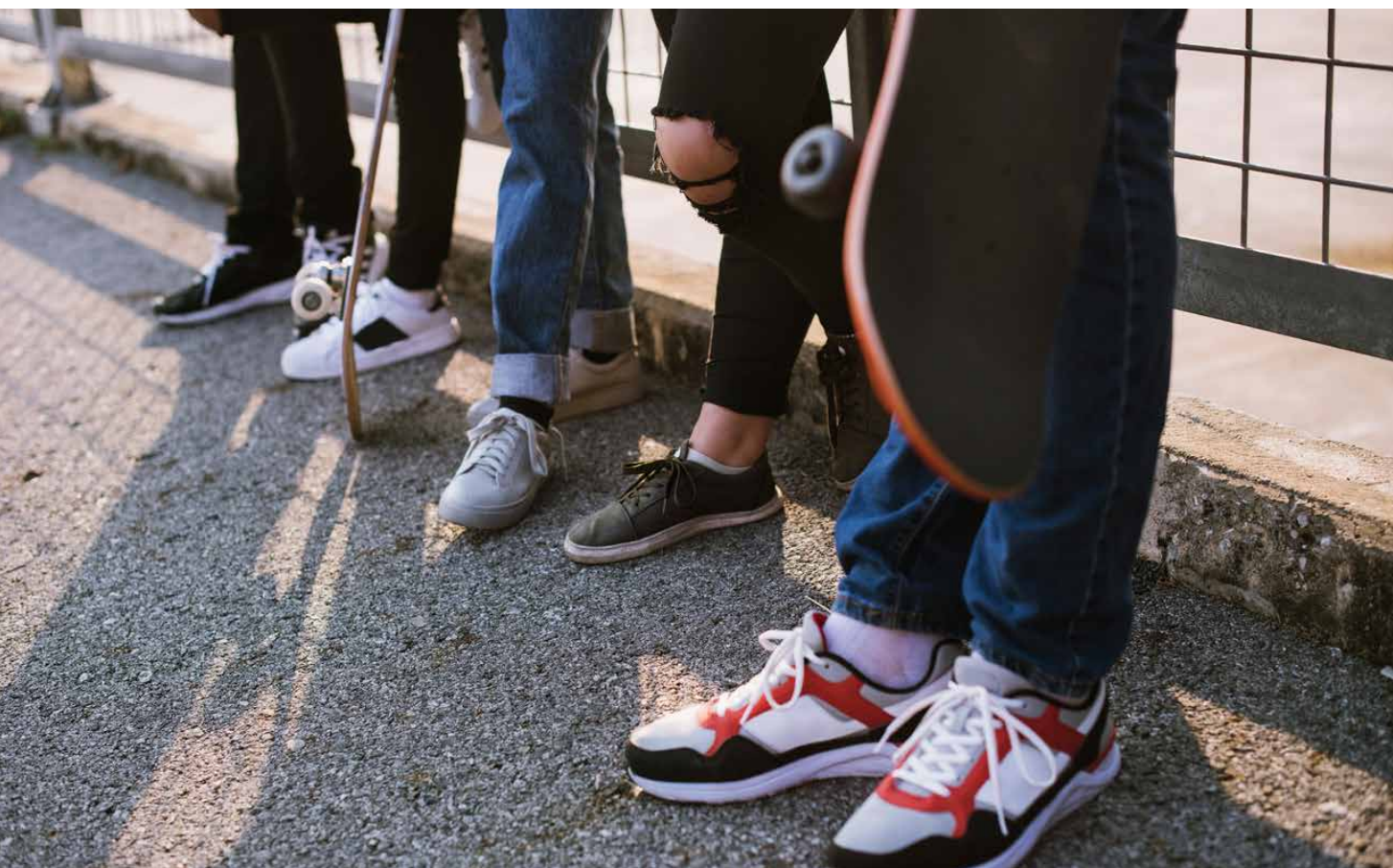


**Jonathan Sparey** and **Eilert Hinrichs**, partners at L.E.K. Consulting, explain why the private sector is critical to meeting the growing demand for looked after children services



# Navigating market dynamics



**D**emand for looked after children (LAC) services in England is rising, and the role of the independent sector is increasingly critical in meeting the growing need in this market.

Driven by demographic pressures and societal changes, there is a growing undersupply of appropriate care and education services for children and young people with the most complex needs. Despite investment from the private

sector, high quality services and facilities have not come on stream fast enough to provide adequate levels of support for the most vulnerable children in our society.

In addition, the public sector has demonstrated an inability to provide sufficient suitable services itself, contributing to the growing gap in provision. As a result, some high value care and education placements are not being made, despite the theoretical availability of protected

state funding.

With the right strategy, investors can develop a successful, sustainable and socially important business that is able to navigate this market's complexities.

## **A growing market for LAC services**

The number of children and young adults continues to grow broadly in line

with the overall population, at between 0.5% and 1% per annum. However, the number of LAC with protection plans (where the local authority acts as corporate parent) has grown three times faster – at 2%-3% CAGR (compound annual growth rate; see figure one).

This group of approximately 75,000 LAC in England now accounts for 0.6% of all children aged up to 16, almost double the number from 25 years ago.

A number of important market dynamics are contributing to the growth of the LAC population, including the decline of traditional family structures, the detrimental impact of social media, the marked increase in the proportion of children aged 5-15 with mental health issues (rising from 9% in the late 1990s to c. 12% in 2017) and increasing levels of socio-economic deprivation in densely populated conurbations (e.g., Birmingham).

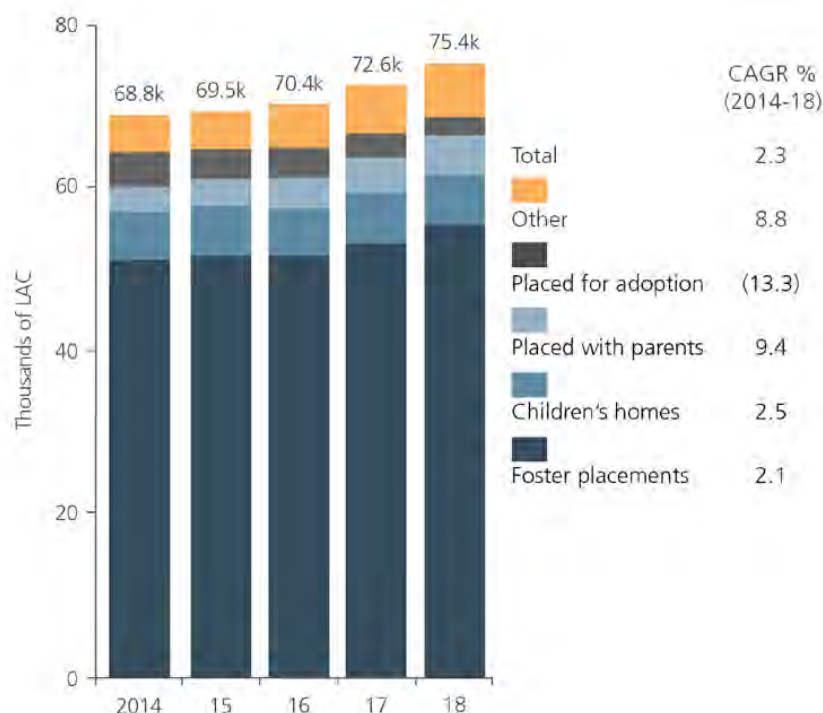
Local authorities are legally obliged to ensure the safe upbringing, well-being and education of all children, regardless of their circumstances, and prepare them for adult life. While the fulfilment of these duties typically lies with the natural parents, local authorities take responsibility for LAC, as dictated by the Children Act 1989, the Children and Family Act 2014 and the Children and Social Work Act 2017.

The public sector, however, does not have the capacity or the capital to adequately address all of the needs of LAC, creating a structural shortfall in suitable provision, despite protected funding.

## Opportunities within the independent sector

The rising proportion of children with high complexity needs is a long-term trend, with many future service users already in the system. This demand trend, combined with the funding challenges of the local authorities, creates substantial opportunities for independent sector providers to invest in new facilities and expert staffing to fulfil demand. This will also stimulate a further shift in the provision of vital children's homes, education and transitional services from the public to the private sector.

**FIGURE ONE - LOOKED AFTER CHILDREN BY PLACEMENT TYPE**  
ENGLAND (2014-2018)



SOURCE DFE; BBC; L.E.K. ANALYSIS

## Children's homes

Independent children's homes now account for three quarters of the English market, with independent providers typically focused on more complex cases. In this area, the number of service users has grown at a faster rate (c. 5% CAGR)

THE RISING PROPORTION OF CHILDREN WITH HIGH COMPLEXITY NEEDS IS A LONG-TERM TREND

than the LAC population (2%-3% CAGR) over the past five years, to reach approximately 4,000 children in 2018.

In addition, public sector provision for

these high complexity cases has effectively shrunk in recent years, as it has been shifted in order to accommodate children with less complex needs.

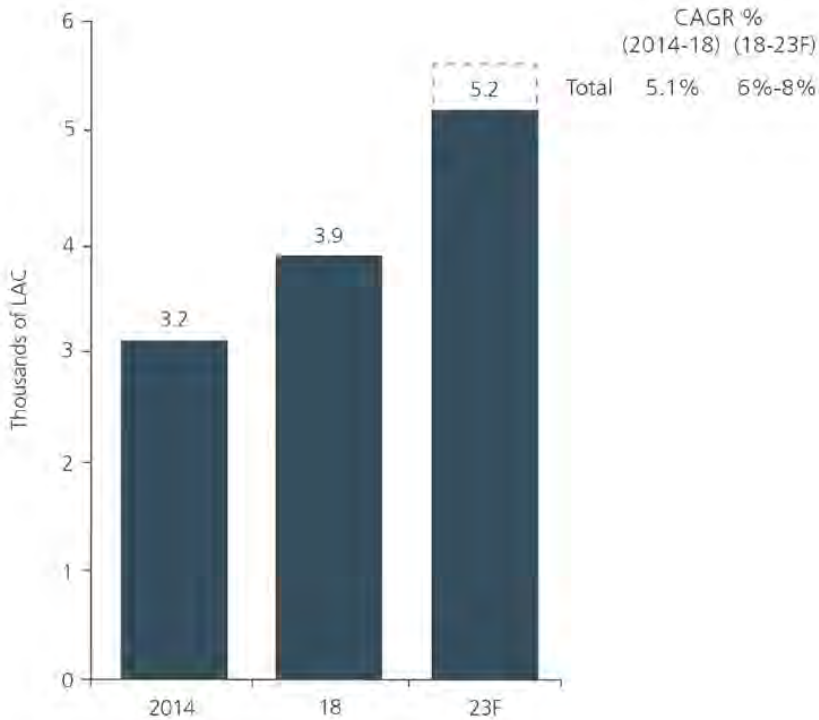
While foster care placement will continue to be preferred by commissioners (it currently accounts for c. 70% of all placements), the availability of suitable foster carers will remain under pressure and the number of complex cases will continue to rise. As a result, demand for children's home placements is likely to continue to grow at 6%-8% CAGR over the next five years (see figure two).

## Independent schools

The number of special needs schools is rising to meet the growing demand for educational support, and approximately 50% of the 275,000 children with education, health and care plans are now educated in this type of school.

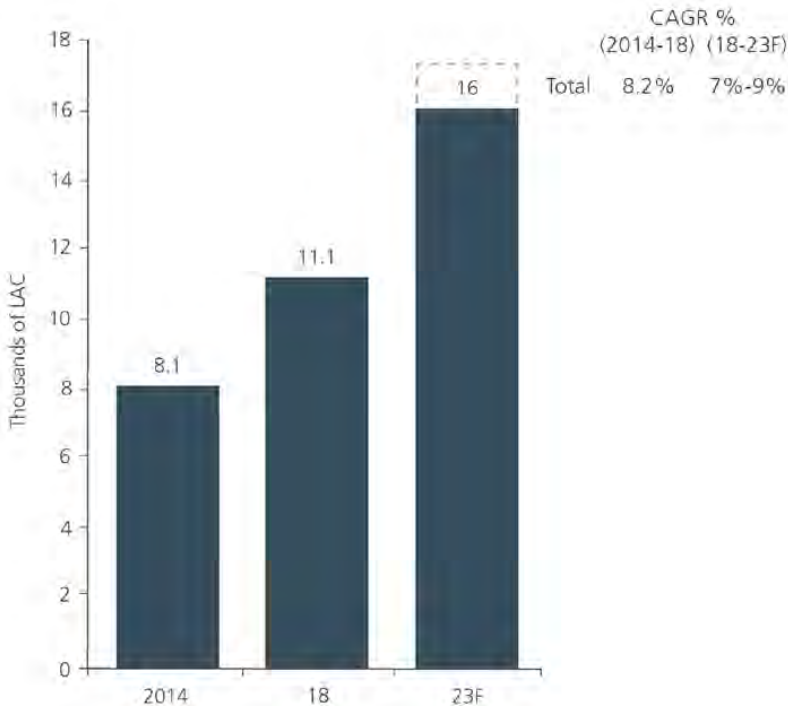
Public sector and charity schools often struggle to invest appropriately in facilities and staffing, and are therefore unable to match the quality of provision offered by independent operators. As with children's homes, public sector pro-

**FIGURE TWO - ESTIMATED ADDRESSABLE MARKET CHILDREN IN INDEPENDENT HOMES WITH COMPLEX NEEDS**



SOURCE DFE; MARKET INTERVIEWS; L.E.K. ANALYSIS

**FIGURE THREE - ESTIMATED ADDRESSABLE SEND SCHOOL MARKET PUPILS EDUCATED IN INDEPENDENT AND NON-MAINTAINED SCHOOLS WITH ANNUAL FEES OF AT LEAST £30,000**



SOURCE DFE; BBC; L.E.K. CONSULTING

vision is increasingly directed at children with less complex needs.

In response, the independent sector is increasingly focusing on children with very complex needs (commanding annual fees of over £30,000).

To date, this has been the fastest growing segment in the market in recent years at c. 8% CAGR, reaching c. 11,000 LAC at the end of 2018 (see figure three); this trend is expected to be sustained for at least the next five years.

The strong growth of the independent sector demonstrates the extent of the latent demand for high quality educational services. Leading providers have been able to stimulate flows by both expanding existing schools and opening new facilities, with many filling up quickly. Access to investment capital and recruitment of suitably qualified staff, coupled with a child-centric approach and growing evidence of excellent outcomes, have been key to their success.

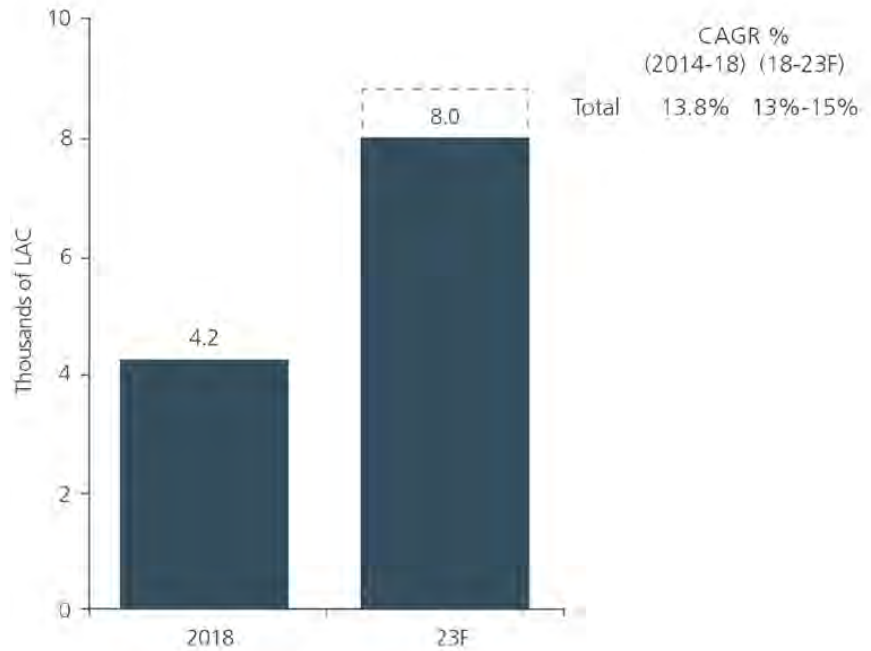
THE STRONG GROWTH OF THE INDEPENDENT SECTOR DEMONSTRATES THE EXTENT OF THE LATENT DEMAND FOR HIGH QUALITY EDUCATIONAL SERVICES

### Transitional services

In the UK, children can voluntarily leave the social care system at the age of 16, despite not qualifying for adult services until they reach 18.



**FIGURE FOUR - ACCESSED TRANSITIONAL SERVICES  
AGE 16 AND 17**



SOURCE DFE; BBC; L.E.K. ANALYSIS

This creates a gap and a discontinuation of vital services for these vulnerable young adults with highly complex needs, highlighting a significant risk that they will fall through the social care net.

There is an undersupply of transitional services in many regions, reflecting a lack of quality provision, clear regulations and funding. This is despite commissioners having a legal responsibility for a child's safe upbringing and well-being until they are 18 years old.

These transitional services are vital to protect the valuable work, investments and achievements of children's services to date.

L.E.K. Consulting estimates there are around 100,000 potentially vulnerable children in this group, and while our analysis suggests that c. 20% have addressable needs, only c. 4,000 actually received support in 2018 (see figure four).

There is a clear opportunity to bridge this gap with appropriate and high-quality transitional services, such as supported living services that provide children with a stable housing solution and mental support.

## The importance of understanding the sector

Despite the clear demand for high complexity children's services, both now and in the future, entering this market and creating a sustainable business is not straightforward.

It requires well-invested facilities, highly experienced and well-trained staff, established relationships with local authorities, and robust internal governance processes.

A functioning and embedded child-centric approach and company culture are also essential. Successful providers need to meet these criteria to convince commissioners they can achieve the desired outcomes.

Furthermore, demand for services is not evenly distributed across the country. Identifying the right location is crucial and can be challenging and is influenced by a number of factors: (i) some commissioners prefer not to work with the private sector; (ii) the quality of existing provision, as monitored by Ofsted; and (iii) the local socio-demographic environment.

Those who can navigate these complex

market dynamics will find themselves well positioned in the years ahead. A rise in the number of children and young adults in need of specialist care and support is certain; as commissioners seek to fulfil their responsibilities regarding access and

quality of supply and the public sector is unable to adequately respond, the increasing adoption of privately provided services is inevitable.

