

Robotic assistance

PHIN shares the latest data on robotic surgery

Family practice

Pharmacierge's CEO on how he is blending traditional values with cutting-edge tech

Women in health

Raising the profile of women in healthcare procurement

FEBRUARY 2024 | VOLUME 28 | ISSUE 1

HIM

HealthcareMarkets

Independent. Intelligent. Insightful.

Indepth

What a difference the day makes

Could the drive towards day-case procedures present new opportunities for investors?

LaingBuisson
INTELLIGENCE + INSIGHT

The shift in operations being done as day-cases is accelerating, resulting in increased demand for facilities tailored to the specific needs for such procedures. **Dr Leonid Shapiro**, managing partner at Candestic, discusses the attractions of day-case procedures for patients, operators, and investors



The rise of day-case



Dramatic advances in technologies surrounding surgery procedures, such as improvements in administrative workflows, surgical intervention, and post-operating monitoring, are enabling an increasing number of specialisms to carry out the full cycle of procedure to discharge in a day or less. In particular, advances in minimally invasive procedures and anaesthesiology have been big drivers in this migration towards ambulatory treatment.

For patients, there are clear attractions at the prospect of not having to stay overnight in a hospital. Additionally, as day-case procedures are less costly, self-paying patients face reduced bills from the hospital. It is estimated that the costs of day-case interventions are 30–40% lower than inpatient alternatives. The convenience and lower cost of day-case is driving increased demand – particularly in the case of elective procedures where many patients may have otherwise chosen not to undergo surgery. This increased demand creates a virtuous circle as increased utilisation of day-case facilities means operators have

lower costs and are able to charge lower prices to attract additional patients.

There are a number of benefits of day-case procedures for patients, medical staff and hospital operators:

- **Cost effectiveness**
Day-cases are less expensive than alternatives due to lower costs of stay and other hospital operational costs
- **Reduced post-surgical infection rates and errors**
Day-cases present lower risk of complications such as infections and medication errors
- **Improved patient experience**
Patients and their families find it convenient and less stressful to go home the same day

Day-case procedures are also particularly relevant in the context of the expected rise in demand for operations due to ageing populations and increases in chronic conditions. In a scenario where

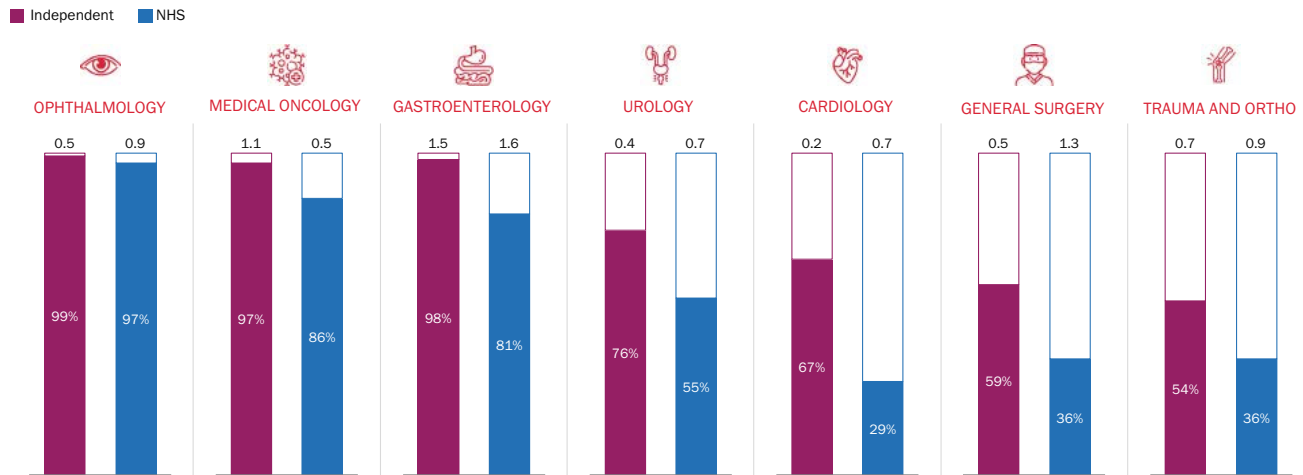
demand for finished consultant episodes (requiring either treatment or procedure) is expected to grow by about 25% until the end of the decade, more efficient use of facilities and staff will be critical to meet demand.

There is widespread agreement among different constituencies that day-case interventions should be further adopted and incentivised. The NHS Confederation states that many hip and knee replacement patients should be treated as day cases, and the government is providing c.£1.5bn in funding for 50 new surgical hubs geared towards elective day-case procedures.

In summary, there are multiple trends at play that make day-case procedures highly attractive for various stakeholders in both the public and the independent healthcare systems. However, one of the key questions for any investor willing to underwrite a future project and/or medical team for these types of facilities will be whether there is demand beyond the capacity of what current industry expansion plans provide. In our view, the answer is a resounding yes.

FIGURE ONE
PROCEDURES BY TYPE OF ADMISSION AND SELECTED SPECIALITY, 2022

MILLIONS OF PROCEDURES, % OF DAY-CASE PROCEDURES



SOURCE NHS DIGITAL; PHIN; CANDESIC RESEARCH AND ANALYSIS

You ain't seen nothing yet

An important constraint in the growth of day-case procedures is the limited number of facilities that are set up to optimally manage day-cases, as the ideal facilities require a tailored footprint and layout as well as, ideally, personnel that is specialised to manage day-cases.

However, the current untapped potential of day-case is not uniform across all specialisms (see Figure One). Ophthalmology and gastroenterology are areas which already see a very high percentage of day-case procedures. At the other extreme, cardiology, general surgery and orthopaedics have significant upside potential from current levels.

While the share of day-case procedures in the UK has been steadily growing for several decades to reach c.40% of total procedures in the NHS, there remains a material gap with comparable figures from the US, where day-case procedures are estimated to account for c.70% of the total.

The gap with the US is even more salient in some procedures that are somewhat suited for day-cases, such as primary knee replacements. The share of such procedures done as day-cases in the US is 25% for privately insured patients (15% for those operating under the government-funded Medicare) vs. the c.1.5% in the UK for the independent sector (less than 1% for those under the NHS). Importantly, the estimated potential in the US for these types of operations is

estimated to be 60% of total (forecasted to reach 50% by 2026). There is no apparent reason for the UK to not achieve similar percentages, which represents an opportunity for exponential growth of day-case for many years to come.

The significant potential at national level is also supported by the transition of NHS procedures to the independent sector, a trend that is particularly visible for elective procedures. The independent sector, an increasingly vital partner to the NHS, accounted for slightly more than 50% of primary hip and knee replacement surgeries in England in 2022 and the year 2023 to June, compared to less than 40% before the Covid-19 pandemic.

Given these trends, it is not surprising that new hospitals are being designed to deliver more day-case procedures. As can be seen from Figure Two, recently built NHS surgical hubs have ten patient beds per operating theatre (legacy and recently built NHS hospitals have c.30 inpatient beds per theatre) while for the independent sector recent builds have seven beds per theatre (vs. 12 for legacy ones).

The case for more investment is compelling

There are few pockets in healthcare services that present such a compelling investment proposition as projects for tailored day-case facilities. The undisputed strength of the tailwinds that are

driving day-case growth should underpin growth in demand for dedicated day-case facilities for the foreseeable future. At the same time, the more favourable operating/financial metrics of these type of hospitals, compared to those of the traditional acute care, provide the basis for attractive underwriting of business plans for interested investors.

There are certain barriers that nevertheless need to be overcome to fully exploit the day-case opportunity. These include:

- Out-of-date clinician preference**
 When considering patient risks, clinicians tend to be risk averse and are concerned about lack of after-care. Increasingly however, there is an arsenal of remote monitoring tools and virtual ward services that are overcoming these concerns
- Inappropriate use of day-case units**
 Due to the continued capacity constraints and long waiting lists, dedicated day-case theatres in legacy hospitals are being tied up by inpatient procedures. This issue is being addressed by the construction of dedicated day-case units outside of hospitals
- Limited dedicated day-case capacity**
 In spite of the opportunity, the

FIGURE TWO
EVOLUTION OF THE TYPICAL HOSPITAL CONFIGURATION

MEDIANS PER HOSPITAL	NHS hospitals			Independent sector hospital	
	Legacy	Recently built ¹	New surgical hubs	Legacy	Recently built ¹
Beds	208	200	20	36	29
Operating theatres	7	7	2	3	4
Beds per theatre	30	29	10	12	7
Indicative day-case focus					

○ Low ● High

NOTES NHS AND INDEPENDENT SECTOR BED NUMBERS INCLUDE TOTAL GENERAL AND ACUTE BEDS (MEDICAL AND SURGICAL) ¹ RECENTLY BUILT DATA IS BASED ON A SAMPLE OF HOSPITALS BUILT FROM 2019 ONWARDS ANALYSIS
SOURCE COMPANY WEBSITES; CQC; NHS DIGITAL; PHIN; CANDESIC RESEARCH AND ANALYSIS

expansion of dedicated day-case facilities has been slow as such facilities require configurations different to traditional hospitals. New build surgical hubs and tailored modern hospitals are, however, being developed

- Lack of funding and poor execution**

Constrained access to capital has held back growth of dedicated day-case facilities. The NHS appears to be overcoming this with its initiative for surgical hubs, while the private sector appears to be lagging.

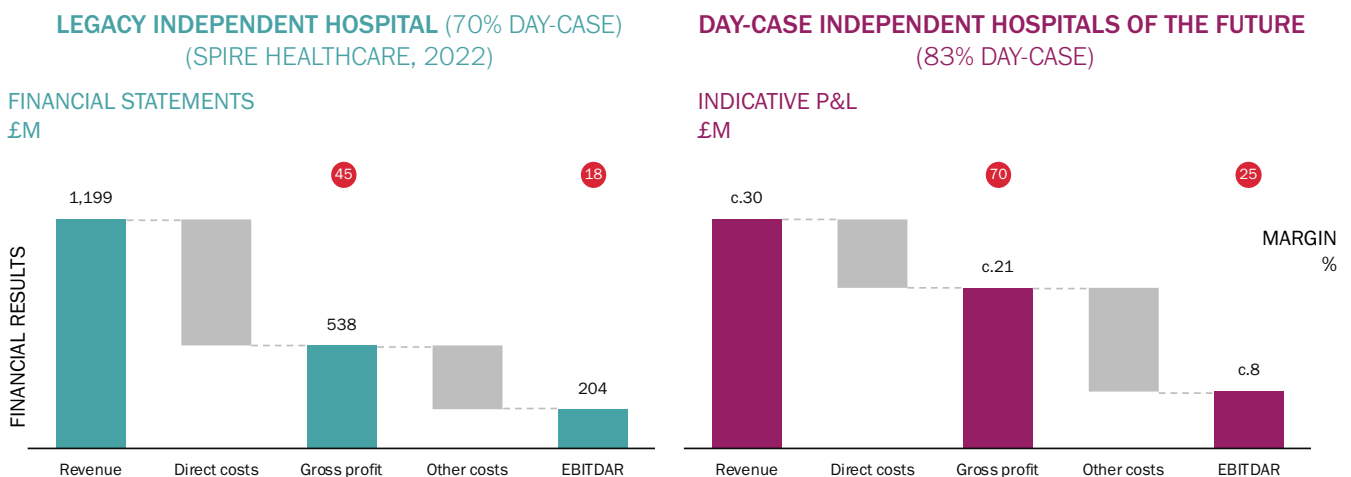
Supporting the financial case of these facilities is the fact that day-case facilities require a smaller footprint and have higher utilisation than traditional hospitals. The smaller footprint also makes such facilities better suited for large urban centres by mitigating high real estate and financing costs (requiring lower capex, shorter time to completion, and quicker financial break-even). These relative financial advantages are important in a macro environment where financing conditions have tightened significantly (both availability of capital and cost of financing) and construction costs have risen.

We estimate that day-case hospitals have a lower requirement for direct costs as a percentage of revenues mainly due

to higher utilisation, while also having lower operating expenses as the requirement for overheads is more limited given the relatively smaller size of facilities (see Figure Three). While our model excludes rent/lease charges, if we were to include these, the difference would also favour higher day-case margins given the smaller footprint required.

In conclusion, compelling push and pull forces are driving demand for day-case operations; the expected rise is unlikely to be met even with the current forecast investment. Ample room remains for new investment to meet the demand and achieve attractive returns underpinned by a relative secure and differentiated asset class for many years to come.

FIGURE THREE
FINANCIAL PROFILE OF LEGACY INDEPENDENT HOSPITALS VS. DAY-CASE INDEPENDENT HOSPITALS OF THE FUTURE



SOURCE NHS DIGITAL; ANNUAL REPORTS; PHIN; CANDESIC DATA; CANDESIC RESEARCH AND ANALYSIS