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# Eliminating profit from children's residential and foster care: evidence review

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## Eliminating profit from children's residential and foster care: evidence review

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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government

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# 1. Introduction

## Background

- 1.1 The Welsh Government's Programme for Government 2021-26 contains a number of commitments designed to transform children's social care services. A central plank of this programme is a commitment to remove private profit from the care of looked after children.
- 1.2 Relevant background to this commitment is the rise in numbers of looked after children in care in Wales and a rise in reliance on private provision. Between 2007 and 2021, numbers of looked after children increased by 58% to reach a rate of 115 per 10,000 of the general population (Hodges and Scourfield, 2023). Rising numbers have increased difficulties in finding suitable local placements, and the Competition and Markets Authority (CMA) noted in 2022 the heavy reliance on the private sector for residential settings for Welsh children, with provision often leading to children being placed far from home in unsuitable placements. The CMA reported that by 2020 the average weekly cost of a private residential placement was £3830 per child, that profit margins for Independent Fostering Agencies (IFAs) in Wales appeared 'consistently high' at an average of 19.4% and that (with a caveat about sample size) "We found that the profitability of the children's homes in Wales of the providers in our dataset was higher than the average across all three nations" (CMA, 2022: 7).
- 1.3 The Welsh Government's commitment to remove private profit may be seen as part of a range of measures to ensure that more children are supported to remain at home or, if looked after, close to home. These include investments in family group conferencing, parental advocacy, regional residential care settings for children with complex needs, a 'no wrong door' approach to mental health services and edge-of-care preventative services (Welsh Government, 2021).
- 1.4 This evidence review was commissioned by Welsh Government in June 2023 and the research was completed by early September 2023. Time and resource constraints mean that a rapid review methodology has been adopted.

## **The Evidence Review**

1.5 This evidence review comprises existing published evidence relating to private profit in children's residential care and fostering provision. A set of research questions were co-produced with the commissioning stakeholder. These are:

1. What is the impact on children and young people's wellbeing and experiences of being in for-profit provision vs local authority or not-for-profit provision? With a particular focus on impacts on the following outcomes for these children and young people: education, safety, and engagement with the criminal justice system.
2. How does placement pattern for children and young people differ between for-profit provision and local authority or not-for-profit provision, in relation to placement stability and proximity of their placement to their home communities?
3. How does placement quality differ between for-profit provision and local authority or not-for-profit provision?

1.6 We report key findings thematically and in relation to the above-mentioned research questions. The themes structuring this review are: Placement quality; Placement stability and breakdown; Out-of-area placements; Reunification; Children's life outcomes and wellbeing; Cost-effectiveness, competition and commissioning; and Impacts of profit motives and financial incentives. Prior to this we provide context to the review, lay out our methodology, and provide an overview of the evidence landscape.

## **Key Findings**

1.7 Key findings from the evidence review are summarised below:

- The topic of for-profit children's residential and foster care provision is under-researched and therefore there exists little published primary evidence pertaining to comparable outcomes, particularly from within a UK context.
- Some strong UK-based evidence exists that demonstrates that children are more likely to be placed outside of their local area under a for-profit system.

- Some strong UK-based evidence exists that demonstrates an association between for-profit provision and poor placement quality.
- Some strong UK-based evidence exists that demonstrates an association between for-profit provision and poor placement stability and continuity.
- Some USA-based evidence exists indicating that systems that financially incentivise certain standardised outcomes (such as permanent adoption, reunification, or continued out-of-home care) have some success in achieving these outcomes. However, incentivising standardised outcomes may detract from or potentially contradict principles of case-by-case, child-centred decision-making.
- In addition to literature reporting analysis of primary and secondary data, there are a number of published sources reporting professional and policy experience, non-systematic qualitative evidence and subject-specialist journalism. These sources discuss the potential contradictions of potentially short-term private equity investment and the guiding principle of placement stability. Some sources also point to the prevalence of debt burden in the private sector. These claims warrant further systematic research.



## **2. Methodology**

- 2.1 We adopted a rapid review methodology to this review of existing literature and evidence. The Cochrane Rapid Reviews Methods Group defines a rapid review as “a form of knowledge synthesis that accelerates the process of conducting a traditional systematic review through streamlining or omitting specific methods to produce evidence for stakeholders in a resource-efficient manner” (Hamel, et al. 2021: 80). This approach was taken to streamline the process of systematic evidence synthesis, achieving timely results for policy-makers while retaining robustness in terms of inter-rater reliability, methodological standardisation and transparency. We follow the PRISMA 2020 guidelines for reporting the evidence review (Page et al. 2021).
- 2.2 In-keeping with the Cochrane recommendations (Garritty, et al. 2021) we co-produced the research questions with the research commissioners and consulted them verbally on the protocol – inclusive of PICO (Robinson, et al. 2011) and inclusion and exclusion criteria – at an early stage in the project. The PICO are broadly defined and set out in the table below:

**Table 2.1: PICO – Population, Interventions, Comparators, Outcomes**

<b>Population</b>	Care-experienced young people
<b>Interventions</b>	For-profit residential care provision
<b>Comparators</b>	Not-for-profit or state-managed residential care provision
<b>Outcomes</b>	Wellbeing and experiences, including contact with home and community. Outcomes pertaining to education, safety, engagement with the criminal justice system, etc. Placement patterns (e.g. stability, distance from home). Costs to local authorities and other public services.

Source Robinson et al. 2011

2.3 Inclusion and exclusion criteria were considered in terms of relevance to the policy context. We filtered searches geographically to include only those countries whose social care systems are administratively and/or culturally similar to the Welsh context. These were identified as: UK, Ireland, Australia, USA and Canada. ‘Anglo-American’ child welfare systems have been typified as risk and child safety-orientated, with formal systems and assessment tools, in contrast to, for example, the family support approach of Nordic nations, with high levels of professional autonomy (Berrick et al, 2017). It should be noted, moreover, that databases typically register geographical location not based on the subject country, but on the country of publication. As most major publishing houses are headquartered in these countries anyway, it is argued that this will have had a negligible impact on the sensitivity and relevance of searches.

2.4 Only papers published between 31st December 1999 and 24th July 2023 (the date of the searches) were considered. This chronology was chosen to improve the

precision of searches in the assumption that evidence from before the turn of the millennium is likely outdated. Considering the general UK context remains the most relevant for this evidence review, this chronology encompasses the expansion of the private finance initiative (PFI) by the New Labour government (Hellowell, 2010), mapping onto the intensification of the privatisation of social care, particularly in England.

- 2.5 As per the Cochrane recommendations, we developed and refined our search strategies with an Information Specialist, namely the Social Sciences Subject Librarian at Cardiff University. The Information Specialist recommended a number of relevant databases to search. These were Applied Social Sciences Index and Abstracts (ASSIA), Scopus, Social Services Abstracts, and Web of Science. We further included Sociological Abstracts to broaden the scope of potential evidence to include sociological inquiries and discourse. This also falls in line with the disciplinary specialisms of both reviewers. Overton was also searched separately for policy documents.
- 2.6 Database searches were restricted to English language results for feasibility. To maintain source quality, source and document types were restricted to scholarly journals, trade journals, books, book chapters, reports (including government publications, third-sector and think tank-commissioned studies), and review articles. These document types typically hit a certain quality threshold as assessed through editorial or peer review. Where applicable, searches were further restricted by discipline and field. The available filter options varied between databases but were generally limited to: Social Sciences; Psychology; Arts and Humanities; Business, Management and Accounting; Economics and Finance; and Health.

**Table 2.2: Simplified Boolean search terms**

Population	And	And	Not
Children	Care placement	For profit/for-profit	Elderly
Young people	Foster care	Privatised/ized	Geriatric
Youth	Foster home	Privatisation/ization	
Teenagers	Fostering services	Private sector	
Adolescents	Residential services	Outsourced	
	Looked after/ looked-after		
	In care/in-care		
	Cared for		

2.7 Boolean logic was applied to the search terms which were kept broad to maximise sensitivity of the search, although following pilot searches it was decided to exclude hits containing the terms ‘elderly’ and ‘geriatric’ due to the yielding of irrelevant sources relating to adult social care and elderly care. Parameters were further refined to limit to search ‘anywhere except full text’ or ‘title, abstract, key words’ depending on the affordances of the database. The simplified search terms are set out in Table 2. This search yielded several relevant results, although search terms comprising ‘care’ yielded many hits for general medical care, childcare (day care, or generally caring for a child), and ‘residential care’ for palliative or respite care. For reports which present monitoring information, or analysis of monitoring information, contractors should consider which of the key questions, set out below, should be addressed in the report.

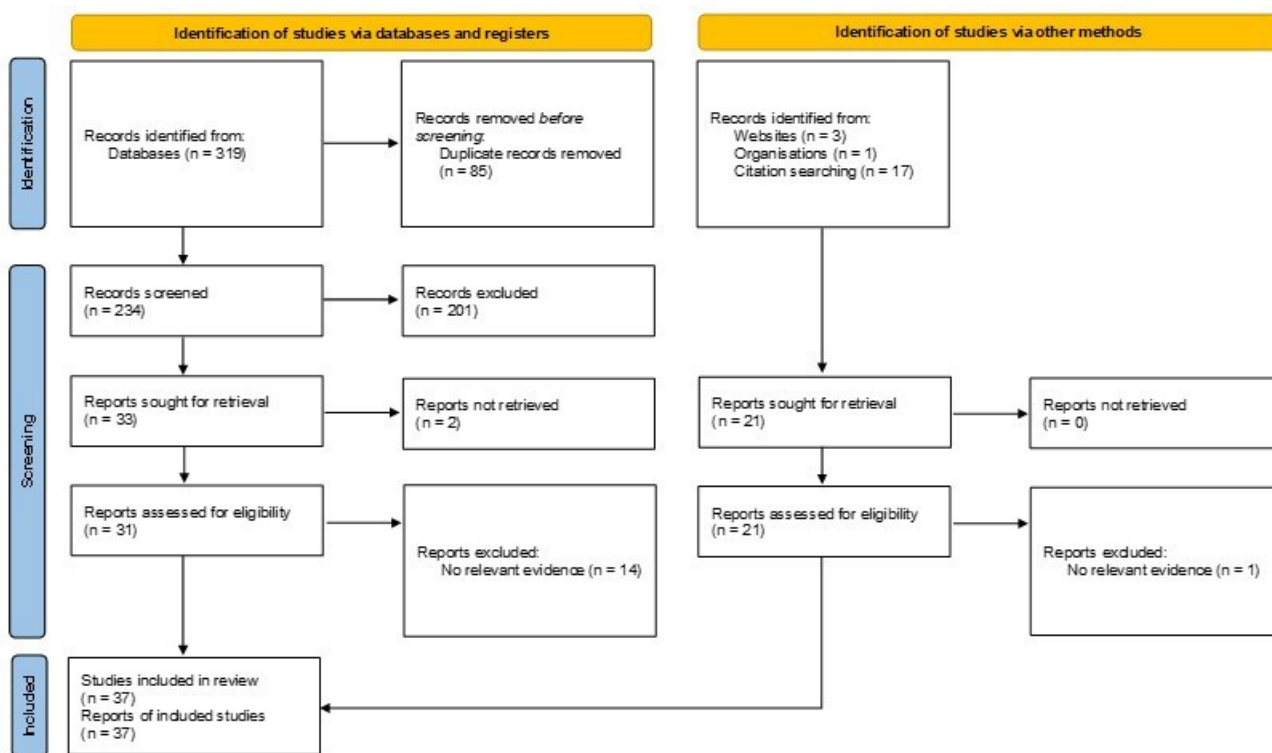
2.8 It is also noted that ‘private fostering’ can be used to describe informal ‘private fostering agreements’ or setups where families do not involve the state, and foster care placements with a family (e.g. not in a residential children’s home) were sometimes described as ‘private home’ placements. Most notably, nonprofit provision can also be referred to as ‘privatised’ (particularly outside of the UK) and numerous hits yielded results for privatisation of children’s social care more generally. Nevertheless, due to the centrality of ‘privat\*’ as a search term, these results were not filtered out in searches.

**Table 2.3: Number of results by database**

<b>Database</b>	<b>Results</b>
ASSIA	124
Scopus	42
Social Services Abstracts	30
Sociological Abstracts	81
Web of Science	42
<b>Total</b>	<b>319</b>

- 2.9 The research team comprised three researchers, two acting as reviewers (JA, PJ) and one as adjudicator and subject consultant (SH). Searches were undertaken, and then imported into a Zotero software library. Database searches yielded n = 319 results. Excluding duplicates, results were n = 234. Titles and abstracts were screened for relevance by JA and exclusions were re-screened by PJ. Disagreements were resolved by consensus, and n = 33 were sought for retrieval for full-text screening, of which n = 2 were unavailable online, in the Cardiff University library, or via inter-library loan. Full-text screening of n = 31 was undertaken by PJ and exclusions were re-screened by JA. Disagreements were resolved by consensus, and n = 17 satisfied the relevance criteria for inclusion. A further snowball citation search of included literature and an Overton search yielded a further n = 21 sources including academic and grey literature results (including reports, policy documents and media sources). One was excluded due to lack of relevance. In total, n = 37 relevant sources were included in the review.
- 2.10 Quality appraisal was conducted using Cardiff University's Specialist Unit for Review Evidence (SURE) checklist (2018). While SURE does not provide a scoring system or scale, and the Cochrane Collaboration advocates against the use of scales providing a summary score, for the purposes of this review we have approximated a traffic light system of 'high', 'moderate' or 'low' evidence quality based on adherence to the checklist. A score of 'low' was not criteria for exclusion from the review, however we prioritise better quality evidence and make clear what the status of the evidence is throughout.

**Figure 2.1: PRISMA 2020 flow diagram**



Source Page et al. 2021

### The evidence landscape

- 2.11 Insofar as academic literature is concerned, there is little existing direct evidence to support the research question, pertaining specifically to placement patterns or outcome data from outsourced, for-profit residential or fostering provision. Of the 24 relevant peer-reviewed academic sources,  $n = 3$  deliver evidence that is both of high quality and directly related to the research question in these terms. All three of these sources communicate recent evidence from a UK context (Bach-Mortensen, et al. 2022; Goldacre, et al. 2022; Bach-Mortensen, et al. 2023). Three US studies provide equally high-quality evidence (Coles, 2015; Huggins-Hoyt, 2019a, 2019b) however their variables do not distinguish between for-profit and nonprofit agencies. This is an issue with much of the US literature that compares private and public agencies.
- 2.12 The 18 other academic sources, discussed below, are of varying quality and relevance, contextually and substantively. These peer-reviewed sources are presented in Annex A.

- 2.13 There is further grey literature in terms of industry and independent reports and media articles relating to this area, also from within a UK context (n = 12). The evidence presented in this grey literature has been scored 'low' in our quality appraisal, primarily due to not undergoing peer-review, and presenting less robust or less transparent research methodologies. This being said, some of these sources provide direct quotations from relevant stakeholders and offer pertinent qualitative insight into the practical and ethical issues. All offer, as a minimum, important contextual overviews of the state of UK provision. This grey literature is presented in Annex B.
- 2.14 The evidence review, therefore, is somewhat weighted to evidence from the three aforementioned recent UK-based academic studies (Bach-Mortensen, et al. 2022; Goldacre, et al. 2022; Bach-Mortensen, et al. 2023), and some of the most relevant grey literature comprising recent UK reports (Narey, 2016; Narey and Owers 2018; Children's Commissioner (England) 2019; 2020; MacAlister, 2022; Competition and Marketing Authority, 2022).
- 2.15 Supplementing the relatively sparse direct evidence of patterns or outcomes are a number of sources providing qualitative evidence relating to professional and stakeholder experiences of marketised provision (Kapp and Propp, 2002; Sellick and Connolly, 2002; Sellick, 2006; 2011; 2014). Alongside this are sources offering narrative discussion of, or critical discourse around, the phenomenon of privatised or for-profit provision (Garrett, 2008; Steen and Smith, 2012; Carey, 2019). These sources have been included in this review, despite their primary or secondary data analysis usually being rated as 'low' or 'moderate', because they raise important questions and debates, providing context to the more robust studies. We make clear throughout the paper, where claims about private sector provision have been made, but not substantiated.
- 2.16 Further, there is a body of US literature that provides longitudinal and other comparisons mapping privatisation of provision and discusses the practical impacts of financial incentives in privatised children's residential and foster care (Petr and Johnson, 1999; McDonald, et al. 2000; Zullo, 2002; Swartz, 2004; Jayaratne and Faller, 2009; Steen and Duran, 2013; Coles, 2015; Huggins-Hoyt, et al. 2019a;

2019b). As mentioned above, much of this literature does not distinguish between for-profit and nonprofit provision and brings them together under the variable 'privatised' or 'private agency'. Regarding perspectives and experiences, there is a notable absence of care experienced children's own voices in existing literature, with the exception of the Children's Commissioner for England's (2019, 2020) and Narey and Owers' (2018) reports, De Montigny (2005) and Selwyn, et al. (2008).

2.17 This research gap risks overlooking the views of children who are directly and practically engaged in the phenomena under study, and for whom any policy will have tangible impacts and consequences. Selwyn, et al. (2008) surveyed children about their experiences of being looked after by an IFA and gained some rich insights into their priorities and concerns, and through this were able to flag to policy-makers the issue of instability in foster care placements and its impact on children's sense of permanence and belonging. De Montigny's (2005) ethnomethodological handling of children's own discussion of the financial motives for decisions regarding their care placement demonstrates their social competence in such matters. As such further research in this area should address this gap by consulting looked after children as stakeholders, and in doing so treat children as competent members of society and whose own perspectives of their experiences are worth taking seriously.



### **3. Findings**

#### **Placement quality**

- 3.1 Placement quality can be assessed in numerous ways, not least by measuring patterns of stability, positive outcomes, cost effectiveness, distance from home, and other such things explored in this evidence review. However, in this first section, we refer firstly to evidence that cites regulatory measures such as Ofsted reports. The evidence in this section is comprised primarily of sources that our quality appraisal has deemed ‘high’ quality inasmuch as it is from the two recent Bach-Mortensen, et al. studies (2022, 2023) that use the Department for Education Children Looked After (CLA) data return (data set reference: SSSDA903) as their main evidence, as well as citing Ofsted data, and critically appraising prior reports. These two sources make comparisons between for-profit, local authority (LA) and third sector provision. Further evidence is critically appraised in this section from Selwyn, et al (2008) and the Competition and Markets Authority (CMA, 2022). We rated this evidence as ‘moderate’ and ‘low’ in quality, respectively. Selwyn, et al. (2008) surveyed looked-after children in an IFA but did not provide a comparison, while the CMA report had a relatively opaque methodology and lacked robustness in data selection. Bach-Mortensen also provide their own critique of the CMA report. Further evidence comes from Steen and Smith (2012) who conducted a literature review in an attempt to answer the question as to whether public or private foster care agencies are better in a US context; this was rated ‘low’ as it did not specify systematic methodology and relied on a small number of sources.
- 3.2 Bach-Mortensen et al. (2023) make the claim that “existing work generally demonstrates that the for-profit outsourcing of public services does not typically transfer into cost reduction and improved service quality”, and that “children’s social care is no exception” (p. 2). In fact, as Bach-Mortensen et al. (2022) suggest in a previous article, despite the increase of for-profit children’s homes (currently representing 80% of provision in England), “these providers are rated, on average, of worse quality than LA and third sector provision” (p. 2).
- 3.3 They argue that both the CMA (2022) and the Independent Care Review report (by MacAlister 2022), “document that large chains of for-profit providers have secured

increasing control of the market and evidenced how these companies leveraged this position to maximise profits” (p. 2). Nevertheless, the CMA produces some recommendations that assume that greater use and involvement of the for-profit sector will solve the issue caused by the insufficient number of placements. Bach-Mortensen et al. (2023) argue that these assumptions have not been verified. Indeed, one of their core findings was that, to date there was no evidence about the impact of outsourcing and placement locality and stability. Their work is claimed to be the first one to address this gap.

- 3.4 In their previous analyses, Bach-Mortensen et al., (2022) show that “for-profit providers are statistically significantly more likely to be rated of lower quality than both public and third sector services. For-profit children’s homes also violate a greater number of requirements and receive more recommendations [from Ofsted – the independent regulator of children’s social care in England] compared to other ownership types” (p. 1).
- 3.5 Bach-Mortensen, et al. (2022) identify a research gap on this topic – in particular, the ownership status of provider – and argue that most enquiries into the quality of service providers in this context are reported in journalistic investigations or grey-literature reports:
- For example, a BuzzFeed investigation found that the biggest for-profit children service companies were connected to numerous mismanagement incidents and generally provided lower quality services compared to other provider types (BuzzFeed 2018) (p. 2).
- 3.6 Further research into the patterns and trends of providers’ ownership status, and their association with placement quality is recommended.
- 3.7 The CMA (2022) report suggests that there are no real differences in terms of quality of provision by local authority and private providers in Wales, as assessed by regulators. In terms of price, their evidence suggests “that the cost to local authorities of providing their own children’s home placements is no less than the cost of procuring placements from private providers. In fostering, however, there is indicative evidence that local authorities could provide some placements more cheaply than by purchasing them from IFAs” (p. 11).

3.8 However, Bach-Mortensen et al. (2022) are critical towards some of the conclusions raised in the CMA's report. They argue that this conclusion "contrasts with a sizable literature on adult social care, in which FP [for-profit] providers are commonly documented to perform worse than public and third sector services" (p. 3). They further argue that the conclusion is problematic in a variety of ways:

First, the sample for which these comparisons were developed is unclear. The technical appendix reports that the CMA analysed the 15 largest providers of children's homes, fostering services, and unregulated accommodation as well as 40 LAs, covering a total of 889 private children's homes, 237 LA children's homes, and around 50 FP and LA fostering agencies. It is not clear why the CMA's analysis is restricted to this incomplete sample, nor what LAs were included. Second, the analysis does not distinguish between private for-profit and third sector providers, although research often finds different behaviour and statistically significant variation in quality and performance outcomes for these ownership types (Bach-Mortensen and Montgomery, 2019; Bach-Mortensen and Movsisyan, 2021). Last, the model specifications and analyses used to reach their conclusion are not reported, meaning that it is not possible to ascertain if and how they have adjusted for relevant factors, such as LA and provider characteristics, in assessing the relationship between ownership and quality of care (Bach-Mortensen, 2022: 3).

3.9 In contrast to the CMA report, Bach-Mortensen's (2022) study demonstrates that LA providers are significantly more likely to receive better rating than for-profit providers (based on Ofsted data). Their results show that in 'Overall experiences', for-profit providers "have 33.7% lower odds than LA providers of being Outstanding, Good or Requires Improvement, as opposed to Inadequate." (p. 5). They note that these results are statistically significant ( $p < 0.001$ ).

3.10 The study also shows that there is "no statistically significant difference between LA and third sector providers for the main 'Overall experiences' outcomes. However, third sector providers receive worse ratings than LA providers in all specifications [...] of the 'Effectiveness of Leadership' domain and [...] the 'Help and Protection for Children' domain" (p. 5). In other words, whilst third sector providers are generally

associated with worse Ofsted ratings (compared to LA provision), this variation was not consistently statistically significant, whereas it was for for-profit provision.

- 3.11 Bach-Mortensen (2022) also found that older well-established providers tend to be better rated and that there was not a strong association between years of provision (based on registration date of the provider) and ownership type. The authors suggest that “age has very little bearing on Ofsted rating in LA homes but a small positive effect for for-profit and third sector providers” (p. 5).
- 3.12 The study concludes that “LA run providers have a 10.6% (95% CI = 8.5%– 12.8%) predicted probability of being rated ‘Outstanding’ for ‘Overall Experience’, which is higher compared to FP [for-profit] provision (7.3% 95% CI = 6.4%–8.3%). Similarly, the predicted probability for LA providers to receive a ‘Requires Improvement’ rating for ‘Leadership and Management’ is 17.5% (95% CI = 14.9%–20.0%), whereas FP providers have a considerably higher probability of receiving this rating at 23.7% (95% CI = 22.1%–25.4%)” (p. 5).
- 3.13 In addition, the study also shows that “FP providers violate 0.380 (95% CI = 0.186 to 0.575) more legal requirements than LA-run providers, on average” (p. 6). In short, for-profit homes are more likely to have violated at least one requirement than LA-run homes. The authors estimate that “for-profit providers have 1.44 times (95% CI = 1.15 to 1.81) the odds of violating a legal requirement than LA run providers” (p. 6). Whilst the difference between LA and third sector providers is not statistically significant for either of these issues. In terms of violated requirements, the violation is more likely to be regarding the ‘fitness of workers’ requirement than the ‘review of quality of care’ requirement.
- 3.14 However, it is important to highlight that most of the LA Ofsted domains of inspection relate to a broad range of services (e.g., child protection services, referral and assessment, and non-statutory Early Help). Whilst for-profit inspection is specific to children in care placements.
- 3.15 This is, however, the first focused analysis of the impact of outsourcing children’s residential social care services in England, and the findings are generally in line with the existing research on the adult residential care sector, which tends to identify

worse outcomes for for-profit providers (see (Amirkhanyan et al., 2018; Barron and West, 2017; Ben-Ner et al., 2018; Comondore et al., 2009).

- 3.16 Selwyn, et al. (2008) surveyed looked-after children who generally shared positive views of their placements, carers and social carers in an IFP. They were enthusiastic about the range of and regular opportunities for activities provided by the private agency. In some cases respondents were reported to have “emphasised that being fostered by FCA [the IFP] was better than being in the care of the local authority” (p. 702). However the authors also note that the high number of moves in their sample represented an issue of placement instability that could impact on children’s sense of permanence and belonging.
- 3.17 A further point to be made in this section on placement quality is one that is raised in the CMA (2022) report. The current system of regulatory standards does not appear to mesh well with for-profit provision. The CMA state that “Ofsted told us that it is aware of concerns about children’s homes not taking on children with more complex needs due to the potentially negative impact on their Ofsted ratings” (p. 93). It should be noted that it remains to be seen whether these concerns bear any fruit as Ofsted also told the CMA that “it has not seen much evidence of these concerns in practice as it is usually raised as a general issue without concrete examples.”
- 3.18 While the CMA report does not directly make this claim in relation to for-profit provision, the fact that for-profit providers are in the majority in England and Wales, and in regard to the likely benefits of good reputation on market competitiveness, make this an apposite area for further research. The phenomenon known as ‘off-rolling’ or ‘gaming’ is a regulatory concern in education (see Spielman, 2017) and the possibility of what is being similarly suggested in the CMA report regarding care providers rejecting cases of complex needs should thus be investigated further.
- 3.19 Steen and Smith’s (2012) review of the available literature (within a US context) attempting to answer the question ‘Is the private foster care agency superior to the public foster care agency?’ remained inconclusive overall, with few significant differences between them across a number of organisational criteria. However, they did suggest that public agencies are more likely than private agencies to employ

more experienced foster carers. This can be compared with Sellick and Connolly's (2002: 118) findings that 46% of the IFA foster carers in their sample had reported no previous fostering experience. On the other hand private agencies were found to have greater autonomy and higher morale within their organisations.

### **Placement stability and breakdown**

- 3.20 The evidence presented in this section varies in quality. Core evidence is provided by Bach-Mortensen, et al. (2023). This source is rated as 'high' quality as it uses the Department for Education Children Looked After (CLA) data return (data set reference: SSDA903) data set as its main evidence. Petr and Johnson (1999) is also scored as 'high' as it provides a longitudinal comparison with a large sample size and strong methodology. However, this is a US-based study and therefore has limitations insofar as its applicability to the Welsh context is concerned. Another US-based study, Steen and Duran (2013), also provides a longitudinal comparison, however relies on an unrepresentative sample of counties in Florida, and therefore has been rated 'moderate'. The Children's Commissioner for England (2020) is rated as 'low' in our quality appraisal due to opaque methodology and lack of a comparison, however it provides useful qualitative evidence from care-experienced children and private children's home staff. Selwyn, et al. (2008) equally provides qualitative evidence from care-experienced children and is rated as 'moderate'.
- 3.21 Bach-Mortensen's et al. (2023) analysis shows that the percentage of children falling within the category of 'long term stability' (living in the same place for at least 2.5 years) has decreased 3 percentage points since 2018. The authors report that "an increase of 1% of for-profit outsourcing is associated with an average increase of 0.10 (95 % CI 0.02–0.17;  $p = 0.01$ ) percent more children being in the same placements for <2 years" (p. 7). Even when controlling for covariates, their model shows that increases in for-profit outsourcing are still associated with higher rates of long-term placement instability.
- 3.22 Petr and Johnson (1999) provide comparative longitudinal evidence of placement stability from a US context (Douglas County, Kansas) in which outcomes consistently favoured the pre-privatisation group. They measured the mean number of days children spent at first placement (pre-privatisation  $n = 78$ ; privatisation  $n =$

41 ( $p < 0.01$ )); the mean number of placement moves (pre-privatisation: 1.14; privatisation: 2.18 ( $p < 0.01$ )); the percentage of children with 3 or fewer moves (pre-privatisation = 93%; privatisation = 77% ( $p < 0.05$ )). This points to better placement stability pre-privatisation.

- 3.23 Relatedly, Petr and Johnson (1999) measured runaways and episodes of running away from care placements, and equally found significant results for the total number of children who ran away from foster care (pre-privatisation  $n = 4$ ; privatisation  $n = 13$ ); total number of runaway episodes (pre-privatisation  $n = 4$ ; privatisation  $n = 31$ ); and the mean number of times the runaways in foster care ran away (pre-privatisation  $n = 1$ ; privatisation  $n = 2.39$  ( $p < 0.05$ )).
- 3.24 Steen and Duran (2013) similarly measured placement permanence between pre- and post-privatisation programmes, although this time in counties in Florida. They found that the percentage of children in fewer than three placements was significantly lower in post-privatisation years than pre-privatisation ( $p = 0.001$ ). Their models accounted for the potential for systemic upheaval during the transition period, but found that this did not have a significant effect. They note that their findings align with those of Petr and Johnson (1999) before them, although they recognise that their non-representative sample of counties within Florida (which employs a particular privatisation model) means that the results are not generalisable outside of the sample.
- 3.25 The Children's Commissioner for England's report on private provision in children's social care (2020) noted that the turmoil of acquisitions and restructures in marketised children's home provision can transfer over into instability in client-facing practice, with higher staff turnover and changing hierarchies in larger companies meaning that young people lose continuity in relationships with staff and management. As one private children's home staff member said: "It was quite a difficult time for staff and when companies are bought some people do tend to leave. We had 3 long time experienced staff who left." This was similarly highlighted by Selwyn, et al. (2008) who suggested that the high number of moves in their sample of children in IFP placements represented instability that could impact on their sense of permanence and belonging.

3.26 Equally, as companies grow and management structures change, the distance between the children and managers grows, leaving children less able to voice concerns as they do not know who has responsibility to address them:

The young people knew the operations manager as they completed all the Reg 44 visits [quality assurance visits]. Now the young people don't have that relationship with them, and they've changed 4 or 5 times anyway ... In a bigger company they have less idea of who's above them and that's really difficult for young people. If they wanted to make a complaint for example they don't know that person so it's much harder for them" – private children's home staff (Children's Commissioner (England), 2020: 20).

### **Out-of-area provision**

3.27 Evidence in this section is heavily weighted to the UK-based Bach-Mortensen, et al. (2023) study, which scored 'high' in our quality appraisal. It is further substantiated by US-based Petr and Johnson (1999), which equally scored 'high'. In addition to this, we gather evidence from the CMA (2022) and the Children's Commissioner for England (2019) whose reports provide useful context that can contribute to explanations for for-profit provision being provided at distance from children's home communities. These reports scored 'low' in our quality appraisal for a lack of a clear methodology, but nonetheless raise important questions and provide some non-systematic evidence.

3.28 The Children's Commissioner for England (2019) argued that while out-of-area provision is sometimes organised intentionally for child protection purposes such as being kept safe from child criminal exploitation (see Maxwell and Wallace, 2021) or child sexual exploitation (see Hallett, 2013), this also often occurs simply because there are no available spaces in their local authority. The Children's Commissioner for England added that "Many children therefore end up going to live in children's homes run by private companies, often operating in cheaper and less 'desirable' parts of the country" (Children's Commissioner (England), 2019: 2). The Children's Commissioner claims that decisions to move children into placements outside of their local area are made "not because it is best for them, but because there is nowhere else for them to go". Private providers may invest in clusters of homes in



certain areas because it is financially beneficial to do so, but that this has a knock-on effect of creating 'pockets' with high numbers of looked after children that causes a strain on local services such as mental health services (p. 15).

- 3.29 The Children's Commissioner for England's 'Pass the Parcel' report (2019) contains pertinent qualitative evidence from care experienced children with regard to the impacts of out-of-county provision on their lives. Children reported feeling isolated and not being able to see their loved ones, as the long travel distances disincentivise family members who may otherwise wish to visit. Being placed in unfamiliar areas that are not like their own communities contributed to feelings of out-of-placeness, with some children viewing their situation of being placed at a distance from their home as a punishment. They felt that decisions about where they live were made without their consultation, and the instability of being 'passed around like a parcel' had further implications for their education, with delays in finding school places as schools are required to assess whether they can meet the child's needs. Carey (2019) similarly suggests that out-of-authority placements can create confusing lines of responsibility between the placing local authority and the host local authority when it comes to allegations of neglect or malpractice, and the fragmented system can produce gaps in governance and remit to the detriment of the child. This is a narrative remark and the author does not provide evidence to substantiate it.
- 3.30 To continue, Bach-Mortensen et al. (2023) claim that the increasing number of children in care – especially for children with complex needs – is the most important challenge that LAs currently face. They talk about a supply and access problem and articulate this as the reason for the outsourcing of care to for-profit organisation. They also argue that for-profit outsourcing is “consistently associated with more children being placed outside their home local authority and greater placement instability” (p. 1).
- 3.31 They argue that placement stability and distance have deteriorated over the past decade, especially, as the supply and access problem has become predominant. They note that “local authorities that rely on outsourcing have the highest rates of placement disruptions and out-of-area placements” (p. 1). Based on previous

evidence-based studies (Bach-Mortensen et al. 2022; CMA 2022; MacAlister 2022), they suggest that the placement process of for-profit organisations is “significantly impacted by market conditions, which hinder local authorities’ abilities to meet the standards set by the statutory guidance” (p. 2), or the lack of suitable places rather than the child’s needs.

- 3.32 Bach-Mortensen, et al. (2023) also identify the potential problem of the fact that there is no clear national guidance (at least in England) on when and why to use out of area placements. Instead, it is an arbitrary decision LAs make based on what is ‘reasonably practicable’. Nor is there clear guidance on how to achieve placement stability. This, they argue, may be contributing to the increase on outsourcing considering the supply and access crisis. It is also argued that this might affect some children more than others, e.g., older children with a history of multiple placements and children with complex needs, which in turn may increase the likelihood of children running away or being reported missing (see the APPG 2019 ‘Runaway and Missing Children and Adults’ report and the APPG 2022 Looked After Children and Care Leavers).
- 3.33 Bach-Mortensen’s et al. (2023) analysis shows that there is a significant variation across LAs in their children-placing practices in England. Whereas some place almost all children within their boundary (this is the case especially for rural LAs), others place all or most outside their boundaries (particularly acute for the Inner London region). Moreover, they report that on average there has been an increase of 4 percentage points (from 39% to 43% [38% on for-profit providers]) between 2011 and 2022 of children being placed outside their home LA.
- 3.34 The analysis also shows the way LAs rely on for-profit outsourcing also varies greatly – although it has steadily increased over the last decade, and by 2022 38% of children were placed with for-profit providers. The authors claim that where there has been an increase in for-profit outsourcing, there has been an increase in both out-of-area and unstable placements. They report that “increases in for-profit outsourcing are associated with worse placement outcomes on average” (p. 7):
- We find that an increase of 1 % of children placed with for-profit providers is associated with an average increase of 0.23 (95 % CI 0.15–0.30;  $p < 0.001$ )

percent more children being placed outside of their home LA (Bach-Mortensen, 2023: 7).

- 3.35 To determine this, the authors use a placement measure >20 miles outside the home local authority of children in care. The authors also “calculated how many additional children placed out of LA boundaries can be attributed to the additional use of for-profit outsourcing since 2011” (p. 7) and determined that “an additional 17,001 (95 % CI 9015-24,987) out-of-area placements between 2011 and 2022 can be attributed to increases in for-profit provision” (p. 7).
- 3.36 In the US, Petr and Johnson (1999) found that pre-privatisation, children spent 69% of their time in care within their local county, whereas this dropped to 44% following privatisation, although these results were not statistically significant.
- 3.37 The CMA (2022) report offers a possible reason for the widespread phenomenon of out-of-area for-profit provision. In their consultation with large providers, the providers expressed dissatisfaction with local authority forecasts of their future needs (in England). They perceived the LA data to be inaccurate and they would therefore not use it to inform their capacity expansion decisions. As a result of this uncertainty about local future demand, a large fostering and children’s homes provider claimed that they were significantly constrained in “their ability to meet the needs of local authorities”. Another provider noted that this disincentivised them from investing or recruiting in new areas (CMA, 2022: 62). As establishing or buying new homes involves significant investment and resource allocation on behalf of the providers, it is likely a safer option for them to retain their existing infrastructure and manage cases commissioned from distant LAs.

### **Reunification**

- 3.38 The evidence in this section is derived from a single source, a quantitative analysis of English datasets (Goldacre, et al., 2022). While this is a limitation, the source scored ‘high’ in our quality appraisal. The scarcity of academic literature on the effects of marketised care provision on family reunification demonstrates a key research gap to be filled by future study.

- 3.39 Goldacre, et al. (2022) argue that reunification “continues to be the most common outcome of an episode of care, although it has become proportionately less likely over the past decade, having fallen from 39 per cent of children leaving care in 2011 to 29 per cent in 2020 (Department for Education, 2020). Unfortunately, reunification is associated with relatively high levels of re-entry into care compared to other routes to permanence, including adoption, special guardianship and kinship care (Selwyn et al., 2015)” (p. 4757).
- 3.40 Their study of children in state of care in England (between 2014-2020) shows that one in five children re-entered care within one year and over one-third of children re-entered care within six years. Among the factors (such as age, ethnicity, the length of the placement, type of placement, whether there had been a Care Order, etc.) they identified as affecting the probability of re-entering care, they noted that whether provision was local authority, voluntary sector or private sector was relevant. The private provision of care was associated with an increased likelihood of re-entry to care, although the effect size was small after controlling for other variables. Moreover, “private provision of care was associated with a higher probability of re-entry in the longer term but there were no significant associations with earlier re-entries” (p. 4786), but no significant differences were found between the voluntary/third sector and LAs.
- 3.41 It is worth highlighting that the study’s main limitation is the lack of information on outcomes for children who returned home but did not re-enter care during the follow-up period, or who re-enter care in another LA. The model did not factor in variables such as evaluations on parental motivation and capacity to change, the quality of support planning and other aspects of the LA context affecting practice.
- 3.42 Therefore, although there may not be strong evidence of the impacts of for-profit care on reunification trends, the findings of this study suggests that a stable period of care can establish a positive basis for reunification, and – as Bach-Mortensen et al. (2023) argue – for-profit provisions is associated with children being placed outside their home local authority and greater placement instability (see previous section for further detail).

### **Children's life outcomes and wellbeing**

- 3.43 This section is based predominantly on a critical overview article (Carey, 2019) and a US-oriented literature review (Steen and Smith, 2012). Further supplementation on the effects of criminalisation in children's homes is provided from the Howard League for Penal Reform report and policy brief (2016, 2018) and a US-based report by the National Disability Rights Network (2021). Neither of these provide primary research evidence, but do provide scholarly engagement with existing information sources and available figures. This is reflected in their 'low' scores in our evidence quality appraisal. Coles (2015) and Huggins-Hoyt, et al. (2019a, 2019b) provide quantitative comparative analyses of outcomes between privatised and non-privatised provision in US contexts. These source scored 'high' in our quality appraisal.
- 3.44 Carey (2019) provides a critical overview of existing research in analysing the negative ethical impact of privatisation and marketisation of children's social care provision in England. He claims that fragmented service provision relating to marketisation intensifies further the association between being in care and reduced overall life chances (such as educational achievement, engagement with criminal activity, developing drug or alcohol related addictions later in life, mental illness diagnosis, long-term unemployment or engaging in sex work). However, the connection to marketised care provision is unsubstantiated and further research is required in order to make (or disprove) such a connection.
- 3.45 The Howard League for Penal Reform (2016, 2018) argue that children living in children's homes are excessively criminalised when compared to all other groups of children, including those in other types of care. They claim that staff call the police too frequently, often over minor incidents. Having more police contact, they argue, makes the long-term consequence of gaining a criminal record more likely. Even if the outcome is not a criminal record, they argue that research indicates that routine or repeated police contact can "contribute to a process of 'informal' criminalisation, resulting in repeated and amplified contact with the criminal justice system" (Howard League for Penal reform, 2018: 8). This can promote stigmatised identities in children in care which can have a detrimental effect on self-esteem (p. 5).

- 3.46 A care-experienced young person is quoted as suggesting this is due to improper staff training: “I just don’t think staff are trained enough. The smallest thing and they call the police... Some of them have literally come from... one worked in a bar. One worked in a call centre and they have come straight in and got the job. No training whatsoever and they just go, ‘there is the kids, good luck’.” (Howard League for Penal Reform, 2018: 7). While recruitment of suitable candidates may be an issue, another is the possibility of staff shortages or excessive workloads.
- 3.47 The Howard League for Penal Reform (2016: 4) claims that police were “picking up the pieces of a ‘social care deficit’” and that “private providers of children’s homes were using police cells as respite to cover staff shortages”. Similar claims of overworked staff resorting to desperate measures are made in evidence in the section on ‘Impacts of profit motives and financial incentives’. These are concerning claims, but further research is required in this area as the Howard League’s reports are not based on systematically analysed primary or secondary data, but rather on casework experience.
- 3.48 The National Disability Rights Network (2021) shared similar concerns about understaffing and malpractice in for-profit children’s residential care provision in the US. Their report shared instances of abuse (physical, emotional, sexual), use of restraint and seclusion practices, and overusing psychiatric drugs as a form of chemical restraint. This was underpinned by staffing shortages and poor facility conditions such as dirty living areas, inadequate food, and poor COVID-19 mitigation practices. Like the Howard League’s reports, the claims made by the NDRN are concerning, however further systematic research on conditions and practices in children’s residential care is necessary to substantiate them.
- 3.49 Findings from Huggins-Hoyt, et al. (2019a) which focus on racial disparities across public and private agencies in a US context suggest that Black/African American children fared “marginally better” in privatised systems than in non-privatised systems when measuring number of removals from their homes and length of time in care (although they found that they had more placement moves/settings in the privatised system). They suggest that this could be due to private agencies being generally smaller institutions that are spatially located within their communities. It

should be noted however that this is not reflective of the private residential care market in the UK as demonstrated in the section on out-of-area provision.

- 3.50 Steen and Smith (2012) reviewed available literature comparing private and public fostering provision at an organisational level, and concluded that results on permanence outcomes were mixed, but that research regarding safety “indicated a clear decline following privatisation” (p.857). This claim is based on evidence from Florida that tracked lower re-abuse rates in areas served by early privatisation pilot projects, but which then reversed following the statewide transition to foster care privatisation. They note concern but conclude that more research on the safety of children is paramount.
- 3.51 Huggins-Hoyt, et al. (2019b) produced mixed findings when comparing safety outcomes between privatised and non-privatised provision. On one hand they found that private agencies performed significantly worse than public agencies on recurrence of maltreatment of foster children who had previously been victims of substantiated or indicated maltreatment allegations in the 6 months prior. However, conversely, they found private agencies performed significantly better than public agencies on the maltreatment-in-care outcome which denotes that children in private foster agencies are less likely to experience maltreatment by a foster parent or caregiver while in care.
- 3.52 They suggest some reasons for these results: private agencies could perform worse due to the ‘principal-agent problem’ of commissioners being unable to sufficiently determine if private agencies are able to provide “appropriate services to families to mitigate the reasons for past and future occurrences of maltreatment”. This, they suggest, could be due to private agencies employing less experienced staff. However, explaining the success of private agencies in outperforming public agencies on the maltreatment-in-care outcome, they further suggest that privatised systems may have the autonomy, flexibility and agility to “develop and implement more responsive and innovative services and programs to placement resources (foster parents) and children while still in care”.
- 3.53 Coles (2015) delivered strong quantitative evidence that non-privatised systems in the US have higher rates of what they describe as ‘effectiveness’. Effectiveness in

this study refers to “the rate of improvement of the child while in care” and was observed using variables regarding “total number of removals, exit to emancipation, and a child’s discharge reason from care”. They therefore suggested that “reasons for higher rates of effectiveness may be the result of higher rates of achieved permanency, better service provision, lower rates of child recidivism within the system, or lower rates of children aging out of the system” (p. 112).

### **Cost-effectiveness, competition and commissioning**

- 3.54 This section is mostly comprised of evidence that our quality appraisal has recognised to be of ‘low’ to ‘moderate’ evidential quality, because it largely comes from academic discourse based on documentary analyses, and report narratives from professional experience, as opposed to primary or secondary comparative research data. The Sellick (2006; 2011; 2014) articles, Kapp and Propp (2002) and Swartz (2004) rely on qualitative evidence that provides insight into decision-making in commissioning for-profit services and stakeholder experiences of privatised provision, but do not offer comparisons. There is however one study (Coles, 2015) that is of ‘high’ evidential quality and provides comparisons between privatised and non-privatised provision in a US context.
- 3.55 One of the promises of free market economics is the ability to instigate competitive tendering and consequently provide cost-effective services. Scourfield (2007) identified a concern during the New Labour era in what he coined as the process of ‘caretalisation’ of residential care. By this, he meant “(1) the increasing concentration of both ownership and power in the hands of the few; and (2) the situation where, increasingly, providers have demonstrated that they are both prepared and able to shape the terms of the market” (Scourfield, 2007: 165). Notably, he was discussing this in relation to marketised older people’s care provision, however he also notes that at that point in time, this was also occurring in the children’s residential care market.
- 3.56 As Sellick and Connolly (2002) suggested in an early self-described ‘myth-busting’ study of IFAs, the initial move toward outsourcing in children’s foster care in the UK tended to encourage business from not-for-profit voluntary and charitable organisations. This suggestion was made based on their own survey study



recruitment yielding responses largely from not-for-profit voluntary organisations (60%) and charitable organisations (20%), with only the final 20% comprising responses from for-profit agencies. Nevertheless they recognised that they were unable to determine the true composition of the market at this stage. Despite this, surveyed commentators were critical of IFAs' "prohibitive" agency fees, estimating that they were "about three times greater than those of in-house local authorities" (Sellick and Connolly, 2002: 110). However, again, they note that the basis of these calculations is unclear.

- 3.57 In interviews with Independent Fostering Provider (IFP) managers, Sellick (2014) noted that LAs use IFPs as a last resort. This was recognised as being due to "the complexity of placing externally in terms of getting through the process, getting approval and funding agreed" and that "internal carers are people who they know" (Sellick, 2014: 1799). This is further evidenced in Sellick's previous studies (2006; 2011) and suggests that partnership working between public commissioners and private providers is often not a preference at the level of practice, creating more work and complexity for commissioners to place children with IFPs.
- 3.58 Kapp and Propp (2002) interviewed parents about their views on foster care provision in a privatised system in the US, but the study is not specifically about privatisation. Nevertheless, they found that parents were frustrated at inconsistency in communication from private-sector staff and a perceived lack of communication and clarity around governance and responsibility between state and private agencies. This carries synergies with the Sellick studies about the complexities involved in commissioning across sectors, and the ground-level issues arising from non-linear governance.
- 3.59 They noted that staff seemed overloaded and there was high worker turnover, which contributed to discontinuity and inconsistency in staff-parent relationships. One parent suggested that the private-sector foster carers seemed unprepared for the role or did not realise "what they're getting themselves into":

These people have got to know what they're getting themselves into prior to ever having a child in their home, you know? There are so many cases I can tell you about of other parents that have told me the same thing. It's just incredible. The

foster parents have no clue. And then they go and screw up things to actually make them worse than your child being in foster care, you know? It makes absolutely no sense (Kapp and Propp, 2002: 237).

3.60 As stated, the Kapp and Propp (2002) evidence is about parental views more generally, and without a comparison it is difficult to make conclusions about the specific impacts of privatisation on these experiences, and whether or not parents and other stakeholders find that navigating public sector systems to be different or better.

3.61 Returning to competition and cost-effectiveness, Narey and Owers (2018) have more recently noted that the reality of the UK market is that “the shortage of carers in particular places and for particular types of children has helped create a marketplace, which Independent Fostering Agencies (IFAs) have dominated and where they have, sometimes, been able to dictate pricing.” A commissioner was quoted as saying:

I was left fuming last week. One of our regular IFAs came in with a package well over the usual price because they knew we would have to pay-up. We had no alternative... they had us over a barrel and we paid. I'd like to be able to say we won't use them again but I will have to. (Narey and Owers, 2018: 65).

3.62 The Howard League for Penal Reform (2019) share similar sentiments; they were consulted by a Director of Children's Services who described children's residential care as a 'wild west' market and that there was a “reluctance to tackle private providers who can easily find business elsewhere”. Coles (2015) provides further quantitative evidence from a US-wide study comparing the 'efficiency' of privatised and non-privatised provision and found that cost of service provision was higher in states with privatised fostering provision.

3.63 Narey and Owers (2018) further state their disappointment that private equity investment has created a situation of fast-paced buying and selling of IFAs with investors taking high returns and leaving the providers with the burden of debt that then causes them to inflate their prices. The CMA (2022: 113) similarly notes that this model can make businesses not profitable in the short term, and that the tumultuous market can bring about unstable conditions that can have “negative

effects on children”. However, they note this is more likely for children’s homes than fostering agency providers, owing to the affective relationships built in foster care placements. They note that “the foster carers themselves would not necessarily cease to provide foster care simply because their agency withdrew from the market. The main issue would be transferring the foster carers to another agency; if carried out smoothly, this should not directly affect the experience of children.”

3.64 There is a notable difference in tone between the aforementioned Narey and Owers (2018) report, and the Narey (2016) report from just two years prior, wherein there was less concern about profits due to private providers’ reportedly competitive prices. This may be evidential of the accelerated rate at which the suppliers have managed to gain advantage of the market (at the expense of the buyers) in more recent years.

3.65 This is recognised by Action for Children (2022) in their response to the CMA (2022) report. Action for Children (2022: 2) reported that according to their calculations (based on Department for Education statistics) “the rise in independent for-profit provision of residential care placements is a relatively recent phenomenon. The cost to local authorities of private provision has risen by 83% in just the last six years.” Their concern appears to be with the rate of the trend towards “increased concentration of a small number of large providers financed by risky lines of credit” (p. 3). Action for Children called on the government to ask questions “about who is competing and how they are competing, not just what competition there currently is” (Action for Children, 2022: 3, our emphasis).

3.66 A further potential related issue noted by Jayaratne and Faller (2009) in their US-based comparative survey of public and private agency foster care workers is that private agency foster carers were found to be less committed to their agencies and child welfare, and were more likely than their public-sector counterparts to have taken the position because it was the only one available. They note that the difficulties in recruiting and retaining foster carers in the long-term could have considerable potential negative consequences for children and families. In their discussion they recognise that in the programmes under study, private agency workers were less well-paid, and more likely to be white, unmarried and childless.

They posit the possible explanation that the workers are inexperienced in the job market are using the opportunity to test their suitability for this particular work, at possible detriment to the vulnerable children they are responsible for. It should be noted that this is a speculative assumption on the authors' part, however they are critical of the "penny-wise/pound foolish" approach to worker compensation in the private sector and claim that the findings "appear to represent exploitation in the form of low wages and minimal benefits of young, single, white women" (Jayaratne and Faller, 2009: 258).

- 3.67 On the other hand, in her ethnographic work with foster families in the US, Swartz (2004) recognises that foster carers sought to improve the care they provided without any financial incentives to do so. Swartz's (2004) study was based on foster families in a nonprofit agency, where foster carers "needed money to do the good work of caring for children, but it did not stand as the primary rationale for fostering." A foster carer was said to "regularly spen[d] more money on the children than the stipends provided. Foster payments were fixed, with no market incentives for better care, yet she (and others) continually tried to improve the care." (Swartz, 2004: 576).

### **Impacts of profit motives and financial incentives**

- 3.68 Two sources (McDonald, et al. 2000; Zullo, 2002) in this section are rated as 'high' quality, owing to their robust methodological approach and comparative design, however both of these sources are US-based studies and are therefore limited in their applicability to the Welsh context. Further evidence is provided from a UK-based review study (Garrett, 2008), reports (Children's Commissioner (England), 2020; CMA, 2022; MacAlister, 2022), and a journalistic investigation (Holmes and Singer-Vine 2018). These all scored 'low' in our quality appraisal.
- 3.69 A number of sources touch on ethical debates relating to profits and financial incentives in children's residential care. The CMA (2022) highlights relatively high profit margins (averaging 22.6% between 2016 and 2020 for children's homes providers, and 19.4% for the largest independent fostering agencies). MacAlister (2022: 158-159) refers to these statistics in his Independent review of children's social care, describing it as 'profiteering'. This forms part of a broader argument in

the MacAlister report built on the premise that “Providing care for children should not be based on profit. Much like state education, we should have a sector that is free from profit motive and the distorting impacts of a financial market.” MacAlister goes on to recommend levying a windfall tax on the largest private children’s home providers and IFAs and establishing new administrative bodies, Regional Care Cooperatives, that “will give local authorities the power and means to rebuild publicly owned and not-for-profit foster and residential homes” (MacAlister, 2022: 167-169).

3.70 This ethical statement and set of recommendations hinge on similar concerns around financial incentives raised by the results of US-based studies such as McDonald et al. (2000) and Zullo (2002). While it should be noted that the context of these studies is not similar to the UK model administratively or culturally, they refer to financial incentives for certain outcomes for care experienced children.

3.71 McDonald et al. (2000) longitudinally track the adoption trends in Kansas across a period of change in the administration of children’s out-of-home care from a state-managed care model, through to a pre-privatisation reform model (managed by the Kelloggs Foundation), and finally to a privatised model. They found that adoption rates were consistently higher under the reform and privatised models than the state-managed model ( $p = 0.0000$ ). There was little difference between adoption rates under the reform and privatised models. They note that:

What is perhaps most interesting is that the same results were achieved under a reform initiative that provided some additional resources while emphasizing aggressive service provision within the existing organizational structure as have been achieved under a more radical reform of service delivery structure and management (McDonald, et al. 2000: 173).

3.72 Both of these models used similar financial incentives for quick permanent adoption. Two conclusions can be drawn from the McDonald, et al. (2000) results. Firstly, a fully privatised initiative achieved similar outcomes to the reform initiative. Secondly, that incentivising a particular standardised outcome, while potentially successful in achieving said outcome, may chime somewhat with the “distorting impacts of a financial market” that MacAlister (2022) warns about. It should be noted that there

are significant differences between adoption practices in the US and the four UK nations. It is a more common outcome for looked after children in the US, and children are placed in adoption placements throughout their childhood and adolescence in the US (e.g. see Taussig et al.'s 2022 longitudinal study) compared to children rarely being adopted post-primary school in the UK.

3.73 This being said, as noted in Garrett's policy overview (2008: 313), similar incentives for similar outcomes in the form of 'performance contracting' were proposed in the UK by the Secretary of State for Education and Skills, who offered agencies a "powerful incentive to achieve permanence for children through being paid a set amount per child. They would be free to retain unused funds – either as profit or for reinvestment, depending on the nature of the organisation – resulting from a successfully managed and supported return home, or to adoption."

3.74 For another example of financial incentives for standardised outcomes, consider Zullo (2002) who described a converse phenomenon in Milwaukee, wherein private foster care was "associated with a reduction in the movement of children to permanent living arrangements" (p. 595). Zullo (2002: 595) found that the privatised model (arguably unintentionally) incentivised maintaining the status quo for children in care, and not to attempt family reunification or other permanent outcomes:

The private agencies were not rewarded for uniting family members. On the contrary, when reunification did occur, a new foster child was allocated by DHS to fill the vacancy, causing private agencies to incur staff time related to placing a new child. Under these arrangements contractors wishing to economize on staff labor costs had incentives to secure children in stable foster homes and minimize reunification efforts. (Zullo, 2002: 596).

3.75 As Zullo (2002: 597) noted, "In this instance, the contract terms implicitly reinforced longer spells in foster care." However he also warned against revising the remuneration system to encourage reunification, as it risks creating a structural incentive for case deposition that could potentially "expos[e] children to the risk of a premature transfer" (p. 596). The concern, then, is that financial incentives can detract from making discretionary case-by-case decisions in the best interests of the child. Zullo (2002: 596) summarised the child protection concerns:

This dilemma exemplifies the inherent tension between private contracting and the role of most social services. Contract relationships are economic, and by definition, economic formulas impose value and uniformity on the performance of contractors. To enhance survival probability, private agencies delivering social services are encouraged to adjust operational policy in response to the contract terms. Indeed, some contracts are explicitly designed to manipulate private agency behavior and produce specific outcomes. The rewards established by the contract potentially transform into workplace rules and practices that channel the decisions and recommendations of social services workers. Tension then arises when the service directives set by the contract and the welfare of the client diverge. When that occurs, actions on behalf of the client are confounded by demands to advance the financial position of the agency.

- 3.76 For reasons of child protection, Zullo (2002) cautions against structural incentives and contract relationships, and recommends that any authority over decision-making not be handed to private operations who have motives other than the protection of the child:

Arguably the child protection system functions best when child protection workers exercise their discretionary judgment for the benefit of children and their families, and are sheltered from organizational constraints and pressures. Establishing such an environment is challenging. All work systems, including governmental ones, have rules, expectations, and culture that shape employee behavior. However, when public agencies delegate service delivery to private entities the authority for creating such a 'neutral' environment is delegated as well. This loss of control, combined with structural incentives flowing from the contract relationship, increase the risk of operational rules that shape the decisions and actions of service professionals in economic terms, rather than social ones. In this way, private contracting may be fundamentally inconsistent with the complex, diverse and highly discretionary function of protecting children and rehabilitating families. A public operation may provide a superior institutional environment for shielding child protection workers from pressure to incorporate organizational motives into their decisions and service activities (p.597).

- 3.77 Holmes and Singer-Vine (2018) raised related child protection concerns in their journalistic piece for BuzzFeed. As a media article with vagueness in reported methodology the evidence has been rated 'low' quality in our quality appraisal, however they do contribute concrete examples that are related to Zullo's (2002) concerns. They conducted interviews with whistleblowers and had sight of confidential documents.
- 3.78 In their UK-based investigation into a large for-profit provider of children's homes, Holmes and Singer-Vine (2018) imply that budgets were squeezed and staff cut to 'remain attractive to investors'. They detailed unhygienic conditions and elements of disrepair, as well as a lack of appropriate support for vulnerable young people, and voiced child safety concerns. Running on 'skeleton staffing', they claim that overworked and under-trained staff find themselves in positions where they feel they have to physically restrain children for their own safety. They further note the financial incentive to maximise capacity and maintain full occupancy. The authors allege that this motive to 'fill beds' can be prioritised over risk concerns about mixing vulnerable children with violent peers. In contrast, Gharabaghi's (2009: 172) Canada-based interview study with private children's home staff acknowledge that there are financial losses from not filling to maximum capacity but "maintain[ed] the pre-eminence of service integrity" and "took the financial losses of empty beds resulting from service considerations out of their profit margin." In this way, it must be stated that while there is undeniable tension between service integrity and profit motives, that it is not a certainty that private providers will always prioritise profit-making. Further research would improve understanding of the operational and practical implications of profit motive.
- 3.79 On the topic of budget cuts, the Children's Commissioner (England) (2020) report provided further qualitative evidence, albeit not to the same concerning level as the Holmes and Singer-Vine (2018) BuzzFeed piece. The Children's Commissioner (2020) reported that a private equity investment model is based on mergers and acquisitions where providers sold children's homes, carers or residential schools to other providers, and this is based on the notion that the purchaser will be able to make a greater profit from the commodity in the future. This ties in with Hunter's (2005: 27) journalistic piece (which, it must be noted, scored 'low' in our evidence



quality appraisal) which concludes "Nevertheless, venture capitalists eventually expect to see a return on their investment. So, while most of the recent management buy-outs are considered to be medium to long-term investments, it is likely that many will be sold on in the not-too-distant future."

3.80 In the Children's Commissioner for England's interviews with staff members in these private providers, they gave an indication about the implications of the private equity model (of growing the value of the asset by increasing profits) on everyday service provision. Examples include cuts to spending on children affecting activity budgets ("Before if they wanted to go anywhere, it would have been done. Then it went to £30 a week and since we live in a rural area that money has to cover a lot of things so it doesn't go very far."), In one instance a staff member had to "fight to persuade the new company to keep personal savings accounts for the children, despite this being a statutory right for looked after children" (Children's Commissioner (England), 2020: 20):

We had savings for the young people and I was very conscious that the savings would continue to accumulate. We got that sorted in the end. They now do that for the young people ... They initially said you have to take it out of petty cash but now they save it at head office for us. – private children's home staff (Children's Commissioner (England), 2020: 20).

3.81 It must be noted that while the abovementioned Children's Commissioner (England) report highlights issues and some serious concerns regarding financial cuts that should be investigated by further research, they did not conduct a comparison study with staff in not-for-profit children's homes.

3.82 Regarding children's own understanding of the profit motive and financial decisions in their care provision, de Montigny (2005) provides ethnomethodological observations of children directly displaying their understanding (and disapproval) of financial factors impacting decisions about, and shaping their experience of being a child in care. The Children's Commissioner (England) also recognised that young people interviewed were 'split' on whether they cared about or understood the implications of the ownership status of their placement, although they had stronger (but in no consistent direction) opinions when it came to residential care

placements, as opposed to foster care. It was reported that “the children picked up on important nuances in the way their care was organised, such as the prevalence of branding or the relationship between homes and special schools” (Children’s Commissioner (England), 2020: 4). These points go some way to contradict the quote from a Managing Director of a privatised residential care provider in Hunter (2005) that there has been “no difference” for the young people following the shift from LA-managed provision.

- 3.83 Garrett (2008) shares the concern of a profit motive reallocating resources away from where they may be most helpful to children. He cites the Association of Directors of Social Services (ADSS) who suggest that such a ‘perverse’ motive could reduce “direct investment in front-line services for children in care” and “ossify patterns of expenditure, precluding strategic redirection of resources over time towards earlier, preventative interventions” (Association of Directors of Social Services, et al. 2007, in Garrett, 2008: 314).
- 3.84 The US-based National Disability Rights Network (2021) provide a recommendation to Congress to bar private equity investors from behavioural healthcare, and recommend that states enforce licensing requirements and include the condition of submitting more and better-quality financial disclosures to state regulators in order to “pierce the corporate veil so that private equity funds can be held liable for serious abuse, neglect, and fraud for more than their initial investment into the facility LLC” (p. 64). The authors’ concerns with the private equity model rest on their attribution to it of issues such as abuse, staffing shortages, poor facility conditions, and unethical practices such as physically restraining children and misusing psychiatric medicine as a form of chemical restraint. The suggestion is that these comprise cost-cutting exercises and symptoms of underspending (with a potential view to maximise profits). While this makes for alarming reading, it is worth noting that the authors make these observations within a US context, based on abuse reports. They do not provide a comparison to nonprofit providers.

## 4. Conclusions

- 4.1 It is clear that the impact of the private sector in children's foster and residential care services on the quality of care and outcomes for children is an under-researched area, particularly in the UK. This is surprising, considering it is a multi-million pound and growing sector and has been the subject of so much critical commentary. Nonetheless, our evidence review has identified a few highly pertinent, good quality studies, that can aid policy-making in this area. Supplementing these, was some contextually and substantively relevant grey literature that, while lacking the relative rigour and robustness of peer-reviewed studies, help provide perspective through ground-level experiences of, and narratives around, the issue of marketised children's residential and foster care.
- 4.2 We organised the findings of our evidence review thematically, with some themes underpinned by stronger evidence than others. Findings within the topics of placement quality, placement stability and breakdown, out-of-area provision, and impacts of profit motives on residential care placements carried more weight.
- 4.3 Regarding placement quality, Steen and Smith's (2012) US-oriented literature review as to whether private or public agencies are better remained inconclusive overall. Other evidence from the UK indicated that regulators were statistically significantly more likely to rate for-profit providers of children's residential care as low quality when compared to local authority and third-sector providers (Bach-Mortensen, et al. 2022). In addition, Sellick and Connolly (2002) found that 46% of the IFA foster carers in their sample had reported no previous fostering experience, suggesting that privatised provision is more likely to employ inexperienced foster carers (see also Steen and Smith (2012) whose findings concur with this). As well as regulatory quality assessments, children's own views are also important here. Selwyn, et al. (2008) produced evidence that indicated that children were generally positive about their IFA placements, in a study of one provider, and in some instances claimed a preference for this over their previous LA placements.
- 4.4 Placement stability was found to be negatively impacted by for-profit outsourcing, with a statistically significant association between for-profit outsourcing and the increasing number of children only remaining in a residential placement for less

than two years (Bach-Mortensen, et al. 2023). One reason posited for this by the Children's Commissioner for England (2020) is that long time experienced staff can be lost in the turmoil of acquisitions and restructures, contributing to reduced continuity in client-facing practice. Petr and Johnson's (1999) and Steen and Duran's (2013) evidence from the US concurred with this, as both studies also found that children had more placements under privatised systems.

- 4.5 Local authorities that rely on outsourcing to private agencies were found to have the highest rates of out-of-area placements. This was regarded as a supply issue that was considered to be dictated by market conditions which impeded on area-appropriate placements, particularly for children with complex needs (Bach-Mortensen, et al. 2023). Private companies were said to establish homes in "cheaper and 'less desirable' parts of the country," creating the situation where children were sent to live in out-of-area placements and thus displaced from their communities. This was thought to negatively impact looked after children's wellbeing, as it contributed to feelings of isolation and created barriers for their loved ones to travel long distances to visit them (Children's Commissioner (England) 2019).
- 4.6 Financial incentives for specific or standardised outcomes in children's social care trajectories were recognised to carry the potential to negatively impact on their welfare, as operational policy could facilitate a refocus of operational policy away from child-centred decision-making and towards economically-oriented directives (Zullo, 2002). As McDonald, et al. (2000) found, financial incentives can accelerate and increase the likelihood of specified outcomes (in their case, adoption outcomes in a US context), however as Zullo (2002: 596) warned, there is a risk of creating a structural incentive for accelerating case disposition that may "expos[e] children to the risk of premature transfer".
- 4.7 Family reunification was found to be the most common outcome of an episode in care (Goldacre, et al. 2022), however privatised provision was associated with an increased likelihood of re-entry into the care system for children who had previously been reunified. The authors note that the effect size was low after controlling for other variables. Regarding other outcomes and wellbeing, there was stronger

evidence coming from US studies than the UK, and this is an area that should be a priority for further UK and Wales-based research.

- 4.8 Some UK literature provided commentary suggesting that marketisation further intensified associations between children in care and negative life outcomes (Carey, 2019). One mechanism through which this might occur is through excessive criminalisation resulting from looked after children being more regularly in contact with the police, particularly when they are called to children's homes for minor issues that overworked staff do not have the capacity to handle due to understaffing (Howard League of Penal Reform, 2016; 2018).
- 4.9 In the US, Huggins-Hoyt, et al. (2019a) looked at racial disparities and found that privatised systems yielded "marginally better" outcomes for Black/African American children than non-privatised systems. Their suggestion is that private agencies are generally smaller and embedded in home communities, thus providing better support for these children. This is telling of the differences between US and UK children's care markets, as our evidence points to private provision in UK being more likely to result in out-of-area placements. The authors do not control for for-profit and nonprofit privatised provision in their analyses, only comparing privatised provision (including both for-profit and nonprofit) and non-privatised provision. Coles (2015) provided further evidence that concluded that non-privatised systems were more effective in producing better outcomes for children in care.
- 4.10 Regarding safety outcomes, Huggins-Hoyt, et al. (2019b) uncovered mixed findings when comparing private and public agencies. Private agencies were found to perform better than public agencies on in-care maltreatment (e.g. fewer reports of abuse were made in private agencies). However, they also performed worse than public agencies on recurrence of maltreatment. This was suggested to be a symptom of privatised provision potentially being more agile and resourceful in their responses, but lacking the staff experience and embeddedness in other aspects of social care that public agencies may have. Other US literature (Steen and Smith, 2012) found that safety outcomes were on a "clear decline following privatisation", however this study is not without its limitations. As noted, it is unclear how seamlessly these US findings would translate to a Welsh context, however it is

worth considering the suggestions that staff experience, institution size, and embeddedness in communities all have the potential to impact on children's wellbeing and life outcomes.

- 4.11 A number of recent UK-based reports have provided commentary around cost-effectiveness and competition. Sellick and Connolly (2002) noted early on that the prices charged by Independent Fostering Agencies (IFAs) were 'prohibitive'. Narey and Owers (2018) recognised that the UK residential care market was increasingly dominated by IFAs who were often able to dictate pricing. Commissioners reported having no choice but to pay the prices set by the IFAs, owing to a lack of carers and alternative resource. The growth of private equity investment in this market was considered to have helped produce tumultuous conditions that cause providers to carry a debt burden that they cannot sustain without raising their prices. The CMA (2022) noted the potential risk of this model on placement continuity and breakdown, particularly in the residential care sector, and warned of the possibility of negative effects on looked after children. Action for Children (2022) further warn of the accelerated trend towards market consolidation by a small number of large providers financed by "risky lines of credit" and noted that the costs of private residential care provision to local authorities had increased by 83% in the six years prior. Coles (2015) found that private provision was also more costly in the US. This evidence suggests that contrary to the promise of competitive pricing in the free market, the cost of private provision is high and, in the UK market, dominated by a smaller number of large companies funded through relatively risky models of private equity investment.
- 4.12 Finally, we note that the implications of for-profit children's residential and foster care provision are relatively under-researched and recommend a number of areas for further research. Firstly, there is a notable lack of research that considers looked after children as competent stakeholders whose own perspectives and experiences of marketised residential care should be taken into account, especially if the aim is to produce public policy that will impact their lives directly.
- 4.13 More research that directly investigates and compares wellbeing outcomes across for-profit and not-for-profit provision would be useful, as current academic

discussion is largely narrative and tends to rely on assumed connections without an strong evidence base. Equally the tension between service integrity and profit motives requires further exploration at the level of practical operations, as much of the current literature relies on the assumption that for-profit providers will always prioritise profit-making. These are plausible claims, however they must be substantiated by robust research evidence.

- 4.14 While there exists some research on the matter, further analyses of trends in ownership status of residential care providers is recommended, with a particular focus on the association with placement quality, both with regard to regulatory measurements and other quality criteria.
- 4.15 There is some evidence to suggest that care providers value having a good reputation for achieving successful outcomes. However, there is a research gap regarding the extent to which this is a driving force for for-profit providers, and what implications this has on market competitiveness. Crucially, further investigation is required around the negative impacts this could have for some of the more complex cases that are allegedly rejected by for-profit providers for seemingly reputational reasons.
- 4.16 Lastly, more research is recommended on the effects of marketised care provision on case disposition outcomes such as family reunification, not only on the comparative rates between for-profit and not-for-profit provision, but also on the qualitative mechanisms that facilitate transitions from the care system to life beyond care.

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**Annex A: Peer reviewed sources included in the evidence review**

<b>Year</b>	<b>Author(s)</b>	<b>Title</b>	<b>Case country</b>	<b>Study Design</b>	<b>Sample size</b>	<b>Evidence Quality</b>
1999	Petr & Johnson	Privatization of Foster Care in Kansas: A Cautionary Tale	USA	Quantitative data Longitudinal comparison Administrative data	n = 99	High
2000	McDonald et al.	Adoption Trends in Kansas: Managing Outcomes or Managing Care?	USA	Quantitative data Longitudinal comparison Administrative data	n = 2538	High
2002	Kapp & Propp	Client Satisfaction Methods: Input from Parents with Children in Foster Care	USA	Qualitative data Focus groups	n = 47	Moderate
2002	Sellick & Connolly	Independent fostering agencies uncovered: the findings from a national study	UK	Qualitative data Survey	n = 55	Moderate

2002	Zullo	Private Contracting of Out-of-Home Placements and Child Protection Case Management Outcomes	USA	Quantitative data Administrative data	n = 3243	High
2004	Swartz	Mothering for the State: Foster Parenting and the Challenges of Government-Contracted Carework	USA	Qualitative data Ethnographic	n = 42	Moderate
2005	de Montigny	In the company of strangers: Being a child in care	Canada	Qualitative data Interviews Ethnomethodological	Unknown	Low
2006	Sellick	Opportunities and Risks: Models of Good Practice in Commissioning Foster-Care	UK, USA, and Australia	Qualitative data Interviews	n = 20	Moderate

2007	Scourfield	Are there reasons to be worried about the 'caretalisation' of residential care?	UK	Critical overview	N/A	Low
2008	Garrett	Social Work Practices: Silences and Elisions in the Plan to "transform" the Lives of Children "Looked after" in England	England	Policy document analysis	N/A	Low
2008	Selwyn et al.	The Views of Children and Young People on Being Cared For by an Independent Foster-Care Provider	UK	Quantitative data Qualitative data Survey	n = 140-160	Moderate

2009	Gharabaghi	Private Service, Public Rights: The Private Children's Residential Group Care Sector in Ontario, Canada	Canada	Qualitative data Interviews Document analysis	n = 20	Moderate
2009	Jayaratne and Faller	Commitment of Private and Public Agency Workers to Child Welfare: How Long Do They Plan to Stay?	USA	Quantitative data Survey	n = 269	High
2011	Sellick	Commissioning Permanent Fostering Placements from External Providers: An Exploration of Current Policy and Practice	England and Wales	Qualitative data Interviews	n = 24	Moderate

2012	Steen & Smith	An organizational view of privatization: Is the private foster care agency superior to the public foster care agency?	USA	Literature review	N/A	Low
2013	Steen & Duran	The impact of foster care privatisation on multiple placements	USA	Quantitative data Longitudinal comparison Administrative data	n = 47 (counties in 1 US state)	Moderate
2014	Sellick	Foster-Care Commissioning in an Age of Austerity: The Experiences and Views of the Independent Provider Sector in One English Region	England	Qualitative data Interviews	n = 6	Moderate



**Annex B Grey literature / non-peer reviewed sources included in the evidence review**

<b>Year</b>	<b>Author(s)</b>	<b>Title</b>	<b>Case country</b>	<b>Study Design</b>	<b>Sample size</b>	<b>Evidence Quality</b>
2005	Hunter	Capital Gains	UK	Journalistic	n = 2	Low
2016	Narey	Residential Care in England Report of Sir Martin Narey's independent review of children's residential care	England	Independent review	Unknown	Low
2016	Howard League for Penal Reform	Criminal care: Children's homes and criminalising children	England and Wales	Thematic report	Unknown	Low
2018	Narey and Owers	Foster Care in England: A Review for the Department for Education	England	Independent review	Unknown	Low

2018	Holmes and Singer-Vine	Danger And Despair Inside Cambian Group, Britain's Largest Private Child Care Home Provider: Big rewards for investors and executives, "chaos" and "unhygienic" conditions for children	UK	Journalistic	Unknown	Low
2018	Howard League for Penal Reform	Ending the criminalisation of children in residential care. Briefing three: Hearts and heads - Good practice in children's homes.	England	Policy brief	Unknown	Low
2019	Howard League for Penal Reform	Private profit from children's services	UK	Blog Critical overview	N/A	Low
2019	Children's Commissioner (England)	Pass the parcel: Children posted around the care system	England	Thematic report	Unknown	Low
2020	Children's Commissioner (England)	Private provision in children's social care	England	Thematic report	Unknown	Low
2021	Competition and Marketing Authority	Children's social care market study: Final report	UK	Market report	Unknown	Low

2021	National Disability Rights Network	Desperation without dignity: Conditions of children placed in for profit residential facilities	USA	Thematic report	Unknown	Low
2022	MacAlister	Independent review of children's social care: final report	England	Independent review	Unknown	Low
2022	Action for Children	Response to CMA interim report	UK	Stakeholder response to report	N/A	Low

## **Annex C – Acknowledgements and Declaration of Interest**

### **Acknowledgements**

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### **Declaration of interest**

Sally Holland was previously Children’s Commissioner for Wales (2015 – 2022). In that role she called on the Welsh Government to pledge to end the use of profit in children’s social care. She has contributed to this research as a professor at Cardiff University.