ADSS Cymru
Yn arwain Gwasanaethau Cymdeithasol yng Nghymru
Leading Social Services in Wales

Developing Sufficiency in Children's Residential Care

Position June 2026

Association of Directors for Social Services

Context and Challenge

The Welsh Government has set a clear legislative direction to remove profit from the care of looked-after children, culminating in the Health and Social Care (Wales) Act receiving Royal Assent in March 2025. This legislation places Wales at the forefront of reform, establishing a transition to a not-for-profit model of children's residential care and fostering provision, and creating a clear expectation that provision will, over time, be delivered by local authorities or not-for-profit organisations.

Local authorities are central to delivering this reform. They are responsible for ensuring sufficient, appropriate accommodation for looked-after children and are now required to do so within a changing market framework, where reliance on for-profit provision is expected to reduce over time. This represents a significant shift from the previous model and places new demands on local authority planning, investment, and delivery capacity.

The development of the legislation was underpinned by a Regulatory Impact Assessment (RIA), produced in March 2024 and published alongside the Bill. The RIA followed HM Treasury Green Book guidance and provided a structured assessment of the costs, benefits, and delivery requirements associated with the policy. It established the anticipated scale of provision required across Wales, alongside the capital investment, operating costs, and transitional funding needed to support the shift to a not-for-profit system.

As with all Green Book appraisals, the RIA modelled a steady-state, like-for-like scenario. It assumed no inflation and no change in underlying demand in order to allow consistent comparison between policy options. This approach provided a robust and proportionate evidence base to support legislative decision-making.

As delivery has progressed through 2024 and into 2026, a more detailed and grounded picture has emerged. This reflects both the practical realities of developing provision at pace and the wider economic context in which local authorities are operating. In particular, the cost of residential care is now better understood, and inflationary pressures have materially increased the cost of delivery.

At the same time, the nature of demand has evolved. While the RIA primarily modelled the number of placements required, local authorities are increasingly experiencing demand driven by complexity of need, requiring a broader and more specialised mix of provision. There are also wider trends in the availability of foster care placements, with lower levels of capacity further shaping demand across the system. This is leading to an increasing number of children who should be in foster care being placed in residential care due to the lack of fostering placements across all sectors.

Local Authority Response and Delivery

Within this context, local authorities have stepped forward at pace to develop new provision and strengthen system capacity.

The latest national position shows that over 200 beds have either been developed or are in development. This represents a significant level of delivery at an early stage in the programme and demonstrates clear national momentum.

Delivery has also been characterised by pragmatism and pace. Many authorities are using existing public assets to accelerate delivery, while others are mobilising provision through existing workforce and operational models. This has enabled new homes to come on stream more quickly than anticipated. However, the pace of delivery can still be affected by wider system dependencies, including the regulatory registration process required before new homes can become fully operational.

Emerging evidence suggests that provision is being established and filled at pace, reducing the duration of partial occupancy and limiting the extent of double-running costs. This reflects a system that is actively adapting delivery to respond to both needs and financial constraints.

There is an important role for established third sector and not-for-profit providers who are expected to form part of the long-term solution as the system transitions and need to continue be supported.

Foster care is seen as the most critical component of the overall care system and will play a central role in achieving sufficiency. Most children thrive best in a nurturing family environment; a foster family can provide children with a sense of belonging and stability that can be hard to replicate in residential care. Foster Wales, the national network of 22 local authority fostering services, is continuing to strengthen and grow in-house fostering capacity and reduce reliance on independent fostering agencies. However, the dynamics of the fostering market differ from residential care, with greater reliance on individual carers and more complex recruitment and retention challenges. While some independent providers may transition to not-for-profit models over time, this remains uncertain and uneven. As a result, fostering continues to represent an area of material delivery risk within the wider reform programme. Despite the significant progress made by Foster Wales, fostering requires enhanced investment to maximise foster placements and the associated positive outcomes secured for children and young people.

Emerging Cost Position

The cost of delivering children's residential care was set out at a high level in the Regulatory Impact Assessment (RIA), which distinguished between two core components: capital costs, associated with developing or acquiring homes, and revenue costs, covering both the initial set-up of provision and the ongoing cost of operating placements.

As delivery has progressed, local authorities have made significant progress in bringing new provision on stream at pace. This has included the rapid mobilisation of homes, often making effective use of existing public assets and local delivery models. While there remains variation in reported capital costs, reflecting differences in approach, asset use, and local conditions, the overall picture suggests that capital costs are broadly in line with those anticipated in the RIA.

The position is more challenging on the revenue side.

Both the cost of establishing new provision and the ongoing cost of care are being affected by inflationary pressures. The RIA, in line with Green Book methodology, did not model inflation in order to enable a like-for-like comparison of policy options. However, in practice, inflation has had a material impact on delivery. In practice, many local authorities are currently absorbing significant upfront capital, adaptation, and mobilisation costs in advance of longer-term savings being realised through reduced reliance on externally commissioned placements. This creates short- to medium-term financial pressure within already constrained local government budgets.

Workforce costs, which represent most of the expenditure in residential care, have increased significantly since March 2024. Pay awards and changes to employer National Insurance contributions have led to an estimated 7–9% increase in staffing costs, with wider labour market pressures also influencing recruitment and retention. It is important to recognise that this pressure is not unique to the public model. In the counterfactual scenario in which reform had not proceeded, inflation would also have driven up the cost of externally commissioned placements. However, local authority provision is more directly exposed to nationally determined pay structures, and this can result in higher or more immediate cost pressures within the system.

These pressures can be particularly acute in rural parts of Wales, where workforce availability is more limited and providers are often drawing from the same constrained labour pool. There is also a risk of transitional workforce pressures where existing for-profit provision remains operational during the transition period, limiting the immediate transfer of experienced staff into newly developed local authority or not-for-profit provision.

In addition, operating costs are being shaped by the nature of the provision being developed. Smaller homes and more specialist placements, while necessary to meet increasingly complex needs, are inherently more expensive due to fixed staffing requirements and reduced economies of scale.

These pressures are also evident within fostering, where recruitment and retention challenges, combined with increasing complexity of need, are driving higher support costs and placing additional strain on local authority capacity.

Implications for Delivery and Funding

The Welsh Government has committed £75 million to support the transitional costs of implementing the policy through to 2028. This remains a significant and important investment in enabling the shift to a not-for-profit model of care.

However, the updated evidence indicates that the real value of this funding has reduced relative to current delivery conditions. Inflation and a more developed understanding of operating costs mean that the funding envelope will support fewer placements than originally envisaged.

On capital, the average reported cost remains broadly consistent with the RIA assumptions. The transitional revenue position is more challenging. High-level modelling indicates that, under the full RIA no-conversion scenario, and using current reported operating costs with a broad transitional cost assumption, transitional revenue pressures could be in the region of £115 million to £120 million. The actual position will depend on phasing, provider conversion, the extent to which existing assets can be used, local authority investment already committed, occupancy patterns and the pace at which new provision becomes fully operational

It is important to recognise that these pressures are not unique to the reform programme. In the counterfactual scenario where the legislation had not been taken forward, the cost of externally commissioned placements would also have continued to rise, driven by the same inflationary and market pressures. The key difference is that these costs are now being experienced more directly within the system as local authorities develop and operate provision themselves.

This applies across both residential and fostering provision, where the cost and availability of placements are being shaped by the same underlying market and workforce dynamics.

There is also a risk that continued constraints in placement availability during the transition period may sustain elevated placement pricing within parts of the market prior to the full implementation of the reforms.

This does not alter the strategic direction of the policy. However, it does mean that delivery is taking place within a more constrained financial context than originally envisaged. There is therefore a need to ensure that the funding approach continues to reflect the real-world cost of transition, so that progress toward sufficiency can be sustained.

Overall Position

The emerging picture is one of strong delivery in a more challenging environment.

Local authorities are demonstrating clear leadership in developing new provision, improving the evidence base, and adapting delivery models to reflect both need and operational reality. The system is making tangible progress toward sufficiency, with increased capacity and a clearer understanding of how provision is delivered in practice.

At the same time, the financial context has shifted. Costs are higher, inflationary pressures are significant, and the assumptions underpinning the original funding envelope no longer fully reflect delivery conditions. While cost pressures would have materialised under any delivery model, the transition to a locally delivered, not-for-profit system brings these pressures into sharper focus.

The direction of travel remains clear. Wales is transitioning toward a more sustainable, not-for-profit model of care. The priority now is to maintain delivery momentum while ensuring that funding and delivery mechanisms remain aligned to the real-world costs of transition, enabling local authorities to continue building the capacity required to meet demand. This includes maintaining a strong focus on fostering capacity, recognising its central role in the system and the distinct delivery challenges it presents.