ALL-PARTY PARLIAMENTARY GROUP ON
LIMITS TO GROWTH

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Tackling predatory financial practices in the adult social care sector

Briefing note for the second reading of the Health and Care bill

1. Introduction

The increasing involvement of financial entities (such as private equity firms and hedge funds) in the adult social care sector over the past 30 years has put pressure on the sector to grow its revenues over time: not to improve quality of care, but to meet the mounting financial costs associated with complex corporate group structures, high debt burdens and the offshoring of profits.

In the context of the challenges posed by Covid-19, an aging population and a long-term decline in economic growth rates, this financially extractive model is plunging social care deeper into economic precarity.

These issues are explored in the recent episode of BBC Panorama's Crisis in Care series, Follow the Money, broadcasting at 19.30 on Monday 6th December. The documentary investigates the opaque financial models of some of the largest social care businesses in the UK and reveals the financial and social impacts for families with loved ones in these care homes. It features frontline care workers, CUSP researchers, and the Chair of the Commons Health and Social Care Select Committee.

This neglected cause of the care crisis can no longer be ignored. The Health and Care Bill is a crucial opportunity to tackle the predatory financial practices that are draining the adult social care sector of vital funds and compromising the long-term economic stability of the sector.

This briefing sets out why de-financialisation of the care sector should be a priority and proposes three ways in which the Health and Care Bill should be amended to address these issues.

2. The problem of financialisation in care

Improving the economic resilience of adult social care must be a top priority. The sector has been hit hard by the Covid-19 pandemic and a decade of austerity. The Government's focus on developing new funding streams does not address critical underlying problems, and social care remains vulnerable to several destabilising forces.

Predatory financial practices, such as debt-leveraging and offshoring company profits, drain the care sector of funds that could otherwise go towards frontline service provision. This leaky bucket puts additional pressure on local authority finances, personal savings and workforce pay, and creates a dependence on revenue growth to continue to meet exorbitant financial costs.[i]

- As much as one sixth of the weekly fee for a residential bed goes towards interest payments on company debt within financialised care homes.[ii]
- Research shows that debt-leveraged buyouts, like those prevalent in the care sector, can increase risk of bankruptcy for the target firms by as much as 18%.[iii]
- Mounting evidence from the US also indicates that care homes owned by investment firms have worse patient outcomes, with a study of 15,000 US care homes finding that there was a 10% increase in mortality associated with private equity ownership [iv]

Such debt-laden models have also contributed towards prominent failures in the sector such as the collapses of Southern Cross in 2011, and Four Seasons Health Care in 2019.

3. Amendments on the de-financialisation of adult social care

There are several ways to mitigate the risks of financialisaton and stabilise the sector, even during times of economic uncertainty. Amending the Health and Care Bill in the following three ways would ensure that, when much needed additional funding is provided to the sector, we aren't paddling harder and harder just to stand still. These changes would ensure the Bill tackles predatory financial tactics in care and gives the sector a chance to flourish.

First, requiring a review of financial regulations governing the adult social care sector. This review should aim to identify ways of reducing the large financial costs and risks that are created by financial engineering practices such as debt loading, asset stripping and the offshoring of profits. It should consider the adequacy of current regulation and the feasibility of new measures, such as:

- Requiring that the ultimate parent company of any company providing care services in England be registered in the UK.
- Restrictions on the circumstances under which care home assets can be sold to external or related companies (in what is currently known as an 'op-co, prop-co split'), with the aim of maintaining long-term financial viability of care companies.
- Bringing in stricter debt-to-asset ratio requirements for all companies involved in the provision of adult care services in England.

Second, requiring greater financial transparency at the corporate group level, including offshore entities. At the moment, large care home chains are often comprised of dozens of related companies based in many different locations, sometimes including tax havens.

As well as facilitating the movement of money offshore, these structures make it almost impossible for local authorities to evaluate the financial viability of local care providers and to fairly assess the value for money being offered by those providers.

An amendment should be introduced to require any organisation involved in the provision of adult social care in England to report annually, and in public, full financial accounts for all and any related companies under the same ultimate parent company.

This transparency requirement should include a breakdown of expenditures (at a minimum between direct and indirect costs of care, shareholder dividends, rent, interest payments, and directors' fees) at the company and group levels, including for those entities registered offshore.

This would enable local authorities to better understand the financial stability and value for money of their local care providers. Section 104 of the US Nursing Home Transparency and Improvement Act 2009 is an example of similar legislation requiring expenditure breakdowns for nursing homes.

Third, preventing the new 'financial assistance' provisions in the Bill from being used to bail out over indebted care providers. Clause 141 introduces a new measure that would enable the Secretary of State to provide financial assistance to for-profit entities – something he can't currently do.

The intention behind the clause is broadly sensible. But as currently written, there is nothing to prevent it from being used to rescue over indebted care companies in financial difficulty. This would effectively position the Government as a financial backstop for social care investors, potentially encouraging risky debt-financing, and ultimately serving to protect investor returns, rather than quality of care.

The Bill should be amended to tackle this risk, for example by prohibiting financial assistance for the purpose of making payments on the debt obligations of for-profit bodies in the adult social care sector.

4. Contact and further information

Please get in touch if you have any questions or would like to discuss these proposals:

- APPG on Limits to Growth, appg@limits2growth.org.uk
- Christine Corlet Walker, Centre for the Understanding of Sustainable Prosperity (CUSP), University of Surrey, c.corlet@surrey.ac.uk

Resources and further reading:

- Predatory financial tactics are putting the very survival of the UK care system at risk, The Guardian, August 2021: https://theguardian.com/commentisfree/2021/aug/10/predatory-financial-tactics-survival-uk-care-system-at-risk
- Care homes: why investment firms can be bad owners, The Conversation, April 2021: https://theconversation.com/care-homes-why-investment-firms-can-be-bad-owners-158492
- Careless Finance—Operational and economic fragility in adult social care, April 2021, Centre for the Understanding of Sustainable Prosperity, University of Surrey. Paper summarized and available from here: https://cusp.ac.uk/themes/aetw/blog-careless-finance/
- Tackling growth dependency—the case of adult social care, APPG on Limits to Growth Briefing Paper, July 2021, https://limits2growth.org.uk/publication/tackling-growth-dependency-aetw-briefing-no4/

Notes

i Corlet Walker C., Druckman A., & Jackson T., (2021). Careless finance: Operational and economic fragility in adult social care. CUSP Working Paper No 26. Guildford: Centre for the Understanding of Sustainable Prosperity. Available at: https://cusp.ac.uk/themes/aetw/wp26-careless-finance/.

ii Kotecha, V. (2019) ‘Plugging the leaks in the UK care home industry. Strategies for resolving the financial crisis in the residential and nursing home sector’. London, UK: Centre for Health and the Public Interest, pp. 1–53. Available at: https://chpi.org.uk/papers/reports/plugging-the-leaks-in-the-uk-care-home-industry/

iii Ayash, B. and Rastad, M. (2021) ‘Leveraged buyouts and financial distress’, Finance Research Letters. Elsevier Inc., 38(October 2019), p. 101452. doi: 10.1016/j.frl.2020.101452

iv Gupta, Atul et al. (2021) ‘Does Private Equity Investment in Healthcare Benefit Patients ? Evidence from Nursing Homes’, NBER WORKING PAPER SERIES. Cambridge, MA, pp. 1–76

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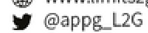

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