

## SPECIAL CABINET – 15TH JANUARY 2013

**SUBJECT: BAD DEBT IN RESPECT OF COMMERCIAL RENT – SOUTHERN CROSS HEALTHCARE**

**REPORT BY: DEPUTY CHIEF EXECUTIVE**

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of a bad debt of £38,067 in respect of accommodation fees for social care following the above group of companies entering into a Company Voluntary Arrangement.

### 2. SUMMARY

- 2.1 Southern Cross Healthcare was the largest care home operator across the UK, caring for some 31,000 older people in 750 homes. The Group consisted of approximately 200 legal entities, coming under the umbrella of Southern Cross Healthcare Group PLC.
- 2.2 There were eight homes within Caerphilly County Borough in which Southern Cross provided a service, with 355 residents in total, plus a further 16 residents in Southern Cross Homes outside of the area that were also supported by CCBC.
- 2.3 This report sets out the events leading to the Group of companies entering into a Company Voluntary Arrangement (CVA) on 20 June 2012.

### 3. LINKS TO STRATEGY

- 3.1 Recovery of debt provides income that is used towards service provision. The writing off of debt is required as part of the review of outstanding sundry debts.

### 4. THE REPORT

- 4.1 Southern Cross Healthcare's financial difficulties stemmed from their significant expansion around ten years ago. In order to fund the purchase of additional homes, it decided to sell off the freeholds on its properties, resulting in an annual rent bill of approximately £240 million.
- 4.2 It is this rent bill that was the primary cause of the financial difficulties as the company was unable to meet the payments for rent on the residential/nursing homes in which they provide a service to older people. Indeed, in the 9 months to March 2011, The Receivers (KPMG Ltd) reported Southern Cross Ltd losses to be £311 million.
- 4.3 Throughout these difficult times, the Authority's Social Services Finance Team worked closely with Southern Cross to provide support through the prompt payment of any outstanding invoices due to them. Similarly, the debts owed to the Authority were also closely monitored.
- 4.4 During this time it became evident that the administration of the numerous business entities within the Southern Cross Group was seriously flawed. They pursued payments from the Authority that were either already paid or charged at incorrect rates. In addition, they pursued

charges from the Authority in respect of social services clients that were self funding. A great deal of correspondence was exchanged in order to resolve these issues.

- 4.5 Furthermore, there were payments due to the Council totalling £77,045 mainly in relation to Continuing Healthcare clients. The Social Services Finance Team also identified a number of residents for whom Southern Cross had not submitted invoices and this resulted in total payments due to Southern Cross of £38,978.
- 4.6 Following an off-set of debts, the net outcome is that Southern Cross Ltd owes the Authority £38,067.
- 4.7 Under the terms of the CVA, the funds anticipated for distribution as calculated by KPMG Ltd Insolvency Practitioners is £500,000. This equates to an estimated dividend of 0.5p in the pound for creditors. Once distribution is finally made, the authority may receive approximately £190.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan, therefore no Equalities Impact Assessment has been carried out.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 The net debt of £38,067 was reserved as a bad debt in the 2011/12 Statement of Accounts.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 There are none.

## **8. CONSULTATIONS**

- 8.1 There are no consultation responses which have not been reflected in this report.

## **9. RECOMMENDATIONS**

- 9.1 Members authorise Officers to write off the net debt of £38,067 following the Company Voluntary Arrangement in respect of the Southern Cross Healthcare Group of Companies.

## **10. REASONS FOR THE RECOMMENDATIONS**

- 10.1 To resolve an outstanding issue in relation to a significant bad debt to the Authority

## **11. STATUTORY POWER**

- 11.1 Local Government Act 1972.

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Background Papers:

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