Care for the elderly in Scotland

Clare Connell and Hannah Hurley of Connell Consulting investigate the opportunities for investors north of the border

After months of uncertainty, the rejection of Full Fiscal Autonomy (FFA) by Westminster will greatly stall the Scottish National Party’s bid for greater independence. Additionally, the risk of major public spending cuts – a near inevitable outcome to FFA – has been eliminated as a predicted £9bn deficit in the Scottish budget has been averted. Investment within Scotland is safe once again, and investors and operators should be confident in seizing the opportunities presented by the Scottish elderly care market.

Free personal care given to over 65s creates a large market for home care

Under the Community Health and Care Act (2002) all over 65s who need it can access free domiciliary and nursing care, guaranteeing a sizeable market funded by social services. Indeed, the number of personal care hours provided in

FIGURE 1: SUPPLY AND DEMAND OF CARE HOMES IN SCOTLAND

Despite a recent decline in the number of care homes as a result of an increased emphasis on care at home, there is still a strong private sector market, particularly in the Central Belt of Scotland

* In line with the UK as a whole, the number of care homes in Scotland has decreased steadily over time. Proportionally, homes run by the third sector and local authority have seen the most closures, as the private sector proves to be more efficient
* The number of resident in care homes has fluctuated widely. Clearly, the provision of free personal care to over 65s has had a significant impact on the market here, with the number of care home residents declining sharply since 2002
* Obviously, careful diligence of local markets would be required, to ensure that demand for care homes would not overtake supply, given the relatively high number of care homes versus clients

Source: Connell Consulting Analysis 2015; Table 1 and 2, Care Home Census, Scottish Government, Oct. 2014 Government, 2014
Scotland has almost doubled since the implementation of the Act, currently sitting at 700,000 per week or some 60,000 clients. In comparison, although its population is 10 times that of Scotland, English social services fund home care for just 370,000 clients.

There may be some scope for established providers in the region to take on much larger contracts for home care, representing a significant opportunity. In Glasgow, the local authority has outsourced all home care provision to a private contractor. Although this negates any opportunity for new providers in Glasgow specifically, it does give precedence to successful outsourcing, which other local authorities may be keen to replicate if an operator is able to provide care on a wider level.

In particular the Central Belt of Scotland, including Ayrshire, Falkirk, Edinburgh, Lothian and Fife, has some of the best opportunities for potential investors in this sector. The Central Belt has the highest population density in Scotland and its geography is therefore significantly more conducive to providing home care than more rural locations. In other areas, it would be near impossible to gain operational efficiencies by improving routes to reduce travel times. In the Central Belt this is strongly encouraged by social care commissioners, who purchase the majority of home care. Indeed, in Lothian, contract types have been structured to enable this.

Naturally, there is a slightly greater level of competition within the region, but this should not hinder new providers as commissioners note a drastic undersupply of care. For example, commissioners in East Lothian note: “Demand here is very high, we have a continual waiting list, we struggle with capacity.” This is exacerbated by the varying quality of home care providers in the region, some of which have particularly poor reputations.

Edinburgh is notable as a small pocket of affluence within Scotland, where self-funding individuals could have a sizeable influence on the market as a whole. However, at present, operators in Edinburgh tend only to cater for those falling under local authority funding, leaving a clear niche for a new provider to fill. Commissioners note: “There’s definitely a private market for home care that could be tapped into and there are a few providers that specialise in that area.”

Given the difficulties of providing home care outside of the central belt, some operators have decided to focus on the provision of live in care to elderly...
residents, which eliminates difficulties with travel time. Belinda Berkeley, corporate and strategic development director at The Good Care Group notes: “Live in care is the only viable option for many living in remote geographical areas and provides a totally outcome focused model of care.” She says: “We set up our live in care service in Scotland in 2012 and the biggest challenge for us remains the lack of awareness of this as an option.” Building good relationships with local commissioners, clinicians and advocacy groups should mitigate this risk for other providers.

Traditional care homes also offer opportunities to investors

Alongside home care, there may also be opportunities to invest in care homes in Scotland. Not only have property prices tumbled there but the landscape is slightly more positive than the North of England, with ~30% private payers and ~90% rates of occupancy (compared with ~20% private pay and ~80% occupancy.) Additionally free personal care is provided by the state, delaying the entry of those entering care homes until they have greater healthcare needs. On basic metrics, there are certainly worse investments than Scottish care homes.

As in England, commissioners are keen to see greater innovation in the care home sector, and to this end they have identified three key areas where further development is needed: extra care, rehabilitation homes and specialised care for elderly people with high acuity needs. Therefore, providers with previous experience here will likely be welcomed in Scotland, and could be assured of a good number of referrals. Investors should focus their attention on operators with these more modern models of care.

In the future, self-directed support (SDS) may prime a larger private pay market for home care and care homes

Of course, any providers of social care in Scotland will need to be aware of the implications of the Self-Directed Social Care Act 2013, which aims to give service users more control over their own care. Briefly, it is split into four options. Option one is directly analogous to the use of direct payments, and in option three all care is funded and organised by the local authority. Option two and four represent new options. In option two, service users are able to choose their own care but have the local authority organise it for them. Option four simply represents the use of all options in combination: for example, an older person could pay a personal assistant directly, taking part of their funding directly, whilst also using standard home care organised by the local authority.

Option two is the major departure from the previous system of social care in Scotland. There is some hope that it will prompt the formation of stronger private pay markets, and additionally allow providers to earn more money from local authority placements if they could convince clients to move to option two. However, so far, there has been little uptake of option two, limiting its impact on the older persons care market. Jess Wade, a manager at SDS Scotland notes: “option two seems to have had a very low uptake across the board.” Needless to say, low uptake in the elderly population will restrict the opportunities this change will present to providers in this sector.

There are many factors that could contribute to the sluggish uptake of option two, although many seem to focus around the local authorities’ ability to organise the new system. Wade explains that “It’s a simple idea but it requires change in so many different areas.” There is also debate about whether to formulate an “approved providers list” for option
two or whether it should remain as open as option one, in which users can buy from anywhere. Commissioners at East Lothian council add that uptake of option two may be slow because the elderly tend to avoid change and therefore opt for option three. It is clear that SDS is not yet embedded, and until that occurs, the opportunities and risks that it presents will be limited.

Poor health in Scotland will support demand for care

It is well known that the elderly population is increasing, both in absolute numbers and as a proportion of the population. In Scotland it is predicted that the number of people over 75 will rise by 82% between 2010 and 2035. The Scottish Health Survey on older people’s health states, “If age-specific disease rates remain unchanged, the numbers of people requiring health and social care will rise exponentially.” Age-specific disease rates seem to be falling, but this still leaves a large elderly care market, with over two thirds of over 65s in Scotland exhibiting at least one long-term health condition and a 15 year gap between healthy and actual life expectancy.

Although local authorities have faced some funding cuts, public spending in Scotland is still higher per person than in England. This is paired with a widespread undersupply of services with considerable variation in quality, particularly in the home care sector. These factors contribute to the favourable market for new investment in home care and care homes in Scotland.

More political and economic stability, paired with positive policy decisions, provide a strong market for investment

In light of the increased financial stability in Scotland’s public sector with the fall of FFA and the probable redirection of funds towards health and social care in the community, it is prime time for investment in both home care – particularly within the Central Belt of Scotland – and in care homes in Scotland. This will be even more promising if uptake of option two of SDS increases in the coming years as local authorities become more accustomed to the recent changes in legislation that give users more power over their community healthcare choices.

FIGURE 3: SOCIAL CARE (SELF-DIRECTED SUPPORT) (SCOTLAND) ACT 2013

The majority of home care in Scotland is funded by the local authority. The introduction of Self-Directed Support was supposed to encourage service user choice, although at present, the majority of older people still receive care chosen by the LA

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<th>Self-directed support</th>
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<td><strong>Option 1</strong></td>
<td>- Funding is paid to the service user as a direct payment, as in the current system - The LA can refuse to give direct payments under some circumstances. In these cases, they must offer the option two to the service user</td>
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<td><strong>Option 2</strong></td>
<td>- The service user chooses the support they would like, and the local authority then arranges this support - The service user will have a limited financial budget to purchase care, rather than being given a number of hours</td>
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<td><strong>Option 3</strong></td>
<td>- The local authority chooses, organises and funds care for the service user - At present, this is the favoured option of older people</td>
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<td><strong>Option 4</strong></td>
<td>- Option four adds more flexibility to the system, allowing service users to fund their care through a combination of options one - three</td>
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- Option one is analogous to personal budgets under the old system of social care funding - Therefore, the introduction of option one is likely to have a minimal impact on the social care market
- There was no equivalent to option two under the old social care system - So far, there has been minimal uptake of option two for funding of older people’s services, although this may change as the system becomes more established
- Option three in many ways represents the status quo, and therefore, its popularity amongst older people is unlikely to change the market dramatically - Option three does now give LA a legal responsibility to organise care when service users request them to
- For basic packages of care for the elderly, option four is too complicated a way of funding care packages, and is unlikely to have a major impact

Source: Scottish Government

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