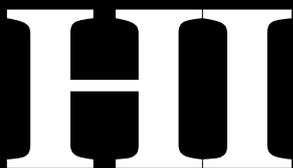


The Healthcare Industry Barometer 2009



HealthInvestor



N A B A R R O



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HealthInvestor & Nabarro

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HealthInvestor is the UK healthcare industry's most respected information source. Our team of experienced journalists and researchers publish the monthly magazine *HealthInvestor*, www.healthinvestor.co.uk and annual directory *Who's Who in Healthcare*.

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Nabarro is a leading UK law firm with a famously 'no-nonsense' approach. It has a growing partnership with over 130 partners leading more than 400 lawyers offering a broad range of legal services to major national and international clients. It operates in a number of industry sectors and legal disciplines with a single aim: to deliver the highest quality advice as clearly and concisely as possible no matter how complex the situation. Its dedicated cross-disciplinary healthcare group covers the full spectrum of advice across the sector.

A change in the atmosphere?



Welcome to The Healthcare Industry Barometer 2009.

In 2008, Nabarro and *HealthInvestor* together launched this annual survey against the background of the recently published Darzi NHS Next Stage Review, the introduction of the “Patient Choice” agenda, the proposal to introduce a new Co-operation and Competition Panel and a deteriorating economic outlook. Given all this, a large proportion of respondents to the 2008 survey were confident of greater private sector participation in the NHS.

A year later, we live in a very different world, with the UK and other economies suffering greatly. A recent report by the NHS Confederation has warned that the NHS is going to be hard hit, with the worst coming in 2011 when it estimates a budget shortfall of £8-10 billion. The chief executive for the health service in England, David Nicholson, has warned that closing the gap could translate into a need for efficiency savings of up to £15 billion in the three years after 2011. Such a financial outlook is inevitably going to result in sweeping changes in the NHS and also the way it operates.

Events have moved on in a number of other ways. The Co-operation and Competition Panel has been established. It seeks to level the playing field between bidders for NHS work and has the potential to place a spotlight on procurement expertise in the NHS. The Department of Health published its Commercial Operating Model setting out proposals to close the NHS Purchasing and Supply Agency and introduce regional Commercial Support Units, offering commercial and procurement expertise to the local NHS and acting as a single point of contact in each region for independent, third and voluntary sector healthcare providers. There have also been further attempts to introduce more commercial know-how and expertise into the NHS with, for example, the introduction in February 2009 of the NHS Transactions Manual.

In addition, we have the impending 2010 general election and the inevitable heated political debates as to how to provide and who should fund quality healthcare services in the UK and who is best placed to provide such services.

This year we have again quizzed over 100 independent sector healthcare players on some key issues facing the UK healthcare sector. In some cases, we have asked the same question as last year, enabling us to track views in certain areas. In others, we have asked new questions, reflecting the changing circumstances we find ourselves in.

Once again, we hope you find this survey of interest.

Finally, we at Nabarro, wish to thank *HealthInvestor* for their hard work in collating the survey and to express our indebtedness to all the participants for their time and insight.

Warren Taylor

Partner, Nabarro LLP

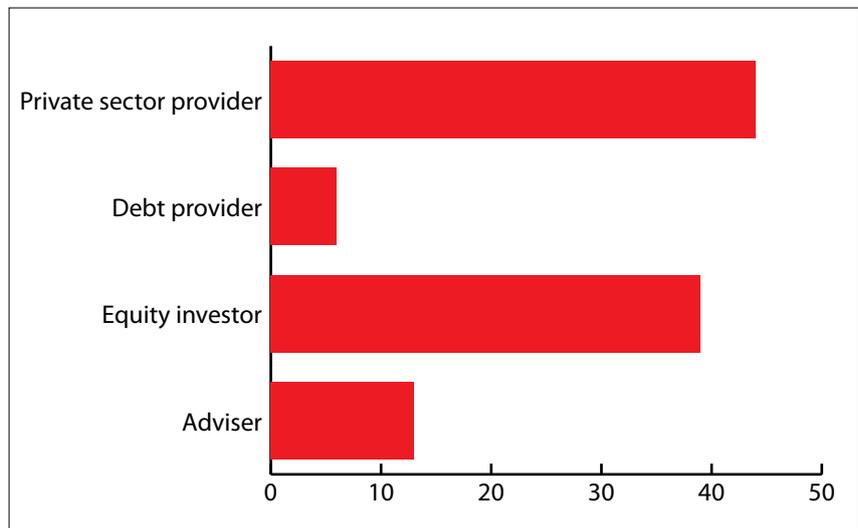
w.taylor@nabarro.com

For the Healthcare Industry Barometer 2009, *HealthInvestor* magazine conducted telephone interviews with 102 private sector professionals specialising in healthcare between 27 July and 21 August.

The graphs in this report show the number of responses to each question. Not all respondents gave answers to all the questions.

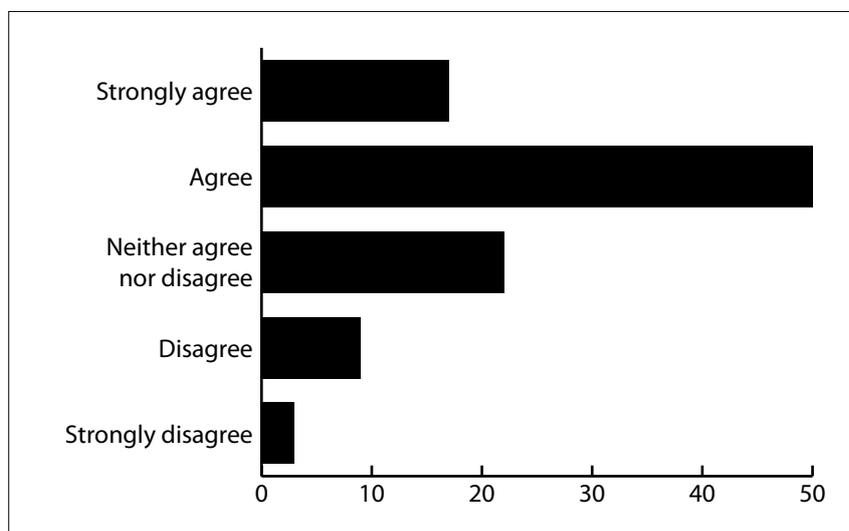
Some of the graphs compare this year's results to the Healthcare Industry Barometer 2008, which involved telephone interviews with 101 healthcare specialists between 26 July and 17 September 2008.

What is your role?

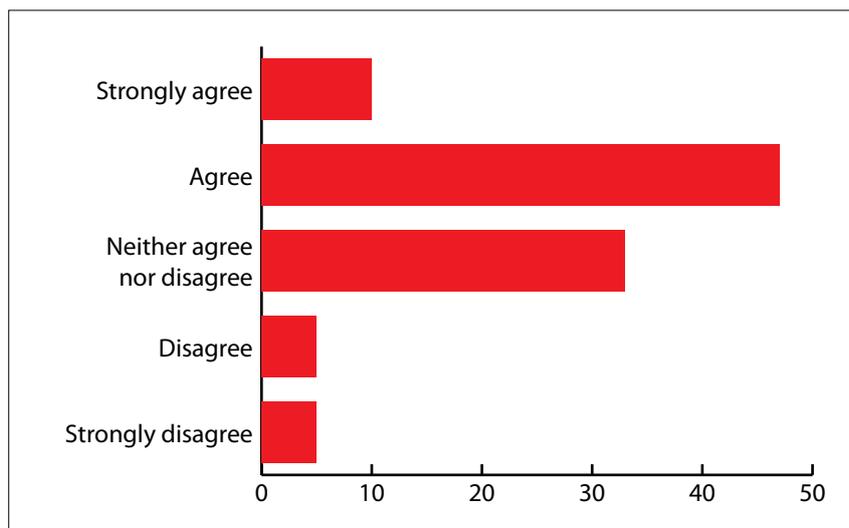


In June 2008, after a 12 month review, health minister Lord Ara Darzi set out his proposals for the future of the NHS. The NHS Next Stage Review Final Report and the accompanying Primary Care and Community Care Strategy announced plans to give patients more choice and information, and reward the hospitals and clinics that offer the highest quality of care. While Lord Darzi barely mentioned the independent sector in either document, a number of his recommendations and conclusions suggested potential business opportunities.

In 2008, we asked: "Lord Ara Darzi's Next Stage Review will lead to greater private sector participation in the NHS. Do you agree or disagree?"

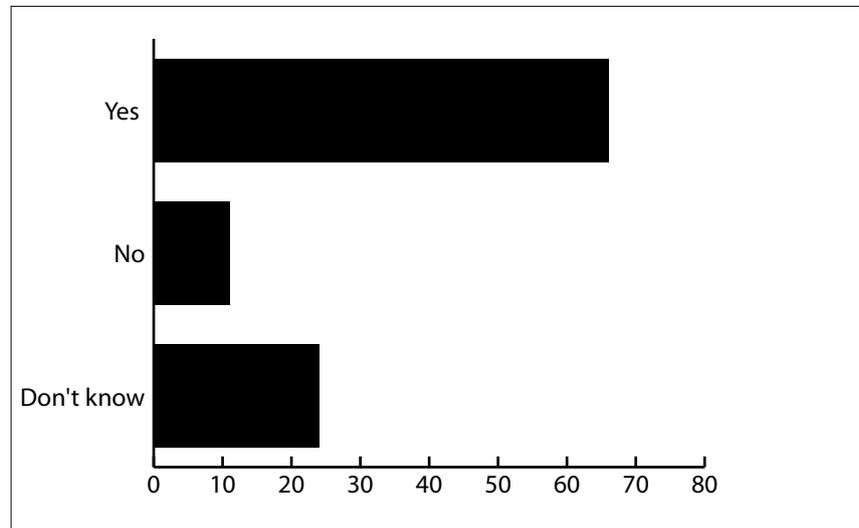


This year, we asked: "Lord Ara Darzi's 2008 Next Stage Review has led to greater private sector participation in the NHS. Do you agree or disagree?"

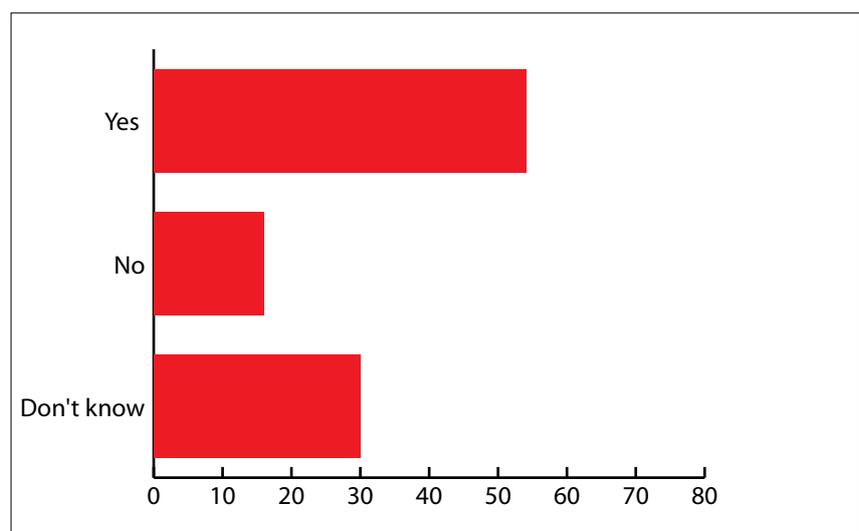


Lord Darzi's proposals included the establishment of one new GP-led health centre or 'polyclinic' by each of England's 152 primary care trusts (PCTs), and at least 100 new GP practices in under-doctored areas. The Department of Health launched the 'Equitable Access to Primary Medical Care Services' scheme to deliver these plans, accompanied by a new central fund of £250 million. PCTs were advised by the department that they should use the Alternative Provider of Medical Services (APMS) contract for the new procurements, which allowed independent sector providers to bid.

In 2008, we asked: "Will the private sector benefit from Lord Ara Darzi's plan to build polyclinics or GP-led health centres?"



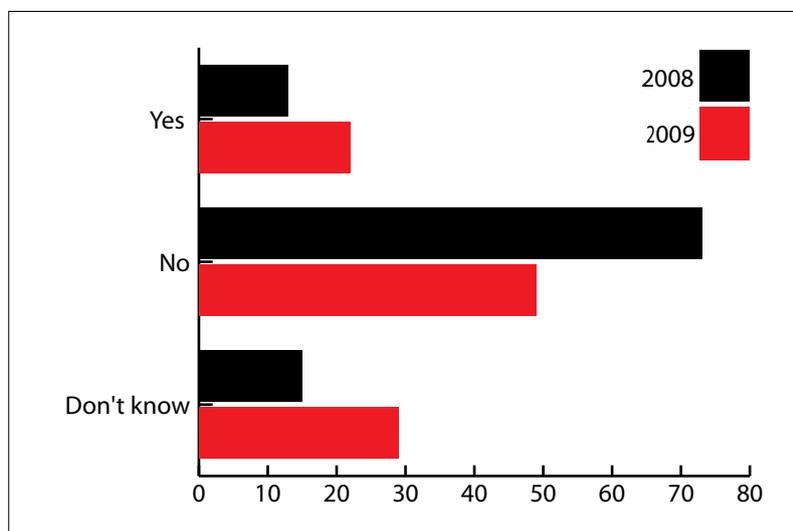
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Competition and choice

Patient Choice is an ongoing project being led by the Department of Health. It aims to give patients more choice and control over when and where they receive their healthcare. From April 2008, 'free choice' came into effect. Under this initiative, patients referred by GPs for planned, non-emergency treatment can choose to have that treatment in any hospital or clinic that can provide NHS standard care, at NHS prices – including those in the private sector. Since providers are paid a fee for each NHS patient they treat, part of the aim of 'free choice' is to create a competitive market for secondary care services.

We asked: "Is there currently a fair market for secondary care providers to compete for NHS patients?"

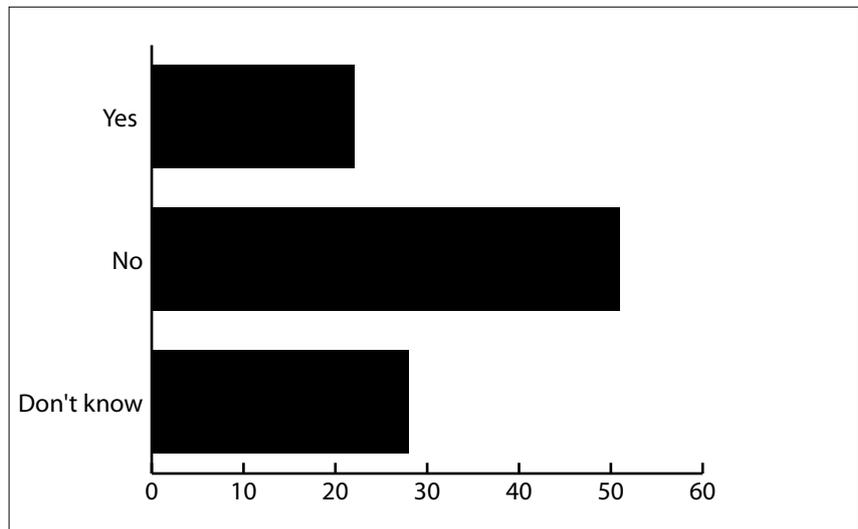


The next government will have no choice but to respond positively to the imperative to drive both better quality and efficiency throughout the NHS. This will only come from strategic and responsible market-based reform – true and fair competition inspires innovation like nothing else, but healthcare is too important for this to be an unstructured free for all

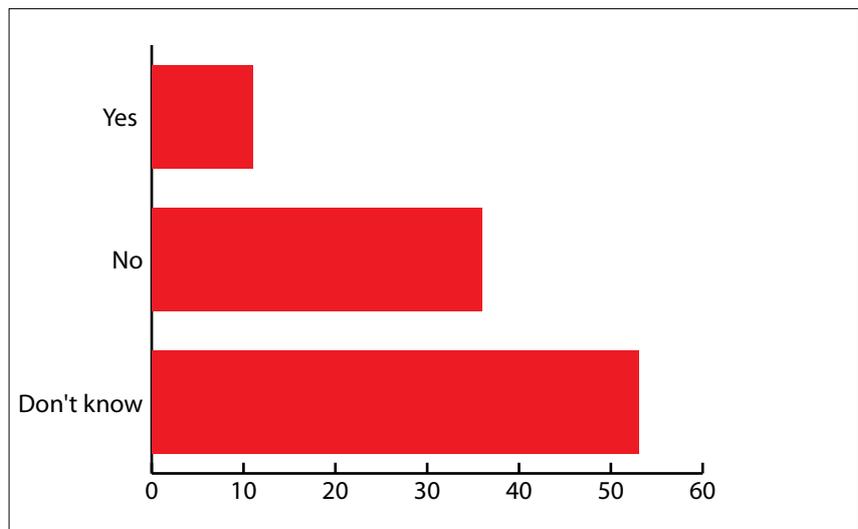
Mike Parish, chief executive, Care UK

In January 2009 the Department of Health launched the 'Co-operation & Competition Panel' in an attempt to ensure that competition between the NHS and independent sector providers for NHS funded services is fair and transparent. The panel advises Strategic Health Authorities, the Department of Health and (for compliance issues) Monitor on resolving disputes relating to competition for NHS-funded services. It has the specific responsibility for considering complaints about issues associated with the procurement of clinical services, advertising and promotion, and the merger or acquisition of healthcare providers where an NHS body is involved. It only considers disputes where these have not been able to be resolved locally.

In 2008, we asked: "Will the Co-operation and Competition Panel improve competition in the NHS?"



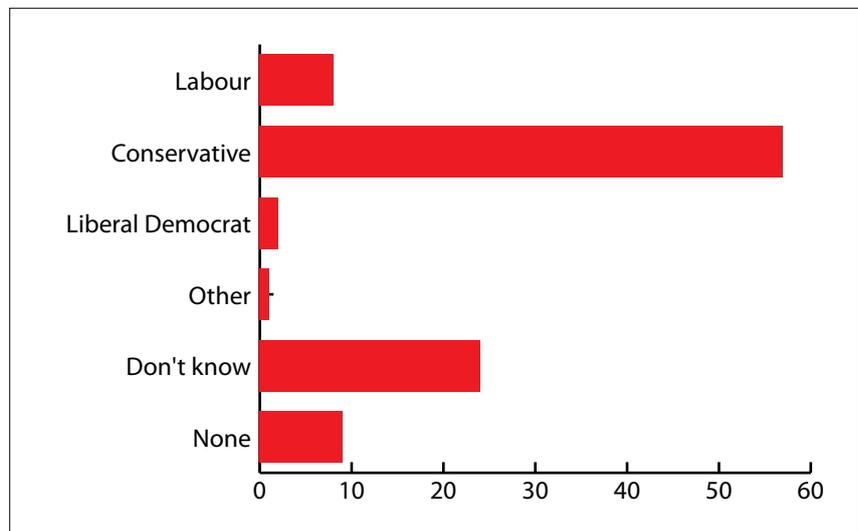
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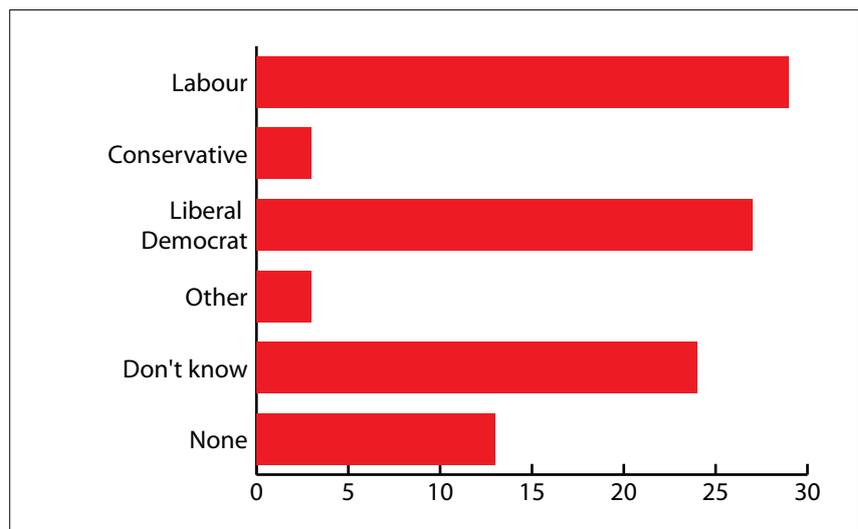
I can't see any signs that either party wants to back away from patient choice or plurality of provision. The question is whether the current system really lends itself to any significant private sector growth. Kickstarting this would be politically bold and it would be a big step for either party to take

Matthew Custance
director public sector healthcare, KPMG

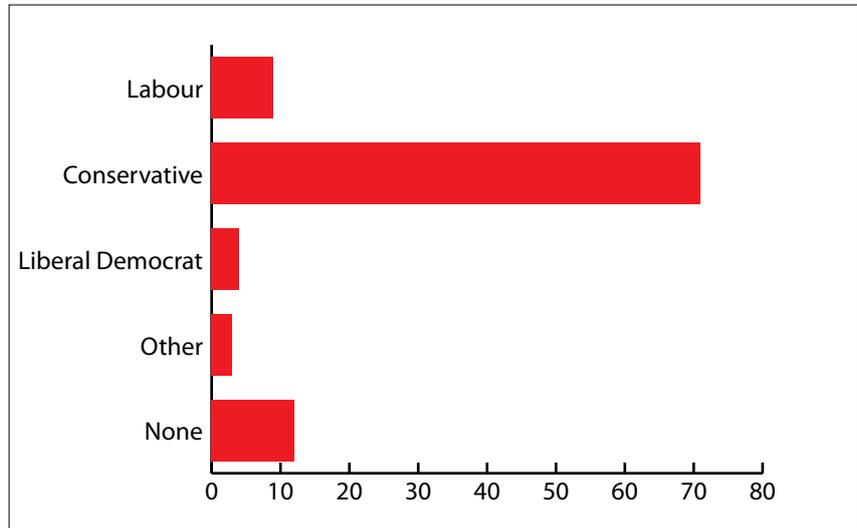
Which political party – should it win the next general election – will do most to speed the recovery of the UK independent healthcare market?



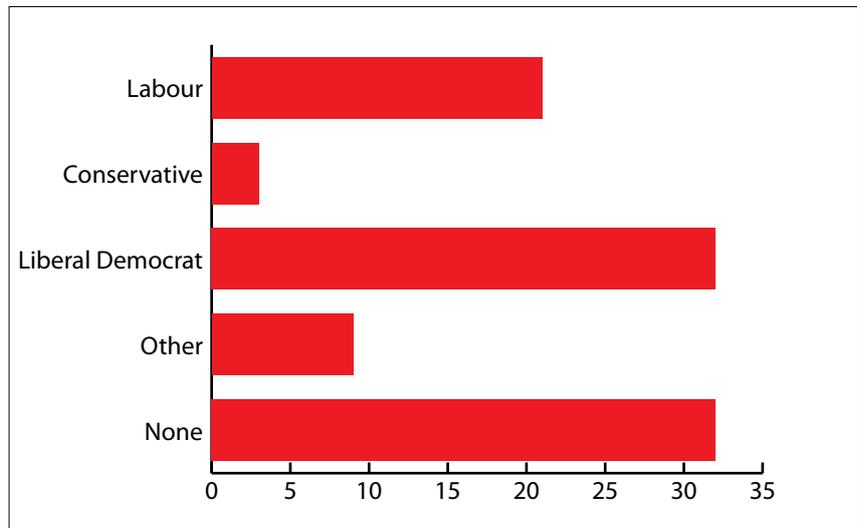
Which political party – should it win the next general election – will do the least to speed the recovery of the UK independent healthcare market?



Which political party – should it win the next general election – will do most to expand the role of the private sector in the NHS?



Which political party – should it win the next general election – will do most to reduce the role of the private sector in the NHS?



I think Conservatives traditionally have been very pro-market. And traditionally Labour's roots aren't as pro-market as the Conservatives. But to be frank I think there is precious little in it and I suspect the issue is not which one is in favour of the market but the sort of rules and regulations that each would want to see in that market

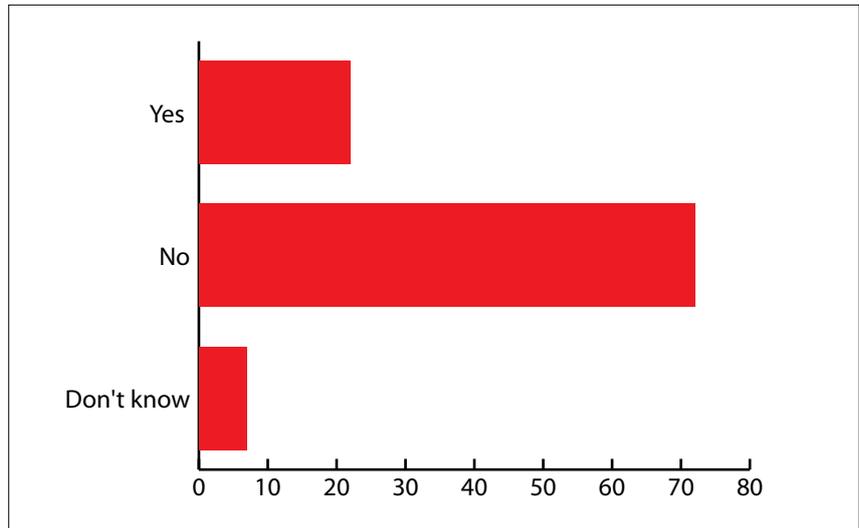
Michael Dixon, chair, NHS Alliance

The UK economy still has some way to go before it recovers from the effects of the financial crisis. The psychological impact of the tougher economic climate on people cannot be underestimated. With limited government finances, it is important to be a part of the healthcare sector that provides value for money for the public sector.

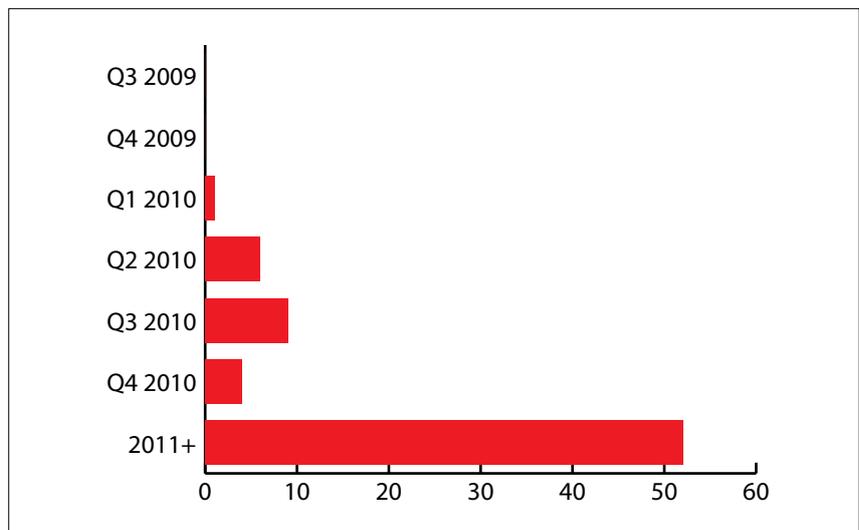
Healthcare stocks will remain attractive with strong fundamentals and quality of earning. Increasingly, institutional investors will be looking for investments with impressive yields

Aatif Hassan Investment Director August Equity

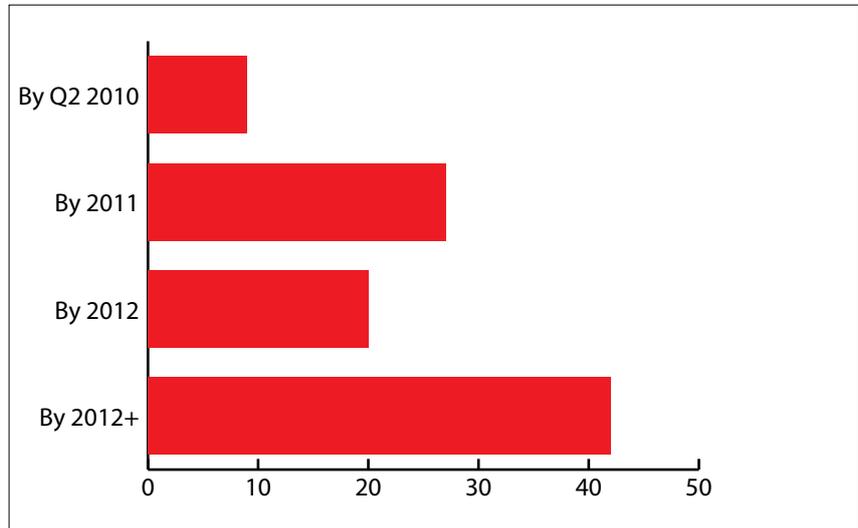
Do you think that the worst of the recession is over, in terms of its impact on the UK independent healthcare market?



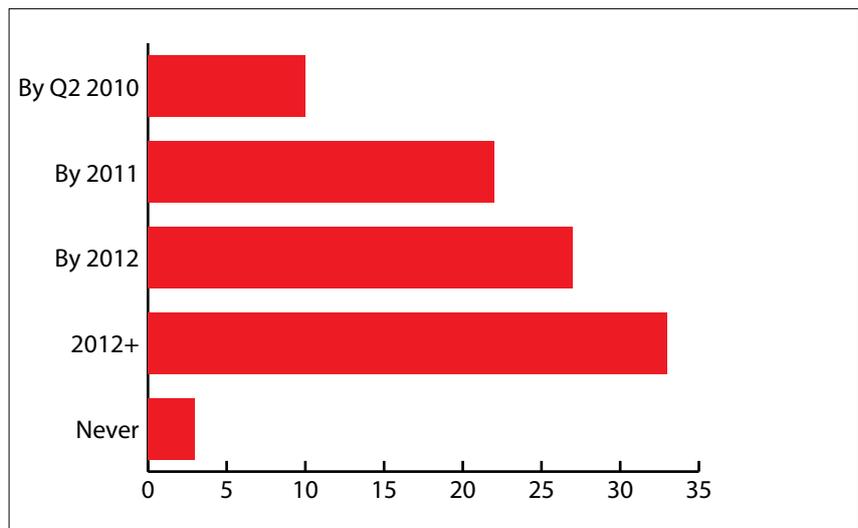
If the answer is 'no', when do you think that the worst of the recession will be over, in terms of its impact on the UK independent healthcare market?



When do you think healthcare stocks will recover to pre-credit crunch levels?



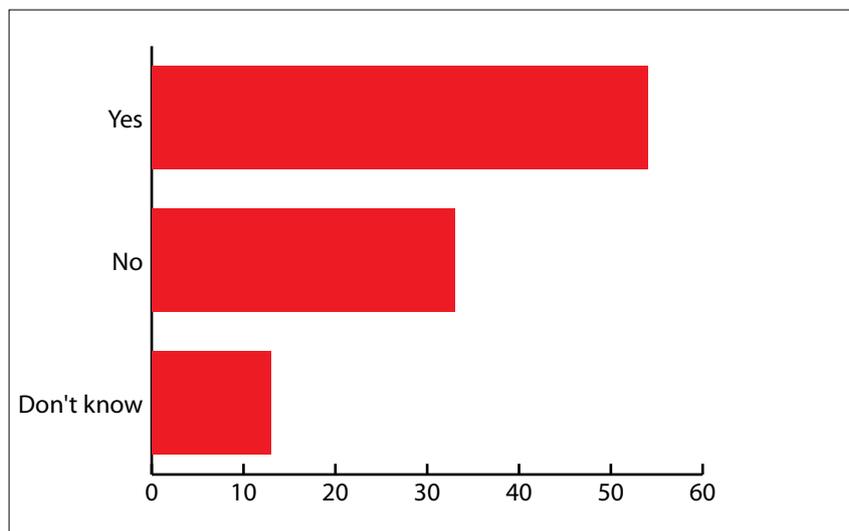
When do you think the level of healthcare M&A activity will return to pre-credit crunch levels?



The UK independent healthcare market has not really suffered in the recession, if you go by the annual reports of Spire Healthcare, General Health Care, Partnerships in Care, etc. Operating profit has actually increased in 2008, though not by as much as their business plans. Costs have been contained. The only segments to suffer are self-pay surgery, especially cosmetic surgery, but these are small segments compared to private medical insurance and NHS

Dr Victor Chua
partner and healthcare practice leader, Candesic

Is the reduction of government expenditure on the NHS which has been predicted/planned for 2010/2011 already having a negative impact on the sector?



One only has to see the NHS financial deficit from 2011 to know the worst is still to come – it will be a rocky five years

Conor Ellis, partner health sector, EC Harris

Retail sales pushed higher than forecast in August for the second consecutive month and mortgage lending rose in July, boosting public confidence that the British economy is pulling out of its worst recession in decades. Yet UK healthcare remains surprisingly pessimistic. The vast majority (72 per cent) of professionals interviewed by HealthInvestor predicted that the worst will not be over for the sector till the end of next year – at the earliest. Close to 43 per cent believe that healthcare stocks will not recover to pre-credit crunch levels before 2012. And 35 per cent said healthcare stocks will not fully recover for at least another two and a half years.

Meanwhile, a general election is on the horizon. The main political parties are only just starting to lock horns over health, but, right now, the independent sector appears to clearly favour the Conservatives. 56 per cent of respondents said the Tories will do more than any other party to speed the recovery of the UK independent healthcare market, should they win. Interviewees are split, though, as to who would do least, with 29 per cent pointing to the Labour Party, and 27 per cent the Liberal Democrats.

And yet, at the same time, there appears to be a softening of criticism regarding Labour's various policies that promote private sector participation in the NHS. The Healthcare Industry Barometer 2008 found that 72 per cent of those surveyed thought there wasn't a fair market for secondary care providers to compete for health service patients. This year, that figure dropped to 49 per cent. The Co-operation and Competition Panel has yet to make an impact.

In 2008 respondents commonly blamed the NHS Choices website, which was set up to allow the public to compare hospitals, for not having adequate information on private sector providers. Patients are more likely to select facilities from the website that have clear evidence of their superior services than those that do not. As a result, many felt that firms involved in the choice programme were disadvantaged.

This year, however, respondents commented that firms are starting to accrue sufficient health service consultations to allow meaningful comparison with NHS facilities on the NHS Choices website. Instead, interviewees complaining of unfair treatment more frequently cited the "NHS pension issue". If a private healthcare provider wants to replicate an NHS salary and benefits it has to pay around 25 per cent of its employees' wages into a pension scheme. Public sector organisations only pay 14 per cent in to the NHS pension scheme, with the government picking up the rest. This constitutes a significant extra cost to firms providing NHS services.

The industry warmly welcomed Lord Ara Darzi's reforms last summer, with nearly 65 per cent predicting the 'GP-led health centre' programme set out in the Next Stage Review would lead to greater private sector participation in the NHS. And most (54 per cent) of those interviewed in 2009 felt that confidence well-founded. The private sector has secured a decent chunk of the 150 or so NHS contracts that were up for grabs as part of the GP-led health centre programme. 22 per cent went to healthcare companies and a further 23 per cent went to joint ventures between firms and GPs.

Most respondents felt that this is no more than a promising start, though. Such figures may give the impression that a 'mixed economy' now exists in primary care, but it's important to remember that such deals constitute only a tiny proportion of the sector. It remains to be seen whether the NHS's increasing focus on value for money will eventually stop the Darzi proposals from being seen through to their conclusion.

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