

Private provision in children's social care

November 2020

Foreword

The care system contains many talented and tireless staff who provide excellent care, but the unfortunate reality is that the system still fails some children. The yearly Stability Index for children in care produced by this office shows that 1 in 10 children in care experience two or more home moves during a year, and more than half of children in care will have at least one home move in three years. Our research on so-called “out of area” placements, shows that over 30,000 children in care are living in one – including 2,000 children who are more than a hundred miles away from home. Furthermore, over the course of a year, 1 in 8 children in care will spend some time in an unregulated placement. The Children’s Commissioner’s advice service, Help At Hand, encounters new cases every day of children who are being let down by the care system.

Over the last decade, the challenge of providing capacity to care for the most vulnerable children has increasingly fallen to the private sector as the demand for care has grown and local authority provision has not kept pace, or even shrunk in some areas. There were over 11,000 more children in care in 2019 than there were in 2011 – 73% of those additional children were cared for by private organisations. Over the last decade, we have seen expansion from both smaller providers (who might own one or two homes) and major private equity investment.

This report reviews the market for provision in children’s social care and focuses on private provision, given its growth and consolidation in recent years. It explores the profits made by private companies and what their involvement means for children. It also raises questions about the way some large private providers are financed, potentially creating risks and instability for the functioning of the market – and ultimately for the children in their care.

More importantly, however, this report shows how little data we have on the system that provides crucial care to the most vulnerable children and the people and companies that operate it. Information on the ownership, accountability, profits, costs, prices of different providers is rare and opaque, requiring detailed and complex investigation in order to get a clear picture – which can then change in a matter of months. Furthermore, there is a clear lack of planning and oversight for the market as a whole, leading to an increasingly fragmented, uncoordinated and irrational market that ultimately does not meet the needs of children.

If there is a reason for these flaws is not that anyone built the care system incorrectly, but that no one set out to build it at all. The responsibility for making the system work has fallen through the cracks. The growth in private provision may not have been a deliberate policy choice but a consequence of options and funding available to local authorities. Commissioning can and should be used by local authorities to shape and direct the private market where it is needed, but in too many cases currently they lack either the administrative capacity or the will to do so. Planning and forecasting for need at a national level is not undertaken by anyone except large private providers.

Children we have spoken to are by and large not concerned by who owns their children’s home or who their foster carer works with, but they do care deeply about the care they receive and the people who give it. They talk to their friends about the differences between homes and they notice when their foster carer changes providers. It is our responsibility as a country and as adults to build, understand and maintain a system that gives safe, reliable and nurturing care for *every* child – regardless of who owns the provision.

In the short term, there is an opportunity to use the Spending Review to drive up capacity in the care system via capital funding for local authorities. In the longer term, the Care Review should provide a full rethink of how to structure, operate and fund the system of providing care for vulnerable children. A good social care system should be able to find an appropriate home for every child in care, but also prevent entry into care

where it is avoidable. It would value the wishes of the child, especially their need for stability and the desire to be close to home. It would also have the data, tools and incentives to ensure that the money poured into the system is consistently delivering excellent outcomes for children and setting them up to do well in life.

Building a good care system cannot be done overnight, and the need for stability on the part of children means it should not be done from scratch. But the process of solving these problems can and should be started now, building on the best of what is currently there.

Acknowledgements

This report has benefitted from discussions with a wide and diverse range of stakeholders and experts, including (but not limited to) representatives from ADCS, LGA, Department for Education, Ofsted, HM Treasury, Competition and Markets Authority, National Audit Office, Nationwide Association of Fostering Providers, and the Independent Children's Homes Association. Thanks are also due to Bernie Brown, Alan Wood, Martin Barrow, Alfred Foglio and Andrew Rome, for valuable comments, insight and challenge. Finally, our conversations with children and young people who are in care or care-experienced have, as always, been an invaluable source of information and evidence. All analysis, findings and interpretations remain the responsibility of the report authors, unless otherwise stated.

Contents

Foreword	1
Executive summary.....	4
Children’s experiences of private care	4
Introduction.....	5
Private providers in children’s social care: an overview	6
Evidence on the implications of private provision	8
Profit making	8
Ownership, transparency and accountability.....	12
Competition, market power and price setting	14
Financial risk and instability	18
Quality of care	22
Children’s experiences of private provision	24
Foster care	24
Residential care	25
Conclusions and recommendations	27
Conclusions.....	27
Recommendations.....	28
Annex: Analysis of profit and risk in financial records	30

List of figures

Figure 1. Children looked after on 31st March	6
Figure 2. Number of looked after children by type of provider, 2011 to 2019.....	6

List of tables

Table 1. Reported income and profits for children’s services of large independent providers (from LGA report)	9
Table 2. Share of independent children’s homes owned by the largest providers.....	15
Table 3. Share of independent fostering placements owned by the largest providers	15
Table 4. Example debt/EBITDA ratios.....	19
Table 5. Example interest cover ratios	19
Table 6. Ofsted ratings of children’s homes by ownership type, March 31st 2019.....	22
Table 7. Ofsted ratings of independent fostering agencies by ownership type, March 31st 2019	23
Table 8. Annual profit in residential care and specialist schools.....	31
Table 9. Annual profit for large private fostering providers.....	31

Executive summary

The number of children in care has grown consistently over the last decade and this growth has mostly been accommodated by the growth of the private sector. Private provision accounts for 73% of the growth in the number of children in care between 2011 and 2019, and the number of children looked after in private provision increased by 42%.

The best available estimates suggest that large private providers make a profit margin of around 17% on the fees they receive from local authorities. In other words, for every £100 they charge, around £17 is operating profit. Across the sample of large providers considered in this report, this works out to roughly £240 million in total. However, 17% is an average figure across several different companies and does not describe the experience of every firm. While this is based on relatively recent data it can quickly become out of date, with new accounts regularly being filed.

The two largest providers in each market together account for 14% of children's homes (CareTech and Keys Group) and 31% of fostering placements (Outcomes First and Nutrius). These levels of concentration would not be classed as a monopoly power, but they are only aggregate national figures. It is possible that in a particular local area there could be local monopolies, especially at a certain time or for placements catering for specific needs.

On average, variation in quality of care – as measured by Ofsted ratings – between local authority and large private children's homes is small. There is evidence, however, that smaller private providers have lower Ofsted ratings than larger private providers or local authority provision, suggesting potential problems with quality. But at the same time, the overwhelming majority of provision is rated "Good" or "Outstanding" regardless of whether it is publicly or privately owned.

A recurring theme throughout this report is that there too often is not enough information available to answer important questions about how well this aspect of the care system operates. There is limited information on profits, costs structures and debts, while detailed data on pricing, needs, capacity and competition is also limited.

Children's experiences of private care

Overall, children were more concerned about the quality of care they receive and the relationships they have with carers and staff, rather than private ownership or a particular model. Good and bad experiences were reported across private and public provision.

Only 2 out of 22 children and young people we interviewed who had been in foster care felt it mattered whether their foster carer was registered with an independent fostering agency (IFA), a charity or a LA, while six of these children did not even know which type of provider their foster carer was registered with.

Children and young people expressed stronger views about ownership in residential care than foster care, but not in any consistent direction. Of the 8 children interviewed with experience of residential care, they were evenly split on whether ownership mattered. Some expressed a preference for LA-run homes, while others expressed the opposite, but the children picked up on important nuances in the way their care was organised, such as the prevalence of branding or the relationship between homes and special schools.

Introduction

This report explores a range of questions about the involvement of private providers in the care system, in order to understand their role in the functioning of the care market. It begins with a summary of the children's social care sector, how private providers fit into it and who those providers are. It considers the following questions around private sector involvement:

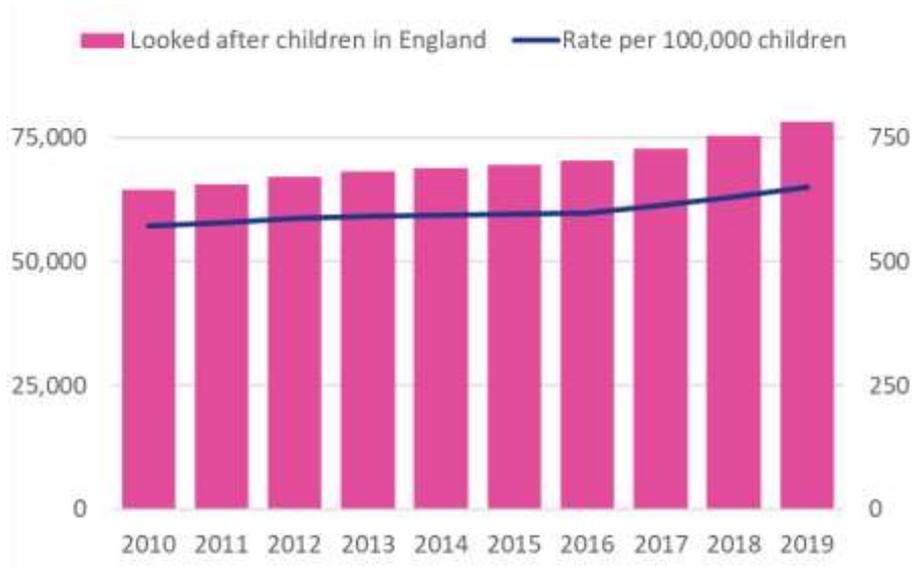
- > **Profit making:** *How much profit do private providers make? How do private providers make a profit?*
- > **Ownership, transparency and accountability:** *Who owns private providers? What does private equity involvement mean for children?*
- > **Competition, market power and price setting:** *How concentrated is the market for independent provision? Do private providers have the power to set prices?*
- > **Financial risk and instability:** *What financial risks do private providers face? What do takeovers and mergers mean for children?*
- > **Quality of care:** *How does the quality of care vary by type of ownership?*

Our ultimate concern is not with private provision itself, but whether the market for care provision serves the best interests of children. This report therefore includes findings from speaking to children in care or with care experience about their perspectives on ownership in the care system.

Private providers in children’s social care: an overview

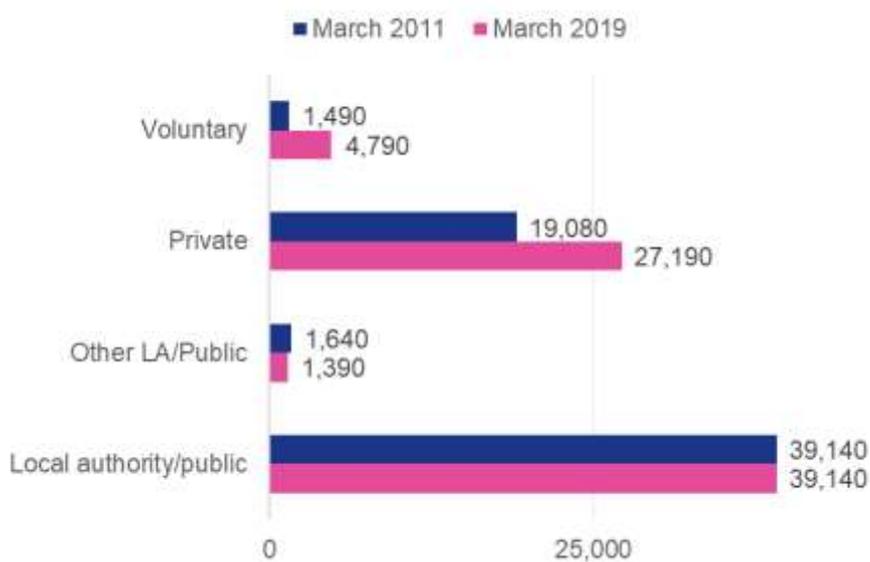
As shown by the figure below, the number of children in care in England has risen from 64,400 in March 2010 to 78,150 in March 2019 – an increase of 21%.

Figure 1. Children looked after on 31st March¹



Independent provision has become more prevalent over the past 10 years. As the graph below shows, between 2011 and 2019 there was no overall change in the number of children in care looked after through local authority provision. However, there has been an increase of 55% in the number of children in care looked after in independent (voluntary or private) provision. This includes an increase of 42% for private provision. Overall, private provision accounts for 73% of the growth in the number of children in care over this period.

Figure 2. Number of looked after children by type of provider, 2011 to 2019



2

¹ Source: Department for Education, Children looked after in England including adoption

² Source: DfE, Children looked after in England including adoption

Most children in care in England – almost 55,000 – are in foster care.³ Here private provision takes the form of independent fostering agencies (IFAs) from which local authorities can commission a foster placement. Nationally, around 35% of fostering households are registered with an IFA, but there is significant variation across the country with as many as 60% of foster carers working with IFAs in some areas.⁴

Other children are looked after in residential care, i.e. children’s homes. Many children’s homes are operated directly by local authorities, but a large and growing number are operated by the independent sector. This consists of a wide range of providers, including charities and community interest companies run on a not-for-profit basis. It also includes some large companies that provide a wide range of services across a large geographic area.

The largest single provider of children’s homes is CareTech, a publicly traded healthcare company worth £495m⁵ that operates in both the children’s and adult’s social care sectors. It operates under the CareTech brand directly, but has also acquired other subsidiary brands, including Cambian and By The Bridges.

Private investment in CareTech comes through its public listing on the London Stock Exchange. Every other company providing children’s social care is privately held (as opposed to publicly listed), with the additional exception of Priory Group, whose owner is listed on the US stock market. Investment in private providers therefore comes from a number of sources, including private equity, commercial loans, and other large companies looking to invest in care providers.

There have been a number of recent mergers and takeovers among private providers in the children’s social care market. Four of these have been referred to the Competition and Markets Authority (CMA), all of which were subsequently approved by the CMA.⁶

There are currently no restrictions on the ownership of providers, except in the case of secure children’s homes (SCHs) which private firms cannot invest in. This means that within the rest of the care system, a child could be cared for by a public, private or voluntary organisation depending on the placements available to them and the judgement of the local authority.

³ DfE, Children looked after in England including adoption

⁴ Narey/Owers, Foster Care in England: A Review

⁵ <https://www.londonstockexchange.com/stock/CTH/caretech-holdings-plc/company-page?lang=en> accessed 11/9/20

⁶ CMA, [National Fostering Agency/Acorn Care 1 merger inquiry](#); [Core Assets Group/Partnership In Children’s Services merger inquiry](#); [CareTech/Cambian merger inquiry](#); [National Fostering Agency/Outcomes First Group merger inquiry](#)

Evidence on the implications of private provision

Profit making

How much profit do private providers make?

The best available estimates suggest that large private providers make a profit margin of around 17% on the fees they receive from local authorities. Across the sample of large providers considered in this analysis, it works out to around £240 million profit in total. However 17% is an average figure across several different companies and it can quickly become out of date, with new accounts regularly being filed.

Private providers are not obliged to report the profitability of their children's social care activities, meaning there are no comprehensive statistics on the levels of profit made across the sector each year. The best route to understanding the profitability of these companies is via financial statements filed with Companies House.⁷ For this report we have gathered financial statements up to March 2020 for the largest private providers. The following data was correct and up-to-date and at the time the figures were collated although more recent reports for a number of companies have now been filed.

As an example⁸, the latest Companies House records show that Witherslack made an operating profit of £10.7 million in the year ending 31st August 2019, equal to 14.2% of their overall turnover.⁹ CareTech made a profit of £73.5 million from turnover of £395 million (a rate of 18.6%) in the year ending September 2019.¹⁰

However, these figures cannot easily be described as the profitability of each company because of a number of additional complexities, including:

- > Both figures refer to profits before taxes and loan repayments.
- > Both companies expanded during the time period in question (Witherslack opened 4 new schools and 6 new homes during the time period while CareTech paid £360 million for a competitor), meaning the profits are not related to a fixed provision of care.
- > The time periods in question are not the same.
- > Both records include sources of revenue other than local authority care fees; for CareTech this includes services provided overseas.
- > Both refer to periods of time that stretch back to two years ago, despite being the most up-to-date figures on profits in the sector.

While the figures do indicate that the legal entities of Witherslack and CareTech made £10.7 million (14.2%) and £73.5 million (18.6%) in operating profit over a certain period by a certain definition, this information does not on its own tell us how much local authority money going in as fees comes out as profit.

A further limitation of financial records as a source of information on profitability is that only larger companies are obliged to provide such information. Even among large private providers, a number of

⁷ This is not specific to children's social care providers – all companies have to provide reports to Companies House

⁸ Each example of profitability in this section should be considered illustrative of the information available for all providers through Companies House, rather than an assessment of their specific financial situation.

⁹ [Companies House, Witherslack filing history](#) accessed 12th August, 2020

¹⁰ [Companies House, CareTech filing history](#) accessed 12th August, 2020

companies made use of a size-related reporting exemption.¹¹ As one example, Care Today operates a number of residential care settings and a fostering agency but is only obliged to provide limited account details.

Nonetheless, financial statements from Companies House are the best available tool for understanding the scale of profit in private children’s social care and have been analysed accordingly. A recent report¹² from the LGA based on the financial records of a sample of 16 providers of residential care and fostering found a total profit of £239 million per annum, equal to 17.4% of their income.

Table 1. Reported income and profits for children’s services of large independent providers (from LGA report)¹³

Owner	Year ending	Income (£m)**	EBITDA (£m)***	EBITDA %
NFA	Dec 2018*	£324.2	£65.5	20.2%
CareTech	Sep 2019	£271.4	£63.2	23.3%
Core Assets Group	Dec 2018*	£218.1	£30.7	14.1%
Priory	Dec 2018	£143.9	£38.5	26.7%
Keys	Mar 2019	£79.4	£7.4	9.3%
Compass	Mar 2019	£61.1	£9.7	15.9%
BSN Social Care	Mar 2019	£41.1	£7.4	18.1%
TACT	Mar 2019	£36.8	-£0.9	-2.3%
Capstone	Mar 2019	£34.0	£4.7	13.8%
Five Rivers	Sep 2018	£33.1	£0.8	2.5%
Horizon/Educare	Aug 2018	£30.1	£2.7	9.0%
Together Trust	Mar 2019	£28.8	£2.6	8.9%
Hexagon	Mar 2019	£23.7	£3.0	12.6%
SWIIS	Sep 2018	£17.1	£0.1	0.5%
Esland	Nov 2018	£15.8	£3.2	20.2%
Bryn Melyn	Mar 2019	£14.2	£0.6	4.1%
Total		£1,372.9	£239.2	17.4%

* Figures come from combined reports of subsidiaries or subsequently merged companies. The year ending reflects the date of the most recently ending report.

** Income specifically from children’s services, as defined in each financial report.

*** EBITDA stands for Earnings before interest, tax, debt and amortisation, and is a measure of profit that strips out all debt-related costs

¹¹ Medium-sized companies are only required to include a (less detailed) profit and loss account and a balance sheet. In addition, there are further exemptions (e.g. from audit or their directors report) available to medium-sized companies. More detail is available [here](#).

¹² Profit making and Risk in Independent Children’s Social Care Placement Providers, Revolution Consulting for the Local Government Association, January 2020

¹³ Adapted from Figure 6 of Profit making and Risk in Independent Children’s Social Care Placement Providers, Revolution Consulting for the Local Government Association, January 2020

CCO's own independent analysis, which focused on a slightly different sample of 14 providers (including providers of special schools), produces similar results with a total operating profit in the sample firms of £255.0m at a rate of 15.3%.¹⁴ Ultimately, these figures are an imperfect but best available estimate of the profitability of larger providers as they were a year ago or more.

To some extent it is true that profit kept by a provider (and not reinvested in provision) is money that is not being spent to benefit children. However some level of profit may be necessary, or at least expected, for a range of reasons:

- > At least some profit will reflect “capital costs”, i.e. the opportunity cost of not investing the capital anywhere else. This is a cost that would also be faced by local authorities if they were providing the provision themselves. For example, an LA investing in a children's home would have to borrow money and pay interest. In other words, at least some of the “profit” is not money that is being taken out of the system compared to a public counterfactual.
- > A further cost that private providers take on separately from public providers is the cost of holding risk. Many local authorities may exhaust their in-house capacity (if it exists) before commissioning placements in private provision. This means that private providers often hold the risk of unused capacity. Part of the fees they receive could be seen as compensating for this risk.

Nevertheless, there has been some evidence in the past that returns on private investment are higher than might be expected. For example, the Narey review of Fostering¹⁵ found that investor returns on providers bought and sold ranged between 23% and 38% during the five years preceding 2017, significantly ahead of mainstream stock market or private equity returns.¹⁶ In its final decisions regarding both the NFA/Acorn¹⁷ and Core Assets/Partnerships in Care¹⁸ mergers, the CMA suggest the possibility of above-market returns. The previously cited research for the LGA also finds that the level of profits being made by large providers have been increasing over time.

In both the Narey review and the CMA decisions, the existence of above-market returns was taken as a signal of a lack of effective competition between providers.¹⁹ The dynamics of competition in this area are discussed in Section 3.3.

¹⁴ A full description of the analysis and how it compares to the LGA report is available in an annex

¹⁵ Narey/Owers, Foster Care in England: A Review

¹⁶ By contrast, the FTSE 100 rose by 9.7% between January 2012 and January 2015.

¹⁷ CMA, National Fostering Agency/Acorn Care 1 merger inquiry. In footnote 43, the CMA note that high variable profit margins can indicate high potential price effects, but the content to which it is referring is redacted due to commercial confidentiality.

¹⁸ CMA, Core Assets/Partnerships in Care Services merger inquiry. p66 e) “The CMA found some evidence to suggest that IFAs’ variable profit margins appear high”

¹⁹ From the Narey review on fostering: “prices in some of these larger providers appear to be inflated by the burden of very large profits taken by investors when businesses have been bought and sold. Disappointingly, competition from other IFAs, both private and charitable has not, as one would expect, always undercut the prices of the debt-burdened operators.”

How do private providers make a profit?

Private providers simultaneously make a profit and provide services at a price local authorities are willing to pay. There is enough evidence to suggest that private providers are able to take advantage of economies of scale, lower staff costs (compared to local authority provision) and specialisation in particular types of care, in order to create a 'wedge' between the fees they receive and the costs they incur.

The growth in the use of private provision implies that these providers can provide services at a price LAs are willing to pay while making a profit in the process. There is a lack of independent, comprehensive evidence on the differences in cost structures between public and private provision, so it is not possible to state definitively how private providers extract this margin.

Part of how private providers are able to create this "wedge" comes from finding ways to operate with lower costs (conditional on the type and quantity of care they provide) than local authorities. This is borne out by, for example, a report by the PSSRU²⁰ that showed the average unit cost of independent children's homes was £3,596 per week compared to £4,750 per week for local authority provision.

There are a number of other potential factors that could allow private providers, and large private providers in particular, to make savings:

- > Larger private providers are able to draw on economies of scale that local authorities, particularly smaller ones, are not. A common example is the ability of large providers to reduce the reliance on expensive agency workers and instead smooth gaps in staffing between different homes by reallocating staff. One children's home manager interviewed as part of this research reported that they had been able to eliminate their use of agency workers entirely after being taken over by a larger provider. Other examples include the ability to hire and effectively utilise specialist staff, such as child psychologists, who can travel between different homes as and when they are needed. Providing these staff in-house may not be viable for local authorities or smaller providers.
- > In residential care, there may be differences in wage costs or pension costs. It is very difficult to substantiate this, but one children's home manager interviewed estimated that a starting salary in a private care home is around £22k per annum, while in a public home it would be between £26k and £32k per annum.

In practice, the relationship between cost factors and provision is much more complicated than these broad factors would suggest, and other factors suggest *higher* costs for certain types of private provision. For example, IFAs on average pay *more* in fees to foster parents than local authorities pay to their in-house foster parents.

In addition to considering the different costs public and private providers face, it is also important to consider the other factor that determines profitability: prices. In a perfectly competitive market, each provider would have no market power and would take the prevailing market rate as given. They would not be able to make sustained profits as these would be 'competed away' through the entry of other companies into the market. That this does not happen in practice can be a sign of providers having market power and facing limited competition. The extent of this market power is discussed in Section 3.3.

²⁰ Personal Social Services Research Unit, 2019

Ownership, transparency and accountability

Who owns private providers?

Private providers are owned by companies which can sometimes themselves be owned by another company or a larger conglomerate. These chains of ownership are made more complex by mergers and acquisitions. The lack of transparency around ownership can hamper the operation of the market by making it more difficult for local commissioners to make informed decisions about where their money is going.

Private providers are owned directly by the companies that operate them, meaning the people who own those companies effectively control the providers. This question is important, as the large and small decisions that impact children's lives are ultimately determined by the people who control each provider. While many important aspects of a child's care will be agreed with the commissioning local authority at the time of placement, some factors may not be decided (e.g. pocket money allowances) and others will not be foreseen (e.g. what happens if the provider gets into financial trouble).

Each provider is identified by a Companies House number that is provided to Ofsted. This identifier gives an incomplete picture of ownership as these companies may in turn be owned by larger groups. For example, as of March 31st 2020, Ofsted identified 12 children's homes providers and 4 fostering providers that were all owned by CareTech.²¹ In other cases, the provider organisation in question may be held through layers of subsidiaries, e.g. Priory, which is owned through at least three subsidiaries in the UK and at least one in the Cayman Islands.

Exactly which people own and control a children's social care provider will depend on the governance structures of the owners. In the case of CareTech, they are controlled by an executive that is accountable to a board, which is in turn accountable to shareholders. Private equity ownership models will instead be controlled by partners, who may or may not be accountable to outside investors.

There is some evidence that confusion around names and ownership hampers the effective operation of the market and limits informed decisions for commissioners. For example in reference to the NFA/Acorn merger, the CMA noted that "it may be difficult for customers to monitor changes in the Parties' commercial offering post-Merger, given that there appears to be a material degree of confusion among some customers over the ownership and independence of the different agencies owned by the Parties."²²

Any confusion or lack of clarity around accountability makes it more difficult to ensure that the system prioritises the interests of children.

²¹ Ofsted, [Inspection profiles of the largest private and voluntary providers of children's homes and independent fostering agencies March 2020](#)

²² CMA, [National Fostering Agency/Acorn Care 1 merger inquiry](#)

What does private equity involvement mean for children?

Evidence on what the involvement of private equity means for children is limited and concerns mainly come from a perception that its business model – short-term profit making – may not be consistent with stable long-term provision of services, and could lead to profits being prioritised over care quality. However more research is needed to explore and substantiate this.

Private equity funds own a number of children’s social care providers, especially larger ones. Among the top 10 providers of children’s homes, 7 are owned by private equity firms. For example, Stirling Square Capital Partners – a private equity firm headquartered in Chelsea – owns the Outcomes First Group, which includes the National Fostering Agency, Acorn Care & Education and a range of other providers. Horizon Care & Education is owned by Graphite Capital Partners, after it was acquired from NBGI Private Equity in August 2019. Ardenton Capital, a private equity firm based in Vancouver, owns Pebbles Care.

Private equity is a form of ownership that typically gathers the funds of wealthy individuals and institutions (such as sovereign wealth or pension funds) to invest in companies that are privately held, rather than listed on the stock market. Private equity firms gather these funds on the expectation of favourable returns relative to what they would receive from more traditional investments (e.g. stock or bond markets). Relative to institutional investors, private equity firms are more likely to create profit by restructuring and reorienting the firms they take over, and more likely to realise profits through selling their investments on to another buyer instead of accumulating dividends over time.

The involvement of these owners in children’s social care was raised as a concern in evidence to the HCLG Committee Report on Local Authority Funding of Children’s Services²³ and was also mentioned in the Narey Review of Foster Care in England.²⁴ Discussions with local authorities suggest an unease with the business model and practices of private equity compared to other forms of private investment.

Evidence on the impact of private equity ownership on provision is limited.²⁵ However, concerns expressed generally include the following:

- > The model of regular purchasing and re-selling of providers creates instability in ownership.
- > Private equity firms tend to hold higher levels of debt to maximise returns on their investment, which can create higher levels of risk.
- > The private equity model ‘expects’ a higher level of profit in future, sometimes through restructuring of firms.
- > Foreign investment is more common, as private equity is more likely to operate internationally.
- > Transparency: not knowing who is ultimately profiting from the care of vulnerable children.

Overall, these concerns reflect a perception that the financial incentives and practices are not well aligned with the best interests of children, for whom a stable and accountable system is important. However, some of these issues could also apply to other private providers more generally. While many of the specific aspects of private equity are covered in this report, more comprehensive and specific research into how private equity and children’s social care interact is needed.

²³ Housing, Communities and Local Government Committee 2019, *Funding of local authorities’ children’s services inquiry*, p105

²⁴ Narey/Owers, *Foster Care in England: A Review*, p63

²⁵ Some discussion is provided in the research report DfE, *Financial stability, cost charge and value for money in the children’s residential care market*

Competition, market power and price setting

How concentrated is the market for independent provision?

The two largest providers together account for 14% of children's homes and 31% of fostering placements. For children's homes that share has stayed stable over time, but there is a lack of comparable data over time for fostering. These levels of concentrations do not meet the conventional thresholds for what might be considered a monopoly or oligopoly. However these are only aggregate figures, which could mask monopoly power in a particular local area.

Concentration in the market for care placements matters because it reflects the number of options a commissioner has available when they are looking to place a child. It is important to note that this does not refer to the number of placements available, but to the number of providers that own them. There may be 10 appropriate placements available for a child but if they are all owned by a single provider, then the market power will be the same as if there was only one placement available.

Measuring the degree of concentration also requires accurately assigning homes, agencies, and schools to their ultimate owner. For the reasons discussed in the previous section on transparency, accurate and timely data on the ownership of private providers is now widely available without . In residential care, the Department for Education's children's homes data pack²⁶ contains very useful analysis on the ownership and location of children's homes, as well as potential regional capacity issues – but it has not been updated since 2014.

From the more recent data that is currently available, we know that at a national level, large private providers make up a substantial minority share of the market for children's social care.²⁷ That share is larger for fostering than for residential care.

In the market for children's homes, Ofsted has found that the 10 largest providers own around 30% of children's homes, and that this share has held steady since 2014. Breaking down these figures in more detail (see the table below) shows that the top 5 providers own about 22% of homes, while the top two providers own about 15% nationally.

Comparing the figures to past Ofsted records (and DfE analysis of those records in 2014) shows that the concentration at the top of the market nationally has been steady by all measures for at least the last 6 years. While the *number* of homes owned by large providers has grown steadily, this growth has been roughly in line with that of the market overall.

²⁶ <https://www.gov.uk/government/publications/childrens-homes-data-pack>

²⁷ Much of this analysis is built on a manual assignment of providers to ultimate owners, based on assignment of ownership [published by Ofsted](#).

Table 2. Share of independent children’s homes owned by the largest providers

	March 2014 ²⁸	August 2018 ²⁹	March 2019 ³⁰	March 2020 ³¹
10 largest providers	412	523	532	616
%	29.6	30.3	29.9	30.4
5 largest providers	309	375	411	450
%	22.2	21.7	23.1	22.2
2 largest providers	207	238	273	289
%	14.9%	13.8	15.3	14.2
Total market	1,390	1,725	1,780	2,029

In July 2020, Ofsted found that the top 5 fostering providers account for just under half of the independent fostering market, while the top two providers accounted for over 30% of placements. The independent fostering market is therefore roughly twice as concentrated as the independent children’s homes market. Data from previous years is not available, which means that it is not known whether the independent fostering market is becoming more or less concentrated over time.

Table 3. Share of independent fostering placements owned by the largest providers

	March 2020
5 largest providers	17,397
%	47.2%
2 largest providers	11,593
%	31.4%
Total	36,890

The consolidation of the market is an issue that has been brought up in each of the merger investigations undertaken by the CMA in the sector. For example, the final decision on the National Fostering Agency/Outcomes First Group merger in December 2019 included the following:

“One respondent highlighted a general tendency toward concentration, whilst several customers stressed a lack of capacity in the fostering market and an increasing number of looked after children.”³²

In summary, the available quantitative evidence at a national level shows a moderate but stable degree of concentration in the children’s homes market, and a larger degree of concentration in the independent fostering market with an unknown trend.

In practice, these aggregate national figures provide only a limited picture of the true extent of choice or competition facing local commissioners. Markets operate at a local level and may also be further segmented based on the nature of provision that is needed or the type of needs for a child that must be supported.

²⁸ Department for Education, [Children’s Homes Data Pack 2014](#)

²⁹ Ofsted, [Inspection profiles of the largest private and voluntary providers of children’s homes August 2018](#)

³⁰ Ofsted, [Inspection profiles of the largest private and voluntary providers of children’s homes March 2019](#)

³¹ Ofsted, [Inspection profiles of the largest private and voluntary providers of children’s homes and independent fostering agencies March 2020](#)

³² CMA, *National Fostering Agency/Outcomes First Group Final Decision*, Paragraph 129

Do private providers have the power to set prices?

Some local authority commissioners mention that private providers have bargaining power and can set prices, but we cannot demonstrate this objectively and systematically with the data that is currently available. Some trends, such as rising prices and a high number of children placed out of area, suggest at least occasional price setting power on the part of private providers – certainly enough to warrant further, more detailed investigation.

In this context “price setting” means the ability for a company to sell at a price that is above its own unit costs. The perceived ability of private providers to set prices above cost is a common complaint from local authorities. For example, the following quote from a commissioner was included in the Narey review of foster care in England³³:

“I was left fuming last week. One of our regular IFAs came in with a package well over the usual price because they knew we would have to pay-up. We had no alternative... they had us over a barrel and we paid. I’d like to be able to say we won’t use them again but I will have to.”

Interviews with local authority commissioners for this report echoed similar themes.

“Private homes will charge what the market will allow. It’s not unusual for them to charge 8 or 9 grand [per week] because they can charge that. You know you’d usually be paying 6 [grand per week] but you’re going to have to take it because it’s Friday afternoon and there are no other options. The Commissioning team can see the cost breakdowns and can challenge this but ultimately if another LA is prepared to pay that you have to take it because otherwise what do you do in that evening?” – LA Residential Service Manager

“We haven’t got the bargaining power to be able to say: ‘no, we’re not going to pay those prices’ because the next Friday one of us will. This provider popped up they were charging absurd prices, I think it was about 10 grand and we were all like ‘no, no, we’re never going to use that’ and literally within 2 weeks we were like: ‘can you take our child?’” – LA Commissioning Manager

The question of whether providers have price-setting power has been considered by the CMA in its merger assessments, albeit only in the specific context of whether a proposed merger would *increase* the market power of a hypothetical merged entity relative to the status quo. While some third parties (such as commissioners and competitors) raised concerns that a merger would raise prices and/or reduce quality, after extensive analysis considering a range of evidence the CMA did not consider that there was sufficient evidence of competition concerns as a result of the merger.³⁴ This suggests that the dynamics of the market in this context are more complicated than the perceptions of local authorities, or that the real operation of children’s social care does not fit with the market modelling used by the CMA.

The clearest way to test for the existence of price-setting power would be to compare the (efficient) costs that private providers incur to the prices they charge to local authorities. While price information is available to commissioners, information on costs for each placement or in aggregate is not.

³³ Narey/Owers, *Foster Care in England: A Review*

³⁴ For example, in *CareTech/Cambian*. In one decision, *National Fostering Agency/Acorn Care 1*, competition concerns were identified but were resolved by divestment.

Another way to test directly for price-setting power would be to look at the prices and how they fluctuate. If there are examples of the exact same provision being provided for different prices across local authorities, this would be one form of evidence that providers are able to use bargaining power.³⁵ However, price data on placements for children in care is not collected centrally in a way that would allow this comparison. The lack of this information is a key limitation for commissioners in terms of understanding and influencing the prices they are charged.

A report by Revolution Consulting³⁶ found that the average weekly price of an independent children's home placement was £3,970 in 2018/19, having grown roughly 6% p.a. since 2012/13 - above the rate of inflation or the rate of wage growth over the period and would be consistent with an interpretation in which firms are increasingly able to set prices.³⁷ No equivalent price trend information is available for independent fostering.

One explanation for price-setting power despite the lack of overall concentration at a national level, is that there could still be monopolies in local markets. In the event that there are limited placement options locally, then those providers will have market power. The story of having a child that has to be placed urgently, often on Friday afternoons, is a common one for commissioners, as shown in the quotes above. But it is difficult to measure how prevalent or representative this situation is for the following reasons:

There is a lack of consistent data on needs among children looked after or the needs that are supported by each placement available in the market.

The market, as evidenced by the "Friday 4pm problem", changes quickly over time. There is no data available on the times when placements or spare capacity are available, nor is there daily data on prices charged.

Some local authorities may produce commissioning frameworks that pre-specify prices and care for certain types of needs, in order to increase their power as a buyer in the market. However, off-framework purchasing continues to take place, especially when no capacity is available within the framework or a child has particular needs not covered by the framework. In these situations, commissioners revert to direct negotiation with providers over price. One local authority commissioner told us there was no incentive for private providers to participate in a framework contract since they could fill their capacity through spot purchasing:

"We also struggle with framework contracts. We're not doing it in a way which uses our collective bargaining power on quality and price. [Large provider] for example say there's no incentive for us, we can sell those beds, we don't need to be on your framework." – LA Commissioning Manager

However, some private providers told us that even they do have market power, they also value having a long-term constructive relationship with commissioners which includes improved commissioning against the needs of a local authority.

In fostering, the CMA has shown that framework agreements can help to limit prices to an extent, but off-framework commissioning (spot purchasing) again reduces the level of competition. Indeed, the CMA concluded in one review that a merger would not reduce competition in a market for spot-purchased places, because there was no competition to begin with.³⁸

Overall, therefore, there is some evidence suggestive of the ability of private providers to set prices and exert market power, and enough to warrant further and more systematic investigation.

³⁵ This is a phenomenon that has been reported by one LA commissioner in interviews with CCO

³⁶ Revolution Consulting, February 2020, *Price trends and costs of children's homes*

³⁷ This would also be consistent with other interpretations however, such as an increasing complexity in the mix of cases.

³⁸ For example, CMA, *National Fostering Agency/Acorn Care 1 final decision*, paragraph 6

Financial risk and instability

What financial risks do private providers face?

Some private providers are financed with substantial levels of debt, which could lead them into difficulty if their financial position worsened and they were unable to pay it back. It is possible to look at specific firms through their financial statements, but these statements are quickly out of date and give a complicated and limited picture of financial health.

Financial insolvency among care providers creates a double-concern. First, if providers fail then this has the potential to reduce the overall capacity in the market. Second, it can create instability in the lives of extremely vulnerable children. If a private provider became insolvent, there is a serious risk that every child in its care would have to be placed somewhere else. Our previous reports on children's experiences of instability in the care system reveal the worry, stress, loneliness and exhaustion that children often face as a result of placement changes.³⁹ For both of these reasons, it is crucial that financial risks faced by providers that could challenge their sustainability are identified and addressed.

All private providers require financing in some form, but a high level of debt (also known as being highly leveraged) carries with it a higher risk of financial insolvency.⁴⁰ Some private providers are leveraged to the extent that their debt is greater than their assets, in which case they have net debts.

A debt is serviceable so long as the annual operating profit (earnings before income and tax) is greater than annual debt repayments (i.e. interest and repayments). Insolvency could therefore become a risk if profits fall (through lower revenue or higher costs) or if debt costs increase (through higher interest rates).⁴¹

Accurately quantifying the actual risk to the solvency among private providers is beyond the scope of this report as it requires modelling the financial position of each provider as well as their potential future performance. However, a basic picture emerged from the information in financial reports filed with Companies House.

As an example, the table below lists three companies each with tens of millions of pounds of net debt⁴², and shows how their debt levels compare to their most recently reported profit (EBITDA: Earnings Before Interest, Tax, Debt and Amortisation). One interpretation of the Debt/EBITDA ratio is that it shows the number of years it would take for each company to pay off the outstanding net debt, based on the current level of profits, if those profits were used solely to pay off the debt.

An important caveat is that debt figures measure a snapshot of outstanding debt at the end of the financial year, whereas the profit figures measure total profit earned throughout the year. This difference in timing means that it is not always straightforward to compare profits to debt, especially in cases where a company grows during the financial year by acquiring another firm (and, by extension, its debt). In such cases this comparison could overstate the actual level of risk.

³⁹ <https://www.childrenscommissioner.gov.uk/report/childrens-voices-childrens-experiences-of-instability-in-the-care-system/>

⁴⁰ In the adult care sector, Southern Cross collapsed in 2011, causing major disruption to the placements of adults in care homes. See for example <https://www.theguardian.com/business/2011/jun/01/rise-and-fall-of-southern-cross>.

⁴¹ One possible risk that a company facing financial difficulty could quickly enter a vicious cycle whereby increases their debt costs increase because of the risk of default, and local authorities would be less likely to commission them (reducing their profits). Understanding financing risks is therefore important to understanding the stability of private providers.

⁴² Net Debt is here defined as total debt less current assets (i.e. cash). It should be noted that this does not account for variations in *types* of debt (i.e. bank loans vs loan notes) that may result in different implications for repayment and stability for the company.

CareTech has the highest level of debt among these providers but would take only 4 years to pay this off given its substantial profits (EBITDA). Outcomes First has less net debt but also smaller profits, so would take a similar amount of time (4.4 years) to repay its net debt – shown in Table 4 below.

Table 4. Example debt/EBITDA ratios

	FY ending	EBITDA (m)	Net debt (m)	Debt/EBITDA ratio
CareTech	Sep-19	£73.5	£291.0	4.0
Keys	Mar-19	£6.3	£28.1	4.4
Core Assets Group	Dec-18	£16.8	£50.3	3.0

Another metric is each company’s interest cover: this shows the ability of current profits (EBITDA) to pay the interest on the debt. CareTech’s operating profit is enough to pay its £11 million in annual interest payments almost 7 times, while Core Assets Group has enough operating profit to pay its annual interest charge 16 times over – shown in Table 5 below.

Table 5. Example interest cover ratios

	FY ending	EBITDA (m)	Interest (m)	Interest cover ratio
Caretech	Sep-19	£73.5	£10.9	6.7
Keys	Mar-19	£6.3	£4.4	1.4
Core Assets Group	Dec-18	£16.8	£1.0	16.1

These indicators of financial health are basic high-level measures which come with some caveats, for example with respect to the definition of debt used or the issues of within-year consolidation. This analysis should not be taken as an assessment of risk in these specific companies, but as an illustration of the higher end of debt levels present within children’s social care providers and the difficulties facing commissioners who seek to accurately understand the level of risk in providers they are working with. The actual financial risk facing a provider depends on trends in profits, terms of the debt, financing options available and more. Furthermore, all measures here are backward-looking and may not reflect changes that have occurred over recent years. A fuller discussion of the measures here is available in the Annex.

What this type of analysis suggests is that there is enough leverage in some providers to warrant more systematic and up-to-date research, also that current reporting on levels of debt and risk is too slow, opaque and complex to be useful for local authority commissioners in helping them to judge the risk associated with providers. Even if a local authority commissioner had access to detailed annual reports, these can often be a year out of date and will require careful analysis of trends and the terms of outstanding debt.

What do takeovers and mergers mean for children?

Takeovers, mergers and acquisitions can affect staff and the way things work in children's homes or foster homes; and children can notice these changes. These changes can be good or bad, and there is no specific oversight of this.

Since 2016 there have been a number of mergers and acquisitions that involved a large number of homes, carers or residential schools changing hands at the same time. Mergers can also lead to follow-on changes as foster carers can be "sold off" as a provider is forced to divest their business in areas of competitive concern. For example, the NFA/Acorn merger required the selling off of Wales, Luton, and Norfolk foster carers to BSN social care, a competing owner of independent fostering agencies.

If a provider changes hands it is usually because the purchaser believes they can obtain greater profit from it in future. Conversations with staff who have worked at children's homes before and after a takeover paint a complicated picture of what this process means for them and for children.⁴³

In some homes that were taken over, spending on children was reduced after acquisition. One staff member said that the activity budget for children had been cut to an amount that "doesn't go very far". Another said they had to fight to persuade the new company to keep personal savings accounts for the children, despite this being a statutory right for looked after children.⁴⁴

"Before if they wanted to go anywhere, it would have been done. Then it went to £30 a week and since we live in a rural area that money has to cover a lot of things so it doesn't go very far."

"We had savings for the young people and I was very conscious that the savings would continue to accumulate. We got that sorted in the end. They now do that for the young people ... They initially said you have to take it out of petty cash but now they save it at head office for us." – private children's home staff

A number of staff in private homes referenced other changes which caused instability for children, most notably when staff members left because of the change in ownership. Another example was children having to change school because the new owner no longer provided education on-site, or vice versa.⁴⁵ As a result, children's relationships with friends and staff were broken.

Even changes at the senior staff level can make it harder for children to exercise certain rights. One staff member, for example, said it was now harder for children to make a complaint if they wanted to because children no longer knew or trusted those managers higher up the hierarchy.

"It was quite a difficult time for staff and when companies are bought some people do tend to leave. We had 3 long time experienced staff who left." – private children's home staff

"The young people knew the operations manager as they completed all the Reg 44 visits [quality assurance visits]. Now the young people don't have that relationship with them, and they've changed 4 or 5 times"

⁴³ This evidence is based on interviews with staff in 8 private children's homes which were recently acquired by large private providers.

⁴⁴ Statutory guidance published in October 2017 stated that all children in care continuously for 1 year or more should have a savings account set up, although this is not routinely followed and there is much variation between how it is managed: <https://www.gov.uk/government/publications/junior-individual-saving-accounts-for-looked-after-children>

⁴⁵ Some children's home providers also run schools for the children living in their homes. Therefore when children's home providers change, this can also mean a change in school for children.

anyway ... In a bigger company they have less idea of who's above them and that's really difficult for young people. If they wanted to make a complaint for example they don't know that person so it's much harder for them. – private children's home staff

Relationships were also put under strain in other ways when homes changed hands. At one home salaries were reportedly cut for new staff which affected the quality of staff they were able to recruit and contributed to tensions between old and new employees. Additionally, multiple managers noted changes to their responsibilities, including additional duties like financial budgeting which left less time to spend with the children.

"Because it's such a big company the emphasis is highly on budgets now. It's an extra workload for myself."
– private children's home manager

"To me I think that's one of the main changes. You're not so hands-on with the kids but I still make time for them anyway even if it's out of my own time." – private children's home manager

However, staff in other homes felt that children were entirely unaffected by company acquisitions and others thought that children were much better off as a result.

Homes almost always stayed open and continued running when ownership changed, and in many homes the staff composition stayed the same as before. A few staff members could recall no changes beyond new software and 'paperwork' to get used to – logos, email addresses and so on. Many commented on confusion caused by role changes at a senior level and the creation of new divisions which were not there previously, but this was felt to be more a frustration for staff than for children.

It is clear that children can be both shielded from the corporate reorganisations going on around them, and also benefit by new business models in the long term. One manager described how therapeutic support for children had been much better integrated under new management, meaning that the therapist was 'a lot more involved'⁴⁶. One of the clearest examples of this was a manager who had completely stopped using agency carers since the home she managed was acquired by a larger company. Instead, staff from other homes nearby, run by the same company, would be redeployed if needed. The redeployed staff were more familiar with the home and the ways of working, and rather than just doing their shift and leaving, they could build up lasting relationships with children by helping out over time.

These interviews reflect a small number of stories rather than systematic evidence. The process of changing ownership is fundamental to a private market for care and should be fully understood and carefully monitored in the best interests of children. The only existing oversight of mergers and acquisitions is from the CMA, whose focus on is economic and market implications alone.

⁴⁶ Interview with private children's home staff

Quality of care

How does the quality of care vary by type of ownership?

On average, variation in quality of care – as measured by Ofsted ratings – between local authority and large private children’s homes is small. There is evidence, however, that smaller private providers have lower Ofsted ratings than larger private providers or local authority provision, suggesting potential problems with quality. But at the same time, the overwhelming majority of provision is rated “Good” or “Outstanding” regardless of whether it is publicly or privately owned.

While all of the areas discussed in this report are important, by far the most important is the actual experience of the children in the system, and the quality of the care that they are receiving.

While systematic national data on children’s experiences of the care system is lacking⁴⁷, the best information available on the quality of care is the results of inspections undertaken by Ofsted. For each of children’s homes, fostering and residential special schools, the analysis in this section compares the ratings received by large private⁴⁸, other private, public and voluntary organisations.

The below table shows the proportion of children's homes given different ratings by Ofsted in the "Overall experiences and progress of children and young people" as of 31st March 2019. Overall, local authority homes are the most likely to be rated "Good" or "Outstanding" – 86% of homes fall into either of these categories – but there is very little difference compared to large private providers, of whom 84% are rated "Good" or "Outstanding".

However, 26% of local authority children’s homes are rated “Outstanding” compared to 19% of large private children’s homes. Furthermore, children’s homes run by small private providers (along with those run by the voluntary sector) are more likely to be rated “Requires Improvement” or “Inadequate”, compared to those run by local authorities or large private providers.

Nevertheless, there is much wider variation in quality within each ownership type – including "Outstanding" and "Inadequate" homes in every category.⁴⁹

Table 6. Ofsted ratings of children’s homes by ownership type, March 31st 2019⁵⁰

Ofsted rating	Large private	Small private	LA	Voluntary
Outstanding	19%	14%	26%	21%
Good	65%	62%	60%	57%
Requires improvement	15%	23%	13%	21%
Inadequate	1%	1%	2%	2%

⁴⁷ The [Bright Spots](#) programme undertaken by Coram Voice and University of Bristol aims to rectify this in part.

⁴⁸ Large private providers are defined as providers with 10 or more homes/schools in residential care or residential special schools, and the top 6 providers for independent fostering agencies.

⁴⁹ It should also be recognised that comparing overall Ofsted ratings is a limited way of answering this question, because there may be differences in the type of provision or the types of needs being catered for between private and public provision. One example would be if intensive care provision for children with complex needs is more common on the independent sector, in which case Ofsted ratings alone are not comparing like with this. Unfortunately, there is a lack of data on placement characteristics linked to Ofsted ratings that would enable this more refined analysis.

⁵⁰ Source: CCO analysis of Children’s Social Care Data from Ofsted. Numbers may not sum to 100% due to rounding.

The next table shows the breakdown of Ofsted ratings for independent fostering agencies. Very few large private providers are rated “Requires Improvement” or “Inadequate”, compared to other private and voluntary providers. It is not possible to compare against local authority fostering, because Ofsted ratings are not available for this provision.

Table 7. Ofsted ratings of independent fostering agencies by ownership type, March 31st 2019

Ofsted rating	Large private	Small private	Voluntary
Outstanding	27%	14%	21%
Good	70%	76%	71%
Requires improvement	2%	10%	8%
Inadequate	2%	1%	-

One pattern worth noting is that *within* the private sector, large providers tend to have higher Ofsted ratings than smaller providers. This suggests that whatever factors influence quality (as assessed by Ofsted) are largely unrelated to whether the ownership is public or private; but if private, there may be benefits to quality of being larger.

Children's experiences of private provision

Understanding children's views about who owns their care placements is far from straightforward and there are limitations to interviewing children about this subject. This may explain why research to date has rarely captured their voices on this. However, children undoubtedly have valuable insight, especially those who have lived in care under different ownerships who can compare their experiences. The Children's Commissioner's Office therefore undertook interviews with children and care-leavers with experience of foster care and residential care to explore a range of perceptions. The outcome was a balanced response with greater concern about a fragmented and incoherent system than the particular failures of one model or another.

Foster care

Overall children and young people did not think it mattered who their foster carers were registered with. Out of 22 who had been in foster care, only two felt that this detail was important. Almost a third (6 children) did not even know who paid their carers; this tended to be younger children. Those who did know usually picked this up from small clues such as snippets from conversations or administrative details which did not make much difference to their lives. It was generally felt that variations between care experiences came down to differences between the personalities and abilities of carers, rather than the type of ownership.

"There were some changes which happened that did affect me but they were really small, they were like the files that she had to undertake ... I was an angsty teen in care at the time, you know how it is, I don't really want to engage with that type of thing" – female, age 23

"I think the majority of the things that I would question are mainly down to the personality of the foster carers and less down to who they work for ... sometimes it's just down to - one foster carer's an idiot and the other one isn't" – female, age 17

Those who felt there were differences between public and private foster care were noticeably tentative about their opinions. They felt that quality did vary between the two sectors, but they struggled to evidence this.

"I think the training that they do in local authorities in my experience it is a tick box exercise for people higher up, whereas I think maybe in private you get more training on how to deal with certain things ... I feel that private foster placements as such are probably better. From my point of view it just seems like that. But maybe that's because I haven't experienced it myself and because like what I've experienced wasn't very good" – female, age 17

"To me LA kind of means the basic standard, and I don't know how accurate that is, that's just what my perceptions were, and just private sounds a bit more exclusive, a bit pricey ... But if I'd have known it was private, my assumption would have been [that] she's being paid more and that's why she's doing it. She's gone for the option where she can make the most money" – female, age 24

A powerful case was made by one young person who said that having a consistent care experience was the most important factor. This young person had lived with an IFA carer outside of her home LA with a fostered child from the local LA, who had a completely different set of rules and allowances. She explained how upsetting, unfair and divisive these arbitrary differences could be:

“A lot of young people already feel different enough as it is. They’re in care, but then to feel different again from other young people in care who they potentially should feel a sense of solidarity with. You’re creating even more risks because they now can’t even relate to the people who are in the same boat as them.”

– female, 23

Considering how often children move between private and public foster carers *and* between different areas, these disparities will be familiar to many.

Residential care

Children and young people expressed stronger views about residential care ownership than foster care, however there was no clear preference between local authority, private or charity-run homes. Out of 8 children interviewed with experience of residential care, they were split on whether ownership mattered to them. As with foster care, not all knew who owned the home they lived in.

Some felt that local authority-run homes were better than private sector ones. One young person talked about feeling “branded” by excessive use of the company logo in her private home:

“There were also stickers everywhere. Everything had a [company] sticker on it. So like it was on the walls and the posters, there was a big one on the window ... In a way it was like we were being branded”

– female, age 17

Another gave examples of poor practice which she attributed to one large private provider. She said, for example, that money was often unavailable or given late for important things like furniture, new board games, pocket money, and even food on occasion. Staff would explain that “the money hasn’t come in” which annoyed children who depended on them. She also talked about allowances being small and often insufficient in her private home, like only receiving £3 per month for toiletries.

Funding issues and tight budgets are not exclusive to private homes but these complaints echo comments made by staff in homes run by large private providers, about budgets sometimes being reduced after acquisitions, or there being lengthy processes involved in requesting additional funding. This young person also repeated what private home staff had reported about children not having the opportunity to form relationships with senior staff or independent visitors arranged by the home. She shared that she had not known anyone from the company besides the team in the home, not even the Regulation 44 visitors who “only came in to read the notes and do one”.

Some private homes also run their own schools, which can make care experiences less pleasant. One young person found the arrangement problematic because school staff were doubling up as care workers by doing shifts in the home. This “messed it up” because “it’s two different environments” and teachers were trying to bring methods from the classroom into the home. On the other hand, one young person did like the school run by his care provider being only 5 minutes away.

Some children felt strongly that private homes provided a more pleasant and nurturing environment. This seemed partly down to money – the ability to invest in “homely furniture and stuff” – but also down to mindset. One young person felt that councils were more concerned with meeting prescribed standards and with having signs and information everywhere, rather than making places feel like a home. This was reaffirmed by another young person who felt that private homes go that extra mile for children, whereas councils provide more of a basic standard of care. She gave this example about a private home she had visited after living in an LA home:

[Re private home] *“They had like themed weeks so every week one meal was a theme from around the world, so they’d all sit down and choose which country they wanted to do and then they’d all cook the meal together and they’d learn a little bit about that country. It was a bit of a family night over dinner, and you’d never get that in an [LA] home. ... [LA], to me, I feel like they’re just ... it’s just ‘you’ve got a job to do, you’ve got to get it done as quickly as you can’ ... so [LA] they’re literally like ‘all we need to do today is make sure that kid is clean, has access to food and water, is going to school, happy days’. Like it’s just a checkbox, if that makes sense, whereas I feel like a private home has a lot more of a homely feel to it, which makes a massive difference especially when you’re developing.”* – female, age 26

As with foster care, some young people explicitly dismissed the notion that ownership makes a difference and acknowledged that variation will exist throughout all homes, dependent on staff teams and so on. Unfortunately, these variations are often vast and this is what really seemed to bother young people.

“Everyone can have some type of negative experience wherever they go ... I wouldn’t think it would matter who it was owned by if you were getting everything you needed” – female, age 17

Young people gave plenty of examples of differences they encountered between homes – variation in pocket money, haircut money, savings, rules on sleepovers, and curfew times. One young person was taken to Disneyland by his private children’s home but his following (also private) home did not offer trips abroad. These disparities were separately highlighted to us by an LA manager who shared that Christmas and birthdays can be particularly tough when one home spends half of what another home does on presents⁵¹.

“I went to Spain with them, I went to Disneyland one year, so got a few trips out of it as well ... In the second private home I was in, they didn’t really do holidays abroad” – male, age 25

Overall, children and young people that we spoke to were less concerned with who owns the home and more concerned about the standard of care itself, the relationships they have with staff and carers, and day-to-day aspects like rules, allowances and privileges. They just want care and the rules around it to be consistent, as far as possible, across the board.

⁵¹ A residential service lead shared that the difference can be between £100 for birthdays and Christmas in one home or LA, and £50-60 in another.

Conclusions and recommendations

Conclusions

The purpose of this report was to answer important questions about the growing involvement of the private sector in the provision of children's social care, and what this means for vulnerable children. The evidence available means that the answers are, for the most part, less than definitive.

We do know that private providers of children's social care make significant profits, which explains how they are able to remain in business and grow from year to year. The best available estimates indicate that certain large providers have a profit margin of around 17% – in total around £240 million across the providers considered here – on fees from local authorities; and may have been seeing a return on investment at above-market rates in recent years.

How private companies are able to make profits while seeming to undercut the cost of local authority provision (according to some data) is not fully known but is likely to involve economies of scale and benefits from specialisation. Private residential providers may also be able to pay lower wages or have lower staff pension costs.

The companies that provide these services to local authorities are structured in a range of ways but are increasingly owned by private equity firms. Complicated systems of branding and subsidiary ownership mean that it can be hard to know who owns and is ultimately accountable for what.

The largest providers own a substantial minority share of the national market. The largest 5 residential providers run just under a quarter of children's homes, while the largest 5 fostering providers account for just under a half of fostering placements. It is possible that individual local authority commissioners could face limited (or even no) choice in their local market, especially if they need to place a child with specific needs. In this instance, providers would have even market power, which in turn may have contributed to the overall trend of increasing prices in recent years.

At the same time some private providers are leveraged with significant amounts of debt and this could pose a risk to stability – both for the market as a whole and for individual children. The picture varies across individual companies and is changing over time.

While the economics of this market is interesting, our overriding concern is whether this affects the interests of children. The quality of care – as measured by Ofsted ratings – does not differ substantially between public and large private children's homes. The overwhelming majority of provision is rated "Good" or "Outstanding" regardless of whether it is publicly or privately owned. Children and young people are also more concerned with the nature of their care experience, than the ownership structure or the sign on the door. Many of the children interviewed for this report did not know whether their home was publicly or privately owned, but did notice differences in pocket money, holidays, and the attitudes of their carers.

The common theme in the answer to all of these questions is that not enough information is made available about the way care is commissioned and provided by independent companies, and that not enough resources are dedicated to oversight of the sector. Straightforward answers on profit, ownership, debt and costs are not available, as private companies have expanded to fill a niche left by local authorities, as opposed to being brought in as part of a coordinated strategy.

More work, underpinned by better data and improved transparency, is required in order to produce more definitive answers to these questions, and ensure that children are getting the best care – and the taxpayer value for money.

Recommendations

A strategy for residential care

The Department of Education urgently needs to set out a strategy for how it will improve the sufficiency, quality and costs of residential care in England. The strategy must prioritise ensuring the adequacy of placements, in order to address chronic lack of capacity highlighted by our previous research,^{52,53} as well as by the National Audit Office,⁵⁴ the Public Accounts Committee,⁵⁵ and the Housing, Communities and Local Government Select Committee.⁵⁶ It should also improve provision for the thousands of children in the care system who are currently experiencing high levels of instability including frequent placement moves – as shown in the Children’s Commissioner’s Stability Index.⁵⁷

In formulating this strategy, the Department should directly respond to the recommendations on residential care made in the aforementioned reports.

Care Review

The government urgently needs to launch the Care Review promised in the Conservative manifesto⁵⁸ with an independent chair, and a remit to consider the broad structure of children’s care provision and build a system that is more transparent, accountable and outcome-oriented. It should consider how to improve the oversight and functioning of the care system, based on a clear plan of how best to meet the needs of vulnerable children.

Improved planning

A central, national body (whether DfE, Ofsted or a new regulator) should be given a responsibility for assessing current and future levels of need for care provision, both locally and nationally. It should also be charged with monitoring what provision is in place locally and nationally, in order to provide oversight and assurance that the right provision is available in the right areas at the right price.

Improved transparency

A comprehensive register of ownership of children’s residential homes and foster placements should be created so that local authorities can see how many children in their area are being cared for by a single provider (or owner) to better enable them to assess risk. It would also enable better monitoring and oversight of the level of competition in local markets. Furthermore, it would enable government and the public to understand which ultimate entities are making profits from the care of vulnerable children.

Improved understanding of local markets and competition

The CMA should undertake a market study of the children’s social care sector. It is imperative that the Government and local authorities understand how competition constrains prices in the sector and, where it doesn’t, what the alternatives are.

⁵² <https://www.childrenscommissioner.gov.uk/report/pass-the-parcel-children-posted-around-the-care-system/>

⁵³ <https://www.childrenscommissioner.gov.uk/report/unregulated/>

⁵⁴ <https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

⁵⁵ <https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/1741-publication/174102.htm>

⁵⁶ <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/1638/163802.htm>

⁵⁷ <https://www.childrenscommissioner.gov.uk/report/stability-index-2020/>

⁵⁸ The manifesto stated: “We will review the care system to make sure that all care placements and settings are providing children and young adults with the support they need.”

The DfE or Ofsted should collect standardised, detailed and timely information on services and prices across all providers in the care sector. This would ideally include some information on costs, as well as measures of quality and outcomes. This would enable local authorities to make more informed decisions about the best placements for children. Local authorities would also be able to compare prices against this database to ensure they are not paying more than other areas for the same quality of provision.

Improved commissioning practices

Using the additional information set out above, local authorities should make better use of their power as purchasers – through for example greater use of regional commissioning and frameworks – to increase the extent to which they can shape the market and their own provision. In doing so, they would be able to exert more market power, share more risk with other local authorities, and benefit from more of the kinds of economies of scale that have allowed large private providers to grow and succeed.

Annex: Analysis of profit and risk in financial records

This annex presents in detail the results of analysis undertaken on a selection of financial records of large private providers of children’s social care. The choice to analyse large providers in particular was based on two factors: they cover more of the market (by virtue of being large) and include more financial details due to disclosure exemptions for small firms. However the results will clearly not be representative of the sector as a whole.

The sample was based on selecting the top 10 providers in each of children’s homes, fostering and residential special schools. In practice, the available data did not allow the clear assignment of firms into sectors. Some companies operate across three or more of the sectors in question and most operate across two or more, especially combining children’s homes and residential special schools. For that reason, the analysis has been pragmatically grouped, except where internal breakdowns of revenue and profit allow.

The work looks at the most recent accounts available at the time they were accessed from Companies House, which was in April 2020. The focus of the financial analysis is on two key areas: profitability and debt. The source material for this analysis overlaps closely with a previous piece of work published by the LGA on profit-making and risk in children’s services.⁵⁹ The LGA work is more comprehensive in its analysis of profit trends and debt indicators, as well as using a different selection of companies and different definitions in crucial areas. Nonetheless this analysis broadly mirrors the conclusions of the LGA work.

Levels of profit

The two tables produced in this section attempt to show the overall levels of profit in the largest providers of residential care (including children’s homes and special schools) and fostering. To do so, companies have been broadly classified by the source of revenue that is likely to be dominant for them, or divided based on internal reporting where possible (specifically for CareTech).

The definition of profit used is Operating Profit, which measures annual revenue received after removing the costs of sales and central administrative costs are removed. This is appropriate as the financing structure can vary considerably between companies and mask the underlying profitability (or lack of profitability) of children’s social care activities. It is nonetheless not a perfect measure of profitability, as firms will have different financing arrangements regarding property in particular, which could be owned outright or leased (and therefore not an operating cost), overstating the profits for some firms relative to others.

The table below shows the recorded turnover and operating profit for the top 10 largest children’s home providers (by number of homes) in 2019. There is no figure for Care Today, as it has made use of a size-related exemptions to providing full accounts data. Of the sample, every provider makes a significant positive profit. The most profitable provider (by percentage) is Caretech’s children’s services division, which could be caused by the economies of scale reported by industry experts. The total reported level of profit in the sample is £220.3m, out of the £1.3bn reported in turnover. If this rate were to be applied to a standard purchase by a local authority, it means about one sixth of the cost of a placement goes to private profit, although this should be interpreted very carefully. An alternative measure of profitability that does not give more weight to larger providers is an average of 14.4% profit in the sample. Both values (17% and 14%) are likely overestimates of the “true” profit of providing care privately, due to the focus on large providers and the lack of accounting for financing costs and should be considered upper bounds.

⁵⁹ <https://www.local.gov.uk/profit-making-and-risk-independent-childrens-social-care-placement-providers>

Table 8. Annual profit in residential care and specialist schools

Company	FY ending	Turnover (m)	Operating profit (m)	Operating profit margin (%)
Caretech ¹	Sep-19	£230.6	£55.6	24.1%
Keys Group	Mar-19	£79.4	£6.3	8.0%
Priory	Dec-18	£830.4	£136.5	16.4%
Horizon	Aug-19	£37.8	£2.5	6.6%
Hexagon	Mar-19	£24.9	£1.6	6.4%
Care Today ²	Sep-18	-	-	-
Care Holdings	Aug-18	£12.0	£2.6	21.7%
The Esland Group ³	Nov-18	£15.8	£2.8	17.7%
Orbis ³	Aug-18	£11.9	£1.7	14.1%
Witherslack	Aug-19	£75.0	£10.7	14.2%
Total		£1,317.8	£220.3	16.7%
Average		£146.4	£24.5	14.4%

¹Children's services only (which includes residential care)

²Care Today does not provide information on turnover or operating profit due to size-related exemptions

³The Esland Group and Orbis are now both owned by the same organisation – August Equity – since its acquisition in February 2019

The table below repeats the exercise of estimating profitability for large private companies in the sample who are predominantly foster care providers.⁶⁰ In this sample, there are no companies who are not making a profit, and the smallest total yearly operating profit is for Alderbury Holdings, the parent company of BSN Social Care. The most profitable provider is once again CareTech, with £40.8m in turnover and £7.5m in operating profit (a margin of 18%). The overall estimates of profit are lower (9.9% and 11.7%), and the only comparable company (CareTech) also reports a lower profit rate.

Table 9. Annual profit for large private fostering providers

Company	FY ending	Turnover (m)	Operating profit (m)	Operating profit margin (%)
Caretech ¹	Sep-19	£40.8	£7.5	18.4%
Outcomes First Group ²	Dec-18	£83.0	£5.1	6.1%
Core Assets Group	Dec-18	£186.9	£16.8	9.0%
Alderbury Holdings (Bsn etc.)	Mar-19	£41.1	£5.5	13.3%
Total		£351.8	£34.8	9.9%
Average		£88.0	£8.7	11.7%

¹Fostering only

²OFG also operates children's homes, but its biggest brands (including NFA) are independent fostering agencies

A review of financial reports for the top 10 providers of Tier 4 CAMHS providers was also undertaken, but there was not enough sufficiently detailed information to allow analysis of profitability. Where large private providers were involved (e.g. CareTech or Priory), there was no breakdown of children's vs. adults mental health services in company accounts. In smaller providers, size threshold exemptions were used to avoid reporting full accounts.

Taken together, these estimates of profit show two things. Firstly, a significant proportion of local authority fees for children's placements are extracted as profit by private providers, or at least large ones. 10% to 15%

⁶⁰ This is not a full selection of the largest foster care providers, as some charitable and semi-public providers were included in the full top 10 but are not relevant to profit measures.

of fees as operating profit is likely a reasonable upper bound from the perspective of commissioners. Secondly, the information currently in the public domain is insufficient to understand how much money is made by private providers and how they make it, and how this compares to what they spend on providing services for the children they care for. All of the figures above come with a large number of caveats, and no individual level of profitability should be over-interpreted.

Levels of debt among private providers

There are a number of challenges and judgements associated with analysing the levels and risk of debt for private providers. Ultimately, the important factor is the risk that a provider's financial arrangements will be forced to leave the market and therefore translate into worse outcomes for children. In practice, this means looking for indicators that show long term deterioration of reserves or the scale of a shock to profits the company could reasonably absorb.

This report looks at a small number of specific providers with high levels of net debt, specifically CareTech, Keys, and Core Assets Group. This analysis should not be taken as an assessment of risk in these specific companies, but as an illustration of the higher end of debt levels present within children's social care providers and the difficulties facing commissioners who seek to accurately understand the level of risk in providers they are working with.

The table below shows the level of net debt held by each of CareTech, Keys, and Core Assets group and how it compares to their level of operating profit. The table shows that there are significant and varying levels of debt in the selection of companies, but that its raw number is not the best indication of its ability to pay. CareTech has a net debt of £291 million and would take 4 years to repay it based on its current level of operating profit. By comparison, Keys Group has debts less than one-tenth of the size at £28.1m, but would take slightly longer to repay.

	FY ending	Net debt (m)	Debt/Operating profit ratio
Caretech	Sep-19	£291.0	4.0
Keys	Mar-19	£28.1	4.4
Core Assets Group	Dec-18	£50.3	3.0

The table below presents an alternative measure of the financial position of each provider in the sample. Specifically, it shows how easily each company is able to cover its interest payments out of its operating profits. The interest cover is calculated as operating profit/interest, and the higher above 1.0 it is the more easily a firm is able to cover its interest. All of the providers are able to cover their interest according to this ratio, although Keys Group is only able to do so 1.4 times over.

	FY ending	Interest (m)	Interest cover
Caretech	Sep-19	£10.9	6.7
Keys	Mar-19	£11.3	1.4
Core Assets Group	Dec-18	£1.0	16.1

The implications of these debt figures are very specific to each company. A currently high level of debt and interest may reflect recent investments that are expected to pay off in future. Conversely, a manageable debt situation on current profitability may not be manageable in the event of declining profits. Furthermore, the terms and timing of outstanding debt must be taken into consideration to understand the nature of the risk to companies. The consideration of terms is complicated by the fact that some debts are outstanding to people or organisations associated with the ownership of private providers.

The LGA report on profit making and risk in the sector provides a fuller survey of debts in the sector across a wider array of firms and indicators.

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