

## [Lessons from Southern Cross](#) [1]

Written by [Jan Boucek](#) [2] | Monday 13 June 2011



The financial woes of care home operator Southern Cross offer a salutary lesson for reform of the NHS. Southern Cross is the UK's largest operator of care homes, looking after some 31,000 residents. It has run into problems due to an onerous rental bill and is seeking to avoid bankruptcy by a combination of selling some homes, laying off staff or renegotiating rents.

Unsurprisingly, the GMB union is calling for the government (ie: taxpayers) to rescue the company. To his credit, Business Secretary Vince Cable has ruled that out.

The problems of Southern Cross are of some concern but they don't warrant any takeover by the government ? a bailout by any other name. That would surely lead to an inexorable takeover of the industry by the government if, as and when other operators may find themselves in difficulties. That, in turn, would leave the country with yet another monolithic and lumbering enterprise unable to chop and change with changing circumstances as each such circumstance becomes a major political event.

No, much better to let the fate of Southern Cross be determined by the normal process of business evolution. The company may emerge leaner and smarter, existing competitors may benefit while new entrants may find an easy way into the market. All will have learned a great deal from the experience of Southern Cross. The whole issue will probably be resolved in weeks or months with the costs borne by private risk-takers ? lenders and shareholders.

By contrast, a monolithic state provider of care homes would never come to grips with changing conditions. Costs would be shoved onto taxpayers and inadequate ?reforms? would drag interminably through committees, hearings, consultations, legislation and election campaigns. The finer points of meal management will feature regularly on Question Time.

Try this exercise to see the difference. Here's how the Guardian described the Southern Cross saga as it currently stands:

*Southern Cross is fighting to stave off bankruptcy as it struggles to meet an annual rental bill of £230m. It over-expanded during the boom under the ownership of Blackstone, the US private equity group.*

Now substitute a few select words to see the ultimate impact from bailing out Southern Cross or any other

activity that the government of the day deems worthy.

*The United Kingdom is fighting to stave off bankruptcy as it struggles to meet an annual interest rate bill of £50 billion. It over-expanded during the boom under the leadership of Gordon Brown, the Labour government's Chancellor of the Exchequer.*

Yes, Southern Cross is a tough financial workout but it will get sorted in relatively short order with limited long-term impact. Any reform of the NHS that doesn't include increasing privatisation and decentralisation is doomed to failure.

[blog comments powered by Disqus](#) <sup>[4]</sup>

---

**Source URL:** <http://www.adamsmith.org/blog/welfare/lessons-from-southern-cross>

**Links:**

[1] <http://www.adamsmith.org/blog/welfare/lessons-from-southern-cross>

[2] <http://www.adamsmith.org/taxonomy/term/5819>

[3] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

[4] <http://disqus.com>