

Executive Insights

Looked After Children: Why the Private Sector Is Critical to Meeting Demand

Demand 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 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 society's most vulnerable children.

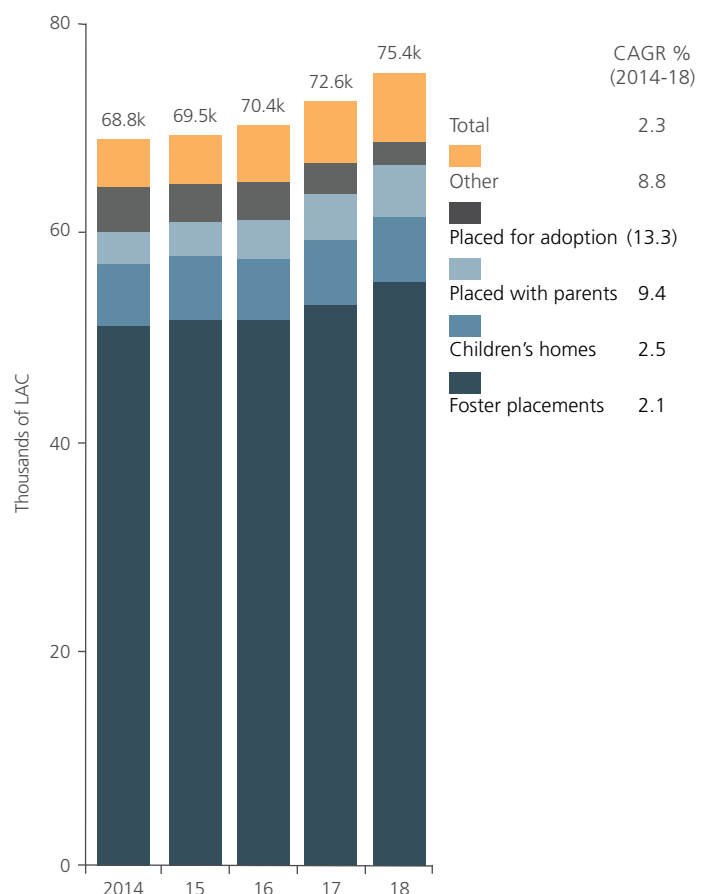
In addition, the public sector itself has demonstrated an inability to provide sufficient suitable services, contributing to the growing gap in provision. As a result, some high-value care and education placements are not being made, despite the theoretical availability of protected state funding.

In this *Executive Insights*, L.E.K. Consulting examines how, 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 than the overall child population — at 2%-3% CAGR (see Figure 1). The group of approximately 75,000 LAC in England alone now accounts for 0.6% of all children aged up to 16 years, almost double the equivalent figure of 25 years ago.

Figure 1
LAC by placement type in England (2014-18)



Source: DfE; BBC; L.E.K. analysis

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This top-line trend, however, disguises very important market dynamics that continue to trigger further expansion of the LAC population. Key factors include the following:

- The proportion of children aged 5 to 15 years with mental health issues, which has increased from 9% in the late 1990s to around 12% in 2017
- The decline of traditional family structures, such as increasing numbers of single and underaged parents, coupled with rising divorce rates and the detrimental impact of social media
- Increasing levels of socio-economic deprivation, particularly in densely populated conurbations, e.g., London, Manchester, Liverpool and Birmingham
- The number of unaccompanied asylum seekers, which has doubled in the past five years

Local authorities struggle to meet their legal responsibilities without the independent sector

Local authorities are legally obliged to ensure the safe upbringing, well-being and education of all children, regardless of their circumstances, and to prepare them for adult life. The fulfilment of these duties typically lies with the natural parents — however, for LAC, local authorities take responsibility.

This obligation is enshrined in a legal and regulatory framework that has been reformed to strengthen the position of parents, offer greater clarity over the role of commissioners and affirm the responsibilities of local authorities. The Children Act 1989 forms the basis of this framework, augmented by the Children and Family Act 2014, with further clarification provided through the Children and Social Work Act 2017.

The public sector, however, does not have the capacity or the capital to adequately address all the needs of LAC derived from the evolving legal and regulatory framework. This has created a structural shortfall in suitable provision, despite protected funding, which presents an attractive and stable investment opportunity for the independent sector.

Foster care remains commissioners' preferred solution for LAC, accounting for c. 70% of all placements. However, children's homes, education and transitional services for highly complex individual cases are equally vital services and are attractive for a number of reasons, not least of which is the size of these care packages (e.g., ranging from £30k to £300k per annum).

Opportunities within the independent sector

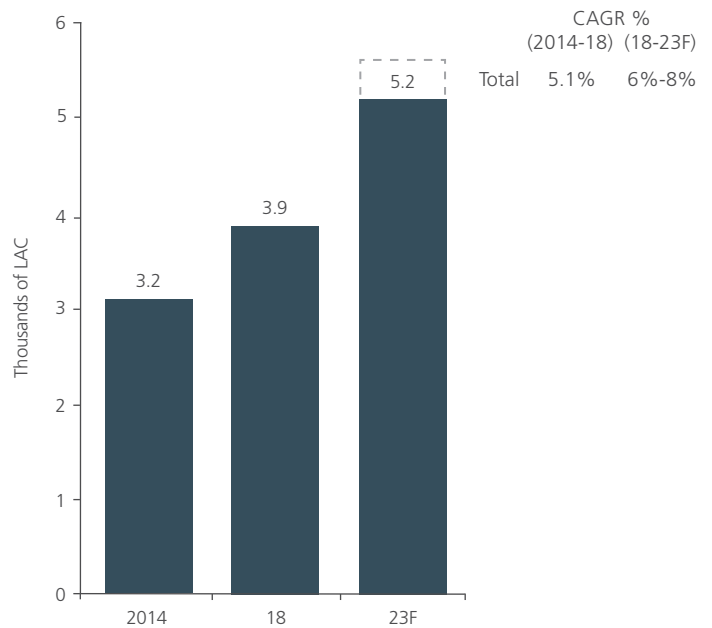
The rising proportion of children with high-complexity needs is a long-term trend, with many future service users already in the system. The public sector is increasingly unable and unwilling to accommodate the complex needs of these children. This creates new opportunities for independent-sector providers to invest in new facilities and expert staffing to fulfil demand, stimulating a further shift in the provision of these vital services from the public to the private sector.

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) 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.

Whilst commissioners will continue to prefer foster care placement, the availability of suitable foster carers will remain insufficient 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 2) due to the dynamics described above.

Figure 2
Estimated addressable* residential market



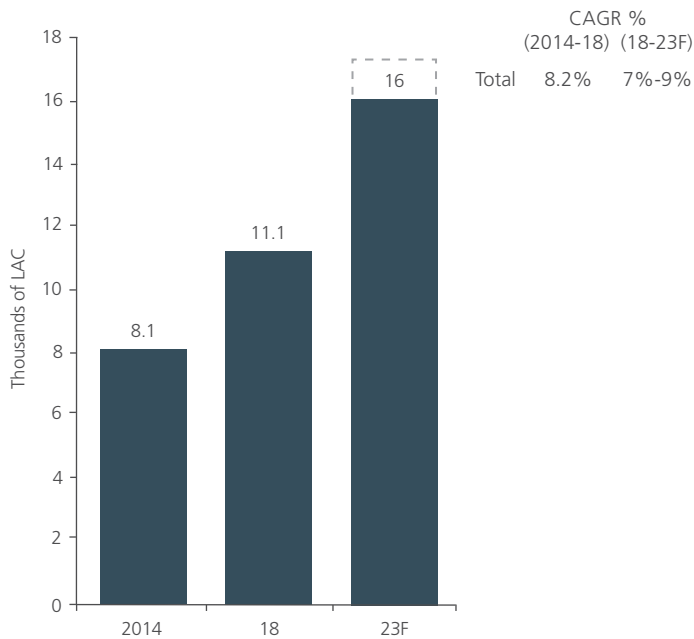
Note: *Children in independent homes with complex needs
Source: DfE; market interviews; L.E.K. analysis

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 (EHC) plans are now educated in this type of school.

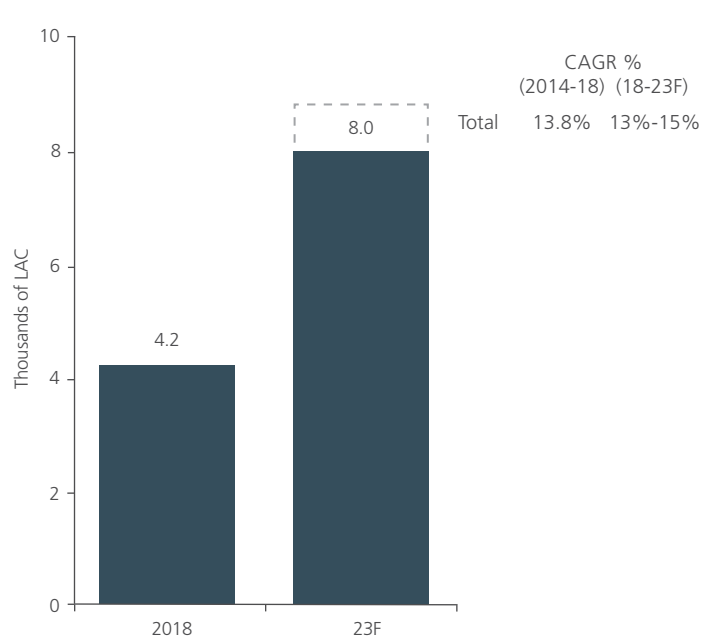
Public-sector and charity schools often struggle to invest appropriately in facilities and staffing, and are therefore unable to match the quality of provision offered by independent operators. As with children's homes, public-sector provision is increasingly directed at children with less complex needs.

Figure 3
Estimated addressable* SEND school market



Note: *Pupils educated in independent and non-maintained schools with annual fees of at least £30k
Source: DfE; market interviews; L.E.K. analysis

Figure 4
Accessed transitional services (age 16 and 17)



Source: DfE; market interviews; L.E.K. analysis

In response, the independent sector is increasingly focusing on children with very complex needs (commanding annual fees of over £30k). To date, this has been the fastest-growing segment in the market in recent years, at c. 8% CAGR (see Figure 3), reaching c.11,000 LACs at the end of 2018; this trend is expected to persist 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 growing evidence of excellent outcomes, have been key to their success.

With demand set to expand at the same pace as in the past five years (see Figure 3), more capacity is required. The private sector is in pole position to address this education demand from highly complex LAC.

Transitional services

In the U.K., children can voluntarily leave the social care system at the age of 16, despite not qualifying for adult services until they reach 18. This creates a gap and a discontinuation of vital services for these vulnerable young adults with high complex needs, highlighting a significant risk that they will fall through the social care net.

The undersupply of transitional services in many regions reflects 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. estimates that there are around 100,000 potentially vulnerable children in this group eligible for transitional services, and while our analysis suggests that c. 20% have addressable needs, only c. 4,000 actually received support in 2018 (see Figure 4). There is a clear opportunity to bridge this gap with appropriate and high-quality transitional services — e.g., supported living services that provide children with a stable housing solution, which is vital in many respects.

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 is also essential. Successful providers need to meet these criteria to convince commissioners they can achieve the desired outcomes.

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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) the preference of some commissioners 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 are able to 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 with the public sector unable to adequately respond, the increasing adoption of privately provided services is inevitable.

About the Authors



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