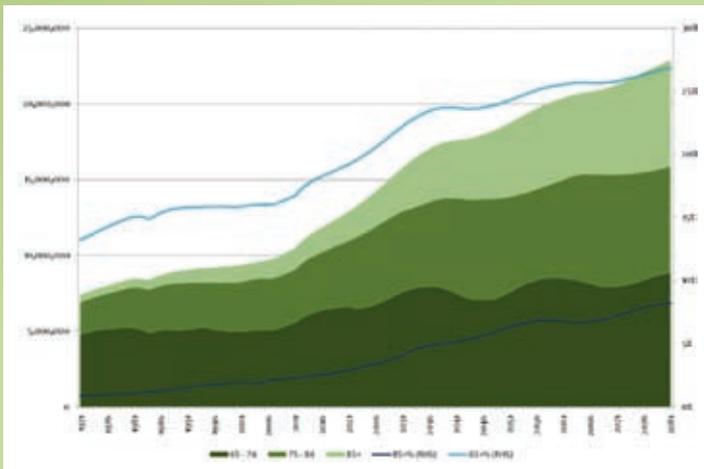


# Health & Social Care - Background

MPA has put together these fact sheets to provide basic background information on the medical property market. Whilst most of the information is derived from fact or evidence based, we have also included our opinions. The views are general, but we can expand on any issue with particular regard to specific investor requirements. From time to time we will update these sheets and the latest versions will be found on our website [www.medicalpropertyadvisers.com](http://www.medicalpropertyadvisers.com) under 'Further Information'.

## Demographics

The population in the UK is ageing – the proportion of the population regarded as elderly (over 65 years) is increasing year on year. Most countries in Western Europe have seen falling birth and death rates over recent years, which are set to continue. Currently those over 65 account for just over 16% of the population; however this is forecast to rise to around 20% by 2020. Those over 85 show a steeper increase and is forecast to double by 2031 and triple by 2050. As the numbers of elderly increase so the rates of disability and dependency rise.



Source: National Statistics

## Economics

Combined expenditure on health and social care in the UK accounts for more than 10% of the UK economy, making it one of the largest expenditure items in the UK. Health makes up around 8.8% of UK GDP (2007) and social care makes up around 2.5% of UK GDP (2007). OECD suggests that most Western economies spend between 9% and 12% of their GDP on health.

Although the UK seems to be lagging behind other European countries, the previous Government increased spending significantly over recent years. Unfortunately this has led to poor utilisation efficiencies. The task for the current Coalition Government is to cut inefficiencies, thereby reducing costs, without adversely affecting service delivery.

By far the largest funder of health and social care services in the UK is the public sector. The NHS accounts for over 85% of annual expenditure on health. The remainder is made up from Private Medical Insurance and private payments.

## New Treatments

Over the past 50 years the NHS has seen huge advances in the efficiency and efficacy of treatments for an ever widening array of diseases and disorders. Treatments for chronic conditions, such as Diabetes, Chronic Obstructive Pulmonary Disorder, Cancer and Heart Disease have all seen improvements over the past few years leading to a greater dependency on the healthcare system. Other areas such as dementia have seen marked increases over the last few decades.

Life expectancy has risen for both men and women which means people are now living longer than ever before. With a continuation of current advancements in medicine, a child born today can expect to live to 100 years.

With greater life expectancy comes a prolonged period for which age-related treatments and care may be needed. This is likely to increase demand for social care through care and nursing homes, as well as for medical services.

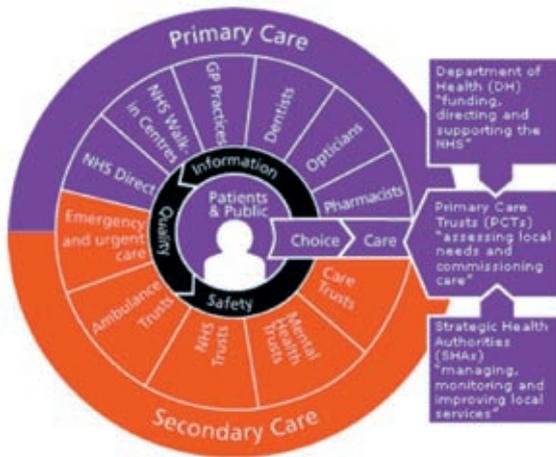
## Social Change

As well as the elderly, there is also an increase in the demand for treatments for younger people. Socially, within the UK, we have seen lifestyle changes that have increased the incidence of alcohol and drug misuse, mental health, smoking, infectious diseases and obesity. Greater emphasis is being placed on education to enhance prevention, but currently rates are still on the rise.

## Healthcare Services

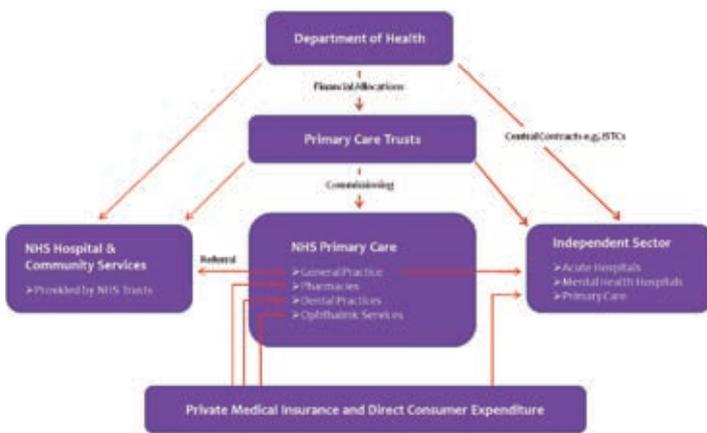
Within the UK healthcare can be split between NHS Health Services and Independent/Private Health Services. Although the majority of expenditure on health is from the public sector, many services are contracted out to the private and independent sectors. There is a growing split between commissioning services and providing services, with the private sector taking a growing role in provision.

From a patient standpoint, healthcare services are split between Primary Care, Secondary Care (including A&E) and specialist care. Primary Care is usually the first point of contact, unless it is an emergency when patients are directed to A&E. Primary Care includes GP Practices and NHS Walk-In Centres. Secondary Care includes A&E, planned procedures and traditionally out-patient services, although this is now being migrated to Primary Care.



Source: NHS

The NHS is large and complex and although is likely to change again in the future, the following diagram provides a simplified view of the current structure. Funding is usually through the NHS and direct Government expenditure.



Source: Laing & Buisson

### Social Care Services

This area covers a wide range of services including Elderly Care, Special Education, Adult Learning Disabled and Children’s Care. Funding is from Local Authorities for those who meet certain criteria, with the remainder coming from private payers and insurance. The provision of services is made in the majority by private/independent providers and Local Authorities have sought to devolve themselves of provider services over the last decade.

### Regulation

Both health and social care are monitored by an independent body called the Care Quality Commission (CQC). It scores services on an annual basis and inspects premises to assess suitability and the level of services provided. Before new healthcare services can be commenced they have to pass scrutiny of the CQC which, along with control of the commissioning of services by the NHS, provides high barriers to entry for public services. Within Elderly Care there are fewer barriers to entry, but ongoing monitoring by CQC leads to demand preference for higher quality establishments. Children’s Special Education is monitored by Ofsted.

Although the levels of inspection of Social Care over the last decade has been viewed with some scepticism, many believe that the system under CQC will become more draconian with funding having a direct correlation to annual scores and performance.

### Summary

Demand for health and social care services continues to rise as the population ages and further conditions become prevalent. Much of the estate is in poor condition and needs to be upgraded to meet basic standards. Public expenditure on these services is key to any government and even in the current economic conditions with talk of austerity and cost cutting the infrastructure for health and social care cannot stand still. New facilities can provide cost savings in the longer term and by careful and strategic management reduced expenditure can be achieved. The next few years will be one of consolidation, but this does not mean stagnation, and indeed provides an opportunity to create good value investments.

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