Social Care Crisis

"On my 12-hour night shift there are just three carers and one nurse for 50 residents. These are patients with acute needs, it's impossible to give them the attention they need. Over the years, the demands on staff – most of whom are on the minimum wage – have increased as cutbacks take their toll; there is an increasing burden of paperwork, with the company threatening disciplinary action if such tasks aren't completed on time."
Southern Cross employee

Two recent events have laid bare the crisis in the 'social care market': the scandalous abuse at the Winterbourne View care home in Bristol, which was the subject of the Panorama documentary, and the potential collapse of Southern Cross, the largest provider of care home places. It recently reported a loss of £311 million in just 6 months and unilaterally cut the rent it pays to the owners of the homes by 30%. It had to write off £293 million of the face value of its assets. The management has said that unless they reach an agreement with the landlords of their homes then they will have to "cease trading". This raises the prospect of some of their homes closing or being taken over by other providers. At a meeting last Wednesday Southern Cross and its landlords agreed to try to find a "consensual solution" over the next four months.

At any rate this crisis has created anxiety amongst old and vulnerable residents, their families, as well as the low paid staff who work for the company. How did this situation come about?

Creating a 'care market'

The current system of provision in social care has its origins in the 1990 National Health Service & Community Care Act, which opened up a 'care market'. The Act allowed local authorities to farm out care to private providers. From a situation where 90% of social care was provided by the public sector and 10% by the private sector, the figures have nearly reversed. Councils have virtually withdrawn from providing care homes and most in-home care is provided by the private sector.

The problem with this provision is that social care has been turned into a commodity rather than a socially necessary public service. As with all markets, sooner or later there is a concentration of ownership as the big fish eat the small fry, leading to a smaller number of big providers, like Southern Cross, which runs 10% of all beds in the sector.

Southern Cross was founded in 1996. By 2002 it had 140 care homes, making it the third largest private provider in Europe at the time. In 2002 a management buy out was organised with the backing of West Private Equity and Healthcare Investments Ltd, for £80 million. In 2004 Southern Cross was bought by US private equity firm Blackstone. Blackstone then acquired NHP (Nursing Home Properties) for £574 million just two months after its takeover of Southern Cross. NHP owned 355 care homes but only managed about half of them, and Southern Cross was one of its largest tenants. The homes NHP managed was via its Highfield subsidiary which would later be acquired by Southern Cross. Southern Cross bought Ashbourne homes with 10,000 beds in 193 homes in 2005, for £85 million.

Blackstone carried out a major restructuring of Southern Cross, separating the operating company from the ownership of the property –the so-called op-co, prop-co division. Blackstone took the company onto the stock market in 2006, netting itself *more than 400% return on its investment in three years*. It paid £162 million for the homes and sold them for £770 million. When it was floated on the stock market in 2006 the price of its shares was £2.25. This rose to over £6 per share. Blackstone departed and today Southern Cross shares are worth 8 pence each.

NHP, the property company which was the prop-co part of the equation was bought by Three Delta with funds provided by the Qatari Investment Authority, for £1.3 billion. NHP's debt of £1.17 billion was sold on to investors packaged as asset backed bonds. The QIA, through Three Delta, also owns the Senad Group, Four Seasons Health Care and Care Principles.

A report by UNISON in 2008 listed the returns achieved by private equity houses in the reorganisation of and ownership concentration of the social care sector.

- Sovereign Capital bought Transcare for £26 million in 2004, bought four other care groups and was looking to sell the enlarged group for around £200 million – probably an almost 100% profit.
- Allianz Capital Partners bought the Four Seasons chain of residential care homes in 2004 for £775 million, selling it four years later for £1.4bn, a 'return' approaching 100%.
- One of the most remarkable returns was achieved by the 3i private equity fund, which bought Care Principles for £1.5 million and sold it on to another private equity firm, Three Delta, for £127 million –a more than 80-fold return on capital.
- Bridgepoint Capital is a private equity firm that specialises in the social and health care-related sectors. One of its portfolio companies was Tunstall, which helps elderly people continue to live at home. It was acquired by Bridgepoint in 2005 for £225 million, merged with another Bridgepoint investment, and sold on after three years for £514 million.

For PE companies sick and vulnerable people were revenue streams, and they guessed that with an ageing population their acquisition of homes was a safe bet. Southern Cross has been swallowed up by a series of private equity companies that have syphoned out profits for themselves at the cost of saddling Southern Cross with rent levels which it cannot afford. But the 'credit crunch' and the decline of property values created a sector crisis of which the potential collapse of Southern Cross is not an isolated event but is symptomatic of the process taking place overall in the 'care market'.

Britain's second-biggest care home firm, Four Seasons Healthcare, has amassed debts of more than £750million which must be repaid by September 2012. And the firm faces further problems because it owns 40 properties which house the care homes run by beleaguered Southern Cross –which has announced it is cutting rent owed to its landlords by 30 per cent.

According to the BBC's Robert Peston Four seasons “to the brink” 2 years ago and only survived because RBS (83% government owned) wrote down the £1.6 billion it was owed by Four Seasons *by half*.

"Too big to fail"?

Southern Cross has 753 homes. It's possible collapse poses a serious problem for the government and local authorities. Not only because of the fate of the more than 30,000 residents whose future is at risk, but because of the connection being made between the social care crisis and the government's proposals for the NHS - "any willing provider". Even the Daily Mail is expressing its outrage at a system where financial engineering has been used to turn this sector into a milch cow for private equity firms.

The government's natural inclination is to refuse to 'interfere in the market'. In March, Minister Paul Burstow said that the government was advising Southern Cross on its restructuring package.

"It is Southern Cross's responsibility to deliver on the plan they have for turning round their financial difficulties. We are being very clear with them that we look to them to maintain service continuity and quality of care while they do this...The regulator will have a role in ensuring that care is meeting the necessary standards and that quality is maintained."

However, by June 3rd

"The Government guaranteed elderly and disabled people being looked after by cash-strapped Southern Cross would not "lose out", in the clearest sign yet it would intervene if the company fails."

Though Vince Cable said "there is no way we can bail out the company".

Southern Cross has announced that it is planning to transfer the care it provides in 132 homes to the various owners, some of which it deems "commercially unviable". The FT has seen a document which details the restructuring proposals of Southern Cross. It identified 47 homes that Southern Cross "not wish to retain due to demographic and/or financial reasons" and intends to hand back to landlords by September 30. It plans to pull out of a further 85 homes by 2016. The company has told its landlords that it was "to work with landlords to enable the orderly transition to an alternative operator of [their] choice". But Southern Cross has admitted that some homes will close, the number "digits", affecting hundreds of residents.

It has also announced that it will cut 3,000 jobs, making the implausible assertion that this will not affect the quality of care provided. The Herald in Scotland recently reported that three quarters of Southern Cross homes in Scotland had had complaints upheld against them in the last five years. Nearly half of their homes in Scotland have been warned about inadequate staffing levels. According to "communitycare" website, among those at risk are 300 nurses, 1,275 care staff, almost 700 catering posts, 440 domestic jobs and 238 maintenance posts. Southern Cross says that the job losses "designed to address over-staffing in some services". This defies belief.

The Observer (June 12th) reported that 164 of Southern Cross's 581 care homes in

England have been served with improvement notices on them by the Care Quality Commission. The CQC declined to give the Observer the specific reasons for the orders, but their rule book shows that improvement orders are issued where homes fail to employ a registered manager; where there are insufficient staff to adequately provide for residents; where the most needy patients fail to receive help when dressing or eating; where medicines are not properly stored, or administered at prescribed intervals; and where health and safety of residents is put at risk.

The Financial Times has reported, based on information it did obtain from the CQC, that 14.8% of for profit care homes were rated “poor” or “adequate”. The low ratings indicate potentially serious problems such as failure to adequately clean or feed residents. The figures for public sector homes rated poor was 9.3% and non-profit 8.8%.

So long as the sector remains dominated by minimum wage levels, with high staff turnover then the quality of care will remain questionable. The latest survey by the National Care Forum shows a turnover rate of 23% in domiciliary care, which is also dominated by the low pay culture.

Tackling the crisis

So what can be done to deal with the immediate crisis and to address it in the long term? The trades unions have called for the government to intervene. Responding to the news that Southern Cross was going to cut 3,000 jobs, GMB General Secretary Paul Kenny said:

“This is the trigger for the government to step in with immediate financial support to ensure that Southern Cross continues to operate and continues to provide a home for 31,000 elderly and vulnerable residents looked after by 42,500 staff.”

Justin Bowden, GMB National Officer said: “overpaid landlords must be given an ultimatum to accept market rates or government must intervene.”

In 2010 Southern Cross paid over £248 million in rent. The GMB estimates this equates to over £6,000 per bed. In the past 4 years rents have risen by more than 18%.

UNISON General Secretary Dave Prentis said:

“government must step in to regulate the privatised care market. There are many other Southern Cross style companies out there, and this cannot be allowed to happen again. The government must step in to protect residents and staff by getting to grips with Southern Cross. What about clawing money back from the multi-millionaire company bosses and backers who made millions by selling off the companies building stock and leasing it back?”

In the first instance, obviously the key question is continuity of care for the residents, whoever runs the service. It's the residents who have to be rescued, not Southern Cross. Whilst the outcome of the Southern Cross crisis has yet to be determined what seems most likely is that a smaller Southern Cross will continue while some of the other big players, who are landlords of their homes, will take over a big part of Southern Cross's portfolio.

The problem is, of course, that Southern Cross does not own its homes. The government could in fact buy Southern Cross for a pittance; it is only worth £9 million, compared to £1.2 billion at its height. They could hand over the care provision to the relevant local authorities. But that still leaves the problem of unsustainable rent levels. Government pressure could be brought to bear on these homes landlords who depend on local authority funding for most of the residents.

The Care Quality Commission

Regulation could be much tighter, of course, taking account of the social consequences of a collapse of private care home providers. Any acquisitions could be subject to clearance by the CQC ensuring that debt is not used at risk to continuity of care. However, regulation is no panacea. The failure of the **Care Quality Commission** in the case of the Winterbourne View care home in Bristol raises serious questions about its ability to regulate in-home care as well as care homes. It failed to follow up the reports of a 'whistle-blower' who contacted them *three times*. If it can't prevent flagrant abuse in such a case what else is it allowing to take place?

The CQC was set up in April 2009, bringing together three bodies: the Commission for Social Care Inspection, the Healthcare Commission and the Mental Health Act Commission. It was, said UNISON (in February 2009), “a situation where staffing cuts, office closures and defective IT systems have left staff stretched to breaking point.”To make matters worse the CQC was given a budget 40% lower than that received by the previous organisations.

The responsibilities of the CQC are onerous, to say the least. It is responsible for registering and monitoring all health and social care providers and ensuring that they meet the standards of care which all providers are supposed to meet. But it is clear that the CQC does not have the resources to carry out his work. According to the BBC the CQC has 283 vacancies, of which 133 are for care inspectors. In part, at least, this is the result of the government's public sector staff recruitment freeze.

An Inspector told the Daily Mail, said: “are so deskbound that inspectors are unable to do what they are supposedly paid to do – inspect. What was uncovered at Winterbourne is a direct result of this. CQC is more interested in spending millions on IT systems and admin skills at the expense of actually ensuring that social care is up to scratch. A few years ago, I was carrying out two or three inspections a week. Now I'm lucky if I do that many in a month.”

A Financial Times (FT) investigation has discovered that the CQC, hit by funding cuts, *cut inspections by 70%* the six months to March this year as compared to the previous six months. One CQC inspector told the Financial Times that “'its now got to the point of being dangerous (for residents) and it's going to get worse”.

CQC refused a Freedom of Information request from the FT to disclose details of enforcement activity. It said its systems and processes were “not (yet) set up in such a way as to allow the reliable and robust collation of statistical information on enforcement activity”. But data that was provided, says the FT, suggests that from October to December 2010 enforcement activity came to a halt.

The FT commented:

“The bursting of the credit bubble may have curtailed the worst excesses of this bout of financial innovation. But it does nothing to change the fundamental flaw in the private model. Private care providers seeking to maximise profits are tempted to cut back on the spending needed to provide the best possible care for those vulnerable people in their charge.

Given this temptation, a strong regulator, capable of improving standards and protecting the public, is essential. The CQC has the power to close down failing care homes but given the trauma that relocation causes ill and frail occupants, this option can be used only in extremis. That makes it crucial to identify struggling care homes before they fail. The best way to do this is for the regulator to inspect them regularly and publish the results prominently.

Certainly the CQC requires a big increase in resources if it is to get anywhere near the job that it is supposed to do. But the scale of the task is huge. As we discovered in relation to domiciliary or in-home care in Swindon, when the local Council decided to privatise the remaining work carried out by its in-house home care team, there is little real scrutiny of the service that private companies provide. In the case of Swindon there are 21 companies who provide support to nearly 1,000 people. Because they are profit-making companies in an industry where the returns are not that great, they operate with as few staff as they can get away with, travel time is not included in their daily itinerary and the time they spend with their clients is often not sufficient. The staff by and large do their best but it is a low paid and stressful job.

Social provision

Whilst the demand for adequate resources for the CQC is important, the fundamental problem with the whole sector is that social care has been transformed into a commodity. Resources are wasted because profits are leached out of the service instead of being invested in the service provision. This is most obvious in the case of Private Equity.

The Private Equity mania was encouraged by the tax regime of Chancellor Gordon Brown. The interest from debt in acquisitions was deductible from profits, allowing them to pay little or no tax. If the debt finance was used to pay dividends, those dividends would be tax free, if the recipients were in offshore tax havens. Brown's tax policy encouraged private equity firms to ramp up debts on companies by way of leveraged acquisitions. The government and the Treasury believed that the buying and selling of companies by PE increased their 'efficiency', and bolstered Brown's beloved City of London. But such was the level of leverage in these acquisitions that companies were saddled with massive debts. At the height of the PE mania it was quite common for PE owners to arrange for 80% of the acquisition price to be debt. (See Private Equity – what response from the trades unions?)

The GMB has quite rightly called for the outlawing of “engineering” in social care and health care. The tax benefits for which Gordon Brown put in place should be ended.

However, in the medium to long term the trend towards private provision of this care *should be reversed*. Local Authorities should take over this work for which they are in any case paying. Southern Cross, for instance, depends on local authorities for 80% of its income; only 20% of its residents are self-financing. But such a change could not be carried through without increased funding. The current government's cut in funding for local authorities can only lead to a deepening of the crisis in social care provision, be it in care homes or in-home provision.

Some of the care given in these homes is in reality healthcare. The New Labour government's separation between nursing care and 'personal care' was artificial and motivated by their view that the provision of both was too expensive. In Scotland, however, all 'personal' care is free.

It is, of course, cheaper to provide support for people in their own homes. Most people want to maintain their independence, even if limited by poor health. The so-called integration of health and social care which is taking place, however, depends on sufficient funding being made available. The extension of the market from social care into healthcare would have the same consequences for the NHS as we have seen in social care. The drive for profits would lead to the growth of some at the expense of other providers. There would inevitably be a process of concentration in the direction of monopoly providers; ironic when you consider all the criticism of public provision because of its monopoly.

Every sector of the public service which has been privatised had seen this trend towards a small number of giant providers – gas, electricity, water, railways. Usually it leads to unofficial cartels that aim to keep uniformly high tarrifs. They are quick to raise prices but slow to bring them down. And we have also seen Private Equity acquiring some of these companies by loading them up with massive debts. Thames Water is a good example, acquired by McQuarie on the basis of being loaded up with debt.

Health and social care should be provided for out of general taxation and provided as a socially necessary service. If health care should be provided free at the point of use (rather than being a commodity, the buying of which depends upon the financial circumstances of a patient) why should social care for people who are disabled, ill (but not in need of hospitalisation), or simply declining as a result of old age, be treated any differently?

Martin Wicks
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