‘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

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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

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

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>
<thead>
<tr>
<th>Ownership and business model</th>
<th>Financial pressures</th>
<th>Job quality affected</th>
<th>Staff response</th>
<th>Care-quality indicators, 2010</th>
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</thead>
<tbody>
<tr>
<td>For-profit, corporate chain</td>
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<tr>
<td>9. Sunny Rose</td>
<td>2009: Minimum wage raised and statutory holiday entitlement increases. 2010: LA payments frozen.</td>
<td>Staff reductions, employee contracts, task diversity, autonomy</td>
<td>2009: Providing custodial care.</td>
<td>Residents in need wait for care. Inspection system rates care as &quot;good&quot; out of a scale from &quot;poor&quot; to &quot;excellent,&quot; but problem raised with the length of time residents are required to wait for care.</td>
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<td>For-profit; family-owned</td>
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<td>10. Tulip Grange</td>
<td>2004–2007: Private equity firm takes over; property is sold and leased back. Rental payments and efficiency measures are introduced. 2010: LA payments frozen.</td>
<td>Staff reductions, employment contracts, task diversity, autonomy</td>
<td>2010: Working harder and increase in unpaid overtime. Shutting of a lounge used by residents. Providing custodial care.</td>
<td>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. Immobile residents left isolated and unattended. Lack of individualized care. Concerns raised by inspection for staffing level, quality of care, planning, and safety.</td>
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<tr>
<td>For-profit; corporate chain</td>
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<tr>
<td>11. Chives Court</td>
<td>2010: LA budget reduced and scrutiny increased.</td>
<td>Staff reductions, task diversity, autonomy</td>
<td>2010: Providing custodial care. Staff working double shifts to cover shortfalls. High level of fatigue, and staff missing shift handover meetings.</td>
<td>Concerns raised by inspection system for quality of care, respect, dignity, and safety.</td>
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<tr>
<td>Nonprofit; LA</td>
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<tr>
<td>12. Hyssop Place</td>
<td>2009: Ownership transferred to large nonprofit. 2010: LA payment frozen.</td>
<td>Staff reductions, task diversity</td>
<td>2010: Working harder; providing custodial care. Raising money to purchase transport for residents to attend activities.</td>
<td>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.</td>
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<td>Nonprofit; charity</td>
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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 e.g. education and tax relief included)

Percentage of non-retired households (%)

- 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)
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>
<thead>
<tr>
<th></th>
<th>Per resident per week (PRPW) @ 12% ROCE</th>
<th>Per resident per week (PRPW) @ 8% ROCE</th>
<th>Per resident per week (PRPW) @ 8% ROCE</th>
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<tr>
<td></td>
<td>£</td>
<td>%</td>
<td>£</td>
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<tr>
<td>Staff costs</td>
<td>251</td>
<td>45.6%</td>
<td>251</td>
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<tr>
<td>Repairs and Maintenance</td>
<td>34</td>
<td>6.2%</td>
<td>34</td>
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<tr>
<td>Other (home) non-staff costs</td>
<td>95</td>
<td>17.3%</td>
<td>95</td>
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<tr>
<td>Capital costs (12% return)</td>
<td>170</td>
<td>30.9%</td>
<td>113</td>
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<tr>
<td>Ceiling fair market price</td>
<td>550</td>
<td>100.0%</td>
<td>493</td>
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<tr>
<td>No of beds</td>
<td>50</td>
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<td>50</td>
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<tr>
<td><strong>REDUCTION IN PRICE PER BED</strong></td>
<td><strong>0</strong></td>
<td><strong>0%</strong></td>
<td><strong>-57</strong></td>
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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)

<table>
<thead>
<tr>
<th></th>
<th>12% ROCE</th>
<th>% increase</th>
<th>8% ROCE</th>
<th>% increase</th>
<th>5% ROCE</th>
<th>% increase</th>
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<td>£</td>
<td>%</td>
<td>£</td>
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<td>Increase in total staff</td>
<td>0.00</td>
<td>0.0%</td>
<td>56.67</td>
<td>22.6%</td>
<td>99.17</td>
<td>39.5%</td>
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<td>compensation per week</td>
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<td>per bed (staffing</td>
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<td>approx 1.1 FTE per bed)</td>
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<tr>
<td>Increase in annual</td>
<td>0.00</td>
<td>0.0%</td>
<td>2,947</td>
<td>22.6%</td>
<td>5,157</td>
<td>39.5%</td>
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<tr>
<td>total staff</td>
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<td>compensation per bed</td>
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<td>(staffing approx 1.1</td>
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<td>FTE per bed) -52 weeks</td>
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Source: 'Bridging the gap', BUPA

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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 financial engineering 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) 2/3\textsuperscript{rd}s 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)

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

Level 1
Terra Firma Investments (GP) 3
Guernsey registered

Level 2
Terra Firma Holdings
Guernsey registered

Level 3
Elli Capital
Guernsey registered

Level 4
FSHC Group Holdings
Guernsey registered

Level 5
Elli Acquisitions
(Guernsey)

Level 6
Elli Group
(UK registered)

Level 7
Elli Finance (UK)
(UK registered)

Level 8
FSHC NewCo
(UK registered)

Level 9

Levels 10
to 15

FSHC Jersey Developments
(Jersey)
3 subsidiaries
(UK registered)

FSHC Properties (Holdings)
(Barbados)
3 subsidiaries
(UK registered)

Elli Finance II
(Guernsey)

Elli Investments
(Guernsey)

Fino Seniorco
(Cayman Islands registered)

Mericourt
(UK registered)

Revival Property Services
(UK registered)

8 subsidiaries
(UK registered)

8 subsidiaries
(UK registered)

46 subsidiaries (UK registered)
1 Isle of Man registered
1 unknown registration

12 subsidiaries
(UK registered)

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?