Opinion
Older people

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The lesson of the Covid-19 care homes tragedy: renationalising is no longer taboo

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Offshore corporates and cash-strapped councils have hit the sector's ability to cope in a crisis, with devastating results

- Ros Altmann is a Conservative peer and former pensions minister

'In the 1980s responsibility for care homes was passed from the NHS to local authorities.' Photograph: Murdo MacLeod/The Guardian

The dire consequences of neglecting social care reform for decades have been starkly exposed by Covid-19, with one in 20 care home residents in the UK dying from the virus, and dedicated, low-paid staff risking their lives.

Much of the blame for the UK having the highest death toll in care homes in Europe from coronavirus, bar Spain, has been attributed to hospitals discharging patients into residential care, even if they were infected with Covid-19, and care staff moving between homes without being issued PPE.

But the problems go much deeper, to the way our care sector is structured, leaving it fragmented, financially fragile and without the capacity to cope in a crisis.

> Financial engineering left the largest operators teetering on the brink of bankruptcy for years

In the 1980s responsibility for care homes was passed from the NHS to local authorities. But few are still council-run; 85% of the UK's 22,000 care homes are owned by private companies, with the remainder in the hands of charitable or nonprofit organisations.

Social care is not integrated into the national health system. The 170,000 NHS hospital beds in the UK are free at the point of need, under the NHS. However, the UK's 470,000 elderly care home beds are means-tested by local authorities according to level of need and ability to pay. Those who have modest savings, or who own their home, must pay for their care, creating stark inequalities in our healthcare system. Those with cancer pay nothing for NHS care, but those with dementia must pay hundreds of pounds a week for a care home place, because they are considered to have "social care" rather than "healthcare" needs.

This artificial distinction seems impossible to justify, yet after successive governments have promised reform nothing has materialised. Meanwhile the dire situation continues to worsen. Astonishingly, no long-term funding is allocated to meet the care needs of our ageing population. I consider this the biggest social policy failure of modern times.

Despite increasing numbers needing care, cash-strapped councils have tightened rationing and reduced prevention services, leaving more than 1 million elderly people without the care they need, according to AgeUK.

Before the 2008 financial crisis, many care homes were acquired by private equity companies that extracted the value from the buildings, replacing it with debt. Financial engineering left the largest operators teetering on the brink of bankruptcy for years, paying staff minimum wages on zero-hours contracts. Periodic rescue and restructuring introduced further debt, increasing their financial fragility. Coronavirus-related costs have compounded the risks of insolvency, and many will face closure.

However, many of the largest operators are based offshore, apparently extracting profits of about 12% a year, while much of their £15bn annual income is remitted to owners who pay no UK taxes. A 2019 Centre for Health and the Public Interest study suggests 18 of the 26 biggest providers had corporate structures that separate the firm operating the home from the one owning the buildings, resulting in about £1.5bn "leakage" in fees to pay interest, profit or rent. The sector regulator, the Care Quality Commission (CQC), has allowed financial instability to worsen over time and seems powerless to force operators to address this, as its ultimate regulatory sanction is forcing home closures, which is the worst outcome for residents.

Of course, the sector's financial woes are not solely the result of financial engineering and offshore structures. The largest are certainly highly geared, with the debt costs per bed estimated at 16% of weekly fees, but councils also play their part, failing to pay enough to cover providers' basic operating costs.

Why did so many people die of Covid-19 in the UK's care homes?
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For example, A recent LaingBuisson study estimated weekly costs of running residential care homes, pre-coronavirus, at £623 to £726 per person, but found councils paid private providers under £500 - a loss-making proposition for homes even before adding recent staffing and PPE costs. Yet this study shows local authority commissioning groups pay significantly more to council-run homes, citing Kirklees and Leeds councils paying £720 a week per elderly person to local authority care homes, but just £460 a week for the same type of care in nearby private or charity-run homes.

No business can survive, let alone thrive, without covering running costs. The sector has partly addressed funding shortfalls by requiring residents who pay for their care to pay extra to cross-subsidise council-funded residents in the same care home. This adds to the inequity of the care system, and is unsustainable.

The CQC does not have the required power to ensure that council commissioners pay fair rates to providers. It has also failed to ensure adequate protection for residents and staff during the latest crisis.

Radical reform of the sector is desperately urgent. So what should be done? Funding could be assured for the long-term through a national insurance system. A modern-day Beveridge would recognise later-life needs extend beyond pensions. The arbitrary distinction between NHS and social care must end, with basic personal care provided to all when they need it, and incentives for individuals to make additional private provision - modelled on the principle of pensions.

But, most urgently, the financial stability of care homes must be assured. Offshore, highly geared structures are not suited to long-term care. If operators cannot inject capital and increased equity, they could be nationalised, perhaps temporarily, to provide financial backing for long-term care, parity of esteem with the NHS and improved staff pay and conditions. These measures would create a more secure and robust system that is never again left to fend for itself to protect the needs of the most vulnerable members of society.

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- This article was amended on 8 July 2020. An earlier version said that the Care Quality Commission was "not meeting its duty of ensuring council commissioners pay fair rates to providers". The CQC inspects the quality and safety of care delivered by providers but has pointed out that "it does not inspect local authorities' commissioning responsibilities or have the power to oversee how they use their money."