Independent Children's Homes Association

# ICHA Position Statement

## Costs and Profits in Children's Residential Care

March 2022

ICHA is the membership body for providers of residential child care in England and Wales. Our mission is to drive excellence in residential child care through innovation, collaboration and sector leadership.

The long-standing debate surrounding costs and profit in children's residential care is not an area of focus for ICHA or in our work with members and the wider children's social care sector. We do recognise that, as a membership body representing providers of residential care, it is important we have a clear position on the topic.

The content of this briefing provides part of the wider context that informs the Independent Children's Homes Association (ICHA) position in relation to costs and profit margins in residential care. The position of ICHA at a summary level is:

- The residential child care sector has evolved over the last 25 years within the parameters set by government in the drive for a mixed economy of welfare.
- The independent residential child care sector grew following a significant withdrawal of local authority and voluntary providers from residential child care.
- For businesses to secure investment funding in an open market, profit must exist. This includes within PLC's that provide care with investors including pension funds.
- The independent sector is consistently found to care for children and young people with complex needs at a lower cost than local authorities.
- Quality assessments of children's residential care indicate all types of provision perform well overall.

Despite the many interrelated topics and strands of information involved in the complex residential care sector, media coverage tends to focus in on single issues, referring to individual cases. This means that stories often develop in a way that is not accurate or representative. This tendency applies across all health and social care sectors - from adult and children's social care and social work to hospitals and community services.

ICHA recognise and understand the interest in costs associated with children's residential care. We also recognise that without an understanding of the individual circumstance, these costs can

also be of public interest. But context is critical: The profiles of children and young people living in residential care are heterogeneous, as are the costs for caring for them and keeping them safe.

The continuum of residential care has a diverse range of homes. At one end is mainstream general provision, which provides support for children with needs that cannot be met in foster care. An increasing number of these homes are now also registered to accommodate young people with behavioural, emotional and social difficulties. At the other end of the continuum are highly specialised units providing intensive treatment for young people with complex needs, often posing significant risk to themselves or others.

Residential care homes at the high-need end of the care continuum may offer psychiatric and psychological input, special educational support, counselling or other therapeutic work. They are likely to be characterised by high levels of supervision and consultancy support for the residential staff. In the most extreme cases, specialist services will contain just one or two beds to allow for tailored individual support and treatment.[1] It is these additional elements often included within the residential care service that distinguish it from foster care. Further, it is these elements that account for some of the cost differences between residential and foster care.

It must be recognised that all providers of residential care for children operate within a mixed economy of welfare; one that has developed in line with government policy, local authority decision making and the demand for care. A brief summary of key developments provide important context.

## Historical context of 'markets' for children's residential care

Much of the discourse about children's residential care is, in many respects, ideological with critics claiming that there is no place for private providers in the sector. But it must be recognised that private providers of care are not a new development. Markets for social care began in the 1980s, with competition within services expected to deliver improvement in quality and efficiency. Commitments to maximise the use of private and voluntary providers, in service provision and support for development of services, became widespread.

The early 1990s saw the introduction and rapid development of markets following the National Health Service and Community Care Act 1990. This involved significant contracting out of adult social care services, with the independent sector as the preferred provider.[2] Changes also followed in Children's Services involving the expansion of non-statutory adoption services, fostering agencies

[1] *DCSF, 2007. Determining the optimum supply of children's residential care. London: DCSF.*
[2] *Knapp, M., Hardy, B. and Forder, J. (2001). Commissioning for Quality: Ten Years of Social Care Markets in England. Journal of Social Policy, 30(2), pp. 283-306.*

and children's homes in the traditional voluntary organisations and independent private sectors.[3] The result was a market in children's social care, a market-making strategy, in which an expanded role was envisaged for voluntary agencies and private companies in delivering services as part of a 'mixed economy of welfare'.

In parallel to the policy and commissioning changes, from the early 1990s, residential care started to become the last placement of choice. The anti-institutional criticism, the dubious application of Bowlby's attachment theory, and the higher costs associated with residential care had all contributed to a decline in numbers of children placed there. Soon after the Children Act 1989, the residential sector was under scrutiny following the discovery of historic abuse of children in residential care.

The scale of the furore surrounding children's homes led one local authority (Warwickshire) to take the unprecedented step of closing all its residential homes. However, although cases of abuse were abhorrent and wicked, such a radical and wholesale move away from the use of residential care was distinctly irrational. The extreme reduction of residential care, particularly that provided by local authority, attracted direct criticism from the Social Services Inspectorate (SSI) which concluded:

> *Many children looked after are accommodated in the only available placement, rather than one which meets their particular needs. Many local authorities have closed children's homes, without investing in foster care services to meet the needs of very demanding young people. Some have no children's residential care provision of their own and yet have made no contractual arrangements with independent providers to meet their needs.'* [4]

The conclusion from the SSI was nearly 25 years ago, but still valid today. Soon after the decision by Warwickshire to close all its children's homes, Cliffe and Berridge[5] carried out an extensive study, *Closing Children's Homes*, to investigate the impact. They concluded that the consequences of closing children's homes were that needs of looked after children and young people were less likely to be met, and foster carers were likely to be damaged by the effects of caring for children with such high needs.

It was not just local authorities that shifted away from providing residential care. Some of the largest children's charities such as Barnardos, Action for Children and the Children's Society also withdrew from the residential sector and focused on other areas of social care including providing foster care and family support. This was in line with the policy shifts at the time.

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[3] *Sellick, C. and Connolly, J. (2002). Independent Fostering Agencies Uncovered: the findings of a National Study. Child & Family Social Work., 7(2), pp. 107-120.*
[4] *Social Services Inspectorate (SSI). (1998). Someone Else's Children. Inspections of Planning and Decision Making for Children Looked After and the Safety of Children Looked After. London. Department of Health.*
[5] *Cliffe, D. and Berridge, D. (1991). Closing Children's Homes: An End to Residential Care? London: National Children's Bureau.*

In many respects the early 1990s were a period of confusion concerning the place of residential care, with its lacking direction, little evidence on young people's wider needs, no competing theories of intervention and no in-depth evaluations.[6] This assertion was also supported by Parker who argues there had been a failure to look across the range of provision with few attempts to collect research data based on systematic comparisons of the major forms of care and virtually no evidence about outcomes.[7]

As briefly summarised, the late 1980s and 1990s residential care experienced several factors that led to large scale withdrawal of local authorities and voluntary providers. There seems to have been a misguided belief that foster care would be able to meet the needs, but it was unable to.

At the turn of the century there was a significant lack of residential care. The independent sector responded by developing provision when local authorities and charities preferred not to. So, in many respects, the reason that such a large proportion of residential care placements are with independent providers, is that no others were prepared to provide the care.

A final factor that has shaped the development of the children's residential care market is commissioning frameworks, which are put in place so that local authorities are compliant with procurement legislation. Most providers are expected to tender to be on such a framework in order for children to be placed with them. However, these frameworks are generally regional and comprise of a large number of local authorities. The process and arrangements are more suited to larger providers with homes spanning the geographical region the frameworks cover.

In conclusion the position of ICHA is that the children's residential care market has been shaped by government policy and decisions by local authorities and the voluntary sector not to provide the necessary residential care placements. The situation has not been created by independent providers of residential care.

## Costs

A constant criticism of residential care for children is the cost, which is a long-standing concern. Reports from the 1940s such as The Curtis Report[8] documented a preference for 'boarding out' (the historical form of foster care) on cost grounds. However, this is a non sensical comparison where foster care does not have the same level of resource and costs base. A foster home may

[6] *Bullock, R., Little, M. and Millham, S. (1993). Residential Care for Children, a Review of Research. London: Dartington Social Research Unit / HMSO*

[7] Parker, R (1988) An historical background (to residential care). In: Sinclair, I (ed.) *Residential Care: The research reviewed*, Volume II of the Wagner Committee's report on residential care, London: HMSO, pp. 57–124.

[8] *Department of Health (1946). Interdepartmental committee on the care of children. The Curtis report. London: HMSO.*

have three children cared for by a committed and professional foster carer couple – two people. Residential homes for children with complex needs may have over 20 full time staff to care for three children.

Criticisms that the residential sector is considerably more expensive are generally born from headline weekly cost figures. However, it is a complex situation and much of the time 'like-with-like' is not being compared, leading to a distorted impression. As esteemed economist Professor Martin Knapp[9] notes, the belief that foster care is a much cheaper option than residential care is based on ill-considered assumptions. This argument is supported by Professor's Netton & Beecham[10] who conclude that the often naïve and uncritical use of poor quality data and of inappropriate comparisons of seemingly 'like-with-like' services distorts the picture.

Cost considerations have become even more acute in recent years due to their significant – and undisputed – increase. There are a wide range of factors that have contributed to the rise including:

- Permeation of the belief that 'smaller is better' leading to a sector dominated by four or five bedroom homes (and on occasion one or two bedroom homes) creating an upward pressure on unit costs (as the economies of scale associated with larger settings are lost).
- Significant increases in the costs associated with meeting improved regulatory standards
- Increasing numbers of children with complex needs who require more significant resources to address their needs and risks
- The increase in scope of children's residential care to meet what are often severe mental health needs, that would previously been met by mental health services.

The Interim Report from the Competition and Markets Authority (CMA) found that local authority operating costs have been approximately 26% higher, on average between 2016 and 2020. Each year the government commission the Personal Social Services Research Unit (PSSRU) at the University of Kent to report on local authority expenditure on all social care. The latest report (December 2021) found that local authorities' own residential provision costs on average £4,865 per week whereas the private sector averages out at £4,153.

Our assessment of the evidence indicates increase in costs can be seen across all providers of residential care including local authorities and the voluntary sector. Cost increases have been driven by external factors profit in the independent sector.

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[9] *Knapp, M. (1987). The relative cost-effectiveness of public, private and voluntary providers of residential child care. In: A. Culver and B. Jonsson, eds, Public and Private Health Care. Oxford: Basil Blackwell.*

[10] *Netten, A. and Beecham, J., eds, (1993). Costing Community Care: Theory and Practice. Aldershot: Ashgate.*

## Profit margins

Profit margins in children's residential care must be considered alongside the aforementioned policy and market changes. The decision by local authorities and the voluntary sector to withdraw from providing residential care left the needs of a significant number of children and young people unmet. These needs were subsequently met by the independent sector.

Opening children's homes is expensive. The development of a new residential service requires significant investment from the independent sector, involving significant borrowing and associated risk. For organisations to be able to borrow the necessary high levels of capital, viable business models that generate profits are expected.

## Quality

The conventional quality assessment for children's residential care is the Ofsted inspection regime. When considering Ofsted gradings by type of provider, there is no significant degree of variance, as can be seen in *figure 1*

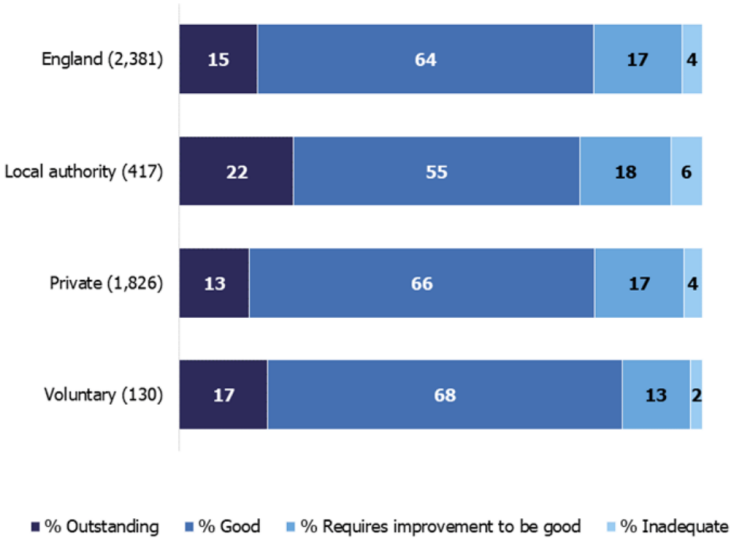


**Figure 1: Overall Performance of Children's Homes by Sector**[11]

ICHA advocates for a sector-wide improvement to capture better data on the outcomes for children in care, a more appropriate measure of quality. However, in the absence of more

[11] *https://www.gov.uk/government/statistics/local-authority-and-childrens-homes-in-england-inspections-and-outcomes-autumn-2021/main-findings-local-authority-and-childrens-homes-in-england-inspections-and-outcomes-autumn-2021*

appropriate outcome quality indicators one must use the Ofsted ratings and they demonstrate that overall quality is comparable across all of the different models of provider in the sector.

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## ABOUT ICHA

ICHA is the membership body for providers of residential child care in England and Wales. We represent residential child care providers of all sizes throughout England and Wales. Our members are diverse and from all areas of the sector including Independent, Voluntary and Local Authority providers of residential care. Some members have just one home whilst others have many homes across a wide geographic area. All ICHA members are committed to our vision for exemplary child care. That's why we're stronger together.

## WHAT WE DO

We provide knowledge, expert guidance, resources and day-to-day support to our members as we work together to deliver exemplary residential child care.

We work directly with local and national government, regulators and allied public services, consulting on policy and changes within the sector. We ensure that the voices of our members are heard, through consultations, government responses and liaison with the media.

We actively develop partnerships, collaborations and professional communities to share best practice - for the benefit of our members, the sector and all those cared for within it.

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**OUR VISION**
Exemplary residential child care
**OUR MISSION**
Drive excellence in residential child care through innovation, collaboration and sector leadership.