# Johnson's social care reforms do nothing to guarantee the future of the ailing care home sector and could even make the problem worse

**David Rowland** *writes that the government's social care reform plans do not address two fundamental problems: the lack of adequate state funding and the unsustainable business models behind care homes. He argues that to avoid a financial meltdown in the sector, the government must urgently regulate it, and then provide additional funds to cover the true costs of delivering quality care.*

Evidence has been mounting for some time now that the UK's care home sector is on the brink of financial meltdown. The mainly for-profit industry which provides nursing and residential care to over 400,000 older people is beset by two fundamental problems: a lack of adequate state funding and the existence of a range of unsustainable business models. The social care reforms recently announced by Boris Johnson do nothing to address either of these, and could further endanger the financial health of the sector.

Since the early 1990s, it has been the unofficial policy of successive governments to keep the cost of state-funded residential and nursing care as low as possible. This has been achieved by starving local authorities of the resources to pay for care and by transferring more responsibility for paying for care away from the state and onto private individuals and their families. In England, people pay privately for social care services, not through choice, but because they are denied access to state-funded care by increasingly restrictive eligibility criteria. Not only is state-funded care unavailable to anyone with assets over £23,500, an individual's physical needs must also be assessed as 'substantial' before they qualify for funding, irrespective of their financial situation.

This transfer of financial responsibility from the state to the individual means the proportion of the private care home sector's income from private individuals has grown from in 42% in 2007 to 51% in 2018. And the individuals who are forced to pay for their own care are also charged on average 40% more than a state-funded resident, often for the same type of room in the same care home. This is because cuts to per capita adult social care spending of 7.5% since 2009-10 have required local authorities to use their bulk purchasing power to drive down the cost of state-funded care home provision in their local areas, with many care home businesses having no option but to accept local authority fee rates which they know are loss-making. The only way for care homes to keep going is to charge the private payers more.

But even with the cross-subsidisation from private payers the prospects of the UK care home industry remain on a precipice. Our forthcoming analysis of the financial accounts of over 4000 care home companies which provide care to older people reveals a sector which is loss-making, highly indebted, and often lacking in sufficient cash to make ends meet each year. Thus, prior to the pandemic we found that 27% of the care home companies operating a third of all the care home beds in the UK made a loss. In addition, 15% all the care home beds were operated by companies with negative net worth – i.e. the company which operated these beds had total long-term liabilities (debts) greater than their total assets, whilst 70% of all care home beds in the UK were operated by companies with high levels of debt (i.e. they had a gearing ratio of greater than 50%), and 42% of care home companies had insufficient short-term assets to meet their liabilities in one year. As a result, one in four care home companies were assessed as being likely to experience financial failure within a year.

In addition to low levels of state funding, the business models of a significant proportion of the sector further imperil the survival of many of the UK's care homes. The large for-profit care home companies in particular have been shown to extract significant parts of their residents weekly fees to pay off debts, meet rental obligations, pay management fees and issue dividends and profits, thus diverting money from frontline care and making them highly vulnerable to any small increase in costs. And whilst little is known about the finances of the family-run small and micro businesses – which own and operate hundreds of small homes – our research shows that they too are struggling to keep going, with 44% of them having negative working capital.

The main aim of Johnson's social care policy was not to pump in the billions of pounds necessary to address the financial crisis within social care, nor to introduce structural reforms to how care is delivered, but to protect the assets of around 150,000 people by introducing a cap of £86,000 on the amounts individuals will be required to spend on their personal care. This is likely to take up the lion's share of the new £5.4 billion in funding and so it is highly likely that the care home sector will see only a marginal increase in state-funded revenue.

However, the planned reforms could potentially make things worse. This is because the government's commitment to ensure that 'those who fund their own care do not pay more than state-funded individuals for the equivalent standard of care' can only be achieved either by increasing the fee levels set by local authorities by 40% to bring them in line with private fee levels, or by reducing the price paid by private individuals by the corresponding amount. As levelling up would mean state expenditure on the private care home sector would increase from £7.2 billion to £10 billion a year, it looks likely that government will instead seek to drive prices down. How exactly it will achieve this is unclear, but the command paper states that private payers would be able to ask local authorities to purchase care on their behalf, presumably at local authority rates.

If this option was taken up by all private payers – resulting in a 40% reduction in their bills – it would undoubtedly decimate the care home sector, whose financial health is highly sensitive to even small changes in its cost base. For example, our analysis of the potential financial impact of the pandemic modelled a 5% increase in costs and a 5% decrease in revenue on the financial health of the care home sector. Under this scenario, without the billions of pounds in financial assistance – which the government ultimately provided during the pandemic – the number of beds operated by companies at risk of financial collapse would increase to 239,000 or around 60% of the total care home beds in the UK. A 40% decrease in revenue would therefore be totally unsustainable.

If the government is serious about avoiding financial meltdown in the care home sector, it needs to do two things urgently. It must provide additional funds to cover the true costs of delivering high quality residential and nursing care; but before any new taxpayer money is spent, it must introduce financial regulation of the care home sector to prohibit the extractive and unsustainable business models which are contributing to the current crisis.

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**About the Author**

**David Rowland** is the Director of the Centre for Health and the Public Interest. Prior to this he worked within healthcare professional regulation in the UK as the Head of Policy at three national regulators and has developed significant expertise in social care policy, NHS workforce issues, regulation, safeguarding, whistleblowing and patient safety.

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