



Four Seasons
Health Care

Terra Firma / Four Seasons Health Care's written submission to the Health and Social Care Committee, National Assembly for Wales

(in advance of the hearing on 14 June)

1. About Four Seasons Health Care ("Four Seasons")

Four Seasons is the largest independent provider in the health and social care sector in the UK. It operates 445 care homes, with 22,364 registered beds in the UK, Isle of Man and Jersey. Its specialised services division, The Huntercombe Group, operates 61 hospitals and care centres, with 1,601 registered beds and is a leading provider in the areas of adult and child and adolescent mental health, acquired brain injury, neurodisability, eating disorder and addictions and children with special needs. Four Seasons employs more than 30,000 staff caring for more than 20,000 residents.

2. Four Seasons in Wales

Four Seasons has seven care homes in Wales, as a result of acquiring them in 2011 from the former Southern Cross. Four Seasons employs 425 staff in Wales caring for circa 303 residents. Its homes are:

- *Bargoed* in Mid Glamorgan, offering residential and nursing care as well as respite care to give home carers a break
- *Red Rose* in Gwent, offering residential and nursing care, specialist care for people with physical disabilities, end of life care and respite care
- *The Rookery*, Ebbw Vale, Gwent, offering residential care and specialist dementia care
- *Valley View*, at Cafn Hengoed, Mid Glamorgan, offering residential and nursing care, specialist dementia care and respite care
- *Ty Gwynno*, Pontypridd, Mid Glamorgan, offering residential and nursing care, specialist dementia care and respite care
- *Ty Haford*, Cardiff, offering nursing care and respite care
- *Ty Eirin*, Porth, Mid Glamorgan offering residential and nursing care and specialist dementia care

Since taking on these homes, Four Seasons has provided much needed capital investment for refurbishment and equipment. It has provided strong regional management support to the home managers and delivered ongoing staff training programmes to raise quality of care and service performance. Average occupancy across these homes has increased. Staffing levels have been maintained at all seven homes and have increased in five of them. In considering development of its care operations, Four Seasons is informed by reference to the Strategy for Older People in Wales.

3. About Terra Firma

Terra Firma is a leading private equity firm which invests in asset-backed businesses in essential industries that are undergoing change or where change is required. It has extensive experience of managing businesses in highly regulated environments and working closely with governments and regulators. Terra Firma adds value to its businesses by delivering improved strategy, operations and management together with sustained investment to support them to develop as best-in-class leaders in their sectors. Last year, it invested almost €1.9 billion in developing its existing businesses.

4. The acquisition of Four Seasons by Terra Firma

Terra Firma is acquiring Four Seasons for a total consideration of up to £825 million which will be financed through a mixture of over £300 million of equity and new debt of £525 million. On completion of the transaction, which is expected on or before 16 July, the company's existing debt of £780 million, which is due to be repaid in September, will be discharged in full. This will give Four Seasons clear ownership and substantially reduced borrowing over a longer-term, providing a stable financial structure. Four Seasons' debt will be reduced from being approximately 95% of its market value down to a sustainable level of approximately 64% of its market value.

5. Four Seasons' financial health

Four Seasons is trading successfully. It has the protection of flexible rent cover negotiated with a number of landlords in the event of difficult trading conditions. Four Seasons increased capacity by 40% or 6,000 beds in 2011 by acquiring the business of Care Principles and taking over homes from the failed Southern Cross. It has also achieved organic growth with occupancy continuing to rise to circa 88%-89% against the sector trend. It has achieved this through: (1) focus on quality of care with 88% of its homes in England rated good or excellent, a 14% improvement since 2009, making it one of the highest rated independent providers; (2) a diversification strategy that has given the company a sector lead in the development of specialist services for residents with higher dependency needs. In 2011, more than 80% of Four Seasons' beds were for higher dependency care, in contrast to the sector average of about 50%.

6. Strategic principles for Four Seasons

The priority for both Terra Firma and Four Seasons is to ensure continuity of care and continuous improvement in quality of care. Terra Firma intends to invest in Four Seasons and work with the senior management team to enhance the company and achieve long-term growth, building on its position as a sector leader.

We understand that high standards are a precondition for building a successful and sustainable business in this sector. Quality of care drives occupancy which is the key to viability and profitability and demands reinvestment to develop the business. Our ambition is to grow Four Seasons by increasing the number of beds we provide, as well as improving occupancy rates further. We will do this by delivering consistent high quality of care and developing specialist services for higher dependency residents. Terra Firma aims to invest in Four Seasons' estate to improve existing properties and potentially acquire homes and develop new ones. The business plan and Four Seasons' new capital structure will enable a higher level of investment to be made into the business than has occurred recently.

We recognise that Four Seasons' ability to attract, retain and develop high-quality professional staff is vital to the quality of service that residents and patients receive. This is particularly important as the industry moves further towards higher dependency services. Four Seasons is committed to support learning and staff development. The company has introduced innovative learning programmes to help employees develop their skills and potentially work towards accredited qualifications. A recent example is an e-learning initiative that enables participants to study for qualifications and improve their skills when and where it is convenient for them. The company's commitment to supporting staff development is matched by employee commitment to learning with 27,500 staff actively participating and a total of 626,000 course modules successfully completed, with more than half of them finished in 2011.

Terra Firma will set-up an effective governance framework for Four Seasons including the establishment of a UK-based board. The financial health of Four Seasons will be transparent,

as quarterly financial reports to holders of the bonds issued by the Four Seasons Group will be publicly available.

We are resolved to work with our service users and their families, our employees and their representatives, Government, the NHS, Local Authorities, regulators, and investors, to ensure Four Seasons' success and sustainability in the future.

7. Market balance

The independent sector has an important role in health and social care provision in the UK, particularly for the elderly; there are an estimated 450,000 independent operator beds versus circa 100,000 NHS hospital beds.

The independent sector is highly competitive and very fragmented with the five largest providers accounting for no more than 20% of the market. Four Seasons is the largest operator and has about 6.7% of the market, although it has a much lower presence in Wales. Approximately half of the independent care sector is comprised of small care home businesses with no more than a few converted homes each, often run by a husband and wife team; they tend to focus on basic residential care provision and lack any specialist capabilities.

Under current market conditions, we are likely to see consolidation within the sector as the smaller operators are vulnerable to an environment in which care homes are increasingly required to focus on higher dependency services and are under continuous pressure to achieve operating efficiencies. The larger independent providers can achieve efficiencies of scale through shared management overheads, bulk purchasing power, efficiencies in training and development, and investment in technology to optimise back office functions and to upgrade care facilities.

They represent potential partners for Government to affect change in the broader social care market. They have an important role to play in helping to ensure that market consolidation leads to an efficient and sustainable independent sector. Given the current fragmented market, with no operator having more than a single digit percentage share, consolidation is highly unlikely to lead to any erosion of competition in the foreseeable future, particularly given Local Authority commissioning structures.

8. Development of specialist services for dementia and other higher dependency needs

The competitive nature of the market and changing demand patterns have led the larger independents to develop the capability to provide higher dependency care services including: specialist dementia care; step-up and step-down care reducing time in hospital; end of life care; brain injury rehabilitation; neurodisability services, low and medium secure mental health; eating disorder and addiction services.

Four Seasons' PEARL dementia care service is one such example. It is estimated that there are some 800,000 people in the UK with a form of dementia in 2012, including more than 43,600 in Wales. This number is expected to grow rapidly due to an ageing population; the number of people over 65 is expected to increase by half over the next 40 years in common with the rest of the UK.

Four Seasons has developed the PEARL (Positively Enriching And Enhancing Residents Lives) specialised dementia service, the ethos of which is to recognise the individuality of each resident and support them in continuing to live their lives as closely as possible to the way that they always have. Each individual care programme is planned in consultation with the dementia resident and key influencers of his or her care experience, including relatives,

friends, staff, community clinicians and GPs. The programme uses a range of therapies in daily care. The validation process for a home to achieve accreditation as a PEARL specialist dementia care home is robust and may take more than a year to achieve. Staff undergo training in dementia care mapping, person centred care and experiential training.

The PEARL programme has been recognised for its market-leading excellence by The Improvement Foundation and is studied by care providers internationally. A notable success of the pioneering programme is a reduction in the need for psychotropic medication by as much as 64% and an average of 50% with improved wellbeing of residents.

9. Optimising sector capacity

In our submission, there is compelling evidence of the need for a more joined-up approach to the funding and commissioning of health and social care for the elderly. Below are two situations that would benefit from such a joined up approach:

1. The UK has more hospital beds per thousand people than most of Europe and the USA and the average stay in our hospitals is believed to be much longer and more expensive to the taxpayer. The reason is that between a quarter and a third of the beds in acute medical wards are occupied by people - most of them elderly - who do not need to be there for clinical reasons (commonly known as bed blocking). The independent sector already has much of the expertise and capacity to deliver clinical care to selected high dependency patients at a lower cost to the tax payer (between 35%-50% less than NHS tariff rates for hospital care). Greater use of the independent sector could provide a potential solution to bed blocking and help meet spending targets. It would be possible to achieve this without a drop in the quality of care and arguably provide a better all-round experience for patients.

2. There is currently a belief that it is better to provide domiciliary care to enable people to remain in their own homes for as long as possible rather than to fund their move into a care home. We believe that the growth in domiciliary care is also in part being driven by the belief that it is a cheaper option. However, in many cases, costs are simply being moved between different public purses rather than being saved.

Many elderly people being cared for in their own homes can typically receive between one to four visits a day by carers. Once costs such as housing, council tax benefits, pension credits and attendance allowance are taken into account, even a modest care package is likely to cost the taxpayer well in excess of £500 a week. For people with higher levels of dependency, residential care in a care home setting may be a more cost-efficient option that also meets their care and social needs better too.

Four Seasons is firmly of the view that people should be helped to remain at home for as long as it is their wish and is in their best interests. However, there should be an informed decision that takes account of the real total costs to the public purse and the relative risk of each option to the individual's health and well-being.

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