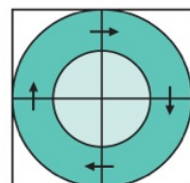


# CHA “State of the Sector” survey 9 Spring 2023



**Revolution Consulting**

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# **CHA State of the Sector Survey 9**

## **Foreword**

Providing stable loving homes for children who cannot safely live with their families is enormously important. Children's homes remain a key way to achieve this, whether providing care for children who may be unable, or do not want to live with a family, or helping children to return to a birth family or foster home. The members of the Children's Home Association (CHA) provide a crucial service for some of our most vulnerable children, and for us all as a society.

The demand for children's home placements has been growing and many local authorities are looking to add capacity, whether directly provided, or through partnership with independent or not for profit providers. A series of economic shocks and challenges - austerity, Brexit, Covid, inflation and associated workforce shortages - has made this crucial task harder for both providers and commissioners. There is a lively debate nationally about the role of the independent sector in providing homes for children and indeed about the future of children's social care, reflected in the Welsh Government's policy to eliminate profit, and in England in the plan to pilot regional commissioning of placements.

In this context reliable data and insight are key. The annual CHA survey provides rich data, primarily from the small and medium sized providers who provide the majority of children's homes. This is a useful complement to the analysis of the largest independent providers undertaken recently by the Competition and Markets Authority. The fact that this survey has been conducted annually since 2015 makes it particularly valuable in identifying trends.

The findings of the survey and Andrew Rome's insightful analysis reflect what we at the Institute of Public Care (IPC) at Oxford Brookes University see in our work around the country: growing demand pressures, increasing acuity and complexity of need, rising costs, and an appetite to develop better ways to commission homes for children.

IPC is at heart a learning exchange organisation – we work with both commissioners and providers to improve outcomes for people who need care. I am therefore delighted to introduce the annual CHA 'state of the sector' report which will help deepen understanding of the challenges and opportunities facing providers of children's homes. A key takeaway for commissioners is to engage deeply with their local providers to understand what they can offer and whether different approaches to commissioning and contracting could secure better matching and more local placements for children.

**Fiona Richardson**  
**Director**  
**Institute of Public Care**  
**Oxford Brookes University**

# **CHA “State of the Sector” survey 9 Spring 2023.**

## **Overview.**

This is the ninth survey of members of the Children’s Homes Association (CHA), a series that began in 2015.

Following the impact of Covid and a period of intense scrutiny of the sector in 2022 (Competition and Markets Authority (CMA) Market Study and Independent Review of Children’s Social Care), any hopes of a period of relative stability for the sector are abruptly contradicted by the findings of this year’s survey.

Pressures on staffing in labour-intensive children’s homes services combine with inflation driven cost of living increases to add new levels of challenge to a sector already facing multiple issues.

Record levels of demand for children’s homes places for increasingly complex needs are meeting a provider sector that is at times struggling to keep pace. The challenges in recruitment and retention of staff act as a particular inhibitor to additional investment and growth of capacity for smaller providers.

There are early warning signs that a significant part of the sector is facing reduced profitability, reduced reserves, and reduced ability to invest in expansion of capacity. With local authority budgets often overspent there are also concerns over the ability of purchasers to meet the rising costs being incurred.

As identified by the CMA, this is not a market that could be described as “well-functioning” and there is evidence here of the further deteriorating impact of outdated local authority procurement arrangements.

This year’s survey gave providers additional opportunity to share their perspectives on matters that would help the sector overall to better deal with these pressures.

Respondents have thoughtfully shared their thinking on a range of matters from how the often-chaotic referral streams they experience could be improved, through to some non-partisan strategic analysis of the merits of all the participants in a mixed economy.

Of relevance for policy makers and commissioners are the descriptions within the report of the challenges providers face in dealing with purchasing bodies

and areas where providers suggest that alternative methods and systems be developed.

There are clear indications that the provider sector desires a move away from damaging rhetoric and towards a more positive and collaborative future.

In Wales, intended investment in additional capacity is much reduced, and private providers await the detailed implementation of the “eliminate profit” agenda with some pessimism about the future for their services in Wales.

Sincere thanks again go to the children’s homes providers who responded to the survey for their openness and positivity at such a challenging time, and to CHA for facilitating unencumbered access to their members.

Andrew Rome, Revolution Consulting

April 2023

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## **Responses in context.**

To understand the results of this survey in context, it is important to have knowledge of the number, size and type of children's homes providers that contributed to the response.

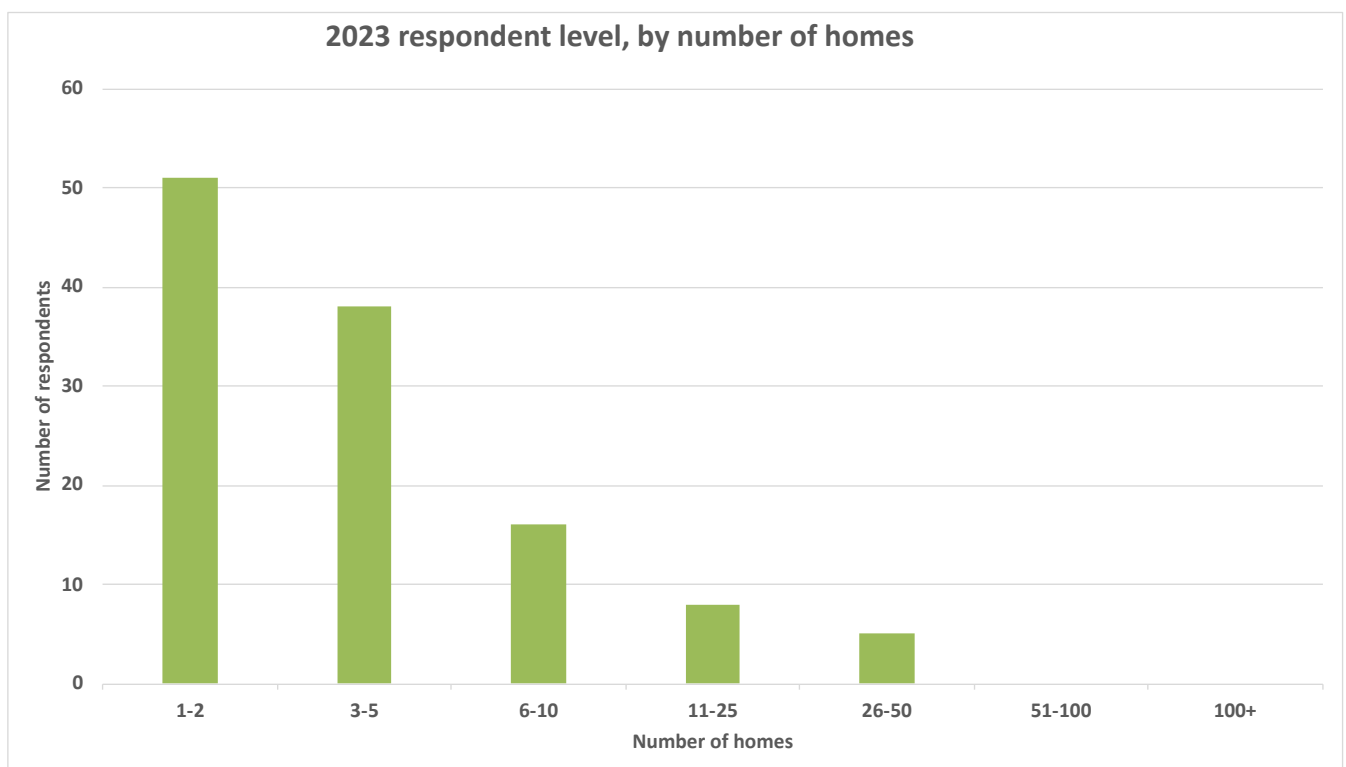
This Spring 2023 survey received responses from 119 provider submissions.

With a membership of over 280 members this response level gives a good confidence level when considering how representative it is of the whole membership.<sup>1</sup>

It is also important to look deeper than the aggregate response rate:

- Over 97% of responses are from private sector members, with only two voluntary sector and one local authority responses.
- The respondents are predominantly small and medium sized providers (see graph of distribution by number of homes operated by the respondents below).

Over 75% of responses are from small providers operating 5 or fewer homes, and 25% of responses are from single home operators.



<sup>1</sup> Statistically the high response questions are at the level of 90% confidence that the data is +/- 6% accurate in representation of the views of the whole membership.

- The relative size of respondent providers is particularly important as most of the survey question feedback is recorded based on “one-respondent-one-vote”; this means that the responses are not weighted by the size of the provider or any other factor.
- Ofsted state that 35% of all children’s homes are owned by the largest 21 providers<sup>2</sup>. This survey is clearly most representative of the smaller providers (operating the majority 65% of homes).
- There are policy issues unique to Wales arising for the provider sector. Over 85% of responses to this survey do not operate in Wales, and only 6% of respondents operate solely in Wales. Where appropriate in the analysis of results that follow the Wales-specific response is discussed separately.
- Most responses (over 80%) came from a single submission from the provider organisation. In the instances where two submissions were made by a provider only those comprehensive replies where narrative responses and perspectives differed between the two respondents were preserved. No provider offered more than two responses.

The survey gathers a broad and extensive range of information, some of which is commercially sensitive, so the response rate indicates a strong level of enthusiasm amongst CHA members who responded to provide their perspectives and experiences of the sector to a wider audience.

In the following report and analysis of the survey data the total number of responses for any given survey question will vary.

Percentages are therefore used as the normalisation factor where necessary (for example to examine year on year trends) and are calculated based on the actual response data for each question.

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<sup>2</sup> <https://www.gov.uk/government/publications/inspection-outcomes-of-the-largest-childrens-social-care-providers/largest-national-providers-of-private-and-voluntary-social-care-march-2022>

## **Positives, strengths and assets of different sectors**

Recent years have seen the potential for existential challenges to the sector from Covid, Government driven reviews and policy shifts, Brexit, and most recently from inflation.

This year's survey gave providers the opportunity to offer their thinking about the roles played by each of the three types of children's homes provision.

They conclude that each subsector brings unique strengths and assets to a children's homes sector that often looks after the most vulnerable children and young people with the most complex needs and that one has struggled to respond to the increasing demand of recent years. There is little evidence of partisanship in the responses, signaling provider views that the full scope brought by a mixed economy of supply is needed to meet growing national demand for services.

There is valuable reflection here for commissioners, policy makers and market shapers:

### **In-house/Local Authority provision: Positives, strengths, and assets.**

Support for children closer to home, friends, school, and family where appropriate.

Closer working with all agencies in the county.

Closer in-house knowledge of the children from social work team and other professionals and potential to develop specific services for needs arising.

Efficient training opportunities and potential to offer a grounding for colleagues to learn about children's homes.

Accommodating children with complex needs where there are difficulties in identifying placements.

Role in meeting an increased need to avoid unregulated support living.

Acts as a benchmark for other providers and at the same time gives LA first-hand experience of the challenges in running children's homes.

No issues with payment terms, financial security and support from the LA corporate infrastructure and administration services.

Efficient utilisation of council owned properties.

Provides insight for commissioning strategy.



## **Private provision: Positives, strengths, and assets.**

Funding and private investment capital for a wide range of specialist services.

Risk minimization through robust matching and compatibility assessment.  
Autonomy to place only those suitably matched to the home and other resident children.

Autonomy to implement practice models, and decide on models, staffing, occupancy, and clinical levels.

Insulation from local politics and constraints of availability of public sector services. Relative freedom from bureaucracy and red tape.

Experience and know-how of owners, managers and staff teams leading to better outcomes for young people. Ability to transfer knowledge and know how from elsewhere (larger organisations).

Understanding that competition drives quality and innovation.

Speed of decision making, agility and flexibility to adapt and develop services in response to changing needs, and not restricted by geographical boundaries. This includes bespoke education where no suitable alternatives exist.

Drive, passion, advocacy for young people driven by a sole focus on homes (smaller providers). Act as a constructive challenge to public sector bodies and practices.

Business focus that brings cost effectiveness of services for specialist needs delivered for multiple local authorities. Cost advantages from freedom from public sector pension schemes and terms.

Higher staffing ratios, therapeutic and psychological input.

Non institutional, homely settings.

## **Voluntary sector provision: Positives, strengths, and assets.**

Innovation in responding to need unmet by local authorities.

An alternative to public vs private provision. Bridging the gap.

Adding to overall capacity of the sector to meet need.

Impartiality.

Alternative sources of additional funding and more resources than other models.

Benefits of matching referrals from more than one LA. Good outcomes.

Specialisms and involvement in research studies.

Links and networks of long-standing and respected voluntary organisations.

Not driven by profit or returns. Ethos and values less driven by business needs.

Services that listen to the child and advocates for them.

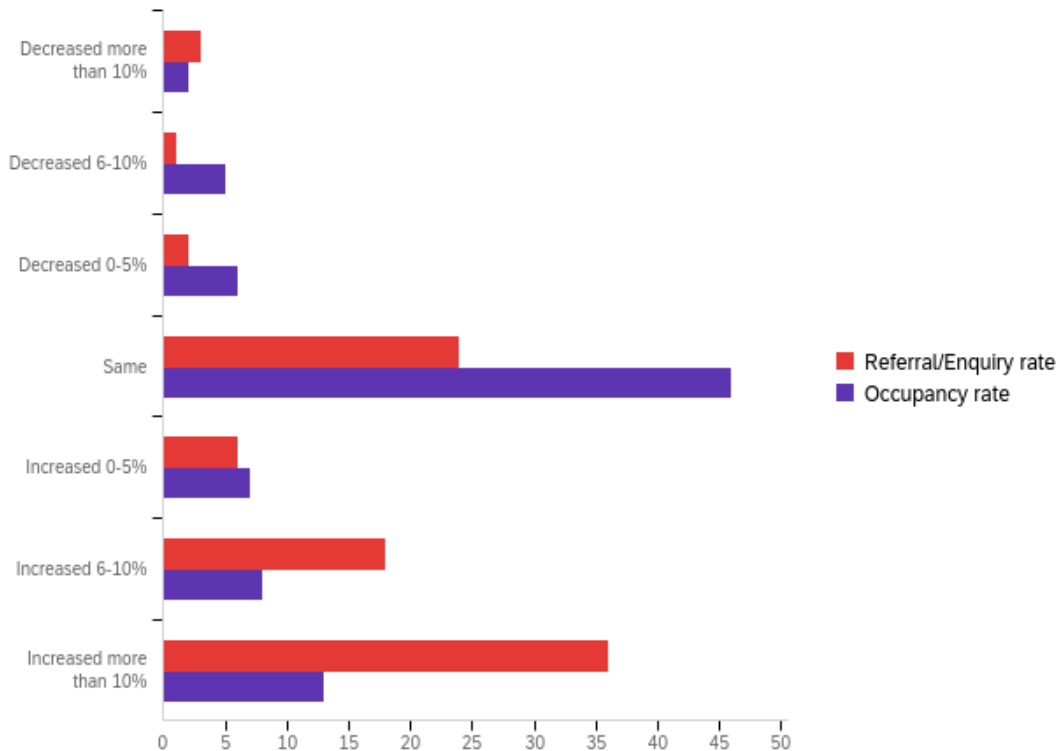
Cost efficiency through volunteering input.

Responsiveness and greater flexibility than public sector provision as more able to tap into local health and education services than private sector.

Collaboration with communities.

## **Referrals and Occupancy**

### **Referral rate and occupancy trend – numbers of providers reporting each level.**



This survey reports a strong increase in referral rates reported by providers post Covid.

Over two-thirds of respondents (67% vs 65% in 2022) reported increases in referral rates in this survey. The proportion of respondents reporting the highest rate of increase in referrals (over 10% year on year) remains around 40%. The proportion of providers reporting a decrease in referral rate (7%) is also stable compared to 2022.

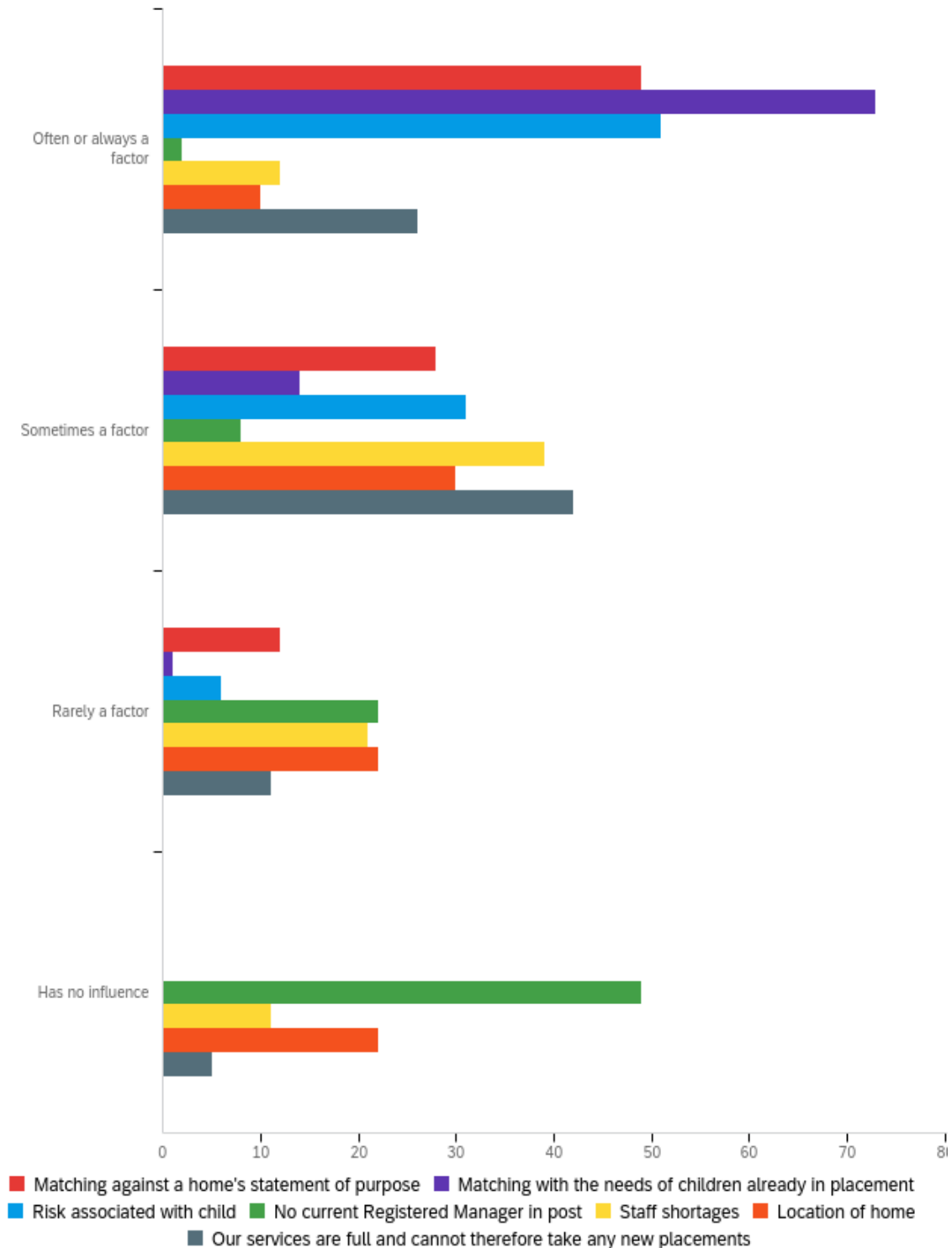
Occupancy rates continue to show a more stable picture.

Over half of respondents (53% vs 47% in 2022) report the same levels of occupancy as a year ago. A minority of 15% of providers report declining rates of occupancy which is a reduction compared to the 25% reporting decline in 2022. Similarly, at the higher rates of occupancy growth (6% or higher) 24% of respondents fall into this category, up from the 19% who reported the same in 2022. The sector overall has returned to a picture like that seen before Covid struck in 2020.

In Wales, although the Government policy is moving towards an elimination of private provision, providers predominantly are experiencing stable or increasing referrals and occupancy.

To further investigate why strong referral trends are not wholly mirrored in occupancy trends, the survey investigates reasons why providers decline to place referrals. The results are shown graphically below.

### Factors influencing provider decisions to reject referrals.



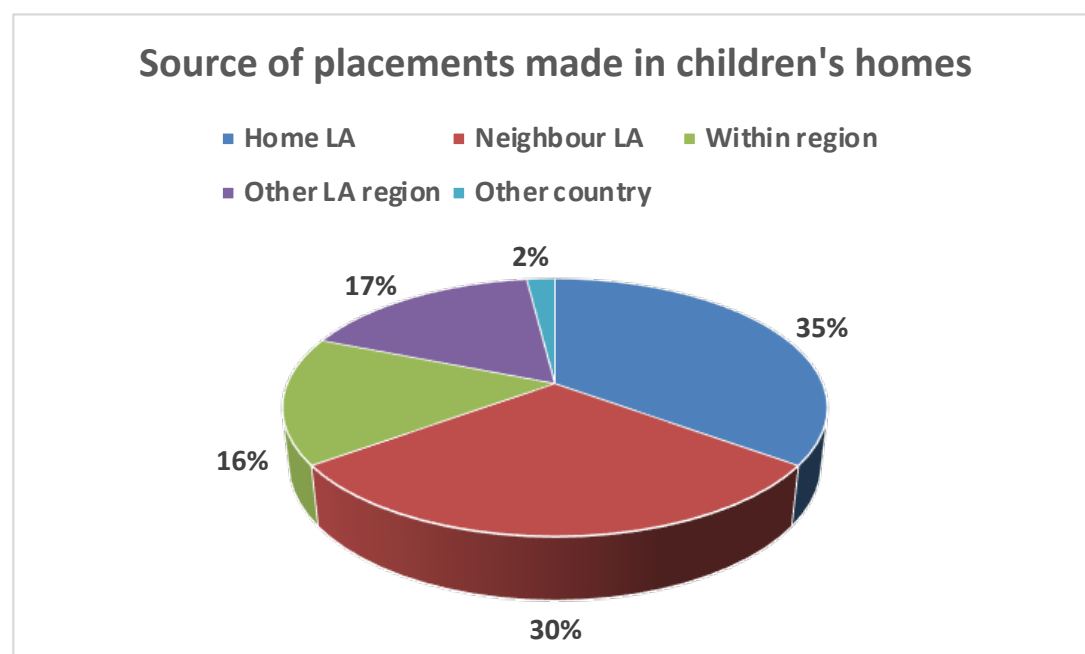
Matching of the needs of children referred, assessment of risks presented by the referral against the needs of existing residents, and the registration boundaries set by a home's statement of purpose are again, as in previous years, the clearly dominant factors in decisions to accept referrals.

With the overall occupancy rate across providers increasing, homes being fully occupied to the registered capacity of homes also limits provider ability to accept more referrals.

There are reported continuing struggles to maintain staffing levels across the sector, and this also limits the abilities of providers to utilise registered capacity at times.

It is again noted that the geographical location of a home is not a dominant factor in decisions about accepting a child referred. This goes to a core issue for the sector.

DfE data continues to show increasing proportions (67% as at March 2022 up from 58% in 2021) of children in residential settings to be placed outside of the council boundary<sup>3</sup> Location of the home is not rated as important a factor by providers as compared to the matching of needs and providers are generally not constrained from considering referrals from any LA. Survey responses also correlate with the DfE statistics but in addition indicate that 65% of placements are from the host LA or a near neighbour (a ratio that has increased from 53% two years ago):



This is however a clear demonstration that commissioning by local authorities has not resulted in services being located where they are needed, when they

<sup>3</sup> <https://explore-education-statistics.service.gov.uk/find-statistics/children-looked-after-in-england-including-adoptions/2022>

are needed, and matches the conclusions of the Competition and Markets Authority in their 2022 study of the sector:

***“In particular, we have found that there are severe limitations on the ability of the 206 local authorities in England, Scotland and Wales, who purchase placements, to engage effectively with the market to achieve the right outcomes.”<sup>4</sup>***

It has consistently been the case in these surveys since 2016 that referral rate changes and occupancy rate changes do not closely match one another. Factors influencing this disparity have been examined in each annual survey, and some appear consistently in the discussion year on year.

The 2023 responses give the current provider perspectives on the issues seen in referral patterns are as follows:

- Providers report increasing acuity and complexity of needs and associated behaviours. This year providers highlight increasing levels of Child Criminal Exploitation (CCE), Child Sexual Exploitation (CSE), trauma and Adverse Childhood Experience (ACE) related challenging behaviour, gender identity related issues, mental health, violence and self-harm issues, suicidal ideation, undiagnosed Autistic Spectrum Disorders (ASD), Emotional and Behavioural Difficulties (EBD), children subject to Deprivation of Liberty Orders (DoLS), Learning Difficulties (LD), Attention Deficit Hyperactivity Disorder (ADHD), Post Traumatic Stress Disorder (PTSD), other disabilities, and an increased number of girls being referred.
- The increasing risks presented in referrals results in more occasions where the purchasing local authority specifies a need for solo placements and for placements in crisis and emergency situations. This can lead to bed blocking if multi-occupancy home vacancies are used. Some evidence is reported of this being partly driven by unavailability of secure home or secure mental health capacity.
- There is evidence of wide area geographical searching by placement finding efforts in local authorities with little screening or matching of provider capabilities to the referrals sent out. For example, this can be illustrated as simply as the age of referrals being outside the range of the registration of the home. There is increasing evidence of authorities having to go outside of procurement protocols and frameworks in placement searching.
- Increasing referrals of children to residential where a fostering placement cannot be sourced for the child, and increased numbers of

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<sup>4</sup> <https://www.gov.uk/government/publications/childrens-social-care-market-study-final-report>

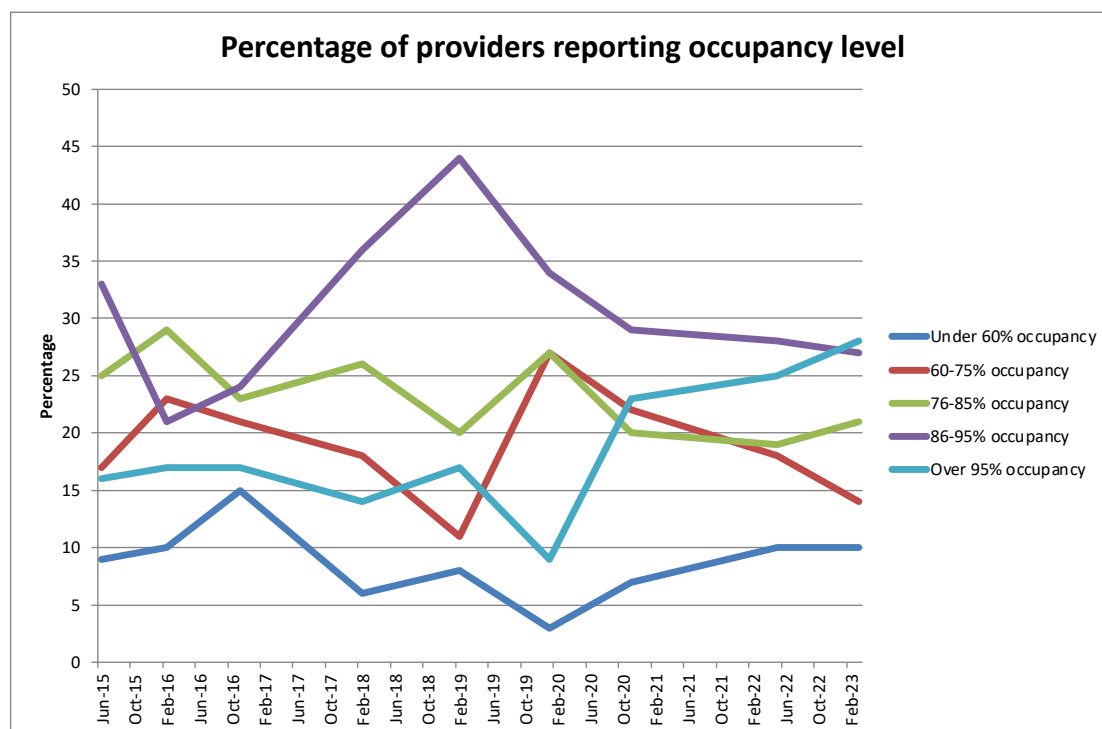
referrals back to children's homes for children from unregulated or semi-independent accommodation (ahead of regulation arriving in that sector).

- There is also increased reporting of the referral of Unaccompanied Asylum-Seeking Children (UASC) to children's homes.
- Anecdotal evidence is reported that more, younger children are being referred to children's homes services than in the past. This is seen as a positive proactive intervention as opposed to historical situations where numerous failed family placements are attempted before the older child is referred to residential.
- The role of Ofsted and regulation is identified as a factor that influences provider decision making in considering referrals. The risk of reduced inspection ratings and/or regulatory action is an important consideration for providers.
- The ability to appropriately staff homes is also identified as a limiting factor by provider responses.
- Some providers are reported to have failed financially or to have closed provision due to regulatory issues.
- Providers in Wales report decisions to cease expansion investment in Wales due to the political agenda there.
- Some instances where the referral to children's homes is made very late in the placement finding process (evidenced by the time elapsed before referral being well into the notice period of the previous placement), children's homes being treated as a last resort by purchasers.

The complexity of needs and complexity of issues related to matching communicate once again that the children's home sector is far from homogenous and is instead the aggregation of a multitude of homes that seek to meet a wide variety of differing needs with a wide variety of models and practice. This is one of the biggest challenges faced by efforts to improve commissioning practice as proposed by the CMA and the Independent Review of Children's Social Care.

The net result of referral trends and occupancy trends is seen in an overall increase in occupancy levels across the sector (see following graph):

## Actual Occupancy levels: Trend



Occupancy at the highest (95% or above) rate is reported to be at the highest level across any of these surveys.

The overall picture indicates a small average increase in occupancy over 2022.

The persistence of around 10% of providers reporting low occupancy may, at least in part, be attributable to those providers reporting in the survey the opening new provision and building occupancy gradually.



### **Better matching of referrals to services during placement finding**

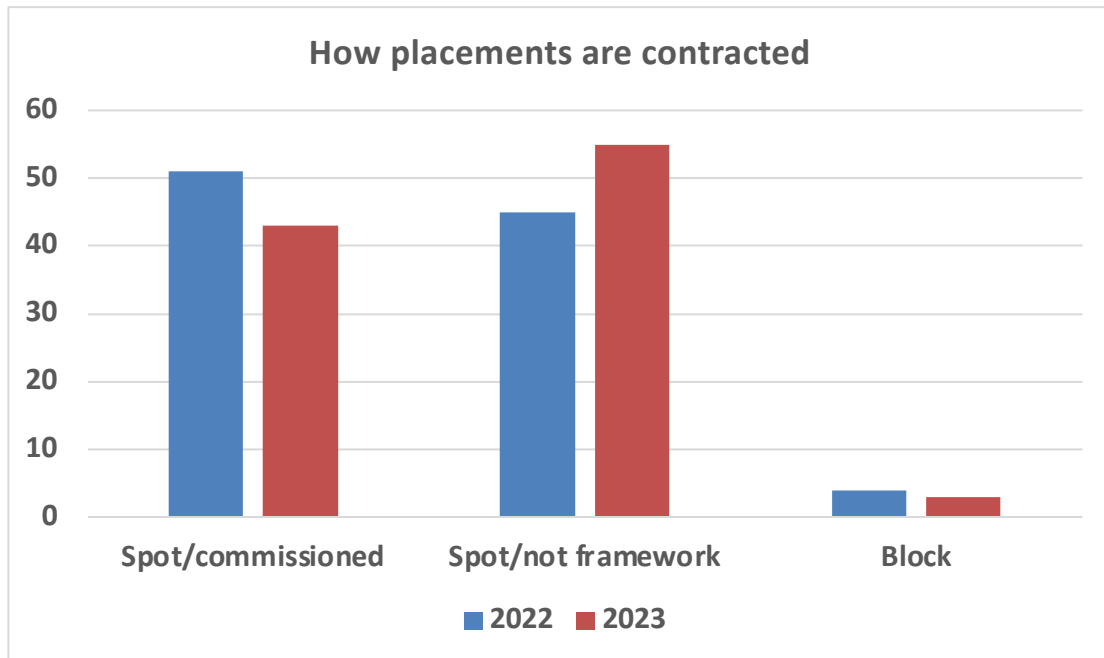
From their perspective as those who receive the referrals of children from local authorities, providers offered to the survey their thoughts about how the referral process could work better:

- Pre-screening referrals and directing them only to providers that can realistically consider them. For example, homes are sometimes specifically registered for defined age groups, specific gender of resident, specific need (e.g., learning disability), but many report receiving high volumes of referrals that do not fit even these most basic criteria.
- Information about the child must be up to date, fully transparent and must include information about all the significant risks. A formal assessment prior to referral is the desired standard. Short pen pictures are generally not sufficient for matching purposes. Withholding important information at referral can lead to subsequent placement breakdown.
- Network meetings with providers who may be considering a referral are appreciated, allowing providers to ask more specific questions about the young person.
- Visits to homes by commissioners and social workers are recommended. Allow time for appropriate process including meeting the child when appropriate.
- Providers would prefer that local authorities engage more with providers based in their region and invest in a better understanding of the needs met by local homes.
- Communication about referrals through framework processes and portals is not the preferred route of providers; email-based systems are also likely to less likely to yield successful responses compared to personal calls. There needs to be open and responsive dialogue during the referral process, allowing for questions from providers and prompt responses from the local authority, including the child's social worker.
- Providers receiving referrals from different local authorities and frameworks call for more unified referral processes and standards, including risk assessments.
- Matching of services based on an assumption that CAMHS engagement will be secured for the young person within the required timescale is likely to fail.
- Language used is important, references to unit or placement rather than home can set the wrong tone.

- Less focus on the cost or price of the service and more on the appropriate matching.
- Improved consideration of education at the referral stage.
- Providers would welcome the opportunity to demonstrate to placement finders how the process of matching works from the provider's perspective, and that this may differ from one provider to another.
- Invest in better relationships between people on both sides of the process, with enhanced understanding of one another's challenges. Maintaining an ongoing relationship is advised.
- Close relationships with local providers where the placing authority already knows the children in place at the home can be very beneficial to subsequent referral activity.
- Transparency as to whether the placement finder is also searching for fostering placements (in house or with an Independent Fostering Agency (IFA)) in parallel. Providers receive high volumes of referrals and need to prioritise those most likely to result in a children's homes placement.

## **Contracts and procurement**

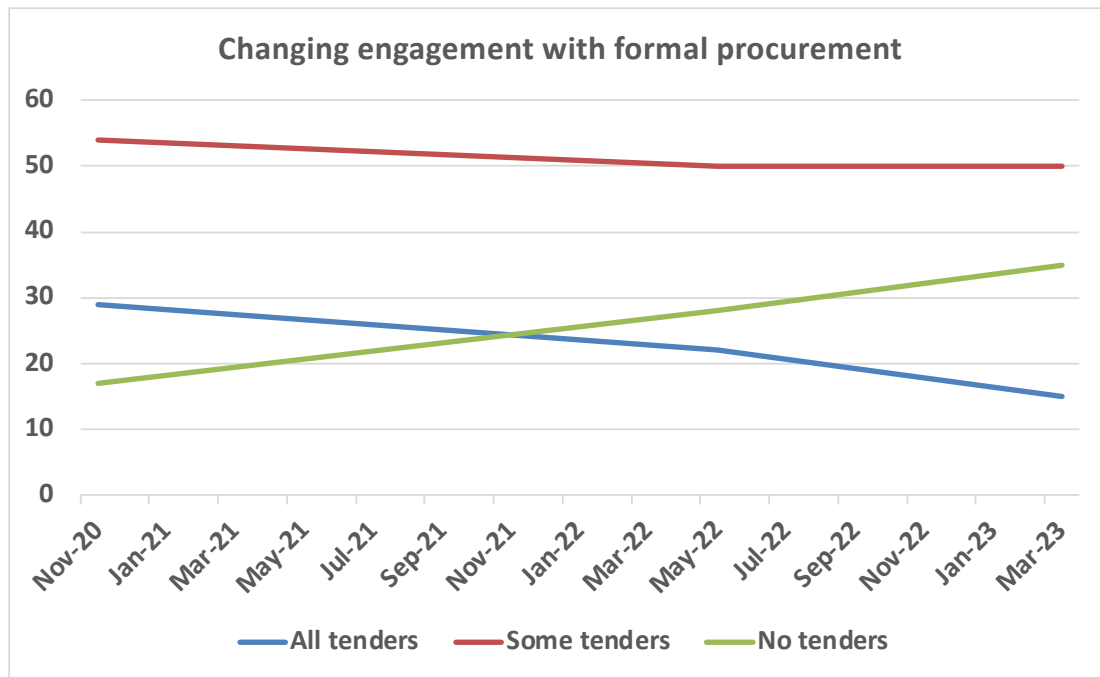
Spot purchasing activity is the dominant form of contracting for placements in children's homes by local authorities with 97% of places purchased this way and only 3% subject to block arrangements.



Spot activity is split between placements made under a procured frameworks and dynamic purchasing systems “DPS” making up 43% of placements, as opposed to those made through open searching around the sector outside of formal procurement arrangements (55%). As illustrated above, there is clear evidence in this survey of a further shift (10 percentage points) away from the formal procured arrangements.

Formal procurement and tendering have continued to lose traction in the sector. Over a third of providers do not engage with any formal processes, a ratio that has doubled in the last two years. Half of all providers will still selectively consider which tenders to bid for, but the proportion of providers reporting that they respond to all procurement activity has halved.

In Wales, the 4Cs framework for the whole country results in a higher ratio of placements purchased through the framework.



More than one in five providers (22% vs 17% last year) also report choosing to leave a commissioned framework in the last year. None have reported negative consequences after making that decision.

Respondents offered their views as to the reasons behind the trends in engagement with procurement:

- Contractual conditions are seen by providers as too weighted in favour of the purchasers, with little or no negotiation or consideration of provider perspectives.
- Inflexibility by purchasers in relation to price uplifts deters providers. The general lack of process to fairly recognise inflation recognition is of particular current concern and the most quoted factor in reasons not to engage with formal procurement tenders.
- The time and cost involved with responding to tender processes is a further disincentive, along with unreasonable timescales, and unnecessarily detailed information requirements. Small providers especially highlight these factors.
- Size and location of provider relative to the procuring authority is a factor considered by providers before deciding to engage with or ignore a tender.
- The volume of demand and referrals being made to the open spot sector currently is more than sufficient to sustain many providers and

thus the incentive to engage with formal procurement is diminished.

- Providers prefer to be able to choose to work with local authorities that are not delivering poor outcomes for children or those with whom there have been historical issues related to poor social work practice or other deficits in support to children from the local authority.
- Where procurement frameworks and DPSs work well the relationships between local authorities and providers is highlighted as a key component to the success of the arrangements.
- Several specialist providers with low intake numbers report that local authorities have discouraged them from applying to standardised Lot structures in formal tenders, instead indicating that remaining available on the open market is the purchaser's preferred way to access the services when required.

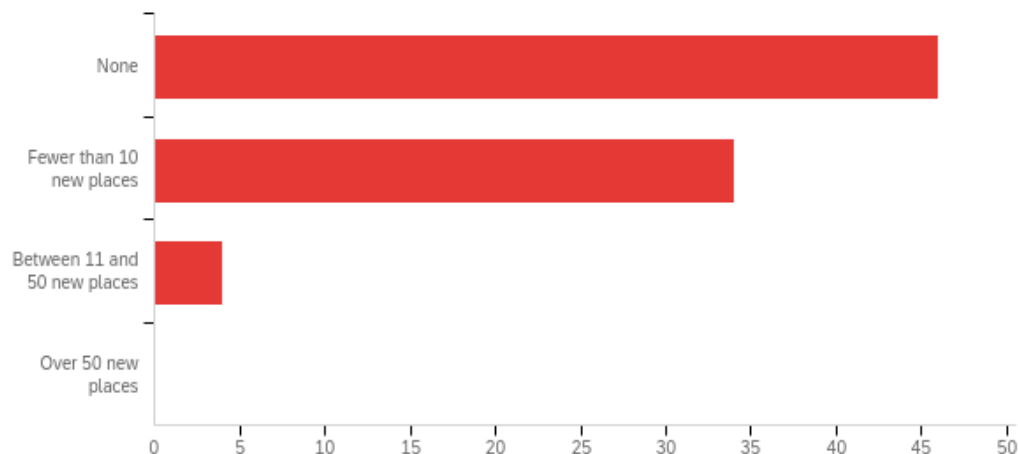
Providers were also asked if there are alternatives to current commercial arrangements that they would consider and what they would encourage commissioners to consider:

- Many providers generally express a willingness to consider different forms of contracting, including volume discounts, preferred local access arrangements, profit-share and joint venture agreements and block contracting that all feature in responses.
- Some providers and authorities have formal and informal historical experience of these alternatives, with varying degrees of success. Appetite amongst providers therefore varies and the onus would seem to be on commissioners to co-produce balanced approaches with relationships, communication, and inflation-sensitive commercial terms as key components.
- Providers are clear that decision making on matching must remain with the provider in any alternative arrangements.

## **What is happening to capacity?**

The proportion of providers reporting some addition to capacity in the last year increased to 45% from 40% last year but is not yet back to pre-Covid levels.

### **Number of providers adding capacity in the last year**



Thirteen providers also reported deregistration of services last year. The impact of staffing shortages is a factor in those instances.

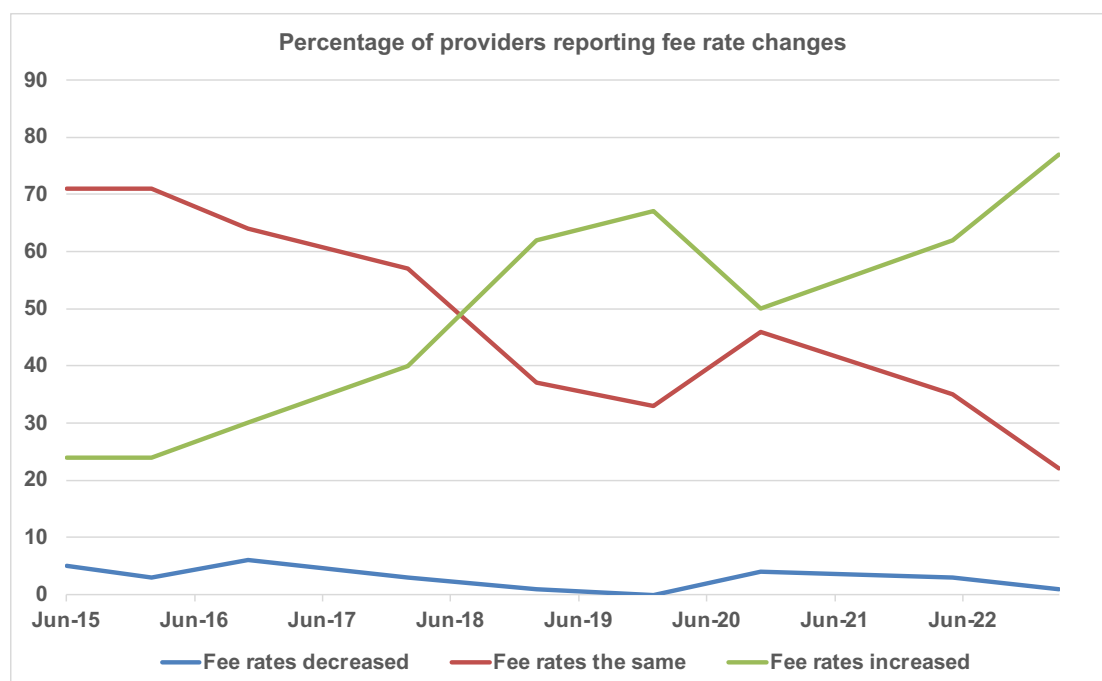
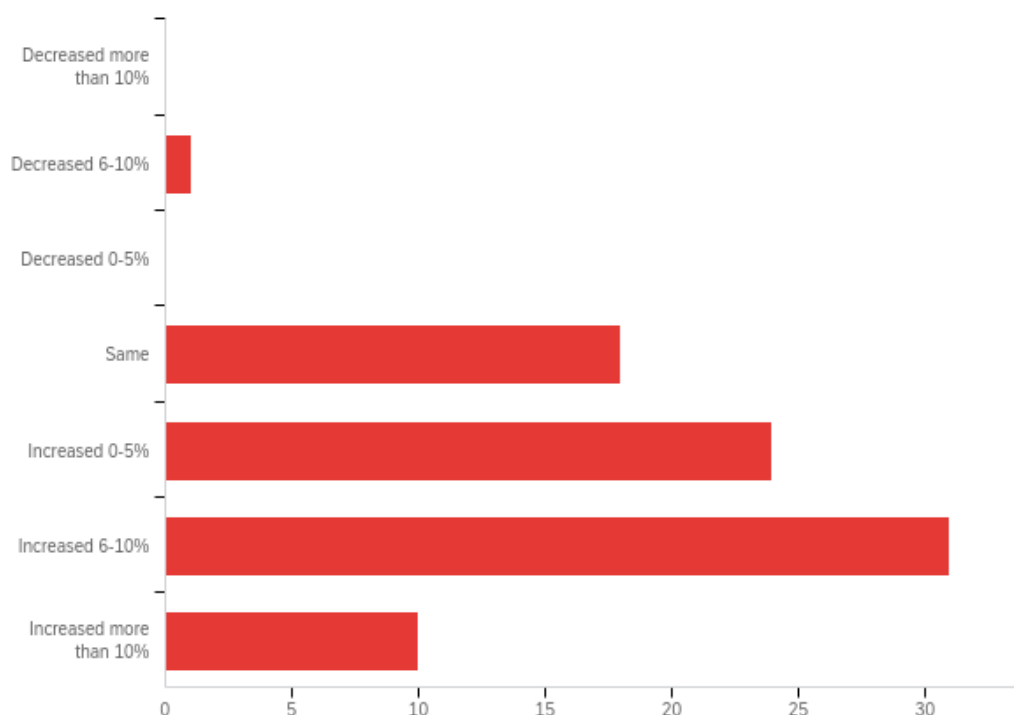
The growth rate indicated by these results is below the level that may have been expected last year (where 75% of providers reported looking to grow their organisations in the next 3 years). In Wales, new openings by providers have almost entirely dried up.

Factors impacting on provider caution in attitudes to growth include:

- Awaiting clarity of outcome for the sector from the Government response to the CMA review and the Independent Review of Children's Social Care. Some indicating that they will await the outcome of the next General Election before strategic growth is considered.
- The impact of the "Eliminate Profit" agenda in Wales. Majority private providers describing a bleak outlook and potential disorderly exit, whilst the minority voluntary sector is looking to expand in Wales.
- Cost of living pressures and concerns as to the degree to which purchasing authorities will recognise and reimburse cost increases.
- Staffing issues that challenge the maintenance of existing services indicate that adding new capacity will be extremely difficult and potentially costly.
- Persistent negative attitudes of media and senior sector figures.

## Prices/Fee rates

### Numbers of providers reporting different levels of fee rate changes



Fee rates are increasing at a rate quicker than at any point in this series of surveys dating back to 2015.

Over three quarters of providers reported fee rate increases (77% compared to 62% last year), the majority (37%) being in the higher 6-10% bracket. One in five providers (22% down from 35% last time) held prices, and only one respondent reported reducing prices. The continued overall increasing of fee rates is consistent with the CMA findings for the largest providers, and consistent with the high demand levels indicated by referral trends discussed above.

Up to 80 respondents provided indications of the ranges of pricing. The results in the table below imply overall average fee rates marginally higher than the fee rate increases indicated in the figure above. This would be consistent with the overall cohort mix being placed in children's homes having increasing complexity of need and requiring higher resource levels.

£/week	May 2022	Mar 2023	+/- (%)
Average minimum price	4180	4637	+11%
Average maximum price	5070	5937	+17%
Average mean price	4599	5215	+13%
Average mode price	4690	5228	+11%

Average prices in Wales are 5% above those indicated above and fall within a smaller range, although this is based on a smaller, less representative sample of responses.

The factors that currently most influence provider pricing strategy and decisions are represented below:





Staffing cost increases and the influence on the need to increase prices is especially dominant in provider responses. There are several factors driving staffing costs:

- Complexity of needs of the children being placed and the management of the risk that presents with additional staffing levels.
- Often expressed as specification by purchasers for one-to-one or two-to-one or higher staffing to child ratios.
- This in turn can lead to bed-blocking (making a registering place unavailable in order to manage need and risk) and the need for negotiations of higher fees to compensate for the lost opportunity cost. There is no sector-specific method for this compensation which therefore leads to a range of additional pricing up to a full fee for the blocked place. One third of all providers report regularly facing this issue, and over 70% of providers have faced it at some point.

This adds further to a picture of a marketplace of supply that has not been commissioned or developed to meet the needs patterns now presenting, and some extraordinary price levels created by the mismatch.

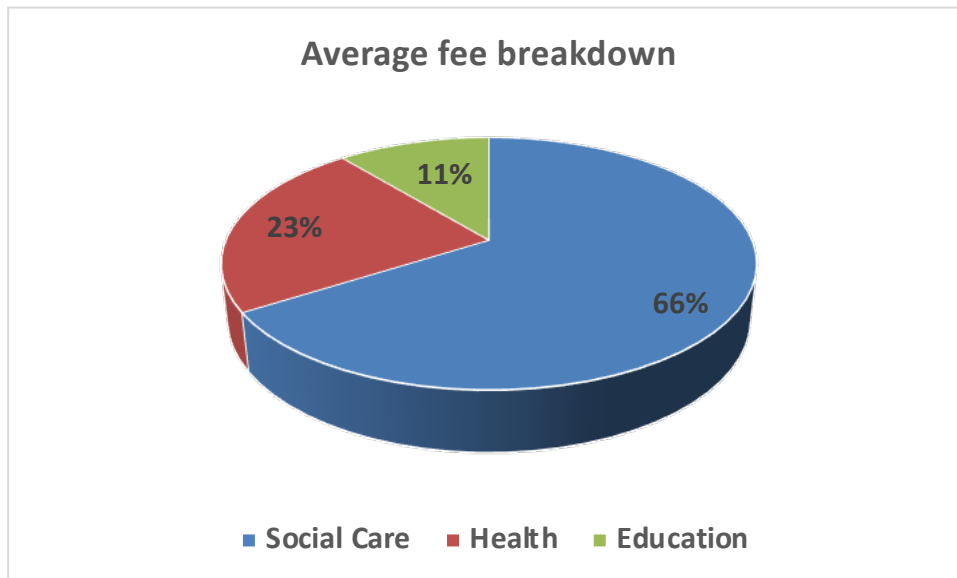
- National Living Wage rate increases that raise the base level of entry costs for staff (increase is 9.6% from April 2023).
- An increasingly competitive labour marketplace driving up employment costs, agency costs.
- Training costs associated with staffing.
- Additional clinical input from therapists, psychologists, and other professionals directly for children and for staff team training and support.
- The full impact is now being felt from increases in recent years in employer National Insurance, employer pension obligations and the costs of other benefits needed to retain staff.

Cost of living pressures are also evident both in terms of the need to pay staff at increased rates and the direct cost of living impact on energy, supplies, insurances, compulsory Ofsted fees and other operational overheads of the children's home.

Some providers indicate that procurement frameworks that limit or fix prices can result in the provider needing to increase prices for other services that are not on frameworks, or to leave the frameworks altogether.

Providers (private and voluntary) remind us that a surplus or profit above costs is also necessary to fund the further development of sites and services.

Respondents again provided their estimates of the split of typical fees between social care: health: education.



The proportion of fees represented by the health element increased to 23% from 18% last year. This is consistent with services reporting increased complexity of needs and the need for greater levels of clinical mental health and therapeutic input.

Fee escalation, even when driven by factors such as staffing and cost of living inflation, can create a flashpoint of tension between providers and purchasers. At worst it contributes to a narrative including accusations of profiteering. This survey sought the views of providers as to how this unhelpful narrative could be addressed. The suggestions are summarised here, and offered for consideration by policy makers and commissioners:

- Better demonstration of the impact of children's homes on positive outcomes for children and young people. Promotion of the positives of children's homes.
- Clearer needs and progress/impact assessment.
- Providing the true facts about the impact of volatility of placements and risk on occupancy and finances.
- Costing of placement breakdown.
- Transparency and cost breakdown in exchange for fair inflation uplift terms.
- Open book accounting and independent audit or peer review of outcomes.

- Demonstration of the required investment and risk taken to generate profit. Understanding of sunk costs.
- Better forward planning by local authorities.
- Greater standardisation of fees is suggested by some providers.
- Highlight the role of the majority smaller providers, the types of business that they are, the risk they have taken and the challenges they face.
- Greater flexibility and understanding at Ofsted to allow providers to reduce risk averse matching.
- Role of DfE and Ofsted in positive promotion of the sector.

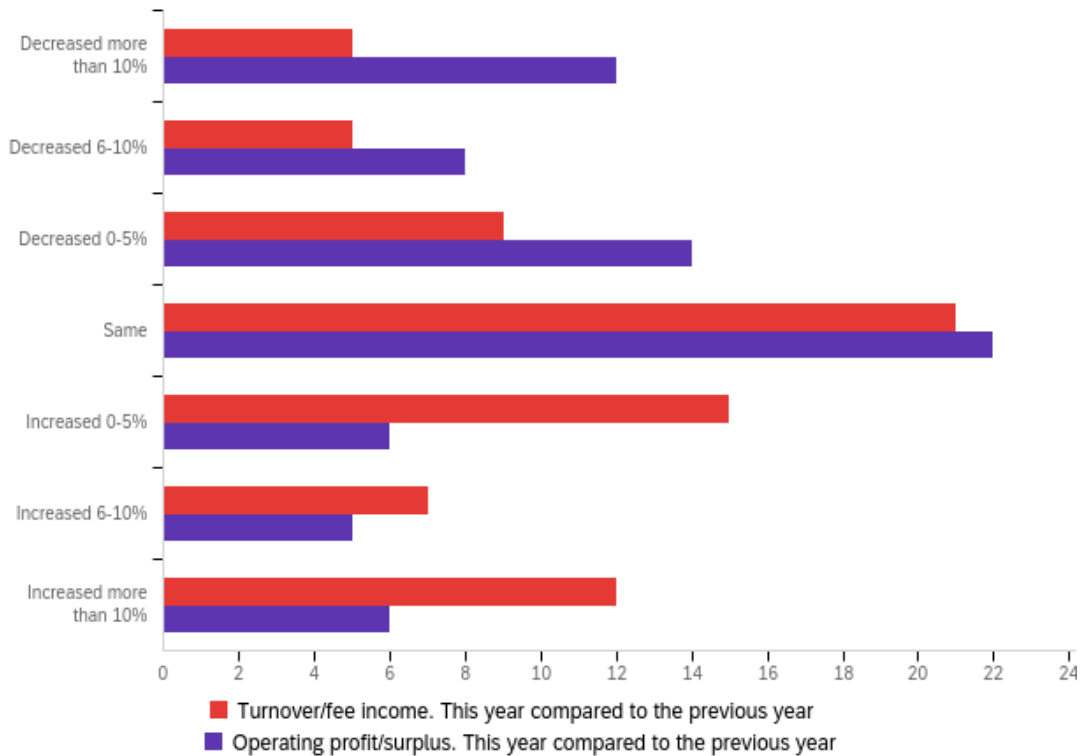
These were the most prevalent themes in responses, however there is also a part of the sector that could best be described as resigned to the negativity it faces.

This leads to some unwilling to engage, and others retreating to a role attacking weaknesses of local authority practice, commissioning, performance of regulators and making criticism of media and of Government.

Whilst there is therefore clear dissonance around the sector and some polarization of views, there is equally evidence of willingness from a majority of providers to engage in more positive dialogue and evidencing of the positives of children's homes.

## **Turnover and Profit trends**

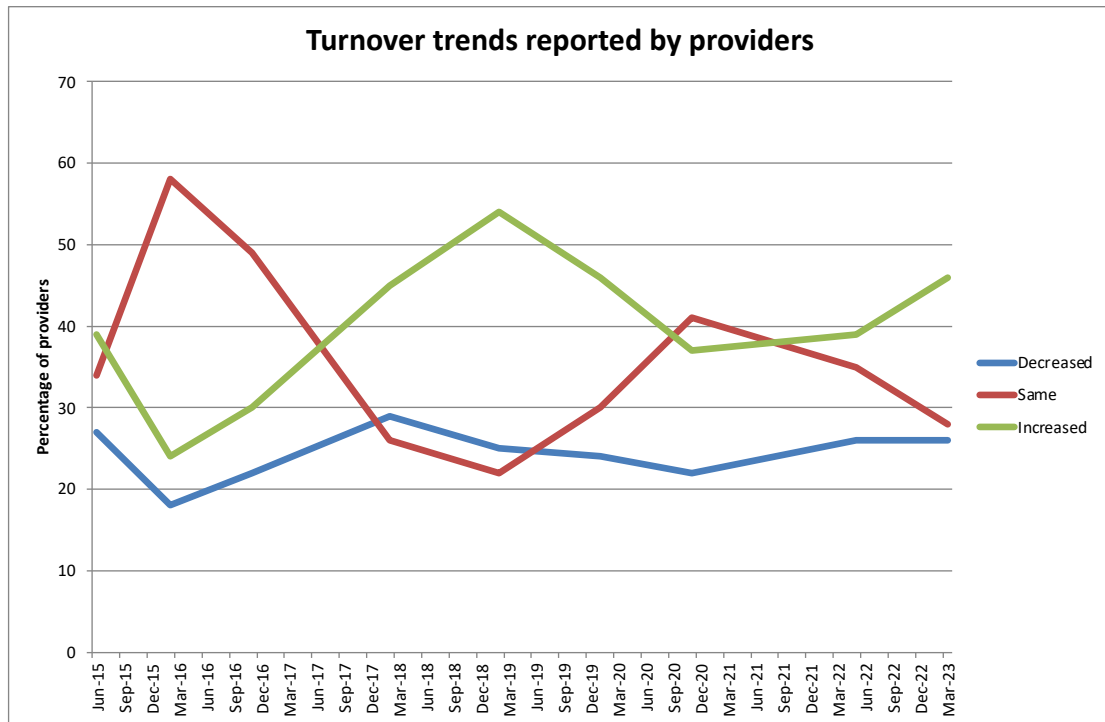
**Turnover (Fee Income) and Operating Profit trends: Number of Providers reporting different levels of increase/stability/decrease.**



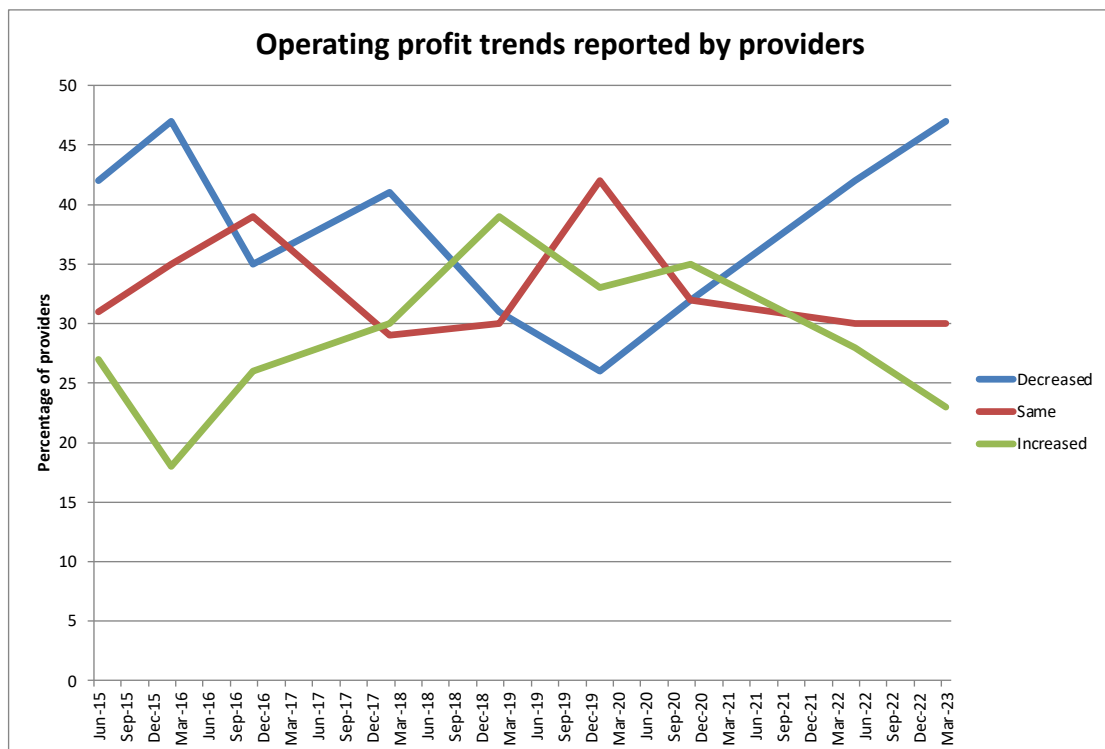
Even in a sector that is reporting high demand, increased occupancy and price increases providers continue to report a wide range of financial outcomes.

Almost three in every four providers report stable or increased turnover/fee income (74% this year vs 74% last time). Within that picture, a higher proportion (46% vs 39% last year) report increases, whilst the same proportion as last year (26%) still report a decline in income. These trends are further illustrated below:

In Wales over 85% of respondents report stable or increased fee income, despite the impact anticipated from change in Government policy.



## Operating Profits

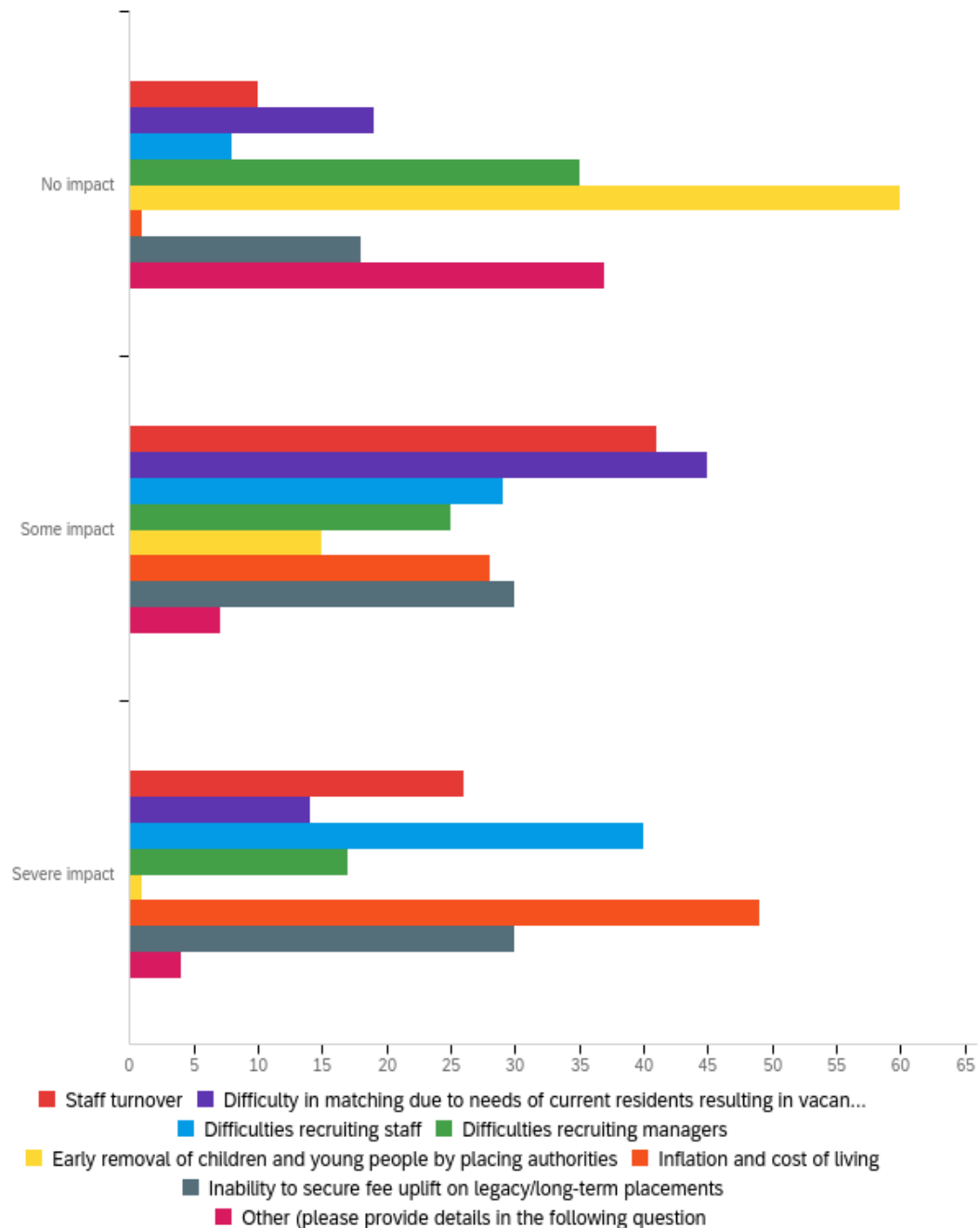


Reported operating profits are significantly less stable than turnover and show a divergent trend. Although 30% of providers, as last year, reported stable profits, there are a greater proportion reporting decreases (47% vs 42% last year), whilst those reporting increased profits fell to below one in four (23% vs

28% last year).

In Wales the situation is more stable, with 85% of providers reporting stable or improved profits. This partly relates to the cessation of investment in expansion activities.

Clearly there are additional cost and investment factors that are acting to reduce the profitability of a significant part of the sector to a level only once seen before in the history of these surveys. The factors were further explored in the survey:



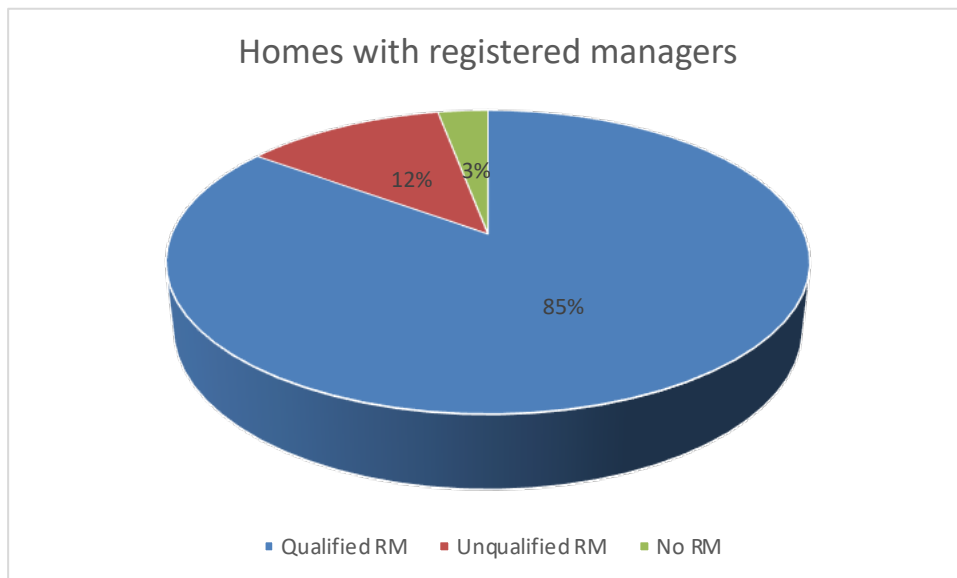
The impact on the cost of living for staff and for children's homes in general, fuelled by the high inflation levels is having the most significant negative impact on profitability.

Combined with the difficulties in recruiting and retaining staff there is evidence of clear cost pressure on the sector. The inability of many providers to recover the increased costs via fee uplifts from local authorities is then a factor having significant impact on financial outcomes.

The impact of being unable to match referrals to any spare capacity is again identified as a factor in the overall results, indicating the mismatch in demand patterns compared to services developed by providers.

Other factors mentioned in responses include steep increases in insurance costs and transport costs.

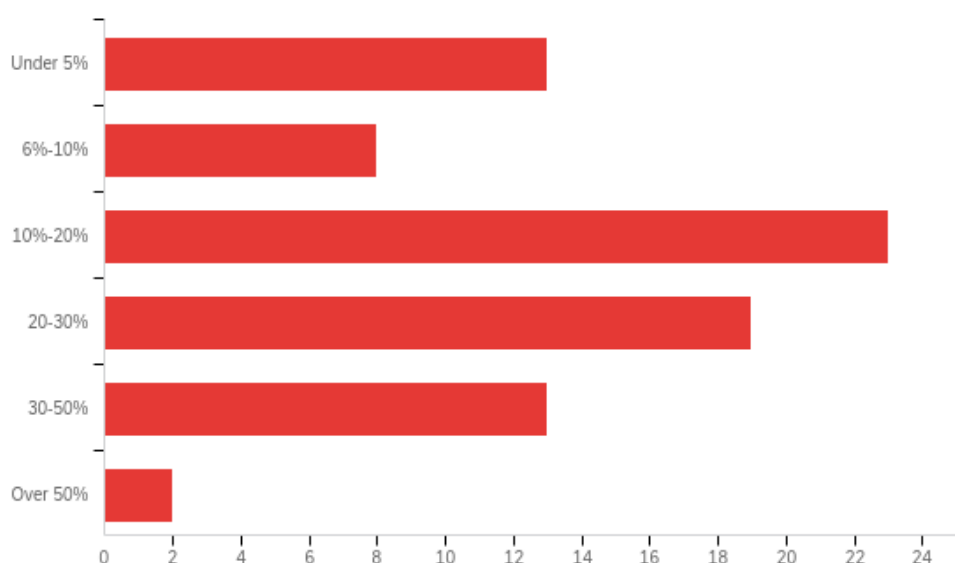
## **Managers and staff**



Despite the wider staffing challenges, and continuing the trend from last year, providers report an improved position in relation to registered managers with 85% reporting qualified managers in post (84% last year), and a decrease to 3% of homes without a manager (5% last year).

This may in part be because of the introduction of new Ofsted guidance in relation to multi-building children's homes<sup>5</sup>, as this allows managers in some circumstances have responsibility for multiple sites. More providers (18% vs 7% last year) now report having managers for multiple sites.

## **Numbers of providers reporting staff turnover levels.**



<sup>5</sup> <https://www.gov.uk/government/publications/registering-a-multi-building-childrens-home/registering-a-multi-building-childrens-home>



When considering the whole staff group in children's homes the challenges of recruitment and retention of staff have increased compared to previous surveys.

Almost three in four providers (73%) report staff turnover rates of over 10%, with almost one in five (19%) reporting rates over 30%. This continues to be a concern in an environment where stability is a key aim.

With cost of living and inflation pressures, competition for staffing is also driving up costs.

High levels of vacancies are also reported (58% of providers report vacancy rates above 5%) (see chart on following page).

Staffing pressures not only bring challenges to the ability of a provider to maintain existing capacity and quality, and to be able to confidently match referrals to vacancies, but also acts as a drag on development of further capacity in the sector.

***“Staffing and operating challenges need to be resolved before further expansion plans come to fruition.”***

***“I would hope that we can recruit enough staff over the next few years to maintain the same number of places for children. We had hoped to open a secondary provision in a few years but whilst there is a recruitment crisis this seems impossible.”***

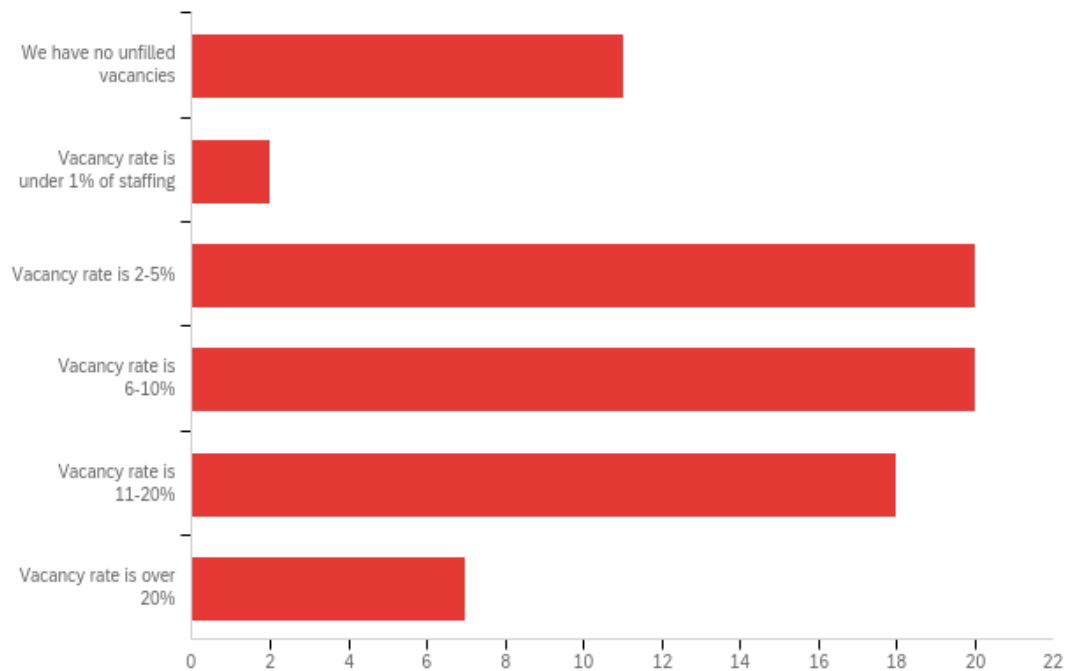
***The biggest concern despite wanting to expand our one home business is being able to recruit staff for it due to the current recruitment crisis across our sector...***

***“Incredibly tough due to ongoing recruitment challenge of the sector and negative media.”***

The challenges appear to be felt most severely by the smaller providers where the investment in new capacity would, for some, represent a doubling of capacity, investment, and risk. Greater confidence in the availability and stability of staffing is a pre-requisite to increases in capacity from those providers.

In Wales, there is evidence of greater stability in staffing (only 28% of providers reporting staff turnover more than 10% per year), despite the uncertainty raised by the Government eliminate agenda.

## Vacancy Rates:



A minority (fewer than one in five) of providers has utilised Government Apprenticeship schemes, predominantly for level 3,4 and 5 qualifications.

Some feedback suggests that rules related to overseas workers and age of staff qualifying for schemes could be adapted to increase the potential for use of schemes with children's homes staff.

## **Profit levels**

Measures of profit/surplus or loss/deficit give an indication of how providers experience the combined impact of all the variability discussed above along with the impact of financing structures and interest costs.

This survey again asked providers to disclose actual profit levels (as a percentage of turnover).

This area of the research traditionally attracts lower response rates and therefore is less representative of the membership. Also, too few were able to calculate EBITDA as it is not a term used in their normal statutory accounting, so it is not reported here.

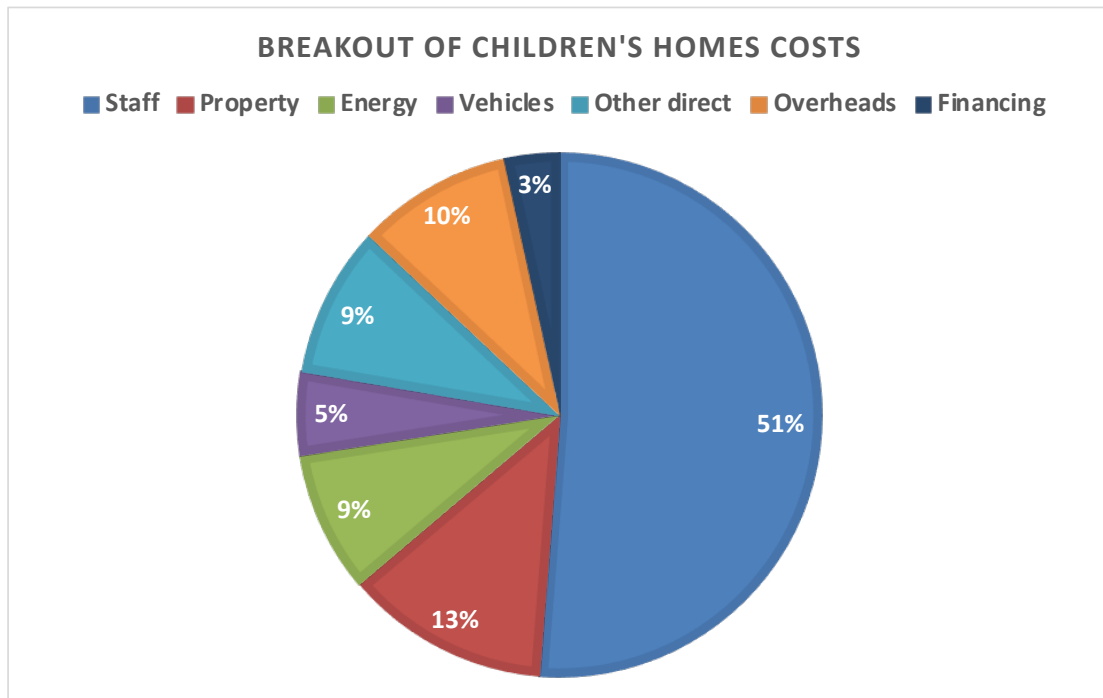
### **Average provider profit levels – percentage of turnover**

<b>Profit Measure</b>	<b>May 2022</b>	<b>Mar 2023</b>	<b>+/-</b>
Operating profit/surplus	8.3	5.0	- 3.3
Net profit before tax	7.8	4.6	- 3.2

There is evidence of decline in profitability of more than 3% in this survey compared to 2022.

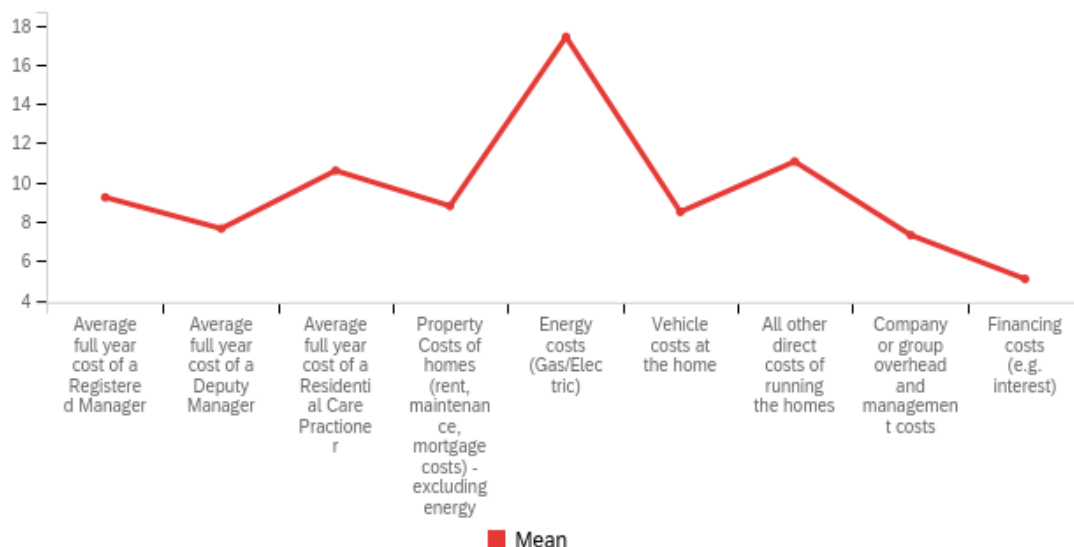
## **Cost structures**

This survey has again gathered some feedback (from around 60% of respondents only so some caution is also advised in use of these figures) to illustrate typical average cost structures in children's homes. Staffing costs are confirmed as the clear dominant factor in the running costs of children's homes:



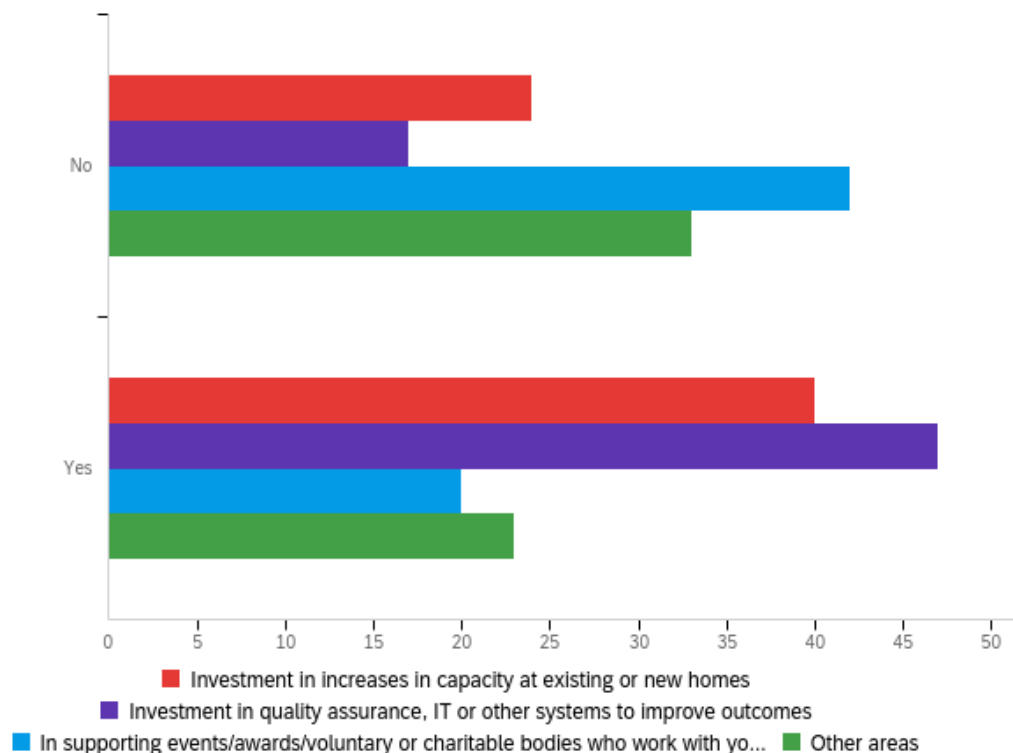
Cost inflation is reported across all categories, with energy being the highest at over 17% per annum inflation:

## **Cost inflation percentages**



## **Investment**

### **Where are providers investing currently?**



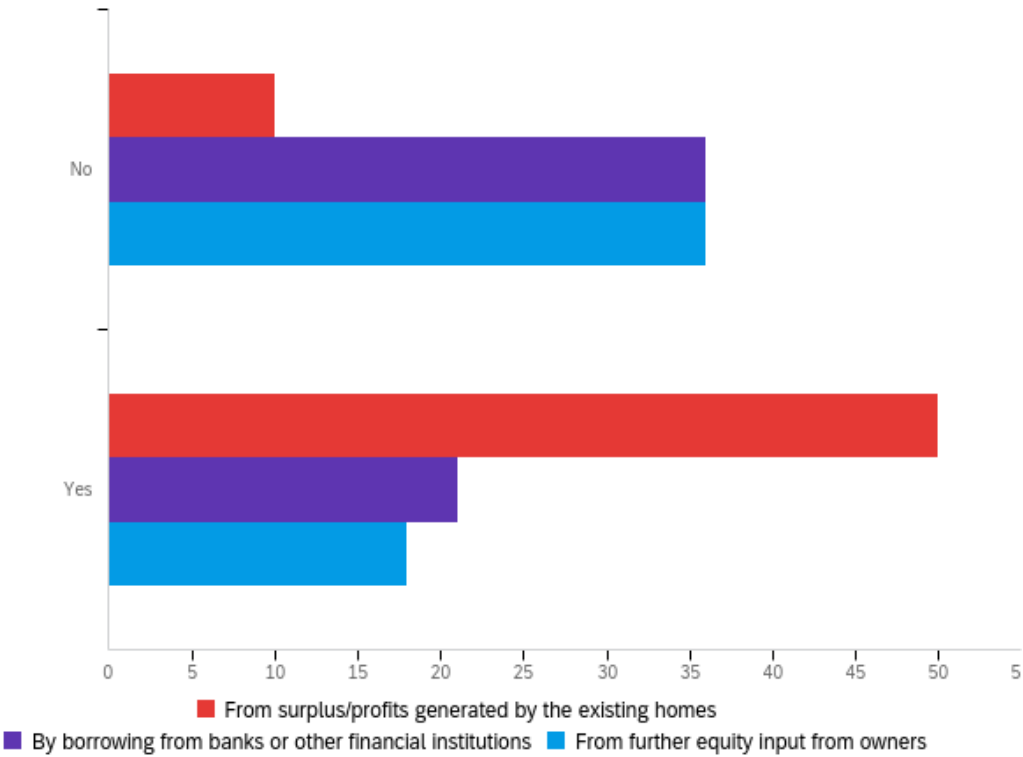
The pattern of investments described by providers remains remarkably consistent with previous years.

Providers continue to invest in their existing services as a priority, led by recruitment, retention, staff training and education activities, and in clinical input to develop the service to be more therapeutic.

Despite the evidence from referral trends of excess demand, there is some evidence of caution around the sector about adding to capacity, with the need for confidence in the existing services to be established before planned expansion that requires substantial investment activity.

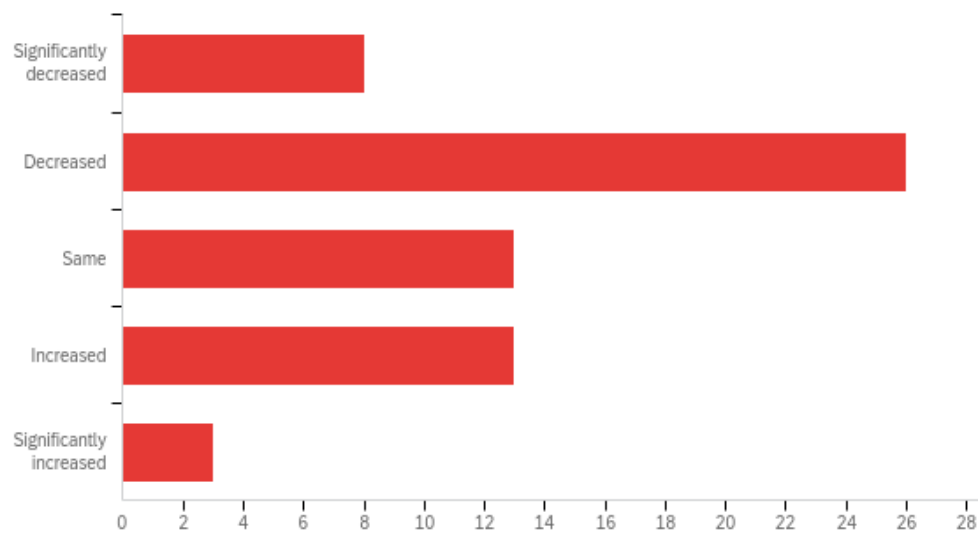
This is consistent with the feedback about the source of funding for investment activities (following), confirming the primary importance of stable profitability of existing services and the resulting positive cashflow as the primary source of funding. With cost inflation high as described earlier in this report, and with significant uncertainty as to the recoverability of the additional costs from local authority purchasers, this may be acting as a deterrent to some capacity-based investment when there are indications of the need for accelerated growth.

Where do funds for investment come from?

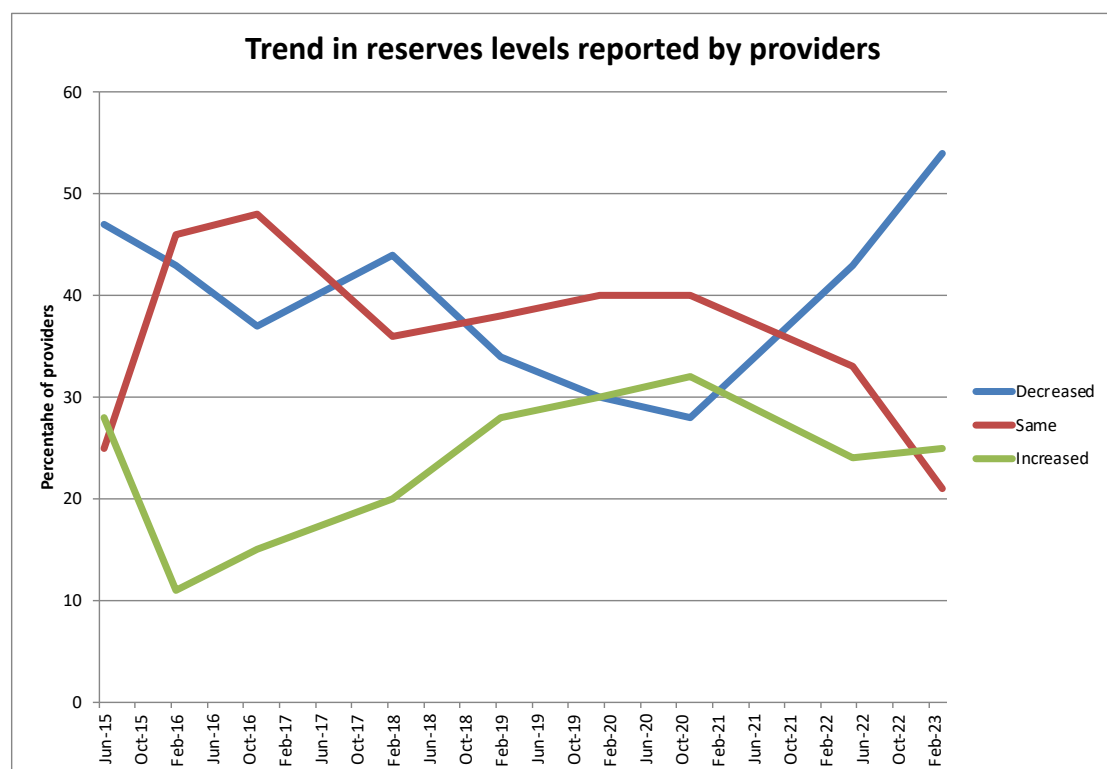


## Viability and Reserves

### Reserve movements in the last 12 months: Number of providers



This survey evidences a marked deterioration in the reserves trend for providers, consistent with the lower operating profitability of providers, high inflation impact and continued need to invest.



Following an increase in the proportion of respondents reporting declining reserves last year, the trend worsened in this survey with 54% of providers reporting decline (43% in 2022).

This should act as a reminder to all in the sector in the sensitivity of the economic model of children's homes to rapid changes in financial conditions. Cost inflation has appeared rapidly and is at such scale that it is exposing the vulnerability of the sector with its high medium-term fixed operating costs.

With reduced investment in additional capacity, allied to continued strong demand for services, providers in Wales report a more stable level of reserves.

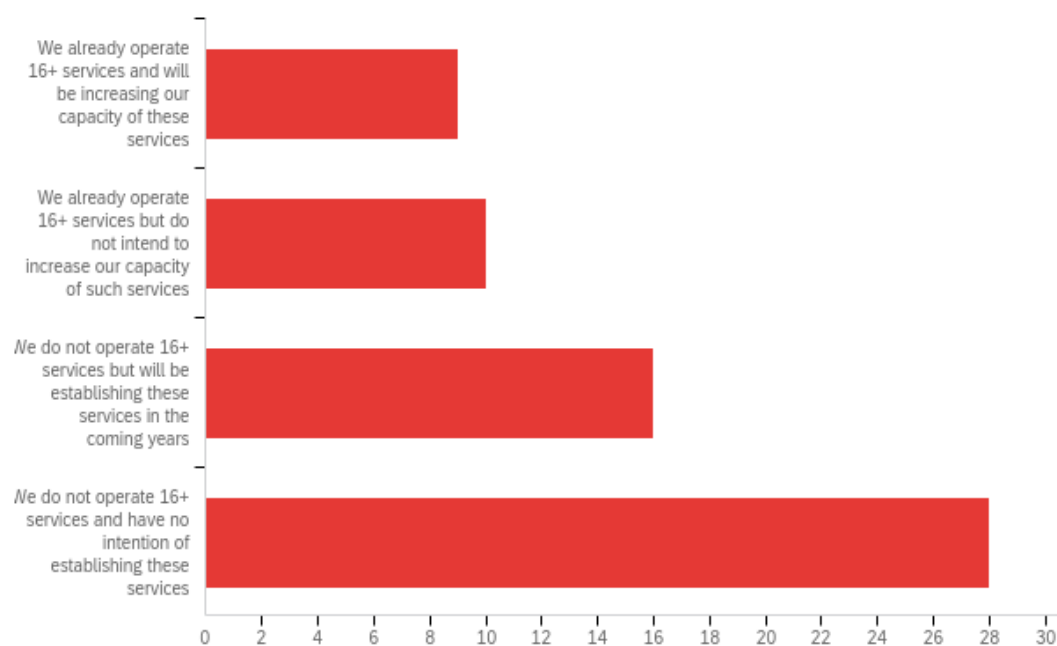


## **Supported Accommodation and Semi-independent Living (Sail)**

With the regulation and inspection of providers of currently unregulated services for children aged 16 and over on the near-term horizon, the survey again sought the views of children's homes providers about involvement in this parallel sector.

The majority of CHA respondents (70%) do not currently operate 16+ services. Almost two-thirds of these providers do not intend to develop Sail services in future.

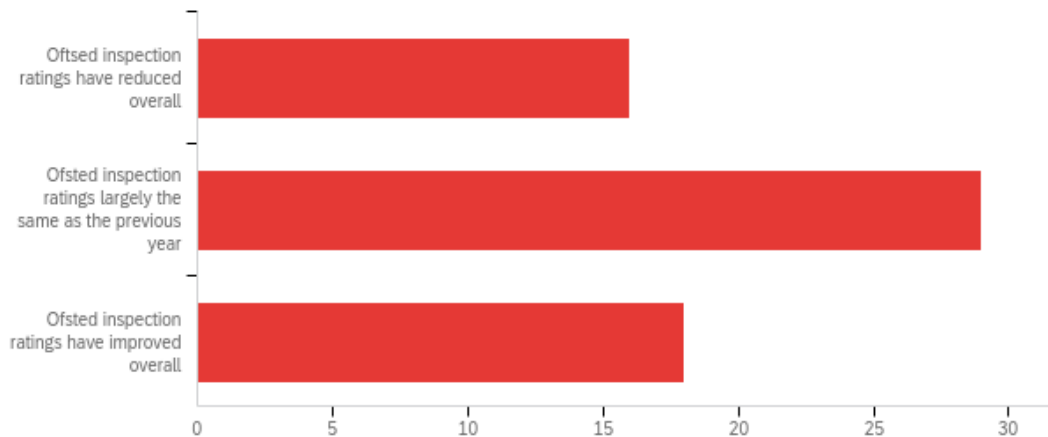
Of those that already offer Sail services as well as children's homes, over half (52%) will not be expanding those Sail services.



## **Ofsted**

With Ofsted returning to full inspection activity post Covid, this year's survey returned to collection of feedback about inspection:

### **Inspection Outcomes**



Three in four (75%) respondents report improved or stable Ofsted inspection outcomes in the last year, with one in four (25%) reporting reduced ratings overall.

There are clearly a range of experiences reported, with some repeated themes being:

- Greater scrutiny of matching decisions by Ofsted post Covid.
- Lack of consistency year to year and inspector to inspector. Lack of consistent inspector for homes.
- Frustration with ratings of “Good” but with no indications, recommendations, or requirements to indicate what would achieve “Outstanding”.
- Weak Ofsted complaints procedure.
- Criticism of staff turnover rate by Ofsted without recognition of wider labour market factors
- Unrealistic expectation of Ofsted in relation to education.
- Mismatch of Ofsted ratings with LA customer satisfaction.

## Planning for the long-term future



When looking to the future most providers (68%), intend to grow in the next three years. This is slightly down on last year (75% last year). One in four providers are looking to maintain their current size, 6% are likely to reduce their services.

The constraints on growth are again noted as:

- Recruitment and staffing issues are the biggest current issues.
- The need for greater financial certainty, especially a need for confidence that fee levels will increase to reflect inflation in costs is essential to provide financial stability for further investment in growth.
- The speed and efficiency of Ofsted registration process is important as delays in process are costly for providers.
- Negative media coverage is seen as a deterrent to investment in growth.

Organic growth is likely to be the dominant route but there are signs of an increasing appetite for acquisitions by some providers, and at the same time several existing providers likely to sell or retire soon.

Private providers in Wales describe a more uncertain and pessimistic outlook, with potential for exit or closure if Welsh Government policy does not change current direction.

## **Methodology**

This is the ninth survey of Children's Homes providers in a series that started in June 2015. These surveys continue to provide a comprehensive, consistent and representative review of the sector and are used as a reference source by Government, researchers and academics.

Each survey provides a "point-in-time" picture of the state of the sector based on the reported experiences of providers and based on a set of core questions that remain unchanged between the surveys. This approach allows analysis of trends arising through the direct comparison of core information to earlier surveys.

Additional thematic questions are made at each individual survey point to investigate in more depth the prominent issues at the time of the survey.

A combination of measurement based (quantitative), and written text based (qualitative) evidence is collected via an on-line survey. Qualitative feedback is thematically coded and summarised to add context and understanding alongside the quantitative analysis in the following report.

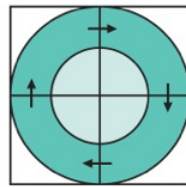
The results can be considered to be most representative of the views of smaller and medium sized providers as the CHA membership who contribute to the survey are predominantly this size of organisation.

CHA commissions this survey from Revolution Consulting and we would like to extend thanks and appreciation to those who thoughtfully and comprehensively completed the survey and for the openness displayed in the responses provided.

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