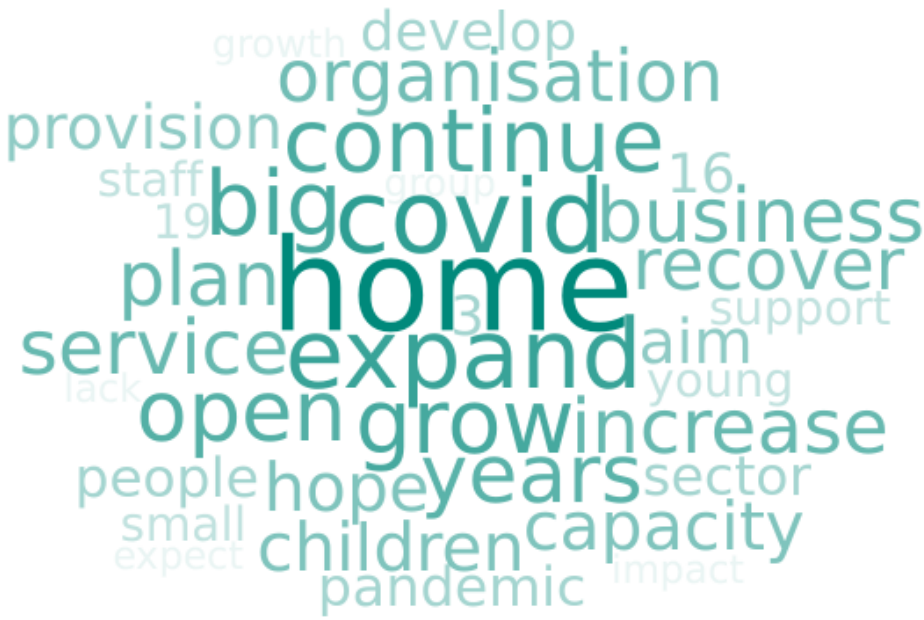
ICHA "State of the Sector" survey 7 November 2020.



Revolution Consulting

ICHA State of the Sector Survey 7 Foreword

It is a great pleasure to provide the foreword to the seventh 'State of the Sector' survey of members of the Independent Children's Homes Association. Over the last 30 years my colleagues and I at the Institute of Public Care at Oxford Brookes University (IPC) have worked across the UK to help local authorities, providers and their partners to drive improvements in care. Throughout that time, a key issue for us has been the difficulties that partners across sectors have had in building strong collaborative arrangements to better meet the needs of children and young people. Much of this, we are convinced, is due to relatively poor understanding about the challenging realities facing us all in meeting needs with the right support and services.

Thank goodness for organisations such as the ICHA – determined to promote better understanding, and to do so in a consistent and measured way. This report builds on the growing body of evidence collected in ICHA surveys over time about the realities facing those who run children's homes. It is an important source of intelligence and benchmarking for them, and should also be required reading for commissioners, practitioners, policy makers and perhaps care experienced people themselves. There are important messages in here for all of them.

There are particular findings which have struck me from the survey this year. The complexity of need that children's homes are now experiencing. The challenges of balancing quality of care and meeting demand. The different issues faced by larger and smaller providers in maintaining viable services for the longer term. Messages for commissioners about what relationships children's homes owners are looking for. The prevailing patterns in contracting and procurement practice. Fee rates and cost bases. Inevitably, the impact of the Covid-19 pandemic so far, and much more.

So, have a good go at it now, and then keep it nearby. ICHA and Andrew Rome have done a great job, and the report is rich with findings you will find interesting. It is the sort of document which will remain a useful reference point for many months to come. It makes an important contribution to increasing knowledge and improving understanding between partners across the care system. We have never needed it more than we do now.

Professor Keith Moultrie
Institute of Public Care
Oxford Brookes University

12 December 2020

ICHA “State of the Sector” survey 7 November 2020.

Overview.

This is the seventh survey of members of the Independent Children’s Homes Association (ICHA), a series that began in 2015.

It would be impossible to review the year 2020 without discussion of the impact of Covid-19, so the report that follows discusses how the sector has experienced the pandemic so far. One provider’s quote stood out as offering an appropriate distillation of how the sector in general coped with the challenges:

“Residential childcare exists to manage and work through crisis and awful situations towards better outcomes”

For the first time in recent years the trend in ever increasing numbers of children being referred to children’s homes showed some signs of deceleration in 2020. Only time will tell us the degree to which Covid-19 was responsible for this. The underlying demand for services pre Coronavirus contributed to an increase in occupancy rates overall, but it remains the case that regulation and professional matching judgement by providers act as a critically important filter to prevent inappropriate placements being made into vacancy and void levels that still exist.

There is increasing evidence in this survey that existing local authority commissioned frameworks have lost influence even further on the development of the sector. There is however clear intent from providers to want to invest profits back into the quality of their services, and into adding capacity that the demand levels would appear to need. Providers offer their thoughts on solutions to this increasing disconnect via their views on how their services could be better commissioned.

The overall impact on financial performance remains mixed across the sector and is subject to the continuing dynamic challenges of volatility of demand, of occupancy, of staffing and in other costs. Providers therefore report a range of confidence in their financial viability, although this is the first time in the history of this series of surveys where marginally more providers reported the ability to add to reserves than reported a decline, and the clearest expression of willingness to invest further into the sector than for some time. The primary source of funding to invest in services comes from the profit and cashflow from the existing services.

It is important to note that smaller providers continue to be a substantial but reducing proportion of the sector, and this survey offers them an opportunity to disclose their greater vulnerability. Small company profitability levels are on average considerably lower than the rest of the sector, their reserves are more likely to be in decline and their further investment ability lower than that of larger providers. This is a particular challenge for policy makers and commissioners to consider and to address.

Providers continue to express frustration with the way in which they are represented in external reports and by some parts of the media. Their individual focus is most often expressed in terms of considerations of the needs of children and young people, the outcomes being achieved and on the quality of their services in a belief that financial outcomes will only follow from successful outcomes and good and outstanding quality services.

Finally, it is impossible to do justice to all of the rich and thoughtful messages that survey respondents provide in this single report, but the volume and depth of input sends a clear message that children's homes providers care passionately about their role in the sector and want their voices heard in a fair and factual way. The forthcoming and imminent Care Review would do well to ensure that there is opportunity given for provider voices to make their contribution.

Andrew Rome, Revolution Consulting December 2020

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Data analysis

How responsive was the audience for the survey?

This November 2020 survey benefits from the highest response rate of any ICHA State of the Sector survey to date.

With a membership of over 200 members this response level gives a high confidence level as to how representative it is of the whole membership.[1]

The survey gathers a broad and extensive range of information, some of which is commercially sensitive, so the response rate indicates a strong level of enthusiasm amongst ICHA members who responded to provide their perspectives and experiences of the sector to a wider audience.

	Number of survey views	**Number of providers substantially completing all questions**
June 2015	121	79
February 2016	100	84
November 2016	130	83 - 100
February 2018	143	91 – 111
February 2019	129	76 – 90
January 2020	134	74 – 96
November 2020	**172**	**89 - 136**

In the following report and analysis of the survey data the total number of responses for any given question will vary.

Percentages are used as the normalisation factor wherever possible and are calculated based on the actual response data for each question.

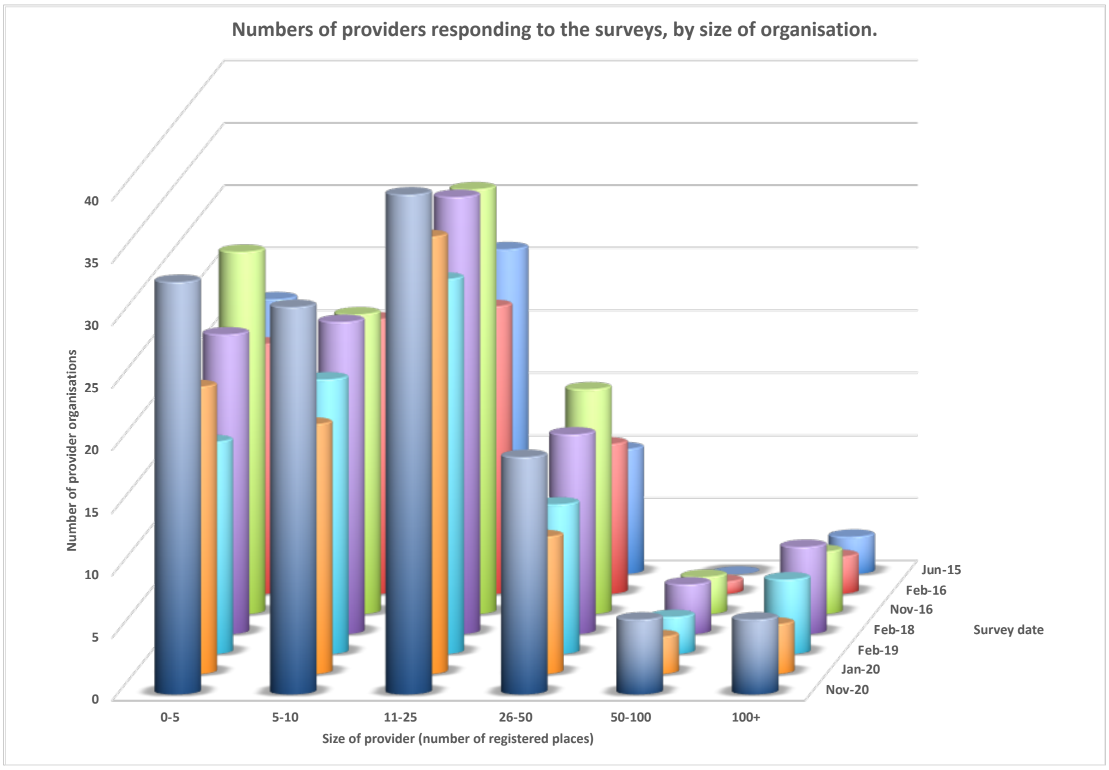
[1] Statistically the high response questions are at the level of 95% confidence that the data is +/- 5% of the whole membership.

Who responded?

Only ICHA member organisations[2] were invited to respond to the survey.

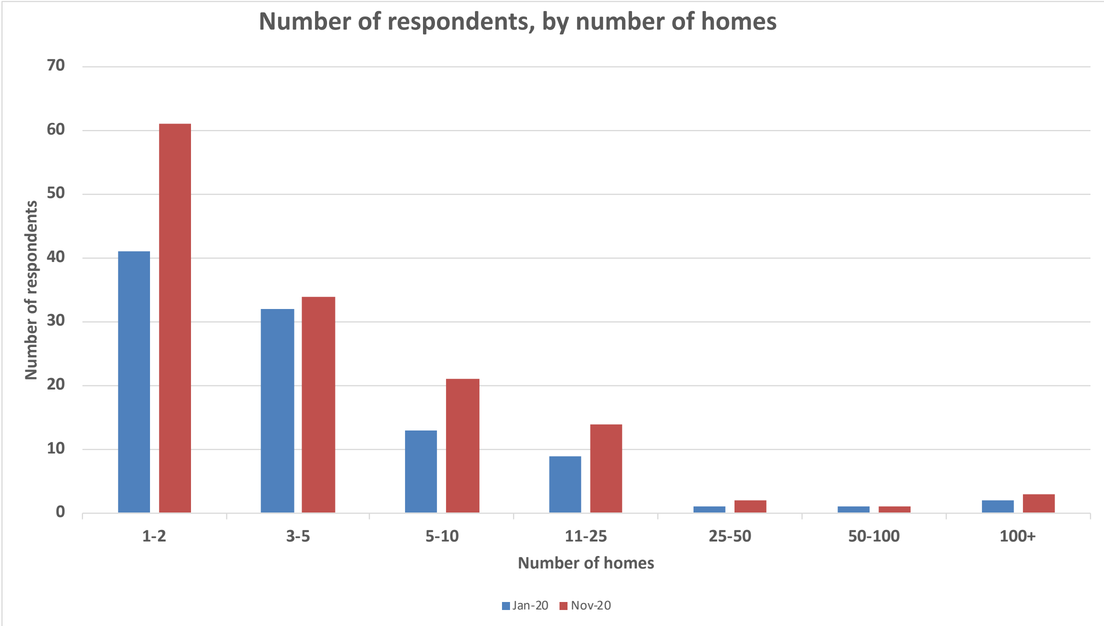
Disclosure of the name of the organisation providing a response is voluntary and confidential. Of all respondents who accessed the survey and started a reply 83% identified the organisation they represent.

Responses came from the full spectrum of providers (based on size) as illustrated below. The high response rate is reflected across all size categories but is particularly marked in the increase from the two categories representing the smallest providers (ten or fewer places) which together represent 47% of all submissions. This is an increase from 44% of replies in the January 2020 survey. It is however notable that ICHA membership has an even higher ratio (62%) of small providers.



This distribution is also seen (below) where the number of homes operated by each provider is used to illustrate the profile of respondents. In this case 44% of all submissions are from providers who operate just one or two homes.

[2] Responses are only in relation to registered children's homes. Secure homes are not covered in this report.



Ofsted data shows that 30% of all children's homes in England are owned and operated by the top ten largest providers.[3] In this survey response six providers are the size that Ofsted qualify as the largest. Therefore, large provider responses represent under 5% of responses to most questions in the study.

The relative size of respondents is particularly important as most of the survey question feedback is recorded on the basis of "one-respondent-one-vote" so the responses are not weighted by the size of the provider or any other factor.

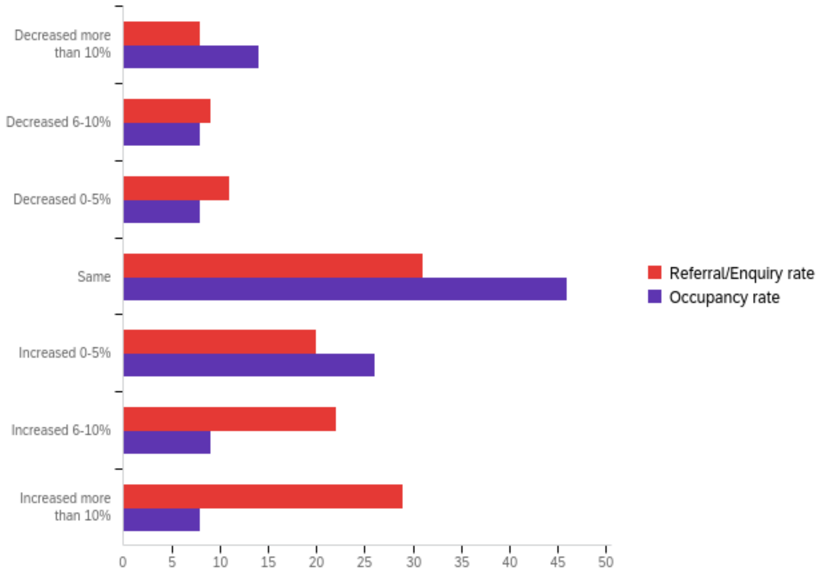
As in previous years, throughout the report there is separate highlight of the areas where the responses of the smaller providers differs significantly from those of respondents as a whole.

Over 97% of responses came from a single submission from the provider organisation. Whilst some provider organisations had different respondents reply to different parts of the question set or offered two individual perspectives no single provider had more than two respondents offer a full response.

[3] https://www.gov.uk/government/publications/inspection-outcomes-of-the-largest-childrens-social-care-providers/inspection-profiles-of-the-largest-private-and-voluntary-providers-of-childrens-homes-and-independent-fostering-agencies-march-2020

Referrals and Occupancy

Referral rate and occupancy trend Nov 2020 vs Jan 2020 – numbers of providers reporting each level.



Over half of providers (55%) reported increases in referral rates in this survey, a decrease from 67% in January 2020. The proportion of respondents reporting the highest rate of increase in referrals (over 10% year on year) almost halved compared to the 40% back in January. Also notable is the sharp increase in the proportion of providers reporting a decrease in referral rate (22% of providers report decreases, up from only 3% in January).

This deceleration is also detected in the occupancy rates. Although 38% (vs 44% in January) report unchanged levels of occupancy rates over the year, one in four providers (25%) report declining rates of occupancy in November (only 16% did so in January). Similarly, almost one in three respondents (31%) reported one of the two highest rates of occupancy growth in January, but by November that proportion has contracted to just 14%.

Taken altogether this picture is the first sign in several years that the runaway trend of ever accelerating referral rates has slowed in 2020, and it appears to feed through to the associated occupancy rate trend with immediate effect.

Also, as has consistently been the case in these surveys since 2016, referral rate changes and occupancy rate changes do not closely match one another. In particular, referral rate increases do not generally lead to the same degree of occupancy rate increases. Some of this effect may be a time lag and also related to providers reaching full, or near-full capacity; other factors influencing this trend are explored further below. Conversely, if referral rates drop, there are early signs in this survey that the impact on occupancy is immediate.

Small providers report experiencing referral trends similar to the whole sector, although a higher proportion (46%) of small providers report stable occupancy. Otherwise, small providers largely report the same trends in this area as their larger counterparts.

All providers describe a variety of factors influencing referral rates since January and the impact on occupancy:

- The most common factor mentioned by providers are the increasing levels of complex needs seen in referrals. The many different descriptors used by respondents illustrates the wide complexity of this sector. CSE (Child Sexual Exploitation), CCE (Child Criminal Exploitation), MH (Mental Health), DoLs (Deprivation of Liberty safeguards), Violence, Damage to property, substance misuse, autism, EBD (Emotional or Behavioural Difficulties), LD (Learning Disabilities), Fire Setting, Eating Disorders and trauma are just some of the needs and behaviours specifically mentioned.

- Providers clearly infer that increasing fragmentation of specialist knowledge and experience are required for this increasing complex cohort. The inability to safely match referrals to vacancies after consideration of the need to safeguard existing residents in homes, leads directly to an inability to accept referrals. This offers an indication that there continues to be professional decision making around the provider sector that will not support high needs placements being made into just any vacancy that exists, irrespective of any economic incentive to do so.

- The first spring lockdown of 2020 related to Covid-19 is identified by many providers as having reduced referrals, although a small number identified that subsequent to lockdown there were also higher levels of breakdown in fostering and residential settings that in turn saw a return to increased referral activity as the year progressed.

- Some providers express the issues of matching difficulty in terms of the resources specified by referring authorities, sometimes reported as requests for solo homes, or higher staffing ratios that providers are not able to offer in relation to vacancies they may have at the time.

- The result is that providers experience high levels of re-referrals of children and young people who have either had rapid placement breakdowns in quick succession, or where the local authority has been unable to find a placement and is going around the searching process multiple times. This results in a need in some cases for emergency same day placements that many providers are not registered to provide.

- Some providers note an increase in referrals for older (16-18) young people with some attributing this to authorities looking to avoid going to unregulated settings.

- There is again criticism in some responses of the quality and timeliness of referral information provided by some councils, and also that such information can change (along with the type and size of provision being sought) if the case is re-referred.

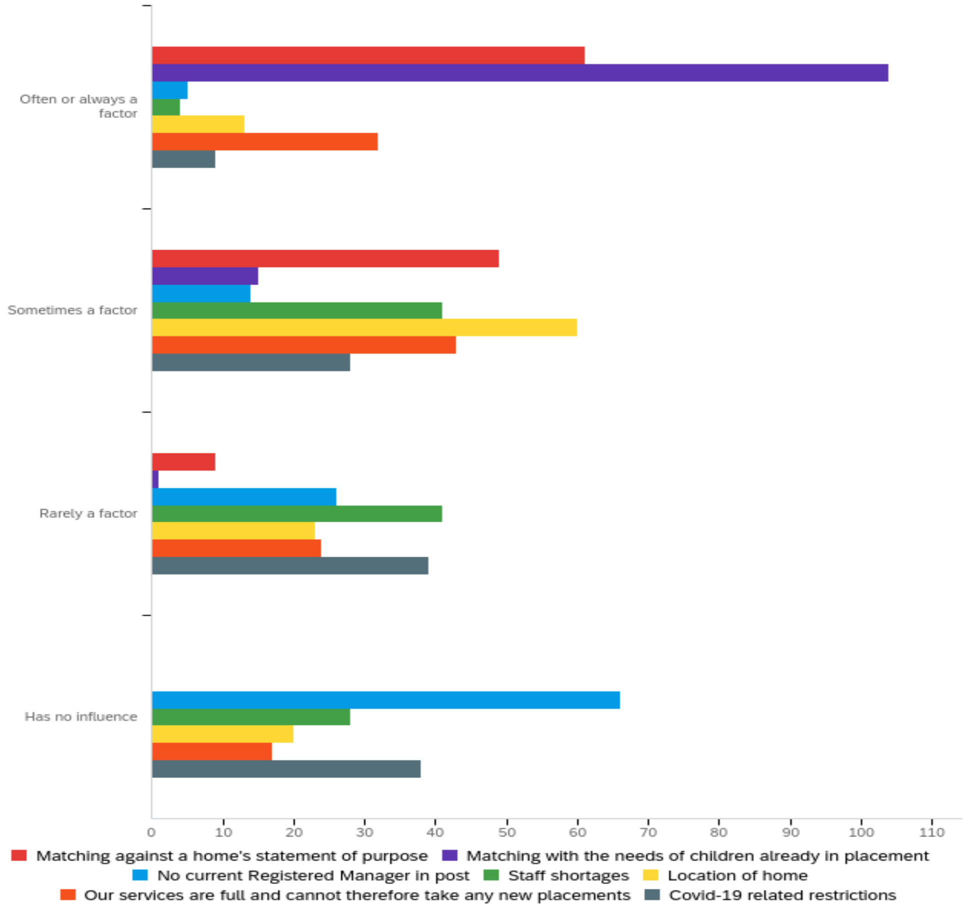
- In general providers remain cautious in putting the Ofsted rating of a home at risk through acceptance of an inappropriate referral, or if the information about the young person was lacking. Some local authorities will not place with a home not rated as good or outstanding by the regulator. In a small number of cases where homes had been rated as requiring improvement before lockdown, the fact that Ofsted have not re-rated homes after improvements were found at subsequent assurance monitoring visits is a source of frustration.[4]

Reports in the last two years from several sources, including most recently from the Children's Commissioner, suggest that the provider sector is unable to respond to increasing demand.

In addition to the more unstructured feedback from providers that is summarised above, the survey further investigated the topic to gain insight into the relative importance of the factors involved:

[4] Ofsted suspended all routine inspections in March 2020 and has performed assurance monitoring since. Homes have not been re-graded since March 2020.

Factors influencing provider decisions to reject referrals



Clearly the matching of referrals against the needs of existing residents is paramount, with the boundaries set by a home's statement of purpose a strong secondary factor, and one that Ofsted would consider at inspection.

Homes being full is an obvious limitation on further placement, but the location of homes is also indicated as an increasingly important factor. This is consistent with DfE data showing increasing numbers of looked after children being placed in residential settings outside of the Council boundary[5] and once again highlights how commissioning in the sector has struggled to ensure the services that are needed are available in the places they are needed.

Although a small number of providers reported issues related to staff and Coronavirus infection that prevented acceptance of referrals, the challenges of sufficiency of staffing homes are only sometimes a factor impacting upon a home's ability to consider further referrals. The lack of a registered manager in post is only rarely a factor for a majority of providers.

Small provider experience closely mirrors that of their larger counterparts, so these are sector-wide influences.

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[5] https://www.gov.uk/government/statistics/children-looked-after-in-england-including-adoption-2018-to-2019

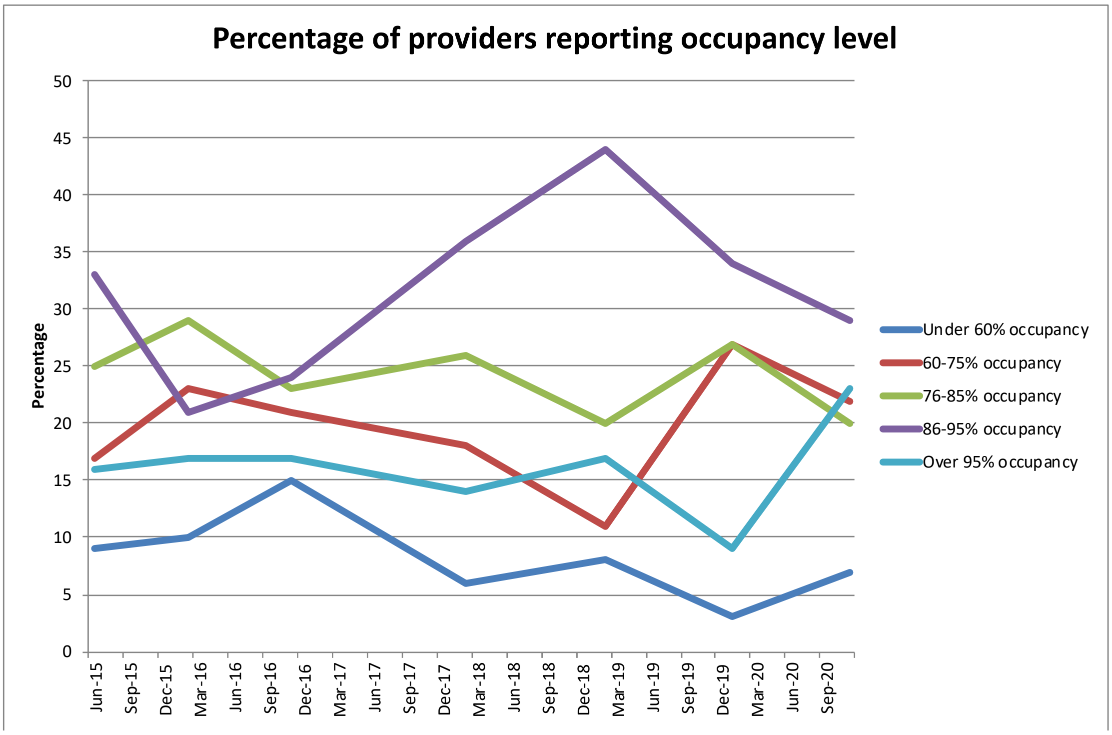
Referrals and Covid-19

A majority of providers report no significant impacts of Covid-19 on their ability to accept referrals. There is evidence in submissions of extensive risk assessment and contingency planning and flexibility shown by residential care staff to maintain services.

A number of providers had to temporarily isolate homes, and a small number took the decision that the risk of admitting new referrals presented too great a risk during lockdown. A similar number reported staffing issues due to staff isolating with symptoms, and a few reported having to refuse consideration of referrals where the young people were presenting as failing to adhere to lockdown rules and circulating widely in the community.

Although alternative forms of on-line communicating with professionals and young people being referred were attempted, several providers expressed dissatisfaction with those tools especially when used to replace a physical visit by a child or parent or other professionals.

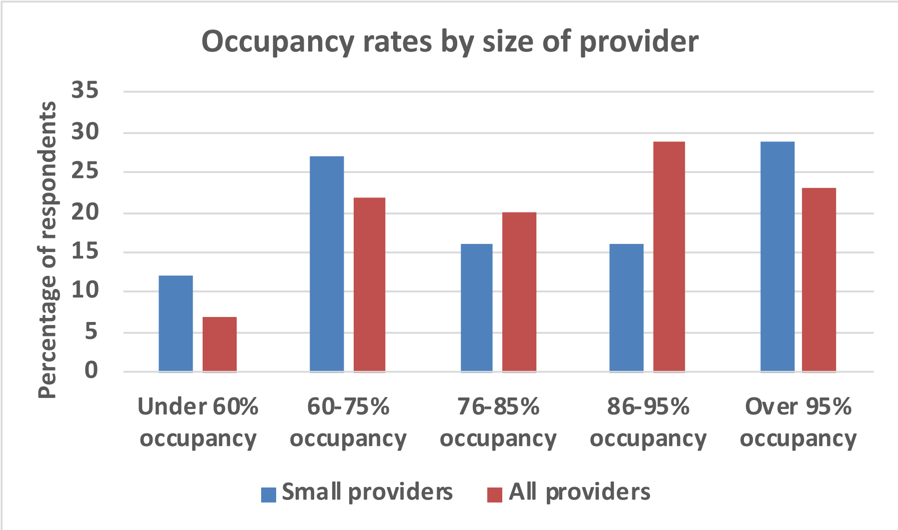
Actual Occupancy levels trend



Reported occupancy rates show increases at both extremes. A record level for these surveys of 22.5% (vs 9% in January 2020) of respondents reported occupancy over 95% whilst at the same time those reporting the lowest (under 60% occupancy) levels of occupancy increased to 7% from 3%.

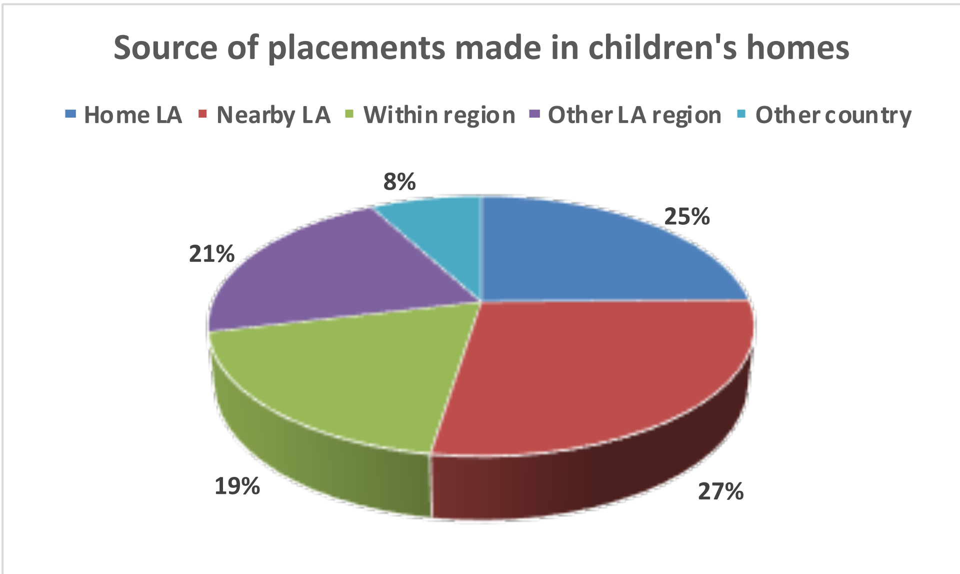
The most prevalent occupancy rate remains 86% - 95%, with 29% of providers indicating this level.

Small providers again reported a weaker occupancy profile overall with the notable exception of a substantial increase in small providers reporting being full or almost full.



A large majority (88%) of providers reported occupancy rates the same, or only slightly changed as a result of Covid-19, although 8% report a significant decrease. Small providers reported a picture consistent with that of the overall sector.

There is wide variability between individual providers in where the placements made with them originate. However, taking an average across all providers the overall picture is consistent between large and smaller providers.



Over 4 out of 5 (82%) of placements are spot purchased, the remainder are made under block arrangements (at a higher level than in the last survey), with small providers less likely than larger providers to be operating under block arrangements.

Spot activity is split evenly between placements made under a procured framework (also called a dynamic purchasing systems “DPS”), as opposed to those made through open searching around the sector outside of formal procurement frameworks. This applies irrespective of the size of provider.

Fewer than 30% of providers attempt to respond to all framework tenders issued by councils or regions, and a clear majority (54%) of respondents are now selecting which tenders to respond to. A significant minority (17%) of providers choose not to engage with local authority procurement activity at all, preferring to operate only on a spot purchase basis. Large and small providers alike report these ratios.

This offers further clear evidence of the way in which current commissioning activity struggles to impact on the sector. The survey explored this in further detail with respondents.

Local Authority sufficiency statements are of limited value to providers in planning the location and type of services needed. Providers reported that the actual referral pattern they experience is much more informative than LA sufficiency plans. The granular detail gained through monitoring of actual referral details is seen as offering greater value to providers than sufficiency plans that are seen as, at best, offering high level background information only, often in varying formats from one authority to another.

Appetites to engage with local authority framework/DPS tenders are influenced by the following factors:

- The geographic location of the authority in relation to the provider’s services is the most relevant factor for providers considering a procurement exercise.

- The degree to which providers perceive the procurement to be too weighted towards a cost focus can deter providers from responding.

- The ease of completing the process, it’s complexity and accessibility are all relevant, particularly for smaller providers.

- Smaller providers have to balance their resources available to respond to procurement activities. With high levels of spot referrals and higher occupancy there is less incentive to engage with procurement activity currently. All providers, but especially small providers are wary of being tied to fixed price structures for several years in the face of growing cost pressures.

- Previous relationships with the local authority can be a positive if the relationship has been good and cooperative; but negative previous experiences of an authority can act as a disincentive to engagement with commissioning activity for providers. The way in which commissioners engage with providers during and after a procurement exercise is also influential on the willingness of providers to respond.

- Providers that consider their services to be sufficiently differentiated or specialist for particular cohorts of need feel that the simple tiering systems adopted by procurement activity fails to offer them an appropriate structure that they can bid against.

Respondents were also asked to describe what improvements they think are needed in commissioning and procurement. Key points arising from extensive and varied feedback to a degree echoes some of the factors discussed above but with a different emphasis:

- The factor mentioned most be providers is a strong desire to make commissioning, procurement and purchasing more personal. Providers feel that relationships and partnerships are needed more than systems and processes.

- Providers want to be able to consider the needs of individual children and their ability to offer a service to the child, and to offer and negotiate packages on that basis rather than via inflexible, fixed price tiers and fixed staffing ratio models for example.

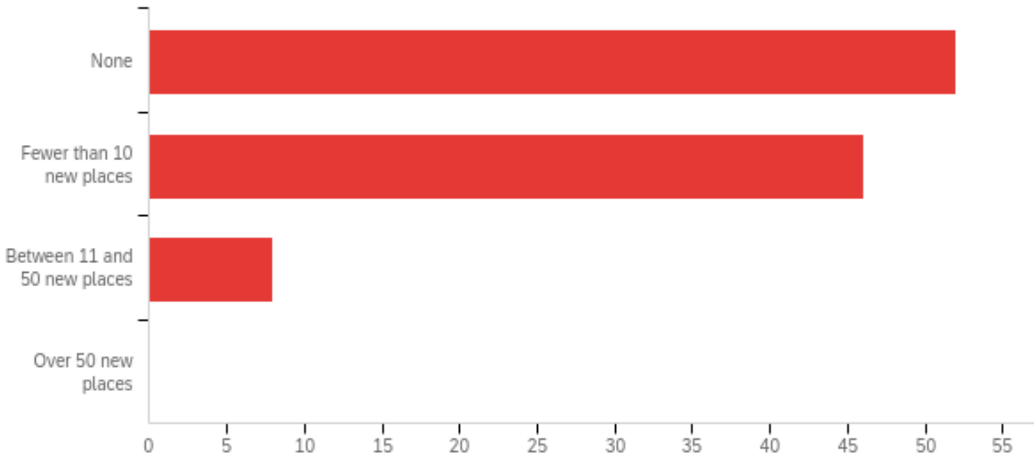
- There is a group of providers who think that a form of appropriately negotiated block, soft block, or partial block contracts would work for them. Another group however are comfortable with current spot sector operations. Smaller providers were represented in both groups.

- Where frameworks <u>are</u> to be utilised providers want them to work, with simple criteria, and open, accessible systems across multiple local authorities (e.g., regions) rather than individual authorities tendering alone. Some go so far as to call for one common system nationally.

- Specifications, terms and conditions and related paperwork should be fair, balanced, co-produced and flexible enough to be adapted for each child or young person as needed.

What is happening to capacity?

Over half (51%) of providers report increasing capacity in the last year:



The level of response indicating increased capacity in 2020 is around one and a half times higher than at the last survey and correlates with the direction of growth noted in recent Ofsted reporting[6] that measured a 7% increase in registered homes as of 31 March 2020, although only a 1% increase in capacity.

However, there is an imbalance in where investment in additional capacity is coming from as only 30% of small providers have added places, and clearly these all fall into the fewer than ten places level. As was seen in the January 2020 survey, capacity growth (organic and through acquisitions) appears to be driven more strongly by the large and medium sized providers, continuing the trend towards further consolidation in the sector.

However, five providers also reported deregistration of homes during 2020, none of them small providers, so the picture remains mixed.

Covid-19 and Capacity

A clear majority of providers report only minimal impact of Covid-19 on capacity availability and there is evidence in responses of careful risk assessment, alterations to practice and resilience in staff and management that have contributed to that result.

Around 15 providers describe reducing or holding at current capacity and occupancy specifically due to a general anxiety about risk or because of specific staff shortages (allied to an aversion to calling in agency staffing), especially during the first lockdown period.

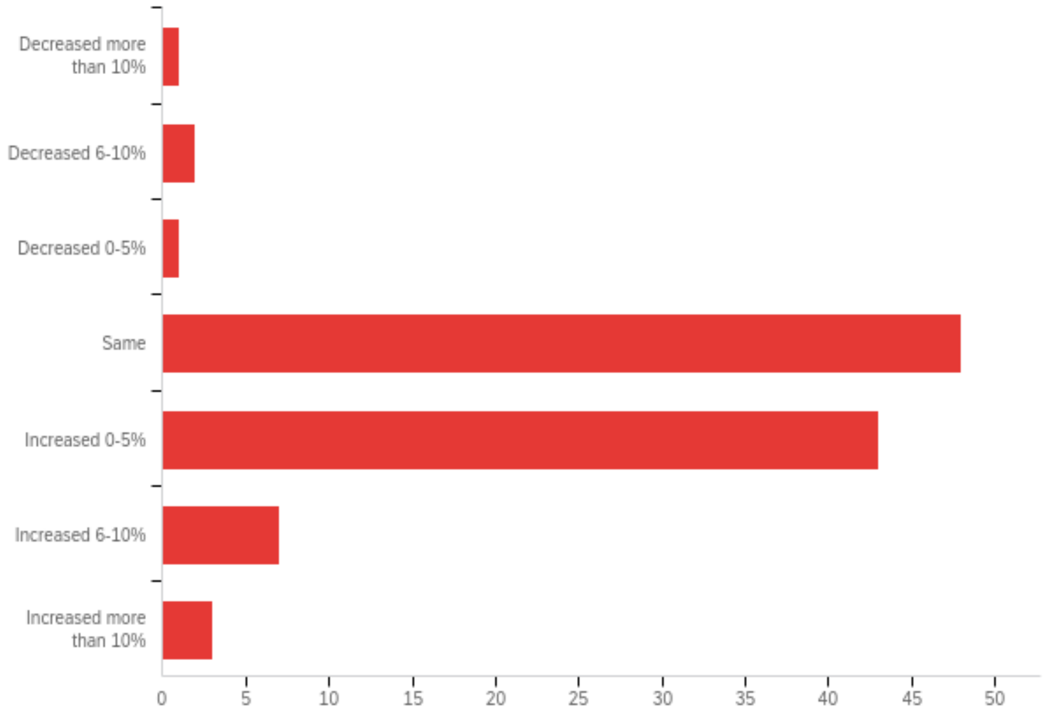
Providers looking to add new homes or capacity in 2020 have found Covid related challenges in recruitment, getting contractors in to work at homes,

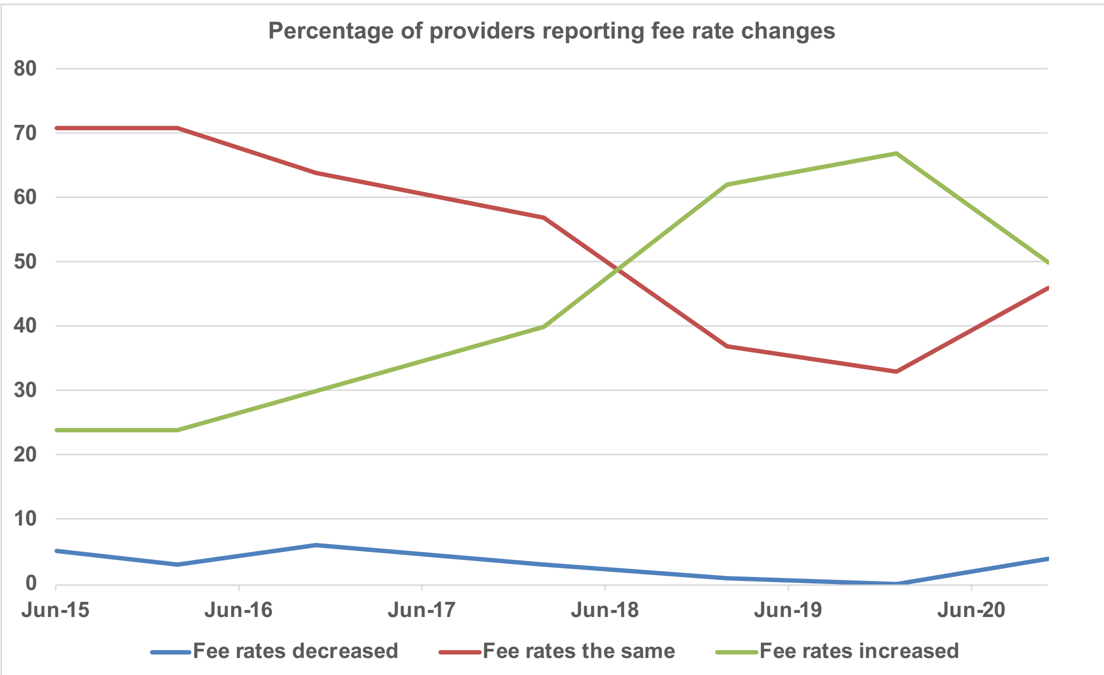
[6] https://www.gov.uk/government/publications/childrens-social-care-data-in-england-2020/main-findings-childrens-social-care-in-england-2020

organising training, and some also report slowness at Ofsted in processing new registration applications. Those who were planning to expand capacity but who experienced some slowdown in referrals have paused those expansion plans.

Prices/Fee rates

Numbers of providers reporting different levels of fee rate changes





Half of providers have implemented fee rate increases in 2020, but the scale of increase has started to slow, with over 80% of increases falling in the 0-5% range. An increased proportion of providers (45%) held prices, and four providers have decreased prices where none reported doing so in the previous survey.

Fee rate increases tend to be driven by larger organisations, with small providers acting more cautiously, although 40% of small providers also implemented increases in the period.

Over 90 providers also provided indications or the ranges of pricing. The results in the table below are consistent with the price trends disclosed above although there is evidence of some moderation of the highest prices being charged.

£/week	Jan 2020	Nov 2020	+/- (%)
Average minimum price	3584	3745	+5%
Average maximum price	4700	4651	-1%
Average mean price	3963	4130	+4%
Average mode price	3919	4100	+5%

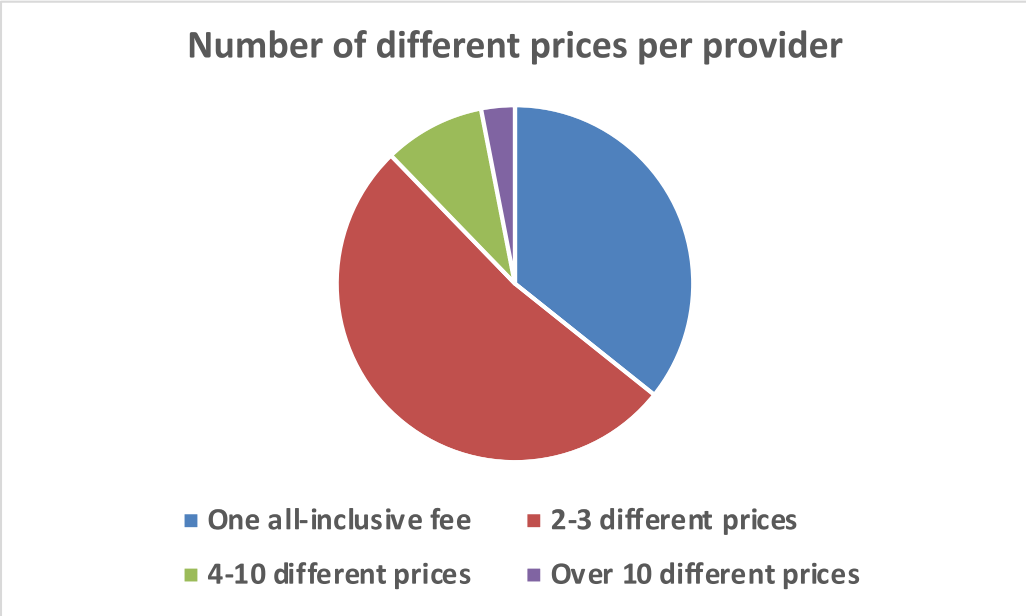
Small provides price their services on average 5% lower than the larger providers

Larger providers are also more likely to be charging higher maximum prices (up to 10% higher than the small providers).

This may be related to the specialism of services and intensity of resources involved but would also be consistent with larger providers more likely to be driving price increases and greater caution from smaller providers.

The underlying survey results again illustrate a very broad range of pricing around these averages, with a range from £1,000 per week up to £7,000 per week quoted. This is again consistent with the broad range of needs and services in a complex sector.

Price strategies vary significantly, from providers who charge one flat, all-inclusive fee to those who create a bespoke fee for each individual child. The most prevalent model is one with just 2 or 3 different prices being used by the provider.



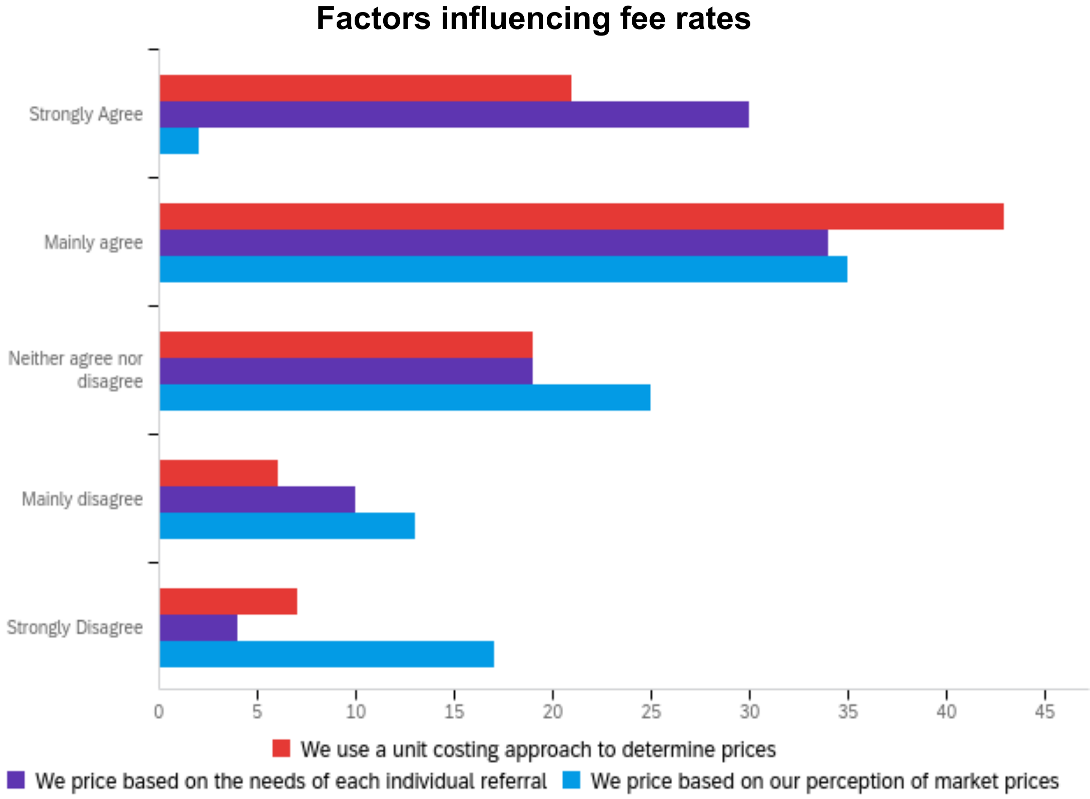
Smaller providers are, logically, more likely to be charging a small number of price points (93% of small providers have no more than 3 prices).

Content of the service is important, with 8% of providers charging an additional fee for provision of education, and 14% charging for additional therapeutic services.

Dominant factors on fee rate levels set by providers are further explored in the graphic below.

Unit costing approaches and pricing based on the specific needs of the child or young person remain the strongest influences on fee rates set by providers, more so than perceptions of market prices, as these can be at best opaque even to providers themselves.

Small providers do not report significant differences of approach to larger providers.



Feedback from providers shows there is a common and fundamental simplicity to the economics in the sector, which becomes increasingly complex at the individual child level.

In order to stay in business at all, in order be able to offer services and to maintain or improve quality, in order to produce any return on risk capital, and to further invest in the sector providers have to firstly cover their costs. Those costs relate to the properties used, utility bills, food, fuel, insurance and overheads, but the most influential factor is staffing.

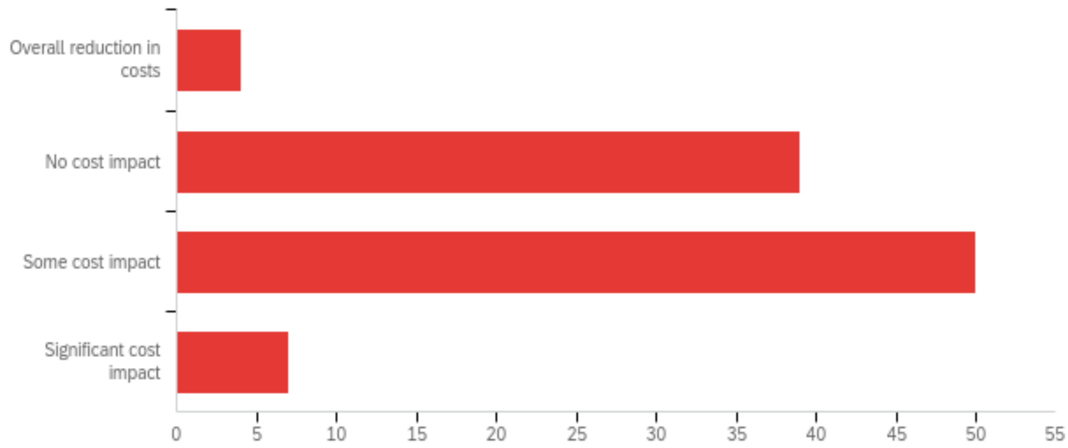
Staffing costs are influenced by a multitude of factors including inflation of salaries and pay rates, competitive pressures in recruiting and retaining staff, National Living Wage "NLW" pressures, statutory pensions and employer national insurance, waking night and sleeping-in uncertainties being just a few of the variables identified by respondents. However, the most influential factor on staffing costs is based on the needs of the child or cohort in a home or school. Children referred where the local authority requires specific staffing ratios (1:1, 2:1 etc.) or solo placement, or where the provider's risk assessment for the placement requires higher staffing ratios, especially if the requirement is above the normal or usual level of staffing in a home, are almost certainly generating the higher fee rate quotes.

Also critical to providers being able to cover costs is the occupancy rate achieved. Whilst block contracts offer greater certainty of occupancy, as shown above, the sector is dominated by the variable and volatile spot purchasing methods of authorities. Providers therefore set prices against a variable and uncertain demand and occupancy pattern alongside management of variable cost factors that are sometimes also beyond their control (NLW, pension contribution rates, sleep-in rules, inflation etc.).

Perceptions of market prices of other providers, the inclusion or exclusion of additional education or therapy services and location of placing authority also influence prices. There is clearly no “one size fits all” model.

DfE have also recently researched correlations in the sector and encountered the complexity of pricing and fee rates.[7] In light of the explanations given about pricing in this survey the DfE study appears to have approached the study more from a commissioner’s perspective and have missed the critical importance of the volatile cost base and occupancy risk that can, at their most basic level, determine the very survival of providers.

Covid-19 and costs



Half of all providers report that the pandemic has had some impact on their costs, with 7% reporting a significant impact. Small provider experience closely mirrors that of the whole sector.

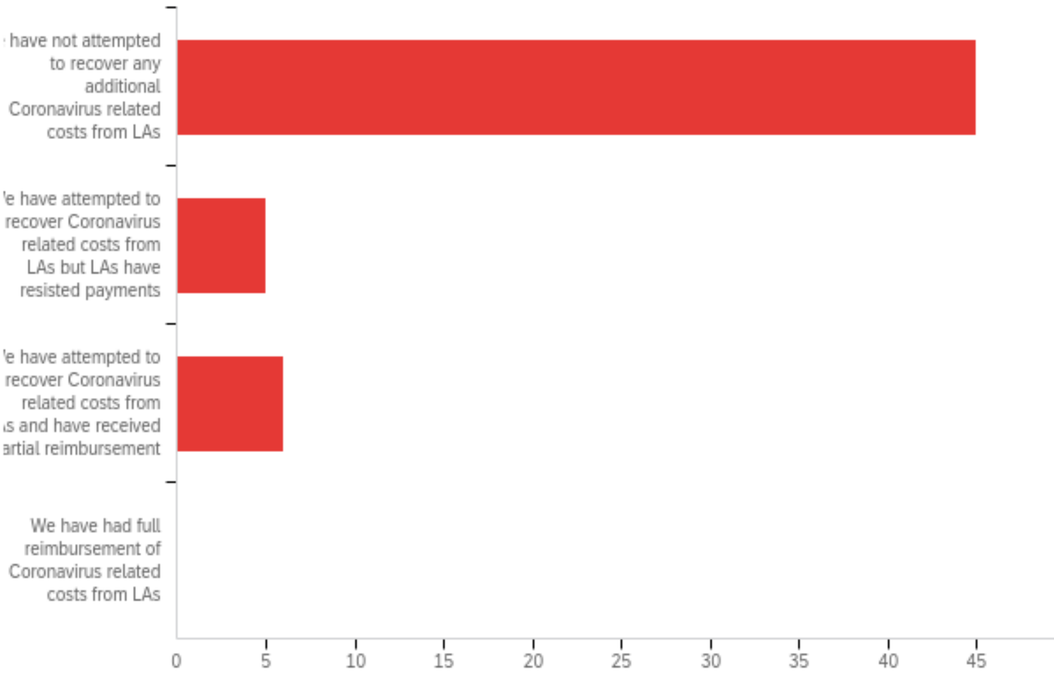
The two main sources of additional costs were staffing related, be it agency cover, training, overtime or bonuses paid to reward staff commitment, and the cost of PPE (Personal Protective Equipment). There appears to have been no widespread or substantial use of furlough schemes, but some additional costs incurred in running homes with children and staff permanently present. Some providers also refer to the costs of decisions not to take referrals, or low referral rates in the spring, and to delays in registration of new homes.

Clearly some of those additional costs are more easily identifiable and quantifiable than others, and this may influence provider attitudes to recovering these costs from local authorities. Providers recognise that

7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932515/Analytical_associate_pool_summary_of_recent_small-scale_research_projects.pdf

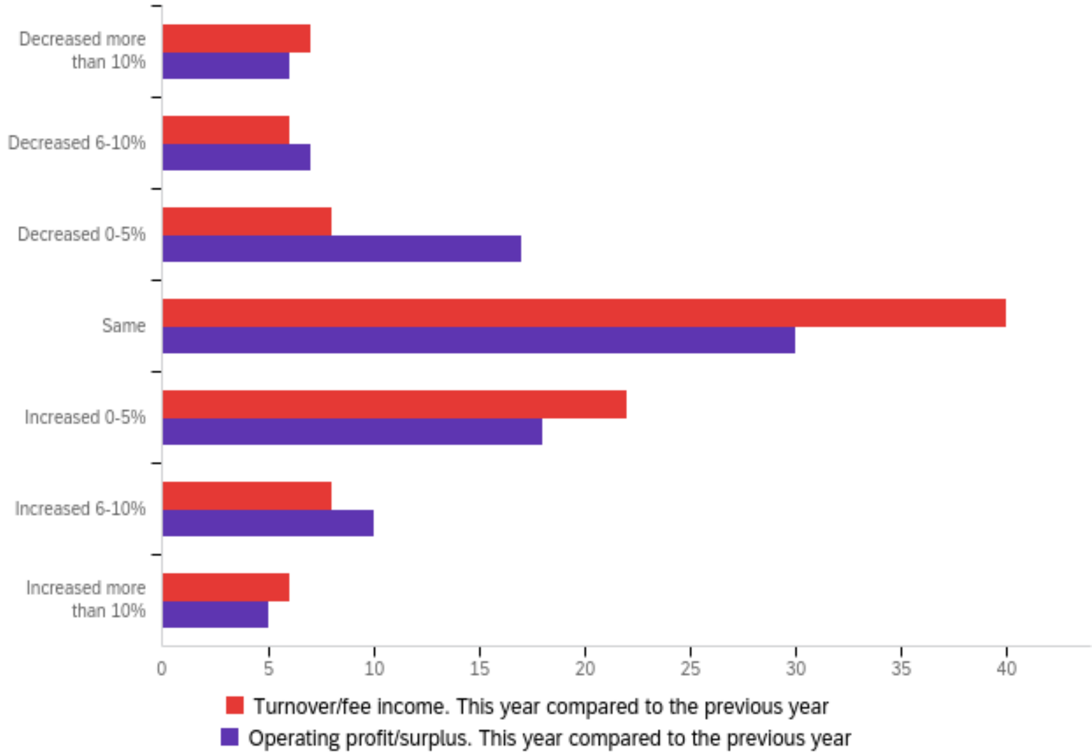
authorities were given additional Government funding to meet increased costs related to Covid. However, as shown in the graphic below, 80% of providers have not approached councils to have the conversation about reimbursement of provider on-costs, and where providers have taken that step, they are successful in only half of the cases in gaining some cost recovery. None report full reimbursement.

Small providers are even less likely to approach local authorities for recovery of costs (85% don't) and less likely to be successful with only one small provider report that they have received partial reimbursement.



Turnover and Profit trends

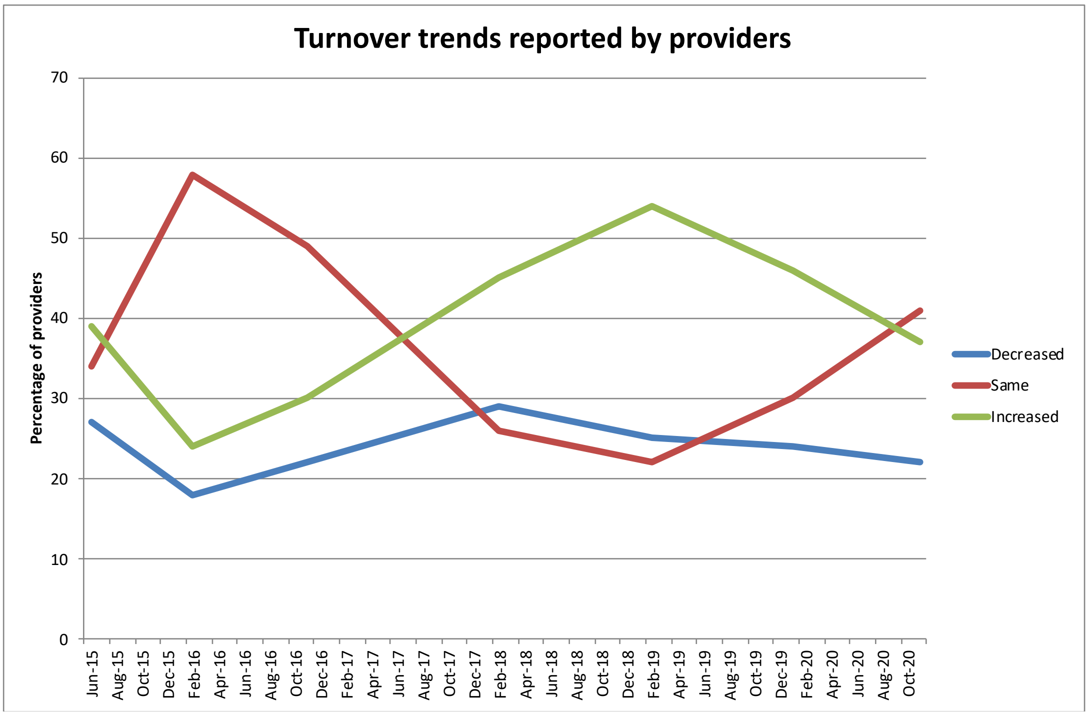
Turnover (Fee Income) and Operating Profit trends: Number of Providers reporting different levels of increase/stability/decrease.



Providers continue to experience a wide range of financial outcomes in the children's homes sector. As discussed in the preceding sections, this survey reports a mixed and moving occupancy picture, with fee rates stable or moving up on average.

Some 37% (last year 46%) of providers report increased fee income, and 22% report a decline (last year 24%). The balance of 41% (January 2020 - 30%) report stable income. The overall picture of increased stability with reduced growth is consistent with more providers reaching rates of occupancy that are full or close to full given the support needs of residents and the complexity of referrals. That more than one in five providers report declining income may in part be related to the impact of Covid this year but also offers evidence that, even in times of surplus demand, there is volatility in financial outcomes for providers.

Small providers again underperform against the sector average with only 23% reporting increased turnover (down from 38% last year) and 26% reporting decline, again giving some indication of higher growth in income amongst the larger providers in the sector.

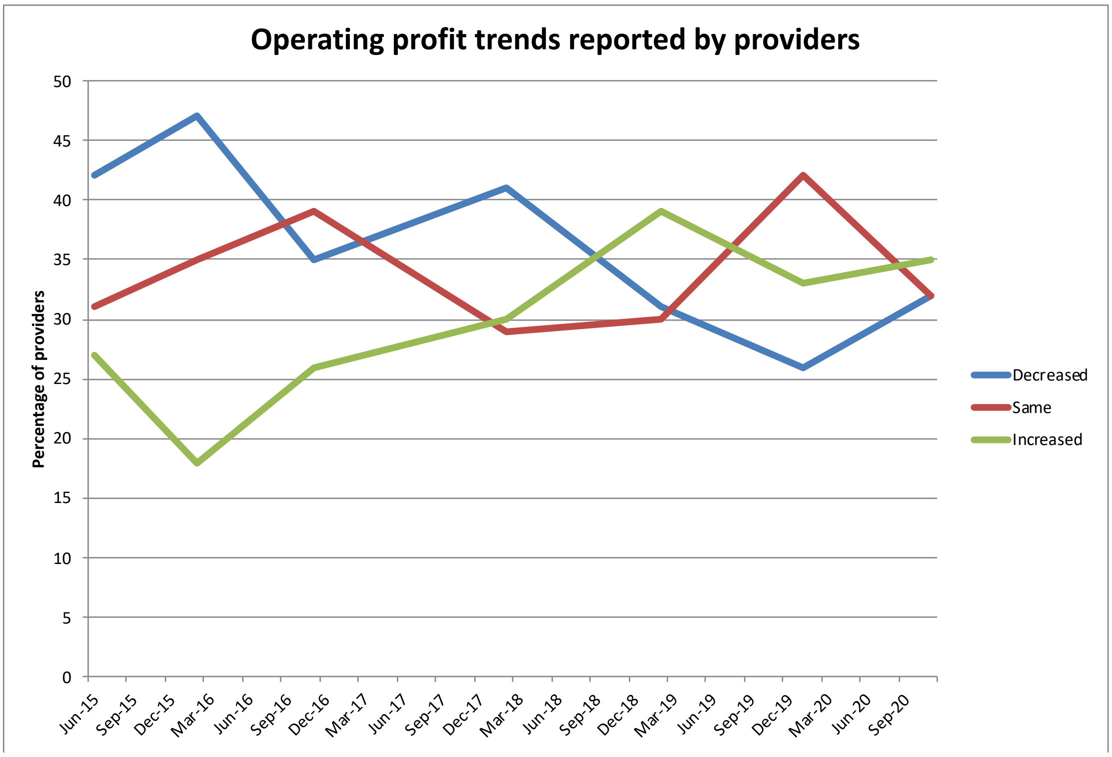


Operating Profits

Operating profit trends do not automatically follow the turnover/income trend, as the additional factors of costs (controllable and external), investments in expansion and overall efficiency impact all come into play. As the combined turnover and operating profit graphic on the previous page illustrates, the increased stability of turnover is only partly reflected into operating profits, with more providers reporting a decline in profits even when turnover has been stable.

In this survey 35% (last year 33%) of respondents reported increases in operating profits, whilst 32% reported a decline (26% last year), resulting in a sector that, with the 32% reporting stable operating profits, therefore has three similarly sized groups of providers reporting decline, stability and growth in profitability.

Small providers fare worse than the larger providers with only 20% of small providers reporting profit increases, but 48% reporting decline.



So, what are the factors that providers feel mostly impact on their financial performance?

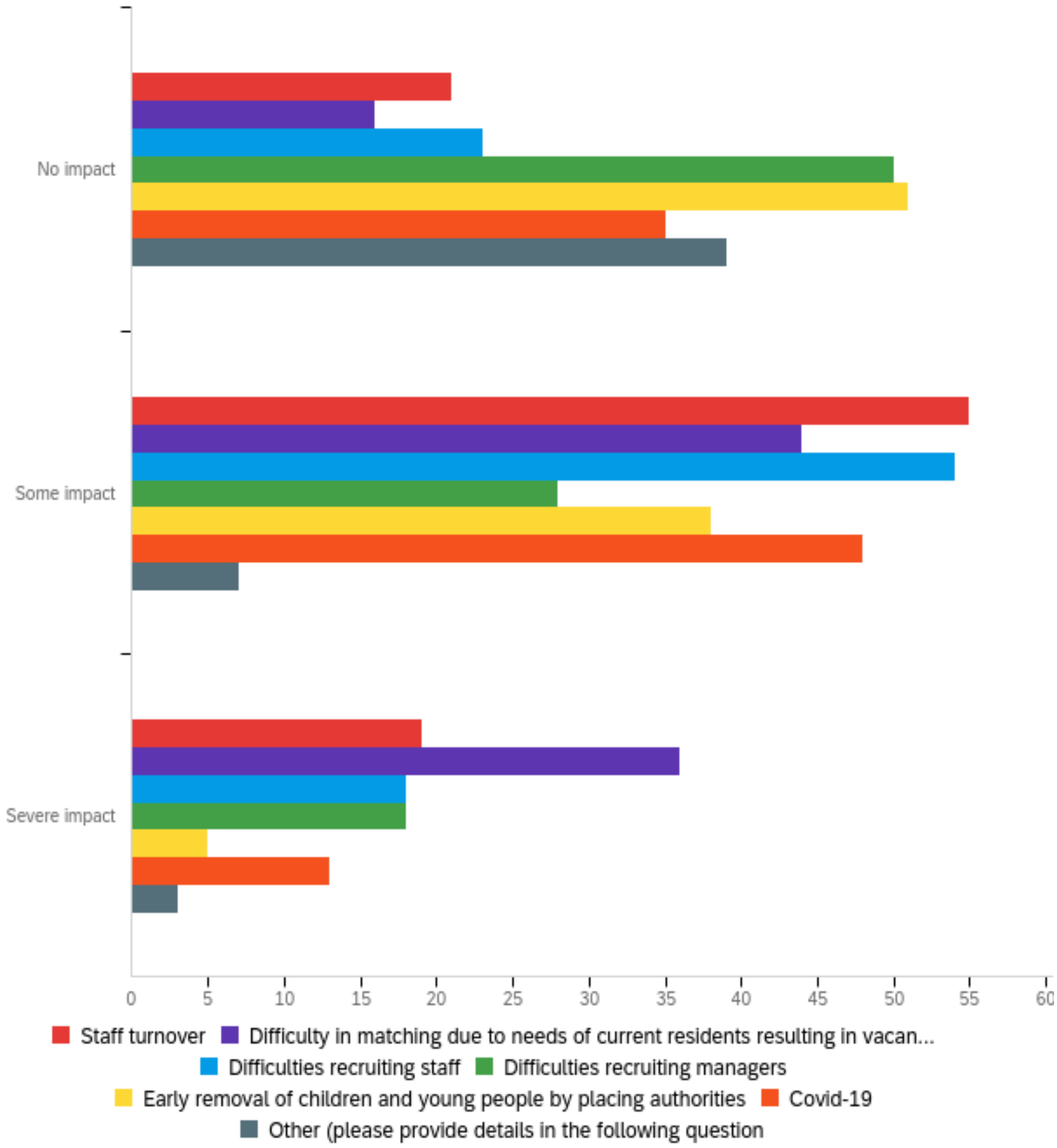
The graphic below confirms that the most severe impact, as discussed earlier, is the ability to match placements for this complex cohort. This directly impacts on occupancy rates and voids, and thus the fundamental efficiency of the children's homes models with their high fixed cost structures.

Responses confirm that issues related to staff and manager recruitment and retention are also highly influential on financial performance and related to the ability of a home to consider referrals. A stable, trained and experienced staff group is more able to sustain high levels of occupancy.

Covid is rated by more than half of respondents as having some impact this year also.

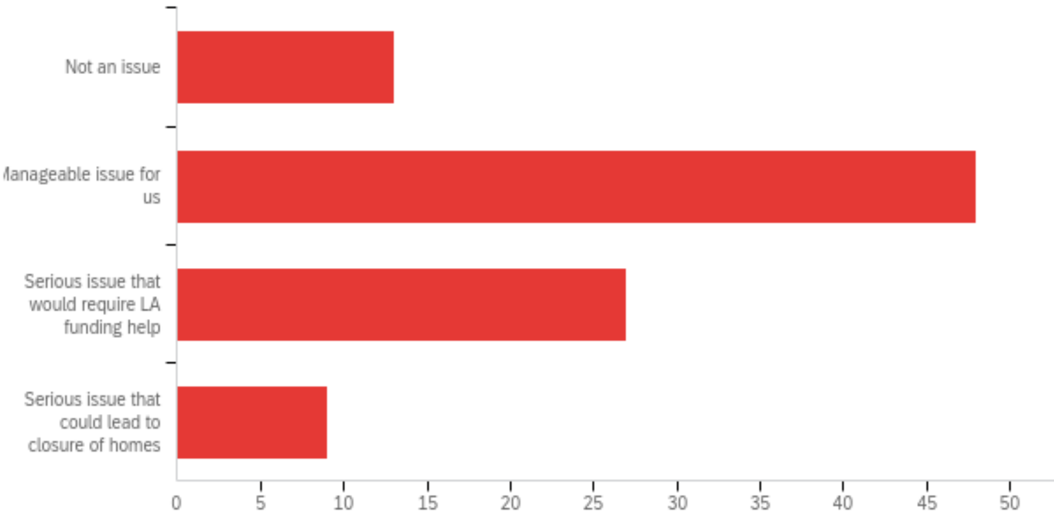
Small providers tend to rate the impact of matching difficulties, occupancy and staffing issues more acutely than other providers, but the overall relative importance of factors is similar in both groups.

Factors impacting financial performance



In the “other” category are mainly cost factors over which providers have no control including the impact on overall staffing costs of compulsory pensions costs, National Living Wage and inflation driven cost increases. More than one provider explains that profits have reduced as they invest in growth, with costs incurred in property, set up and staffing ahead of any income from placements dragging on results. Providers that have not been able to get homes regraded by Ofsted due to the suspension of full inspections by the regulator also quote this a factor in reduced financial performance.

Providers are also aware of the pending Supreme Court appeal decision in relation to sleeping-in costs and liabilities. If the decision were to back the Unison appeal, 37% of providers (across all size groups) would have serious issues.



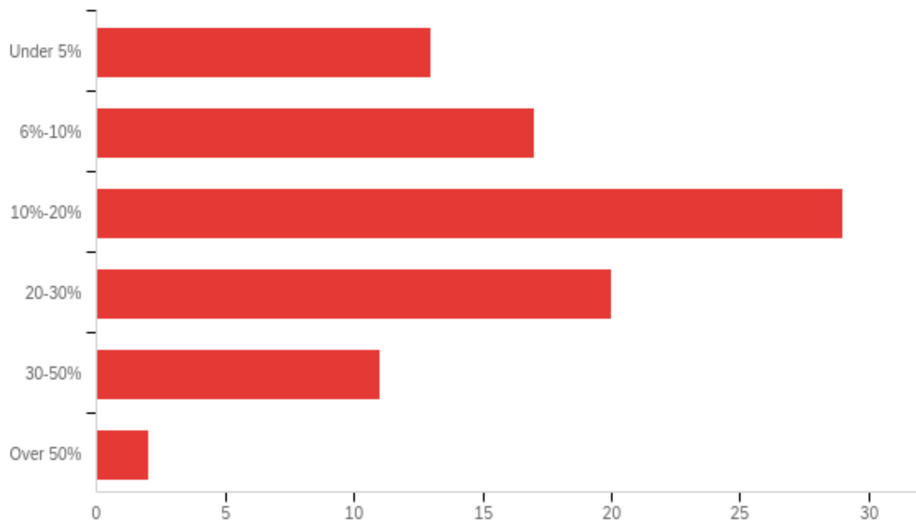
Managers and staff

The survey again sought to gain additional feedback related to the critical role of home managers and in relation to staffing turnover rates. These factors have been highlighted in preceding years by external reports but are also raised earlier in this survey as factors limiting profitability and growth potential.

Providers report a wide range of positions in relation to registered managers. Whereas some are able to report all homes having a qualified manager, on average across all homes and providers over 80% of homes have managers in post, with 75% of those being fully qualified. Small providers on average report lower rates with vacancy rates on average as high as 26%.

Staff turnover ratios are also reported by providers:

Numbers of providers reporting staff turnover levels.



Over one third (36%) of providers report staff turnover levels above 20%, although this is down on the January 2020 position of 48%. There is a corresponding improvement reported in the low turnover of staff category (below 10% staff turnover) where a further one-third (33%) of providers report these lower levels of staff turnover (up from 22% in January 2020).

Small providers again fare slightly worse than larger providers with proportionately more reporting the higher levels of staffing volatility.

As identified earlier, staffing is the critical resource in children's homes and the stability and costs of staffing have a substantial impact on operating performance, financial performance, and the confidence and ability to invest in greater capacity.

Profit levels

Measures of profit/surplus or loss/deficit give an indication of how providers experience the combined impact of all of the variability discussed above. This survey again asked providers to disclose actual profit levels (as a percentage of turnover).

This area of the research traditionally attracts lower response rates and therefore is substantially less representative of the membership as a whole.

Many providers were unable to calculate EBITDA as it is not a term used in their normal statutory accounting, and this is therefore the least representative row in the table below. Up to 64 providers (around half the rate of most other questions in the survey) completed the other two measures.

Provider profit levels – percentage of turnover

Field	Minimum	Maximum	Mean
Operating profit/surplus (i.e. profit/surplus before interest and tax)	-40.00	32.00	8.40
Net profit/surplus before tax	-40.00	25.00	6.16
EBITDA = Earnings/ Profits/Surplus before Depreciation, Amortisation, interest and tax (If known - move slider at zero if not known)	-13.00	33.00	5.63

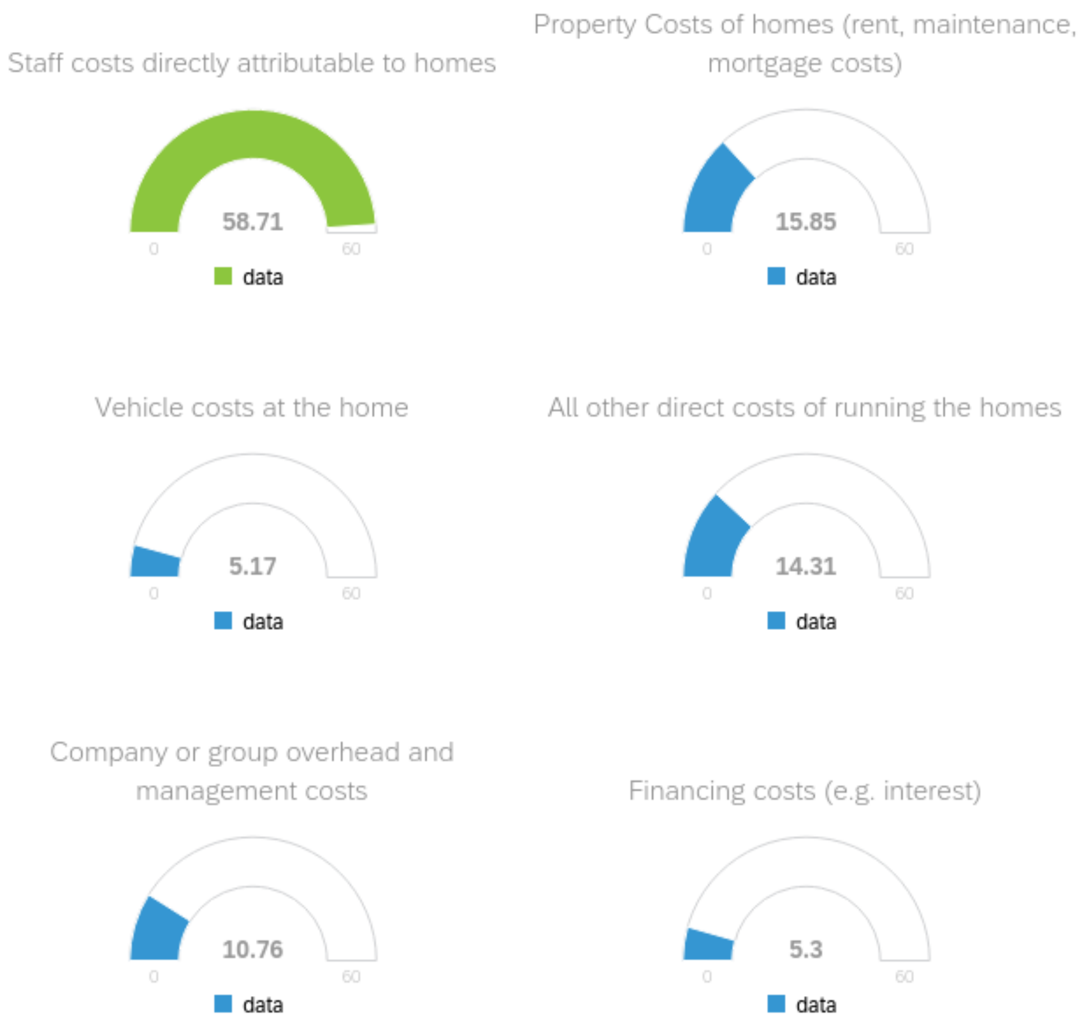
Both net profit and EBITDA are lower on average than last year, and the levels of EBITDA are considerably lower than those reported for the largest children's services providers in studies for the LGA.[8]

Small providers again on average report profitability lower than the rest of the sector, and the gap is growing in percentage terms, to around three percentage points lower in this survey.

Cost structures

This survey has again gathered some feedback (from around 70% of respondents only so some caution is also advised in use of these figures) to illustrate typical average cost structures in children's homes.

As not all respondents were able to provide all of the data the overall ratios do not sum to 100% so these average percentages are illustrative only.



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[8] https://www.local.gov.uk/profit-making-and-risk-independent-childrens-social-care-placement-providers

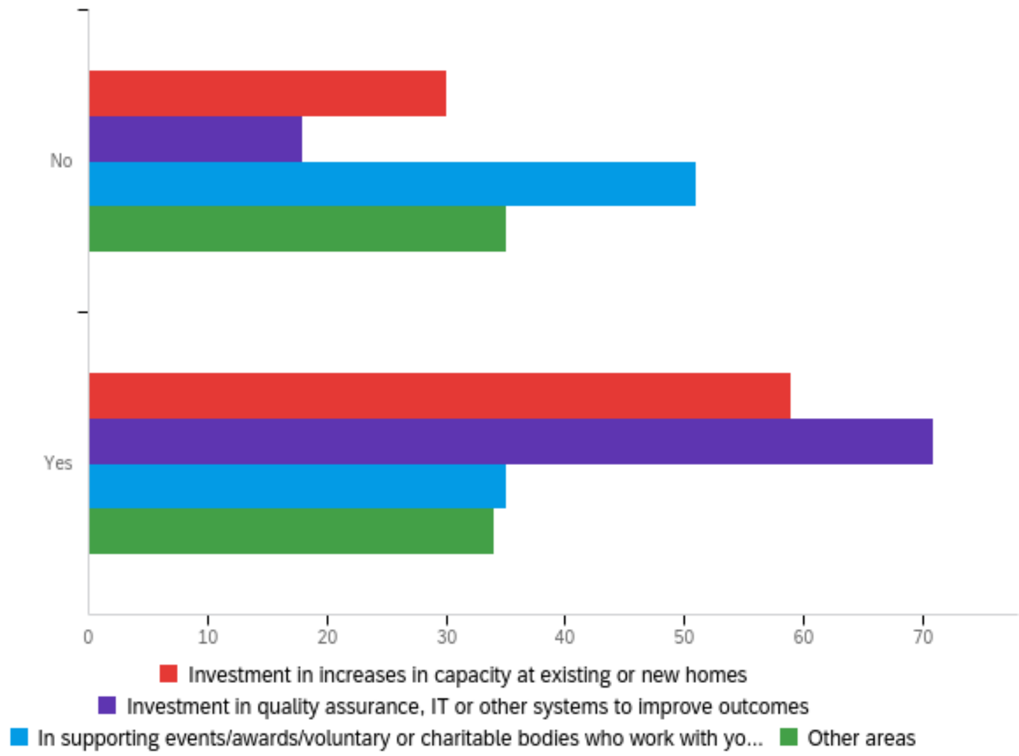
Staffing costs are confirmed as the clear dominant factor in the running costs of children's homes, and this explains why factors such as the underlying pressure on all staff costs from the statutory uplifts in National Living Wage, the uncertainty of the sleeping-in position, statutory uplifts in pension contributions, and the high levels of staff turnover are at the top of provider concerns about costs.

Staffing costs have been more volatile than in the January 2020 survey (as measured by the standard deviation of responses), perhaps due to the additional Coronavirus impact.

Small company cost structures do not differ greatly from the sector overall. However, overheads and other direct costs are generally higher as a proportion of total costs in small provider operations. This would be consistent with larger providers benefiting from economies of scale.

Investment

Where are providers investing currently?



Providers continue to invest to increase capacity in numbers similar to the last two surveys although again, this comes alongside continued investment into their existing services as the main areas of investment.

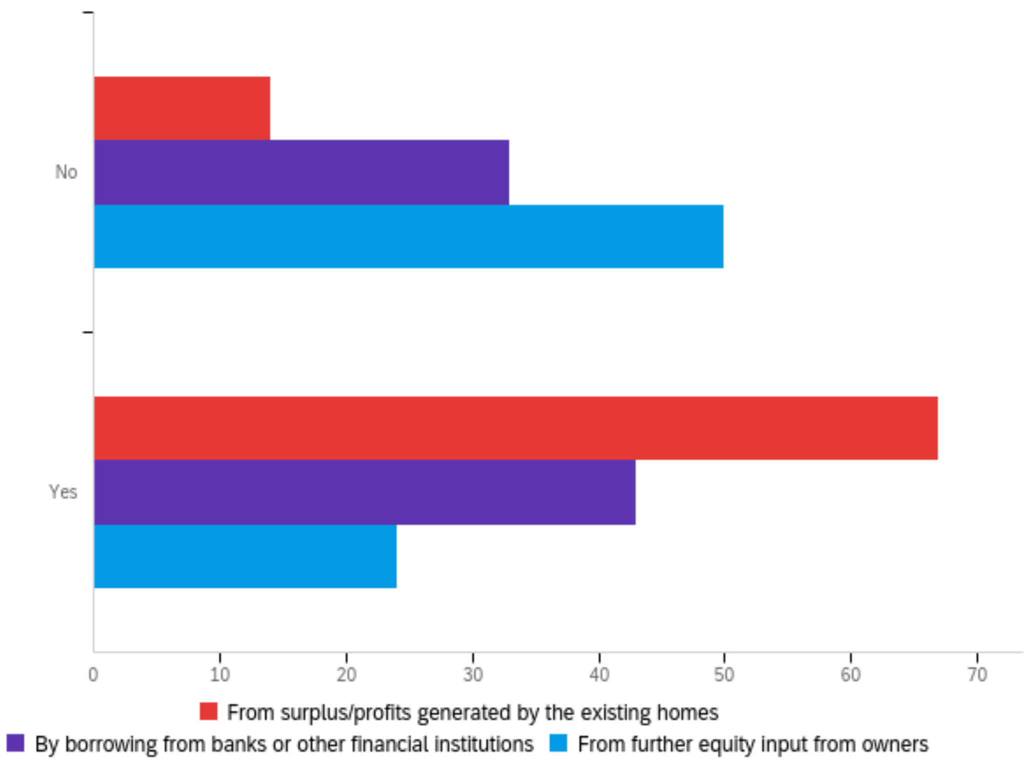
Small providers have reported levels of investment more in line with the rest of the sector at this survey, changing the trend seen in earlier surveys where small providers were less able to invest in the own services. However, proportionately fewer small providers are investing in capacity growth than their larger counterparts.

This confirms the earlier evidence of the survey that suggests the sector may be experiencing a gradual move towards larger providers taking up a larger share of the sector.

Providers report a wide, rich and creative range of areas of investment in their existing services. Staff training and development are key areas that many providers single out, with staff training extending to degree and master's degree levels. Upgrading homes, education facilities and even purchase of a forest and land for outdoor recreation are all listed in responses, as are contributions to hardship funds, community grants and local team sponsorships. Providers accentuate that these investments are only possible if their organisations are financially sustainable and profit generating.

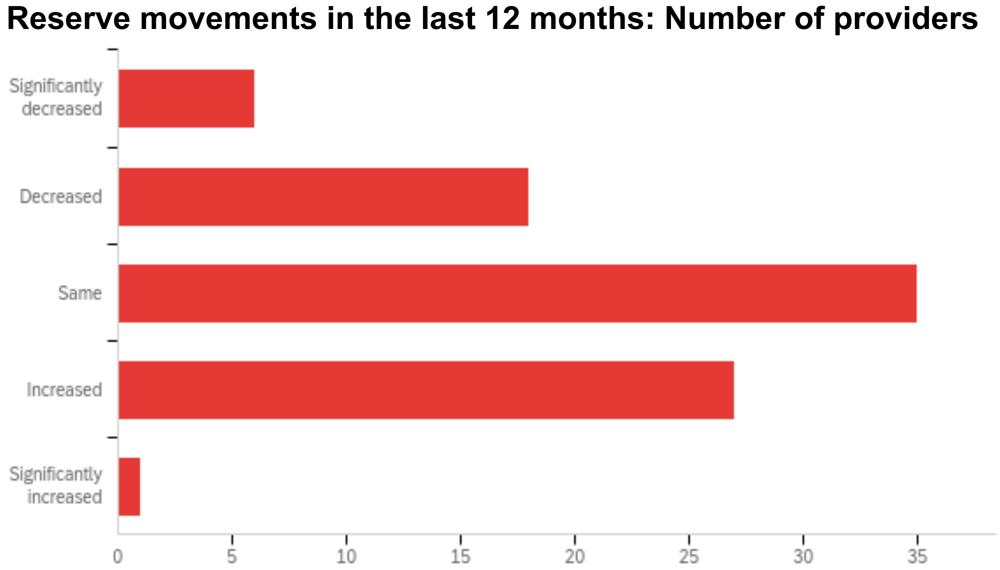
Respondents also provided feedback on the source of funding for investment activities, and this also confirms the primary importance of profitability and the resulting positive cashflow as the primary source of funding.

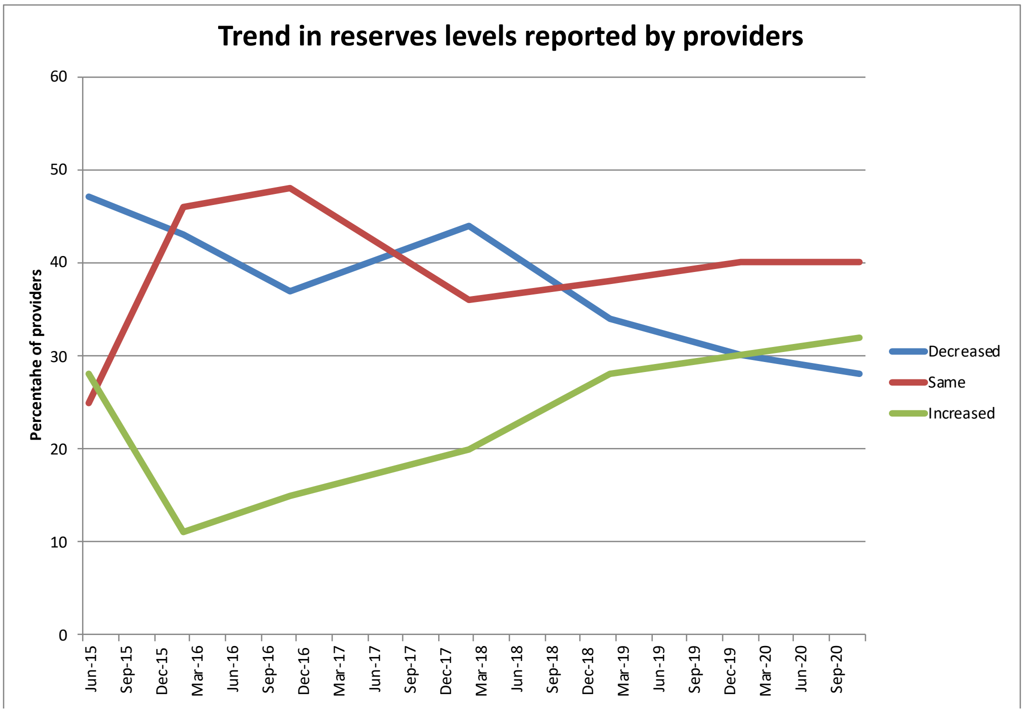
Where do funds for investment come from?



There are clear messages here for strategic commissioners. Stability of existing profitability is the most important influence on the intent of providers to maintain and improve quality of services and to invest in further capacity.

Viability and Reserves





For the first time in six years of this survey there are marginally more providers reporting an increase in reserves than a decline (32% increasing vs 28% declining).

Reserves are impacted by the combined effects of operating results and investment already discussed above, but also by funding structures and the servicing of debt and interest. Organisations with substantial reserves are less likely to be vulnerable to volatility of operational results.

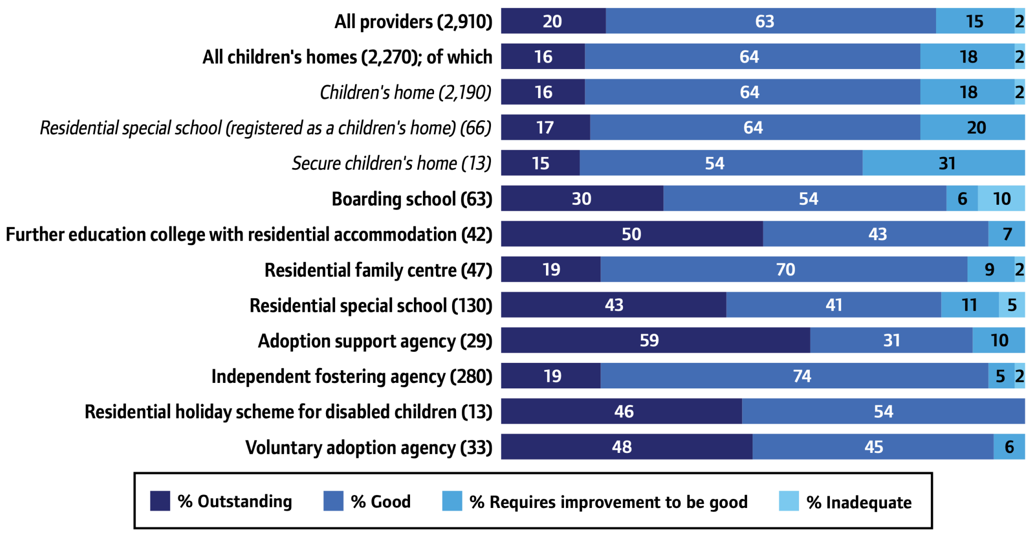
The overall sector results mask a more fragile situation for small providers who report a greater vulnerability, with 37% reporting declining reserves, and only 20% reporting increases.

Ofsted

With the suspension of Ofsted inspection activity in March 2020 we have not collected information about Ofsted and inspections in this survey. However, Ofsted have recently published the overall profile of inspections of all children's social care services.[9] This shows a decrease from 3% to 2% in inadequate ratings but an increase from 15% to 18% in requires improvement.

Figure 32: Social care provider most recent inspection outcomes: 31 August 2020

Number of providers in brackets (rounded where over 100)



1. Due to very small numbers, secure training centres are not included in this chart.
2. Percentages are rounded and may not add to 100. Some percentages are based on small numbers, and should be treated with caution.

Providers who have homes rated requires improvement before lockdown have expressed frustration with the inability to recognise improvements they have made subsequently via a revised Ofsted rating due to the suspension of inspection activity by the regulator.

Additional Covid impact

Much of the impact of Covid is discussed in the preceding sections of this report. Overall, the sector has shown remarkable resilience and adaptability where the virus impacted on staffing and risk, whilst some providers were fortunate to experience quite limited impact.

Whilst fears and anxiety have challenged confidence for some, others report improved relationships between staff and children and renewed confidence in the importance of their services.

Providers project that they may retain some changes in practice (e.g., Zoom and Teams meetings with people at a distance rather than extensive

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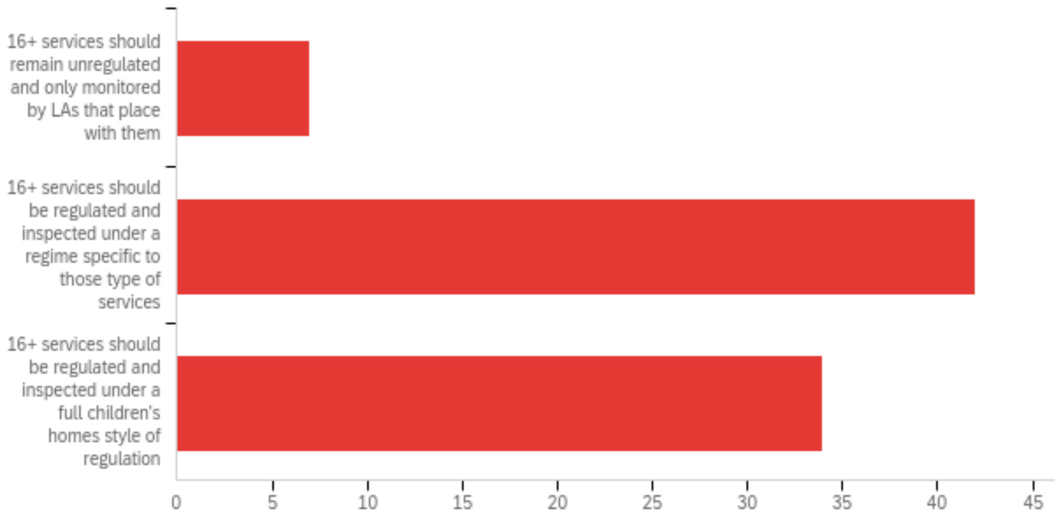
9 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/939834/Ofsted_Annual_Report_2019-2020.pdf

travelling, improved hygiene in homes). Several also report looking forward to a return of face-to-face interactions in a sector that is rooted in personal care and relationships, especially for children already feeling excluded and isolated.

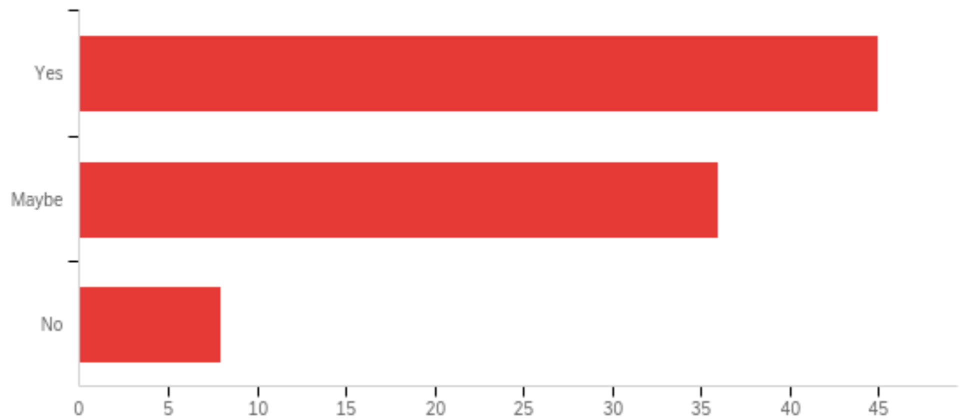
Semi-independent Living and Supported Accomodation

A large majority (92%) of ICHA members support proposals for additional regulation of the currently unregulated semi-independence and supported living sector (small providers are even more certain with 97% supporting regulation). Opinions differ as to whether this should simply be the same as the children's homes regulation or a form of regulation specifically developed for this type of service.



Over half (51%) of respondents would positively look to open and operate 16+ capacity if regulation were brought in, and a further 40% would consider doing so. That intend is the similar across all sizes of provider organisation.

Would you look to provide 16+ services if they were to become regulated?



Planning for the long-term future

When asked to imagine the next three years providers predominantly respond with intended growth in their services as a key theme, more so than in previous surveys. This appears to be an intent across all types of provider although there is more caution amongst smaller providers, and small minority who express an intent to exit entirely in that timeframe.

It is of course impossible for anyone to know the lasting impact of Covid-19 but a striking quote from a respondent perhaps illustrates how many in the sector see the pandemic as just another challenge to overcome:

"Residential childcare exists to manage and work through crisis and awful situations towards better outcomes"

Providers show clear willingness to bring investment to the sector and to grow to meet the needs and demands of local authorities. They also identify the limitations on their abilities to do so that come from the challenges in recruiting managers and staff, the reliance on Ofsted supporting their registration efforts, and the necessity of continued strategic intent of local authorities to use these services.

There continues to be frustration amongst respondents with the lack of wholesale public support for the sector and how the sector is misrepresented in some sections of the media. Some providers particularly singled out the recent Children's Commissioner's report[10] as a source of disappointment.

The Care Review

Respondents shared their early thoughts about what they would like to see the forthcoming Care Review to achieve. A wide range of topics were offered by providers, indicating that extremely passionate and valuable input will be available to ICHA if the review invites consultation and evidence.

This report can only highlight a few of the more prevalent themes:

- Providers tend to express their views in terms of a focus on outcomes for children and young people as the priority.

- There is robust rejection of the way the sector is represented as only being interested in profits, and a willingness to show (as demonstrated in this survey) that most providers do not make the higher levels of returns of just a few of their larger counterparts, despite the risk and

[10] https://www.childrenscommissioner.gov.uk/report/private-provision-in-childrens-social-care/

animosity they feel that they face in some quarters.

- Providers articulate a desire for more respectful relationships and longer-term partnership intent from local authorities, regulators and Government.

- Better commissioning, fairer and more consistent and professional inspection and regulation are called for.

- The willingness to invest in more capacity, and into areas of 16+ provision once properly regulated are again highlighted, but that sufficient funding needs to be available to allow local authorities to properly fund the sector.

- Children’s Homes largely remain the “last resort” provision. Providers strongly believe there is a role for children’s homes expertise in earlier intervention, to be used both instead of foster care where repeated foster care breakdowns for a child indicate it is not working, and also in even earlier intervention for younger children.

Methodology

This is the seventh survey of Children’s Homes providers in a series that started in June 2015. These surveys continue to provide a comprehensive, consistent and representative review of the sector and are used as a reference source by Government, researchers and academics.

Each survey provides a “point-in-time” picture of the state of the sector based on the reported experiences of providers and based on a set of core questions that remain unchanged between the surveys. This approach allows analysis of trends arising vis the direct comparison of core information to earlier surveys.

Additional thematic questions are made at each individual survey point to investigate in more depth the prominent issues at the time of the survey. For example, it would not have been possible to formulate this survey without reference to the 2020 Covid-19 pandemic and its impact.

A combination of measurement based (quantitative), and written text based (qualitative) evidence is collected via an on-line survey. Qualitative feedback is thematically coded and summarised to add context and understanding alongside the quantitative analysis in the following report.

As in previous years, this report and analysis looks to detect if small providers and large providers experience the sector differently. Where responses of small providers differ noticeably from the overall results this is highlighted in the report.

The results can be considered to be most representative of the views of the ICHA membership as it is only ICHA members who contribute to the survey.

ICHA commissions this survey from Revolution Consulting and we would like to extend thanks and appreciation to those who thoughtfully and comprehensively completed the survey and for the openness displayed in the responses provided.

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Revolution Consulting