EXTRACTING WEALTH, UNDERMINING CARE

HOW IS MONEY EXTRACTED FROM THE UK CARE SYSTEM?

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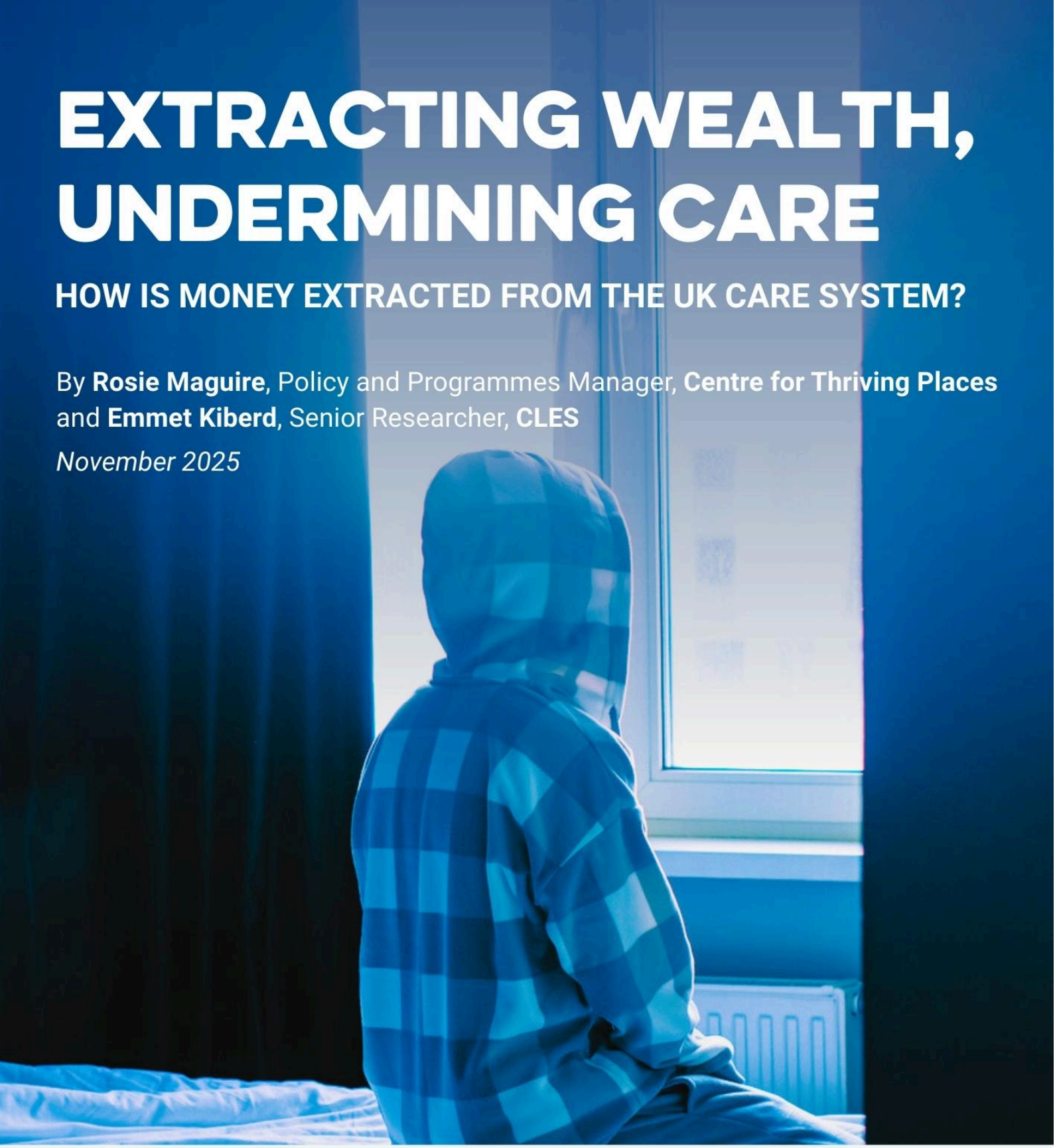

RECLAIMING OUR REGIONAL ECONOMIES

This report forms part of a series from Reclaiming Our Regional Economies (RORE), a five-year programme co-ordinated by four leading not-for-profit organisations, the Centre for Local Economic Strategies (CLES), Centre for Thriving Places (CTP), Co-operatives UK and the New Economics Foundation (NEF). RORE is funded by National Lottery Community Fund, Power to Change, Friends Provident Foundation and Barrow Cadbury Trust.

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1.0 INTRODUCTION

We make significant investments in caring for citizens. But it's not delivering the best of care, nor good jobs, so 'where does the money go?'

CRESC asked this about residential adult care back in 2016. Adult residential care is an industry where "96% of residential services are now outsourced, primarily to for-profit providers, up by over 20 percentage points since 2001" (University of Oxford). In itself, a mix of provision and providers is not a bad thing. But once you start to dig into the figures, the nature of how investment from the public purse and individuals is used raises questions about value for money and accountability. The CRESC report notes an accepted narrative from the big chains on behalf of the sector of an "urgent crisis in social care which is the result of not enough money from local authorities for publicly funded beds", but then finds some providers operating on a model of high-risk investing applied to low-risk activities generating up to 12% return on capital. Another study from CICTAR found that £1.5bn leaks out of the residential care home sector each year (10% of revenue). Not enough money, indeed.

This picture is repeated in children's residential care, other adult social care, and SEND. More than 80% of children's homes are now run by for-profit companies, a rise of over 20 percentage points since 2010 (University of Oxford), the 15 largest of which were found to make profit margins of 23% each year (CMA). The top five biggest children's social care providers, all of whom also provide SEND/SEMH[1] schools provision, have a majority or minority private equity or sovereign wealth fund owners (Schools Week) – and therefore an imperative to make returns on investment. There are examples, significant enough to be worthy of analysis, of huge amounts of money being extracted by some types of providers.

1.1 How much are we talking?

In 2023/24, local authorities in England spent £23.3bn on adult social care, and they were estimated to need £14.2bn in 2024/25 for children's social care, which includes the rising costs of residential care. In 2024 it was estimated budgets for SEND increased 70% from 2018/19 to £12bn per year. This is in addition to the costs paid for by individuals and their families (estimated to be 50% of social care costs), and unpaid care.

1.2 What are the main problems?

The current model is not delivering quality care. In each of these areas, it cannot be said that people feel that excellent care is being provided for their loved ones. According to the CQC, "only 13% of people said in 2024 that they are satisfied with adult social care" – this includes broad concerns about quality, workforce and accessibility. And this is the data we know about. There are the opinions of those – such as children in the care system, or parents of

[1] social, emotional and mental health (SEMH)

children with SEND who are often forgotten when we consider if care is of good quality over and above official inspection metrics.

And it's not working for workers. Data for 2023/24 from Skills for Care found that four in 10 care workers earn below the national real living wage in the independent sector, rising to 63% in London (London RLW). They also found that over a fifth are on zero hours contracts – across the whole economy, the level is 3%. This translates into a crisis as in 2024, although lower than 2023, there are 131,000 unfulfilled vacancies, almost one in 10 positions (Kings Fund).

1.3 Our focus

We want to continue one strand of the wider conversation about care and whether the structure of institutions we encounter in some of the most vulnerable and intimate periods of our lives are using money from our communities in a way that benefits our local and regional economies, and those that live there. We build on existing research that suggests that in some cases, as above, the answer may be no. But we want to understand the nuance of this so we can open discussions past the binary of bad and good, and into what is happening, whether this is what is best for our local areas, and – if not – what are the alternatives?

This summary forms the basis of our understanding of how wealth is extracted from the care system in the UK by non-state providers. It focuses on the following types of care provision: adult social care, residential care (care homes), looked after children (residential homes) and SEND. We chose to focus on these as they are connected to local authorities' duties - around 70% of local authority spend is on adult and children's social care –and within their capacity, in coalition with combined authorities who have a role in nurturing local economies, to act differently.

This working model of extraction underpins our analysis: Ending extraction in the UK care system and forms a basis for developing a shared understanding and narrative with others concerned with the quality, cost and accountability of our care system. It has been informed by a review of existing literature on extractive practices in care. It does not cover broader conversations about what care is and how we can and should redesign how we operate as a society to allow each and every one to contribute to the care of our loved ones where possible. Nor does it get into the specifics of different models of care. We start with how we use our collective resources.

2.0 HOW IS MONEY EXTRACTED FROM THE CARE SYSTEM?

When we think about money extraction, we tend to think in terms of profits. That is what is left over after the cost of doing business. As noted by CICTAR, "ordinarily this measure gives a good indication of the amount of income which leaks out." However, their study into residential care homes noted that the complex nature of corporate structures mean that wider profits (financial gains) are hidden within a variety of internal fees and purchases.

In addition, when we consider financial gains more broadly, we also consider who is benefitting. Are the gains set out in the introduction being shared by all those involved in a company - from investor, to director, to worker?

We therefore start our wider research with an explanation - from our review of existing evidence - of the key ways that money is extracted from the care system. This expands on an approach to understand extraction developed by the CHPI[2] to include a broader definition of from whom money is leaking - focusing on in this case, workers as part of the operations of a business.

Broadly speaking, there are two tactics:

1. How the company is structured – through the way the company is owned, its business functions are structured and its investment and internal payments set-up.
2. How the company operates – through the choices made about taking profits, paying dividends and how it cuts costs that affect staff and those relying on services day to day.

It is important to note that the study of the different types of care provision is not uniform - that is there is a significant body of research available for care homes, much less for domiciliary care and an emerging body of evidence for SEND as it is a much more recent "market". Therefore although there are commonalities in how business structure and operations are used to extract financial gains, more detailed analysis is needed for specific geographies and cases.

[2] Channels for 'leakage' (hidden extraction in addition to profits) were defined as: "expenditure on rent, interest and repayments of debt, and directors' remuneration" Centre for Health and the Public Interest (2019)

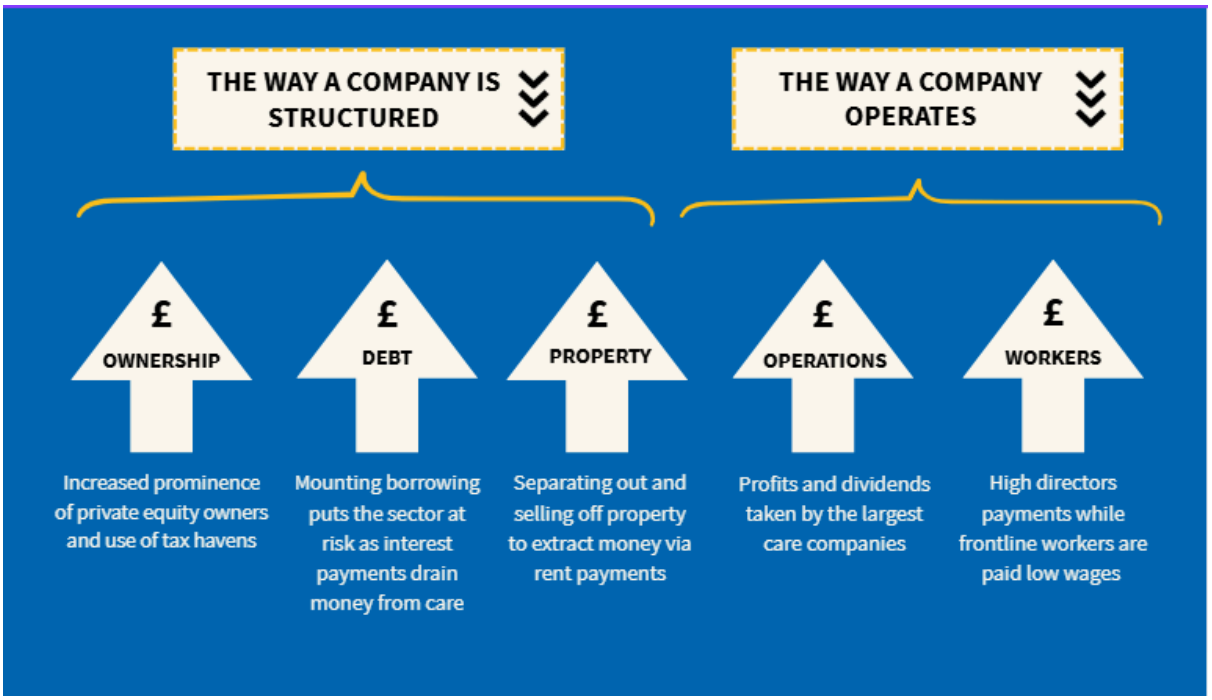


Figure 1: The ways in which money is extracted from our systems of care. Source: Ending extraction in the UK care system

2.1 The way a company is structured

Ownership

The financing of for-profit care increasingly comes from institutional investors – private equity[3], sovereign wealth funds and pension funds. A study by the University of California looking into trends in for-profit nursing home chains in Canada, Norway, Sweden, the United Kingdom and the United States found that "large for-profit nursing home chains are increasingly owned by private equity investors". Of the five largest adult care home providers (11% of UK markets) two are owned by private equity firms, one a US hedge fund, one a group of 50 investors and the final one – Bupa – is a company limited by guarantee with no shareholders (Bourgeron, Metz & Wolf). Responses to a freedom of information request from 22 councils for Schools Week found that of the ten SEND/SEMH[4] providers that received the most funding, five were owned by offshore companies and three by private equity. More broadly in regulated social care services (children's homes and fostering), a study by Revolution Consulting for the LGA of the 20 largest providers found that 50% have a majority or minority private equity or sovereign wealth fund owner.

Many of those investing in care businesses are based outside of the UK, including many in jurisdictions with low tax and little transparency. 2022 research by CICTAR found that the four largest providers run 706 care homes in the UK. Of these 82 are owned by offshore

[3] Private equity firms are specialised companies that pool money from third parties into a fund – obtained from pension funds or wealthy individuals, for example, and invest it for them, with the promise of 'high returns' (Bourgeron, Metz & Wolf)

[4] social, emotional and mental health (SEMH)

companies, and 75 of these are based in Jersey or the Isle of Man. CHPI research in 2019 found that six of the largest 26 care home providers have owners based in a tax haven. The rate was particularly acute for the largest private equity owned or backed providers (four out of five) compared to two of the 13 largest non-private equity for-profit care home providers. Furthermore, in many cases the organisations providing debt are "registered in low-tax locations like Luxembourg or Jersey" (Bourgeron, Metz & Wolf).

But it's not just tax havens. Investors include businesses that are not subject to corporation tax. CICTAR's 2021 research with PIS found that three care home companies operating in the UK are owned by the second largest operator in Canada. This operator is 100% owned by the pension fund for the Canadian federal government which as a Crown corporation is not subject to corporation tax in the UK. Welltower, as a US based REIT (real estate investment trust) is also involved in operations as the manager of care homes within the group, and as a result of its legal status is not subject to US federal corporate tax. Welltower and other REITs are expanding their operations in the UK, where income and capital gains for REITs also are not subject to corporation tax. It is important to note that any profits that flow to shareholders in are subject to tax on income and dividends, which can be less than the rate of corporate tax.

Debt

Many of the investors in the care industry increasingly use debt to buy, grow and run companies. Debt financing is when a company takes on loans or sells bonds which it needs to pay back with interest. These payments are not taxed as they are deducted from profits. This is different to equity (shares) where corporation tax has to be paid on profits before distribution as dividends.

This transfers risk to the operating company rather than the fund/investor because payments need to be made regardless of whether the business makes profits, which is not the case for dividends (Farris et al). It means that care companies have to generate enough revenue to provide care, but also service the debts they hold to external investors (e.g. banks) but also 'internally' to their owners/investors (Bourgeron, Metz & Wolf).

The debt approach is used frequently within chains, for example the Four Seasons group – once the second largest care home provider in the UK which entered administration in 2019 – which had a series of changes of ownership which eventually resulted in its demise as its cash flow could not cover its debts. At each sale the owner made a profit and the business was loaded with more debt (CRESC). Evidence from the Paradise Papers showed how private equity owners made Four Seasons borrow £220m from other subsidiaries at 15% interest rates (compound over ten years) which would have resulted in four times the original debt (SOAS).

Large debt is a choice and a mode of extraction. It is important to note that debt is not a feature of all market providers; in 2015, over 80% of a sample[5] of care home operators had no borrowing (Opus Restructuring LLP and Company Watch). More recent analysis in 2023

[5] The 'sample' was the entire sector, excluding three operators

from the Opus Business Advisory Group noted that "a relatively small group of major operators, who fund their businesses through variations on the private equity model… account for the vast majority of the sector's £7bn borrowings." They also noted that 20% of their sample of 15,974 residential care companies are 'zombies' – i.e. their debts and liabilities are greater than their assets. A 2022 report on the Scottish social care system found that between 2017-20, the ten biggest for profit providers spent 7.1% of revenues on net interest (debts minus gains) compared to 0.15% for the ten biggest not-for-profit providers (STUC).

The scale of debt is huge. The collective debt of the 26 largest care home providers in 2019 was £35,000 per bed, with the cost of £102 per week in interest payments. CICTAR concluded that 16% of weekly fees contributes to paying off debt. The Competitions and Markets Authority noted the high levels of debt carried by the largest providers of care homes for children, in particular those owed by private equity. This is not without risk. The CMA noted that as we move away from an era of low interest rates there would be increasing pressure on highly leveraged companies, increasing the risk of "disorderly exit of firms from the market".

Linked to debt are the ways in which an investor can generate returns without intervening in operations. There is a trend of increasing the size of organisations to increase the future sale price. Larger organisations can sell for more than the sum of multiple organisations that collectively are worth the same. This is called multiple arbitrage – the value of the company is often taken as a multiple of its earnings (SOAS). Basically, bigger is better, even if the company is not more effective or efficient or even growing in a traditional sense. The authors note the 'churn' in the market reported by the Care Quality Commission (CQC) as providers or segments of provision are bought and sold. It's worth noting that each of these transactions will likely need specialist legal and financial services which use resources that could be used for care.

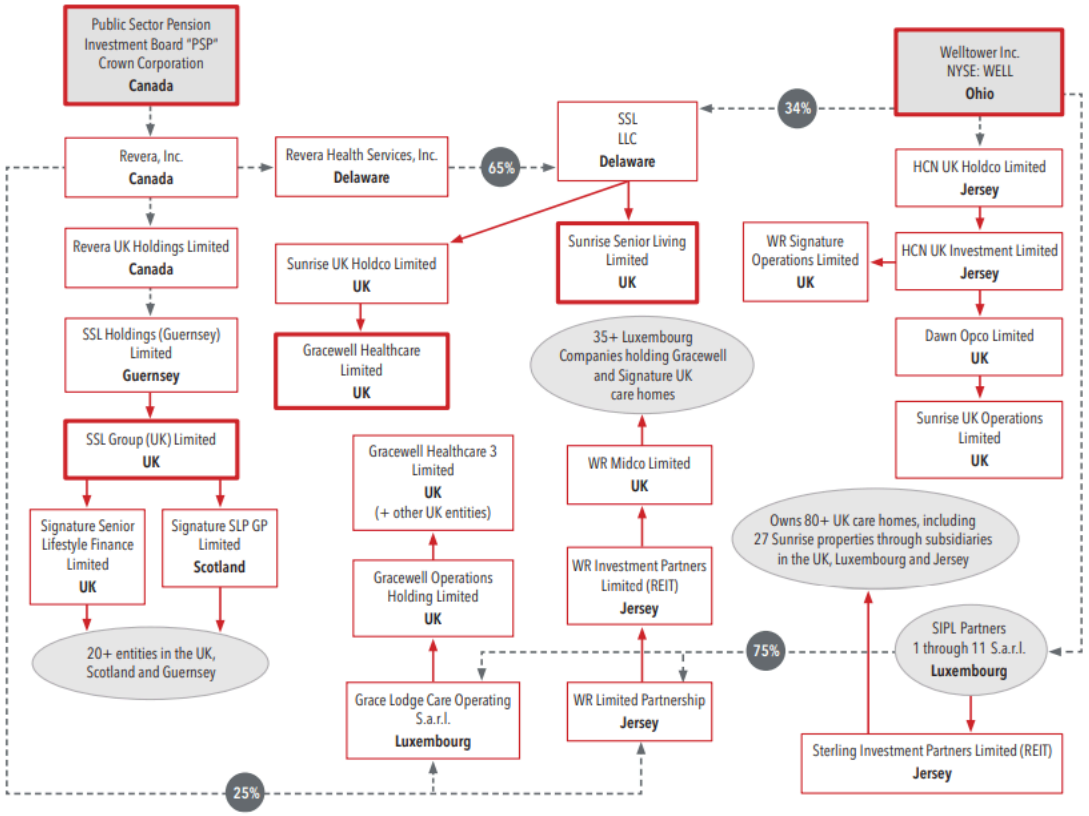
Separation of functions - property

Larger for-profit firms can use complex organisational structures to extract money. This allows the organisation to separate out different functions of the business and transfer the company's earnings, the assets it owns and the liabilities it owes between different entities.

In the residential care sector, CRESC found examples of corporate structures that had "hundreds of connected companies registered in multiple tax jurisdictions". CRESC also noted that the splicing of companies into multiple entities allows the "shifting the risks and costs onto others including residents, staff, the state and private payers". Multiple entities make it harder for citizens and public authorities to understand how money is being used and how to hold businesses accountable.

A visual example: Revera and Welltower United Kingdom Care Homes Simplified Corporate Structure

It is not necessary to review this diagram in detail to understand that there is an intentionally complex organisational structure which makes it hard to hold businesses accountable.



Source: Darkness at Sunrise | UK Care Homes Shifting Profits Offshore? (2021), CICTAR & Public Services International.

One tactic often used within multi-level company structures is to sell property to another business to release cash – either to expand the business or take out money (CRESC). The operating part of the organisation will then pay rent to a property company. In some cases, this property company may be within the same family of companies. In other cases it is property developers and REITs (Real Estate Investment Trusts). These have become some of the best performing assets in the UK market (SOAS). CICTAR estimates that half of the for-profit care home market capacity is linked to leasing and estimates £1.3bn per year is paid in rent. With a 40% profit margin, care home landlords are making an estimated £3,181 in profit per bed per year. This implies that 7% of the weekly average fee for care is going to landlords' profits.

A 2019 CHPI study found that where property is separated from operations there is a significant difference in the levels of rent payments depending on business structure. The largest for-profit care homes in the UK spend £11.07 per £100 of income on rent, compared to £2.34 for the largest not-for-profit providers. This was also reflected in the Scottish market: STUC research found that the "10 biggest for profit providers in Scotland spent 11.14% of revenues on rent compared to 1.27 % for the 10 biggest not-for-profit providers between 2017-20". One operator in the study spent almost £22 per £100 of revenue, 75% of which was paid to a company with the same owners registered in a tax haven.

Other ways in which groups of companies extract profit from care provision include the charging of management fees, or one business within a group paying high interest

payments for loans from another business within the same group (STUC). The STUC found that one large care home group could be extracting up to 22% of its revenue through interest and rental payments to related parties, while declaring a pre-tax profit margin of under 3%. A 2019 study by CHPI found that the largest 13 for-profit care home providers owed 59% of their £2.5bn debt to related companies.

2.2 The way a company operates

Profits and dividends

In each of the industries there is a difference in the levels of profit being made between organisations of different sizes and ownership structures. As stated in the introduction, the concept of making a (small) surplus to reinvest/save for a rainy day per se is not what is being challenged, but there is a conversation to be had about the levels of profit.

In the care home sector, CHPI research found that the level of profit before tax, rent payments, directors' remuneration and net interest paid out was £7/£100 for small to medium sized organisations (784 in sample) and £15/£100 for the largest (18 in sample). In terms of ownership, the rates were £8.60 for the eight largest not-for-profit providers, £9.06 for the five largest Private Equity owned backed for profit, and £19.49 for the 13 largest for-profit providers (Non-Private Equity). In Scotland, STUC analysis found that 10 biggest for profit providers in Scotland reported profit before tax of -10.18% of revenues compared to 1.73% for the 10 biggest not-for-profit providers between 2017-20. However this includes the huge losses by the two largest providers, one of which collapsed. In 2020, the other eight providers took collective profits of almost 9% of revenues.

In the children's home sector, the Competitions and Markets Authority found that the 15 largest providers make an average of 23% profit each year. They noted that "the largest private providers of placements are making materially higher profits, and charging materially higher prices, than we would expect if this market were functioning effectively". LGA commissioned analysis by Revolution Consulting found that 19% of the fee income of the largest 20 providers of residential care for vulnerable children in 2021/22 was recorded as profit (£310m).

In 2024/25, Witherslack – a private provider of special schools and children's homes backed by Mubadala Capital, a subsidiary of the Abu Dhabi sovereign wealth fund Mubadala Investment Company – made over £44m in profits, possibly attributed to the increase in capacity at its private special schools (Schools Week)

And some firms profit even when people suffer. During Covid, half of the ten largest for profit care homes in Scotland received extra government funds (£57m). Four of these five made over three times as much profit as the grants they received (£108m), while the other made a loss (STUC).

The timing of distributing dividends and their tax treatment – paid by individuals not companies, usually at a lower rate than tax on earnings – allows for extraction. Dividends are a symptom of a system predicated on extraction. For example, REITs are required to

distribute 90% of their property rental profits to shareholders in the form of dividends, suggesting that this money is not being reinvested in infrastructure.

The pattern of declaring a financial crisis and yet having money for dividends is not new. The Financial Times reported that HC-One, which is owned by private equity, has declared a loss every year apart from one from 2011-18, paying no corporation tax. And was still able to pay £48.5m in dividends in 2017 and 2018.

The extraction of profits in times of crisis was repeated in the pandemic when a quarter of for-profit residential care home companies increased dividends, an 11% increase on the previous year (Fotaki et al). The total sectoral dividends in 2020/2021 – totalling £120m - was more than the £114m claimed in furlough payments. In Scotland, one company paid dividends "25% larger than the money received from the Coronavirus Job Retention Scheme" (STUC). In short, companies have been taking significant amounts of public money implying they needed support to weather a crisis, and yet withdrew a similar amount in dividends.

Workers

A 2022 report from the University of Surrey and Trinava Consulting found Directors of private companies that own care homes were taking home 13 times the wages of staff. The salaries of directors at five of the largest care groups owned by investment firms increased by 100% in five years. The highest paid director in the study took home £2.3m (salary). A company running children's homes and SEND provision paid one director £1.1m in 2024, at a time when councils are facing bankruptcy as a result of high demand and costs for such services (Schools Week).

In a recurring theme, even when companies are struggling, directors still get significant salaries. At a time when large care home firm Four Seasons was facing insolvency after multiple buy outs, its total directors' pay was £2.71m in one year and £2.04m the next (Bourgeron, Metz & Wolf). In Scotland, one of the cases in the STUC research found that salary and payments during Covid to owner-directors were 80% greater than government grants received for emergency support.

In contrast, the care sector is characterised by low pay for workers. The lack of value placed on caring, despite a wide acceptance of its importance, contributes to a justification for low wages to a mainly female workforce (SOAS). 79% of the social care workforce in 2023/24 was female (falling to 68% in senior management). And other groups are also overrepresented in the workforce: 68% of staff in 2023/24 were white (compared to 83% of the population), 11% were Asian/Asian British (9% of population), 18% were Black/African/ Caribbean/Black British (4% of population); and only 75% of the workforce had British Nationality compared to 90% of the population, with non-EU nationals representing a higher proportion of direct care roles (22%) than managers (6%) (Skills for Care).

Two thirds of staff are paid less than the real Living Wage, with those in the private sector faring worse than those in public or not-for-profit organisations (Health Foundation and CPHI & Durham Business School). For example adult social care nurses are paid 7% more in the NHS, with the gap expected to widen as NHS pay increases kick in (Health Foundation).

STUC found that between 2017 and 2020, the largest for-profit providers spent 25% less of their revenues on staff costs than the largest non-profit providers. In the pandemic, four in ten care home staff reported financial problems related to their roles; experiences were worse in larger for profit organisations (Warwick Business School, University College London and the CHPI).

A 2022 Health Foundation report found that nearly a quarter of residential care workers in the UK lived in or were on the brink of poverty. And one in eight of their children were "materially deprived" - that is missing access to essentials like winter clothes, fresh fruit and vegetables. A 2025 update found that this reduced to one in five in 2023/24, with 15% relying on universal credit. It's worth noting that over 1m people work in care. The scale of underpayment is linked to poverty in our communities (GMB).

In the domiciliary care sector, many staff are not paid for time between visits, and receive little support for purchasing materials to support their work, for example a car. SOAS research also found that employers in the private sector count items they are legally responsible for providing as 'non-monetary rewards' to offset low pay. These include uniforms and keys.

"Care sector workers are treated as a financial overhead rather than integral to the quality of care provided." (SOAS)

The care workforce is largely deregulated and casualised (CHPI - Warwick Business School). Data for 2023/24 from Skills for Care found that four in 10 care workers earn below the national real living wage in the independent sector, rising to 63% in London (London RLW). They also found that over a fifth of the care workforce are on zero hours contracts – across the whole economy, the level is 3%. This fluctuates by type of work: with 40.6% of residential workers on zero hours contracts, compared to 25.7% of domiciliary workers (Skills for Care). It is particularly acute in the private sector compared to the public sector – 23% of workers in the adult social care independent sector are on zero hours, compared to 5% on local authority contracts (Skills for Care). Managers have also been found to use a lack of hours and changing rotas as a means of increasing compliance (SOAS). However, that doesn't stop people from leaving. Skills for Care note that those on fewer hours were "more likely to leave": the turnover rate for care workers on 35+ hours contracts was 29.6% compared to 36% for those on zero hours.

Care workers are more likely to be reliant on Statutory Sick Pay (SSP) than any other sector – a 2020 study found 77% of care homes did not offer additional support (GMB).

In addition to contracts, when businesses close (due to insolvency or changes in structures) workers often lose jobs with less than four weeks' notice. There were 1,400 closures of care homes between 2003-10 (CHPI - Warwick Business School).

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