

HEALTHCARE FOCUS: FOSTER CARE

Cooper Parry Corporate Finance

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FOSTER CARE

In February 2018, the Department of Education published a review of Foster Care in England. The Report was written by Sir Martin Narey and Mark Owens.

Here we consider the implications for independent fostering agencies (IFAs).

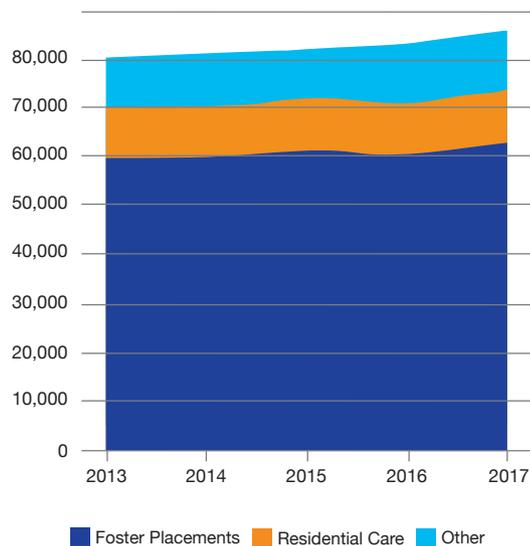
SECTOR AT A GLANCE

More children are in care

According to Department for Education, there were 72,670 children in the care of their local authority on the 31 March 2017. The number has increased in each of the last five years growing by 8% since 2012. Over the same period, the number of foster care placements has also increased to 53,420 on 31 March 2017¹.

Figure 1

LOOKED AFTER CHILDREN IN ENGLAND

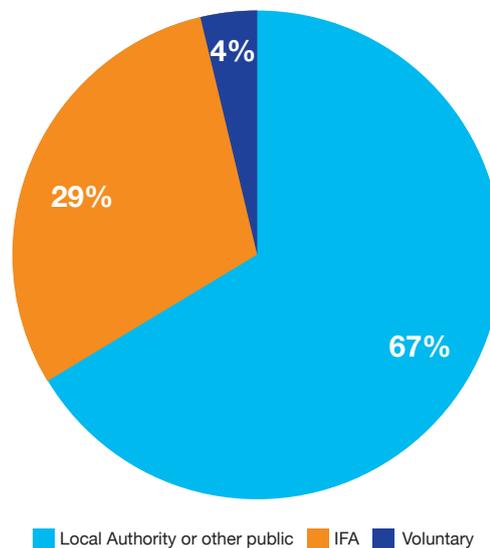


More money is being spent

In the year to 31 March 2017, local authorities spent £1.7 billion on fostering services, a 4% increase from spending in year to 31 March 2013². This demonstrates that even against a backdrop of central government austerity, the fostering sector is growing in line with the wider children's care market. Of the total £1.7bn spent by local authorities on fostering services £727m, or 43%, was spent with independent fostering agencies.

Figure 2

FOSTERING PLACEMENTS BY PROVIDER TYPE



¹ Children looked after in England (including adoption) y/e 31 March 2017 – SFR50 National Tables

² Section 251, financial data collection

STAYING PUT

Echoing wider concerns in the children's care sector, the Report highlights the need for placement permanence. Permanence, which would be a child increasing their stay in one place, can mitigate the risk of care benefits and positive outcomes being lost when a child reaches adulthood and is forced to leave care.

Identifying this as an issue, the Department for Education has been promoting "Staying Put", allowing young adults to stay with their foster carers beyond their 18th birthdays. The Report favourably cites recent figures which show 30% of 19-year olds and 20% of 20-year olds, formerly in foster care, are still living with their former foster carers³. While this is encouraging, the Report suggests the arrangement needs to extend to longer term solutions.

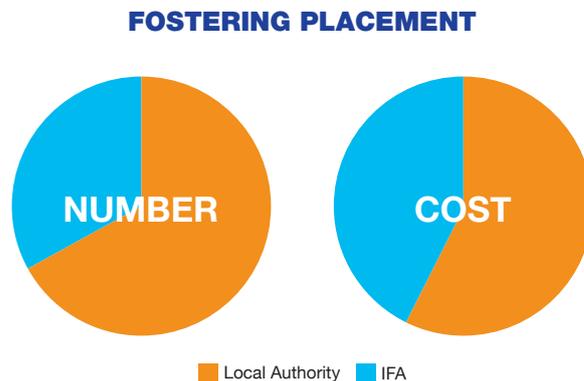
While promising for longer term care outcomes, this is also positive for independent fostering agencies. Their market will increase over and above wider demographic changes.

SUPPORT FOR THE PRIVATE SECTOR

A substantial portion of the Report was dedicated to assessing the relationship between local authorities and Independent Fostering Agencies (IFAs). Attention was given to the commissioning process, care quality and IFA fee rates.

Of 53,420 children in foster care on 31 March 2017, 67% were placed with local authority supervised carers, or charities, the remaining 33% were placed through IFAs. Within this there is a wide range; some local authorities outsource almost all their fostering, while others use IFAs for fewer than 5% of placements.

Figure 3



An often cited criticism of IFAs in the fostering sector is that they are significantly more expensive than local authority placements. This appears to be shown in the figures above.

The Report was clear in its defence of IFAs on this matter explaining "the cost differential between local authorities and IFA costs narrow considerably to the point where, in some instances, there is very little difference".

Several factors were considered when coming to this conclusion. Existing cost comparisons were themselves criticised for excluding local authority overheads, distorting conclusions.

The impact of the "In House First" approach, where local authorities place children with local authority carers first was also highlighted. IFAs are often used as a last resort or for special situations. Children in the care of IFAs are therefore often more challenging. This

³ Children looked after in England (including adoption) y/e 31 March 2017 – SFR50 National Tables

creates the need for the IFA to invest more in pay and support for their carers. Reflecting this high-quality service, Ofsted ratings for IFAs are positive with 91% judged as good or outstanding.

Local authorities were also criticised for failing to influence the market as purchasers and were urged to be creative in their commissioning and secure best value from the market. No evidence was found for discount pricing or multi-authority framework arrangements which would increase commissioner's market strength. Instead reliance was seen on expensive spot purchasing arrangements.

MENTAL HEALTH

Reflecting the wider political focus on mental health, the Report highlighted the heightened number of children in foster care with elevated Strength and Difficulties Questionnaire (SDQ) scores. The SDQ is a standardised measure of a child's emotional and behavioural health.

Fewer than 10% of the general population between five and 16 have cause for concern scores⁴, compared with 38% in the looked after children population⁵.

IFAs already care for a higher proportion of these children than local authority carers. Increasing realisation that mental health services need to improve, combined with IFAs strength at looking after the more challenging children should create an opportunity for IFAs. Commissioners are already beginning to favour residential care providers with mental health services, a similar trend could be seen in the fostering market.

⁴ Meltzer, H., Gatward, R., Goodman R. & Ford, T.(2000). *Mental Health of Children and Adolescents in Great Britain*

MAJOR SECTOR TRANSACTIONS

Deal activity in the fostering sector continues with significant transactions including:

The Competition & Markets Authority approved the sale of three **Acorn Care & Education** fostering branches to BSN Social Care. The sale has allowed the merger of the **National Fostering Agency** and Acorn to form **NFA Group**, one of the largest providers of children's services in the country.

Following Graphite Capital's MBO of **Compass Community Limited** in December 2017, Compass have acquired **Children's Service Bureau Ltd**, a provider of fostering services. Compass had previously acquired **Moments Fostering Ltd and Fostering People Too Ltd** in August 2017.

BSN Social Care Ltd, the UK-based provider of fostering solutions, acquired the issued share capital of **Pathway Care Ltd**, a fostering services provider for £7.6m.

⁵ *Children looked after in England (including adoption) y/e 31 March 2017 – SFR50 National Tables*

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