# Threatened collapse of Southern Cross highlights crisis of Britain’s care homes

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**11 June 2011**

Southern Cross, Britain’s largest private provider of homes for the elderly and those in need of long-term care, is desperately trying to avoid bankruptcy.

It has announced proposals to cut 3,000 jobs by October, has identified 47 care homes that it wants to hand back to the landlords as soon as possible and 85 others it wants to pull out of within five years, affecting 5,500 residents.

Bad as this is, the crisis is widely expected to spread to other private care suppliers.

Private companies now account for 70 percent of Britain’s long-term care beds. It is nothing short of a catastrophe for tens of thousands of frail and vulnerable people in need of round-the-clock care. Thousands of workers will lose their jobs.

Southern Cross’s crisis casts a spotlight on both the reckless indifference of successive governments’ reliance on the market to provide essential services, and the criminality of the Conservative-Liberal Democrat coalition government’s proposals to move from a publicly run health care system to one managed by the private sector.

The 2010 report by the Care Quality Commission, the “industry’s” regulator, revealed the utterly disgraceful state of private care homes. Seven out of 10 private care homes were “poor” or “adequate”, compared with only one in 11 in the not for profit sector.

Southern Cross announced last month that it was now in a “critical financial position,” as the rents it paid for its homes were rising faster than income and bed occupancy had fallen. It made a pre-tax loss of £310.9 million in the six months to March 31, and PWC, its auditors, warned there was “significant doubt” over its ability to keep running. Southern Cross is believed to need a capital injection of £100 million to survive.

Its collapse places all its 31,000 residents in jeopardy. In the event that Southern Cross falls into bankruptcy, local authorities would only have a duty to rehouse those residents they pay for.

The company, which leases most of its properties, estimated that the number of admissions from local authorities has dropped by 15 percent over the past year. Last week, it announced that it would defer payment on 30 percent of its monthly cash rental payments due for the four-month period June 1 to September 30, 2011, creating what it called a “summer platform” during which it would try and negotiate a restructuring package with its landlords.

Even so, it is far from clear that its 80 landlords will agree to this, or are willing to renegotiate. Bondcare, another care home company that is one of Southern Cross’s five biggest landlords, was very sceptical, saying that its restructuring plan “does not solve the underlying problem”.

Several factors lie behind the company’s collapse. With the privatisation of long-term care for the elderly, disabled and mentally ill via a system of sticks and carrots begun under Margaret Thatcher 30 years ago, the companies have rapidly expanded in anticipation of a rising elderly population.

But at the heart of the scandal is the financial engineering by the corporate elite. Like many other companies in this and other sectors, Southern Cross adopted the new much vaunted “business model” of unbundling its assets to become a management or operating company only. It either sold off its property portfolio or raised new debt by securitising its future revenue streams, based on vastly inflated property prices before the 2008 global finance crisis and many times the potential revenue of the business.

It then used the cash to distribute to its shareholders and/or buy new homes and businesses, and then leased back its homes from the new owners under 30-year agreements with guaranteed rental increases. The company was itself bought and sold for a whopping profit, further burdening it with debt. In effect, the business model meant working for the banks and lenders, on the back of government-backed revenues and low waged, often immigrant, workers.

The 2008 financial crisis led to the credit crunch and fall in property values, leaving many companies in breach of their loan to value covenants and in need of further cash injections.

The then Labour government had already begun to encourage more people to stay in their own homes as long as they could, with the introduction of direct payments and personal/individual budgets, bypassing the local councils, although the amount set aside, £520 million over the three years 2008 to 2011, was inadequate, and the take-up was slow. This heralded a significant change: in effect these care homes were becoming sub-acute hospitals, under conditions where much of their income was ledged to their lenders.

At the same time, and particularly following the financial crisis in 2008, Labour and then the coalition government put the squeeze on local council budgets, which in turn cut adult social care budgets by about 10 percent. The councils responded by demanding that care homes reduced their fees and/or send fewer patients, causing occupancy rates to plummet.

Placements by local councils have fallen by 15 percent in the last year. While homes can break even at about 50-70 percent occupancy, under the sale and lease-back model, homes need 85 to 90 percent occupancy to cover their costs. Southern Cross's occupancy rate had fallen from 92 percent to 85 percent over the last year.

The Four Seasons health care group, the second largest provider of care homes that runs specialist units and is one of Southern Cross's landlords, is also at risk. It has debts of more than £700 million.

BUPA, another private care group, warned that private providers could not survive when local councils were demanding that residential home fees be cut by up to a fifth. Oliver Thomas, director of BUPA's 305 care homes, said that the scale of the pressures facing the sector were unsustainable: "We have experienced councils demanding fee reductions, some by as much as 20 percent, but for many this is the third year in a row that any fee reviews have been significantly below the rate of inflation".

Other care home operators are already in the hands of their lenders. The companies had cut back on investment even during the boom years. Southern Cross's capital expenditure fell from 8.3 percent of revenue in 2006 to 3.7 percent in 2010.

Many homes are extremely shabby, having seen little refurbishment or improvements for years. In the absence of higher fees and more residents, the companies must seek to cut their wages bill, their main cost, or close their homes. But the private sector already pays lower wages than the public and has a higher staff turnover rate, resulting in a failure to adequately feed or clean residents as the Care Quality Commission's (CQC) report revealed. Last year Southern Cross reported it had 19 "zero-star" homes.

The CQC itself has been hit by budget cuts and has reduced its inspections by a massive 70 percent in the first six months of this year. One CQC inspector who spoke on condition of anonymity told the *Financial Times*, "If I had a relative who needed to go to a care service, I'd be concerned".

The CQC refused to answer a Freedom of Information request about its enforcement activity.

One indication of the consequences of privatisation and cuts was given by the BBC "Panorama" programme that secretly filmed systematic abuse by staff against patients at a unit for people with severe learning disabilities near Bristol.

A police investigation has since been launched into the home run by the Castlebeck company. A nurse turned whistleblower had contacted the CQC on a number of occasions to report the abuse, but the regulatory board had decided not to investigate.

The coalition government is committed to a vast expansion of privatisation as part of its efforts to dismantle social provision in order to line the pockets of the banks and corporations. The impact for the frail, elderly and most vulnerable will be disastrous. But this major assault is being implemented without anything other than pro forma verbal opposition by the public service unions.