ASC0022

Written evidence submitted by CICTAR

Introduction

CICTAR was formed by a group of unions and civil society organisations that believe that workers and the community need more and better information about the tax arrangements of multinational corporations. While corporations have the resources to invest heavily in understanding and lobbying around these activities, trade unions, civil society, workers and the community often do not. CICTAR provides a centralised, and independent, resource for these groups, providing information about the practical effects of corporate tax policy and behaviour.

CICTAR has extensive experience of investigating and exposing tax dodging and the lack of financial transparency in the Adult Social Care sector. In the last eight months alone, we have published reports in Australia, Canada and the UK showing how a lack of transparency and the 'race to the bottom' dynamic in each of these markets leads to the risk of government funds being funnelled offshore rather than invested into high quality care and decent working conditions. The main points in this submission are drawn from, and backed by, recent research by CICTAR into UK Care home companies. The first of these was published earlier in 2021 and looked at three UK companies, Sunrise, Gracewell and Signature Senior Living all of which are owned by Revera, the second largest care home operator in Canada. The second study has yet to be published and we are sharing the latest draft version **in strict confidence** on the understanding that it will not be published alongside this evidence statement.

This submission will focus on the situation in the UK, but we would stress that the problems that we highlight are not unique to one country and that in our view the problems that we highlight are the direct consequence of pursuing a highly privatized, market-led approach.

We would welcome the opportunity to give oral evidence to the Committee.

Funding & Sustainability of Adult Social Care in England

The Covid-19 pandemic has renewed the urgency of care sector reform around the world and England is no exception. The pandemic has shone a harsh light on both poor employment practices the care sector and poor services provided to vulnerable patients.

The failings of the England's care sector will be further exacerbated in coming years by ongoing demographic shifts and by the consequences of historical decisions taken which have led to the sector becoming highly financialised.

Un like health care, the social care system in England is dominated by private service providers . At least 84% of care home beds in England are currently owned by private companies and the four largest operators are owned by private equity firms. The care sector has been seen by such companies seen as a lucrative opportunity. Financialization has transformed care homes into real estate investments – from which rents can be extracted – or infrastructure investments with secure returns based on demographic shifts and government funding. An illustration of how the UK care sector is viewed is provided by the

fact that a Chinese government controlled private equity real estate firm, now one of UK's largest owners of care homes (via the Cayman Islands), has dramatically expanded investments in recent years and expects annual returns from care homes of at least 10%. This is "much higher compared with commercial properties" like hotels or office buildings.

While money is flowing out of the sector, often offshore and into the pockets of wealthy investors, cash strapped local authorities are required to pump in ever increasing amounts. In 2018-19, the sector accounted for 41% of local authority expenditure. This level of local public funding is deemed inadequate to meet current needs and yet, within the current funding model, local authority spending on the care sector still crowds out funding for other essential services. This is not a sustainable situation.

It is clear that an increase in national level funding will be required needed to improve and expand social care services. But, while funding is critical, the bigger problem appears to be the lack of political will to address clear structural problems across the sector. One of the key issues is the urgent need for greater transparency from private operators and accountability on government spending. The lack of political will was made more apparent in the recent UK budget when an increase to the corporate tax rate was signalled but not the need for increased funding for the care sector or efforts to close loopholes that allow corporations – including large care home operators – to avoid UK tax payments.

A recent report from the NAO into the Adult Social Care market in England specifically noted that *'Stakeholders raised concerns over the lack of transparency of provider costs and their financial structures, and that increases in fees may result in higher profits rather than increasing care quality'.*

Our investigations show that these concerns are well founded and need to be urgently addressed before additional government finances can be confidently put into the sector. In order to restore public confidence and gain broad support for additional national funding for social care, immediate steps must be taken. Many care sector operators are extracting profits, from both public funding and private pay, without delivering quality services. Increased transparency on finances, corporate structures, ownership and direct spending on care must be mandated as a condition of public funding. Major operators plead poverty and demand more funding while dividends and rents are quietly siphoned offshore. Elderly residents endure neglect as foreign investors cash in.

A recent forensic analysis of UK care home chains by CICTAR revealed that three UK care home operating companies, despite charging residents more than £225 million in fees in 2019, report little or no profit in the UK and even claimed multiple tax credits. Tax haven subsidiaries – in Jersey, Guernsey and Luxembourg – own UK care homes as part of complex corporate structures apparently designed to extract and offshore profits.

Reports to the shareholders of the joint venture partner in the three UK care home companies, a large US listed real estate company, indicate US$84.8 million in net operating income from these care homes in 2019. In stark contrast, the three private UK care home companies reported combined losses of US$12.6 million in the most recent year. The use of tax havens, complex related party transactions and other artificial arrangements allow foreign investors to avoid UK income tax on profits extracted from UK care homes, which have been hard hit by COVID-19 and are heavily reliant on tax-payer funding.

An additional, as yet unpublished, report looks at the financial affairs of another of the UK's largest care home operators. To support this submission, and provide the detailed analysis from which our conclusions are drawn, we have provided the most recent draft of that report to the committee, alongside this submission **in confidence.** We expect to be able to launch that report publicly in the next few weeks.

The report details how the company, which runs hundreds of care homes across the UK, employing thousands of (predominantly female) staff is part of a complex global structure, involving entities in the Cayman Islands, Jersey and the Isle of Man. It appears that, over a number of years, the company has created artificial losses in the UK while siphoning profits to exceptionally wealthy US and Saudi investors via well-known tax havens. The company has directly approach local authorities for additional funding and guarantees of long term support. Yet, like many other major care home operators, the company is ramping up its debt and paying high interest rates and huge management charges to facilitate financial gains for its owners, while leaving the risk with residents, employees and the state.

Residents and family members, as well as predominately female care workers, suffer the direct consequences of profit extraction from the UK care sector. However, when global investors avoid tax by shifting profits offshore everyone in the UK suffers. While private payments by residents drive profits, they are underwritten by government spending on public health. Aggressive tax avoidance is unacceptable by any corporation, but particularly egregious in the care sector.

Without further reforms, funding increases for the care sector will raise margins for offshore investors without increasing the dignity and respect of care home residents. Care homes must be subject to far greater transparency and community oversight. In certain cases – when operators have clearly failed to provide adequate care – care homes should be transitioned back to local authorities. Greater integration with the NHS, as recommended in the previous parliamentary report, should be considered to avoid inefficiencies in a fragmented system. Private operators currently shift costs by not providing sufficient preventive care and physical and social support.

Rationalising care delivery and expenditure will provide older people with the dignity and respect they deserve and save money by reducing the extraction of economic rent. Increasing funding for the care sector – to directly improve pay and conditions for a highly exploited and predominately female workforce – may also be one of the best ways to stimulate fair and sustainable post-pandemic economic recovery.

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