

As a national provider of care, education and therapy, Compass Community Limited (“**Compass**”) welcomes the opportunity to respond to the CMA’s invitation to comment dated 12 March 2021.

As a child-centred organisation, Compass’ objective is to build a strategic alliance with local authorities (“**LAs**”) with the aim of making a lasting difference to children’s lives. Our contribution to this review reflects our deep-rooted sector experience of caring for children with high acuity needs who are ‘looked after’ by their LA and are unable to live with their birth families. Compass currently provides services to around 150 LAs, caring for over 1,600 children across eight registered fostering services and 26 registered children’s homes. We do not operate unregulated services, and support the legislative approach restricting children under the age of 16 from being placed in such settings.

With the full support of our shareholders, we are committed to providing the highest quality care to our young people. Operational excellence, which leads to higher quality, results in increased placements from our LAs, which in turns drives our financial returns. We strongly believe that our operating model is well aligned to incentivise quality. We are able to reinvest profits to continuously improve Compass’ operations, such as in quality assurance, improved systems and processes, and a strengthened management team. In order to deliver a quality service, we must invest ahead of the curve across key operational levers, including the recruitment, retention, supervision and training of staff, as well as quality frameworks to promote safeguarding and enable measurable outcomes. Indeed, since the last change in ownership of the business in December 2017, Compass has invested:

- £[X]m of capex investment in both new children’s residential capacity and replacement of capital items across the estate of homes and schools;
- a further £[X]m of operating costs in setting up the homes and schools in advance of children being placed; and
- £[X]m on attracting and approving new foster carers.

The demand for children’s social care services is growing,¹ with residential placements rising more rapidly due to the growing acuity of children’s needs. The Government has commissioned multiple reviews into the sector, including ‘Foster Care in England’ (2018) and ‘Residential Care in England’ (2016). These reviews have found that the sector is generally working well and that the quality of service provision in the private sector is good. We believe that the key changes in the sector that are important context for its recent evolution can be summarised as: a) the growing complexity of children’s needs; b) a shortage of available capacity, particularly in residential homes; c) the increasing costs required to deliver quality provision; and d) the ‘in-house first’ approach adopted by LAs.

The growing complexity of the needs of LAC

Unfortunately, the needs of Looked After Children (“**LAC**”) are increasingly complex, requiring higher levels of support and cost. LAs adopt an ‘in-house first’ approach to commissioning, resulting in private providers typically looking after older or more complex children, who are more expensive to care for due to higher support requirements.

¹ The number of looked after children has increased from 77,566 in 2005/06 to 100,783 in 2019/20: an increase of 30%. See Department for Education, Children Looked After in England including adoption, 2005-20; Stats Wales, Children Looked After at 31 March, 2005-20; Children’s Social Work Statistics Scotland, 2005-20.

Sir Martin Narey² noted that children and young people in residential care often have the most complex needs compared to fostering. According to the report, 53% of LAC living in children's homes have a statement of special educational needs ("**SEN**") or an Educational, Health and Care plan ("**EHC plan**"), whilst a further 28% have an identified need for SEN or EHC plans but have no statement. This compares to 20% and 34% for all LAC respectively.

Insufficient available capacity

There is insufficient available capacity in the market to meet the growing numbers of LAC and their increasingly complex needs, both in the context of residential homes and in fostering.

LAs have reduced their in-house provision of residential homes over time, and nearly one in three LAs (47) in England do not operate any children's homes.^{3 4} Since the introduction of the Children Act 1989, we believe there has been an ideological preference for foster care, in part due to a reluctance by LAs to place children in perceived 'institutional' settings. LAs have, on the whole, strategically chosen not to invest in new, 'family-style' children's homes due to the capital cost requirements. In response, the private sector has invested significantly in new homes to meet demand. Private sector bed capacity in children's homes increased from 4,400 in 2015 to 8,400 in 2020, accounting for 78% of provision in 2020 (up from 67% in 2015),⁵ representing a material investment and mitigating the shortfall in beds that would otherwise have occurred. Compass has increased its own residential capacity, adding 15 new homes (81 beds) and expanding capacity at a further four homes (adding four new beds) since April 2015.⁶

At the same time, LAs have endeavoured to grow their in-house fostering services over this period, as well as using the independent sector to meet excess and increased demand. According to the Fostering Network, there is a shortfall of 10,000 foster carers in England and Wales⁷. An alternative view held by the Narey Report is that carer capacity is not well managed across the country:

"In fact, although more carers are needed, there is not an absolute shortage. The overwhelming majority of children needing a fostering placement on any one day are placed. Indeed, at any one time, there are about 16,000 fostering households without a child living with them. The shortages are down to geography or the availability of carers who can look

² See 'Residential Care in England' (Sir Martin Narey, 2016), available at:

<https://www.gov.uk/government/publications/childrens-residential-care-in-england>.

³ See for example Department of Education data, which indicates that the number of placements in residential homes provided by LAs have decreased from 1,700 to 1,600 between FY2015 and FY2020. Department of Education data, available at

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512094/SFR34_2015_National_Tables.xlsx and <https://content.explore-education-statistics.service.gov.uk/api/releases/6ca4a7b2-afdd-4717-87b3-d510ae71229d/files/096a3667-bd07-4d18-9fc8-08d8985dcad5>

⁴ National Statistics: Children's Social Care in England 2019, updated 22 September 2020, available at Children's Social Care in England 2019 - GOV.UK (www.gov.uk).

⁵ Source: Department of Education data, available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512094/SFR34_2015_National_Tables.xlsx> and <<https://content.explore-education-statistics.service.gov.uk/api/releases/6ca4a7b2-afdd-4717-87b3-d510ae71229d/files/096a3667-bd07-4d18-9fc8-08d8985dcad5>>

⁶ Compass has also repurposed one home to provide a school, resulting in three beds closing.

⁷ See ' Shortage of 10,000 foster carers in England & Wales', accessible at:

https://www.familylaw.co.uk/news_and_comment/shortage-of-10-000-foster-carers-in-england-and-wales.

after more challenging children. This means that, too often, matches are made between carers and children that are not ideal and, after a short period, the child has to be moved again.”

Whichever view is correct, it is clear that ‘available’ fostering capacity needs to increase, either through more recruitment (and therefore cost), or better sector collaboration to utilise existing carer bases (discussed in turn below).

Whilst the sector has been trying to increase foster carer recruitment, net carer growth has remained broadly flat. Recruitment is challenging and costly, due to the growing cost inflation of marketing, the lengthy regulatory process, and the operational intensity in processing enquiries. The process for recruiting and approving a foster carer takes around six months, with only [X]% of Compass’s enquiries leading to approved carers. Each successful applicant costs an average of £[X] to recruit (excluding training costs). The upfront cost must be incurred before any revenue is generated, and there is no guarantee of any placements. Despite the challenges of recruitment, we believe that providers like Compass, with well-invested and creative digital marketing strategies, are key to driving the needed innovation in the sector, particularly to recruit carers for harder to place LAC. We are proud to have grown our carer base organically, with our number of carers [X] between FY16 and FY20 from [X] to [X]— this represents new capacity in the sector, with fewer than [X]% of carers at Compass having transferred from other providers.

We also believe that improved strategic partnerships between LAs and the private sector could unlock untapped placement availability in both residential and fostering, helping LAs to better meet local sufficiency plans, at value-for-money prices, whilst achieving positive outcomes for children. An example of a strategic partnership is the continued development of dynamic purchasing arrangements, where LAs can work outside of established frameworks to meet emerging patterns of need and help the market to respond more efficiently to changing demand. We believe longer-term strategic commissioning, co-ordinated at a regional and national level, should be encouraged, aligning incentives for LAs and providers to share relevant information. This would help independent providers to adjust and meet evolving local need as required.

The increasing costs for high quality provision

The rising complexity in children’s needs has created demand for more experienced carers both in foster care and residential settings. That has led to higher costs, for example in higher carer allowances and increased costs of support from therapists to upskill carers and staff to manage the associated behavioural risks. In children’s homes, the increasing behavioural needs also result in a higher risk of placement breakdown, which can lead to lower occupancy. In fostering, foster carers are self-employed and can leave fostering agencies, potentially ending children’s placements or in some cases children moving agencies with them. To be successful, we need to show LAs we have the right carers to “place” children safely and protect them, and to retain the right carers we need to ensure we can secure sufficient placements with the right levels of allowances and support for carers, so must therefore invest to maintain high quality standards.

Providers must be able to invest in their operating models in order to continuously innovate and increase the quality of care. Private providers are well placed to do this by reinvesting profits.

We are committed to the highest standards for our Compass children’s homes, which are designed to provide a high quality and homely environment for children. 28% of our homes

are judged 'Outstanding' by Ofsted, versus a national average of 18%.⁸ The investment required for our homes is significant, both for new homes and on an ongoing basis. We actively seek to invest in desirable locations, reducing the exposure of vulnerable children to the risk of harm, including involvement in gangs and other criminal activity. Whilst residential care is often seen as a transitional process for stepping LAC into fostering, we recognise that for some older children, who cannot live safely in a fostering environment, it is a genuine answer to their 'forever home'.

Compass has also continued to develop its therapeutic approach since 2016 by investing in the learning and development of staff, and foster carers, to enhance practice. This has been underpinned and ratified by our membership of the Community of Communities, a quality improvement and accreditation programme which is part of the Royal College of Psychiatry. All Compass children's homes are committed to the principles of therapeutic parenting, as evidenced by the increased number of children receiving direct therapeutic intervention and support from increased staffing. For example, in June 2019, [%] of children in our residential homes received therapy, and [%] received additional funded staffing. By March 2021, this had increased to [%] and [%] respectively. It can therefore be hard to make meaningful like-for-like comparisons of placement cost due to variations in models of delivery.

'In-House first'

Finally, as described earlier, LAs typically and increasingly adopt an 'in-house first' approach to commissioning, resulting in private providers typically looking after older or more complex children, who are more expensive to care for, and present higher risks for operations.

Moreover, the investment into new residential homes requires high upfront capital expenditure, and is undertaken by private providers with no guarantee that the homes will be used by our LA partners.⁹ This also creates a commercial risk for independent providers that their capacity may be under-utilised, which can lead to losses due to the minimum level of staffing required. As a private provider with scale, we can mitigate some of these risks by working in 'hubs' to share staffing, knowledge and experience. We also conduct extensive business planning, including consulting with LAs on our new home plans; however, the analysis can be uncertain and subject to strategic change when senior leadership at LAs churn. We believe that closer strategic partnerships with LAs to manage and truly understand placement availability can only be beneficial in mitigating business risk and cost whilst delivering positive outcomes for children.

Similarly, our investment in the development of foster carers is substantial and at our own risk, as foster carers can move agencies freely.

Conclusions

Whilst we acknowledge that concerns have been raised regarding increases in the costs of children's placements, particularly in residential care, we believe that this needs to be considered in the context of the increasing complexities of LAC needs, requiring significant investment and innovation for quality service provision, as well as rising operating costs to meet and exceed the regulatory requirements set by Ofsted.

⁸ Source: Department of Education data, available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512094/SFR34_2015_National_Tables.xlsx> and <<https://content.explore-education-statistics.service.gov.uk/api/releases/6ca4a7b2-afdd-4717-87b3-d510ae71229d/files/096a3667-bd07-4d18-9fc8-08d8985dcad5>>

⁹ Unless commissioned under a block contract, which is unusual in residential and fostering.

Compass wholeheartedly agrees that the key priority of the sector is to ensure that children's experiences are positive and life-enhancing. There is a need to continue to improve safety and quality, with a goal of exceeding the minimum standards outlined in legislation. We believe it is important that providers are encouraged to adopt, and invest in, the principles of best practice. We also believe that commissioning for LAC should be needs-led, and eventually outcomes-led. Standardised metrics, both qualitative and quantitative, should be introduced across the sector to measure children's outcomes, with a sector-wide approach to improve baseline assessments as part of LAC care planning processes. This would enable a better comparison of quality versus price in public procurement. We also believe that this commissioning approach would positively drive competition, moving the sector closer to achieving a world-class model of procurement and ensuring that every child can be given the right placement the first time. This would improve placement stability, increasing the likelihood that LAC receive the support they need, and ultimately, to help them to successfully transition into adulthood at a reduced cost to our LA partners.

Compass remains committed to a focus on these matters and is keen to work with the CMA and wider sector to develop and improve from any outcomes identified over the course of this market study.