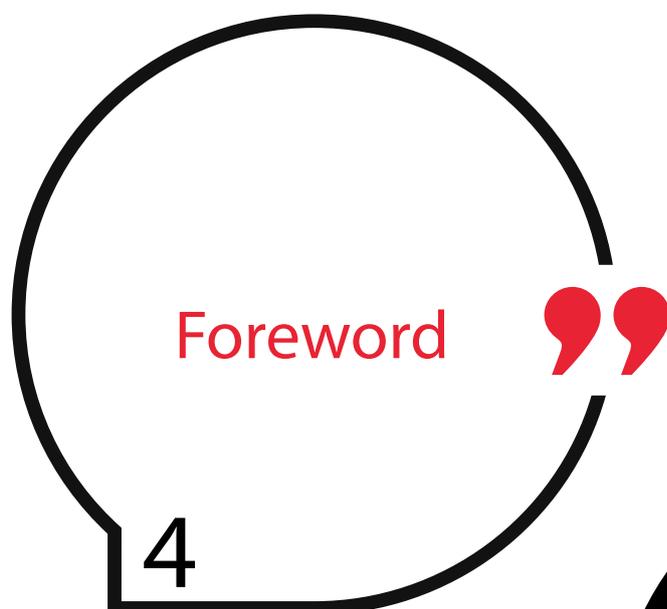


The UK's  
healthcare  
leaders' views  
on the sector

# The Healthcare Industry Barometer 2016



# The UK's healthcare leaders' views on the sector

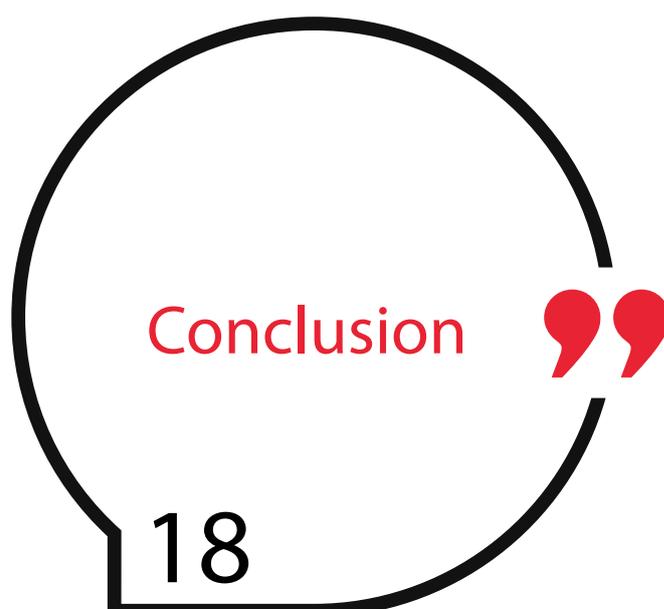


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Our healthcare and life sciences sector expertise spans all areas of the health and social care market, including primary, secondary and specialist care, mental health, hospitals, retirement living and other social care provision. Well established as the firm of choice for many private sector businesses, we also provide advice directly to the NHS. Working for both types of clients gives us a balanced outlook and the ability to offer well- rounded advice to the public and private sectors.

# Foreword

# W

elcome to the 2016 HealthInvestor / Nabarro Healthcare Industry Barometer. Anyone who has read our previous surveys will know that the one constant in the UK healthcare sector is that there are no constants. Every year brings new challenges, changes and opportunities, and this year is no different. In fact, 2016 has brought a rather dramatic new challenge, and one that it perhaps didn't see coming: Brexit.

It's hard to assess the impact of Brexit on healthcare because nobody knows yet what Brexit means. Away from the catchy but ultimately unhelpful refrain that 'Brexit means Brexit' and the debates around hard, soft or smooth Brexit, there is very little knowledge of what our future relationship with the EU – and by extension – our trading and business relationship with the rest of the world will look like. And where there is little knowledge, there is inevitably a lot of uncertainty.

Interestingly, though, the Barometer shows the impact of the referendum to be less profound on the healthcare sector as it seems to be on many others. While a third of respondents said Brexit has caused investor sentiment to slow or stop, one in four thought the sector's defensive properties means investor sentiment is likely to improve. Investors continue to see healthcare as a relatively safe haven. Not expectantly, however, a significant percentage of respondents suggested it was too early to tell. While that could be a reflection of the timing of the survey – 3-4 months after the 23 June vote – the lack of clarity about Brexit means this confusion will be the new norm for at least the foreseeable future.

Perhaps more telling is respondents' views of the Government attention health and social care policy will receive over the next two or three years. Opinion is broadly divided as to how central health policy will

## Methodology

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For the Healthcare Industry Barometer 2016, HealthInvestor conducted interviews with 104 private sector professionals specialising in healthcare between 12 September and 27 September.

For comparison purposes, the results have been converted into percentages.

be in the political debate and for what reason, but it's noticeable that only one third of respondents see health and social care policy dominating the political agenda. Is this a good or bad thing? The survey notes a significant drop in those who feel the new Conservative government is being proactive towards the private sector, and respondents are more sceptical about efforts to integrate health and social. The Barometer also notes that regulatory and political concerns are an increasing barrier to investment, almost as much as rising costs brought about by the living wage.

On the other hand, a dominant theme from this Barometer is that despite the challenging environment in which the sector operates, investors remain upbeat and confident, particularly in the private sector. Challenges remain in the sector, with the lack of good investment opportunities continuing to be a challenge, investment pricing remaining fierce due to renewed interest from overseas investors benefitting from the weaker pound, and with it being dominated by public funding shortages, low staff morale and a constantly changing organisation and governance structures, but 60% of respondents are confident greater opportunities will exist for private sector players, particularly in areas like private pay elderly care.

Whatever challenges administrators, politicians and the wider economic landscape throw at the healthcare sector, a marked and growing imbalance between supply and demand caused by a range of factors and driven by an ageing demographic means that investors will likely always be able to identify opportunities for good returns.

With our sincere thanks to HealthInvestor for the survey and to all the respondents for your comments and insights, we hope you find the 2016 Barometer a useful measure of current market opinion.



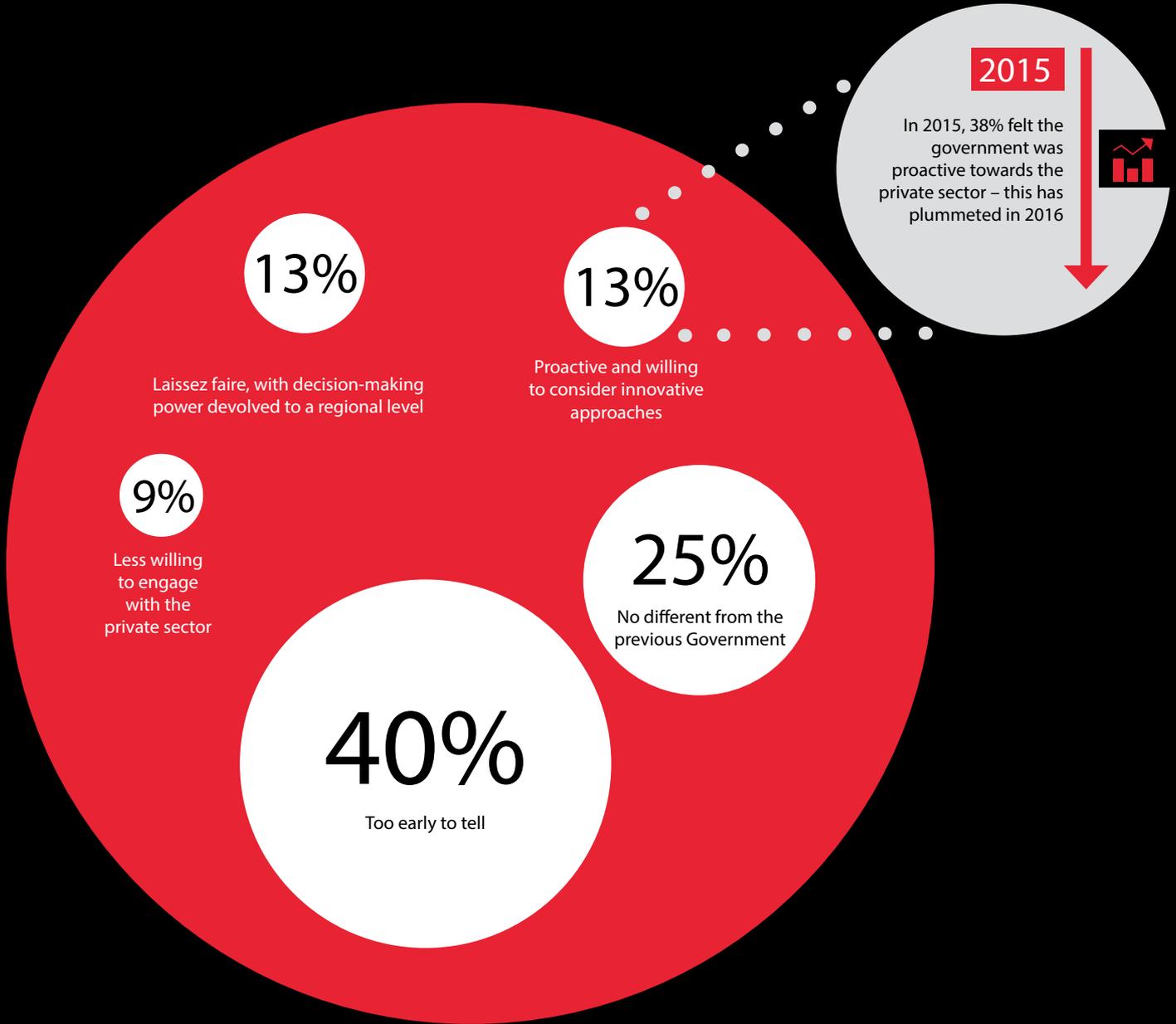
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# Market sentiment

**Q** The Conservative government has been in power for over a year. How would you characterise its relationship with the independent health sector?

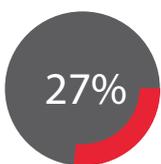


"I believe over the course of this parliament the government will be distracted with Brexit negotiations. Some of these negotiations may impact healthcare but I don't believe the sector will be the primary reason for decisions. NHS and social care systematic reform will most likely continue to be undertaken in a reactive manner at a crisis point and probably stop short of delivering what is needed."

**Mark Gross, investment director, Downing**



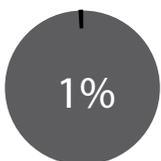
**Q** The UK has been rocked by Brexit and numerous changes to the political landscape. What impact has Brexit had on investor sentiment towards health and social care?



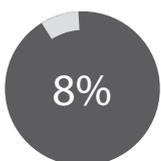
There has been a slow-down in activity, although appetite for quality assets remains very high



Health and social care's defensive properties has meant there has been a rise in interest in the sector



Investors are actively avoiding the UK and targeting alternative markets

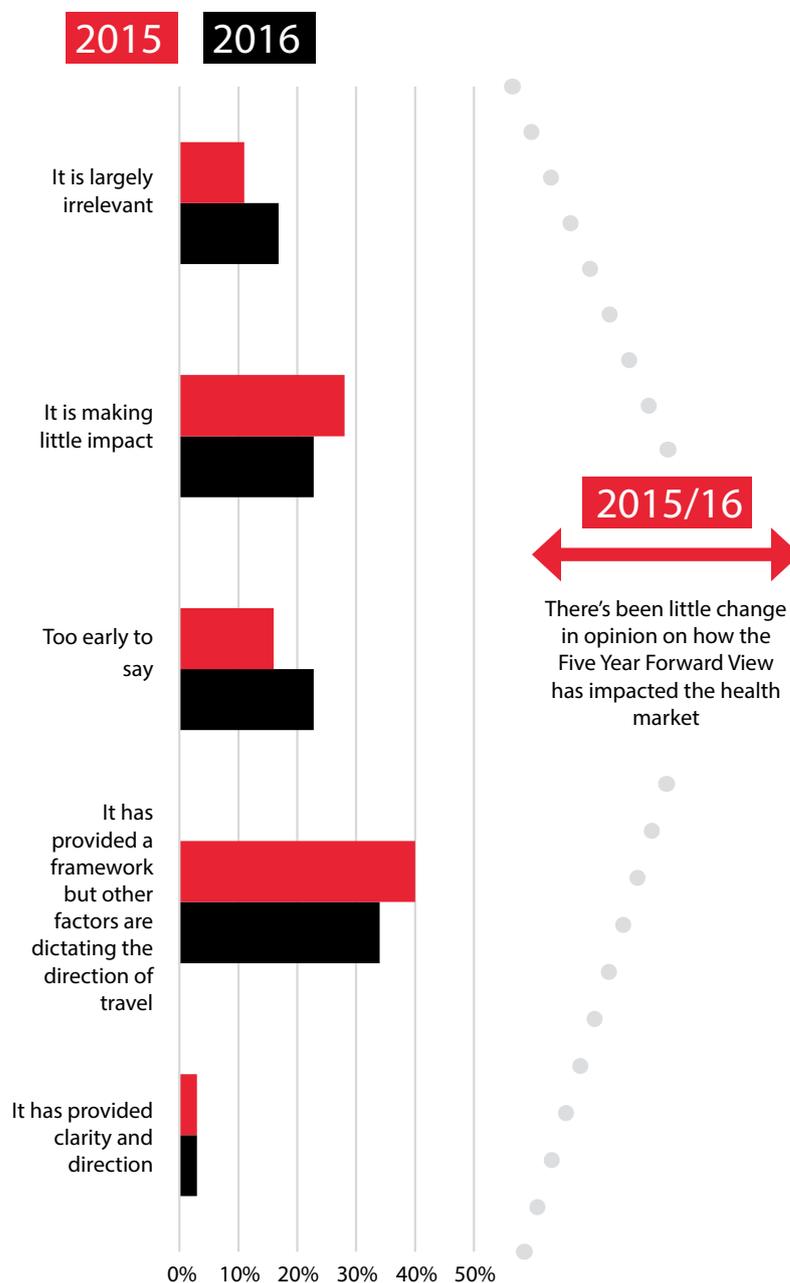


Investment activity is effectively on pause while uncertainty remains



Too early to tell

**Q** To what extent has the Five Year Forward View resulted in a more plural and competitive health market?



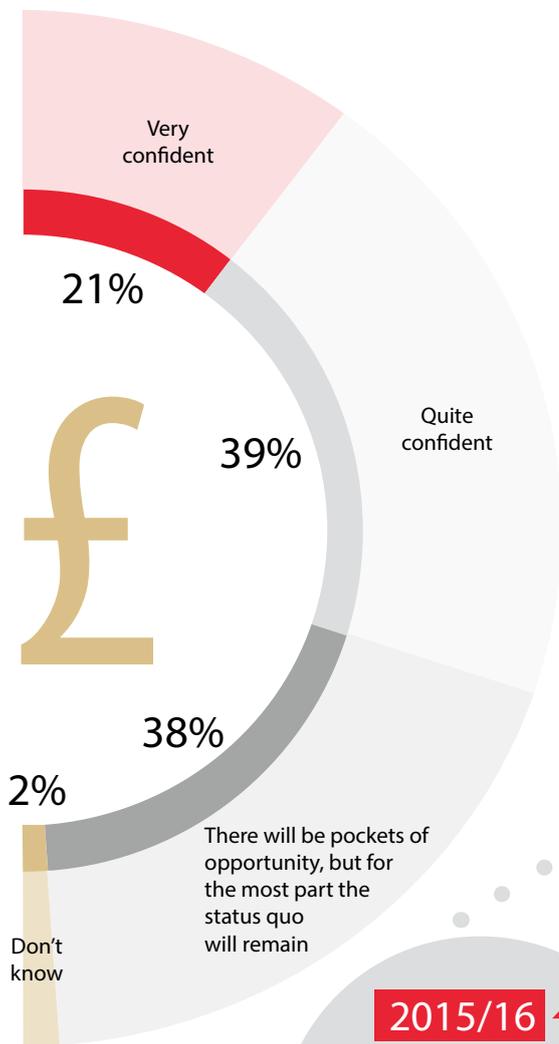
"I feel the impact of Brexit has been overstated and it won't have as big an impact on the health sector as feared."

**Clare Connell, managing director, Connell Consulting**



# Market sentiment

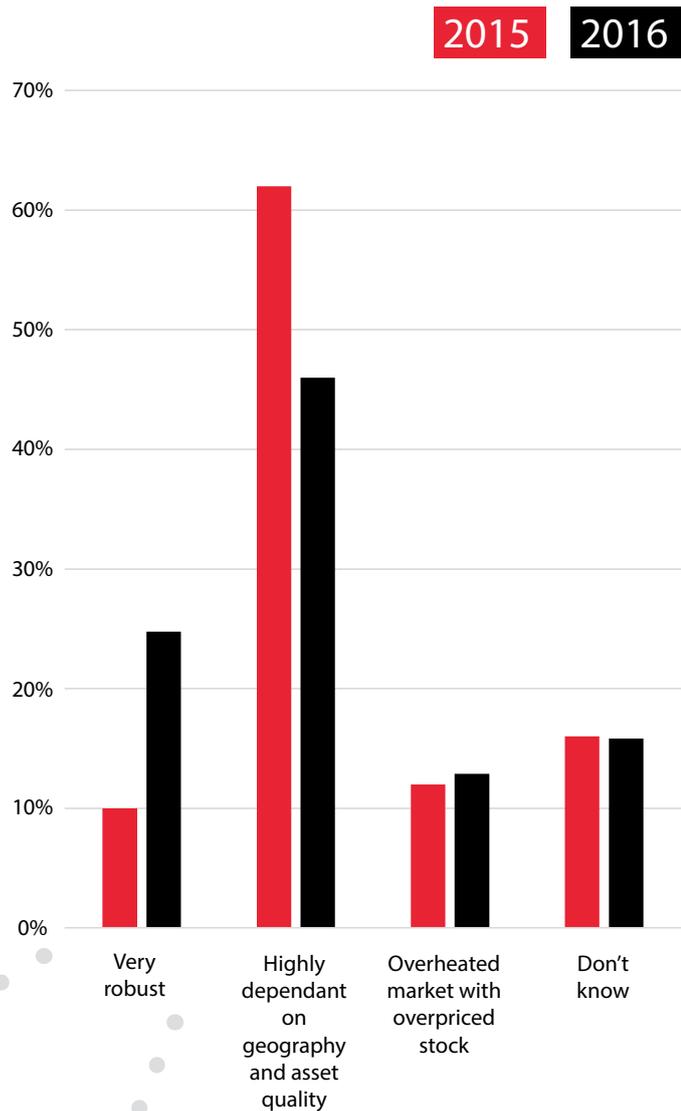
**Q** The NHS is facing unprecedented financial pressures. How confident are you this will lead to greater opportunities for private sector players to help meet these challenges?



**2015/16**

Investors are increasingly convinced in the robustness of the private pay care home sector

**Q** The private pay elderly care market has traditionally attracted high levels of investor attention. How robust is this part of the market?



"I think that pure private pay is the place to be at the moment, it is very robust"

**Seamus Halton,**  
**managing director,**  
**Berkley Care Group**



# Q

To what extent do you agree that there are still opportunities for investors in the non-private pay elderly care market?

20%

Strongly agree, there are still plenty of opportunities

49%

Some opportunities in certain areas

18%

Don't know

13%

There are no opportunities left, investors should look elsewhere



"The government must wake up to the fact that much of the pressures on the NHS are due to inadequate social care funding."

**Andrew Sidwell,**  
senior director,  
health, GVA

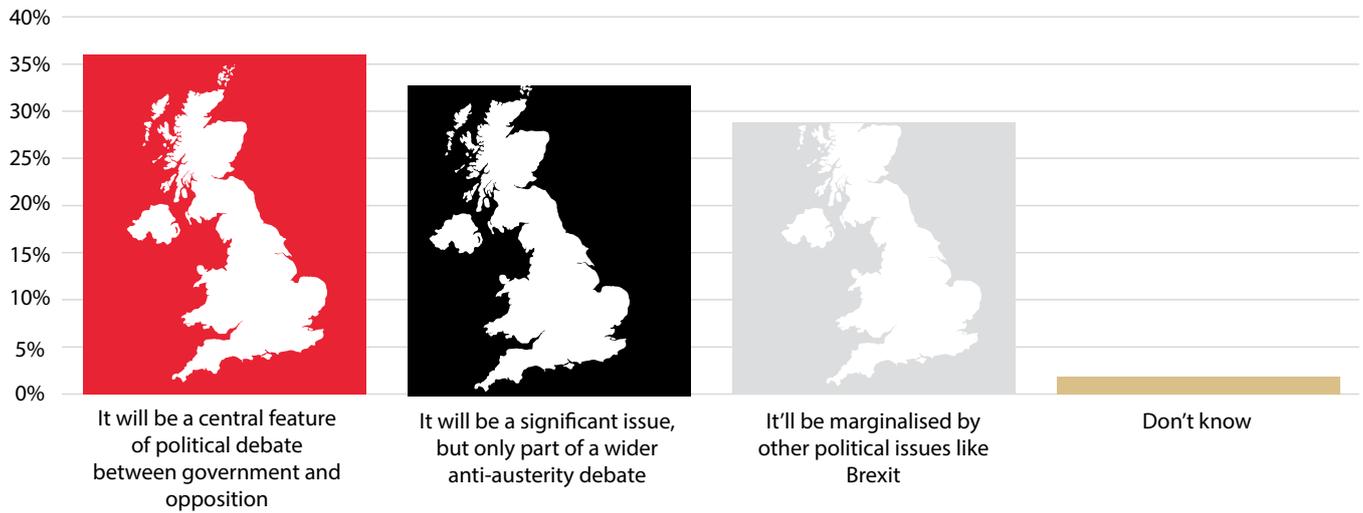
"I believe we are at the beginning of a period of long term growth in private pay healthcare and GPs need to increasingly offer patients this choice. The NHS simply doesn't have the money, the capacity or the business model to cope with all that is thrown at it combined with under-funded social care."

**Giles Johnson, partner, CIL Management Consultants**



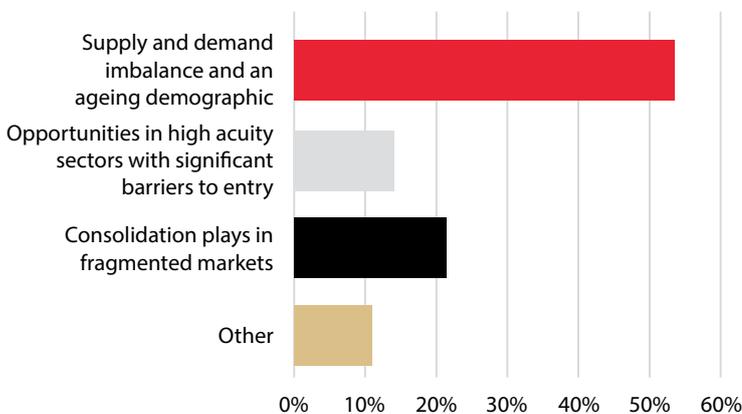
# Practical issues

**Q** Against the backdrop of Brexit negotiations and the current political situation, how central will health and social care policy prove to national politics?



There was a range of views as to what role health and social care would play in the national political debate

**Q** What are the main drivers for investment into today's market?

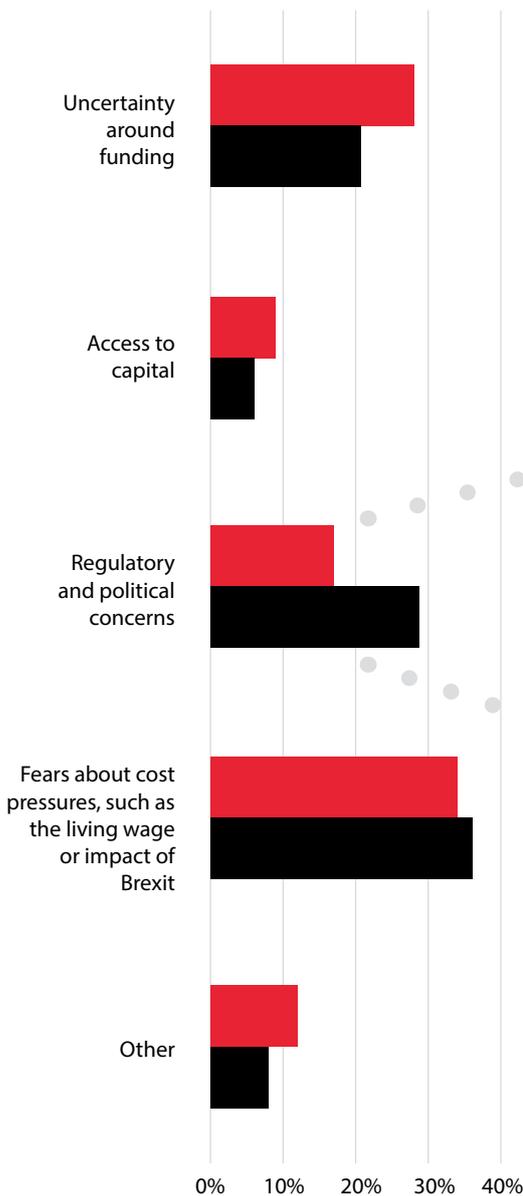


“The major challenge in elderly social care remains in balancing the drive for austerity with the public perception that the state will take care of them. The vast majority of new development in recent years has been focussed on the private pay sector. With increasing bed closures in local authority areas, resulting from regulatory and cost pressures, we may very soon see new opportunities in these locations as some kind of public/private partnerships are required to fill the void.”

**Ian Wilkie, director, Healthcare Property Consultants**

## Q What are the main barriers to investment?

2015 2016



**2015**

The biggest rise in perceived barriers to entry compared to 2015 was in relation to regulatory and political concerns



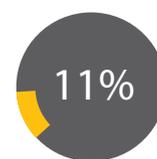
“The NHS would surely improve healthcare delivery and health outcomes if there was higher focus at all levels on driving innovation and Vanguard projects.”

**Manish Miglani, head of health investments, Nesta Impact Investments**

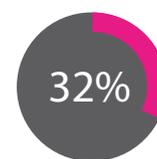
## Q What are the main opportunities for engagement with the NHS?



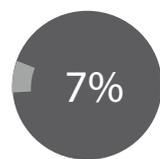
Public private partnerships (including PPUs)



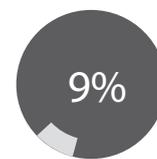
Community health contracts



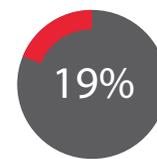
Providing excess capacity



The Vanguard projects



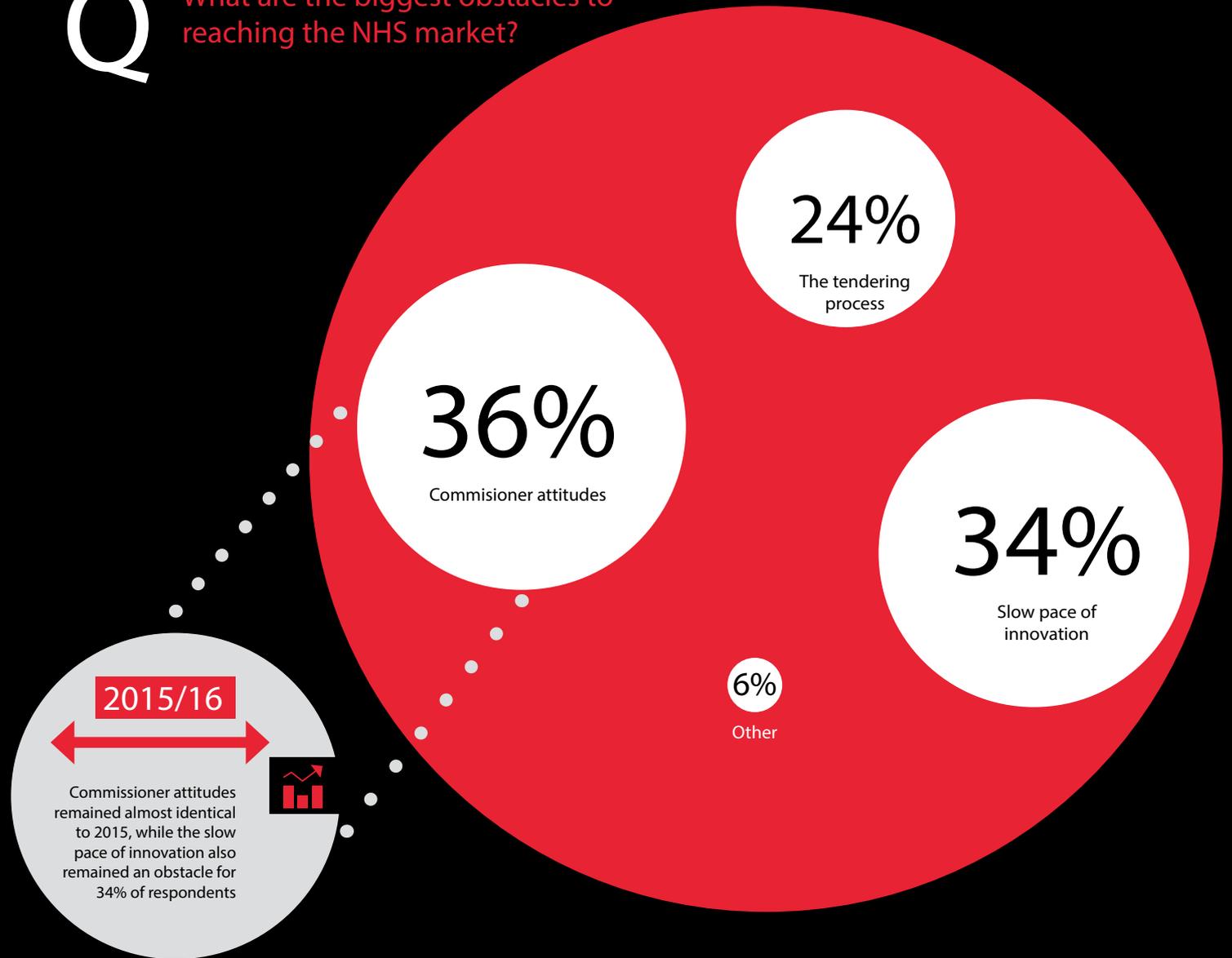
Strategic Estate Partnerships



Other

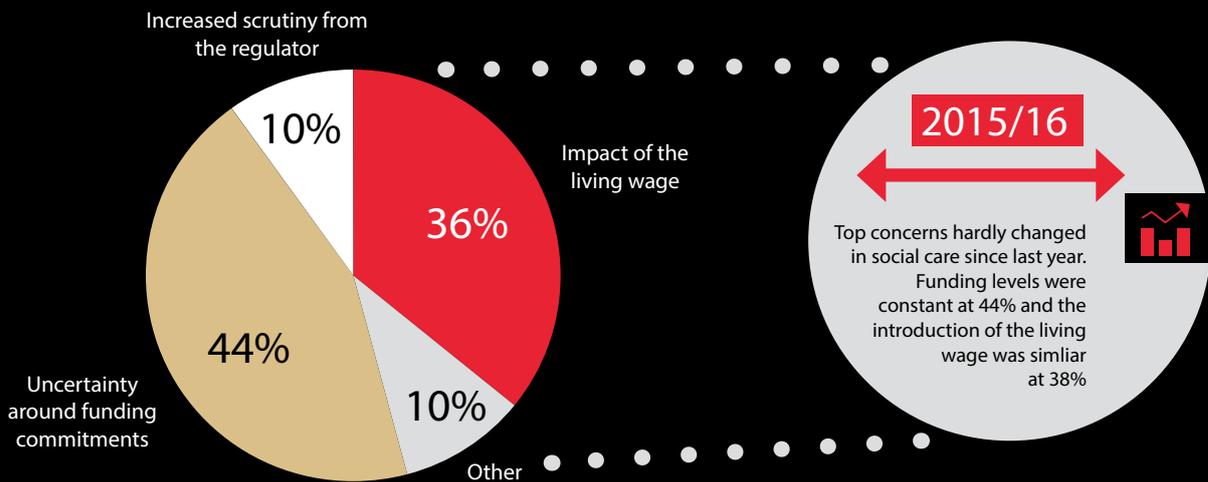
# Q

## What are the biggest obstacles to reaching the NHS market?

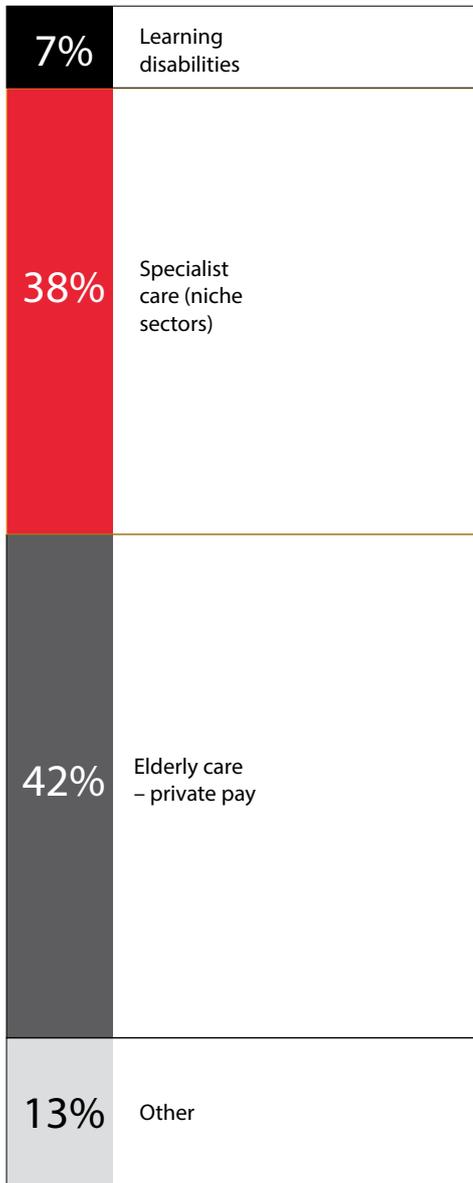


# Q

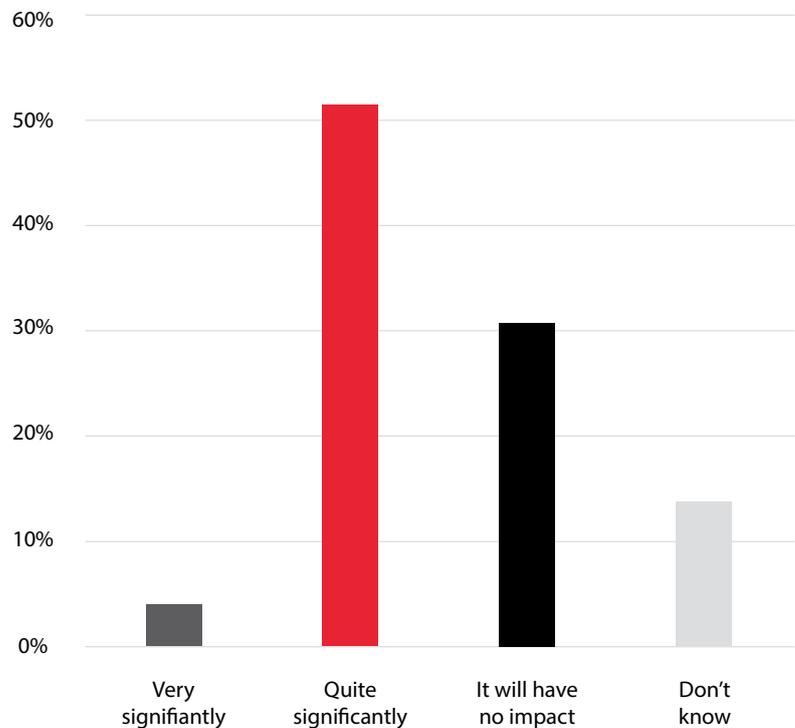
## What is the greatest sector concern for social care providers?



**Q** Which areas of the social care sector are performing strongest?



**Q** Will the increased pressure on the health service boost the PMI market?



“Access to capital is the key driver for investment into the NHS. The NHS has limited access to significant capital and is prepared to adopt an ‘I don’t care who runs it but I want to protect the service’ approach.” This represents a fantastic opportunity for true collaboration.”

**Paul McPartlan, chief executive, Genesis**

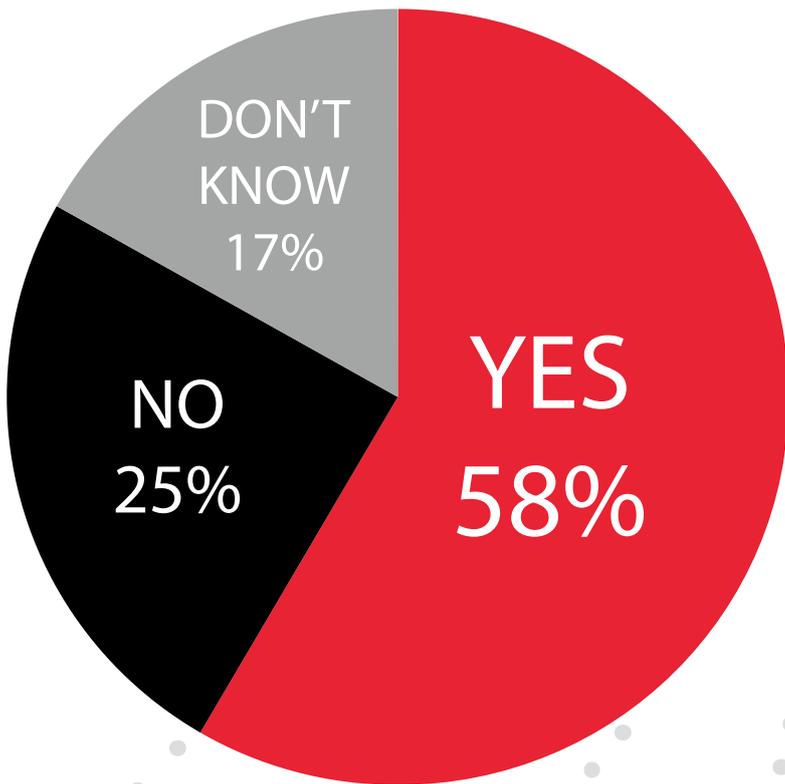
“The introduction of the living wage has caused much uncertainty within the health sector. While many of the providers I speak to have coped with its initial introduction earlier this year, they are very concerned by the impact of future rises and we are working with them to develop innovative solutions to support the sustainability of their business”.

**Mark Naughton, national sector leader, healthcare corporate finance, Grant Thornton**

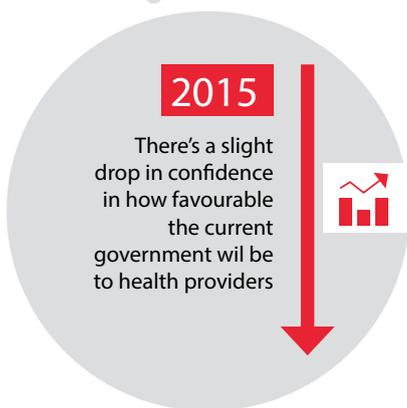
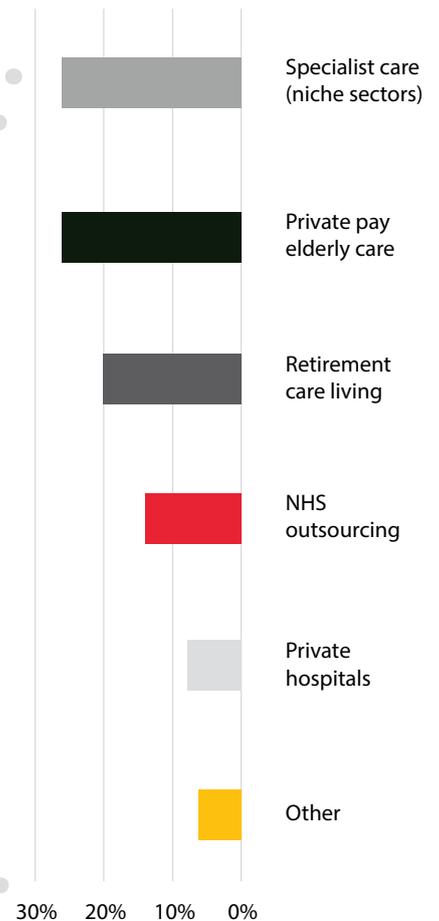


# What next

**Q** Do you believe the political environment over the remainder of this government will prove favourable to independent health and social care providers?



**Q** Over the next four years, which subsectors will perform strongest?



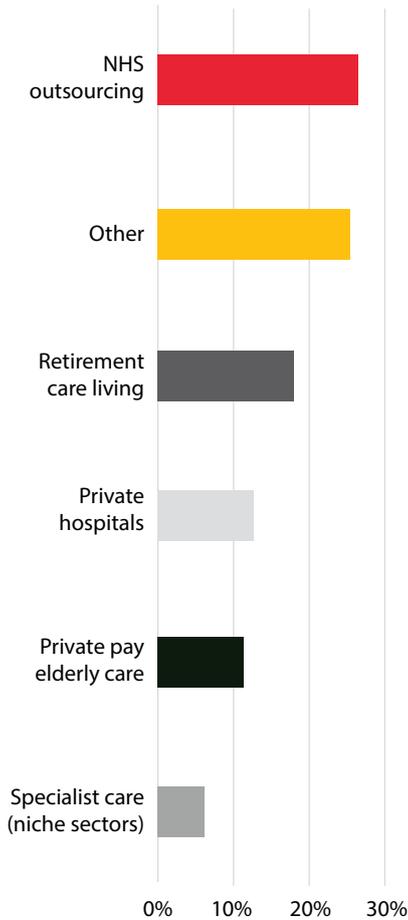
**2015/16**  
The order of subsectors is very similar to last year, with NHS outsourcing leapfrogging private hospitals

"The CQC hard line approach, alongside low Local Authority fees, is pushing a number of smaller independent providers out of the market, creating a bed shortage in several areas of the country, and thus opportunity for those providers who put quality and people first. Demand has overtaken supply in many rural areas and this is most acute for nursing needs with many homes de-registering due to the lack of nurses and higher associated risks"

**Len Merton, chief executive, Advinia Healthcare**



**Q** Over the next four years, which subsectors will perform weakest?

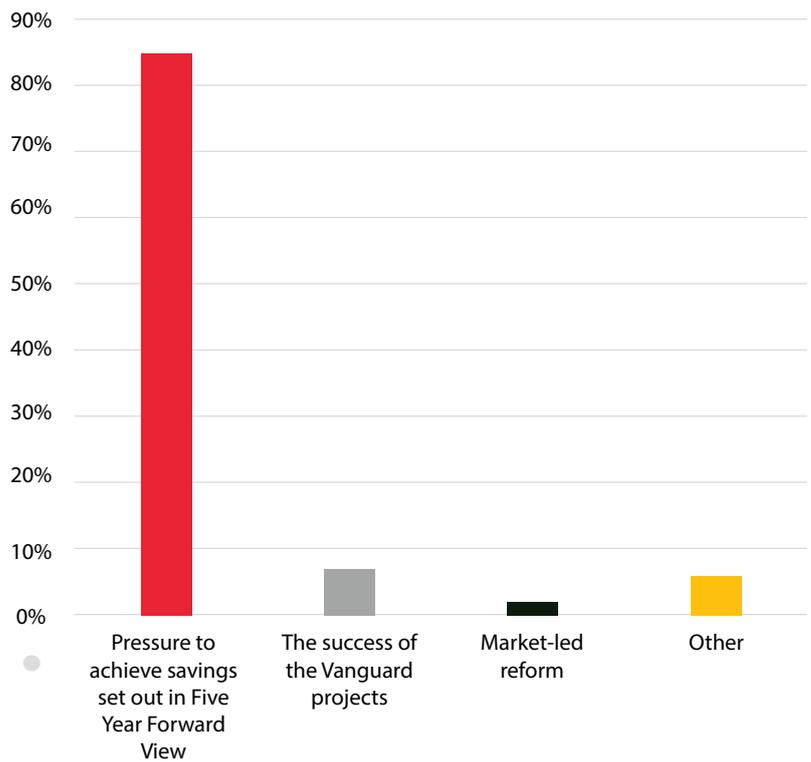


“The continual recycling of failed executives within the NHS - often elevated to equal or better positions - is the cause of my pessimism around outsourcing and private sector opportunity. With the introduction of new blood everything might change.”



**Nancy Hollendoner, senior adviser, Smith Square Partners**

**Q** What will be the principal driver of commissioner behaviour over the course of this Parliament?

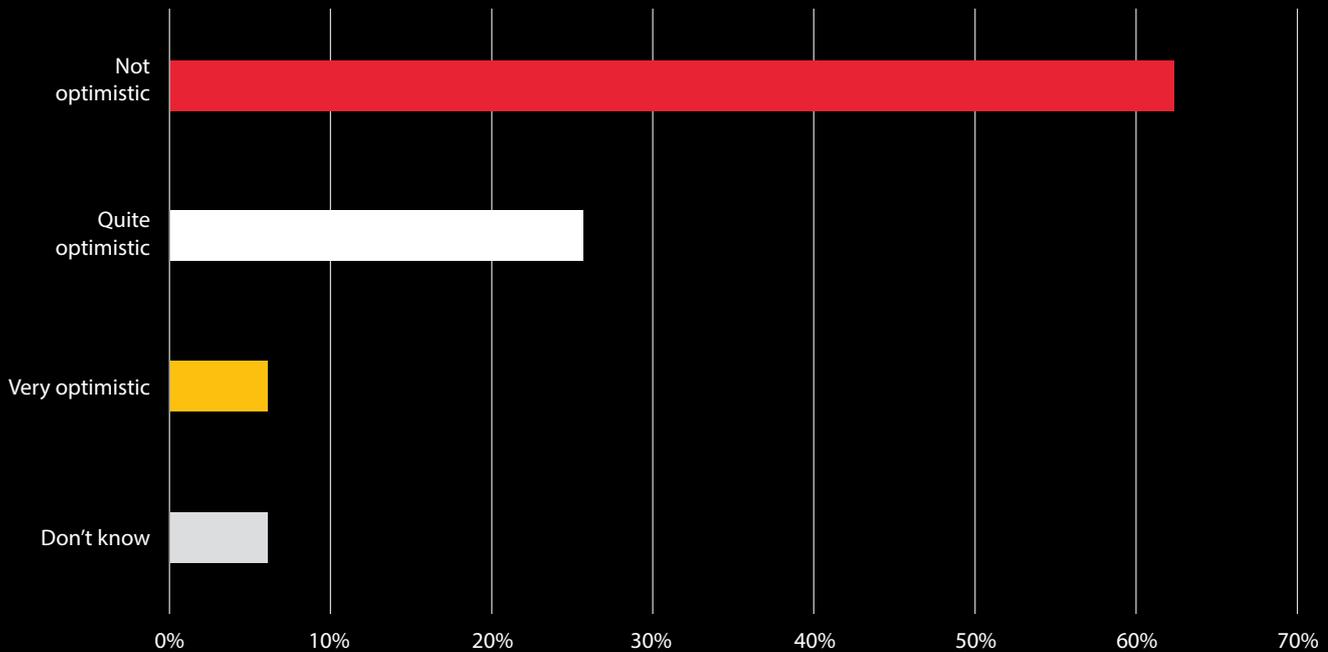


**2015**

The need for savings is still driving commissioner behaviour, although it is down from last year's 92% of answers

# Q

## How optimistic are you that this government will make a serious attempt to integrate health and social care over the course of this Parliament?



“Healthcare is increasingly attractive to an ever expanding number of global investors. This growing pool of capital increases the potential for greater private sector involvement. It will enable more funding & innovation to grow and develop future services and alleviate the pressures currently endemic in the system. The private sector must become the funder of infrastructure where Government cannot afford to and step in or work collaboratively to deliver the future needs of the elderly and health services generally. Health and social care need to be brought into single policy and new formats of care and new service hubs for an increasingly local population must be produced to remove the pressures currently exerted on a mass population tertiary based model of care that can no longer cope.”



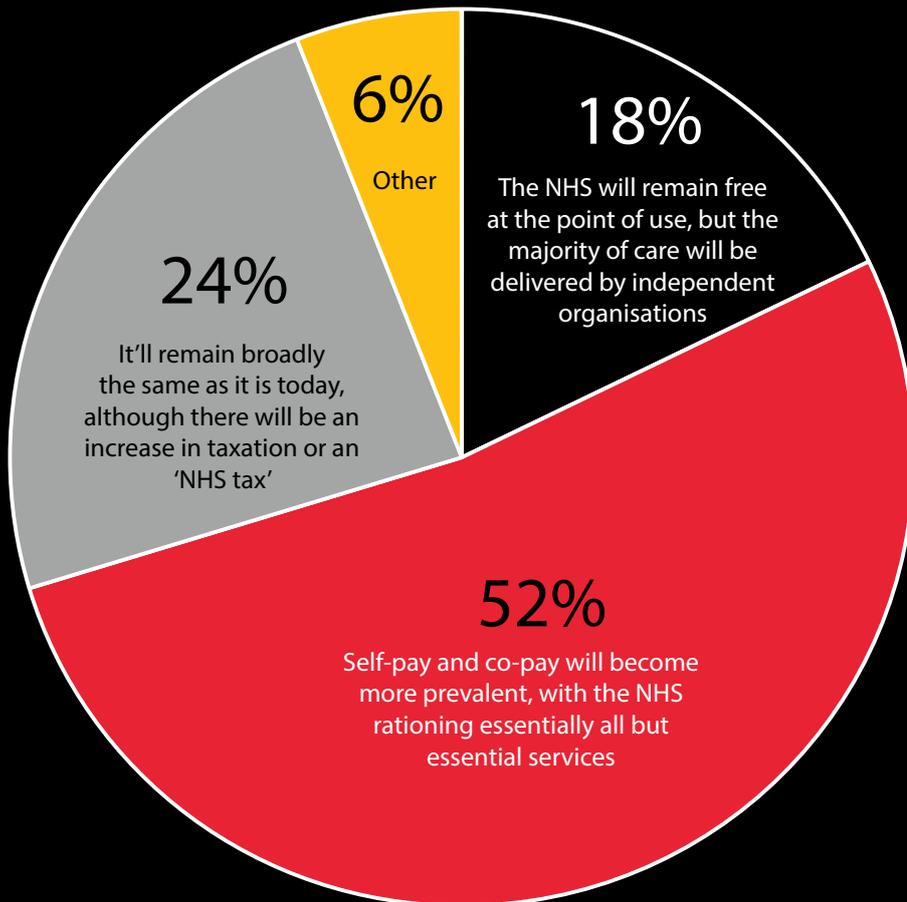
**Tim Edghill, international director, JLL Corporate Finance**

**Q** If you look ahead to 2030, in what fundamental way will the health service have changed in the UK?



"Polarisation is evident generally across the country. Integration of Health & Social Care can be complex and can involve a range of sometimes conflicting interests at the point of commissioning. The NHS does of course remain a significant political issue and it is widely accepted that radical change will require strong leadership. However the ageing population is a global epidemic which cannot be ignored so investment will be needed and justified."

**Derek Breingan, head of health and social care sector UK, Clydesdale & Yorkshire Bank**



"A lack of funding for both health and social care will dictate the direction of travel however combining budgets is a huge hurdle to overcome without radical reform which is almost impossible to envisage. Much will depend upon the next general election."

**Tony Stein, chief executive, HCMS**

## Conclusion

**T**he UK's decision on 23 June to vote for 'leave' in the referendum on EU membership has undoubtedly had a significant impact on the HealthInvestor readers polled for this year's survey – who gave their opinions around three months after the momentous decision. What's less clear, however, is in what ways 'Brexit' will impact the health and social care landscape.

Indeed, while 35% of those polled felt it had acted as barrier to investment, readers were neutral on its long lasting impact – with most feeling it was too early to tell. In the short to medium term, it seems Brexit's greatest effect will be a diversionary one – keeping the rapidly developing crisis in health and social care off the front pages and off Theresa May's desk.

It is however these financial pressures that readers believe will prove both the driver of commissioner activity (with 85% believing seeking savings is dominating commissioning behaviour) but also opportunities for the independent sector, with the need to recalibrate existing care pathways creating potential partnerships for private operators. However, this optimism is tempered by the continued frustration among readers towards attitudes in the health service concerning innovation and working with independent providers.

In the care home market, private pay continues to dominate investor interest – with the number of people believing the market to be 'very robust' more than doubling from 2015. However, interestingly there are

improved confidence levels concerning opportunities in the local authority market. While respondents clearly cited issues such as the national living wage and staffing shortages as negative factors, 70% of respondents felt there are still opportunities outside of private-pay – especially as the tough trading environment forces ‘mom and pop’ homes out of the market.

Despite the distraction of Brexit, over half of those polled (58%) felt the political environment remained favourable for increasing the role of the independent sector in health and social care. However this optimism did not translate over to whether or not the government had the appetite to make a bold statement – such as the integration of health and social care budgets – and it remains an oft-cited complaint that there is a disconnect between the two services.

It remains to be seen how Brexit and the funding crisis impacts on the health and social care sector in the coming months and years, but enthusiasm for the sectors among investors remains robust.



**Vernon Baxter**  
Managing editor,  
HealthInvestor



**HealthInvestor** UK

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**HealthInvestor** UK



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