

MARKET DRIVERS IN INDEPENDENT MENTAL HEALTH CARE

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LAING & BUISSON

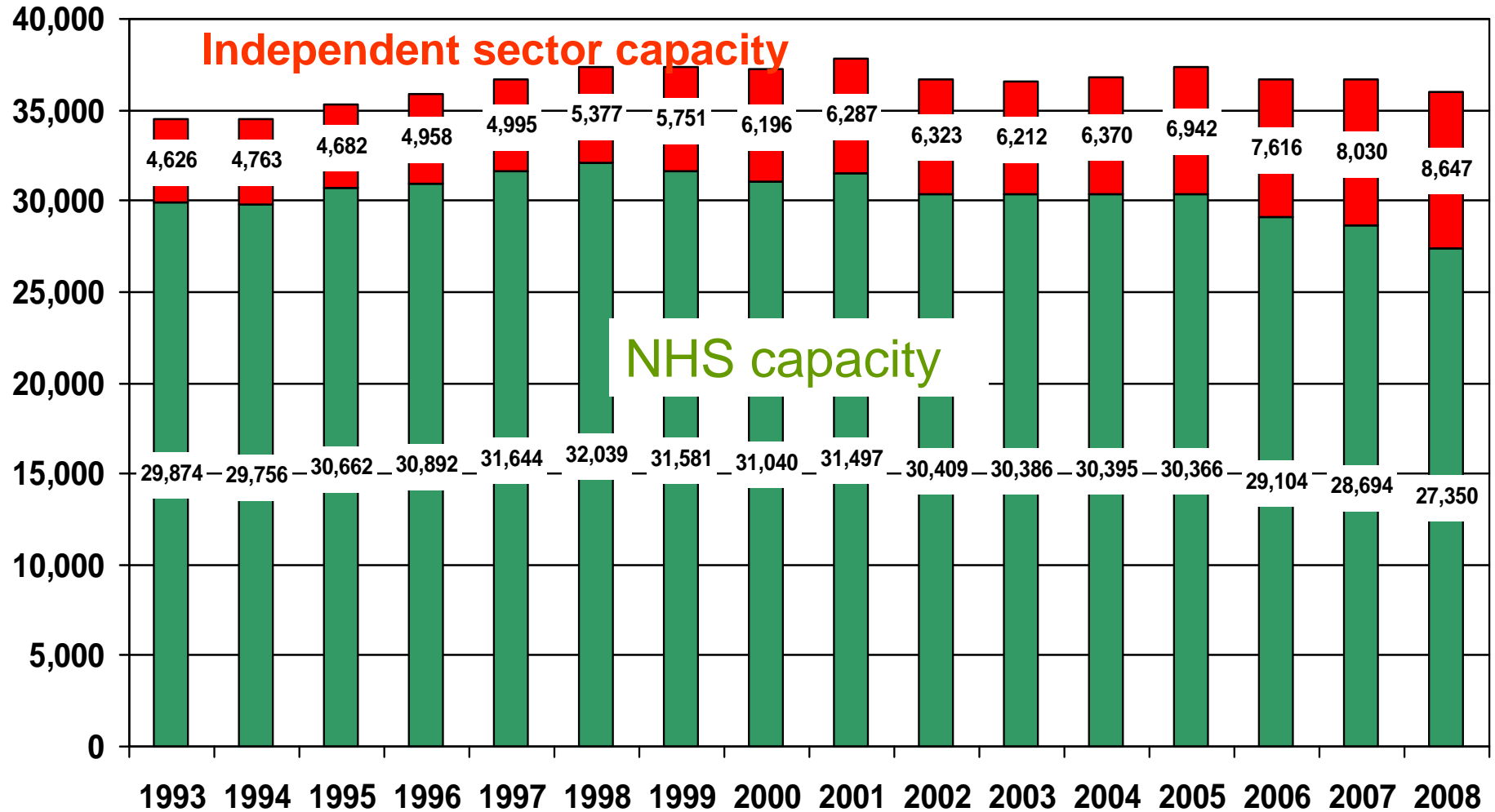
Quality and Innovation in Secure
Mental Health Commissioning

PROFILE OF INDEPENDENT MENTAL HEALTH SECTOR

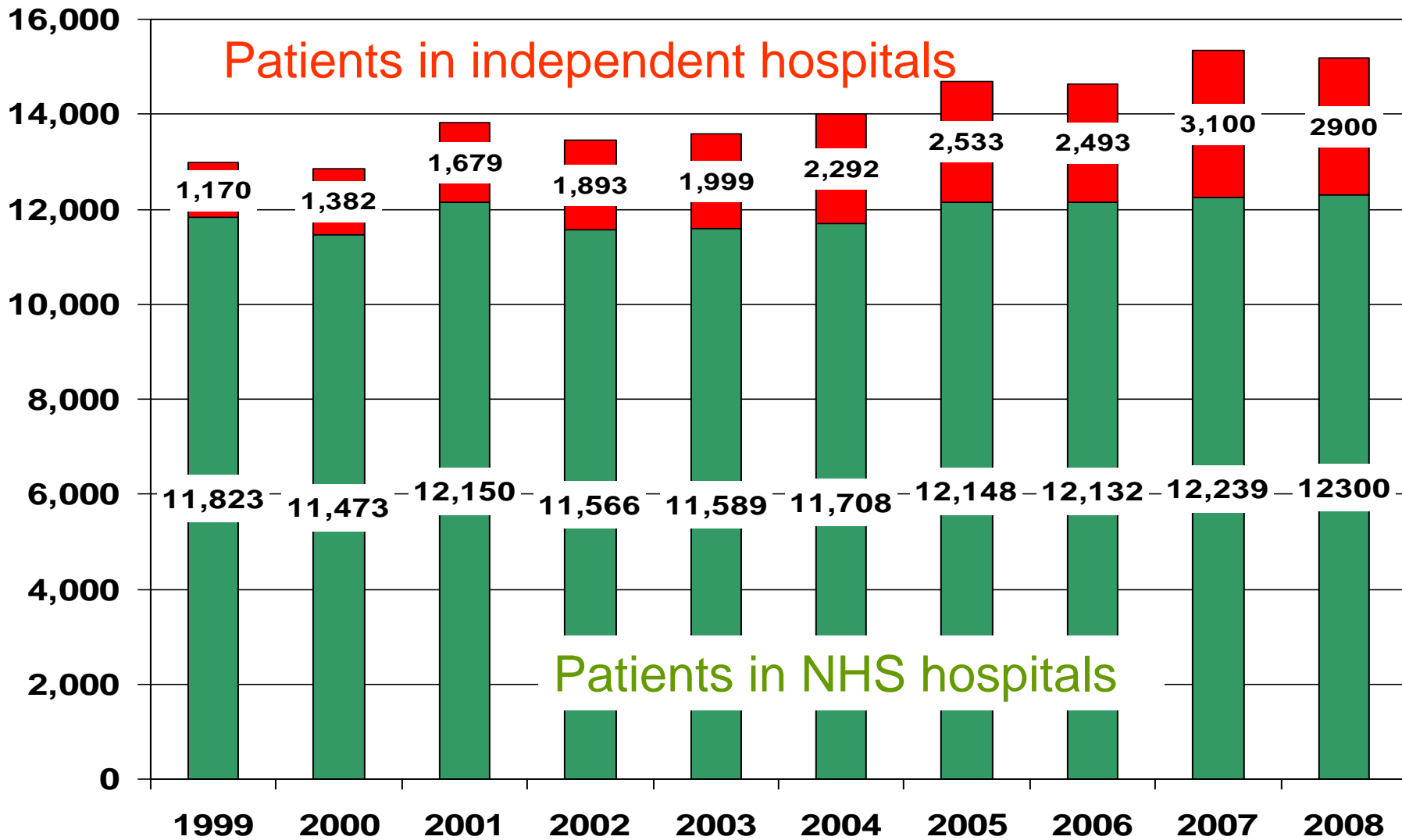
- Almost exclusively focused on hospital services, while the NHS focus has switched to community based services
- Capacity built up in the past 15 years through ready availability of capital for property based healthcare businesses from private equity companies
- No real sign yet of an independent sector appetite for community based mental health services, or an NHS appetite to outsource them

MENTAL HEALTH HOSPITAL BED CAPACITY UK

(excluding NHS long stay provision and residential care)

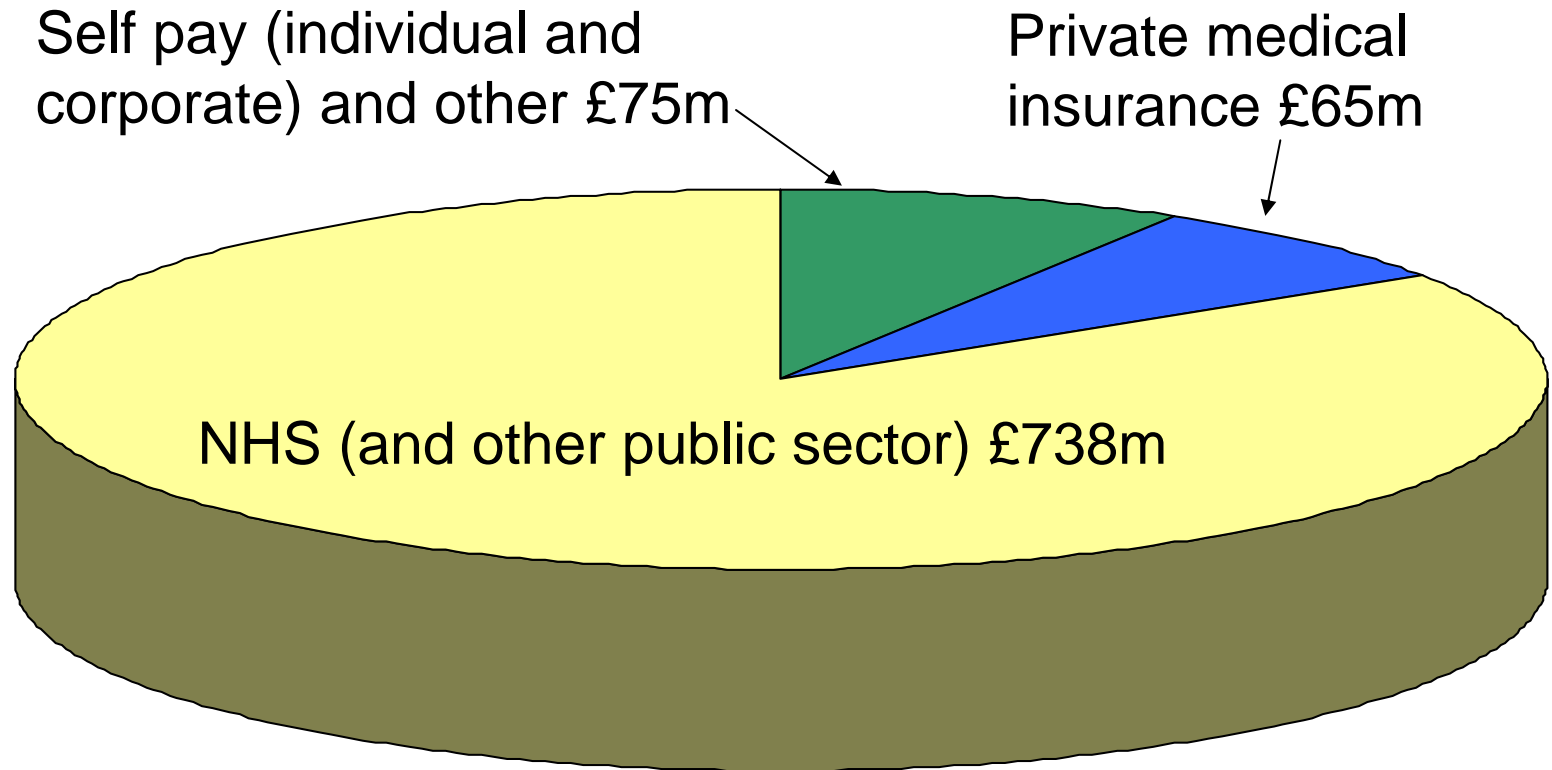


DETAINED PATIENTS (resident at point of time)



SOURCES OF FUNDING

Independent mental health hospital market - £878m in 2007



THE NHS IS THE MAJOR DRIVER OF THE MARKET
IT PAYS FOR 85% OF INDEPENDENT SECTOR ACTIVITY

PRIVATE MEDICAL INSURANCE AND SELF-PAY

reasons for limited market size

- Private Medical Insurance (PMI):
 - Many subscribers opt out of cover (viewed as expensive and of limited value);
 - Cover is typically limited to acute first episodes
 - Subject to ‘managed care’ controls by PMI providers.
 - Some providers have exited the PMI and self-pay sector
- Self-Pay:
 - Concentrated almost entirely on acute psychiatry and addictions
 - Treatment costs are unpredictable and often unaffordable

NHS FUNDING ENVIRONMENT

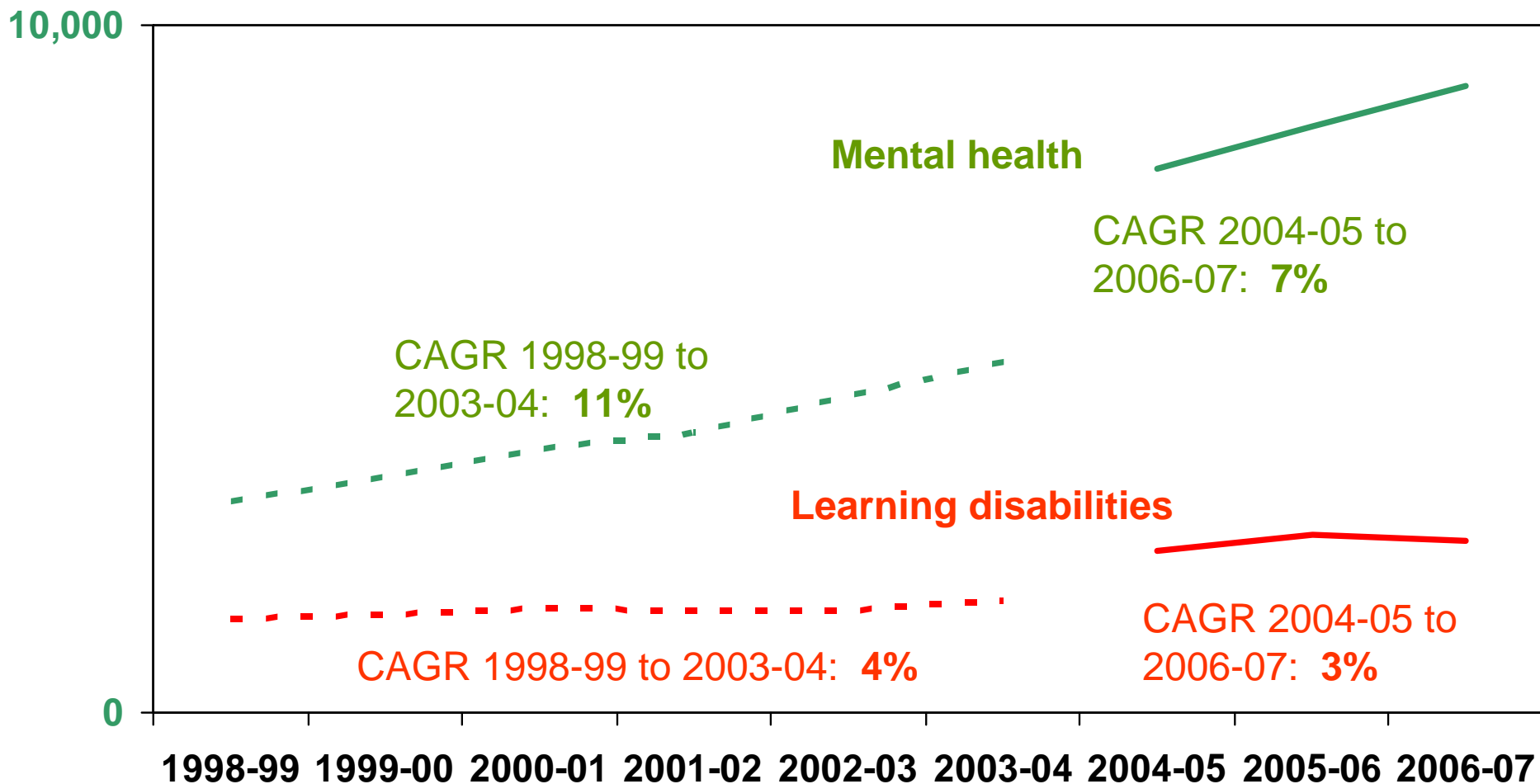
real terms growth rates in total NHS spending

- **2002/03 – 2007/08** **7% pa real**
- **2008/09 – 2010/11** **4% pa real**
- **From 2011 / 12** **low or zero!**

THE ERA OF MASSIVE NHS FUNDING GROWTH IS COMING TO AN END

IS THIS A RISK OR AN OPPORTUNITY FOR THE INDEPENDENT SECTOR?

NHS spending on mental health and learning disabilities and CAGR (Compound Annual Growth Rate)



Source: Department of Health Programme Budgeting (basis changed in 2004-05)

MARKET DRIVERS (TO DATE)

- IN THE PAST, the main drivers of NHS demand for independent sector services have been:
 - Shortages of NHS supply, which were at one time extreme following closure of ‘bins’;
 - Specialisation by the independent sector, and creation of services more appropriate to needs in line with the NSF, to replace old ‘revolving door’ pattern of undifferentiated services (while the NHS has focused less on specialised services)

MARKET DRIVERS NOW AND IN THE FUTURE (1)

LOOKING FORWARD, drivers of NHS demand for independent sector services are likely to be:

- Specialisation (as before)
- Ability of independent sector providers to develop and sustain cost effective care pathways (in-house or through strategic alliances)

continued

MARKET DRIVERS NOW AND IN THE FUTURE (2)

- Price and Quality
 - On a reasonably level playing field, price will be a key driver of the market
 - Tariffs, if introduced for mental health, will reinforce a level playing field
 - Limitations on public sector pensions, if introduced in the wake of the recession, would further reinforce a level playing field

continued

NHS reference costs 2007/08

	Non-NHS providers £ per day	NHS in- house providers £ per day	Non-NHS provider 'premium' %
Adult: Intensive Care	557	536	4%
Adult: Acute Care	277	273	1%
Adult: Rehabilitation	231	255	-9%
Children	558	544	3%
Elderly	122	270	-55%
Local Psychiatric Intensive Care Units	762	591	29%
Low Level Secure Services	438	391	12%
Medium Level Secure Services	518	471	10%
High Depend. Secure Womens Svcs	369	1,243	-70%
High Depend. Secure MH / Psychosis	389	672	-42%
Child & Adolescent Med Secure Svcs	702	968	-27%
Eating Disorder Services: Adults	560	367	53%
Eating Disorder Services: Children	512	485	6%
Mother and Baby Units	576	567	2%

High volume services are shaded

MARKET DRIVERS NOW AND IN THE FUTURE (3)

- Risk management
 - Independent sector skills to reposition services rapidly to align with changes in NHS demand (recent focus on low secure and step-down services)
 - Ability to sustain a business which depends on out-of-area placements to support an economic scale of activity (NHS providers are more risk averse and focus of local, generic services, with the possible exception of Foundation Trusts)

continued

MARKET DRIVERS NOW AND IN THE FUTURE (4)

- Access to capital
 - The independent sector has experienced an unaccustomed capital famine as the credit markets closed down in 2008, but this is likely to be short term
 - Capital budgets are likely to be the first candidates for cuts as NHS spending controls start to bite from 2011

continued

CONCLUSIONS

- Financial stress within the NHS could well offer new opportunities for the independent sector in the future
- Provided independent sector prices are competitive, it will probably continue to grow it's share of the mental health hospital market