‘Where does the money go?
financialised chains and the crisis in residential care’

presentation:

The crisis in residential elder care –

Dr Anne Killett (University of East Anglia, School of Health Sciences) on background + ethnography

Debt-based financial engineering and the format of care –

Professor Sukhdev Johal (Queen Mary’s University London) on the business model

Co-authors: Diane Burns, Luke Cowie, Joe Earle, Peter Folkman, Julie Froud, Paula Hyde, Ian Rees Jones, Karel Williams

Our agenda:
intellectual and political

- *Stop grumbling about the academic culture + spend some of our time in a different kind of knowledge production, more collective and engaged:*
  - large interdisciplinary teams with different knowledges; including practitioners + sponsors;
  - outputs to include public interest reports eg “Where does the money go?”
- *Bracket idea of policy as selling fixes to central policy makers: support radical social innovation which requires local and regional experiment:*
  - engage with civil society, cut across left vs right, beyond “pro business”;
  - experiment because we have problems but not the answer; following up on cresc’s work with Enfield about localising production or the report for FSB Wales

(1) The crisis in care: cost squeeze and care quality

Agreed facts:
UK care home sector in 2015

487,000 beds
18,000 registered care/nursing homes
90% of beds offered by the independent sector

For-profit: individual family-run homes,
small medium & large chains
(86% of independent sector)

Non-profits: small and medium sized providers,
charity status (14% of independent sector)

Registered to provide:
residential, residential with nursing,
specialist provision e.g. dementia

Cost: Average £500 per week for residential care
Funding: Privately funded by residents
Local Authority funds around 60% of beds

General crisis in residential care: financial pressures + care quality

- Financial pressures on operators ex austerity – Local Authority funding fell in real terms of around 5% (Laing and Buisson 2014)
- By 2014 20-22% of care homes had insufficient staff on duty and care quality was falling (Care Quality Commission, 2014)

- By 2015 homes closing - number of beds fell by 3,000
- Charges rising for private residents
- Quality of care sliding
- 1/3 of care homes require improvement
- 7% rated as inadequate

(Andrea Sutcliffe, Chief Inspector for Adult Social Care, Care Quality Commission, 2015)

Public scandals: abuse and neglect

Mail Online

Scandal of neglect in Britain's care homes:
NHS survey of 63,000 elderly residents reveals one in three are living in fear of abuse
Half of patients are not kept clean
1 in 10 people don't get enough to eat or drink

DAILY Mirror

Shocking footage shows frightened dementia patient Bridie, 92, abused, taunted and slapped by nurse

Ethnography in care homes: financial cuts affect job and care quality

- In-depth case studies 12 UK care homes 2009-12
- 4-6 weeks – observation during the day, night, weekends
- Interviews – managers, nurses, care assistants, activity workers, domestic staff, residents and family members
- Company's organisational documents – annual reviews, residents' surveys
- Comparative case study analysis (Eisenhardt & Graebnor 2007)
- Analysed data to examine if job and care quality systematically linked
- Assess the dimensions of job quality that matter for care

Table 3. Nursing Homes with Declines in Care Quality

Ownership and business model	*Financial pressures*	*Job quality affected*	*Staff response*	*Care-quality indicators, 2010*
8. Hazel Tree Court For-profit, corporate chain	2003–2004: Private equity firm takes over; property is sold and leased back. Rental payments and efficiency measures are introduced. 2010: LA payments frozen.	**Compensation, staff reductions, employment contract, task diversity** 2007–2008: Sick pay and paid breaks removed. 2 RNs replaced by senior CAs. Paid training replaced by unpaid, mandatory training. 2009: Staffing levels reduced. 2010: Staff vacation time changed to 1 week at a time. Removal of pay to attend handover meetings.	2008: Working harder. 2009: Providing custodial care. Training completion rates fall. 2010: Resetting expectations for a lower standard of care.	Residents complain of reductions in food, increases in waiting times for help. Windows do not open or shut properly. Staff do not receive important information about residents' care needs. Staff ignore residents' calls for help. Concerns raised by inspection system for care quality, respect, dignity, and safety of residents; staffing; and management.
9. Sunny Rose For-profit; family-owned	2009: Minimum wage raised and statutory holiday entitlement increases. 2010: LA payments frozen.	**Staff reductions, employee contracts, task diversity, autonomy** 2009: Contracts changed weekly working hours to 35. Staffing levels reduced. System of lean working (calibration of minutes needed to meet physical needs of residents). Reduced task diversity and autonomy.	2009: Providing custodial care.	Residents in need wait for care. Inspection system rates care as "good" out of a scale from "poor" to "excellent," but problem raised with the length of time residents are required to wait for care.
10. Tulip Grange For-profit; corporate chain	2004–2007: Private equity firm takes over; property is sold and leased back. Rental payments and efficiency measures are introduced. 2010: LA payments frozen.	**Staff reductions, employment contracts, task diversity, autonomy** 2009: Manager post unfilled. 2010: Staffing levels reduced. Contracts change daily working hours from 8 to 12. Task diversity and autonomy decrease.	2010: Working harder and increase in unpaid overtime. Shutting of a lounge used by residents. Providing custodial care.	Poor hygiene (odor of urine). Overcrowding of people into lounge. Residents become agitated and aggressive with each other. Dirty and frayed carpets. The only door exiting into the garden is broken and does not open. Concerns raised by inspection system for quality of care, respect, dignity, and safety.
11. Chives Court Nonprofit; LA	2010: LA budget reduced and scrutiny increased.	**Staff reductions, task diversity, autonomy** 2010: Rapid reduction in staffing levels. Recruitment to deputy manager post frozen.	2010: Providing custodial care. Staff working double shifts to cover shortfalls. High level of fatigue, and staff missing shift handover meetings.	Immobile residents left isolated and unattended. Lack of individualized care. Concerns raised by inspection for staffing level, quality of care, planning, and safety.
12. Hyssop Place Nonprofit; charity	2009: Ownership transferred to large nonprofit. 2010: LA payment frozen.	**Staff reductions, task diversity** 2010: Staffing levels reduced. Provision of activities taken out of CA role.	2010: Working harder; providing custodial care. Raising money to purchase transport for residents to attend activities.	Residents do not have daily activities. Slips in standards for cleanliness and hygiene noticed by residents and relatives. Concerns raised by inspection system for health, safety, and welfare.

Notes: CA, care assistant; LA, local authorities; RN, registered nurse.

Homes where care quality fell: common characteristics

- Faced more financial pressures than other homes
- Management prioritized financial cutbacks over individualized care
- Higher reduction to staffing level; workload intensification; reductions to pay and conditions (most pronounced in corporate chains)
- Reduced opportunities for task diversity, staff autonomy and voice
- Staff approach care as a series of tasks to be completed
- Lack of spend on maintenance and other facilities was visible in corporate chains (broken equipment, faulty windows & doors, cuts to care provision e.g. catering budgets)
- The combination of the above impeded the ability of care workers to develop workarounds and care quality fell

The real financial squeeze trade narrative asking for more

- Squeeze ex Local Authority price falling in real terms + costs increasing with rising minimum wage level for over 25 year olds April 2016
- Advertised threat of large scale home closure eg Res Publica report; collapse of residential care system = catastrophe for the NHS which would seize through ‘bed blocking’
- Autumn 2015 trade campaign for higher fees to cover mandated increase to minimum wage; reward in November 2015 spending review with LA powers to add 2% to Council Tax to generate extra funding for residential elder care
- Trade response this will not raise enough to stabilise the system

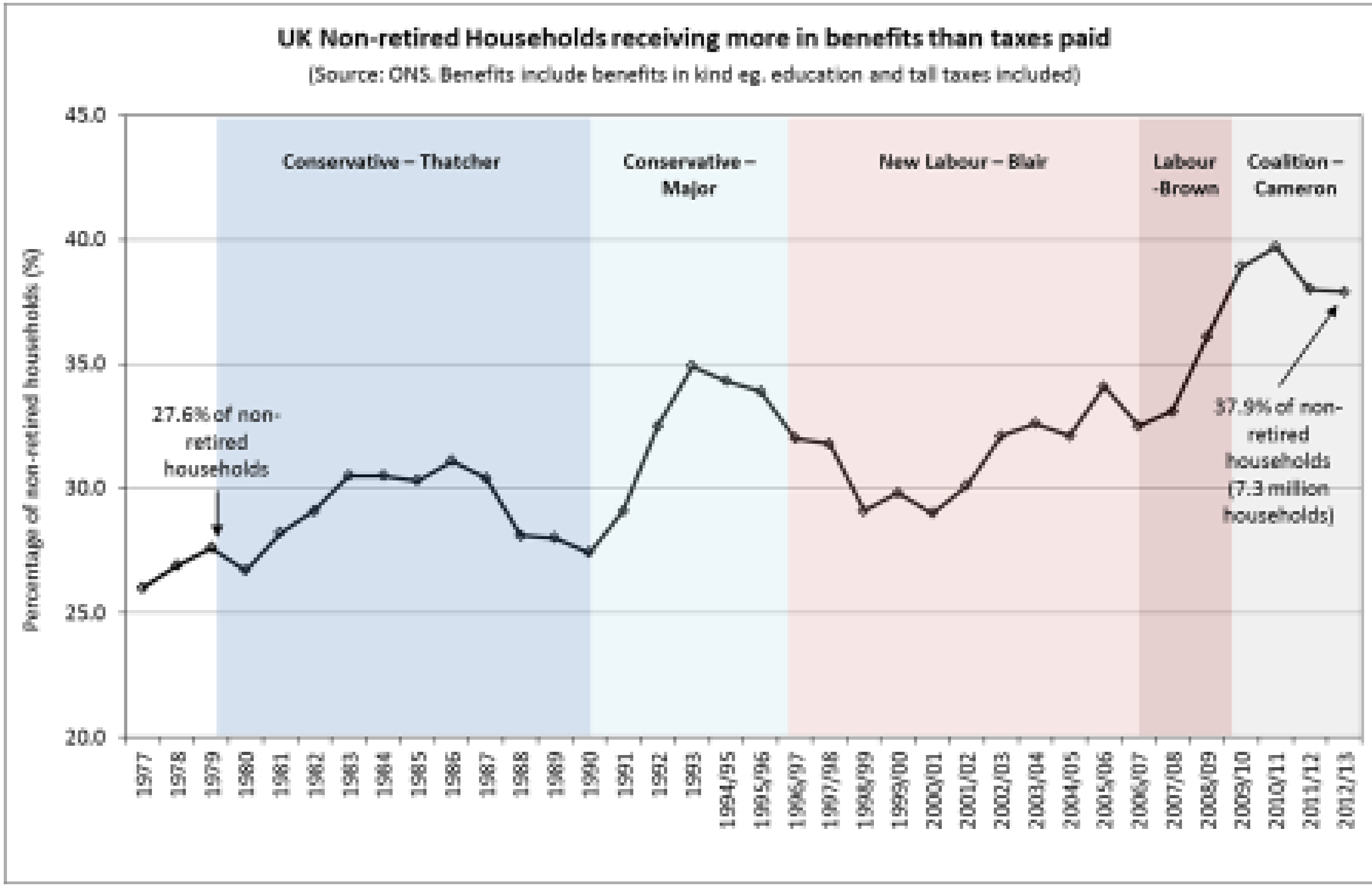
(2) Debt-based financial engineering and the format of care

What does “follow the money” add? focuses business model issues

- How the chain business model is levered on cheap labour and expensive capital (and incidentally formats residential care on the Travelodge model)
- Sets the argument about “ not enough money” in context by shifting attention onto “ where does the money go”
- Raises issues about the proper sphere of private equity or debt based financial engineering; highlights social attractions of a different model based on living wages + cheap capital + experiment with new formats

Issue (1) returns levered on cheap labour low wages = savings in one state account

- The (local) state outsourced adult care (and much else) because it shifted accountability and cut the direct wage bill for 3% of the workforce.
- All private homes pay £2 per hour less on Labour Force Survey data (2011-2014), median wage for residential care worker: public £9.45 per hour; non-profit £8.50; private £7.23 = why a £9 minimum wage is causing crisis.
- Undermined care quality with burn out + rapid turnover of an undertrained workforce; as Diane has argued, problems are aggravated in chains which are in financial difficulty
- Socially pointless because low wages save LAs money in their care account but increase costs of wage subvention for central state in many other accounts (via housing benefit, tax credits. OAPs etc.); contributing to the Brit problem of out of control wage subvention


UK Non-retired Households receiving more in benefits than taxes paid
(Source: ONS. Benefits include benefits in kind eg. education and tall taxes included)
Percentage of non-retired households (%)
45.0
40.0
35.0
30.0
25.0
20.0
Conservative – Thatcher
Conservative – Major
New Labour – Blair
Labour -Brown
Coalition – Cameron
27.6% of non-retired households
37.9% of non-retired households (7.3 million households)
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994/95
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13

Issue (2) returns levered on expensive capital 11-12% target = higher cost care

- This is a capital intensive activity where the operator has to own or rent buildings, so cost of capital and target rates of return = important determinants of price and/or ability to pay living wages
- Standard point of reference = “fair price” and “benchmark” calculations of cost by Laing + Buisson accepted in court judgement + used by the media; model chain costs (not mom and pops which run like family farms)
- The L-B Fair price includes an 11-12% return on capital justified by purchasers’ expectations (chain owners are buying at 8-9 times earnings, 100 divided by 8 = 12.5); gives PE purchasers a margin over what they pay bond holders ie 8% or a bit more
- Cost of capital is much lower for many borrowers (base rates around zero: LAs can borrow for well under 5%); cheaper capital would allow lower prices and/or higher wages e.g. in the LB model, 5% return allows a cut of £100 per week in price or a 1/3rd increase in wages

Table 5: Calculating the savings from a reduction in the 12% return on capital employed (2012 prices)						
	Per resident per week (PRPW) @ 12% ROCE		Per resident per week (PRPW) @ 8% ROCE		Per resident per week (PRPW) @ 8% ROCE	
	£	%	£	%	£	%
Staff costs	251	45.6%	251	50.9%	251	55.7%
Repairs and Maintenance	34	6.2%	34	6.9%	34	7.5%
Other (home) non-staff costs	95	17.3%	95	19.3%	95	21.1%
Capital costs (12% return)	170	30.9%	113	23.0%	71	15.7%
Ceiling fair market price	**550**	100.0%	**493**	100.0%	**451**	100.0%
No of beds	50		50		50	
REDUCTION IN PRICE PER BED PER WEEK	**0**	**0%**	**-57**	**-10.3%**	**-99**	**-18.0%**

Source: 'Bridging the gap', BUPA

Note: Data refers to provincial LA's not London as this methodology is lifted from Laing & Buisson and the data adjusted for inflation.

Table 6: ROCE reduction applied to increasing pay (2012 prices)

	12% ROCE	% increase	8% ROCE	% increase	5% ROCE	% increase
	£	%	£	%	£	%
Increase in total staff compensation per week per bed (staffing approx 1.1 FTE per bed)	**0.00**	0.0%	**56.67**	22.6%	**99.17**	39.5%
Increase in annual total staff compensation per bed (staffing approx 1.1 FTE per bed) -52 weeks used	**0.00**	**0.0%**	**2,947**	**22.6%**	**5,157**	**39.5%**

Source: 'Bridging the gap', BUPA

Note: Data refers to provincial LA's not London as this methodology is lifted from Laing & Buisson and the data adjusted for inflation.

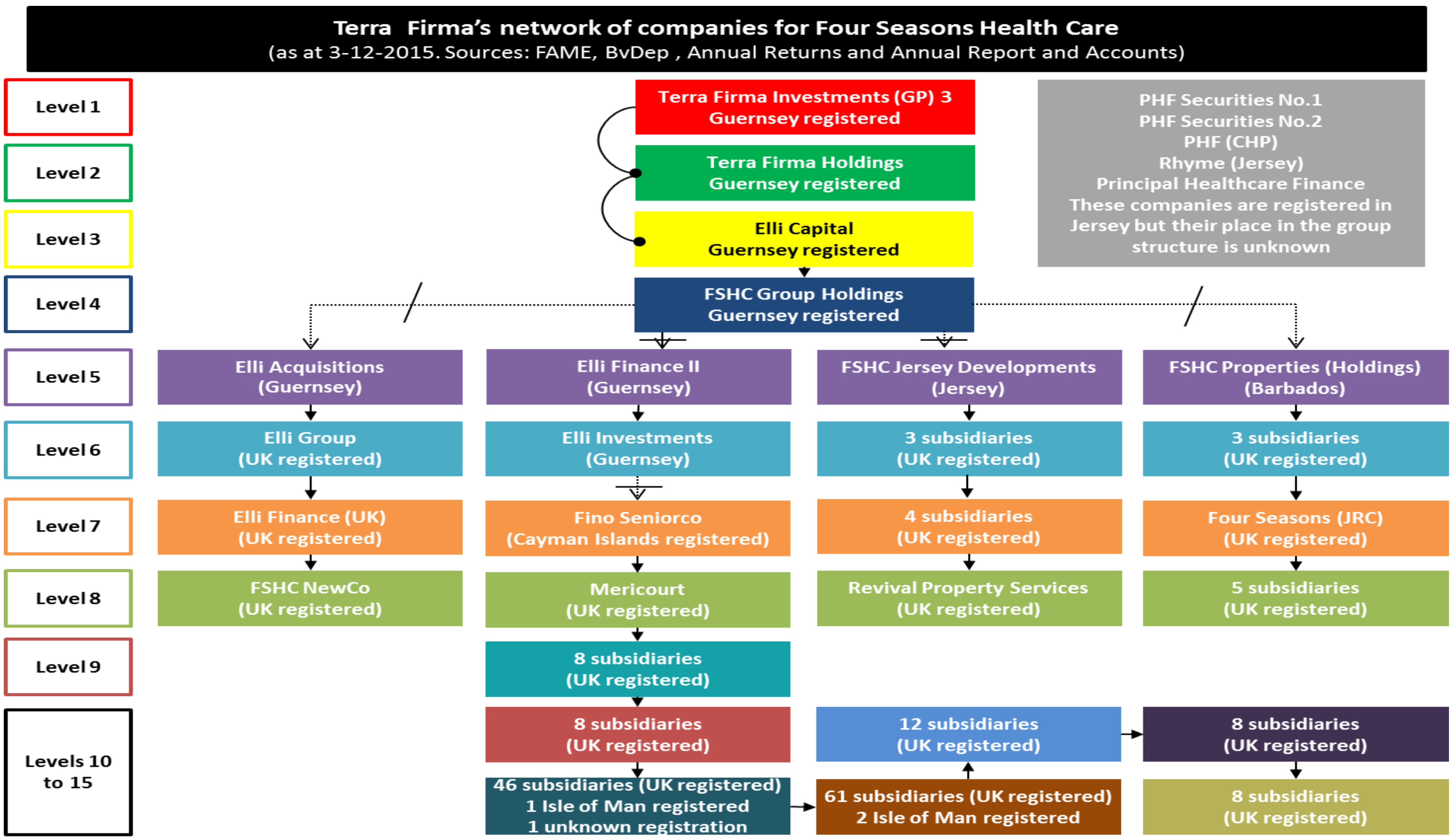
Issue (3) the formatting of care:
group living 60 beds at a time

- Mom-and-pops are exiting by selling their house property; & chains are rebuilding homes for group living in the Travelodge format (60 beds all en suite)
- Size of home is determined by the chain business model: need >50 beds for a lump of profit large enough (a) to cover management overheads, including manager's salary at £30-35k and central charges & (b) an annual return on capital, in cash to service external debt.
- Not enough social innovation: UK provision of care in two completely standardised forms: dom care/home visits vs residential in an institutional format where all eat at the same time, with no input into domestic tasks; cf American and European experiments in group homes, co-housing, mixed age communities, care homes as hubs

Issue arising: debt based fin'cial eng'ing in the wrong sector ?

- DBFE techniques suitable for high-risk/ high-return activities (commodity production, turnarounds etc.) are being applied to what should be a low-risk/ low-return activity (stable demand, welfare service where state remains responsible for residents if homes close)

1. complex group structures with tiered companies through multiple jurisdictions, leading to profit taking in tax havens eg Four Seasons has 185 cos to run 400 homes
2. debt-based financial engineering for the equity owner: (a) 2/3rds co. purchase funded by bank borrowing and bond sales; (b) expensive internal debt used to extract cash or manipulate profit; (c) sale-and-lease back to extract cash & allow more acquisition eg Four Seasons has £500 million of bond debt at 10% and £300 million of internal debt at 15%
3. churning of ownership as seller's profit depends on next buyer loading business with more debt; operating fragility and restructuring when cash flow cannot cover financing cost of debt (sometimes complicated by special dividends and arbitrary charges) eg Four Seasons has had 5 owners in 17 years


Terra Firma's network of companies for Four Seasons Health Care
(as at 3-12-2015. Sources: FAME, BvDep , Annual Returns and Annual Report and Accounts)
Level 1
Level 2
Level 3
Level 4
Level 5
Level 6
Level 7
Level 8
Level 9
Levels 10 to 15
Terra Firma Investments (GP) 3 Guernsey registered
Terra Firma Holdings Guernsey registered
Elli Capital Guernsey registered
FSHC Group Holdings Guernsey registered
PHF Securities No.1
PHF Securities No.2
PHF (CHP)
Rhyme (Jersey)
Principal Healthcare Finance
These companies are registered in Jersey but their place in the group structure is unknown
Elli Acquisitions (Guernsey)
Elli Finance II (Guernsey)
FSHC Jersey Developments (Jersey)
FSHC Properties (Holdings) (Barbados)
Elli Group (UK registered)
Elli Investments (Guernsey)
3 subsidiaries (UK registered)
3 subsidiaries (UK registered)
Elli Finance (UK) (UK registered)
Fino Seniorco (Cayman Islands registered)
4 subsidiaries (UK registered)
Four Seasons (JRC) (UK registered)
FSHC NewCo (UK registered)
Mericourt (UK registered)
Revival Property Services (UK registered)
5 subsidiaries (UK registered)
8 subsidiaries (UK registered)
8 subsidiaries (UK registered)
12 subsidiaries (UK registered)
8 subsidiaries (UK registered)
46 subsidiaries (UK registered)
1 Isle of Man registered
1 unknown registration
61 subsidiaries (UK registered)
2 Isle of Man registered
8 subsidiaries (UK registered)

Issues for discussion:

- What's the place of debt based financial engineering and financialised chains? How can small private operators be part of the future of the sector?
- Should the 60 bed en-suite new build home be the template for the residential future? What's the role of experiment in new formats?
- How do we mobilise political support and business expertise to access cheaper capital and create new possibilities for care within existing budgets?

References

Public interest report: Where does the money go? Financialised chains and the crisis in residential care http://www.cresc.ac.uk/medialibrary/research/WDTMG%20FINAL%20-01-3-2016.pdf Diane Burns, Luke Cowie, Joe Earle, Peter Folkman, Julie Froud, Paula Hyde, Sukhdev Johal, Ian Rees Jones, Anne Killett, Karel Williams

Burns, D., Hyde, P. and Killett, A. (2016) How financial cutbacks affect job quality and care of the elderly. Work and Employment Relations in Healthcare. Industrial Labor Relations Review. 69(4), pp 991-1016.