

Research evidence



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The three studies reviewed in this research evidence were published just before the Independent Review of Children's Social Care and the associated study by the Competition and Markets Authority started work. They are therefore both timely and seek to provide insights to the challenges facing the children's social care sector from three different perspectives.

The first looks at local authority perspectives on the challenges of ensuring sufficiency of accommodation for looked-after children, taking London as a specific area for study due to the perceived acuteness of issues in the capital. Sufficiency strategies of local authorities are examined and recommendations drawn.

The second study reflects some of the challenges described in the first study related to the shortage of appropriate children's homes places. It was commissioned from Newgate Research by the Local Government Association (LGA) to ask a range of stakeholders about the barriers and potential solutions to commissioning new capacity.

The third piece of research, also commissioned by the LGA, offers a large provider perspective via a forensic analysis of the financial results of independent children's services providers. It provides insight for commissioning and policy development and seeks to support understanding of the complexities in a mixed economy sector.

STUDY 1

Review of Sufficiency Strategies in London

Ellie Suh and Lisa Holmes, **Rees Centre, Department of Education, University of Oxford** (October 2020)

Demand for children's services



Challenges and trends seen in the London study are likely to be recognised elsewhere

has been increasing nationally in recent years. Changing demographics and evolving complexity of needs are also exerting cost pressures on local authorities. At the same time suitable accommodation is in short supply in the regulated children's homes sector and there are concerns about the increased use of unregulated placements. The situation is particularly acute in London.

Local authority sufficiency strategies articulate how councils meet their duty to provide accommodation and support for looked-after children. This study examined the sufficiency strategies for the 33 London authorities to look at sustainability initiatives and to inform collaborative approaches across London and provides a high-level analysis on commissioning strategies across London boroughs.

Among cost and budget pressures councils identify high-cost low-incidence placements as a common cause of pressure. However, there is no clear or consistently applied definition of this terminology.

Several London councils were aware that their approach to the use of residential provision – where children considered to be difficult to place were at times

“escalated” as a last resort – was a contributing factor to that increased cost pressure.

Most councils reported an increase in the numbers of older children with more complex needs coming into care. This was also identified as being a likely factor in the increasing use of higher cost placements.

Although there are common factors influencing demand across London councils, collaboration on commissioning is limited to local or sub-regional level operating through framework agreements or dynamic purchasing systems. Councils also work with similar portfolios of provider organisations; a substantial overlap in the procurement decisions and provider engagement across London authorities is evident.

Limited supply, especially in relation to residential homes for children with complex needs and requiring specific and specialist support, leads to a high cost of placement with councils' purchasing decisions being based on availability of placements rather than evidence they are effective in delivering good outcomes. Ofsted ratings of homes is the most relied-upon indicator for monitoring placement quality and children's

outcomes. This leads to concerns among local authorities about quality of provision. Many London authorities found the current market environment with limited supply to be a substantial challenge for meeting their sufficiency duties.

The authors identify areas of opportunity based on this analysis. They suggest that residential care placement could be rationalised with a clearer strategic vision of how, when, and why residential care should be used. Further, there may be alternatives, perhaps family-based environments, for example fostering, that would be viable environments for some children currently placed in residential care. A review of placements to identify potential step-across to fostering opportunities, supported by in-depth assessment of children's needs is suggested by the authors with reference to similar approaches used elsewhere around the country that report positive improvement in children's outcomes and more efficient use of public resources.

Although the preference of councils for in-house, council-owned provision is clear in London sufficiency strategies, the report notes that reliance on provision from the independent sector is substantial and changing the mix of available services is not a short-term task. The need for effective procurement and market engagement is therefore clear.

Finally, the authors advocate for the establishment of a knowledge sharing system at a pan-London level. This would be needed to support a pan-London approach to commissioning that would be justified due to the concentration of the looked-after population relative to the size of the geographical area. It could be used to enhance commissioning capability and market intelligence, to collectively evaluate trends and further develop sufficiency strategies.

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Implications for practice

- Rationalising the use of residential care requires strategic vision based on a clear understanding of current use of provision and exploration of alternative options.
- An increased focus on assessing children's needs is needed to improve the evaluation of effectiveness and value for money of commissioned services.
- Improved information systems in relation to pan-London activity is proposed. This would include assessment of current capacity, analysis of trends and anticipation of the impact on future demand and capacity.
- Consolidate multi-authority, sub-regional collaborations for improved cost efficiency and market engagement.
- Formulate a pan-London response to managing highly probable high-cost provisions.
- Strengthen related programmes such as early help, other integrated services for looked-after children. Look to models of developing practice elsewhere including No Wrong Door (North Yorkshire/Children's Social Care Innovation Programme).

Wider implications

Although this study was focused on London authorities, the challenges and trends described are likely to be recognised elsewhere in the country. I have previously written about the increasing fragmentation of regional commissioning efforts, which appears to head in the opposite direction to these recommendations. We recommend further study of collaborative commissioning to help to identify what works and what gets in the way of successful cross-authority commissioning.

It is also evident from our surveys of independent provider organisations that sufficiency statements are not as influential on provider strategies as perhaps may be expected. The wide variety of approaches and content of sufficiency statements is not experienced as helpful by providers looking to understand local authority strategies at a more granular level.

STUDY 2

Children's Homes Research

Newgate Research (commissioned by Local Government Association) (January 2021)

The concerns of London local authorities in meeting sufficiency duties described in the first study and the severity of this in relation to residential children's homes, are recognised as a theme across the country. This study was commissioned by the LGA to look at the policies, barriers, and facilitators for local authorities and smaller independent providers in establishing children's homes.

Five areas of inter-related barriers are identified:

■ The perceived role of children's residential care as an option of last resort

A stigma is attached to residential children's homes with roots back to historical abuse, and policy that prioritises adoption and foster care ahead of children's homes. Financial drivers are also recognised as leading placing authorities to have preferences for those alternatives. The consequent use of children's homes as a last resort is associated with poorer outcomes for children and creates a negative spiral or vicious circle of opinion and practice. This impacts significantly on the decision-making processes of providers, on the career and development

pathways of social care professionals, and directly and indirectly on those children that are placed in children's homes.

■ Challenges making a robust business case for investing in children's residential care

Fundamental economic challenges and risks are described. Financial investment in the form of both the capital involved in the properties necessary for children's homes and in the start-up related funding required are substantial. However, without any guarantee over whether the places offered will be used by a local authority there are significantly high risks for investors of all types in children's homes.

■ Infrastructure, management, and staffing

Identifying, recruiting and acquiring the resources required to operate a children's home present multiple barriers to overcome. Suitably sized and located houses are expensive and can be difficult to locate and to acquire in the face of local community objections. Residential care staff need a wide range of skills and home managers especially so. There is widespread recognition that qualified home managers are in acute short supply.

■ Complexity of need

Increasing complexity and severity of needs presented by children placed in children's homes put an emphasis on the

need for practitioners to be able to match and anticipate the impact of each new placement on the whole group in a home. The tension with the regulator, Ofsted, is noted here, with providers reporting discouragement from taking additional placements that derives from the risk of subsequent inspection downgrading by Ofsted.

■ Lack of truly co-ordinated and strategic commissioning of children's homes provision

This barrier is recognised by commissioners themselves as well as by providers. Procurement approaches operate at local, sub-regional and regional levels, but lack long-term planning and robust assessment and evidencing of outcomes.

A variety of efforts to address these barriers are described by local authorities and providers. These include Suffolk's Residential Review (including a peer review by Hertfordshire County Council) that raised the profile and confidence of the authority in children's homes and supported a repurposing and reinvestment in additional capacity. Also featured are Hertfordshire's "invest to save" programme looking to refurbish council-owned properties to be used for residential provision. Increases in some regional and subregional commissioning are evidenced.

Some new models of commercial engagement are also emerging including social investment in children's homes via a Community Interest Company, joint ventures between councils and providers, and "open book"-based commissioning of voluntary sector providers.

North Yorkshire's Innovation Programme project, No Wrong Door, is also featured as an example of different types of children's residential provision. This service, although based around a residential care hub and wrap-around services has a focus on children on the edge of care and preventing escalation into full-time fostering and residential care placements.



The study identified five major barriers to the establishment of children's homes

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Implications for practice

- Active recognition, promotion and support for residential care is a fundamental element to a range of support options.
- Greater professionalisation, reward and recognition for staff and managers working in care is seen as an important ingredient to addressing barriers to development of the sector.
- Clear analysis is required, at local authority, regional, and national levels, of the business case for a mixed economy of children's residential provision.
- It would be beneficial to ensure there is a repository of materials and case studies of partnerships between the public and private sectors. There are many different but complex models from which learning could be shared.
- The needs of young people on the cusp of secure services needs further wrap-around support from education, health, youth justice and social care services.

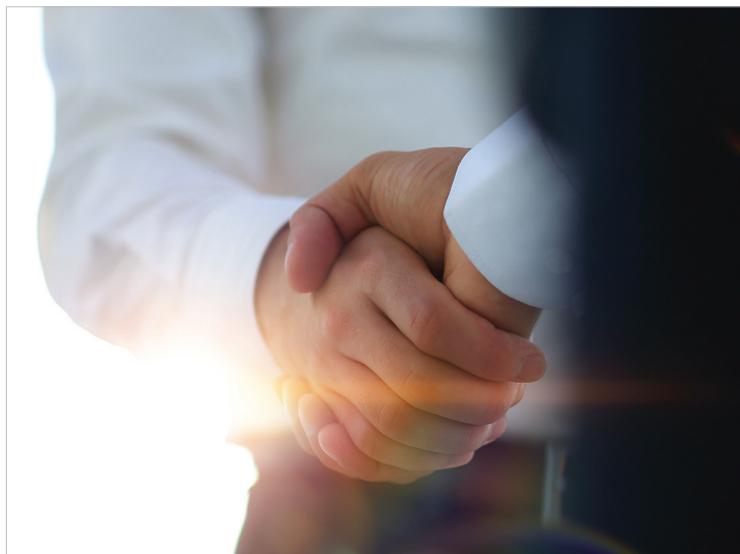
The report concludes with calls on the Independent Review of Children's Social Care to consider the need for legislative change, for a national oversight body, and to recognise the need for continuous spare system capacity, with consequent implications for cost.

STUDY 3

Profit Making and Risk in Independent Children's Social Care Placement Providers

Revolution Consulting (commissioned by Local Government Association), (December 2020)

Local authorities in England spend more than £2bn a year buying fostering and children's homes services alone from private and voluntary sector organisations (collectively referred to as the independent sector). Local authorities themselves continue to provide most foster placements, but around two in every five foster placements are made with independent sector providers. In children's homes the reverse is true. Here, three in every four placements are made in the independent sector.



Consolidation sees groups of providers operating under single ownership structures

In parallel with the continuing year-on-year upward trend in placement and spending activity there has been consolidation of providers leading to several large groups of services operating under single ownership structures.

Consolidation among independent providers is more advanced in fostering – the six largest providers have more than half of all placements made in the independent sector – than in children's homes where the 10 largest providers have around 30 per cent of all independent sector homes. Some of the larger groups of providers operate both types of service, and additional services including education, schools, and services for adults. They also provide services to other territories including Wales, Scotland, and Ireland.

This study was the second in a series that updates the information about the providers as each publishes its latest audited statutory financial statements. It expanded the original study sample to the 20 largest children's services providers as measured by their Ofsted-registered fostering and children's homes capacity.

The 20 largest provider organisations have income from children's services of £1.54bn, and profitability measured using the popular EBITDA (earnings before interest, depreciation and amortisation) method of £265m. This represents an EBITDA profit margin of 17.2 per cent.

On all those measures there has been growth on a like-for-like basis since the initial study a year earlier.

The periods of reporting that form the basis of the study are historical and thus there is a time lag effect. In this second study, the financial information accessed was typically related to a period ending before December 2019 and therefore did not show the impact of the coronavirus pandemic on the services. Almost all providers expressed concern about the impact but also a resolve to maintain these critically important services through the lockdowns and other restrictions.

Consolidation among providers, where one, usually larger, provider acquires ownership of another provider's operations, is a significant driver of growth.

Reference is made to other studies by Revolution Consulting carried out on behalf of the Independent Children's Homes Association which indicate that the income and profitability trends reported by the largest organisations are not replicated among smaller service providers.

Consolidation and acquisition activity has increasingly attracted professional investor involvement and ownership of providers. Acquisitions and investment in children's homes and fostering services requires capital investment which in turn appears as debt or borrowings of the provider organisations.

Debt levels are at record highs

and the LGA has called for greater market oversight to monitor and manage the perceived additional risks of higher debts. Avoiding Southern Cross-style corporate failures as were experienced by local authorities in adult services acts as a strong motivation.

Despite the higher levels of debt brought by some financing structures there have been no corporate failures in recent years as owners appear to be able to manage the debt levels and continue to invest further. The report gives insight and a technical explanation of how actual cashflows related to debt are managed by private equity owners in particular.

In light of local authority budget overspending in children's services, the results of this study illustrate the challenges for policy-makers and for the commissioners of services in their market management and stewardship roles. There have been calls in previous studies – most notably Sir Martin Narey's studies of fostering and children's homes for the Department for Education, the health and social care select committee's report on funding of local authority children's services, and reports from the children's commissioner for England – for a greater focus on commissioning in these sectors. It is notable therefore that the Independent Review of Children's Social Care that began work in March 2021 has recruited the Competition and Markets Authority to study the operation of these areas.

Implications for practice

- Market stewardship and oversight at a national level is proposed.
- Local authorities need technical skills and commercial experience to be able to partner effectively with provider sectors that include providers of many different shapes, size, and ownership types.
- The challenges of commissioning services for looked-after children are evident and renewed strategies and approaches are called for.

A third (update) study will be published in 2021.