Analysis February 14th 2023

‘Stable Homes, Built on Love’: how will the government’s new long-term children’s social care strategy impact the independent children’s home market?

On February 2nd 2023, the Department for Education published ‘Stable Homes, Built on Love’, a long-awaited response to the three independent reviews into children’s social care in England that were published between March and May of 2022 by the Competition and Markets Authority, Josh MacAlister, and the Child Safeguarding Practice Review Panel. The government’s response detailed a new strategy for children’s social care in England, guided by these reviews. In this article, Connell Consulting leverages its primary research and experience of the sector to assess the impact of this new children’s social care strategy on independent sector children’s homes.

We conclude that the government’s new strategy is limited in scope and appears to commit too little investment to implement a wholesale overhaul of the sector. The reforms appear unlikely to reduce sustained current levels of demand for children’s home placements or properly address the severe undersupply of these placements, particularly in the short term. There is therefore ongoing and significant scope for independent sector development of children’s homes in England.

According to the DfE, there are approximately 7,500 looked after children living in private sector children’s homes in England. The independent children’s homes market has a total value of around £1.6bn, and recent years have seen significant investment from private equity investors, as well as the growth and consolidation of larger providers. As identified in the CMA’s market study, profitability has remained high for the top providers, largely due to favourable demand dynamics. Increasing numbers of looked after children, and numbers of children requiring residential placement, alongside an undersupply of placements in most geographies means that providers have been in a strong position to set prices.

These factors have made the sector an attractive proposition for many, and Connell Consulting has noted ongoing interest from investors in children’s services businesses. Some potential investors in the sector, however, have been more cautious, wary of the potential impact of political developments on the sector. The Welsh and Scottish governments’ recent commitment to remove profit from children’s social care, and the MacAlister Review’s suggestion of a windfall tax on larger providers have been areas of concern for some potential market entrants. Peter Sandiford, Head of the Children's Home Association, recently claimed that investment into independent children's services has already decreased in Wales following the devolved government's commitment to removing profit from the sector.

The CMA's market study on children's social care and the MacAlister Review both highlighted failures within the market, which in recent years has seen increased demand for children's services provision, paired with a lack of suitable placements close to home for many children. Placements are in high demand, and often come at a high cost to local authorities. Both reviews made recommendations that aimed to help local authority commissioners gain better market oversight by forecasting need and forming regional partnerships, as well as improving early intervention.

Likely impact of the new strategy

'Stable Homes, Built on Love' consists of an implementation strategy and a consultation process for reform of children's social care through March 2025, giving us more clarity on the direction of travel for children's social care in England. The government has committed £200m in additional investment for this period to implement these changes.

As stated previously, Connell Consulting expects the strategy to have a limited impact on the market, particularly in the short-term given the modest investment of just £200m over two years. This figure appears insufficient for meaningful reform considering that the LGA highlights a shortfall of £1.6bn over the next four years just to maintain current service levels, and the MacAlister Review recommended an additional investment of at least £2.6bn over four years to improve the care system to better meet children's needs. Many of the planned reforms will also be slow to implement, beginning with long consultation processes and pilot schemes. Although the strategy ostensibly accepts the recommendations of the CMA's market study, it is not particularly bold in its attempts to address the demand source for children's services through well-funded early intervention schemes, nor does it outline plans to increase supply of much-needed children's home placements.

The new strategy rejects the policy direction taken in Wales and Scotland of removing profit from children's home provision, as well as the suggestion made in the MacAlister Review of a windfall tax on large providers. The establishment of a financial oversight regime (which is likely to be similar to that which exists in adult social care as part of CQC regulation) is aimed at ensuring that financial failure of providers does not negatively impact on the lives of children, and as in the case of the CQC, is not likely to represent a threat to profit-making by private providers. The CMA itself noted in its market study that it is cheaper for local authorities to commission children's home placements from the independent sector than to develop their own.

Although a large part of the document is devoted to the aim of improving early intervention services for children, only £45m in funding has been committed for this (for an initial 12 pilot areas). This level of investment is unlikely to significantly decrease the number of children becoming looked after and requiring residential home placements.

Regional Care Co-operatives

One key commitment from the strategy that may impact the commissioning of placements is the establishment of Regional Care Co-operatives (RCCs). These regional bodies aim to help commissioners of placements gain oversight and control of their local market and bring down placement costs by pooling resources and sharing information to better predict need and reduce the number of spot purchased placements.

Implementation of RCCs is likely to be slow, with the initial pilot scheme set to cover two areas whilst a parallel consultation with stakeholders is held to define the scope and role of these bodies. The Local Government Association has expressed concern that RCCs may represent another layer of bureaucracy and undermine localised, personalised interactions with looked after children. Wider regional commissioning groups may also clash with the government's goal of reducing placements that are at a long distance from the child's home.

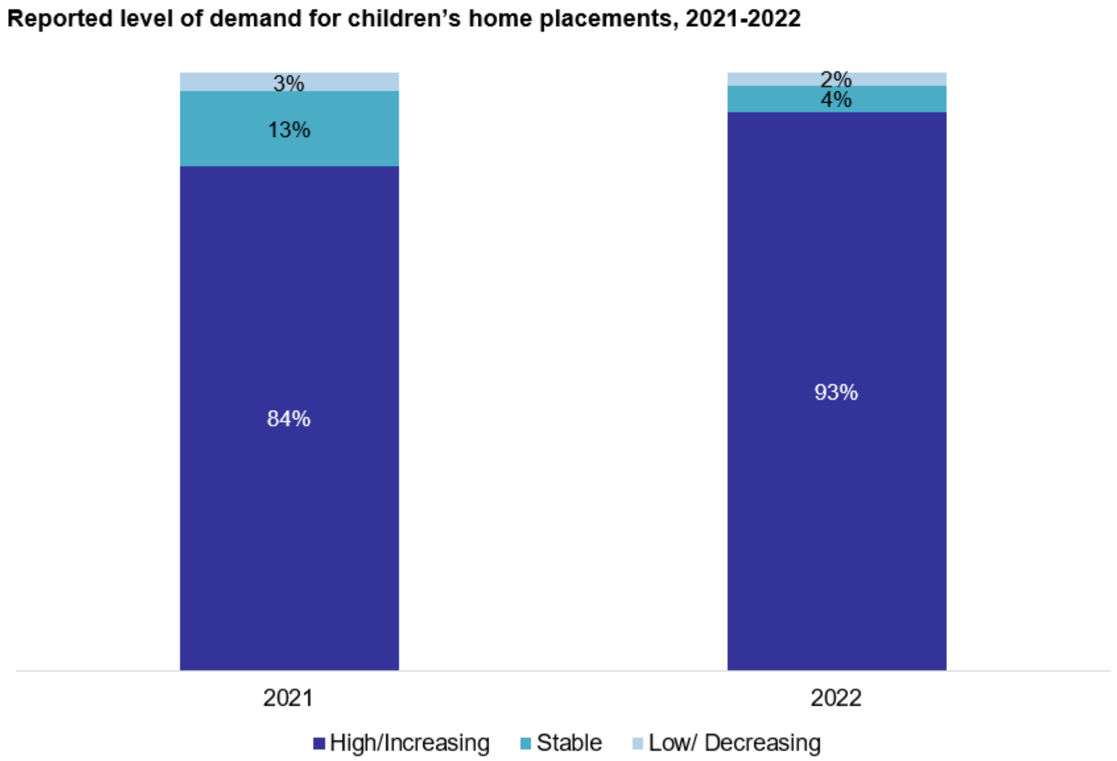

Figure 1- Levels of demand for children's homes in 2021 and 2022 as reported by Connell Consulting interviewees

RCCs are unlikely to gain control of the market unless the root causes of demand for looked after children's residential placements, such as deprivation and family breakdown, are addressed and properly funded solutions are implemented. Recent years have seen a fall in government funding of early intervention and family support, whilst expenditure on statutory care services for looked after children has increased significantly.

Precedents for similar regional resource pooling arrangements in children's social care exist, such as the South West Sufficiency Project, led by South Gloucestershire Council. The South West region had the highest average distance between the homes in which children are placed and their previous home, at 64 miles in 2020 (an increase from 54 miles in 2018). The root cause of the prevalence of long-distance placements is an undersupply of home capacity across local authorities in the region, and although regional resource pooling and information sharing may go some way to reducing the number of out of area placements, it seems unlikely that it will be capable of fully addressing the underlying trends of sustained demand paired and a lack of local provision.

This means that providers remain in a strong position to command high fee rates.

Supply and demand dynamics

Connell Consulting's bank of primary research demonstrates that demand for children's placements remains high, and undersupply is a key issue for most local authority areas. We have conducted 78 interviews with commissioners of children's residential care since 2021. When asked about the level of demand for children's home placements for looked after children, 90% of interviewees stated that demand was 'high or increasing'. This figure increased from 84% to 94% between 2021 and 2022 (see figure 1).

Our data shows that in the majority of local authority areas, supply is insufficient to meet increasing demand (see figure 2). 88% of interviewees reported an undersupply of children's home provision in their area, again increasing from 87% to 89% between 2021 and 2022). Connell Consulting has found that referral numbers continue to significantly outweigh operator capacity in the independent sector, meaning

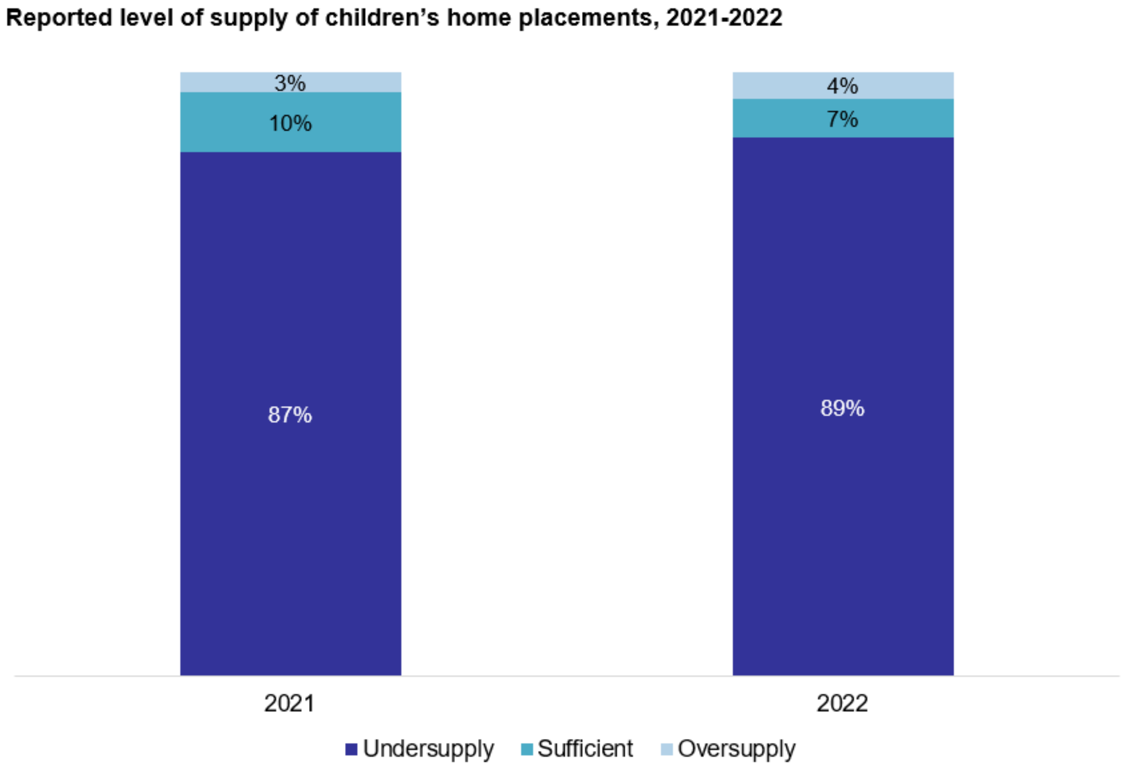

Figure 2- Levels of supply of children's homes in 2021 and 2022 as reported by Connell Consulting interviewees

that operators have a strong position in the market to set fee rates. As one local authority commissioner bluntly stated in a recent interview, '*at the moment, we don't have control of the market, so it's an open cheque book*.'

The most frequently reported drivers of demand for children's services are the increasing complexity of children requiring a placement (78% of respondents), and the rising numbers of children becoming looked after (71% of respondents). Development opportunities are highlighted by most commissioners, many of whom are in urgent need of increased local provision.

It is clear that supply and demand dynamics for independent children's home operators remain strong in England. The government's 'Stable Homes, Built on Love' strategy is likely to have a limited impact on the market, and its divergence from the profit-elimination direction taken by the Welsh and Scottish governments will dispel investor fears of wholesale sector reform. Although some uncertainty remains regarding the role and impact of Regional Care Co-operatives, any change to commissioning processes is likely to be slow, and there will be continued scope for investment and development in independent children's home provision going forward.

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