Profiteering leaves UK care homes vulnerable

By Thomas Scripps
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Roughly 21,600 of the UK's 410,000 care home residents had died and had COVID-19 mentioned on their death certificates by June 26, according to a tally of official government data by Reuters. This was around 40 percent of similarly recorded deaths nationally.

Many more thousands of lives are again at risk in the UK as the virus resurges across Europe.

The scale of this appalling social crime has been exacerbated by the pernicious involvement of private companies in the provision of care for the elderly and the vulnerable. At least 84 percent of care home beds are now owned by private firms. A quarter of care home places are supplied by the 10 largest for-profit providers. The coronavirus crisis now threatens to accelerate an ongoing collapse of whole sections of the care infrastructure.

Last Thursday, newspapers ran headlines reporting that England's Care Quality Commission (CQC) and the Care Inspectorate in Scotland are refusing to reveal COVID-19 death tolls at individual care homes. The regulators openly cited as their reason the commercial interests of the care providers responsible.

The news followed several academic studies pointing to a link between high occupancy and resident-to-staff ratios and significant coronavirus outbreaks in care homes.

In July, research by NHS Lothian and Edinburgh University found that large care homes were 20 times more likely to suffer a coronavirus outbreak. The likelihood of infection tripled with every additional 20 beds. A report published by the Office for National Statistics found that more frequent use of a bank of temporary staff—a more common practice in larger homes—increased the risk of infection more than one-and-a-half times.

A related study by University College London, not yet peer-reviewed, reported significantly higher infection rates in more crowded, understaffed care homes. They found a 78 percent increase in the rate of COVID-19 infections between homes that had 0.7–0.85 residents per room, and homes with 0.85–1 per room. There was a 23 percent rise in infection for every 10 percent increase in the bed-to-staff ratio.

Private operators are incentivised to run large, full homes to stay profitable. The average number of beds in a UK care home is 36, but the country's largest private provider, HC-One, averages 50. Another major for-profit company, Care UK, averages 66. These and other large chains aim to maintain an occupancy level of around 90 percent.

Understaffing and a reliance on temporary workers are similarly the product of a combination of private profit-making and state underfunding—homes are paid the bare minimum by local authorities to house people too poor to pay themselves. The care sector workforce is overwhelmingly minimum wage, has a turnover rate of 30 percent and rising, and around 120,000 vacancies.

The deadly consequences of the pandemic now threaten to send homes out of business, leaving the care of thousands of people disrupted. According to a forecast by real estate consultants Knight Frank, the combination of deaths from coronavirus and residents fleeing unsafe homes will produce a collapse in demand for beds, leaving up to 180,000 empty by the end of next year. This would lead to widespread closures by debt-laden, profit-hungry providers, putting severe additional strain on families and the National Health Service.

The threat of this catastrophe is part of the reason the English and Scottish regulators are refusing to release fatality data for individual care homes. The CQC worries that doing so could have a "significant impact upon providers who are already facing serious financial pressures … reducing the overall availability and choice of care services."

The elderly must risk their lives blindly entering unsafe care homes, or substantial sections of care provision will disappear.

A collapse of this kind has been long in the making. In the 1980s, Margaret Thatcher's Conservative government worked with local authorities to put social care services out to competitive tender. The private company share of the care sector has since exploded, as major international investors looked to squeeze as much money out of Britain's elderly as possible—drawn by a guaranteed government income.

Private equity firms now own 13 percent of nursing and residential homes, and 15 buyout firms (set up to carry out private equity takeovers) have holdings in care homes, including in some of the largest providers like HC-One, Care UK, and Four Seasons.

HC-One is one of several companies owned by FC Skyfall, backed by US-based private equity firm Formation Capital, with $3.5 billion in assets under management. It runs 271 homes with more than 16,000 beds. CQC inspections over the past few years have rated 24 percent of these facilities “inadequate” or “requires improvement,” compared to a national average of 17 percent.

Care UK is backed by UK private equity firm Bridgepoint, with £16 billion in assets. It runs 113 homes with more than 8,000 beds. In the last 10 years, the number of beds run by Care UK has doubled, while the number of staff has fallen from 13,500, to 8,000.

Four Seasons has 203 homes and over 10,000 beds. It is currently in administration, having previously been owned by Terra Firma Capital Partners, with £4.7 billion in assets, and backed by US hedge fund H/2 Capital, managing $14 billion in assets. Thirty-one percent of Four Seasons homes inspected in the past three years were considered “inadequate” or “requires improvement.”

Overall, just 77 percent of for-profit homes were rated positively as of August last year, compared to 84 percent of homes run by local authorities, according to an analysis of regulatory reports by health-care business consultancy LaingBuisson. Investors’ pursuit of short-term profits has seen vast resources looted from the sector and care providers laden with unsustainable debts. Nick Hood, an analyst at Opus Restructuring & Insolvency, told the *Financial Times* (FT) in February, “What has happened is that care homes have become financialised. Their owners are playing with the debt and expecting returns of 12 or 14 percent and that is simply unsuitable for businesses with huge social responsibilities.”

A 2019 study by the Centre for Health and the Public Interest reported, “Out of a total annual income of £15bn, an estimated £1.5bn (10 percent) leaks out of the care home industry annually in the form of rent, dividend payments, net interest payments out, directors’ fees, and profits before tax, money not going to front line care.” Fifty-nine percent of the £2.5 billion of long-term debt owed by the 13 largest for-profit care home providers is owed to related, often offshore, companies, at high rates of interest. Seven of the 18 largest for-profit providers spend 15–32 percent of their annual income on rent payments, often to related companies, compared to the 2 percent paid by the 8 largest not-for-profit providers.

Four Seasons is a prime example. Ownership changed hands four times in the 2000s with each subsequent buyer paying more than the last and issuing debt to do so—a leveraged buyout. The chain was bought by Terra Firma for £825 million in 2012, with £780 million of outstanding borrowing on the books; Terra Firma loaded it with an additional £390 million. As of March 2019, the group’s holding company, Elli Investments, carried £1.2 billion of interest-bearing debt and loans. H/2 Capital bought Four Seasons’ debt in 2015 and took control of the company in 2017, but a full takeover deal collapsed, and the company entered administration.

As of this February, Four Seasons’ business structure was spread across 200 companies arranged in 12 layers in at least five jurisdictions, including several offshore territories, according to the FT. A 2016 analysis of its finances found “cash extraction tied to opportunistic loading of subsidiaries with debt; and tax avoidance through complex multi-level corporate structures which undermine any kind of accountability for public funding.” In 2017, company directors received a total of £2.7 million in pay, up from £2.3 million the year before.

In addition to Four Seasons, HC-One and Care UK have been up for sale in the last two years and failed to find buyers. In 2011, Britain’s largest care provider at the time with 31,000 beds, Southern Cross, went bust. Many of its homes were passed to Four Seasons, while others closed.

In 2019, care home closures exceeded openings for the eighth year in a row, meaning a loss of 23,452 beds that year. More than 400 operators folded between 2014 and 2018. Between 2017 and 2018, there was a 40 percent increase in the number of care home evictions due to closures. The number of beds per 100,000 people over 75 fell 13 percent from 2012 to 2019, according to the Nuffield Trust.

According to Nick Hood, one in three care home operators are facing failure within the next three years—based on accounts published before the effects of the pandemic took hold. Nearly 800 were technically insolvent with £1.6 billion in negative equity. The 7,203 companies he examined in total had borrowings of £6.4 billion.

Operators are so fragile that a 2 percent decline in occupancy rates at Four Seasons homes caused by the 2017 flu season “badly hit” its profits. The fallout of the pandemic threatens widespread collapse. The CQC stated bluntly in July, “COVID-19 is having a significant impact on the financial viability of adult social care services.”