Summary Information on "Southern Cross Case and Social Care Market in the UK"

1) Information compiled by the EPSU Secretariat

Introduction

- Example from UK about the negative/disastrous effects of service privatization and particular financing mechanism (GMB: financial engineering) of long-term/elderly/social care on those needing the care, the families, but last but not least also on public finances/use of tax payers' money
- Highlighting some aspect
- Based on articles at GMB website and GMB material, the first a GMB Position Paper on social care, "Oversight of the social care market – Discussion Paper", the second, of 2 December 2011, the reply to an enquiry by the Department of Health ("Caring for our future: shared ambitions for care and support") on strategies for care and support

Problem description

- Care of the elderly and the vulnerable outsourced to the private sector by decision of municipal?/country? councils
- Statistics on Southern Cross care homes: 31,000 residents + 43,000 staff
- Southern Cross management: current level of rents that they pay to the owners of the freeholds of the building they use as care homes are unsustainable
- Major UK and US financial institutions involved in buying into the sale and leaseback model for Southern Cross that separated ownership of the homes from the care of the elderly
- £100m per year of mainly public money intended to pay for the proper care of the elderly was being siphoned off to pay sky high rents instead
- A total of 336 the care homes due to be taken back are owned by companies outside the UK with 325 of them registered in tax havens
- GMB members employed by Southern Cross received constant complaints from families about poor care; they themselves have had no sick pay or paid breaks

Conclusions

- Business model used in the private care sector is unsustainable – with private equity moving into social/home care in search of new income streams to cover its sky-high interest payments – and now has to deal with a toxic legacy of privatisation and financial engineering that has left behind a trail of unsustainable debts and liabilities
- Existing (regulatory) framework for the social care sector/market has proved woefully inadequate – Regulation 13 of Care Quality Commission (Registration) Regulations 2009 states that "the service provider must take all reasonable steps to carry on the regulated activity in such a manner as to ensure the financial viability of the carrying on of the activity … to ensure quality through adequate finances" – as it does not meaningfully check the financial health of care providers nor protect the care sector from financial predators – either the Care Quality Commission is unaware of its own responsibilities or it is ducking them.
- Demand to government and political parties to assume their responsibility to outlaw such financial engineering in social care, health care and vital services - offering a formula for taxpayers cash ending up in offshore tax havens
- Public money has been leaking out of social car as an after-effect of the privatisation of a large part of the sector, not least because of excessive debt financing; also more than 20 years of privatisiation, only 70% of residential care meets the Care Quality Commission's minimum requirements

- Southern Cross should serve as a warning of what happens when we forget our basic approach to economic policy and the role of the state – home care and care homes are no ordinary business and elderly and vulnerable people are not packages to be bought, sold and moved about in some free-market way
- Never again should trade unionists be lectured by people either inside our movement or by the greedy and the gullible outside it, about the necessity of rolling back the State and letting the market rip. The most obvious of these perennial flaws of capitalism are the tendencies towards excess and monopoly exhibited by private equity and banking
- Care remains chronically underfunded and until we - as a society - are prepared to pay more in tax then it will remain underfunded. This is the true scandal

Action needed according to GMB

- Tax breaks on the debts private equity company use to be removed.
- Abolish the self regulatory code that is a complete fiction and useless.
- Limited liability for joint stock companies is a privilege granted by Parliament to investors in return for compliance with transparency rules. Those who do not wish to conform to such rules must lose the privilege of limited liability

General requests of GMB in view of social care

- Need to establish a National Care Service, equivalent to the NHS, free at the point of use and funded by taxation
- Need of standard definition of quality of care, backed by legislation
- Need to have statutory standard minimum entitlement to care
- Quality of care depends in large part on the level of training, support and motivation given to the workforce [EHRC report "Close to home: An inquiry into older people and human rights in home care", November 2011: distressing picture of state of domiciliary care: in a mostly privatized sector standards are being undermined by a lack of investment in care workers and the woefully insufficient time allocated to home helps to care for the people in their charge
- Concerns about pro-market slant of public policies about personalisation of care and direct payments
- Concerns about fragmentation of domiciliary-care provision in the interest of the market "plurality" risks casualising the workforce and exacerbating regulatory weaknesses … which will have knock-on effects on the quality of care, with poorer standards and less continuity
- Need to empower recipients of residential care with the security of tenure, this becoming a pressing issue with home closures
- Stop involvement of financial services industry's involvement in the social care sector as money intended to pay for care would be diverted into the financial-services sector and much of it lost to the costumer through charges, fees, etc.
- Urgent need for remedial action: enhanced public funding, far-reaching regulatory changes to enforce quality standards of care, ensure adequate funding and prevent private operators using public money to service their debts

2) Further reading in articles at the GMB website

http://www.communitycare.co.uk/blogs/adult-care-blog/2011/06/southern-cross-gmb-union-calls-for-private-equity-ban-in-social-care.html

Southern Cross: GMB union calls for private equity ban in social care

- The city's coming in for a battering with the debacle at Southern Cross.
- Today the GMB union called on the government to investigate and ban the financial engineering that underpinned ailing care home operator Southern Cross.
- In a report published today at its Congress in Brighton, "Southern Cross: the cross we have to bear - the Greedy and the Gullible", the GMB said that politicians of all parties have "an absolute responsibility to outlaw such financial engineering in social care, health care and vital services and to make sure that it does not happen again."
- The union, which has many members working in Southern Cross homes, criticised as "greedy" the attitude of major UK and US financial institutions who were involved in buying into the sale and leaseback model for Southern Cross - a model criticised by many for Southern Cross's current difficulties.
- Is this criticism fair? I'm not going to pretend to be an expert in finance, but I will point out that elderly care remains chronically underfunded and until we - as a society - are prepared to pay more in tax then it will remain underfunded. This is the true scandal. Money has to come from somewhere and private equity is a way of doing this.

http://www.gmb.org.uk/pdf/SX%20Gullible%20and%20Guilty%20v7b.pdf

GMB report "Southern Cross: the cross we have to bear - the Greedy and the Gullible"

- The current Southern Cross management say that the current level of rents that they pay to the owners of the freeholds of the building they use as care homes are unsustainable.
- GMB has insisted that the focus of everyone’s attention at this time should be to ensure continuity of care for the 31,000 vulnerable and elderly residents.
- The politicians also have a responsibility to investigate and expose the scandalous financial engineering in the City of London and Wall Street that lead to this crisis. They have an absolute responsibility to outlaw such financial engineering in social care, health care and vital services and to make sure that it does not happen again
- GMB has been warning for nearly two years now that the business model used in the private care sector is unsustainable. It is the product of a culture of greed and gullibility that has dominated the financial markets since they were deregulated
- Lethal “sale and leaseback” model that separated ownership of the homes from the care of the elderly
- The inability of the company to meet the aspirations of our members for decent terms and conditions led GMB to establish that £100m per year of mainly public money intended to pay for the proper care of the elderly was being siphoned off to pay sky high rents instead.
- Since 2006 GMB members have had constant complaints from families about poor care. They themselves have had no sick pay or paid breaks. They even supply the biscuits for the residents with their tea
- GMB consider that the labour movement at all levels has to learn the lessons of what happened at Southern Cross. It gives GMB no pleasure to say that the machinations and dealings of the private equity industry, of the banks and the bond market which gave rise to the crisis in Southern Cross and the private care home industry took place while there was a Labour government in office that was either blind to what was going on or were actually encouraging it. It should not be overlooked either that

Labour councils too outsourced care of the elderly and the vulnerable to the private sector

- GMB has repeatedly called on the politicians to put a stop to this. The tax breaks on the debts private equity use have to be removed. The self regulatory code is a complete fiction and useless. In the immortal words used elsewhere 'Transparency, what Transparency?" Limited liability for joint stock companies is a privilege granted by Parliament to investors in return for compliance with transparency rules. Those who do not wish to conform to such rules must lose the privilege of limited liability.
- What happened at Southern Cross must inform not only Labour Movement policy toward social care and health care but also the Labour approach to economic policy and to the role of the State. Never again should trade unionists be lectured by people either inside our movement or by the greedy and the gullible outside it, about the necessity of rolling back the State and letting the market rip. The British labour movement founded a political party that sought election to government to deal with the perennial flaws of capitalism. The most obvious of these flaws are the tendencies towards excess and monopoly exhibited by private equity and banking.
- Southern Cross should serve as a warning of what happens when we forget our basic approach to economic policy and the role of the state. The Labour Movement need to proclaim the merits of this approach and cogently and relentlessly put the case for it, not apologise or hide it. The best guide to theory is practice as the antics of the greedy and the gullible show.

http://www.gmb.org.uk/newsroom/other_news/southern_cross_80_landlords.aspx

Southern Cross 80 Landlords

11 July 2011

- More than half of Southern Crosscare home due to be taken back by landlords are based outside the UK, mainly in tax havens
- Government White Paper amounts to a dangerous re-threading of the bald tyre that led to today's crash at Southern Cross impacting on the care of 31,000 elderly and vulnerable residents in private sector care
- GMB reacted to the announcement by Southern Cross to the Stock Exchange this morning that it had suspended its shares and landlords would take over the homes. GMB also responded to Government White Paper on Public Services.
- GMB also highlighted that a new study revealed that a total of 336 the care homes due to be taken back are owned by companies outside the UK with 325 of them registered in tax havens. A total of 199 are registered in the Cayman Island, 43 in Guernsey, 41 in Gibralter, 39 in Jersey, 4 in British Virgin Islands, and one in the Isle of Man. The summary list is in the table below.
- GMB, working with the Land Registries across the UK, have established the names of 80 landlords who own 615 of the 750 homes. GMB has not yet been able to establish who owns the other 116 care homes in Britain. GMB have yet to establish the names of the landlords for 19 of the 25 homes in Northern Irelands. The full list of the 80 landlords is set out in notes to editors below. A pdf at foot of release sets out what we know about. GMB plan to publish in the next few hours what we have established in terms of the name of the landlord by home by region.
- Justin Bowden GMB National Officer said "Southern Cross may be on it's last legs but for Southern Cross's 31,000 residents and 43,000 staff this looks like a case of "out of the frying pan, into the fire". These 80 landlords are a rag-bag bunch whose number includes overseas interests, tax dodgers and in some case 'identity still unknown'. Many themselves are in financial difficulties. GMB will publish the names of the landlord by home for 615 homes later this morning.

- All this spells months more uncertainty and worry for residents and staff. Where is government in this care scandal? The ears of the 31,000 elderly and vulnerable residents and 43,000 staff must be ringing from the deafening silence from Downing Street.
- The Government instead is today publishing a White Paper which says the future for all public services is outsourcing. Meanwhile back in the real world this is what happens when the private sector is given access to public money.
- The ideas in the White paper are not new or does it contain any innovative new policies. It amounts to a dangerous re-threading of the bald tyre that led to today's crash at Southern Cross impacting on the care of 31,000 elderly and vulnerable residents in private sector care.
- It is also a formula for tax-payers cash ending up in offshore tax havens as GMB research into the 80 known Southern Cross landlords show. That the government should seek to dress up this extension of privatisation on the day Southern Cross suspended its shares shows the extent to which it has lost touch with the real world."

http://www.gmb.org.uk/gmb_campaigns/gmb_campaigns/southern_cross.aspx

Four Seasons Care Homes

6 March 2012

- GMB, the union for staff in Four Seasons' 500 care homes in the UK, responded to the company announcement that they need to raise £230m from shareholders and £550m from other sources to repay £780m debts which fall due in September.
- Justin Bowden GMB National Officer said "When Four Seasons took control of 140 care homes from shattered Southern Cross last autumn GMB warned that the residents and staff were jumping "from the frying pan into the fire" as Four Seasons were "in the red" with £780m debts and no obvious way to pay them.
- After rubbishing GMB's claims as "scaremongering", Four Seasons have now had to come clean and admit that they have too much debt to refinance and so need £230m from shareholders and another £550m of new loans to pay these debts.
- All this is reminiscent of the months leading up to the collapse of Southern Cross when similar warnings by GMB were dismissed and ignored. Four Seasons are on a treadmill of debt, continually refinancing, taking on more debt and paying out tens of millions of pounds in fees to advisers. How long can this carry on until their debt bubble bursts?
- GMB was not alone in knowing the weak financial state of Four Seasons. A report for the Association of Directors of Adult Social Services (ADASS) confirmed the GMB warnings yet Government and local councils allowed Four Seasons to take over these homes.
- Four Seasons has rebuffed all attempts by GMB, representing the staff, to get to the bottom of the company's finances and accused GMB of scaremongering. With these new revelations from Four Seasons, 25,000 elderly and vulnerable people and their families, the local councils and the 30,000 staff all need to know how the finances of this company add up.
- The company in a recent truculent statement said "*We're not obliged to explain this to anybody".* Arrogance, belligerence and a head in the sand mentality didn't save Southern Cross and it is unlikely to help Four Seasons.