From the Spokesperson for Health and Well-being
Councillor Douglas Yates

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To: Vince Cable MP
   Secretary of State for Business, Innovation and Skills
   Ministerial Correspondence Unit
   Department for Business, Innovation & Skills
   1 Victoria Street
   London SW1H 0ET

Dear Mr Cable

As you know, one of the UK’s largest care home providers – Southern Cross Healthcare – recently announced that it was facing significant financial pressures as a result of falling income and increasing costs. While some of these costs were experienced by the sector as a whole, others were linked specifically to the business model that Southern Cross had developed.

When Southern Cross was floated on the stock market by its owners Blackstone in 2006, it had vigorously pursued a capitalisation strategy, selling its assets (its residential homes) to prospective landlords in order to generate capital to fund expansion. Southern Cross would then rent back the properties (with an annual increase in rental fees to cover inflation) and operate its care services from within these rented facilities. However, this business model faltered when the income generated from fees became insufficient to cover its increasing operating costs. The share price of Southern Cross started to fall from a high of £6 per share in 2007 to less than 5p per share in June 2011.

When members of the Convention of Scottish Local Authorities met to discuss the Southern Cross situation, questions were raised about whether it could have been avoided through stronger financial regulation. On the back of that discussion, we are asking the UK Government to strengthen the financial governance structures of private sector care providers to ensure that people are put before profit every single time.

It is clear that profit-making organisations operating within the care sector have a clear and valid role to play in the future provision of social care in the UK. Indeed, the likelihood is that councils will increasingly outsource care to private sector organisations. At the same time, however, we need to ensure that private sector care homes maintain their focus on providing high quality care – and that the business of care is seen to be central, rather than tangential, to profitability. A large amount of public money is invested in the sector, and we cannot allow private sector organisations to recklessly speculate at the tax payers’ expense.

COSLA is currently exploring the potential for contractual mechanisms to prevent private sector organisations from irresponsibly using their capital assets to increase profit margins, thereby putting performance, staff and financial stability at risk. However, we are also looking for the UK Government to examine the financial governance of private sector
care organisations. If we accept that profit making organisations should be allowed to operate in the social care market, then we should ensure that entry into that market is on the basis of long-term commitments that offer a reasonable return on investment. This might involve fixing maximum returns for investors, or limits on levels of capitalisation. At the very least, we need complete financial transparency from providers: commercial confidentiality must not be allowed to get in the way of full public scrutiny of the financial and business models of organisations within the care sector.

I would be grateful if you could inform me of any action the UK Government proposes to take in connection with the matters raised above.

Yours sincerely

Councillor Douglas Yates
Spokesperson for Health and Well-being