Association of Directors of Social Services (ADSS) Cymru

Eliminating Profit from the Care of Children Who Are Looked After
Contribution to the Regulatory Impact Assessment
March 2024

Contents

Introduction

The Senedd's Standing Orders require an Explanatory Memorandum to accompany Welsh Parliament Bills. This includes a Regulatory Impact Assessment (RIA) that examines value for money, shows the benefits of what the government proposes, and justifies the likely costs.

To support the RIA Welsh Government asked ADSS Cymru to help supply an assessment of the costs/savings and benefits/disbenefits that would arise as a direct consequence of the Bill to eliminate profit in children's social care.

They requested that the specified assessment cover 2025-6 to 2034-5, using 2022-23 as the price base year for all costs and benefits throughout the analysis[1]. ADSS Cymru was asked to gauge the impact on private and third-sector providers (including organisations of different sizes, such as SMEs and larger businesses) and whether there would be a knock-on effect on providers in related sectors, such as adult social care.

The RIA assessed the costs and benefits of **two options**:

1. **Option 1** - Business as Usual/Do Nothing – this is a baseline against which to compare the alternative option's additional costs, benefits and risks.

2. **Option 2 -** The proposed legislation to eliminate profit from the care of children looked after.

Various scenarios were also developed where 50%, 75%, or 100% of for-profit providers choose to leave the sector rather than become a not-for-profit organisation.

To ensure a like-for-like comparison could be made, the high-level approach to assessing the costs and benefits kept several factors as "constants":

1. The overall shape of placement provision, specifically the number of children in the care system and, therefore, the number of beds required, would not alter.

2. The balance of provision between fostering and residential care remained static.

3. Inflation was not included.

RIA Methodology

The assessment had three interlinked phases.

1. A **review** of published information.

2. Development of a **logic model** to supply a systematic and visual framework for estimating the financial impact of the policy change (costs/savings and benefits/disbenefits)

3. **Engagement** with stakeholders to help capture costs by:

    a. providing data/existing evidence and identifying gaps
    b. challenging and clarifying assumptions
    c. examining figures

[1] Costs falling in future financial years are not adjusted to reflect expected general price inflation.

d. pinpointing potential barriers
e. engaging in debate and provoking thought
f. building understanding and promoting consensus
g. establishing a common language with common points of reference.

The logic model was developed using an iterative and collaborative approach. Representatives from various stakeholders, including the Welsh Government, Welsh Local Government Association, Foster Wales, 4Cs and ADSS Cymru, then held constructive discussions about capturing costs. Stakeholders then stress-tested the model and reviewed the evidence base for the assumptions before final draft costs were arrived at. These were then reviewed, challenged, and refined.

The assessment uses a range of financial and other data, including:

1. Aggregated publicly available financial information relating to social care.

2. Financial information produced by local government, Foster Wales and the Children's Commissioning Consortium Cymru (4Cs).

3. A small amount of data, which is commercially sensitive and not in the public domain, was used to triangulate conclusions.

We have also considered the work of others, including the Competition and Markets Authority (CMA) *Children's Social Care Market Study Report* (March 2022), LaingBuisson's *Children's Services UK Market Report* (6th Edition) and LGA and Revolution Consulting Limited's *Profit making and Risk in Independent Children's Social Care Placement Providers* (March 2022)

We have applied the general principles of The Green Book issued by HM Treasury to appraise policies, programmes, and projects. However, given the complexity inherent in the Welsh social care ecosystem and the fact that the variation in costs generated will be most affected by a single variable- the number of for-profit providers converting to not-for-profit commercial models - the key guiding principle for this assessment is proportionality. We have attempted to balance the level of detail and the effort required to capture new data against the range of potential outcomes that could be achieved.

The Context

Before the 1990's, local authorities managed and delivered residential children's social care and foster care directly or collaboratively with not-for-profit organisations[2]. Since that point there has been a noticeable trend of local authorities and not-for-profit organisations scaling back or entirely ceasing their direct operation of children's homes in Wales. This change was not triggered by a single or series of policy decisions by the Welsh Government and reflects a trend across the UK.

The factors influencing these decisions are complex and multifaceted, but the Competition and Markets Authority (CMA) 2022 *Children's Social Care Market Study*[3] cited two primary reasons:

- **Reputational Risks:** A series of scandals involving the abuse and mistreatment of vulnerable children in care[4] has had a profound impact. The immeasurable harm inflicted on the children has severely damaged the trust and credibility of the institutions responsible for their care. In response, many not-for-profit providers have reassessed their direct involvement in children's homes, wary of the potential for future scandals and the associated reputational damage. There is only one not-for-profit provider of residential children's homes in Wales.

- **Financial Constraints:** The financial risk of running in-house children's care is significant. The costs include the direct expenses related to care provision (such as staffing, maintenance, and resources) and the indirect costs associated with regulatory compliance and managing risk. For many local authorities, these financial pressures have become increasingly challenging, especially in the context of broader public sector austerity and budget cuts.

Residential care services are a labour-intensive activity whose cost base is primarily determined by the employment of large number of relatively low-paid workers. Wages of lower-paid job roles tend to be higher in the public sector and are typically determined by standardised pay scales that reflect job roles, responsibilities, and seniority. Public sector employees usually access more comprehensive benefits, including much more generous (and expensive to fund) pension schemes.

For-profit companies can offer more varied employment contracts, such as part-time, temporary, and zero-hour ones. This flexibility allows these employers to adjust their labour force quickly based on demand, potentially reducing labour costs and increasing operational efficiency. This is important in a sector where the hours required by an individual service can unpredictably fluctuate depending on occupancy levels.

Although local authorities still dominate the supply of foster care placements, they compete against for-profit and not-for-profit foster care agencies to attract new and existing foster carers. For-profit and not-for-profit foster care agencies are also much more flexible in the fees and allowances they can give foster carers. This is important in areas where the demand outstrips the supply of foster care. For-profit foster care can better respond to supply-side constraints by offering a better financial package without going through bureaucratic processes that underpin good financial governance in local government.

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[2] https://www.mdpi.com/2673-995X/4/1/19#:~:text=Within%20child%20welfare%20services%2C%20placements,outsourced%20from%20the%20late%201990s.

[3] https://www.gov.uk/government/publications/childrens-social-care-market-study-final-report

[4] https://www.york.ac.uk/inst/spru/research/pdf/Abuseincare.pdf

Children's Social Care Market Study

The CMA's 2022 *Children's Social Care Market Study* shed light on the profound issues plaguing Wales' children's residential social care and foster care market. Their analysis revealed a market riddled with fragmentation, complexity, and dysfunctionality, severely impacting local authorities' ability to plan and secure appropriate care placements for children and young people. They set out that the market's current state leaves these authorities vulnerable to adverse market forces, limiting their effectiveness in finding suitable and affordable care solutions for vulnerable children and young people.

Several key findings from the study that have influenced this RIA:

- **Lack of Suitable Placements:** There's a pronounced deficiency in the availability of appropriate placements, resulting in children not receiving the care and accommodation that align with their needs.[5]

- **Profit Margins and Pricing:** The largest private providers of children's placements generate significantly higher profits and charge substantially more than expected in a well-functioning market. This discrepancy points to inefficiencies and potential exploitation within the market.[6]

- **High Levels of Debt:** the substantial debt burden of some of the largest private providers is a significant concern. This financial instability poses a risk of sudden and disorderly failures, threatening the continuity of care for children placed under their supervision.

- **Consequences of Market Failures:** The study outlines several adverse outcomes stemming from these market inefficiencies, including increased use of unregulated provisions, rising placement costs, and the negative impact on children's access to suitable care settings.

The report concluded that the current state of the market necessitates substantial, evidence-based reforms to address these systemic issues. It emphasised the need for enhanced collaboration across local authorities and other stakeholders, including education, housing, leisure services, the NHS, and providers aligned in vision and values.

[5] The 4Cs have also separately identified significant and sustained geographic disparities in placement availability to exacerbate this mismatch.

[6] This is set out in more detail in page 20.

Benefits Disbenefits Risks

Benefits

The direct financial impact of the proposed changes on the social care system will be discussed later in this document. However, several broader benefits could be accrued from developing a functioning market where local authorities can plan and secure appropriate care placements for children and young people.

By enabling local authorities to plan and secure appropriate care placements more effectively, children and young people are more likely to be placed in environments that closely match their needs. This will support the overall well-being and development of children looked after, leading to better social, educational, and health outcomes.

A more efficiently managed market will reduce the need to place children far from their communities. By improving placement planning and capacity management, local authorities can make more placements available closer to the children's original communities. Bringing services in-house will support a social worker-led understanding of placement patterns. This will enable proactive capacity management, minimising the scramble for last-minute placements that can lead to suboptimal matches and higher costs.

Disbenefits

The departure of some for-profit providers, who have developed unique and high-quality care models, could represent a significant challenge to the care ecosystem. These companies often provide specialised services resulting from years of investment. Their exit will leave a gap in the care sector that may not be easily filled by new or existing not-for-profit organisations, risking diluting the quality and diversity of care available.

The restrictions placed on profit-making may reduce innovation and discourage partnerships. Although local authorities and not-for-profits can seek funding and use their reserves or surpluses, for-profit entities often have greater commercial flexibility to invest or fund research, development, and innovative practices. Local authority reserves are being rapidly exhausted on unfunded day-to-day spending and, therefore, are unlikely to prioritise innovative service development in the current financial climate. Limiting this ability will deter collaborative efforts and reduce the sector's capacity to evolve and meet the changing needs of those it serves.

Not-for-profit status introduces some additional administrative complexity. Organisations must initially demonstrate they are not for profit, and regulators may also need to make periodic further ongoing assessments to ensure that the status has been maintained, especially where a not-for-profit organisation is within a for-profit group of companies or where there is an Opco/Propco[7] arrangement. This potential bureaucratic burden poses a risk to the efficiency of service delivery.

Risks

The shift towards a not-for-profit model may exacerbate existing pressures on the social care workforce. There is a risk that highly skilled professionals may be reluctant to transition to local authority or not-for-profit settings. The resulting loss of talent could negatively affect the quality of care and innovation within the sector.

The policy's focus on not-for-profit provision could inadvertently, over the long-term, reduce the availability and suitability of care placements, especially for children requiring specialised attention. The potential for a reduced pool of providers willing or able to cater to complex

[7] https://www.peterlynnandpartners.co.uk/what-is-an-opco-propco/

needs raises significant concerns about the system's ability to provide appropriate care for all children, potentially exacerbating existing gaps in service provision.

The risk of immediate disruption in the provider market is significant. If existing for-profit providers choose to withdraw from the market or limit their services in response to the policy changes, it could lead to a sudden and critical shortage of placements.

Not-for-profit providers may choose not to develop children's residential services because of reputational and financial risks. If this happens, local authorities will have to take on additional responsibilities for the development and direct provision of children’s homes, because of policy decisions of NFP providers, some of which may be headquartered outside of Wales.

Competition Assessment

It is proposed that only not-for-profit providers should be able to register with Care Inspectorate Wales (CIW) as a care home service for children or a fostering service. This would mean that only not-for-profit providers would be permitted to operate within Wales. It is self-evident that this will profoundly impact the children's social care market.

However, the children's residential and fostering sector is not comprised of homogenous for-profit companies. It encompasses a broad spectrum of businesses differing in size, scope, and objectives with very different commercial models. These will be impacted differently.

There are many Small and Medium-sized Enterprises (SMEs) in the sector. These are typically owned and operated by people with experience in children's social care and tend to focus on a tight geographical footprint. The motivation for these entrepreneurs initially entering the market often goes beyond financial gain; they are driven by a passion for making a tangible difference in young people's lives and have sought to leverage their expertise to fill specialist gaps within the social care ecosystem. As with many smaller companies, these social care businesses are particularly vulnerable to changes in customer behaviour. In this case, their success depends on good commissioning relationships and strong market signals. The ownership of these companies is almost always based in Wales, and they are an essential part of the foundational economy. The ability of these companies to remain in the sector by converting to a not-for-profit commercial model will depend on many factors, including the level of debt.

Larger companies in the sector frequently expand their focus beyond children's social care, venturing into related fields such as education or health. These companies aim to create commercial and operational synergies between children's and adult services. They work on a regional footprint and often have services on either side of the Welsh border. They have the scale to develop and run specialist services. These companies are less vulnerable to Welsh local authority customer behaviour and have the corporate knowledge and regulatory experience to quickly switch services from children's residential care to residential adult social care or supported living services. This would enable them to retain profitable assets which they have invested in. They could also continue to exist as profit-making companies by simply ceasing their operations in Wales, closing services wholly or transferring operations into England, where these services exist close to the border.

Medium-sized residential social care providers have invested in existing services or new growth from shareholder funds, and others have funded expansion through debt. They also often operate on very long investment cycles. It is also less likely that companies with external debt or significant shareholder investment will convert to a not-for-profit arrangement unless this is incentivised. These companies may reduce their exposure to developing new services in Wales as they may think that there is a reasonable risk that, if successful, the eliminate approach may be extended in the next decade to other service areas, such as adult social care. This would lead to a chilling in private investment across all commissioned health and social care. Companies that deliver foster care may convert to not-for-profit arrangements as the investment cycle is much shorter and requires less capital investment.

On the other end of the spectrum are entities that run multiple services owned by Public Limited Companies or owned by private equity. These organisations now have a significant market share of Welsh children's social care[8] but operate across vast geographies and industrial sectors. The reasons these companies invest in children's social care include:

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[8] https://www.gov.uk/cma-cases/childrens-social-care-study#final-report

- There is a consistent and non-cyclical demand for children's social care services, making it an attractive sector for investment. The need for these services does not diminish significantly during economic downturns, providing a relatively stable revenue stream.

- Children's social care is publicly funded, offering a secure long-term source of income and attracting private investors who see a lower risk in their investment.

- Private equity firms often seek to invest in sectors with opportunities for consolidation, operational improvements, and scaling. The children's social care market is fragmented, offering opportunities for investors to buy smaller providers, streamline operations, and create larger, more efficient organisations with higher profit margins.

  A typical trajectory involves the acquisition of SMEs by larger companies, which in turn may be bought out by private equity firms. This process often unfolds over many years as medium-sized companies organically look to broaden their services and market reach. Subsequently, these larger entities become attractive targets for private equity firms, which leverage complex debt-based financial strategies to maximize returns. Private equity firms then borrow money to finance their acquisitions. This strategy allows them to invest in companies with the potential for high returns while minimising the initial capital required.

Private equity investors will consider their continued presence in the Welsh social care market based on the potential for continued profit through recharge arrangements. Many have a track record of investing in highly regulated markets and, therefore, have the size and scope to create complex company structures that can successfully deliver not-for-profit commercial structures within an overall profit-making group.[9]

[9] https://castlesquarecf.co.uk/case-studies/private-equity-firms-acquire-specialist-childrens-services-business/

Assumptions

The following tables highlight the approach taken, the assumptions used, and the evidence available for the assessment.

Table 1 - How costs have been obtained for Option1

Costs headings	How costs have been obtained
Welsh Government	
(1.a) Policy budget	Costs (existing resource allocated to children's services policy, excluding eliminate). This data has been provided by Welsh Government.
Local Authorities	
(1.b) Residential outturn	This is the national local authority spending on children's residential care. We have used Social Services revenue outturn expenditure for residential care in 2022/23.[10]
(1.c) Fostering outturn	This is the national local authority spend on foster care. We have used Social Services revenue outturn expenditure for foster care in 2022/23. Further analysis of this data has been undertaken to exclude costs associated with permanent and temporary *Connected Person Foster* carers.[11]
(1.d) Legal	The legal costs incurred by local authorities directly related to the provision of children's residential care and foster care have been estimated using available data provided by local authorities. An average cost of £50,000 per local authority has been used as an order of magnitude estimate.
(1.e) Commissioning	The costs incurred by local authorities directly related to the commissioning of residential children's social care and foster care have been estimated using available data provided by local authorities during the development of the logic model. An average cost of £150,000 per authority has been used as an order of magnitude estimate. We have also factored in an additional £2m to cover activity by national organisations, such as Foster Wales and 4CS that support commissioning matters related to children's residential care and fostering. This estimate has been made by the project team from data provided by Foster Wales and local authorities during the development of the logic model.

[10] This is the base price year.

[11] Children and young people who are placed with family or friends approved as foster carers by the local authority.

(1.g) Care Inspectorate Wales	A proportion of Care Inspectorate Wales' budget is spent to support regulatory and inspection matters relating to children's residential care and fostering. This data has been provided by Care Inspectorate Wales.

<u>What has not been included</u>

This assessment does not include NHS costs associated with providing health services for children's residential care and foster care. It is noted that some care providers' gross turnover will consist of fees for therapeutic services and/or nursing that will be paid from NHS budgets that are not included in the outturn financial data. However, it is not possible to estimate this from the data available.

Table 2 - How transitional costs have been obtained.

The transitional costs are the additional costs and financial benefits of moving from Option 1 to Option 2

Costs headings	How costs have been obtained
Welsh Government	
(2.a) Policy Budget	Costs associated with the eliminate policy (excluding existing resource allocated to children's services policy)
Local Authorities	
(2.b) Residential outturn	The transition from for-profit to not-for-profit and local authority services provision involves complex dynamics and significant financial implications across various sectors. Some of these outturn costs are permanent whilst others are transitory. We have calculated the transition costs associated with the residential outturn by calculating the difference between the residential outturn costs for Option 1 and a predicted outturn cost for Option 2 during the transition period. **Profit-making providers leaving the market.** Local authorities may incur increased fees to offset costs for profit making companies leaving the market in an orderly fashion. These companies will face decommissioning costs due to early closure, unrecovered investments, and depreciated asset values. These costs arise because the expected operational timelines are reduced, and market conditions become (self-evidently) unfavourable for long-term commercial viability. We have also noted concern about the financial resilience of some private providers of children's homes. To ensure access to a sufficient supply of placements local authorities will need to increase fees to for-profit providers to continue accessing their services during any transition period. We have applied 20% above the current outturn to cover reasonable decommissioning costs to the

	proportion of outturn spent by local authorities on for profit providers. The cost premium is an order of magnitude estimate that has been made during the development of the logic model. This should be kept under review. This cost is not enduring and only features during the transition period. The scale of this cost is dependent on the proportion of providers that exit the market. **Profit-making providers converting:** Local authorities will incur increased fees to offset profit making companies for the expense of transitioning to a not-for-profit commercial model. Providers choosing not-for-profit models will incur legal, regulatory changes, and loan or covenant transfer costs. Although these costs differ in scale from decommissioning costs, they are significant and accounted for with an additional 2% above the current outturn for conversion expenses. The cost premium is an order of magnitude estimate that has been made during the development of the logic model. This will need to be further stress tested. **Existing local authority services:** The analysis assumes no change in the costs of services provided by local authorities. **New local authority services:** The introduction of new services by local authorities is anticipated to result in a 10% reduction in relative outturn. This saving is attributed to the complete application of capital costs as transitional expenses and the absence of the need to generate a return on capital, making these services less expensive to operate. Another way of thinking about this is that local authorities have paid for the development of children's homes during the transitional phase, so they do not have to factor in this cost (bar deprecation[12]) on an ongoing basis. This reduction is as a result of local authorities not having to pay fees for capital costs because they now have direct access to the newly developed residential children's homes. The cost premium is an order of magnitude estimate that has been made during the development of the logic model. This should be kept under review.

[12] Further information on deprecation is set out in the narrative accompanying table 19

	Reflecting the findings of the CMA, we have not included an operational reduction in cost between for-profit and not-for-profit models of delivering residential services. **Existing not-for-profit services:** The costs associated with operating not-for-profit services are not expected to change. **New not-for-profit services:** Like existing not-for-profit services, introducing new services in this sector is not expected to alter cost structures significantly.
(2.c) Fostering outturn	The transition from for-profit to not-for-profit and local authority services provision is less complex for foster care. We have however again calculated the transition costs associated with the fostering outturn by calculating the difference between the residential outturn costs for Option 1 and a predicted outturn cost for Option 2 during the transition period. **Profit-making providers leaving the market:** Local authorities may incur increased fees to offset profit making companies leaving the market. These companies will face some decommissioning costs. However, as there are no significant capital investments involved, there will not be substantial decommissioning costs associated with disassembling or disposing of capital assets. To ensure access to a sufficient supply of placements local authorities may need to increase fees to these for-profit providers to continue accessing their services during any transition period. We have applied 10% above the current outturn to cover the decommissioning costs. This is less than for children's residential homes reflecting that foster care businesses have much less capital exposure. The cost premium is an order of magnitude estimate that has been made during the development of the logic model. This should be kept under review. **Profit-making providers converting:** Providers choosing not-for-profit models will incur legal, regulatory changes, and loan or covenant transfer costs. Although these costs differ in scale from decommissioning costs, they are significant and accounted for with an additional 2% above the current outturn for conversion expenses. These

	costs are enduring and will continue after the transition period. The analysis assumes no change in the base costs of services provided by profit-making providers converting. Specifically, we have not reduced costs to reflect the removal of profit. **Existing local authority services:** The analysis assumes no change in the costs of services provided by local authorities. **New local authority services:** The introduction of new services by local authorities is anticipated to result in a 30% reduction in relative outturn. This gain is attributed to the operational savings that have been identified with moving to a local authority model from a for-profit model. Although this is contested by providers, the operational evidence provided by Foster Wales indicates local authority fostering services are significantly less expensive than for profit and not for profit foster agencies. Reflecting this we have applied a 30% reduction in relative outturn. **Existing not-for-profit services:** The costs associated with operating not-for-profit services are not expected to change. **New not-for-profit services:** Like existing not-for-profit services, introducing new services in this sector is not expected to alter cost structures significantly.
(2.d) Start-up costs *(children's residential care)*	A local authority will incur start-up costs as it 'runs-in' new residential services. A significant component of any children's residential service operating costs is direct and indirect staffing. A full staff team (including managers) are required before registration, and each residential home will take time to achieve target occupancy. During the period when occupancy levels will be relatively low, these costs will need to be met. We have assumed that during the transition period local authorities will be required to deliver more bed nights than would normally be required to manage the flow of placements from the for-profit sector into local authority settings. We have estimated that they will require 50% more beds during the transition period reflecting the fact that some for-profit residential care homes will remain operational but running with voids as they are decommissioned, and new local authority or not-for-profit businesses will not be operating at full

	capacity as they run in the service. The amount of bed nights per year as a total, will depend on the number of for-profit providers converting. The number of bed nights per year will also depend on the period for the transition. A longer transition will not change the total number of nights but will decrease the number required in any year. We are assuming that local authorities will meet the start-up costs of not-for-profit organisations. We have made this assumption as not for profit organisations are unlikely to enter the market without an agreement that initial start up costs through block commissioning arrangements or other arrangements where financial risk for running a service under capacity is transferred to a local authority through an initial upfront investment.
(2.e) Capital costs *(children's residential care)*	The capital costs are the cost of purchasing and then developing a suitable residential property. We have estimated the average cost of developing a residential children's home including purchase and development is £700,000. We have made this estimation using a number of methods of calculating costs: The average cost of a 4 bedroomed property in Wales is around £360,000. The development costs will include physical adaptations to a building to ensure it meets the regulatory and operational standards for a children's home. This will include but is not limited to provision of suitable accommodation for staff members who are required to be in the building during the night, office space and multiple toilets and bathrooms. This means a 3 bedded children's residential home will require as a minimum 4 bedrooms. In most cases where a residential property is bought, a full renovation will be required including the introduction of Fire Suppression Systems. We are using a multiplier of 2 to convert the capital costs of purchasing a property to the total cost of developing a 3 bedroomed property children's home and have approximated this to £700,000 to enable us to clearly demonstrate the impact of changes This multiplier is based on information provided by local authorities who have developed children's homes, as well as an analysis of market value vs

	expected rental value vs commissioned cost of residential children's homes. We are assuming that local authorities will meet the capital costs of not-for-profit organisations starting new services but have reduced operating costs accordingly. The assumption we are making is that not for profit organisations are unlikely to fund capital expenditure without direct or indirect support from local authorities. The capital deployed will have a considerable residual value and this is set out for each of the scenarios.
(2.f) Legal costs *(children's residential care)*	Legal costs will include advice and support to purchase suitable properties as well as to ensure compliance with regulations and licensing requirements. There may be costs associated with drafting contracts and agreements with service providers and partners to ensure legal obligations are met in areas such as insurance. Using data provided by local authorities that have experience of developing children's residential homes, we are estimating an average legal cost of £20,000 for each home developed.
(2.g) Commissioning	Project management costs encompass the salaries of project managers, technical staff and support staff, as well as expenses related to project planning, scheduling, and monitoring. Experienced project managers will oversee various phases of implementation, from initial planning to purchase of new buildings and their renovations to the actual start of operations. They will coordinate activities, manage budgets, and ensure that the project stays on track to meet its goals within tight timelines. Using data provided by local authorities that have developed children's residential homes, we are estimating an average project management cost of £150,000 for each home developed.
(2.h) Start-up costs (fostering)	There already is an established national approach to supporting in-house fostering through the partnership between local authorities and Foster Wales. Some additional resource including marketing, as well as the training, assessment and approving of foster carers will be required to ramp up these services to meet the new capacity. This has been calculated by increasing the Foster Wales budget and the costs incurred by local

	authorities to deliver current fostering support and supervision programmes.
(2.i) CIW	Additional costs associated with supporting new and existing providers to transition

Table 3 - How future costs have been obtained.

Costs headings	How costs have been obtained
Welsh Government	
(3.a) Policy budget	Ongoing costs associated with the eliminate policy (excluding existing resource allocated to children's services policy). This data has been provided by Welsh Government.
Local Authorities	
(3.b) Residential outturn	The residential outturn will have changed to reflect the cost profiles for the new provider cohorts. This will be different for each scenario.
(3.c) Fostering outturn	The fostering outturn will have changed to reflect the cost profiles for the new provider cohorts. This will be different for each scenario.
(3.d) Legal	We are assuming that once the eliminate process has completed this cost will return to that described in Option 1.
(3.e) Commissioning	We are assuming that once the eliminate process has completed this cost will return to that described in Option 1.
(1.3) Care Inspectorate Wales	We are assuming that once the eliminate process has completed this cost will remain. This data has been provided by Care Inspectorate Wales.

Baseline data

The following baseline data has been used to populate the model we have used to consider costs.

Social services expenditure

Table 10 shows the national expenditure for residential care and fostering services over seven years. They also highlight the percentage year-on-year change in spending.

Table 4 - National Spend on Children's Residential Care (£ thousand)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Residential care	65,449	82,107	95,396	108,915	116,204	128,518	198,252
% increase		25%	16%	14%	7%	11%	54%

The average year-on-year rate of increase in the cost of residential care was 21% over the period, compared to an average inflationary increase of 4%.

Table 5 - National Spend on Fostering Services (£ thousand)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Fostering	116,821	120,411	126,663	133,595	137,281	136,522	143,848
% increase		3%	5%	5%	3%	-1%	5%

The average year-on-year rate of increase in the cost of foster care was 4% over the period, compared to an average inflationary increase of 4%. This means that spending on fostering has increased in line with inflation over 5 years.

Table 6 - National Spend on Residential Care and Fostering Services (£ thousand)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total	182,270	202,518	222,059	242,510	253,485	265,040	342,100
% increase		11%	10%	9%	5%	5%	29%

The average year-on-year rate of increase in the cost of residential care and foster care combined was 12% over the period, compared to an average inflationary increase of 4%.

Profit

The following text is taken from the *Children's Social Care Market Study final report* Appendix A and sets out the percentage of operating profit and difference from the expected profits that should be expected in a well-functioning market.

> Our findings for Children's homes operated by the Large providers between financial year (FY) 2016 and 2020 are that:
>
> *(a)* the average fee per child increased year-on-year from £154,800 in FY 2016 to £199,100 in 2020, representing an annual growth rate of 5.2%. While operating costs increased, 2 providers simultaneously benefitted from above-inflation increases in fee rates, thus keeping the operating profitability margin flat at 22.6% on average. The Large providers benefitted from stable occupancy rates (83% on average) and revenues during the five-year review period;

(b) profitability (measured by economic profit margins) was materially higher (equivalent to an uplift in prices of 10.4% to 16.5%) than we would expect in a well-functioning market. (i) this analysis reflects the high real rate of return (return on capital employed (ROCE)) earned by the Large providers of 11.1% compared to our benchmark of a 3% to 6% expected real rate of return. We consider these economic profits to be supernormal as the Large providers have earned above-market returns over several years in a steady state, with an absence of factors that might justify high returns (in the short term), such as intellectual property, research and development (R&D), specialist technology or human capital; and (ii) the economic profit margins that we have calculated reflect conservative assumptions, which therefore reflect a lower-bound;

(c) put in absolute terms annually, the Large providers earned economic profits of £18,400 to £29,000 per child on average and £29 million to £45 million in aggregate;3 and

(d) LA operating costs were 30% higher on average than those of the Large providers. Higher LA staff costs per staff member and more LA carers per child drive this difference.4

6. Our findings for the Fostering services segment operated by the Large providers between FY 2016 and 2020 are that:

(a) the fee per child and operating profit margin remained stable at £42,600 and 19.4%, respectively, on average. The cost structure remained unchanged;

(b) profitability (measured by economic profit margins) was materially higher (equivalent to an uplift in prices of around 19%) than we would expect in a well-functioning market. We consider these economic profits to be supernormal;

(c) put in absolute terms annually, the Large providers generated economic profits of about £8,000 per child between FY 2016 and 2020 on average and £87.4 million in aggregate;6,7

(d) earnings before interest and tax (EBIT) margins in Fostering services were 11.6 percentage points higher than those earned by similar companies in other sectors, which provides a useful cross-check to the above result in assessing the extent of high prices compared to that in a well-functioning market; and

(e) LA operating costs were about 26.2% lower, on average, between FY 2016 and 2020 than the equivalent for IFAs.8 The Independent fostering agencies' (IFAs') higher allowance and fees to foster carers and higher overheads explain this difference.

Providers contest these figures, and the data set only focused on the largest profit-making providers. However, it is included in the report as a theoretical indication of the maximum percentage of profit that could be recovered when moving from a profit to a non-profit market and what profit margins should be expected in a well-functioning market.

Placement type

The following tables indicate the current number of placements in Wales across residential and foster care and the proportion of placements in the private, voluntary and local authority sectors. The data has been taken from the ***Children's Social Care Market Study final report*** and information supplied by Foster Wales and 4Cs.

The data presented here is a snapshot of placement numbers in a dynamic environment. These snapshots are helpful and relatively accurate approximations of placement numbers and ratios over a reasonable period. They are also the baseline we have used when considering the number of placements Wales requires and when modelling the conversion scenarios described later.

This data set has been included in this RIA as it demonstrates.

- The relative proportion of children placed in residential care and fostering in Wales.
- The relative proportions of children looked after in foster and residential care in Wales and England, which demonstrate the relatively low proportion of children in residential care in Wales compared to England.

Table 7 - Children in care in fostering and residential settings in England (2021), and Wales (2021)

The data in the following table is taken from the Children's Social Care Market Study

	England		Wales	
Foster care	57,330	71%	5,075	70%
Residential settings	12,790	16%	535	7%
Other settings[13]	11,850	13%	1,655	23%
Total	81,970	100%	7,265	100%

Table 8 - Children in care in residential settings by provider type in Wales.

The data in the following table is taken from the Children's Social Care Market Study and data provided by the 4Cs

	2014	2021	2023
Private Sector	78%	81%	87%
Voluntary Sector	4%	6%	1%
Local Authority	18%	13%	12%
Total	100%	100%	100%

Table 9 - Children in care in foster care by provider type in Wales
The data in the following table is taken from data provided by Foster Wales

13 For England, other settings include other placements, other placements in the community, placed for adoption and placed with parents or other person with parental responsibility. For Wales, other settings include placed for adoption, placed with own parents or other person of parental responsibility, living independently and absent from placement or other.

	2023
Private Sector	35%
Voluntary Sector	5%
Local Authority	60%
Total	100%

Conversion

The RIA considered three different scenarios.

- Scenario A: Providers converting to a not-for-profit business model will provide 50 per cent of capacity from the private sector. This means 50 per cent of current capacity in the private sector will need to be generated from the not-for-profit sector and by local authorities bringing on new services.
- Scenario B: Providers converting to a not-for-profit business model will provide 25 per cent of capacity from the private sector. This means 75 per cent of current capacity in the private sector will need to be generated from the not-for-profit sector and by local authorities bringing on new services.
- Scenario C: Providers converting to a not-for-profit business model will provide no capacity from the private sector. This means 100 per cent of current capacity in the private sector will need to be generated from the not for profit and by local authorities bringing on new services.

Intelligence from local authorities, Foster Wales and the 4Cs suggests that high numbers of for-profit foster care agencies and low numbers of residential children's providers will convert.

Table 10 - Conversion Scenario

Scenario	Converted	Required
Scenario A	50%	50%
Scenario 2	25%	75%
Scenario 3	0%	100%

Table 11 - Conversion Scenarios applied to current residential social placement distribution by provider type

Where existing for profit provision remains, the assumption is they have converted to not-for-profit commercial arrangements. The increased proportions for LAs and NFPs are assumptions based on scaling up their current share of provision.

	Current position	Scenario A	Scenario B	Scenario C
Existing for profit	81.0%	40.5%	20.3%	0%
Local Authority	13.0%	40.7%	54.6%	68.4%
Not-for profit	6.0%	18.0%	25.2%	31.6%
	100.0%	100.0%	100.0%	100.0%

Table 3 - Conversion Scenarios applied to current fostering placement distribution by provider type.

	Current position	Scenario A	Scenario B	Scenario C
Existing for profit	35.0%	17.5%	8.8%	0.0%
Local Authority	50.0%	76.2%	84.2%	92.3%
Not for profit	5.0%	6.3%	7.0%	7.3%

Beds required to meet demand.

Using nationally aggregated data provided by local authorities, as of 31 March 2023, the private sector accounted for 542 residential placements, while not-for-profit organisations provided 40 placements. Of these placements, 110 are located outside of Wales[14].

The average children's residential home has 3.2 beds, usually occupied at 83% capacity.

Consequently, to meet the demand for residential placements without any conversions, i.e. Scenario C, a total of 653 beds across 204 additional homes are required. If, however, 50% of providers convert, only 102 additional homes are required. This is the most significant drivers of transitional costs.

Table 13 – Varying the cost of developing sufficient homes for the different scenarios.

	Scenario A	Scenario B	Scenario C
Development cost per home	50%	75%	100%
£ 500,000	£ 51,000,000	£ 76,500,000	£ 102,000,000
£ 600,000	£ 61,200,000	£ 91,800,000	£ 122,400,000
£ 700,000	£ 71,400,000	£ 107,100,000	£ 142,800,000
£ 800,000	£ 81,600,000	£ 122,400,000	£ 163,200,000

The development cost per home is the cost of purchasing and developing a residential children's home to meet the required standard. As set out earlier, we have used a figure of £700,000 as a standard development cost per home in our calculations. We are including this information here to highlight how varying the cost required to purchase and then develop a children's home can dramatically alter the capital costs.

[14] A slightly different proportion of placement provision between provider types was used earlier in this document, reflecting an earlier data set associated with the baseline financial year. We have chosen to use the latest data available for this as it better reflects the current requirements for beds and so the capital that must be deployed.

Option 1

Table 4 - Option 1 Costs.

The following table highlights the cost of maintaining the status quo. Inflation or other cost pressures have not been applied.

We have assumed zero growth in the number of children looked after and no change in the proportion of provision in the private, local authority and not-for-profit sectors.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Welsh Government												
*(*1.a) Policy Budget	752	752	752	752	752	752	752	752	752	752	752	752
Local authorities												
(1.b) Residential outturn	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000
(1.c) Fostering outturn	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000
(1.d) Legal	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
(1.e) Commissioning	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300
Regulators												
(1.f) CIW	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457
Total	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**	**350,609**

Table 5 - Option 1 Costs with continued growth in the outturn cost residential placements applied.
The following table highlights Option 1 Costs with the continued cost of growth of residential placements, excluding general price inflation applied as set out in Table 1. The 2023/24 value for the residential outturn was not available when the modelling was undertaken and, therefore, is an estimate of the predicted outturn based on previous cost growth. This table is included as an illustration, and the values have not been applied to the calculations for Option 1 or any scenarios for Option 2. However, future modelling can include the 2023/24 outturn value when available.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
(1.a) Policy Budget	752	752	752	752	752	752	752	752	752	752	752	752
Local authorities												
(1.b) Residential outturn	200,235	227,534	259,474	296,844	340,567	391,723	451,575	521,602	603,534	699,394	811,551	942,774
(1.c) Fostering outturn	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000	144,000
(1.d) Legal	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
(1.e) Commissioning	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300	5,300
Regulators												
(1.f) CIW	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457	1,457
Total	**350,635**	**380,143**	**412,083**	**449,453**	**493,176**	**544,332**	**604,184**	**674,211**	**756,143**	**852,003**	**964,160**	**1,095,383**

Option 2 Scenario A

Table 16 - Transitional Costs Option 2, Scenario A
The table outlines Scenario A, where 50 percent of for-profit providers leave the market and 50 percent transition. Consequently, new services created by the voluntary sector and local authorities must fulfil this capacity.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Welsh Government												
(2.a) Policy Budget	0	22	97	43	205	161	156	136	136	136	136	136
Local authorities												
(2.b) Residential outturn	0	0	9,623	1,604	-6,415	-6,415	-6,415	-6,415	-6,415	-6,415	-6,415	-6,415
(2.c) Fostering outturn	0	0	-2,326	-4,652	-6,978	-6,978	-6,978	-6,978	-6,978	-6,978	-6,978	-6,978
New residential												
(2.d) Start-up costs	0	0	11,315	11,315	11,315	0	0	0	0	0	0	0
(2.e) Capital costs	0	0	23,800	23,800	23,800	0	0	0	0	0	0	0
(2.f) Legal costs	0	0	680	680	680	0	0	0	0	0	0	0
(2.g) Commissioning	0	0	1,700	1,700	1,700	0	0	0	0	0	0	0
New fostering												
(2.h) Start-up costs	0	0	750	750	750	0	0	0	0	0	0	0
Regulators												
(2.i) CIW	0	0	251	627	627	627	627	627	627	627	627	627
Total	0	22	45,890	35,867	25,683	-12,606	-12,611	-12,631	-12,631	-12,631	-12,631	-12,631

Table 17 - Investment Option 2, Scenario A

The following table describes the investment local authorities require to develop new children's homes and increase foster placements.
"Capital investment" is the cost of purchasing and developing children's homes.
"Other investment" covers all other costs, including programme management, legal, initial operating costs and policy support.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Capital investment	0	0	23,800	23,800	23,800	0	0	0	0	0	0	0
Other investment	0	22	14,793	15,115	15,276	788	783	763	763	763	763	763

Table 18 - Change in outturn Option 2, Scenario A

This table describes the variance between local authority Option 1's Outturn ***(1b+2c)*** and the expected Option 2 Outturn ***(2b+2c)*** during (and then following) the transitional period. This variance is initially dynamic as the service providers' ratios, and the associated costs, change over the transition period.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Outturn variance	0	0	7,297	-3,049	-13,394	-13,394	-13,394	-13,394	-13,394	-13,394	-13,394	-13,394

Table 19 - Residual asset value Option 2, Scenario A

This table highlights the residual asset value of the residential children's homes purchased and then developed by local authorities. The residual asset value has been calculated with a depreciation cost where the asset returns to purchase value over a ten-year period.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Residual asset value	0	0	23,800	46,410	67,830	64,260	60,690	57,120	53,550	49,980	46,410	42,840

Table 20 - Comparison between Option1 and Option 2 (Scenario A)

This table describes the variance between the total cost of Option 1 and the expected Cost of Option 2, including transitional costs. This is the cost and financial benefit of the Eliminate Policy over ten years.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Option 1												
Total cost	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609
Option 2 costs												
Transitional	0	22	38,593	38,915	39,076	788	783	763	763	763	763	763
Operating	350,609	350,609	357,906	347,560	337,215	337,215	337,215	337,215	337,215	337,215	337,215	337,215
Difference	0	22	45,890	35,867	25,683	-12,606	-12,611	-12,631	-12,631	-12,631	-12,631	-12,631

Table 6 - Profit lost by for-profit providers.
This is the profit lost by the provider sector (in Scenario A).

This has been calculated by looking at the lost profits as for-profit providers exit the market and adding the increased profits gained during the transitional period as for-profit providers increase fees.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Profit / (loss)	0	0	3,004	-6,549	-19,679	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809

Option 2 Scenario B

Table 7 - Option 2 Transitional Costs Scenario B

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Spending												
Welsh Government												
Budget	0	22	97	43	205	161	156	136	136	136	136	136
Local authorities												
Residential outturn	0	0	12,830	802	-11,227	-11,227	-11,227	-11,227	-11,227	-11,227	-11,227	-11,227
Fostering outturn	0	0	-3,489	-6,978	-10,468	-10,468	-10,468	-10,468	-10,468	-10,468	-10,468	-10,468
New residential services												
Start-up costs	0	0	16,973	16,973	16,973	0	0	0	0	0	0	0
Capital costs	0	0	35,700	35,700	35,700	0	0	0	0	0	0	0
Legal costs	0	0	1,020	1,020	1,020	0	0	0	0	0	0	0
Commissioning	0	0	2,550	2,550	2,550	0	0	0	0	0	0	0
New fostering services												
Start-up costs	0	0	1,125	1,125	1,125	0	0	0	0	0	0	0
Regulators												
CIW	0	0	251	627	627	627	627	627	627	627	627	627
Total	0	22	67,057	51,861	36,506	-20,906	-20,911	-20,931	-20,931	-20,931	-20,931	-20,931

Table 23 - Investment Option 2, Scenario B

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Capital investment	0	0	9,341	-6,177	-21,694	0	0	0	0	0	0	0
Other investment	0	22	35,700	35,700	35,700	788	783	763	763	763	763	763

Table 8 - Change in outturn Option 2, Scenario B

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Outturn variance	0	0	9,341	-6,177	-21,694	-21,694	-21,694	-21,694	-21,694	-21,694	-21,694	-21,694

Table 9 - Residual asset value Option 2, Scenario B

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Residual asset value	0	0	35,700	69,615	101,745	96,390	91,035	85,680	80,325	74,970	69,615	64,260

Table 26 - Comparison between Option1 and Option 2, Scenario B, including transitional costs

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Option 1	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609
Option2 costs												
Transitional	0	22	57,716	58,038	58,200	788	783	763	763	763	763	763
Operating	350,609	350,609	359,950	344,432	328,915	328,915	328,915	328,915	328,915	328,915	328,915	328,915
Difference	0	22	67,057	51,861	36,506	-20,906	-20,911	-20,931	-20,931	-20,931	-20,931	-20,931

Table 27 - Profit lost by for-profit providers, Option2 Scenario B

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Profit / (loss)	0	0	20,910	6,580	-13,114	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809

Option 2 Scenario C

Table 28 - Option 2 Transitional Costs Option 2, Scenario C

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Spending												
Welsh Government												
Budget	0	22	97	43	205	161	156	136	136	136	136	136
Local authorities												
Residential outturn	0	0	16,038	0	-16,038	-16,038	-16,038	-16,038	-16,038	-16,038	-16,038	-16,038
Fostering outturn	0	0	-4,652	-9,305	-13,957	-13,957	-13,957	-13,957	-13,957	-13,957	-13,957	-13,957
New residential services												
Start-up costs	0	0	22,630	22,630	22,630	0	0	0	0	0	0	0
Capital costs	0	0	47,600	47,600	47,600	0	0	0	0	0	0	0
Legal costs	0	0	1,360	1,360	1,360	0	0	0	0	0	0	0
Commissioning	0	0	3,400	3,400	3,400	0	0	0	0	0	0	0
New fostering services												
Start-up costs	0	0	1,500	1,500	1,500	0	0	0	0	0	0	0
Regulators												
CIW	0	0	251	627	627	627	627	627	627	627	627	627
Total	0	22	88,224	67,856	47,327	-29,207	-29,212	-29,232	-29,232	-29,232	-29,232	-29,232

Table 29 - Investment Option 2, Scenario C

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
Capital investment	0	0	47,600	47,600	47,600	0	0	0	0	0	0	0
Other investment	0	22	29,238	29,560	29,722	788	783	763	763	763	763	763

Table 30 - Change in outturn Option 2, Scenario C

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Outturn variance	0	0	11,386	-9,305	-29,995	-29,995	-29,995	-29,995	-29,995	-29,995	-29,995	-29,995

Table 31 - Residual asset value Option 2, Scenario C

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Residual asset value	0	0	47,600	92,820	135,660	128,520	121,380	114,240	107,100	99,960	92,820	85,680

Table 32 – Comparison of Option1 with Option2 Scenario C, including transitional costs

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Option 1	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609	350,609
Option 2 Costs												
Transitional	0	22	76,838	77,160	77,322	788	783	763	763	763	763	763
Operating	350,609	350,609	361,995	341,304	320,614	320,614	320,614	320,614	320,614	320,614	320,614	320,614
Difference	0	22	88,224	67,856	47,327	-29,207	-29,212	-29,232	-29,232	-29,232	-29,232	-29,232

Table 34 - Profit lost by for-profit providers, Option2 Scenario C

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)	(£ 000s)
Loss of profit	0	0	38,816	19,710	-6,549	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809	-32,809