Public service, private killing

SUPER-WEALTHY care home boss and equity dealer Chai "Diddums" Patel (pictured) is buying back some of the same care homes he sold to Bupa in 1999 when he ran Care First. The deal suggests that there are still rich pickings to be had for some in the care industry, despite warnings that it is in crisis. But if Patel's plan gets the regulatory go-ahead, as seems likely, it would show that nothing has been learnt from the 2011 collapse of care giant Southern Cross.

The £300m deal for HC-One to acquire more than 100 Bupa homes – making chairman Patel a major player in the industry once more – relies on the same sort of dodgy "financial engineering" that put Southern Cross's 31,000 residents at risk. That disaster proved that short-term private equity, off-shore debt deals and poor financial and care regulation are a toxic mix for long-term social welfare.

A leaked memo showed how Southern Cross tried to balance its books before its collapse and attract new owners by cutting staff across the board, thereby compromising care and safety. Newspaper horror stories detailed neglect and poor care; but despite the "never again" promises from regulators and politicians, it remains the case that high-risk business models more suited to start-ups and tech companies are now central to much of the care home industry. As one analyst told the *Eye*: "So long as you have buildings, a cash stream, and predictable costs, financial engineering is now the way to make money."

There are three main ways to extract cash from care: from the fees charged for the service itself; from stripping out assets such as property, selling them and then leasing them back as operator (as happened with Southern Cross); or loading up debt, often for other acquisitions, through loans, bonds or secured notes.

With the financing buried in a maze of complex operating structures, inter-related company transactions (some offshore and in different tax jurisdictions), it is also possible for companies to avoid tax – and all but impossible for anyone else to follow the money.

It's not just big players like HC-One, Four Seasons, Care UK and Barchester that have changed the game; some smaller groups are also "restructuring" and going offshore. "Not-for-profit" Bupa has a complex corporate structure, with two-thirds of its care homes registered in Guernsey.

Analysts say around a fifth of the country's care home operators are now funded by an estimated £5bn of such debt, for which typically investors expect a return of between 8 and 12 percent. But profits for investors mean greater costs for care homes and higher fees for residents. A recent study by the Centre for Research on Socio-Cultural Change found that, with a 12 percent return, up to a third of care home costs went to debt and equity – money that could otherwise be spent on staff, good care and expanding bed-space.

The money-go-round is financed by care home fees – typically between £500 and £1,000 per week – from self-paying residents or cash-starved local authorities (often with top-ups from family members), which fund around 60 percent of care home places. But the carousel comes to a crashing halt when cash flow no longer covers the debt costs. Southern Cross's private-equity owner, Blackstone, had already creamed off profits from the sale and leaseback of around 700 care homes when the credit crunch meant income from residents wasn't enough to cover its rent and interest charges.

Yet it was out of the Southern Cross mess that Patel launched HC-One, taking over 241 of the failing homes. Only three years later, he and his then fellow directors trousered a cool £30m profit when HC-One was taken over by US private equity firm Formation Capital in a deal worth £477m.

HC-One, still run by Patel, has recently acquired around another 50 homes from two smaller chains, and owes around £282m – even before any Bupa purchase. Last year, to reduce a similar "debt burden", HC-One resorted to selling off more of its property portfolio in a sale-and-leaseback deal. In effect, it was simply replacing debt repayments with rent liabilities.

HC-One's corporate structure is as transparent as concrete. It is ultimately owned (via Jersey-based Libra Intermediate Holdco Ltd) by FC Skyfall LP, a Cayman Islands entity and the main conduit of funds from the group's US private equity owners Formation Capital and Saudi investors Safanad Ltd.

The *Eye*'s database of property owned offshore shows that nearly half of HC-One's care homes are themselves owned via a string of Jersey companies, which may mean stamp duty can be avoided on any sale. But it operates through UK-based FC Skyfall Upper Midco Ltd, where accounts up to September 2016 show "external debts" of £260m and a further £22m owed to Cayman Islands companies within the group. If the Bupa deal is approved, its debt will increase and so could its risk of collapse.

Patel and other operators are gambling on the likelihood that, after seven years of austerity, the government will increase care funding to protect vulnerable residents and give them the returns they want. In any event, even if one group goes under, as Southern Cross did, the property and buildings themselves would go to the banks, the investors or the bond holders – all ready to sell on to the next buyer so the money-go-round can start all over again!

As Karel Williams, professor of accounting and political economy at Alliance Manchester Business School, told the Eye: "The curse of the care chains is now debt. As we have seen, financial distress puts pressures on managers and has consequences for care standards – even if the residents are not put out on the streets and the care home simply passes to another operator. I do not understand why the regulators appear incapable of addressing these financial engineering issues."

But with HC-One having assured the Care Quality Commission watchdog that its "debt levels are both prudent and manageable", and that its "ever-strengthening and stable financial position means residents will continue to receive the kindest high-quality care", there is little indication the deal will be stopped.

Meanwhile, 450,000 elderly and vulnerable care home residents – and their relatives – may wonder why the government and regulator allow these private equity profiteers to play financial roulette with their future.

● DEFICIT-ridden Norfolk and Norwich University NHS Trust, already in financial "special measures", isn't taking any chances over its next visit from CQC inspectors.

Its last full inspection was in November 2015, three months after serial NHS chief executive Mark Davies, previously at NHS financial regulator Monitor, took over. The watchdog gave the trust a "requires improvement" black spot.

Preparations are now in hand for another visit, supposedly "unannounced". "We may have a CQC visit very soon – certainly before Christmas," says Davies in his September staff newsletter. This sounds strangely definite, given CQC policy. "Our inspections are always unannounced unless there is a good reason to let you know that we are coming," it says.

Davies reckons that "in reality this hospital, in CQC terms, is 'Good' and we are on our journey on the way to becoming 'Outstanding'" – despite a flying visit in April by the CQC after whistleblower complaints over dangerous staff shortages and lack of cover. Inspectors again found areas needing serious improvement.

Some of Davies's plans suggest the watchdog might not get the unvarnished truth about the trust. Last month he set up 21 training sessions for staff "in preparation for the imminent unannounced CQC inspection", wrote his organiser. The CQC's official guidance on "how you can prepare for inspections" is limited to asking those responsible for "monitoring compliance" to make sure paperwork is in order. Everyone else is just expected to carry on as normal.

Having gazed into his crystal ball and seen the inspectors arriving, the £235,000-a-year chief executive is clearly keen to make a "good" impression this time.

Horrible histories

"WE EXPECT openness and transparency from those we regulate, and we will hold ourselves to account to those same standards," said David Behan, chief executive of the pisspoor Care Quality Commission (CQC). Really?

For nearly two years the social care watchdog has ignored repeated complaints that it is misleading the public as to who owns some care homes and what standards prevail in them.

Campaigning charity Compassion in Care found this to be the case with all the Bupa homes at the centre of £300m deal with HC-One (see main story). The bulk of the 92 homes from Cumbria to Kent (there are others in Scotland) are listed as "new services", only registered with the CQC in January of this year and as yet described as uninspected.

This is not true: most have long been in Bupa's hands. Some have been found to provide good care, some "adequate"; but some have a sorry history of neglect. Yet while the watchdog's website says that "new services are assessed to check they are likely to be safe, effective, caring, responsive and well-led", it knows all too well from previous inspections that some are unlikely to be any of those things.

Bupa was no doubt trying to make the sell-off easier when it parcelled up homes from several different Bupa entities and put them under the ownership of just one, Bupa Care Homes Ltd, in January. The CQC did not know Bupa's motive at the time (it learned only a day before Bupa and HC-One went public on their deal in August). But a change of corporate structure is still no reason to tell the unsuspecting public that a home with, in effect, the same owner, manager, staff and residents is a "new service" – and archive that home's history, whether good or terrible.

The CQC told the *Eye* it accepted its website "isn't always as clear and as simple as we would like due to the way the regulations mean we have to register changes in legal entities as new services". It was now providing a link to archived reports about a particular home.

But Compassion in Care's Eileen Chubb said: "When HC-One take over there will be yet another new registration page, resulting in past histories being buried in a mire of confusing links. We have repeatedly raised the issue with the health department, and the fact that they have not acted on our detailed concerns shows a regulator incapable of providing reliable information, at a time when it has never been more crucial."