UK elderly care report pushes private insurance

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11 July 2011

On Tuesday, Andrew Dilnot, the former director of the Institute of Fiscal Studies, published the findings of the Commission on Funding of Care and Support.

The commission he chaired was established in July 2010 by the Conservative/Liberal Democrat government to "make recommendations on how to achieve an affordable and sustainable funding system or systems for care and support" for the elderly and disabled in England, at home or in serviced accommodation.

Currently, the cost of such provision is means-tested. Care home costs average £26,000 per year. Those assessed to require residential care in England with less than £14,250 in savings or assets, including the value of their home, can qualify for local authority long-term care. Those with savings or assets of between £14,250 and £23,250 receive some help with costs.

All those above £23,250, however, must pay the full cost of their care. The provision of local authority help for those requiring assistance at home is also means-tested, although house values are currently not taken into account. Given the prevalence—up to the recent period at least—of homeownership in the UK, and massively inflated values, many vulnerable people have to stand the full cost of residential care. It is estimated that 20 percent of elderly people require care costing £100,000 and above. Some 20,000 people are forced to sell-off their homes each year to pay for the help they require.

In the meantime, local authority provision has been run-down and placed on limited budgets, while increasingly residential and at-home services have been sub-contracted out or turned over wholly to private companies and suppliers. Private companies now account for 70 percent of Britain's long-term care beds. They often charge significantly more on average than local authorities—£631 a week compared to £520.

The Dilnot report has been hailed for finally addressing this crisis. The reality is very different.

The commission suggests a cap on individual contributions to care—of between £25,000 and £50,000 over a lifetime, with the state paying anything above. It also proposes that the upper-limit for means-testing should be raised to £100,000.

The report says its recommendations should be implemented from 2013, but it is far from certain that the government will accept many of them. Nonetheless, Labour Party leader Ed Miliband hailed the proposals as "an important step forward" and offered cross-party support to the government to implement Dilnot's proposals. "I am ready to sit down with [Prime Minister] David Cameron and [Deputy Prime Minister] Nick Clegg to find a way to make this work," he said.

Writing in the *Guardian* Jackie Ashley gushed, "Issues like care for older people cry out for a genuine coalition. In offering to work with the Tories and Lid Dems, Ed Miliband grasps that some things are too big to be left to partisan politics."

The newspaper titled its editorial on the Dilnot proposals, "In place of fear", writing as if the recommendations are on a par with the introduction of the National Health Service led by the post-war Labour left Nye Bevan and his reformist blueprint for eliminating poverty and unemployment.

What the commission actually represents is the extent to which there is now an official consensus on the dismantling of publicly-funded social provision, no matter how essential.

The commission accepts that people in care homes will have to pay their annual living costs, such as food and accommodation. These currently make up half of the average annual price—approximately £13,000. While the commission suggests a cap of between £7,000 and £10,000 a year, this still represents a massive cost.

In addition, the state should only undertake to fund the cost of "basic" care homes—i.e. those with lower fees and often lower standards.

More fundamentally, the commission's recommendations place the onus firmly on individual responsibility for care in old-age and ill-health. It proposes a national "deferred payment" scheme, whereby people still pay their own care costs but can delay their contribution against the value of their house until after they die.

It also suggests the introduction of a new tax to help fund elderly care. Dilnot did not make any recommendation as to how this should be levied, but said that it should fall on those in retirement and working adults alike.

At the centre of the proposals is the push for private insurance. As the *Guardian* explained, "The big idea is rather the community insuring individuals from catastrophic costs in return for individuals paying a very sizeable excess of up to £35,000. Often the state will take that excess by claiming a share in the home. That will be controversial, but so be it. The vast profits made from bricks and mortar must play their part in meeting this pressing need."

While acknowledging that bed and board costs would still leave many facing "substantial bills", the *Independent* similarly insisted that "just as the state needs to pay more, so do individuals."

The proposals come against the background of the threatened insolvency of Southern Cross, the largest care home company in the UK.

Southern Cross is a graphic and tragic exposure of the extent to which social provision in Britain has been turned over to city speculators and asset-stripped in the pursuit of high rates of return for the corporate elite. With 750 homes, 10 percent of all elderly people in residential care are currently with Southern Cross, threatening the homes and care of 31,000 vulnerable people.

Its insolvency is the direct result of the privatisation of the care home industry, begun under the Conservatives in the 1990s and then accelerated under the Blair Labour government.

First established in 1996, Southern Cross was taken over by the private equity wing of Germany's WestLB bank for £80 million in 2002. It was bought-out again by Blackstone, one of the largest private equity firms in the world, in 2004 for £162 million. Under Blackstone a series of mergers took place—first with Highfield Care to create the country's largest operator and then with Ashbourne Homes. Blackstone also acquired the NHP group, a property company from which Southern Cross rented most of its properties.

From the time of its start-up, the model for Southern Cross, as for many businesses, was "sale and lease-back," whereby a company's assets were sold off—usually its property portfolio—and then leased back.

This enabled Southern Cross's owners to take advantage of inflated land prices, sharing out the profits amongst its CEOs and shareholders, while locking the company into leaseback arrangements on its homes on 30-year contracts with an annual 2.5 percent increase in rent.

It meant that when Southern Cross was floated on the stock market and sold on by Blackstone in 2006, the private equity firm made around £640 million, with its four senior executives pocketing £35 million between them.

According to the *Daily Mail* three months before the stock flotation, Blackstone made £1 billion from selling 294 Southern Cross care homes to the Royal Bank of Scotland, which in turn in turn sold them on months later to investors in Qatar.

These practices were by no means confined to Blackstone. They were deliberately facilitated by government policy, which provided major incentives to such "business models". Companies with high debts pay little if any corporation tax, and are often subject to tax-free dividend pay-outs and minimal capital gains tax.

The economic crisis of 2008, which was followed by a fall in property values and cut backs in public spending, has exposed the reckless trading of the homes and care of tens of thousands of vulnerable people. Southern Cross cannot afford its £250 million rent bill, reporting a pre-tax loss of £311million in the six months up to March. NHP, which was also sold on in 2006, has debts of £1billion.

On July 1, the *Financial Times* reported that the former social care regulator, the Commission for Social Care Inspection (CSCI) had informed the Department of Health in February 2009 of its concern at Southern Cross's financial arrangements and the quality of its care.

It "failed to intervene" however, because it "lacked the necessary legal powers and feared any move could trigger the company's collapse." The CSCI was being wound up, and its role transferred to the Care Quality Commission. The CQC told the *FT* that it "has no statutory role in financial regulation of healthcare providers."

Only in June, it was revealed that the CQC had served almost 30 percent of Southern Cross's care homes in England with improvement orders. The Albany in Oxford, for example, failed all essential safety standards. An inspection found just three staff members looking after 30 residents and patients left without medicine, hot water or heating, with some pensioners being left in bed until lunchtime due to the shortage of staff.

Nonetheless, Southern Cross has already announced 3,000 job cuts. A four-month "transition" period has been imposed in which the company aims to hand many of its homes back to landlords. Many care homes are expected to close as a result.

At the same time, the company is in discussion with the GMB union to impose new contracts on its employees, many of whom currently work 12-hour shifts at minimum wage rates. The contracts are reported to include increased hours and cuts in wages, greater flexibility and an end to employment rights such as paid lunch breaks.