Britain's Hard Lessons From Handing Elder Care Over to Private Equity

By Christine Spolar
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LONDON — A little over a decade ago, Four Seasons Health Care was among the largest long-term care home companies in Britain, operating 500 sites with 20,000 residents and more than 60 specialist centers. Domestic and global private equity investors had supercharged the company's growth, betting that the rising needs of aging Britons would yield big returns.

Within weeks, the Four Seasons brand may be finished.

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Christie & Co., a commercial real estate broker, splashed a summer sale across its website that signaled the demise: The last 111 Four Seasons facilities in England, Scotland, and Jersey were on the market. Already sold were its 29 homes in Northern Ireland.

Four Seasons collapsed after years of private equity investors rolling in one after another to buy its business, sell its real estate, and at times wrest multimillion-dollar profits through complex debt schemes — until the last big equity fund, Terra Firma, which in 2012 paid about $1.3 billion for the company, was caught short.

In a country where government health care is a right, the Four Seasons story exemplifies the high-stakes rise — and, ultimately, fall — of private equity investment in health and social services. Hanging over society's most vulnerable patients, these heavily leveraged deals failed to account for the cost of their care. Private equity firms are known for making a profit on quick-turnaround investments.

"People often say, 'Why have American investors, as well as pr
here and in other countries, poured so much into this sector?'
dazzled by the potential of the demographics," said Nick Hood

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Restructuring & Insolvency in London, which advises care homes — the British equivalent of U.S. nursing homes or assisted living facilities. They "saw the baby boomers aging and thought there would be infinite demands."

What they missed, Hood said, "was that about half of all the residents in U.K. homes are funded by the government in one way or another. They aren't private-pay — and they've got no money."

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Residents as 'Revenue Streams'

As in the United States, long-term care homes in Britain serve
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public- and private-pay residents, and those whose balance sh
government payments are stressed even in better economic ti
community officer for Unison, a union that represents care home workers, said private equity investors often see homes like Four Seasons as having "two revenue streams, the properties themselves and the residents," with efficiencies to exploit.

But investors don't always understand what caregivers do, he said, or that older residents require more time than spreadsheets have calculated. "That's a problem when you are looking at operating care homes," Dobbie said. "Care workers need to have soft skills to work with a vulnerable group of people. It's not the same skills as stocking shelves in a supermarket."

A recent study, funded in part by Unison and conducted by University of Surrey researchers, found big changes in the quality of care after private equity investments. More than a dozen staff members, who weren't identified by name or facility, said companies were "cutting corners" to curb costs because their priority was profit. Staffers said "these changes meant residents sometimes went
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care, timely medication or sufficient sanitary supplies."

In August, the House of Commons received a sobering account: The number of adults

65 and older who will need care is speedily rising, estimated to go from 3.5 million in 2018 to 5.2 million in 2038. Yet workers at care homes are among the lowest paid in health care.

“The covid-19 pandemic shone a light on the adult social care sector,” according to the parliamentary report, which noted that “many frustrated and burnt out care workers left” for better-paying jobs. The report’s advice in a year of soaring inflation and energy costs? The government should add “at least £7 billion a year” — more than $8 billion — or risk deterioration of care.

Britain’s care homes are separate from the much-lauded National Health Service, funded by the government. Care homes rely on support from local authorities, akin to counties in the United States. But they have seen a sharp drop in funding from the British government, which cut a third of its payments in the past decade. When the pandemic hit, the differences were apparent: Care home worke masks, gloves, or gowns to shield them from the deadly virus.

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Years ago, care homes were largely run by families or local entities. In the 1990s, the government promoted privatization, triggering investments and consolidations. Today, private equity firms own three of the country’s five biggest care home providers.

Chris Thomas, a research fellow at the Institute for Public Policy Research, said investors benefited from scant financial oversight. “The accounting practices are horrendously complicated and meant to be complicated,” he said. Local authorities try “to regulate more, but they don’t have the expertise.”

The Financial Shuffle

At Four Seasons, the speed of change was dizzying. From 2004 to 2017, big money came and went, with revenue at times threaded through multiple offshore vehicles. Among the groups that owned Four Seasons, in part or in its e equity firm Alchemy Partners; Allianz Capital Partners, a Gern Three Delta LLP, an investment fund backed by Qatar; the Ame Monarch Alternative Capital; and Terra Firma, the British private equity group that

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wallowed in debt demands. H/2 Capital Partners, a hedge fund in Connecticut, was Four Seasons' main creditor and took over. By 2019, Four Seasons was managed by insolvency experts.

Pressed on whether Four Seasons would exist in any form after the current sale of its property and businesses, MHP Communications, representing the company, said in an email: "It is too early in the process to speculate about the future of the brand."

Vivek Kotecha, an accountant who has examined the Four Seasons financial shuffle and co-authored the Unison report, said private equity investment — in homes for older residents and, increasingly, in facilities for troubled children — is now part of the financial mainstream. The consulting firm McKinsey this year estimated that [private markets manage nearly $10 trillion in assets], making them a dominant force in global markets.

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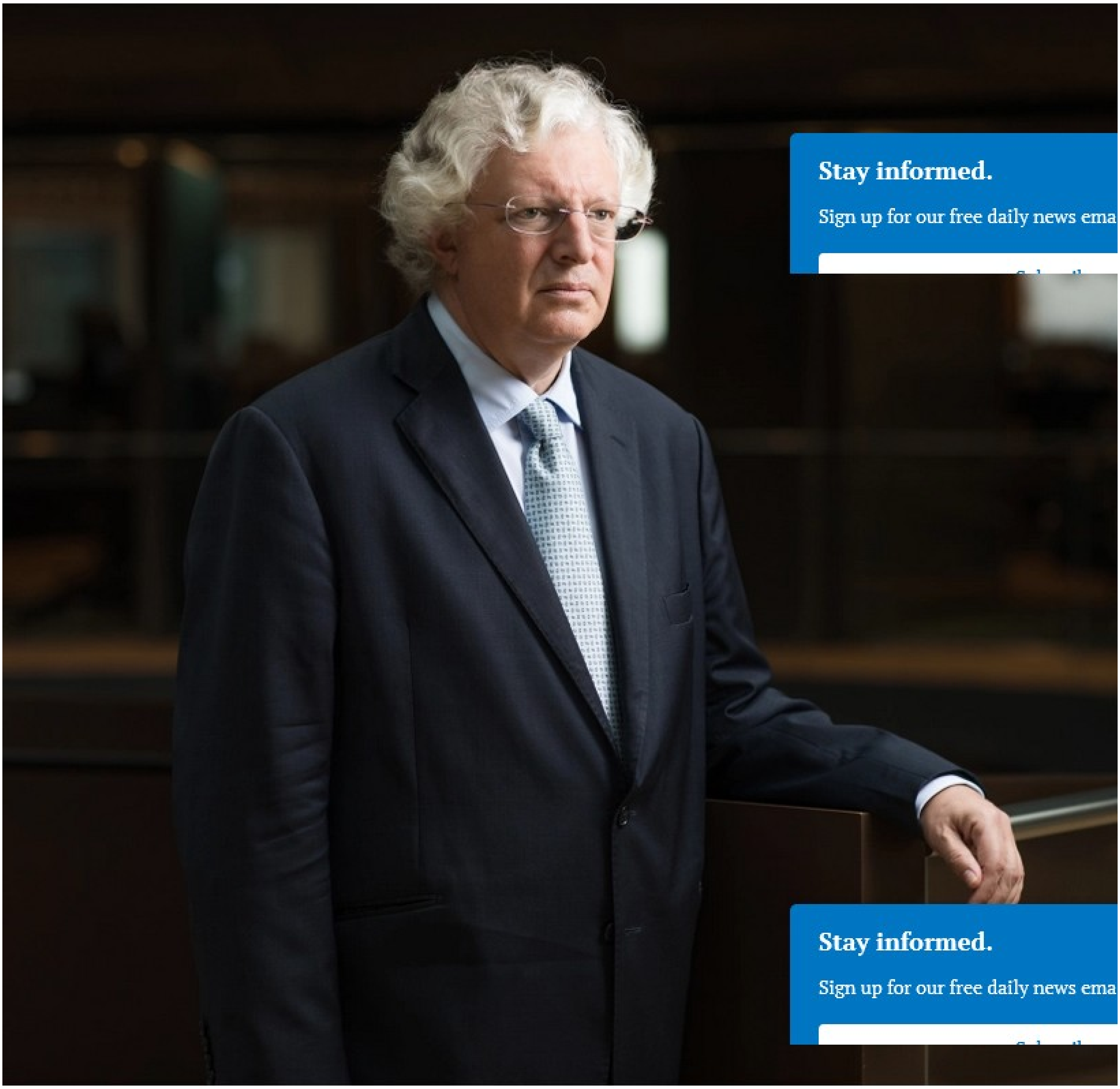
"What you find in America with private equity is much the san the founder of Trinava Consulting in London. "They are often the same things." What was remarkable about Four Seasons was the enormous liability from high-yield bonds that underpinned the deal — one equaling $514 million at 8.75% interest and another for $277 million at 12.75% interest.

Guy Hands, the high-flying British founder of Terra Firma, bought Four Seasons in 2012, soon after losing an epic court battle with Citigroup over the purchase price of the music company EMI Group. Terra Firma acquired the care homes and then a gardening business with more than 100 stores. Neither proved easy, or good, bets. Hands, a Londoner who moved offshore to Guernsey, declined through a representative to discuss Four Seasons.



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Guy Hands, chairman of Terra Firma, poses for a photograph in London on April 8, 2019. (JASON ALDEN / BLOOMBERG VIA GETTY IMAGES)

Kotecha, however, helped the BBC try to make sense of Four Seasons' holdings by tracking financial filings. It was "the most complicated spreadsheet I've ever seen," Kotecha said. "I think there were more subsidiaries involved in Four Seasons' care homes than there were with General Motors in Europe."

As Britain's small homes were swept up in consolidations, some financial practices were dubious. At times, businesses sold the buildings as lease-back deals — not a problem at first — that, after multiple purchases, left operators paying rent with heavy interest that sapped operating budgets. By 2020, some care homes were estimated to be spending as much as 16% of their bed fees on debt payments, according to parliamentary testimony this year.

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How could that happen? In part, for-profit providers — backed groups and other corporations — had subsidiaries of their parent companies act as lender, setting the rates.

Britain's elder care was unrecognizable within a generation. By 2022, private equity companies alone accounted for 55,000 beds, or about 12.6% of the total for-profit care beds for older people in the United Kingdom, according to LaingBuisson, a health care consultancy. LaingBuisson calculated that the average residential care home fee as of February 2022 was about $44,700 a year; the average nursing home fee was $62,275 a year.

From 1980 to 2018, the number of residential care beds provided by local authorities fell 88% — from 141,719 to 17,100, according to the nonprofit Centre for Health and the Public Interest. Independent operators — nonprofits and for-profits — moved in, it said, controlling 243,000 beds by 2018. Nursing homes saw a similar shift: Private providers accounted for 194,100 beds in 2018, compared with

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Beyond Government Control

British lawmakers last winter tried — and failed — to bolster financial reporting rules for care homes, including banning the use of government funds to pay off debt.

"I don't have a problem with offshore companies that make profits if they offer good services. I don't have a problem with private equity and hedge funds who deliver good returns to their shareholders," Ros Altmann, a Conservative Party member in the House of Lords and a pension expert, said in a February debate. "I do have a problem if those companies are taking advantage of some of the most vulnerable people in our society without oversight, without controls."

She cited Four Seasons as an example of how regulators “have no control over the financial models that are used.” Altmann warned that economic headwinds could worsen matters: “We now have very heavily debt-laden [homes] in an environment where interest rates are heading upward.”

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In August, the Bank of England raised borrowing rates. It now
inflation — as much as 11% — through 2023.

And that leaves care home owner Robert Kilgour pensive about whether government grasps the risks and possibilities that the sector is facing. “It’s a struggle, and it’s becoming more of a struggle,” he said. A global energy crisis is the latest unexpected emergency. Kilgour said he recently signed electricity contracts, for April 2023, at rates that will rise by 200%. That means an extra $2,400 a day in utility costs for his homes.

Kilgour founded Four Seasons, opening its first home, in Fife, Scotland, in 1989. His ambition for its growth was modest: “Ten by 2000.” That changed in 1999 when Alchemy swooped in to expand nationally. Kilgour had left Four Seasons by 2004, turning to other ventures.

Still, he saw opportunity in elder care and opened Renaissance Care, which now operates 16 homes with 750 beds in Scotland. “I missed it,” he said in an interview in London. “It’s people and it’s property, and I like that.”

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“People asked me if I had any regrets about selling to private e
people I dealt with were very fair, very straight. There were no shenanigans,” Kilgour said, noting that Alchemy made money but invested as well.

Kilgour said the pandemic motivated him to improve his business. He is spending millions on new LED lighting and boilers, as well as training staffers on digital record-keeping, all to winnow costs. He increased hourly wages by 5%, but employees have suggested other ways to retain staff: shorter shifts and workdays that fit school schedules or allow them to care for their own older relatives.

Debates over whether the government should move back into elder care make little sense to Kilgour. Britain has had private care for decades, and he doesn't see that changing. Instead, operators need help balancing private and publicly funded beds "so you have a blended rate for care and some certainty in the business."

Consolidations are slowing, he said, which might be part of a l
"The idea of 200, 300, 400 care homes — that big is good and b
are gone," Kilgour said.

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