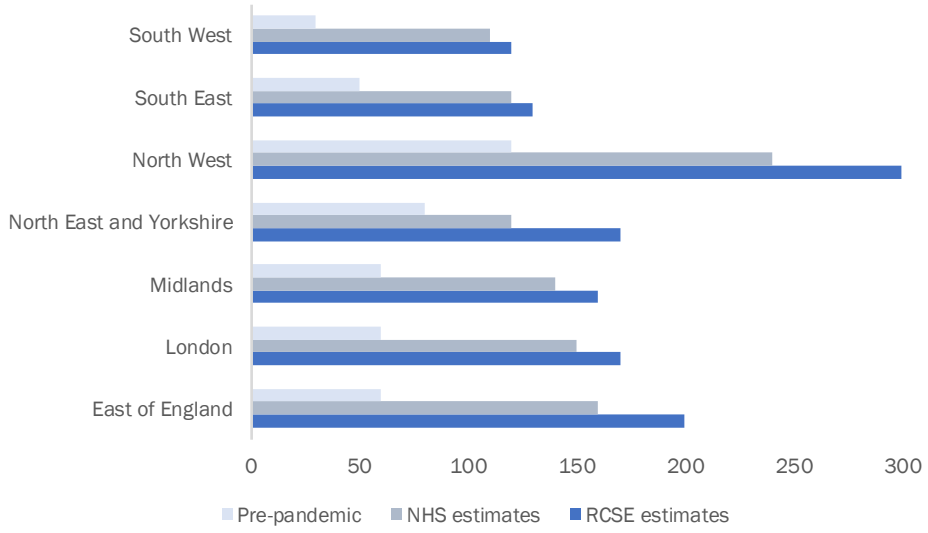

Fig. 2: Comparison of waiting list size per 1000 population by region in England; adapted from HSJ

NHS England has recently announced a procurement framework for the private sector to assist in the waiting list reduction initiative. The money will be deployed over the next four years and is directed towards funding private sector provision of NHS funded care. This money is additional to the £14bn that the NHS spent last year on commissioning care from the private sector.

This is a huge increase in the pot of money available to private providers delivering NHS funded care. Longer-term, the real benefit to the sector would come from retaining referred patients, as opposed to the current scenario where patients referred from the NHS for surgical intervention revert to the NHS for post-operative care and follow up.

Operators who can find an economic model to serve and retain these patients within their ecosystem through rebates on follow up or creative incentives to remain in their system are likely to be able to extract more lifetime value per consumer and also enhance the patient experience by limiting the touch points in their healthcare journey.

France – a small private sector could benefit from redistribution of publicly funded care

France responded to its pandemic outbreak, one of the most severe in Europe, by increasing critical care capacity within existing public facilities, transferring patients to private and military facilities and redistributing patients to regions to manage local demand surges.

France's response led to the suspension of all elective activity. Activity has since begun to recover and Centre Hospitalier Universitaires (CHU's) – University Hospital Centres are reportedly beginning to resume elective activity. However, this is slow and hampered by the additional sanitary precautions necessitated by Covid-19. Leading authorities have estimated

that CHUs, which are the major delivery arm of the French public healthcare, will only be able to ramp up to 70-80% of the pre-Covid capacity in the medium term due to added time in SOPs.

74% of scheduled appointments were cancelled between March and May 2020, and less than 20% of these have currently been rescheduled, as reported by the consumer choice organization UFC-Que Choisir. It is easy to see, in this environment, a large backlog already building up and an opportunity emerging for private players.

Fig. 3 shows the percentage of surgeries by type cancelled in France during the 12 weeks of pandemic peak:

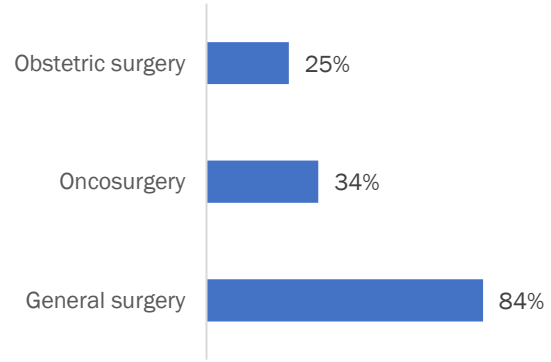

Fig. 3: Proportion of elective surgeries cancelled in 12 peak pandemic weeks in France by discipline; Source: British Journal of Surgery

Whilst most of the postponed oncological surgery is likely to remain in the public domain, the private sector is likely to benefit from the backlog of the general surgical workload.

Patient choice organizations are already calling for the health minister to work with the private sector to enable postponed patients to get their care delivered by private operators funded through public funds.

All of these factors combine to create a favourable demand and supply environment for the private hospital sector in France.

Spain – Autonomous Communities (ACs) working to meet latent demand

Spain responded to the pandemic by repurposing public facilities and military facilities as Covid-19 hospitals and transferring care to private providers. Healthcare in Spain is a devolved matter, with Autonomous Communities responsible for the health policy, budget management and delivery. The central government has some influence in shaping the policy, but delivery is the remit of the ACs.

Covid-19 has created backlogs across all ACs as demonstrated by cancelled elective surgeries demonstrated in Fig. 4. According to media reports, waiting times have increased by an average of 50% across all ACs. As Spain scrambles back from the worst of the pandemic, ACs are developing local protocols and mechanisms to restart elective surgery. Estimates of the

percentage of elective surgeries postponed or cancelled during the peak 12 weeks of the pandemic are significant, particularly in general surgical procedures:

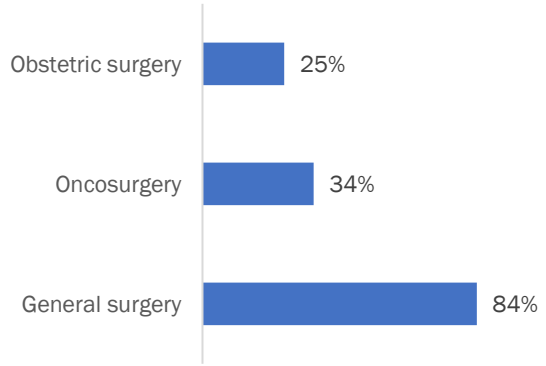

Fig. 4: Proportion of elective surgeries cancelled in 12 peak pandemic weeks in Spain by discipline; Source: British Journal of Surgery

The ACs are co-operating with the central government in developing responses to the burgeoning waiting lists. However, local responses are being determined by the extent of local problems and staffing issues. Catalunya has managed to reduce waiting lists in cardiology but estimates it will need 20% more staff capacity or two years to address the backlog. This is where the private sector can step in and partner with the public system in creating value for all stakeholders.

The role of the private sector has been explicitly recognised by some ACs like Valencia where anyone waiting over 60 days for their treatment will be offered the option of getting their elective surgery in the AC's affiliated private clinics at no financial disincentive to them.

Private providers with capabilities in specialties which have long waiting lists in their AC could benefit from the current situation but would need to adapt to new operating models developed by their AC.

Italy – firm plans in place in some regions to address waiting lists with private care options

Italy is one of the worst hit countries globally in the pandemic. Their response to the crisis was proportionately extensive; creating critical care capacity, repurposing existing facilities to treat Covid-19 patients, creating new Covid-19 hospitals and transfer of care to private clinics. Elective activity ceased as a result.

Italy had developed a national plan in 2019 to address the waiting lists on the Italian Servizio Sanitario Nazionale (SSN), which attests to the fact that the waiting list situation in Italy had been concerning even pre-pandemic. The plan, called the Piano Nazionale Governo Liste di Attesa (PNGLA), aimed at reducing the elective waiting list numbers on the SSN significantly between 2019 and 2021. The impact of the pandemic on their public health system has been

rather profound leading to a further explosion in waiting times as demonstrated by Fig. 5. This is likely to necessitate a thorough revision of the PNGLA plan.

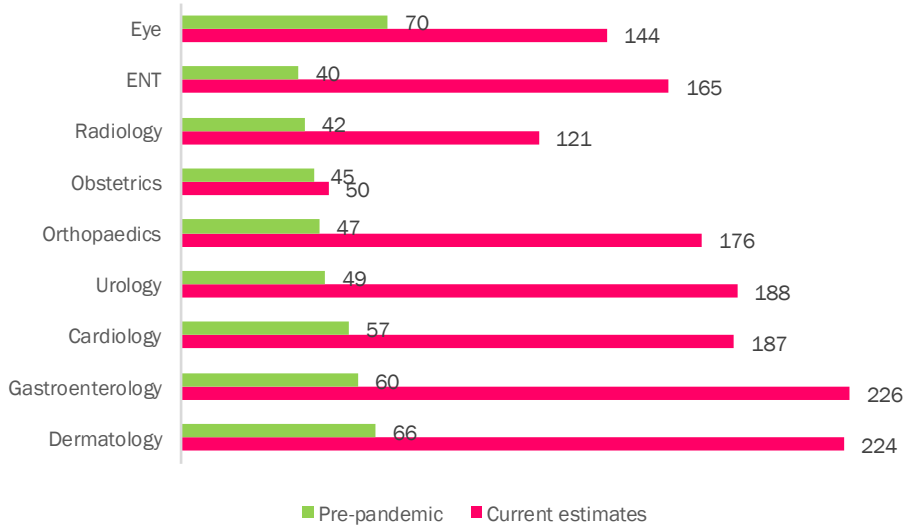

Fig. 5: Change in number of days of wait for an appointment on the Italian SSN by specialty pre and post pandemic (estimates); Source: Corriere.it

Some Italian regional governments, like that of Umbria, have responded to increasing waiting times by revising the criteria for surgeries funded on the SSN and developing a prioritization mechanism for resumption of elective surgery. However, surgical capacity remains a limiting factor and even if, hypothetically, Italy were able to increase throughput in the SSN by 20% per week they would still need 46 weeks just to cover the backlog.

In recognition of this, some regional governments have indicated that high priority surgeries that cannot be fulfilled by the SSN can be performed in the private sector provided the patient is Covid-19 negative and the surgery is deemed non-deferrable.

In essence, as the pandemic slows down, regions will have to restart elective surgery and the overload problem implies that overflow will have to be met by the private sector, whether state, insurance or self-funded.

Rich pickings, but market concentration, capability and strategy mix will determine the biggest winners

The private hospital sector stands to benefit significantly from the surge in waiting lists across Europe accelerated by the pandemic. Players that possess or are able to rapidly deploy capabilities in key shortage areas are likely to benefit the most. A key limiting factor in most scenarios is likely to be surgical capacity. However, any pan-European player could potentially benefit from EU wide mutual recognition of medical qualifications and leverage their international EU staff to deliver care in areas of need.

Countries with a significant private hospital segment like the UK and Spain will benefit from diversion of Sistema Nacionale de Salud (SNS) cases to them. Players in countries with a

smaller private sector like the Netherlands and France are also likely to benefit as fewer operators compete for the pickings.

It is also an opportunity for the private sector to 'recruit and retain' a patient base which may never have considered private care prior to Covid-19. Public fear of the virus and general perception of private facilities being better and 'cleaner' might also play to the advantage of the private sector.

In the longer term, the public system is likely to increase capacity to meet demand but those who manage to build deep local relationships are likely to continue to be seen as partners in demand management rather than as cherry-picking profiteers, an image that has traditionally attached itself to them. Riding the positive tailwinds of the pandemic make this an interesting sector to watch for investors and operators alike.

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Jyoti Mehan
Director, Business Development
Office: +44 (0)20 317 82504
jmehan@marwoodgroup.com

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