

PRIVATE ACUTE MEDICAL CARE

New LaingBuisson figures show revenue growth for UK private hospitals

Headline findings from LaingBuisson's latest research and analysis, revealed through a conversation with the author Philip Blackburn

HM What were the main drivers of demand in 2015?

PB Self-pay spending grew by 9% in 2015 to reach £0.9m, following a clear pick up a year earlier. However, growth of other funding sources for hospitals all slowed down.

NHS spending on acute medical care services from hospitals and clinics grew by 6% to reach £1.5bn but this was a deceleration from stronger growth in previous years.

Meanwhile, revenues from private medical cover payouts, which remain the funding cornerstone for providers, grew only marginally by 1.3% during the year. This reflected a lack of growth in private medical cover demand in 2014 and efforts by insurers to keep a lid on claims costs to tackle affordability for their customers.

HM What is driving increased demand for self-pay?

PB The rise in self-pay demand reflects wider interest in private healthcare at a time when high average waits for NHS treatment moved upwards, and many people faced very long waits.

In addition, there was further development of self-pay private healthcare packages by hospital groups and other facilitators to meet the care needs of customers.

HM Why do you think growth in NHS demand dampened during the year?

PB While patient choice on the NHS continued to offer progressive demand for the independent sector, there was much less use of independent facilities by NHS organisations on a spot basis to clear waiting lists in 2015.

This coincided with the removal of 'waiting list' penalties in 2015 for NHS Trusts carrying deficits.

HM We all know that there are challenges in the market but do you agree that it remains active?

PB Yes. This year's report continues to identify a good appetite for additional capacity within the independent hospital and clinic sector, as several new hospitals and clinics are currently being developed by incumbents, and others are planned by new entrants.

One Healthcare's new Ashford hospital, which opened in 2016, reflects continued strong investor interest in the South East of England, with London retaining its attraction for mooted new developments.

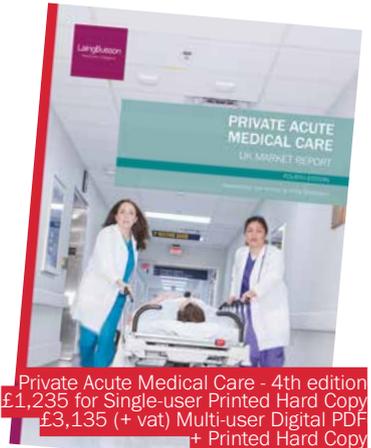
However, new hospitals are also being developed in major cities in other parts of the UK such as Manchester, Birmingham and Nottingham. On top of this a number of NHS Trusts have ambitious plans to expand their private patient capacity to generate more income.

HM Looking ahead, what do you think the immediate future holds for the sector?

PB There continues to be a flow of new capacity entering the private acute medical care market looking to attract customers, which reflects positive investor interest in the recent past.

While new capacity may be expected to ginger up competition at a local level, a challenge for new hospitals and clinics will be to bring new demand into the marketplace.

Also, as insurers look to keep private medical cover affordable, delivery efficiencies are likely to be sought from new structural developments. Going forward, it remains to be seen what effect Brexit has on investor appetite in the UK, though the current weakness of Sterling offers favourable dynamics for new investments from overseas at this time.'



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Meet the analyst

Author **Philip Blackburn** is a trained economist who has worked for LaingBuisson for over 15 years, specialising in applied economic and business analysis of the private acute hospital market, private medical cover, dentistry, children's services, childcare, and other markets.

Prior to LaingBuisson, Philip spent several years at the Office for National Statistics, writing its monthly Economic Trends and Regional Trends commentary.

Private Acute Medical Care market value, end of 2015



Independent acute medical hospitals and clinics
inpatient, day case, outpatient & diagnostic services
£5,030 million



Private patient income collected by the NHS
inpatient, day case, outpatient & diagnostics
£547 million



Independent sector fertility treatment provision and private fertility revenues generated by the NHS
£220 million



Pregnancy termination services
£83 million



Health screening services
£170 million



Specialist fees generated privately from the provision of acute medical care

£1,600 - 1,800 million (NB a proportion of these fees are included in the revenues of private acute medical care providers, including fees paid to specialists for treating NHS patients (within the NHS tariff paid to providers) and some specialist fees which are included in private self-pay revenues collected by hospitals and clinics. LaingBuisson does not know the full value of specialist fees included in revenues generated by hospitals. A combination of provider revenues and specialist fees is estimated to be between £7.3 billion and £7.55 billion)

Independent acute medical hospitals and clinics - revenue split



SOURCE LaingBuisson's Private Acute Medical care - fourth edition.



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A market with structural growth opportunities

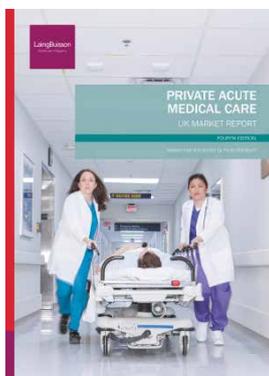
Worth over £6 billion last year, the private acute medical care market has in recent years benefited from growth in the self-pay market, strong NHS spending and a healthy international funding stream.

However, while a cyclical high in the proportion of long-waits triggered wider interest in the market, core historic market drivers saw their growth decelerate last year. The largest funding source for independent sector acute hospitals and clinics, private medical cover payouts grew only marginally in real terms during the past 12 months holding back stronger growth for the sector. Although NHS purchasing through patient choice continued its progressive growth trend, there was a noticeable drop in local 'spot' contract business with the NHS to clear waiting lists, as Trusts kept more work in-house following the removal of waiting list penalties for those in deficit. Meanwhile revenues from international patients increased more modestly as a wider field of global competitors opens up.

Nonetheless, a good amount of new capacity has entered in the past 24 months or so, and equally a number of new facilities are due to come on stream in the near future.

A growing trend towards outpatient care continues, as incumbent hospital groups and new providers develop wider diagnostics and treatment facilities on sites removed from hospitals with state-of-the-art equipment.

There are favourable drivers for UK private acute medical care hospitals and clinics going forward but also notable risks on the horizon. Drawing upon proprietary research and data sources this market report from LaingBuisson provides an invaluable picture of the current market, detailed trend analysis and expertise on the future of private acute medical care across the UK.



What the report covers

UK Hospitals & Clinics Overview
Funding
Market Structure
- PMI
- NHS Purchasing
- Self-pay
NHS Private Patients
Other Market Components
Activity
Specialists
Political Environment & the NHS
Regulation
Futures

Financial Appendix

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This market report from LaingBuisson covers the provision of acute medical care services by private (non-NHS) providers, and the provision of private acute medical care services by NHS providers within Private Patient Units (PPUs).