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EVIDENCE REVIEW

# Reimagining residential children's homes

## Understanding the national picture



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# Understanding the national picture

**Andrew Rome**

## **Introduction**

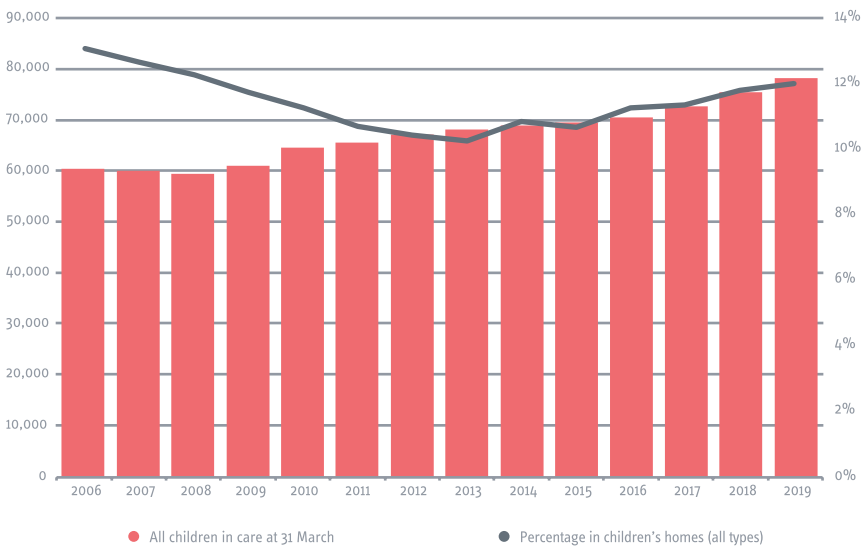
This introductory paper offers a brief overview of children's residential care. It highlights key evidence and data, discusses established and developing trends, and provides a broad outline of the major challenges in commissioning and purchasing. It will be of interest to senior leaders and decision-makers within local authorities, commissioners and residential care providers as background to the other papers in this review, which address some of those challenges in greater detail.

## Trends in children’s residential care

### *The use of children’s residential homes*

Between 2006 and 2019, the overall number of children in care rose by 30%, reaching 78,150 on 31 March 2019 (Figure 1). Across that same period, the numbers of children placed in children’s homes did not mirror this consistently upward trend, however. As Figure 1 shows, between March 2006 and March 2013, the number of children placed in residential care (of any type) fell from 7,900 to 6,930.

Over the following six years, between 2013 and 2019, that trend reversed so that, by March 2019, the absolute number of children placed in residential settings reached 9,500, therefore higher than this population in 2006. However, when considered as a proportion of the total population of children in care, the percentage of children in residential settings was lower in 2019 than in 2006 when they represented 13.1% of the total care population.



**Figure 1: Number of children in care, including percentage placed in residential care, at 31 March (Adapted from Department for Education, 2019)**

In his review of children's residential care, Sir Martin Narey (2016) offered some explanations for this divergence in trends. Many local commissioners and managers had come to view children's homes as 'an anachronism, to be used only as a last resort' (p. 5), which had contributed to a 'dramatic shift ... toward the much greater use of fostering and the marked reduction in the use of children's homes' (p. 69).

Cost has been a further driver in local authorities' preference for fostering over residential care. The high comparative cost of children's homes is often used as the (most expensive) benchmark against which other forms of provision can be shown to offer savings. During 2017-18, for example, local authorities spent an average of £20,400 per child living in foster care; in contrast, the cost of caring for those placed in residential care (a category that includes secure units and children's homes) was £46,600 per child (National Audit Office, 2019, p. 23).

In the context of austerity and significantly reduced local authority budgets, the observed trend of increasing use of children's homes since 2013 runs counter to the preference for foster placement and the imperative to control spending. In part this may reflect an increase in the complexity of children and young people's needs. Narey (2016, p. 6) notes that those living in children's homes today 'tend to be older and significantly more challenging than earlier populations'.

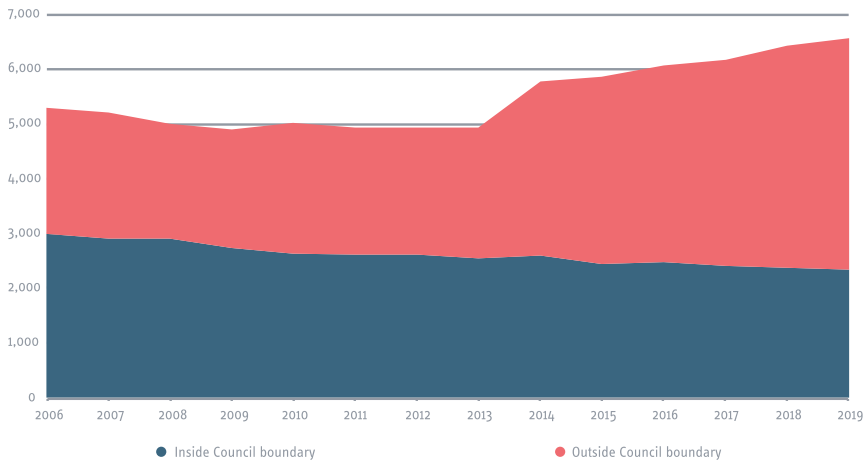
### *Spending by local authorities*

Local authority spending levels for residential care are increasing rapidly, driven by both volumes purchased (Figure 1) and by price trends. While the number of children placed in residential care increased by 9.2% between 2013-14 and 2017-18, over that same five-year period, the real-terms cost rose by 22.5%, from £1.02 billion to £1.25 billion (National Audit Office 2019, p. 23).

This increase takes place within the context in which the overall real spending power of local authorities has fallen by 28.6% since 2010 (NAO, p. 10). Over that period, the proportion of local authorities that have overspent on children's social care has increased – from 63% in 2010-11 to 91% in 2017-18. Children's social care is the only area on which local authorities have consistently overspent since 2010. In 2017-18, the total national overspend on children's social care was £872 million (NAO, p. 32).

*Sufficiency of supply and the rise in out-of-authority placements*

Local authorities are required to take steps to ‘secure sufficient accommodation’ ‘within the authority’s area’ for children in care (s.22G *Children Act 1989*). As Figure 2 shows, however, there is a clear trend towards placing increasing numbers of children outside of council boundaries, which indicates that the sufficiency duty has proved especially difficult to meet when commissioning children’s homes services.



**Figure 2: Number of children in children’s homes (subject to Children’s Homes Regulations) as at 31 March, inside and outside council boundaries (Adapted from Department for Education, 2019)**

*Note: some divergence is due to way in which the government presents the data, with the reclassification of some residential special school places that are registered under Children’s Homes Regulations differently from 2014. However, the underlying trend is clearly towards increased proportions of children placed in children’s homes out of area.*

The reasons for placement of children out of the local authority home area are sometimes related to the need to find a specialised service for specific needs (e.g. deaf, autistic teenagers), or because care plans specify that a child needs to be removed from local gang or drug influences, for example, or to manage specific risks such as child sexual exploitation (CSE).

A recent inquiry by the All Party Parliamentary Group (APPG) for Runaway and Missing Children and Adults (2019), led by former MP Ann Coffey, asserted that the increasing trend for out-of-authority placements is also because of insufficient local supply, with children's homes commonly clustered in areas where housing is cheaper. It has long been the case that areas where property and staffing are more costly, such as London boroughs, have a significant under-supply of local children's homes capacity, and that other parts of the country, such as the North West and the East and West Midlands, have a significant children's homes capacity that is used by authorities from all around the country (Narey, 2016, p. 26; Ofsted, 2018, p. 98, 2019, pp. 13-14); Institute of Public Care, 2015, p.31).

With nearly two-thirds (64%) of children in children's homes in England now living in placements outside their local area (APPG, 2019, p. 7), and with the rapidly escalating use of unregulated independent living settings<sup>1</sup> (p. 16), the APPG concludes that local authorities have not been able to effectively commission an acceptable distribution of children's homes nationally, and that government 'must take responsibility' for improving the supply side of the market (p. 46).

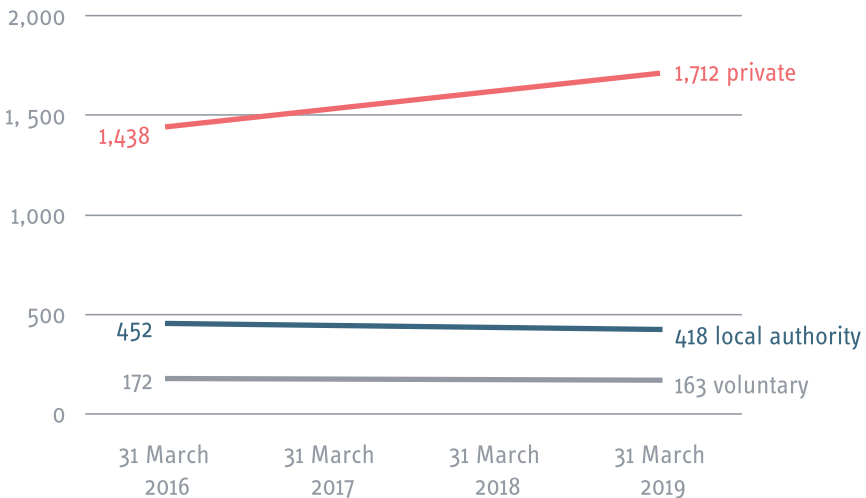
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1 According to a parliamentary written answer to Tim Loughton MP on 2 April 2019, there was a 53% increase between March 2014 and March 2018 in the number of children in care and care leavers living independently in supported or semi-supported accommodation (up from 3, 280 to 5,020). <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2019-03-28/238423/>

*In-house versus independent provision*

A contributing factor to this overall picture is that local authorities themselves are a minority provider of children’s homes services registered with Ofsted. While the total number of homes in England continues to increase, the proportion run by local authorities fell from 26% to 18% between 2012 and 2018 (Ofsted, 2018, p. 96). As Figure 3 shows, the trend in recent years has been towards an increasing number and overall proportion of homes (75%) being run by private companies rather than the voluntary sector or local authorities. With private companies now providing such a high proportion of children’s homes, this renders even more critical the role of local authorities’ role in commissioning and stewardship of the independent sector.

This growth in independent sector provision (i.e. organisations other than local authorities) has been accompanied by some consolidation of providers. Although most of the children’s homes sector is still operated by small and medium-sized providers (60% of available places in the independent sector), the proportion of homes owned by large providers (i.e. organisations that own ten or more homes) has increased in recent years (Ofsted, 2018, p. 97). At 31 August 2019, there were 35 large providers, who collectively owned 47% of all private or voluntary-run homes (Ofsted, 2020, p. 40).

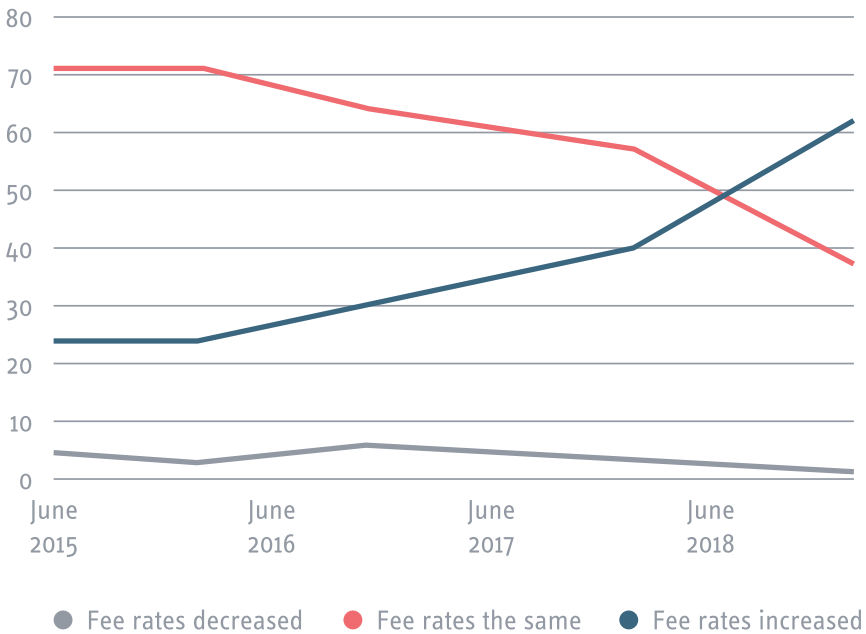


**Figure 3: Increase in the number of children’s homes run by private companies in England since 31 March 2016 (Ofsted, 2019, p. 15)**



### Costs of residential care

Since June 2015, the Independent Children's Homes Association (ICHA) has tracked price trends as reported by its members, in a series of annual 'state of the market' surveys. Until recently, providers as a whole had largely held their prices (Figure 4), sometimes as a result of regional commissioning framework arrangements during the years when fewer children were being placed in residential care. However, the 2019 survey shows that independent providers have grown in confidence and are starting to increase their fees. This is a typical market response to increasing demand and limited supply.



**Figure 4: Percentage of private providers reporting fee rate changes**  
(Adapted from ICHA, 2019)

In February 2019, almost two-thirds (62%) of independent providers reported an increase in fee rates charged. Just over one third (37%) said rates were static, while only one provider reported fee rate reductions (ICHA, 2019, p. 20). (Smaller providers were more likely to hold prices than larger providers; 59% of smaller providers reported no fee rate change.)

## Challenges in commissioning and purchasing

### *Sufficiency of supply*

The growing overspend by local authorities and the increased use of independent sector services, including children's homes and fostering, highlights the critical importance of local authorities' commissioning role and how existing approaches have struggled to meet growing demand.

In January 2019, the NAO reported that 'only 32% of local authorities report that they are likely to have access to enough placements for children aged 14 to 15 years, and 41% for those aged 16 to 17' (p. 23). This unmanaged insufficiency of supply has been described in recent reports from the House of Commons Public Accounts Committee (PAC, 2019) and Housing, Communities and Local Government Committee (HCLGC, 2019).

*There is a lack of residential capacity for children's social care and its use is often unplanned, leading to 'bidding wars' between local authorities for places for children.*

(PAC, 2019, p. 6)

The HCLGC called for 'a review of the current commissioning and procurement system' in order to increase the supply of residential placements, and suggested there may be 'a role for greater regulation of the children's care market to ensure that costs do not rise disproportionately and that there is appropriate competition' (HCLGC, 2019, pp. 5-6). MPs called for the Competition and Markets Authority<sup>2</sup> to investigate the market. They also called on the government and local authorities to 'introduce greater oversight of how different care placements affect outcomes for children and their value for money'.

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2 The Competition and Markets Authority (CMA) is an independent, non-ministerial government department that works to promote competition for the benefit of consumers. [www.gov.uk/government/organisations/competition-and-markets-authority](http://www.gov.uk/government/organisations/competition-and-markets-authority)

### *Shortage of places in secure children's homes*

Sufficiency is arguably even more of a concern in relation to secure children's homes in view of the acute levels of need of the children involved. Recent court judgments have highlighted the impact of a shortage of suitable beds. In *O (A child: No Available Secure Accommodation)* [2018] EWFC B60, Judge Mary Lazarus criticised the lack of secure provision, saying she had been 'driven not to grant a secure accommodation order for a child who needs one due to the unavailability of appropriate placements'.

*This case represents yet another sorry example of the state failing a child in need, and highlights the impact of there being far too few secure accommodation places for children like O.<sup>3</sup>*

And in *T (A Child)* [2018] EWCA Civ 2136, the court noted the shortage of secure places was leading to multiple applications for permission to restrict the liberty of young people who local authorities were seeking to place, for example, in children's homes that are not approved for secure accommodation.

*It is plainly a matter for concern that so many applications are being made to place children in secure accommodation outside the statutory scheme laid down by Parliament. The concern is not so much because of the pressure that this places on the court system, or the fact that local authorities have to engage in a more costly court process; the concern is that young people are being placed in units which, by definition, have not been approved as secure placements by the Secretary of State when that approval has been stipulated as a pre-condition by Parliament.<sup>4</sup>*

### *Commissioning and complexity of need*

The complexity and diversity of needs of children and young people cared for in residential homes is a key challenge for commissioners and providers. Aggregate indicators – national statistics that relate the number of children placed in children's homes or the total number of registered places, for example – tell us only part of the story. Children and young people in residential settings present a range of needs and behaviours that are anything but homogenous.

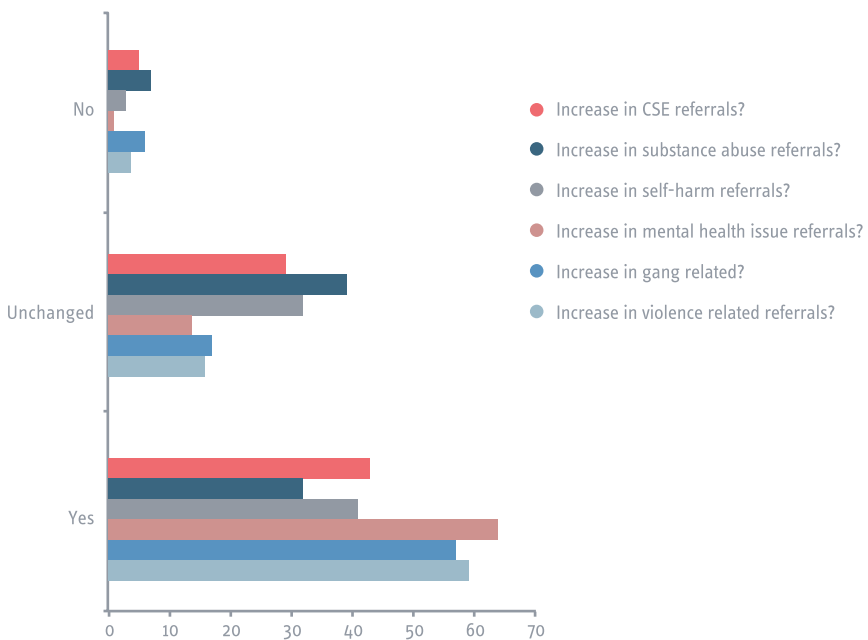
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3 [www.familylawweek.co.uk/site.aspx?i=ed193136](http://www.familylawweek.co.uk/site.aspx?i=ed193136)

4 [www.familylawweek.co.uk/site.aspx?i=ed193091](http://www.familylawweek.co.uk/site.aspx?i=ed193091)

As long ago as 2012, Berridge et al. (p. 4) noted that the emphasis on ‘using foster placements wherever possible’ was leading to children’s homes being used ‘principally for older children with more serious difficulties, who may have difficulty settling in foster care or who may not want a foster placement’. Complexity of need among the residential care population was noted by Narey (2016, p. 6) in his review of the sector, including high rates of ‘significant mental health difficulties’ and ‘violent or aggressive behaviour’. Indeed, the ‘most prevalent theme’ in evidence submitted to the review was that children in residential care ‘often have the most complex needs of the looked after population’ (p. 75).

Recent ICHA survey findings confirm that providers are reporting increasingly complex levels of need among rising referrals from local authorities. Figure 5 is based on data from the February 2019 survey, and shows which needs are being described most frequently. (Respondents were asked if they were receiving increased referrals for each of the six different needs shown.) In all cases except substance abuse, a large majority confirmed they were seeing increased prevalence in these types of need in local authority referrals.



**Figure 5: Number of children’s home providers reporting an increase in types of referral (ICHA, 2019, p. 13)**

In their review of residential provision more than a decade ago, Clough et al. (2006) highlighted this complexity when looking to disaggregate residential provision. As well as the different types of service (children's homes, provision for disabled children, secure provision, etc.), the authors highlighted functional differences (e.g. respite, assessment, emergency, permanence, long-stay, protection, custody, mental health treatment), differences in size, staffing intensity and therapeutic approach, and different diagnoses of need (including emotional and behavioural difficulties, autistic spectrum disorders, mental health difficulties, learning difficulties, physical and communication disabilities).

Yet many of the regional commissioning frameworks developed over the last decade have not attempted to disaggregate the sector at all, or have used broadly defined criteria as the basis for commissioning large numbers of placements at once, known as lot-based structures. In their review of the residential care market for the Department for Education, the Institute of Public Care (2015) drew attention to the 'poor communication about needs from local authorities to the market', while providers who took part in focus groups with IPC researchers attributed high rates of inappropriate referrals (sometimes 'up to 95%') to purchasing systems 'that appear to treat all needs in a similar fashion' (p. 30).

Procurement exercises are dominated by systems that pre-qualify provider services for subsequent spot purchase activity, with providers approached only as each case of a young person in need arises. For providers, this means widely varying and volatile demand patterns (ICHA, 2019, p. 15), with little or no certainty or surety regarding future need for their services. In response, providers have typically developed their services based on historically experienced demand, and their pricing is influenced by the uncertainty of that demand.

Examples of local authorities coming together to commission new capacity and to share risk are relatively rare. However, examples such as the Cross Regional Residential Project involving Buckinghamshire, Oxfordshire and neighbouring authorities do illustrate the potential for such approaches (Narey, 2016, pp. 12-13).<sup>5</sup>

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5 In 2008, six local authorities (Buckinghamshire, Oxfordshire, Reading, Bracknell Forest, Milton Keynes and Hertfordshire) agreed to work together to commission a service for residential provision for children in care who have complex social, behavioural and educational needs. The project provides therapeutic residential care for young people within the Thames Valley area, who might otherwise be placed in high-cost placements a long way from home.

*Diversity among providers*

For commissioners, the diversity of scale and type of provider that is characteristic of the residential care marketplace represents an additional challenge. The many different sizes and types of provider include non-incorporated partnerships, charities, private individual-owned limited companies, private equity backed groups and stock market public limited companies.

Larger providers have brought additional factors that need to be managed. Private equity investors have leveraged projected future profit streams, and borrowed against those projections. This has brought an increased level of financial engineering and sustainability risk into the sector as well as high levels of debt for providers. As yet, the Competition and Markets Authority has not substantially intervened in children's homes activity as consolidation has continued.

Although there are many small and locally based operators, the largest providers of residential children's homes often provide a range of other services, including foster care and residential special schools and operate on a scale large enough to be contracting with local authorities across all regions of England.

In their review of foster care in England, Narey and Owers (2018, p. 68) called for local authorities to come together to create large commissioning consortia 'with critical mass' to negotiate improved agreements with providers to provide fostering placements 'at significantly reduced cost'. They further recommended that commissioning consortia should appoint national account managers to work with the larger fostering providers. This would reduce the likelihood of consortia 'competing against each other as local authorities do now', and help ensure no local authority is having to abide by pricing agreements that are much poorer than those negotiated by other councils. A similar recommendation would appear to be relevant in relation to children's homes providers also.

*Need for outcomes information and the impact of Ofsted ratings*

There is no doubt that focusing on spending, and easily measurable prices and costs, provides commissioners with some relatively clear financial indicators with which to work. A far greater challenge for commissioners is having access to indicators that will consistently and reliably measure quality of service, value for money and outcomes achieved.

Providers who took part in the IPC's focus group were 'highly frustrated' that their services were being used as a 'last resort', when they felt that the evidence base suggests residential care can deliver 'significant long-term efficiencies'. They felt commissioners were not being supported to make professional judgments about value for money (i.e. which take into account the long-term outcomes), but were instead often responding to pressure to stay within annual budgets (IPC, 2015, 31).

Measuring progress of outcomes in meeting the very complex needs of many children and young people placed in children's homes is a detailed and challenging task. National outcomes indicators used for children in general and children in care as a whole (for example, five A\*-C grade GCSEs at Key Stage 3, or generic Strengths and Difficulties (SDQ) score) are too insensitive for use in understanding the progress made by children living in residential homes. There have been efforts to develop more appropriate output and outcome measurements for the residential sector. These include regional commissioning and efforts to introduce national standard contracts, but to date there has not been a consistent unified approach across the country.

One consequence is that Ofsted inspection ratings of children's homes have become the de facto (and only) indicator consistently used by commissioners and procurement processes. As Narey (2016, pp. 49-50) notes, it is typical to find local authority commissioning strategies and procurement conditions that overtly state that only homes rated 'good' or 'outstanding' will be preferred for placements – even though a home that 'requires improvement' 'is an adequate home' (p. 49). For providers, the consequences of slipping, even briefly, from a judgment of 'good' to one of 'requires improvement' are 'potentially dire' (p. 50).

This can lead to providers taking a 'risk averse' approach and being unwilling to accept a referral if they think an inspector may perceive them as not being able to meet all that young person's needs, thereby leading to a judgment downgrading (IPC, 2015, pp. 30-31). ICHA's (2019) most recent survey of independent providers confirms that homes may decline referrals for fear of adversely affecting their Ofsted rating. Indeed, providers report this as a major factor why, despite the extraordinary high current demand, vacant places are not always filled.

*Providers perceive acute risks to their Ofsted grading should they be judged by the regulator to have accepted a referral later judged as a mismatch to a vacancy. This has been a strong theme in each of the last two surveys. Providers report that despite the apparent shortage of children's homes placements local authorities will not consider homes with a rating less than 'good'. As a consequence there is clearly reported risk aversion in the selection of referrals that are considered by each provider.*

(ICHA, 2019, p. 12)

### *Market responsiveness*

In a healthy and traditionally functioning market, excess demand driving up suppliers' prices could be expected to attract further investment in capacity growth, either from existing or new investors. However, both Ofsted data (2019) and ICHA's (2019) survey of providers suggest sluggish capacity building in response to high levels of excess demand. This is further indication of low investment in a sector that is not reacting in the usual market fashion.

Analysis in Ofsted's official statistics attributes this, in part, to a shift towards smaller home sizes:

*The consistent pattern over the last four years has been of homes increasing at a greater rate than places. While the number of all children's homes increased by 11% between March 2015 and March 2019, the number of places increased by 3% over the same period.*

(Ofsted, 2019, p. 12)

This trend would be consistent with an increase in the complexity and severity of needs of the cohort placed in children's homes. Purchasers' requirements would be for places in smaller homes, with higher staffing ratios, and in multi-occupancy homes to carefully match referrals to the home's capabilities and the needs of the resident cohort.

According to the latest ICHA survey, while nine out of ten providers are investing in their existing service provision (to maintain or enhance quality or outcomes), just two-thirds (65%) are 'considering additional capacity added to existing homes or invested in new homes altogether' (ICHA, 2019, p. 31) – despite over 90% reporting levels of referrals either staying the same as the previous year or increasing.

Provider organisations who responded to the ICHA survey suggested that stronger partnerships with commissioning authorities, and greater risk sharing in terms of occupancy levels, would increase confidence in the sector (pp. 16-17). Providers said they would be more likely to consider further investment if 'demand and forecast information were available' and 'occupancy and usage could be guaranteed' (p. 17).



## Conclusion and government response

Historically, central government's response to the range of complex and inter-related challenges discussed above has focused on attempts to encourage better commissioning practice at local authority level – for example, through the Commissioning Support Programme, which operated between 2008 and 2011, and the Centre for Excellence and Outcomes (C4EO) (for more information on both, see PriceWaterhouseCoopers, 2011).

Current initiatives include the National Stability Forum (NSF) and the Residential Care Leadership Board (RCLB), both hosted by the Department for Education. The aim of the NSF, which brings together senior leaders from across the sector, is to improve permanence and stability for all children and young people in or around the care system. The RCLB was set up in 2017 following Sir Martin Narey's (2016) review, with a remit to drive improvements in the residential care system, and in particular to take forward the recommendations in Sir Martin's report.

A number of projects funded through the Department for Education's Children's Social Care Innovation Programme are looking at improvements to commissioning.<sup>6</sup> The impact of these initiatives is ongoing and has yet to be fully evaluated. And between 2016 and 2020, the government is providing £40 million through its capital grants programme to improve facilities at secure children's homes and develop additional capacity.

Nevertheless, there is clear evidence – from national data and the succession of reviews and reports, including by parliamentary committees, discussed above – that the supply side of the children's residential sector is not operating well as a market (HCLGC, 2019; ICHA, 2019; IPC, 2015; Narey, 2016; PAC, 2019). The fact that there have been concerted efforts, at national and local level, to improve commissioning over a ten-year period suggests the children's residential market faces particular challenges that are difficult to influence. And while demand continues to increase, the ongoing shortages of supply must logically be limiting choice and the availability of vacancies appropriate to the needs of individual children and young people.

An increasing number of voices are calling for the government to take a more active role. Some call for greater combined activity by groups of local authorities, including the re-establishment of publicly owned capacity, and some are calling on commissioners and providers to work together in different and deeper partnership styles. Calls for additional funding are likewise heard from all sides. These options for change, and their implications, are discussed in the range of papers in this review.

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6 For example, the South London Commissioning Programme (<https://innovationcsc.co.uk/projects/south-london-commissioning-programme/>) is a group of eight London boroughs that are jointly developing an integrated commissioning solution for both residential and foster care. The North East London Commissioning Partnership (<https://innovationcsc.co.uk/projects/havering-north-london-commissioning/>) is seeking to create new residential capacity within the sub-region by block contracting up to 35 beds from a consortium of local providers.

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# Reimagining residential children's homes

## Understanding the national picture

Research in Practice aims to support the children's sector to use research in the design and delivery of services, to help secure better outcomes for children and families. We make reliable research more accessible – summarised and interpreted with the particular needs of those working with children and families in mind.

This series of publications explores key issues identified by strategic planners, policy-makers and practitioners. It provides insights into current debates, research findings, practice developments and user experiences to inform the development of the residential children's care sector. The series will be of particular interest to strategic leaders, commissioners and decision makers in children's social care. We will release each individual think piece separately before releasing them together as a larger publication in late spring 2020.

This think piece on *Understanding the national picture* out why the children's homes market place (as it is commonly referred to) is unsustainable in its current form. Different explanations for this problem are presented along with various solutions and options for reform to promote debate in this area.

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