



Personalisation: Nightmare or Nirvana for Private Equity?

By Matthew Caffrey, Investment Director at ISIS Equity Partners

A paradigm shift in social care

If anyone was in any doubt - recent statements by both Ivan Lewis and Gordon Brown have confirmed that personalisation of social care is firmly on the political agenda.

But what does personalisation actually mean? At the heart of it lies the government's objective of delivering more choice and flexibility to service users to direct and control their own care. Let us be clear – this is not a new concept. The idea of an individual being needs assessed and then receiving a cash payment or 'budget' to fulfil that need rather than being simply delivered a care service has been around since 1997 in the shape of direct payments and more recently individualised budgets.

Direct payments are paid into an individual's bank account, but are generally topped up from other benefit sources and have restrictions around usage. Individual budgets are an evolution of direct payments and are designed to consolidate the myriad of funding sources and benefits available to service users into a single payment.

However, uptake has been significantly slower than anticipated. In 2006/7, of the 1.77m individuals receiving social care, only 48,000 individuals received direct payments and 6,000 individual budgets.

A significant challenge

By 2011, the government wants all publicly funded social care service users to have personal or individual budgets. The enormity of this challenge cannot be understated.

Most Local Authorities are coming from a standing start – individual budgets have only been piloted in 13 of 468 local authorities and few have the infrastructure or personnel to introduce, administer, monitor and implement individual budgets.

With regards to the service user – the issues are more subtle. Whilst individual budgets work for people with the capacity to make informed care decisions, it is less clear how the system will deal with individuals who have, for example, learning difficulties. Who will decide what is best for these individuals and how that money is spent? Are we going to see the rise of informal or professionally appointed/self-appointed advocates and brokers. If so, who will regulate these individuals or organisations? In many instances it will be family members, but in certain circumstances the family decision may run contrary to the interests of the individual concerned or indeed, the spend open to abuse?

The big bang top-down approach suggested by the government leaves no doubt regarding the objective – the path to effective implementation at a local level seems less than clear.

Power to the consumer

Historically, the provision of social care has largely been delivered through organisations contracting directly with, and being paid by local authorities. Local authorities have been able to drive down costs through efficiently commissioning via block contracts.

Individual budgets potentially represent the end of block contracts as we know them and herald the rise of the consumer as the key decision maker in care selection.

The risk to existing private equity investments

From a private equity perspective, the stability of block contracts has always provided a foundation on which to invest in the social care sector.

For existing investments, any threat to block contracts potentially represents a real issue for investors and banking institutions, who have lent money against a business plan predicated on visible, reasonably secure and potentially incremental volumes of care.

In addition, the rise of the consumer in the market will mean a fundamental shift in the way in which providers approach the market – with a focus on selling to individuals rather than local authority institutions. Not an easy transition, and one that is likely to require investment in brand building and more fundamentally, a reorganisation of the sales and marketing approach.

Change will not come overnight – and there is likely to be a transitional period – where local authorities continue to influence individuals' selection of providers, possibly through a 'menu' of suppliers. This should provide breathing space for institutional investors to implement change, if they have not done so already.

An interesting investment landscape

In the longer-term – consumer power should represent a real opportunity for high quality providers. Individuals, once secured, are unlikely to move, provided they are satisfied with the level of care that they are being delivered.

ISIS Equity Partners, is already well invested in the social care sector, with five investments across domiciliary, learning difficulties and childcare services and eight investments across healthcare as a whole.

As an experienced investor, we remain focussed on building our investment portfolio and believe that the introduction of individual budgets, whilst initiating challenges, will also create opportunities.