# **Financial Transparency and Profit Limitation in Children's Residential Care: Consultation Response**

**Submitted by:** Sight Scotland

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**Organisation Type:** Scottish Charity (SC017167)

## **Executive Summary**

Sight Scotland welcomes the Scottish Government's commitment to ensuring transparency and value for money in children's residential care. As Scotland's largest charity providing specialist education and care for children and young people with visual impairments, we fully support the principles underlying The Promise and the goal of preventing excessive profit making from vulnerable children's care.

However, we strongly advocate for the exclusion of registered charities who provide specialist education and care for children with additional support needs from these proposed measures, given the comprehensive transparency and accountability frameworks that already exist through charity regulation. We believe the consultation proposals should focus on private, profit-distributing entities where the risk of excessive profit extraction is genuine.

## **About Sight Scotland’s Royal Blind School, Allermuir and Forward Vision services.**

Royal Blind School has been providing specialist education and care for 28 children and young people (11 accessing range of residential services) with visual impairments. Allermuir is a home for life for adults with visual impairment and additional disabilities. We offer 24-hour care and support, and personalised experiences to help make sure everyone can live as independently as they choose. Our Forward Vision service provides residential care for young adults who are blind or visually impaired and have additional disabilities. Through both of our residential services we provide care and support to 22 people. As a Scottish charity, we operate under stringent regulatory oversight and are committed to reinvesting every penny of surplus into improving services for the children in our care. Our residential services and school provide highly specialised support that enables children with complex visual impairments to achieve their full potential.

# **Response to Consultation Questions**

Q1: Coverage of Residential Schools

**Yes**, we agree that residential schools should be covered by transparency provisions, but with important caveats regarding charitable organisations (see our response to Q2).

Q2: Inclusion of Not-for-Profit Services

**No**, we do not agree that registered charities who provide specialist care should be included in these proposals alongside private services.

It is important to clarify that we are not competing for business in a commercial marketplace but instead receive referrals from local authorities based on our specialist expertise and capacity to meet specific needs.

**Reasons:**

* **Existing Robust Oversight**: Charities are already subject to comprehensive financial transparency requirements through OSCR (Office of the Scottish Charity Regulator), including annual reporting, public access to accounts, and regulatory monitoring.
* **No Profit Distribution**: By definition, charities cannot distribute profits to shareholders or owners. All surplus must be reinvested in charitable purposes.
* **Public Accountability**: Charity accounts are publicly available, trustees have fiduciary duties, and there are established mechanisms for public scrutiny and complaint.
* **Regulatory Duplication**: Adding additional reporting layers would create unnecessary bureaucracy without enhancing transparency or protection.

The focus should be on private, profit-distributing entities where there is genuine risk of excessive profit extraction.

Q3: Coverage of Other Services

**Yes**, but with the same caveat that registered charities should be excluded given their existing transparency frameworks.

Q4: Financial Transparency Proposal

We support enhanced financial transparency for private providers but believe this is unnecessary for registered charities due to existing OSCR requirements.

Q5: Implications for Different Types and Sizes

For charities, the proposed measures would create:

* **Administrative Burden**: Duplicating existing OSCR reporting requirements
* **Resource Diversion**: Taking resources away from direct service provision to children
* **Regulatory Confusion**: Creating parallel oversight systems

Additionally, there is also a lack of clarity who will review the figures and how the analysis of the financial statements from charities and private organisations, given that they use different accounting frameworks

Q6: Minimising Negative Impacts

**Exclude registered charities** from these provisions whilst ensuring they remain covered by enhanced OSCR oversight if needed.

Q7: Format of Transparency Requests

For organisations that must comply, build upon existing frameworks (OSCR returns for charities, existing Care Inspectorate data) rather than creating new reporting structures.

Q8: Explanatory Information

Charities already provide detailed narrative reporting through OSCR annual returns explaining how funds are used to advance charitable purposes.

Q9: Reporting Levels

For applicable organisations, **yes** - but charities already report at these levels through OSCR consolidated accounts requirements.

Q10: Additional Information

The current OSCR framework already captures all necessary information for charitable organisations.

Q11: Market Failure Monitoring

**Yes**, this could be valuable for private providers, but charity failure is already monitored through OSCR's regulatory framework.

Q12: Profit Limitation Measures

We **support** profit limitation for private providers but **oppose** its application to charities, which by definition cannot extract profit.

Q13: Defining Profit

We need to define what is meant by 'surplus'. We also have concerns about the lack of clarity regarding what support would be available to charitable providers if these measures result in financial losses or operational difficulties.

There is already extensive reliance on the third sector to provide essential services where public provision is insufficient. Many Scottish Government strategies recognise third sector organisations as key suppliers of services and expertise, yet this vital role is not reflected in adequate funding arrangements. Many charitable providers, including ourselves, effectively subsidise public services by using reserves, fundraising, and donated resources to deliver the highest quality care possible. Limiting our ability to build and maintain reserves could undermine our capacity to continue fulfilling this essential function.

We need more concrete information and clarification on whether capital expenses or expenses related to new services or initiatives that help to fulfil charitable objectives will be excluded from any profit calculations. This is crucial for charities that must plan for long-term sustainability, equipment replacement, building improvements, and expansion of services to meet emerging needs of children and young people.

For charities, this concept is meaningless as surplus must be retained for charitable purposes. Any framework should clearly distinguish between:

* **Legitimate reserves** for capital investment, service development, and contingencies
* **Profit extraction** by private entities

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Q14: Impact on Service Delivery

Applying these measures to charities would **impair** our ability to meet objectives by diverting resources from direct service provision to compliance activities that duplicate existing oversight.

Q15: Challenges in Reducing Surplus

Charities need operational flexibility to:

* Build reserves for capital improvements
* Invest in specialist equipment and training
* Maintain financial stability in uncertain times
* Respond to emerging needs of children

Q16: Impacts on Care Quality

**Positive impacts** from focusing on genuine profit-extraction by private entities where it genuinely occurs.

**Negative impacts** from burdening charities with unnecessary regulation that diverts resources from children's services. We raise particular concerns that large private companies could use sophisticated accounting techniques to circumvent these measures whilst still maintaining significant profits through complex corporate structures, management fees, or related-party transactions. This could create an uneven playing field where well-resourced private entities can navigate around the regulations whilst charitable providers face additional compliance burdens despite already operating under comprehensive OSCR oversight.

Furthermore, commercial competition will not favour charities, which have limited funding resources compared to private companies. Charities cannot access venture capital or private investment to expand services or weather financial difficulties, making them particularly vulnerable to increased regulatory costs that private entities can more easily absorb or work around.

Alternative Recommendations

Rather than applying these measures to all non-local authority providers, we recommend:

1. **Focus on Private, Profit-Distributing Entities**: Target the measures where the risk of excessive profit genuinely exists.
2. **Strengthen Existing Charity Oversight**: If additional transparency is needed for charities, enhance OSCR's existing frameworks rather than creating parallel systems.
3. **Differentiated Approach**: Recognise that charitable and private providers operate under fundamentally different governance and accountability structures.
4. **Collaborative Development**: Work with charitable providers to ensure any future measures recognise the unique nature of specialist services whilst supporting transparency objectives.

Conclusion

Sight Scotland strongly supports the policy intent of preventing excessive profit-taking from children's care. However, we believe this objective is best achieved by focusing measures on private entities where profit extraction is possible, whilst recognising that registered charities already operate under comprehensive transparency and accountability frameworks through OSCR.

We would welcome the opportunity to work with the Scottish Government to develop approaches that achieve the policy objectives whilst avoiding unnecessary regulatory duplication and ensuring resources remain focused on providing the best possible outcomes for vulnerable children and young people.

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