



Department  
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# **Financial stability, cost charge and value for money in the children's residential care market: benchmarking feasibility paper**

**Research report**

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**Institute of Public Care, Oxford Brookes  
University**

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# Financial stability, cost charge and value for money in the children's residential care market: Benchmarking feasibility paper

## Introduction

The project *“Financial stability, cost charge and value for money in the children's residential care market”* was commissioned by the Department for Education (DfE) in November 2014. It was awarded to the Institute of Public Care at Oxford Brookes (IPC) working in partnership with Revolution Consulting. The initial draft of the main report was presented in mid February 2015 to DfE. This paper forms a subset of that project, designed to explore the potential benefits or not of a price benchmarking tool in children's residential care.

The task as described at the outset of the research was to provide an:

*“Exploration of whether a national benchmarking model of costs for children's residential care is feasible, including proposals for how this could be implemented, who should own such a model and how it could be updated in the future taking account of any models like this that may already exist at a regional level”.*

As our programme progressed, and as reflected in the discussion of the evidence gathered that is included below, it was evident that the task of relating price to need was not only complex, but that there were few people arguing it would be of benefit. This view was based on providers and commissioners stating when interviewed that a narrow pricing tool simply trying to link need with price was unfeasible, did not reflect the market and hence was undesirable.

Following discussions with DfE this report adopts an amended approach. It explores the major factors related to pricing, proposes how existing approaches could be developed and suggests a market led approach to identifying needs and outcomes.

## Background

Most people involved in organising and delivering residential care and support for vulnerable young people (both commissioners and providers) want the same thing – a good experience and good outcomes for young people at a fair price. However, it may be harder to agree what exactly is ‘fair’ not least because commissioners are increasingly under intense pressure to achieve lower or lowest prices and private sector organisations have an obligation to achieve the best prices for their shareholders / investors.

IPC’s review of the residential care market identified that the appetite for a nationally recognised fair pricing tool along the lines of those already developed for the adult residential care<sup>1</sup> market was not strong amongst both providers and commissioners:

- **Providers** –believed that such a tool would over-simplify the complex variables, components and related costs of effective care for young people who often present with a very wide range of needs requiring a bespoke response and careful judgements about occupancy / resident mix. Even if it were possible to develop such a tool, providers had reservations about how it would be used. They believed that better informed commissioning and better communications between commissioners and providers would drive greater efficiencies, rather than a national pricing tool. Existing local or regional framework agreements (arguably resembling a fair price tool) were not perceived to have been successful and in practice, most placements are negotiated outside of these arrangements.
- **Commissioners** – say they have already experimented unsuccessfully with the development / use of such a tool<sup>2</sup>, or because they worry that such a tool might only achieve a perverse result (in driving up costs), or because they feel that they have enough information and intelligence at their fingertips to negotiate fairly with providers without such a tool *“We don’t use a tool and placement officers negotiate the final fee through using their skills, knowledge and expertise. We’ve dabbled with cost calculators but it’s just not worth the amount of time as the market determines the cost. We have to use competition wisely”*

Commissioners acknowledged that the factors influencing cost and price were numerous. *“Cost calculators will never be fit for purpose as there are too many variables”* They stated that commissioning activity was a significant determinant of price, for example, how costs are negotiated in practice; whether the placement is requested in an emergency; and the influence of different types of contracts.

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<sup>1</sup> For example, the Fair Price for Care Tool for care homes for older people and people with dementia (developed by the Rowntree Foundation and now kept up to date by Laing Buisson)

<sup>2</sup> Such as the cost calculator and other local models

Commissioners also acknowledged that framework agreements only provided a starting point for negotiations which invariably then focussed on the particular needs and circumstances of the 'case'. There was some doubt about market compliance in the development of a tool.

However, the interviews conducted with providers and commissioners did suggest there was interest in the development of a 'good practice support' tool that could help all parties to understand the factors that influence cost and prices, and that would be mutually acceptable to commissioners and providers alike. Such an approach needs to:

- Recognise and be sensitive to the variety of children's needs, the different types of provision and the frequent need for additional, bespoke or specialist resources that impacts upon price
- Recognise that full occupancy is difficult to achieve and sometimes inappropriate – and the impact that this has on provider sustainability and the prices charged by providers.
- Be flexible and easy to use – not complicated
- Be evidence-based and transparent
- Be sensitive to local differences including the implications for property / capital costs and staffing costs
- Recognise the need for overhead costs such as training, management, quality assurance and so on
- Recognise the need for financial viability within the market<sup>3</sup>
- Recognise the cost and impact of regulation

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<sup>3</sup> A healthy market will offer a return on investment and encourage new entrants and innovation

# What do children need from residential care and support?<sup>4</sup>

Table 1: What do children need from residential care and support?

What young people need	Detail
<b>Always</b>	
Care and security	High quality relationships with committed trusted carers and other caring adults <sup>5</sup> are essential for positive outcomes.
Stability	We know that placement stability is a very strong indicator of positive outcomes for children and young people in a range of care settings. Placement breakdown often affects children very negatively and is associated with a greater risk of further placement breakdown.
A strong sense of identity and belonging	Both a strong sense of identity and belonging are significantly associated with improved outcomes. This may come from the placement itself (including having made a positive choice about the placement) and also from the child's ongoing meaningful contact with key family, extended family and friends.
Clarity about what the home does / does well	The research emphasises these factors strongly, probably because a home that is well-led and has a clear vision about what it wants to achieve empowers individual staff to understand the task and commit to it. It should also encourage better matching of children to what the home can offer.
Consistent evidence-based	Staff skills and experience are likely to have a

<sup>4</sup> Note that this list of 'what children need from residential care' is taken from our summary of the literature contained in our substantive report. It also references the Quality Standards included in the Children's Homes (England) Regulations 2015.

<sup>5</sup> The Care Inquiry Report "Making not Breaking" (2013) talks about these relationships as 'the golden thread' in children's lives



What young people need	Detail
care practice and fidelity to evidence-based models of intervention linked with specific presenting needs	significant impact on outcomes in terms of their ability to respond appropriately to the particular needs of young people requiring residential care. Generally speaking, the more complex the child's needs, the more significant fidelity to evidence-based models of intervention become.
A clear outcomes-focused care plan and access to support services to meet their needs	<p>In particular but not exclusively:</p> <ul style="list-style-type: none"> <li>• Education<sup>6</sup></li> <li>• Mental Health / Emotional Wellbeing support services<sup>7</sup></li> </ul> <p>These do not have to be delivered 'on site'.</p>
A good consistent relationship with their social / key worker	For most young people, this is strongly associated with improved outcomes (not least because the social worker can provide a 'golden thread' relationship for children, but is outside the influence of residential homes themselves.
<b>Sometimes</b>	
On site education	May be indicated for some young people who cannot access universal / other local provision or who require support to re-enter universal education.
High staff to resident ratio / high level security	<p>For example to prevent significant harm to the child or significant harm to others from them e.g. self-harm; violence; substance misuse; serious mental health difficulties; autism; at risk of sexual exploitation.</p> <p>Commissioners and providers interviewed for this project report increases in demand amongst young people with these presentations.</p>

<sup>6</sup> It is worth noting that 68% of all looked after children have a special educational need. Many have also been excluded from school.

<sup>7</sup> . Looked after children and particularly those in residential care are at significantly increased risk of a mental health disorder / emotional health and wellbeing needs

<b>What young people need</b>	<b>Detail</b>
Care delivered through a particular approach or intervention	For example: to aid return to a family placement / strongly therapeutic interventions for children who have been abused.

## Factors that influence price

### What commissioners said

There is overall increased demand for care particularly for children aged 13 plus with a range of very complex needs. Our interviews with local authority commissioners suggested that four main mechanisms were used to determine a fair price or approaches to agreeing a price:

- Their own research into/recording of key components of cost including for additional items and specialist types of care.
- Framework agreements and/or block contracts which act at least as a 'reference point' for pricing (commissioners know that frameworks have been developed via a competitive process) although in practice many placements are subsequently negotiated directly with framework or non-framework providers.
- Comparison with the costs of other types of provision, eg, local authority 'in-house' provision, although this comparison can be made more difficult by the different treatment of overheads in local authority costings and other factors.
- Negotiation – including by getting providers to provide a rational for or breakdown of costs.

Our interviews with representatives of regional commissioning consortia suggest that:

- In evaluating providers (for regional framework agreements), most consortia apply a 'value for money' judgement with usually, but not always, a greater weighting placed on quality<sup>8</sup>.
- Even where prices are agreed in general terms when frameworks are established, there is often an acceptance that children with additional or specialist needs may require an individual negotiation about price. This, in addition to the pressure on providers to submit very competitive prices to get onto framework contracts, suggests that these 'core prices' or 'core prices with education on site' are worthwhile sometimes merely as a starting point for negotiation in relation to individual call off contracts.

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<sup>8</sup> For example, one set of tendering documentation we looked at recently states that prices account for 40% and another for 70% of the overall 'score'

## What providers said

- Most (90%+) of providers offer potential buyers a basic fee plus a menu of occasional or standard additions. Amongst larger providers, there is wide variability in the approach to pricing to highly individualised 'menus' of prices to standard pricing with 'add ons' only referenced in highly unusual circumstances.
- Property (including location) and staff are reported to be the greatest influence on overall running costs, and these tend to remain relatively 'fixed' whether occupancy rates are high or low. All of this needs to be factored into the cost of individual placements. Homes in the London area are not financially viable currently because of property and staffing costs.
- Other factors are also significant and a number of these impact heavily on one of the key costs, staffing, for example: the complexity of needs and requirement for enhanced staff to resident ratios
- Providers indicated when interviewed that the majority of contracts used in practice are spot purchased currently and many of these are made outside of framework agreements
- Framework proposed fees are far too low – they are unrealistic and potentially harm the quality of provision
- Applying for framework contracts is a waste of time, as so many placements are made outside of them, and they introduce an additional layer of bureaucracy by repeating Ofsted registration activity.
- Scattergun referrals for placements are made on a regular basis – either this adds to provider costs (from them going through all of these, mostly inappropriate referrals) or providers ignore many of them. Up to 95% of referrals are not responded to by providers.
- Prices are influenced by both operational costs *and* commissioner behaviours for example: late 'last resort' placements; a lack of understanding of the child's needs.
- The development of collaborative relationships with commissioners who really understand the market is essential to ensure that the right price is paid for the right care (rather than a national cost tool).

## How are the identified factors referenced in framework arrangements?

Our review of framework contracts / specifications in framework arrangements suggests that the following factors are referenced in particular with regard to cost / pricing:

- **Block/similar contracts** (with fixed or similar prices anticipated with reference to these contracts).
- **Home size** (with some specifications referencing average or target prices for different sized units)<sup>9</sup>.
- **Levels of complexity of need** (with descriptions attached to these placement types and 'lots'), for example:

There were a number of different examples of how framework agreements differentiated between different types of placement.

**Table 2: Examples of different types of framework agreements.**

Example One	Example Two	Example Three
<ul style="list-style-type: none"> <li>• Core without on-site education</li> <li>• Core with on-site education</li> <li>• Complex without on-site education</li> <li>• Complex with on-site education</li> </ul>	<ul style="list-style-type: none"> <li>• Regular services</li> <li>• Irregular services (e.g. birthday, holiday)</li> <li>• Direct additional services (provided by homes own staff etc)</li> <li>• Indirect additional services (purchased by homes)</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced needs</li> <li>• Complex needs</li> </ul>

Other framework specifications reference the need for 'standard' placements to work effectively with a local CAMH service that has been contracted to deliver direct therapeutic support and consultation / advice to care workers working with individual children.

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<sup>9</sup> i.e. single occupancy; 2 Bed; 3 Bed; 4 Bed; 5 Bed; 6 or more Beds

- **The quality of the home**, with reference mostly to Ofsted ratings, eg, a requirement for ‘good’ or ‘outstanding’<sup>10</sup>. Other ‘minimum standards’ are often assumed as a baseline for bidding to go onto a framework contract.
- **Staff ratios and pay** – For example, a requirement to pay staff ‘*at least the minimum wage, with a clear aim of moving towards paying the living wage, where affordable*’. One framework specification clearly stated an intention to disincentivise providers from tendering at very low weekly rates by paying their staff poorly. This consortium of commissioners included a ‘direct costs ratio’ in their decision making – to determine the extent to which staff costs were low compared with other costs.

However, some framework contract specifications make reference only to providers being judged against quality standards and the extent to which they meet ‘target’ costs fixed by commissioners. For example in one specification, the ‘target’ price was £1,900 per week or less (scoring 30% for bidders) compared to £2,050 (scoring 10%) and £2,200 or more (scoring 0).

## Conclusion

As was indicated in the introduction, there is limited demand for a ‘fair pricing tool’ along the lines of those currently existing in adults services. Our research suggests that a costing tool which makes basic assumptions and calculations about ‘core costs’ and ‘add on costs’ will be unlikely to work nationally as demonstrated by the various tools already used (to minimum effect). Equally, the regional / local framework agreements (which could be considered at least as a public approach to pricing) tend to be overridden when purchasing placements, particularly if being purchased in a hurry. However, consultation with commissioners and providers suggests that some kind of ‘good practice support tool’ that is trusted by both parties would be valued.

Consequently, we do not believe that there is a simple uniform approach which provides a read across from a set of needs into a set of prices. This is not to argue that providers, local authorities and regions could not be further helped to develop more of a level playing field around price, one which is more acceptable to both parties and focuses on the needs of children. Therefore, the remainder of this paper explores and proposes a twin approach.

An option which looks at enhancing or a better utilising existing material and secondly an option which starts to link price to needs and outcomes. Our task was to indicate

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<sup>10</sup> Some regional framework contracts strongly discourage individual councils from making placements in homes that are rated either ‘adequate’ or ‘inadequate’

direction and we think both of these options, as we suggest in the conclusion, are worth taking further.

## Option A: Improving existing approaches

### Existing surveys

Three key surveys that could offer some additional help in this area:

- CIPFA's looked after children benchmarking club has around half of all local authorities as members. Member authorities provide some data about both the costs of local authority owned homes, and also about the costs to the authority of external placements in children's residential care. The level of detail is greater than supplied in s251 returns, but there is currently no data collection about a breakdown of the costs by the needs of children placed other than a disability flag.
- NCERCC use Freedom of Information requests to obtain from local authorities all prices paid for residential care during a year. Over 110 authorities contributed useable data to the first survey. So far, this survey has not currently looked to break down the fees charged by providers to authorities or to interpret the landscape of pricing in relation to factors causing the differences in pricing demonstrated in the survey.
- PSSRU at the University of Kent publish annual unit cost reports in relation to health and social care services. These are based on information reported by local authorities, eg, under s251 reporting.

Therefore, taking benchmarking forward on the basis of improving existing sources, indicates two areas of activity, both focusing more on how data might be used as compared to simply continuing with what has always occurred.

### Unifying existing price and cost surveys.

A revised national survey which contains the following characteristics:

- Expansion of data collection to include all local authorities in a CIPFA-style budget and cost information collection process. If CIPFA were to continue to perform the task then terms of access to CIPFA's data would need to be agreed for a comprehensive national level version.
- The data collection from local authorities could also include detailed information on prices paid for external services, similar to the NCERCC price survey but with the potential to collect additional fields of information for more sub-segmental analysis.
- Costs of local authority in-house services would be collected using an agreed common format developed from CIPFAs existing model. It would need to include a



unified approach to the capture and analysis of overheads and would enable comparison to be made across the local authority, private and voluntary sectors.

- A provider based approach developed in parallel for pricing. This would build upon the work done in this project and would provide information from the provider base to analyse against that collected from local authorities. Including the work under one umbrella project would enable the sub-segmentation of data to be mirrored between local authorities and providers. For example if information is collected to show any education element within the fee as a separate item, that could be reflected in both the collection from local authorities and from providers.
- A key target of this strand of work would also be to develop a true side-by-side, like-for-like comparison of costs of local authority provision vs private/voluntary sector provision. Clearly this would also require providers to share details of cost structures to a common format that is developed to facilitate comparison to local authority costing. The key output from this activity would be a report which properly reviews and publishes the comparability of costs in children's residential care.
- Confidentiality of information provided by any one organisation is likely to be a pre-requisite of the total market analysis and reporting.
- Other factors have been identified in this research as being potential drivers of price. These could be added in via an iterative process agreed amongst all parties, and would be subject to a common design and agreement between providers and commissioners.

The key outputs targeted by this activity would be an annual price review based on the above factors and a side by side comparison of costs of in-house and independent sector provision.

This would provide information that could be used to test the output from the reporting of aggregate local authority data (e.g. s251 reporting) that is used by PSSRU and the DfE Data Pack. It would also be part of the development of improved market intelligence to be overseen by the market review body activities suggested in the main report.

### **Promoting improvements in the s251 and ssda903 data:**

These existing sources of local authority reporting are often referenced and utilised, e.g., by PSSRU and in the Children's Home Data Packs published by DfE. CIPFA have recently highlighted some weaknesses in this data and effort is clearly required to improve the quality of reporting through standardising data capture, coordinated training and quality assurance of the submissions.

In particular we would support CIPFA's recommendations that highlight the need to improve:

- S251 reporting to include activity data and not just the financial data.

- Quality assurance of data pre-submission through comparisons to other local authorities and sense checking.
- Simplification of the return in areas where detail is not utilised.
- Expansion of detail in some areas (e.g. overheads).

## Option B: Beginning to link price to outcomes

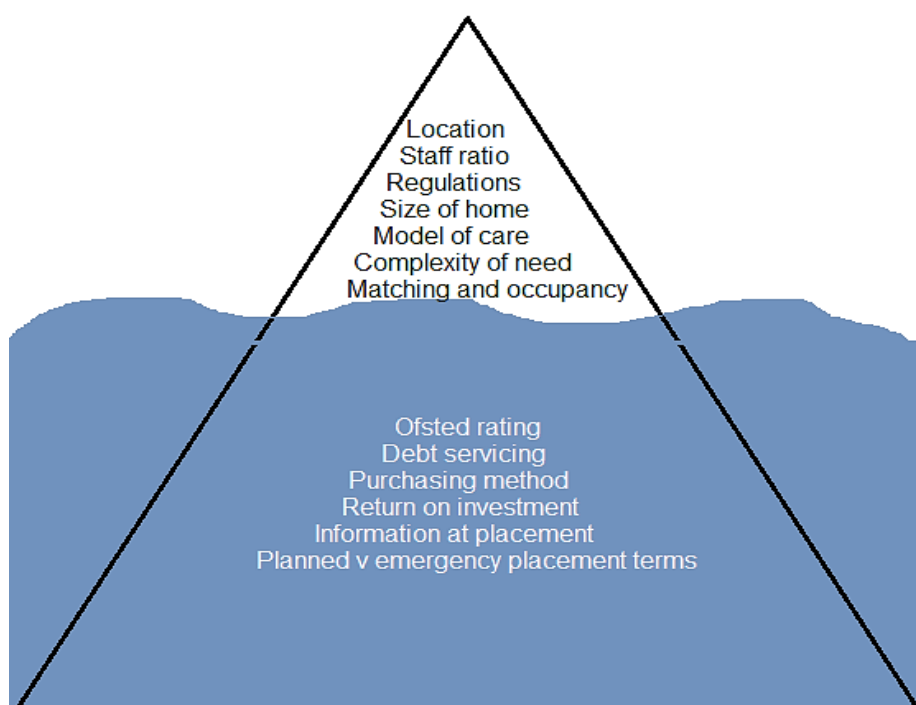
Option A suggests an approach which would lead to greater transparency and comparison across sectors and an improvement in the data that is captured and analysed. Option B (which is not mutually exclusive) attempts to look at how we can begin to constrict a model which begins to link price into needs, performance and outcomes rather than around some of the factors we have earlier identified. Such an approach could comprise two elements as discussed below; an appreciation of the factors that influence price and the degree to which they do so, and then how this might begin to be linked to outcomes.

## What are the key factors influencing price in children's residential care?

In addition to the common factors that affect price in any market, such as supply and demand, the table overleaf identifies the two sets of factors that influence cost and price, linked to a looked after child's needs. One set of these are the obvious costing factors, such as staff-child ratios. However, it is also clear that there are a range of other factors that are not so overt such as the amount and quality of information that may be available at the time the placement was made..

These factors might best be described visually in the form of an 'iceberg', as Fig 1 illustrates, and are also shown in Table 3. Detailed factors affecting residential, below.

Figure 1 & Table 3: Twin pricing elements in children's residential care



Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
Location of the home / property prices	A child may need either to be placed close to or away from their home / local community <sup>11</sup>	<p>Location (including the cost of housing and whether there is over or under-employment in the area) is likely to affect at least the property-related costs of running a home.</p> <p>Although the cost of staffing is associated anecdotally with location, the recent DfE Census of the Children's Homes Workforce (Jan 2015) suggests that there is no strong link between the two. Indeed, the findings are counter-intuitive in that care home workers in London are paid the least per hour and workers in the North West the highest<sup>12</sup>.</p>	<b>Medium</b>

<sup>11</sup> Children in residential care are three times more likely to be living away from their communities (31%) than those in foster care. However, some local authorities place almost all children within their boundaries. Some authorities have a strong preference for placing children within their local authority boundary (although they don't always achieve this).

<sup>12</sup> There is not a large difference across the country. Of greater significance appears to be the sector in which workers provide care: with local authority home workers paid on average far more than those in the private sector.

Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
Resident to staff ratio	<p>A child may need a standard or a bespoke staffing ratio depending on the complexity of their needs and the risk of harm to them or others.</p> <p>Sometimes the requirement for additional staff to accommodate a child is overt, ie, requested by the commissioner and sometimes assumed, eg, the child is excluded from school and therefore requires additional staff on duty during the day.</p>	<p>Providers say that staffing is the largest cost incurred by them<sup>13</sup>, even though rates paid to care home staff particularly in the private sector are low when taking into account the task<sup>14</sup>.</p> <p>The cost of staff above the standard staffing ratio can be significant, for example to ensure that there is 1:1 staff on resident ratio during the day and/or 'waking night' staff.</p>	<b>High</b>
Type of care / market segment	There are many different and overlapping 'segments' within this market and they are changing all the time. For example homes catering for children	The data generated by our on-line survey of providers suggests that there is no one need type that drives price, <u>rather</u>	<b>Low</b>

<sup>13</sup> An average of 68% of the total cost of running a home (the full range quoted by providers is 45% to 83%)

<sup>14</sup> Average hourly pay for non-managerial care staff in homes is £9.65 but it is generally lower within the private sector (£8.52) and higher in local authority-run homes (£12.04). Source 'A census of the children's homes workforce: research report (January 2015) DfE. These comparative figures should be treated with caution in relation to overall costs of residential care as other factors are also highly significant, for example: a far higher proportion of privately-run homes offer specialist therapeutic support and on-site education compared with local authority-run homes (same source).

Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
	<p>with: Emotional and Behavioural Difficulties (EBD); therapeutic needs; disabilities / learning disabilities.</p> <p>Our provider survey suggested that up to 77% of children placed in residential care have EBD; 61% are at risk of self-harm; 59% are at risk of sexual exploitation; 47% exhibit sexually harmful or inappropriate behaviour; 35% have special educational needs; 29% have criminal or anti-social behaviour; and 25% have an autistic spectrum disorder (ASD).</p>	<p>the complexity of that need or needs.</p> <p>However, it seems that 'EBD' placements along with those for children at risk of sexual exploitation; serious self-harm; and criminal behaviour can command some of the highest prices for the most complex needs particularly where there is education provided.</p> <p>94% of fees over £3,000 are for sites that have some form of education included in the price.</p>	
<p>The complexity of need / extent of the support package</p>	<p>Research shows that children in residential care are likely to have complex needs.<sup>15</sup></p> <p>Our interviews with providers (particularly of EBD homes) suggest that a high</p>	<p>Additionally required services, eg, education on site / clinician-led therapeutic interventions and staffing as well as risk needs to be calculated into the cost of these placements.</p>	<p><b>High</b></p>

<sup>15</sup> Bridge et al. Living in Children's residential homes 2010

Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
	<p>proportion and growing number of young people are presenting with very complex needs and dangerous behaviours.</p>	<p>Costs can range from very small to significant. For example, the costs of additional education on site can range from £62 to £2,640 per week (or between 15 and 29% of the total fee)<sup>16</sup>.</p> <p>The costs of therapeutic input organised by the residential home can range from £58 to £3,702 per week (or 2% to 40% of the total fee)<sup>17</sup>.</p> <p>Very specialist services may in addition come at a 'premium' because there are very few people with these skills in the sector<sup>18</sup>.</p>	
National requirements and	These are likely to be linked to minimum standards to benefit children and meet	In theory, these requirements should not disproportionately affect certain providers any more than others although there is	<b>Medium</b>

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<sup>16</sup> These figures provided by providers contributing to our on-line survey

<sup>17</sup> Ibid

<sup>18</sup> Ibid

Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
regulations	their needs for example: <ul style="list-style-type: none"> <li>• For staffing qualifications / training</li> <li>• For manager qualifications</li> <li>• For minimum wages</li> </ul>	arguably a heavier 'per bed' burden on smaller homes in relation for example to: management costs, training, insurance, Ofsted fee, or utility bills. Currently, providers say that these overhead costs are in the range of 11% - 22% <sup>19</sup> .	
Size of home	Small sized homes have been indicated in the research about 'what works'. <sup>20</sup>  In recent years, there has been a strong trend towards smaller homes (the average number of places is 4 for voluntary and privately owned homes and 5.8 for local authority owned homes).	Compared to larger homes in the children's market, the smaller the size of home then arguably they are more vulnerable to: <ul style="list-style-type: none"> <li>• Under occupancy.</li> <li>• Wider variations in profitability/ surplus.</li> <li>• Difficulties in ensuring a good resident mix.</li> </ul> Therefore, they are also subject to	<b>Medium</b>

<sup>19</sup> Ibid

<sup>20</sup> "What works in residential child care. National Children's Bureau. Clough, Bullock, Ward 2006



Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
		<p>greater financial stress or risk from these factors.</p> <p>Stakeholders have mentioned the 'marginal viability' of very small sized homes and 17% of providers state that the size of a home affects the price charged<sup>21</sup>.</p> <p>The recent workforce census suggests also that smaller homes generally employ more staff per child than larger homes<sup>22</sup>.</p>	
Matching and occupancy	Good levels of occupancy are necessary for the health and viability of the market but it is in the interests of both providers and commissioners to ensure a good 'match' of child needs to what the home offers and the needs and characteristics	<p>Occupancy rates strongly impact on a home's income<sup>25</sup> but it is less certain how occupancy rates affect the price charged for placements.</p> <p>Some of the effects of different rates of</p>	<b>Medium</b>

<sup>21</sup> Ibid

<sup>22</sup> A Census of the Children's Homes Workforce (Jan 2015) DfE. eg., one or two place homes average 7 members of staff whereas 6 bed homes average 17 staff per home.

Factor	Linked to what needs?	How might this factor influence cost / price / quality	Extent of influence (High, Medium or Low)
	<p>of other residents and to provide choice of placement. In practice, there is high volatility or turnover of placements<sup>23</sup> and this means that there will inevitably be periods of 'placement void' for most children's homes where expenditure will remain fixed<sup>24</sup>.</p>	<p>occupancy may be counter-intuitive and not necessarily a good thing for the market overall, for example low occupancy might encourage a home to keep prices low, particularly but not always if the home is a 'start-up'. Higher rates of occupancy might discourage a home from taking a 'risky' child unless the price paid rises.</p>	

<sup>25</sup> For example, for a four-bedded home, there is a loss of 25% revenue if only three children are placed there

<sup>23</sup> 80% of children's homes placements last for less than one year, 52% last for less than 3 months (DfE Data Pack 2014)

<sup>24</sup> The Census of the Children's Homes Workforce (Jan 2015) suggests that average occupancy rates for all homes are 82% (86% in local authority homes but lower at 79% in privately-run homes)

## Other factors that are likely to influence cost and price

Factor	How this influences price	To what extent?	Grading of influence (High, Medium or Low)
The nature of the purchase, eg, framework / block (or cost and volume) / spot contract	<p>The interviews and focus groups<sup>26</sup> conducted strongly suggested that lower prices are paid by local authorities with block or similar arrangements, eg, multiple placement arrangements<sup>27</sup>.</p> <p>These lower prices are off-set for providers with a greater degree of control over occupancy rates which significantly determine income levels.</p> <p>They can also secure a greater number of local placements although may risk inappropriate placements being made<sup>28</sup>.</p>	<p>The lowest costs of residential placements bought using a block contract are £1,750 compared with £2,000 - £2,500 for other forms of similar placement contract.</p> <p>Providers suggest that they can offer reductions for block or similar / multiple placement arrangements because under-occupancy risks are mitigated. Example scenarios where discounts have been offered include:</p> <ul style="list-style-type: none"> <li>• for multiple placements</li> <li>• for 8 or more placements</li> </ul>	<b>High</b>

<sup>26</sup> These included 56 providers in interviews / focus groups and 28 Local Authorities and regional consortia

<sup>27</sup> 35% of providers who responded to our survey offer a discount based on additional / multiple / volume of placements

<sup>28</sup> Many providers feel that the risk of misplacement needs to be actively mitigated, for example by independent scrutiny of the placement decision / active involvement of social workers in the placement decision.

Factor	How this influences price	To what extent?	Grading of influence (High, Medium or Low)
		<ul style="list-style-type: none"> <li>• for a 5<sup>th</sup> child placed</li> <li>• for children in a sibling group</li> <li>• for a first engagement with a local authority or a new referral</li> </ul>	
Information available on placement	Providers are clear that the accuracy of information impacts on fees. In other words, where there is a paucity of information on placement, providers may assume that the needs could well be greater or more complex. The argument is that it is necessary to attribute an element of the fee to cover these unknown risks.	From our research with providers, it appears that children are still being placed with little knowledge of their needs or what is known not always being passed on to the provider. We do not know precisely how frequently nor by how much prices are raised in these circumstances.	<b>Medium</b>
Whether the placement is planned or made in a crisis and whether it is reviewed	Linked with the above, providers suggest that emergency referrals, particularly those without comprehensive assessments and robust risk assessments, plans, or the child's view will attract a greater fee (to account for the risk)	<p>These higher rates are usually reviewed at a later date if the child remains in placement.</p> <p>Reviews can adjust the price paid by commissioners at appropriate intervals, particularly where the actual cost of placements have changed.</p>	<b>High</b>

Factor	How this influences price	To what extent?	Grading of influence (High, Medium or Low)
Whether payment is made early or late	Providers suggest that some discount may be given for early payment whereas late payments incur additional costs which may be passed on to the commissioner.	As above	<b>Medium to Low</b>
Ofsted ratings	<p>Inadequate or even adequate ratings for homes can lead to embargos on admissions by local authorities and lower prices paid<sup>29</sup>. Particularly if they become more unusual or scarce, good or outstanding rated homes may be encouraged to inflate prices<sup>30</sup>.</p> <p>Equally, where the market perception is</p>	This is a complex set of explanatory factors (about how Ofsted ratings affect price). We have no direct information about the extent to which price is being affected in practice, particularly by changes to Ofsted ratings although it does seem that the ratings of many (approximately 30%) good or outstanding	<b>Medium</b>

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<sup>29</sup> Some framework contracts already refer to the need to reduce prices for homes rated adequate or inadequate because of the increased costs to Councils because of this – i.e. the costs of additional visits to the home / additional monitoring of the child / additional meetings to discuss progress

<sup>30</sup> Nearly all local authorities interviewed for this research said they wanted to place children only in ‘good’ or ‘outstanding’ homes and would only place in ‘adequate’ after a very careful review of the issues

Factor	How this influences price	To what extent?	Grading of influence (High, Medium or Low)
	<p>that it is becoming easy to ‘lose’ a good or outstanding rating, providers are likely to be dis-incentivised from taking the most challenging children (as this poses a risk to their Ofsted rating). This in turn may make it harder (and more expensive) to place children with more complex needs – the very children who need a residential placement.</p>	<p>rated homes have dropped to adequate in the recent 12 months<sup>31</sup> so it is potentially a significant influence.</p> <p>Commissioners who participated in our survey have reported varying ways of managing negative movement in ratings of their previously preferred providers. This may involve further investigation of both the causes of the downgrading and progress of action plans implemented by the provider in response to the change in rating. It may also involve a higher-level sign off (e.g. Assistant Directors of Children’s Services within the purchasing authority).</p>	
<p>The need to repay start-up costs and / or generate a return on</p>	<p>Some home owners need to borrow money to start up or diversify a home(s) in particular to secure a property or</p>	<p>In a market where private sector interests play a majority role this brings a driver for providers to achieve prices that</p>	<p><b>Low</b></p>

<sup>31</sup> A recent review of Ofsted outcome ratings suggests that 31% of homes previously judged ‘good’ or ‘outstanding’ have dropped their rating to ‘adequate’ in the last 12 month period *‘Rethinking the impact of an Adequate Ofsted inspection on placement in children’s homes decision making’* (2015)

Factor	How this influences price	To what extent?	Grading of influence (High, Medium or Low)
investment	<p>properties. Other owners have money to invest but are looking to make a return on their investment.</p> <p>Some home owners may experience very different conditions relation to the terms of repayment of a loan or provide a return on investment (e.g. charitable organisations; local authorities) and may therefore be able to afford to charge lower fees; or include additional support for residents e.g. ongoing support for care leavers; or pay staff more.</p>	<p>allow an investor to service capital (e.g. to pay interest on borrowings) and to provide a return on private capital brought to the sector.</p> <p>There are many different types and sizes of provider. The longer-term competitive strategies of providers will also differ, so there is no set model to quantify this impact.</p> <p>Control over prices comes from competition in the market.</p>	

## Beyond a pricing model: needs and outcomes

What has been described here is a way of further developing a benchmarking approach and publishing data about how costs are made up across children's residential care and across different types of provider, using existing approaches for breaking price down. However, some wider questions remain which could be addressed by further work.

- The origin of this element of the project was a desire to try and match needs with prices. As argued above this is too simplistic and unworkable because of a variety of factors. However, even when describing need, people often refer to categories of problem, ie, learning disability, EBD etc, or processes, eg, assessment or care plan rather than genuinely describing 'need'. A real typology of needs; both positive, eg, requires considerable emotional support because of x or negative, eg, needs removal from current gang culture, would be a more accurate way of at least describing the type of placement required. It would also need to be able to accommodate something about the severity of the need being expressed at that time.
- Over and above needs, is the wish, expressed by both commissioners and providers, to move closer towards an outcomes basis for funding. This could be based around the outcomes areas set out in the 2015 Quality Standards for children's residential care.

Completing both of the above tasks is clearly challenging and complex. However, this needs to be off-set by a recognition that the current payment system based on paying for placement does little to incentivise providers to deliver better outcomes for children and young people.

The following section is a worked example of an outcomes based approach utilising the Quality Standards as a framework. It also discusses the issues raised by consideration of an outcomes based approach.



## **An example of an outcomes based approach utilising the Quality Standards as a framework**

Outcome based approaches to evidencing, measuring and linking outcomes to funding are likely to focus at a detailed level on the outcomes the authority would wish to 'purchase' for an individual child. Therefore, this would probably entail an overarching framework with a range of prices based on particular factors agreed between commissioners and providers, such as, length of time, degree of difficulty, starting point as compared to a desired end point.

Quality Standards are designed to increase the focus of regulation and inspection on outcomes for young people; the regulator making assessments at the level of a children's residential home. The Quality Standards may however also be useful as framework for individual child level outcomes monitoring.

The following is a hypothetical example of how the framework might be used in this way. This particular example utilises a subset of the specific regulations (left hand column below) that are most relevant to the hypothetical case in the example. The example is of a 15 year old girl "X" who has very recently arrived in a new placement at a children's residential home and the outcomes are those that are being set at the outset of this placement.

Further work would need to be done on this approach as suggested in the conclusion. This could begin to look at what the range of actual prices might be for the differing outcomes. However, in the final column in the table below we have begun to suggest some of the factors that might be considered.

**Table 4: Hypothetical example of a framework.**

Quality Standard Outcomes	Worked Example	Processes	Performance Measures	Potential linkages to funding
<p><b>8.</b>—(1) The education standard is that children make measurable progress towards achieving their educational potential and are helped to do so.</p>	<p>X has been disengaged from any form of education for over a year, having been very disruptive at her previous residential special school.</p> <p>Primary education teachers previously described X as showing intelligence when engaged with tasks she understood.</p>	<p>The initial aim is a phased reintroduction of X to attendance at a specialist academy for the Deaf. This will begin with home tuition to acquaint X with staff from the academy.</p> <p>Medium term the aim should be to support X to aim to achieve GCSE qualifications if possible.</p>	<p>Initial measures: Days of education engagement and proportion of full time attendance.</p> <p>Measures will then move to actual education progress (measures to be agreed with Educational Psychologist but may include progress with reading and comprehension age or other measures including actual GCSE level reached).</p>	<p>Payment related to achievement of placement stability.</p> <p>Payment related to rate of full time attendance at recognised education.</p> <p>Payment related to achievement of specified qualifications (may include GCSEs or other appropriate qualifications).</p>
<p><b>9.</b>—(1) The enjoyment and achievement standard is that children take part in and benefit from a variety of activities that meet their needs and develop and</p>	<p>X has become isolated from those she cannot communicate with and appears to have few other interests.</p>	<p>The initial aim is to integrate X into living at her new home, to involve her in activities at the home, and develop her interests outside of the</p>	<p>Progress to be recorded at statutory reviews and through self-scoring by X. First target is to identify interests and how they can be pursued. Measures (e.g.</p>	<p>Payment related to agreement by local authority lead professional and home manager that at least one interest has been identified by the young</p>

Quality Standard Outcomes	Worked Example	Processes	Performance Measures	Potential linkages to funding
reflect their creative, cultural, intellectual, physical and social interests and skills.		home.	percentage attendance at weekly activity) to be developed.	person and regular engagement with that interest established across a period.
<p><b>10.—(1)</b> The health and well-being standard is that—</p> <p>(a) the health and well-being needs of children are met;</p> <p>(b) children receive advice, services and support in relation to their health and well-being; and</p> <p>(c) children are helped to lead healthy lifestyles.</p>	<p>X is profoundly deaf and uses British Sign Language (“BSL”) as her primary communication language.</p> <p>An assessment two years ago described some autistic traits in her behaviour as a younger child.</p> <p>X regularly self harms in a variety of ways and this has led to increasing numbers of attendances at GP surgeries or to local hospital A&amp;E.</p>	<p>Initial aim is to integrate X into home and school where she has access to BSL communication from all adults involved in her care and education.</p> <p>That aim is consistent with reducing X’s anxiety and frustration and so the aim is also to reduce and ultimately eliminate the self-harming behaviours.</p>	<p>Number of self-recorded and staff-recorded self-harming incidents and severity score.</p> <p>Progress in reduction of number and severity of incidents of self-harm.</p>	<p>Payment related to placement stability.</p> <p>Payment related to sustained period of no recorded or reported self- harming incidents.</p>

Quality Standard Outcomes	Worked Example	Processes	Performance Measures	Potential linkages to funding
<p><b>11.—</b>(1) The positive relationships standard is that children are helped to develop, and to benefit from, relationships based on—</p> <p>(a) mutual respect and trust;</p> <p>(b) an understanding about acceptable behaviour; and (c) positive responses to other children and adults.</p>	<p>X has become isolated from those she cannot communicate with including her peer group and family. She does not tolerate being in a classroom with other (hearing) children.</p>	<p>The initial aim is to integrate X into living at her new home, including support for her to communicate with and build relationships with staff and other children placed at the home.</p> <p>The aim is also to re-start visits from parents with the aim of reaching the potential for visits of X back to the family home.</p>	<p>Use of self-scoring tool with X and her keyworker to record how X feels about her relationships with others at the home, and as this progresses also at school and at other activities in the community.</p>	<p>Payment related to progress in SDQ (Strengths and Difficulties Questionnaire) score or a derivative of the same over a sustained period.</p>
<p><b>12.</b> (1) The protection of children standard is that children are protected from harm and enabled to keep themselves safe.</p>	<p>X regularly absconded from her previous placement and is believed to have sought out people to supply her with drugs and alcohol</p>	<p>Through introduction and integration into a home where X can communicate with all around her the aim is for X to choose not to abscond.</p>	<p>Number, length and frequency of intended and actual absconding incidents.</p>	<p>Payment related to successful elimination (through choice of the young person, not through containment by the home) of recorded and reported absconding incidents.</p>

## Issues in the development of funding linked to outcomes

Based on the preceding model there are a number of issues that would require further exploration

### Time period over which measurements are made.

- Progress of children and young people after a change of placement is unlikely to be linear. It is possible that, for a period, behaviour may improve markedly (some providers refer to the “honeymoon period”). However, this may be followed by a period where some challenging behaviour escalates as the young person is coming to terms with issues that surface because they are now in a safer place to examine their own history and experiences. Whilst measures may indicate an increase in volatility this may be the most important time for the children’s home staff and professionals to “stick with” the young person through this period.
- Any measuring system therefore needs to take place within the context of the child’s development at the point the measurement is made. Measurements should complement and inform the work of professionals around the child and not be solely for use in linkage to funding. Professional interpretation of the results by the child’s keyworker and home manager and by their social worker or other lead professional is essential.
- In terms of linkage to funding therefore it is likely that some detailed measures for an individual child may be too volatile for use in short-term adjustments to funding. Medium and longer-term aims and measures may be more appropriate for use in determining adjustments to funding, e.g. to reward and incentivise exceptional longer-term outcomes. For example in the hypothetical example above, it may be that attendance at school goes up and down for the first few months of placement. This is found to be due to the young person also experiencing some re-established contact with family members which stirs up issues for the young person and results in some volatile behaviour that means school attendance is variable across a number of weeks. It would not be appropriate to link payment to attendance in the short term of the first few months. However, a funding linked objective related to a level of consistent attendance one year after initial placement may be more appropriate.
- This will be a challenge for financial systems that operate often on monthly billing and annual budgets, but outcomes aspirations and payments for achievement of exceptional outcomes need to reflect the reality of the young person’s life and the whole period of placement.

## **Funding mechanism fundamentals.**

- It would likely be inappropriate and unacceptable to the placing authority and the provider to put the whole fee for providing a residential place for a child or young person linked to outcomes. Core costs of the provider are incurred even where outcomes are not as good as those aspired to at the outset of placement. To penalise providers by not covering core costs would lead to insolvency of providers and/or much-increased price of placements to reflect the risk.
- Linking the ability to make returns on capital employed within the business (assuming reasonable occupancy rates) to achievement of exceptional outcomes has the potential to be a more positive incentive-based model. Hence mechanisms could link outcomes incentives to only an agreed portion of the fee. That portion needs to strike a balance between not being so small as to become an irrelevance, and not being so large as to potentially destabilise providers.
- An increased transparency and openness about returns and costs, and an acceptance that full occupancy is an unrealistic long term expectation on which to model finances, would be a pre-requisite to parties developing outcomes based funding models together.
- A funding system that also acts as a potential penalty on providers for poor outcomes, whilst theoretically possible, would not develop closer professional and commercial relationships between parties who should be working closely together to enable each child to fulfil their potential. If a placement is failing a child or young person then actions should be taken in the short term to deal with the consequences, including termination of inappropriate placements if necessary.

## **Avoiding perverse behaviours.**

- The design of outcomes based funding models should examine and manage the risk of perverse incentives. For example, in the example presented above, it would be unacceptable if funding linked to some of the targets discussed were to lead to non-reporting of incidents of absconding or self-harm for example.
- This relates back to the discussion above about the period of time over which outcomes are measured and achieved. If incentive funding is linked to long-term goals then short term perverse behaviours are more avoidable.
- Outcomes based funding models should allow outcomes aspirations to be adjusted up or down across the term of a placement as the actual lived experience informs both purchaser and provider about the placement and the young person.

## **Influence of other parties.**

- The Quality Standards remind us that children's residential homes do not operate in isolation and many professionals and agencies are normally involved in the life of a young person. Providers would argue that whilst their home and services are undoubtedly a major influence on the life of each child or young person placed with them, there are factors outside of the control of the provider that can directly impact on the young person and therefore their outcomes. Providers would also argue that they should not be penalised for the failure of others to meet their obligations to the child. The quality standards do however mean that a provider cannot be passive and should challenge other agencies if they are not providing the required support.

## **Mechanics**

Outcomes based funding would be able to use flexibility of method appropriate to the specific circumstances, for example:

- Absolutes, ie, to achieve payment requires meeting this particular milestone.
- As a sliding scale based on where a young person has reached at a particular point.
- As a split payment embodying a basic fee, ie, for accommodation, with a top up payment or bonus if certain milestones are then achieved over and above the basic requirements.

# Conclusions and recommendations

## A complex task

The project was charged with assessing the feasibility of a benchmarking or fair pricing tool for the children's residential care market and for proposing how such a tool could be taken forward.

Feedback from the market identifies the complexity of factors that influence the costs of provision and the price charged for provision. Our conclusion was that a straightforward fair pricing tool that mirrors such tools in, for example, the adult residential market, was not feasible because of this complexity.

However, the evidence collected during this project has been presented above to provide commissioners, purchasers and providers with a tool that shows the factors reported by the market as having influence on price. Some of those factors are more evident than others, and the degree of influence on price has also been estimated. It is intended that the tool be used as reference during price discussions in the market.

In addition, the consideration of the potential role for benchmarking tools has led to a twin approach to taking benchmarking forward in alternative ways.

## Taking benchmarking forward

Option A suggests a process that identifies price, improves unit costing and allows for comparisons to be made between the different provider elements within the sector. This predominately starts from measurements and materials that already exist in different places and combines this with an annual pricing survey. We know the market has access to prices charged and relative costs of services but this information is not regularly or consistently collated and analysed. The following processes would need to be put in place:

- Leadership and coordination of the activity could be facilitated by DfE and steered by the Market Review body recommended by the main report.
- The work would need a steering committee, technical and quality assurance oversight and a publication process. Resources would be needed to coordinate and, where necessary, carry out the work.
- Participation in the work should come from both sides of the commercial interface. It needs to involve both provider representatives, eg, ICHA and Local Authorities eg, ADCS and/or LGA and possibly regional commissioning consortia.



- Liaison with Ofsted could be necessary, looking for synergy in data sources, how they may complement one another and potentially eliminate duplication.

Option B, and occurring simultaneously, involves two activities. One develops a typology of need based around a sample of exiting placements and children taking into account the Outcomes Framework. The second brings together a group of providers and commissioners to develop a fledgling outcome based funding approach. An example model of an outcomes based funding approach has been set out in out in the report above, which identifies some of the issues that need consideration in the development of such an approach. Once developed this would need small focussed trials between the participant authorities and providers.

The development of both or either of these approaches could be chaired or led by a neutral third party.



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Any enquiries regarding this publication should be sent to us at:  
[rob.cartwright@education.gsi.gov.uk](mailto:rob.cartwright@education.gsi.gov.uk) or [www.education.gov.uk/contactus](http://www.education.gov.uk/contactus)

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