UK: private equity company bankrupts care homes

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Social care is becoming more important in European and other countries, partly because of ageing populations. Private companies operate a rising proportion of social care facilities: see the recent PSIRU reports *Care Services for Older People in Europe* and *Care services, multinational companies and expanding European markets*.

In the UK, where they already run over two-thirds of care homes, a series of problems over the finances of the companies, quality of care, and inadequate regulation have all erupted simultaneously, highlighting the dangers of private companies running care homes. A new PSIRU report provides an overview of the sector in the UK; this brief summarises the crisis as at June 2011.

Bankruptcy and financial crises

Southern Cross, the largest private operators of care homes in the UK, with 31,000 residents and 42,000 staff in 750 care homes, is facing bankruptcy. Cuts in local government spending have reduced its income by 15%. The company now has problems paying rents, because while it was owned by private equity firm Blackstones, it sold its homes and relied on borrowing money to pay rents – since the financial crisis, the cost of borrowing has risen sharply.

The company is now refusing to pay more than 70% of its rents. The UK government which has insisted on cuts in spending at the same time as supporting privatisation, is discussing using public money to bail out the company (*Guardian*, 1 June 2011, "Southern Cross slashes rent to avoid mass care home closure").

Other private operators, such as Four Seasons, have also had financial crises and been unable to pay their debts. (*Financial Times*, 1 June 2011, "Care homes rivals circle Southern Cross"). The whole private sector boom has been driven by big private equity investments using high levels of debt in the expectation of growing profits: “Even those involved in the deal could not believe the lives of mentally ill people were worth so much money” (*Financial Times*, 30 May 2011 "Human cost forgotten in race to invest").

The UK unions GMB and Unison are demanding government intervention to support staff and patients. The GMB's Southern Cross campaign includes a full list of care homes run by Southern Cross, with the name and email of the local member of parliament for each one, and a new research report on Southern Cross and its owners, called *The Greedy and the gullible*.

Systematic brutality and torture

A BBC TV programme has showed shocking abuse of patients at a private residential centre run by another private company, Castlebeck: “a group of men and women are subjected to a regime of physical assaults, systematic brutality, and torture by the very people supposed to be caring for them. The victims are some of the most vulnerable in society - the learning disabled, the autistic, and the suicidal” (BBC Tuesday 31 May 2011 ,Panorama: Undercover Care: The Abuse Exposed).

The actions shown were described as „torture‟ by some expert observers. Castlebeck was previously criticised by a coroner over the death of a resident. (*Guardian* 1 June 2011, "Panorama care home investigation prompts government inspections").

Bad care and weak regulation

An analysis of reports by the sector regulator, the Care Quality Commission, showed that they provide worse quality care in general: one in seven private homes were rated „poor‟ or at best „adequate‟ in reports in 2010 – much worse than the average for public sector or non-profit homes (*Financial Times*, 30 May 2011 "UK care homes").

The regulator, the Care Quality Commission, is also weakened by cutbacks. The routine reports on standards were cancelled by the government in 2010, and it is nearly 300 staff short, including 133 unfilled vacancies for inspectors, as a result of the government freeze on recruitment imposed on all government agencies in 2010. The CGC also failed to respond to 3 warnings from the whistle-blower whose evidence led to the BBC programme (*Financial Times*, 3 June 2011, "Care home watchdog has staff shortfall").

'Fundamental flaw in the private model'… 'Greed is bad'

Remarkably, an editorial by the leading business newspaper, the *Financial Times*, blamed "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" (*Financial Times*, 31 May 2011, "The shameful state of UK care homes").

The same message was repeated by the newspaper‟s Lex column: "lower prices almost always mean lower quality care. Non-profit care homes provide better care than privately-owned ones… because they spend a bit more on staff. The lesson should be clear; in this sector, without drastically better policing and regulation, greed is bad" (*Financial Times* 7 June 2011 "Southern Cross: Greed is bad").

The GMB trade union represents many Southern Cross workers and information on the latest developments and be found on the GMB website www.gmb.org.uk and in particular a press release on one of the main companies to take over Southern Cross Homes - Four Seasons.

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