

Submission by Horizon Care and Education Limited in relation to the Children's Social Care Market Study

Response to CMA Invitation to Comment

Horizon Care and Education Limited (**Horizon**) welcomes the opportunity to respond to the CMA's invitation to comment dated 12 March 2021.

As participants in this sector, we take our responsibilities in providing a vital service to care for the most vulnerable in society extremely seriously. Horizon supports more than 800 young people across its residential homes, Horizon schools, and transitional services for 16-25 year olds. We provide a pathway of care and support from childhood to adulthood for those young people who are leaving the residential care system at 16 and over. We do not provide unregulated services to under 16s and welcome the decision to prohibit unregulated provision for children below the age of 16 from September this year.

In our view the sector is generally working well, in particular in relation to offering choice to service users between competing residential homes. This is a relatively fragmented sector, with a wide range of providers, operating under different models, all tendering to provide quality services to Local Authorities (LA). However, there are some areas which could be improved to deliver significantly better outcomes for looked-after children, notably how to improve collaboration in commissioning so that all market participants can work to understand likely needs and plan ahead effectively for those requirements. There is also an urgent need to close the regulatory gap for transitional services for 16 to 18-year olds, bringing those services within the remit of Ofsted.¹

The quality of our services directly impacts the lives of children in our care and is at the heart of what we do, acting as a key dimension of competitive differentiation in the sector. Specifically, our ability to offer placements which meet the needs of LAs, enabling us to maintain high levels of occupancy, is driven by quality to a significant degree. To strengthen the quality of our services further, Horizon has invested in a large clinical team of 12 people (FTEs) in the looked-after children's space, made up of qualified clinical, counselling or forensic psychologists and assistant psychologists. We believe that this investment - alongside extensive learning and development for our staff - puts therapeutic practice at the centre of our support to young people, contributing to better outcomes and stability of placements. Our current private equity backers have a decade of experience in the looked-after children's sector, bringing expertise and innovation to residential care to support our business since their investment 18 months ago. Collectively, we are deep-rooted in children's care, and are committed to driving up quality and outcomes for the young people we support. Following their initial review, our private equity investors are supporting our team with investment in service quality and extension, new site development and the recruitment of high-quality people. Our scale allows us to create pathways of provision to better support our LA commissioners, and most importantly, young people. This focus enables us to remain competitive for placement opportunities with LAs. As set out further below, we believe that changes can be made to make the market work more effectively, making these healthy competitive dynamics even stronger.

Demand for children's social care services is growing.² Shortages in the number of foster carers, combined with an increase in the acuity of children's needs, is also driving an increase in demand for residential placements. LAs have made a strategic choice to reduce in-house provision over time,

¹ At present, social care services for children up to the age of 16 are regulated by Ofsted, with regulated adult social care services covering young people from the age of 18. Services for young people aged 16-18 are not currently regulated.

² 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.

and nearly one in three English LAs (47) do not operate any children's homes. LAs have invested comparatively little in the provision of care for children with complex needs, and they are reluctant to incur the high capital costs of opening new homes. Between 2015 and 2020, LA residential placements fell from approximately 1,700 to 1,600³. Over this period, places in independently run homes rose from 4,400 to 8,400, accounting for 78% of provision in 2020 (up from 67% in 2015).⁴ This represents a very material investment and there would be a significant shortage of care home places if the independent sector had not made this investment.

The independent sector therefore has an essential role to play in the provision of children's social care, with the market responding to changes in demand for services and the resulting shortages of supply. In particular, the independent sector has:

- adapted and responded efficiently, expanding capacity and altering the nature of services provided where required to meet the needs of LAs. For example, at Horizon we have opened 15 new children's homes since 2016 and expanded capacity at a further 10 homes; and
- delivered cost efficiencies to its LA customers.⁵

While concerns have been raised regarding high and increasing prices, in our view there are several drivers of this trend, including the increased complexity of needs of children⁶, and the associated increases in costs which are required to satisfy these needs, and other increases in provider costs such as staff cost inflation. For example, the level of above-core support⁷ has increased reflecting the increased frequency of 1:1 and 2:1 care. In children's homes, above-core support increased as a proportion of total revenue from 3% in FY18 to 5% in FY20. This is consistent with stable percentage profit margins over time.

Horizon provides a therapeutic approach, using its PACE⁸ parenting model in all of its residential homes as standard. It should also be noted that children's homes are designed to support young people with acute needs, who are not suitable for foster care. Children's homes are intended to provide an intensive therapeutic service, lasting approximately 18-24 months, with the level of care and services provided during this time enabling care to be stepped down, often to foster care, in line with the care plan at the end of this time.

We would also stress particularly that the level of profits and the value for money provided by the private sector needs to be considered in the context of the high-acuity of care we provide, and the uncertainties which we face (which are explained further below). LA residential care provision has reduced over time, and LAs have generally not invested in new, more specialised homes. As a result, independent providers are typically managing more challenging children who are often displaced from education. As the acuity of children's needs have increased over time, this has increased the risks

³ See for example, Department of Education data available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512094/SFR34_20_15_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 Ibid.

⁵ For example, the Personal Social Services Research Unit report indicates that local authority homes cost on average over £1,000 more per resident, per week than those in the private sector.

⁶ The 2016 Narey Report (available at <https://www.gov.uk/government/publications/childrens-residential-care-in-england>) 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.

⁷ Above-core support is defined as the extra hours (usually 1:1 support) allocated to a Young Person outside of the normal staffing in a home needed due to the complexities and challenges of the individual.

⁸ PACE refers to Horizon's therapeutic model – P is for Playfulness, A is for Acceptance, C is for Curiosity, and E is for Empathy.

faced by providers as placing children with more complex behaviours leads to a higher risk of a placement breaking down, and can make 'matching' suitable placements within homes more challenging, resulting in a higher risk to sustaining the occupancy of homes.

The current LA commissioning practices, including a preference for 'in-house first', also contribute to the higher level of risk which is faced by the independent sector (compared to LA provision). Specifically, providers must undertake capital investment in the property itself and incur the costs of setting up and running the home, and there is an inherent requirement for the private sector to earn a reasonable return and to absorb additional costs e.g. development of staff and wage inflation. LAs continue to have an 'in-house first' preference, and 'matching' suitable placements within homes can be challenging, which can lead to uncertainties in demand for places and the need for us to manage occupancy risk, which has an impact on our business. New residential home investment is usually undertaken with no guarantee of subsequent child placements. As a larger provider, we do take actions to try and mitigate this risk; for example, we can draw on economies of scale in provision to manage this risk across our portfolio of homes, and we consult with LAs about local requirements before an investment is made, although they often provide few placements for the home. Transparency and separation between a LA's commissioning activities and its own operations would also mitigate risk, aid more collaborative planning and encourage better targeted future investment.

We agree with the CMA that the priority is to ensure the sector delivers good outcomes for children. There is a need to ensure appropriate minimum standards are adhered to in order to deliver the right care and outcomes. It is therefore important that supply shortages do not result in a race to the bottom, with increases in the use of unregulated provision, as this does not appropriately meet the needs of vulnerable children and produces poor outcomes.

There is also a need to further enhance the link between quality and occupancy, to appropriately reward providers who deliver good outcomes and further improve competition on quality.

It is our view that the starting principle in commissioning decisions should be to find the best provider to meet the needs of children, so that every child can be given the right placement first time. This will ensure value in the long run by ensuring placement stability and increasing the likelihood that positive outcomes will be achieved for each child, both in the short and long term as a result. It is essential that there is clear recognition that efficiency and value for money does not equate to finding the lowest cost provision.

In order to help the market respond more efficiently to changing demand, there is a need to encourage longer-term strategic commissioning by LAs, which is better co-ordinated at a regional and national level. The independent sector has invested in additional capacity and services, but the ability of independent providers to target this investment could be further enhanced by more communicative and open partnerships with LAs, promoting incentives to share relevant information on future demand. Given the time and costs associated with expanding capacity, and the uncertainties in demand which are faced by independent providers, this will help to ensure that independent providers are in a better position to adjust the level and type of capacity which is available in a timely manner, in order to meet the evolving requirements of LAs.

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