HealthInvestor round table

Decision points: Can the choice agenda reshape UK healthcare?

JLL

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Decision points: Can the choice agenda reshape UK healthcare?

The concept of choice has been at the centre of the Coalition's health policy. As the priorities of modern healthcare systems such as the NHS evolve, and demand increases exponentially, policy-makers are hoping informed consumers of healthcare can 'vote with their feet' to help create the type of health provision they need, not simply accept what is mandated by the health service itself.

That, at least, is the theory. But as austerity continues to bite on the NHS and social care systems, can choice remain at the top of the care agenda? And as clinical commissioning groups reach maturity, will commissioning behaviour reflect the virtues of choice and competition, or will the picture remain decidedly mixed?

To consider these questions, *HealthInvestor* and global property services business JLL held a round table discussion on 9 September in central London where the sector's leaders debated what's next for UK healthcare.

Vernon Baxter: Phil, to what extent do you see the sector changing at the moment? What are the main drivers?

Phil Hall: It's universally acknowledged that demand is on an upward trajectory, and that has huge implications, both for NHS and for social care budgets. Public sector spending is under severe constraint, and that is likely to continue, whoever is in power following the next election. There are plenty of proposals to address these issues, but, inevitably most involve raising taxes, and I think that will be extremely difficult to sell for politicians.

If we accept we will actually have to pay more for our own care, then that would actually bring in more investment from the private sector. Otherwise we're in danger of following the lowest common denominator, where local authorities commission to keep price down, which reduces choice, which reduces quality, and puts the focus on trying to eke out budgets rather than address issues.

Vernon Baxter: Tim, do you agree something fundamental needs to change in terms of how we pay for care?

Tim Street: You always see a boom/bust cycle in terms of pressure on the local authorities. They squeeze and squeeze, so capacity starts going out of the market, and then they find that all of a sudden they can't purchase what they need to, and quality starts to drop to a level that's completely unacceptable. And then, they have to release the taps. One of the differences this time has been the attitude of local authorities towards top-ups. If it helps facilitate choice, and allows you to choose high quality services, then top-ups are now generally accepted.

Where we're going to go to is a situation where the NHS is free at point of delivery, but at the same time if you want additional services, you should be allowed to add funding to enhance what it is that you're getting. That brings funding into the sector, which allows people to innovate and improve quality, and that benefits everybody, not just those who are paying for it.

Tim Street
Senior advisor,
Patron Capital

Tim Ashlin
Partner,
Synova Capital

James Hanson
Lead director – healthcare,
JLL

Paul de Savary
Managing director,
Home from Home Care

Vernon Baxter: Paul – having brought new funding into the sector, where do you see the market at the moment?

Paul de Savary: The reality is the system's bust, and the system's been bust for a long, long time. When we got in the market with Home from Home Care we were parents, we had very high expectations, we thought we'd create really good properties, and we would be very innovative, and it would all work from there. What we didn't realise was how systemic the issues are. We're intellectualising about the care industry, but there are very few people who are actually working out the nuts and bolts of how you change it. And, I think that's a wider issue generally. You're not going to solve the problems by raising taxes, that's just stopping the dam bursting. We actually need disruptive change, and that will happen.

Vernon Baxter: Mike, what do you think will burst the dam?

Mike Adams: It'll be funding. The fact is that people are already rationing healthcare. One of the biggest issues is transparency in funding and how it is limiting development. Unless you can get a reasonable base of private pay, why are you going to build in an area? And, if you are, you're going to want a pretty significant return for that, which actually is not sustainable. We do need to work out how we encourage more disruptive change in the sector. Change will have to happen because the budget isn't there, and the reality is going to hit people.

Vernon Baxter: Tim, as an investor, do you see this change as an opportunity or a challenge?

Tim Ashlin: I am actually a little bit more positive. Progress in healthcare is always maddeningly slow, and very frustrating. But, where I've been talking to commissioners, there has been quite a shift in the last year or so. People are definitely thinking in a more engaged way about the fact that change needs to happen, and are being much more innovative.

In the better run CCGs, people are open to the private sector coming along proactively and offering them solutions. The biggest criticism I have is that, generally, the CCGs don't really have a clear direction, and they're slightly lost as to the outcomes that they want to show. However, if you suggest a solution that enables them to show positive outcomes, without having to spend lots more money, they're quite open to that. There are real opportunities, particularly with technology, to provide these solutions. You look at most other industries and technology is at the centre, but it's still very much on the periphery in healthcare.

James Hanson: Nobody can get away from the fact that demographics are changing, either. Also, everybody is expecting a better patient experience, but the funding to provide better services is not necessarily there. That's where there we need to try and encourage private capital to come in to the sector. We've seen a lot of institutional funds, domestic and overseas, looking at the UK healthcare market because they believe there's a very strong foundation. But, they also recognise investing in healthcare doesn't come without its risk, and you've got to look at the operational business behind that service to see if it's sustainable. There is a general recognition in the market that, if you can improve the IT and the technology, you will get innovation, and you will also get that capital coming in.

Tim Edghill: A lot of what's been said is absolutely right, but I don't think there's going to be any bursting of the dam. The health service is going to be very slow to change, and that's because we are so reliant on private capital to come in and make that change happen. There is a huge difference between the different sub sectors of healthcare, and they're moving at different speeds, not just from an investment perspective, but also actually from a consumer choice perspective.

If you look at something very simple like retirement living, the span of offering within the retirement living sector is vast. But, it's a very, very big leap of faith for an investor to be the first mover there. The biggest issue we face today is how quickly all this can happen. If you're trying to get ▶

into certain areas of healthcare, this could be a 15-year journey potentially.

Tim Ashlin: When you look across healthcare, you can start to see why progression with things like technology will be much more piecemeal and much more local. That lack of universal standards was clearly a barrier to the National Programme for IT's success, for instance. One of the key barriers to making technology more joined up is around slightly differing agendas and concerns around confidentiality. This is nothing new, and lots of people are debating it, but I don't think anyone's quite got the answer yet.

Vernon Baxter: Is there a first move advantage, though, or does it pay to be conservative some times?

Mike Adams: A lot of the capital in the market is relatively conservative, but what you've seen is a huge increase in demand for institutional friendly stock. I think we do lack innovation, but we also lack capital that is prepared to back innovation. I believe there is going to be a first mover advantage to people who are prepared to really understand the direction of travel in healthcare.

Tim Edghill: Over the last few years it has been easier to invest in reactive businesses that deal with problems because the demand is very evident. Investment wants services that almost don't have choice, because if there's a clear demand people have to use the service, that's a much easier evaluation to make as an investor. It's much more difficult to sit there and look at a new format and to say, I believe people will go for that to the extent that I need them to do to cover my investment.

Tim Street: That's not just on the investor side, that's in the NHS as well. In the last 15 years I've seen some amazing examples of the NHS being innovative. The trouble is making that innovation systemic. You see some great start-ups in the healthcare space, but getting someone to put millions of pounds into it is a different story.

Phil Hall: We see examples where local authorities and NHS Trusts are in a great position to facilitate and promote change, and the development of new products. We've got clients who are keen to invest capital in developing new facilities, which local authorities and NHS Trusts say they want, be it in new forms of supported living, extra care, step down services, rehabilitation, patient hotels etc. But if the commissioner is not prepared to commit themselves to paying for it, then the capital won't be deployed. Some local authorities are now getting their heads around this and starting to think commercially, but it's very patchy.

Paul de Savary: I don't think money is a problem. And, actually, there is a lot cheaper money out there as well, than probably the money that you guys represent, because you have got peer-to-peer funding that can be tapped into. People who would like to invest in their communities. The problem really is that somebody has got to take a risk. We built services without any commissioning and then we found they weren't going to commission the services, so we had to find the market. That's the process of change. It's not sitting around a table. When you actually start doing new things you start engaging people, you engage with your staff, you engage with everybody.

Tim Edghill: I agree these are the right moves to put in place, but the challenges of getting capital to buy into that are significant. We're seeing some fascinating operators, who can see what needs to happen, but trying to get private capital to fund them is very challenging.

Vernon Baxter: Nick, as an institutional investor, what are you looking for in the market?

Nick Barker: We've been looking at healthcare for a while, but had struggled with the models. Because it was always developer-led, a lot of it was solely private fee paying care homes, brand new and in the south east. The opportunity that came to us, which we thought was interesting and different, was when Suffolk County Council decided they wanted to try and improve their existing care homes, and to do that they were prepared to put some of their own real estate into the deal. They were prepared to commit for 25 years, guaranteeing to fill a minimum number of beds. The care operator then linked up directly with the fund, rather than going through a developer, but this is the exception rather than the rule.

Vernon Baxter: James, what do recent deals tell us about the direction of travel in the market?

James Hanson: There have been quite a lot of care home transactions, because probably that's one part institutions can understand and there is an openness and transparency when looking at the operational business. There's been less on the health service side, and I hope the private sector starts to work much more in collaboration with the NHS, rather than being seen as a competitor.

Tim Edghill: We've talked about innovation and technology, but part of the issue is investors generally don't look at these things very much. In the main, investors are still very focused on quality and experience of management teams, and their track records as a benchmark. Investors are looking at the past to predict what their investment might do in the future.

Paul de Savary: Part of the problem is investors may well be looking at 'Who is the management team?', but actually what you need to be asking is 'How many staff meetings does this organisation have every month?', 'What's the attendance at those staff meetings?'. 'How many supervisions do these people have in a year?', 'What are the outcomes?' 'What are the agendas?'

Mike Adams: We still think very simplistically about real estate, rather than what's actually driving this business forward. There has been complacency in the market, because it has been a relatively straightforward place to make money, and people have made a lot of money by churning a very similar model, not churning innovation.

Investors have looked at the real estate and not focused on the real change in healthcare outcomes. As an investor, you have to understand that a care home is not a building, it's a place where you look after people.

Tim Street: In terms of the investor sentiment during the Gracewell process, I'd say 50% of the investors who looked at our business were first interested in understanding quality outcomes, then they were looking at the real estate. Whereas, having been through a similar transaction in the past, I'd say it was probably 80/20 the other way, where 80% of people are just interested in the income stream, and didn't really focus in on what they were actually invested in.

Vernon Baxter: We're talking about reshaping UK healthcare – surely one of the biggest developments will be the integration of health and social care? But will we ever get there?

Tim Ashlin: One of the big frustrations that I think anyone who deals with ▶

healthcare has is the lack of joined up thinking between the NHS and local authorities. The difficultly has always been how you actually go about doing it, with the different agendas and different interest groups, wanting to preserve their existing way of doing things.

We're already seeing some changes, however, and it is more joined up than it used to be. Personalised budgets are helping with that, and you see pockets where that's being widely utilised. It can lead to more efficient use of services, because people are more in control, and generally people do actually know what care they need, particularly when you're talking about costly, long term conditions.

Mike Adams: It's not just health and social care where this needs to happen – it's actually primary and secondary care as well. I'd love to be an optimist, but I think it's going to take a lot longer than a term of one government to start driving that change through. It has to happen, but it'll take a big effort to merge these budgets.

Phil Hall: It's a huge organisational challenge trying to bring health and social care together, particularly if there is no significant additional new money to help make it work. And, I think in the absence of that it's going to be very difficult and rationing is going to continue to be prevalent. We're talking about choice here, and choice is a combination

of both having the resources to make that choice, and having the information to make that informed decision. Where I do see things changing is through the use of technology, where people have a lot more information at their fingertips. That will help to drive forward change, and force politicians to make some uncomfortable decisions, both at a national and local level.

James Hanson: There needs to be greater harmony between the different clinical commissioning groups as they cluster together and get a better understanding of how the whole system works. But, it also still comes back to the providers, the regulators, the operators, the commissioners, and the patients functioning as one system, rather than in different siloes.

Tim Street: You have one system that is means tested and one which is free, so to try and smash them together takes time. The benefits of combining them are huge, but when you look at the detail and draw it on a map you realise it's going take a long, long time. ■

The above is an edited transcript, and is not reported verbatim. The panel met in central London on 9 September 2014.

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The financial challenges facing the NHS and Local Authorities are well documented. Most commentators acknowledge that the status quo is unsustainable. Demand is outstripping available resources and despite best efforts, efficiency savings alone are not going to bridge the funding gap.

The main solutions that have been proposed to date involve moving resources from one budget to another and/or raising taxes and are consequently politically challenging and therefore in danger of being lost in the political long grass, whichever party gets in at the next election. So how, as Mike Adams asked, do we, against this backdrop, create different solutions for elderly care, promote innovation and unlock investment capital? Paul de Savary pointed out that companies like Home from Home Care can be a solution rather than a problem to commissioners by providing high quality care to residents in a lower cost environment. Nick Barker illustrated the benefits of their partnership with Suffolk County Council and Care UK to replace old care homes with new purpose built ones. Tim Street reminded us of the growing importance of 'top ups' in enabling higher service and environmental standards to be delivered and the need for commissioners to embrace such sources of funding.

Tim Ashlin highlighted the need for technology to be at the heart of driving change and of its importance in delivering better, more timely information and hence informed choice for patients, operators and commissioners.

JLL believes the debate needs to move on from wishful thinking about ways to generate more tax revenue and savings from sharing health and social care budgets. The public sector should engage positively with the independent sector, not only to better access its capital but also to harness its creative ability to find innovative solutions, to help develop intelligent commissioning, and quality services fit for the 21st century.

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