

# Final stage impact assessment

Title: Profit capping powers – Children’s social care market

Type of measure: Primary legislation – Children’s Wellbeing and Schools Bill

Department or agency: Department for Education

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# 1. Summary of proposal

1. In its 2022 study of the children’s social care placements market, the Competition and Markets Authority (CMA) highlighted: a lack of placements of the right kind, in the right places; materially higher prices and profits among the largest providers than the CMA would expect to see in a well-functioning market; and very high levels of debt among some of the largest private providers creating a risk of disruption to placements.
2. Currently, local authorities are reliant on places provided by private providers who dominate the market. As a result, some providers are able to charge unreasonably high prices and make significant profits on the back of some of the most vulnerable children in the country.
3. To combat these issues, we are taking a power in the Children’s Wellbeing and Schools Bill to impose, through regulations made in the future, a cap on the profits of non-local authority registered providers of children’s homes and independent fostering agencies, with the option to extend this to providers of supported accommodation in the future.
4. We are committed to bringing profiteering under control and will use this measure as a last resort, if other market intervention measures are not effective enough in doing so on their own. We will consult publicly before a profit cap is implemented.

# 2. Strategic case for proposed regulation

5. **Problem: Local authorities are under increasing financial pressure to meet the cost of providing placements for looked after children with some private providers making unreasonable levels of profit**
6. Local authorities in England have a number of statutory duties towards “looked after children”. This includes duties to accommodate such children, in children’s homes or other accommodation, or by arranging fostering arrangements, including with relatives, or other foster carers. Local authorities are under a duty to ensure that they can provide sufficient placements for looked after children with a range of foster carers and children’s homes suitable to meet their needs.
7. Over time, the children’s social care placements market has changed and evolved. While local authorities used to provide many of those placements themselves, through their own children’s homes or as a fostering agency in their own right, they are now increasingly reliant on others, largely those in the private sector, to provide such placements and fulfil their statutory duties. The rapid growth of this private provision means that local authorities are sometimes forced to pay inflated sums for placements because they have no other choice in order to comply with the law.
8. **Evidence to support problem statement:** We know that the children’s homes market in particular is dominated by private providers, 83% of children’s homes are provided by private companies, 13% by local authorities and 4% by a voluntary organisation. Of the

privately owned children’s homes, 84% are owned by an organisation that owns multiple homes, and 968 homes by the largest 22 companies.<sup>1</sup>

9. The position in relation to fostering is not as heavily skewed towards the private sector; 44% of foster placements are provided by independent fostering agencies, with the remaining places being provided by local authorities.<sup>2</sup> However, Ofsted data on placements also shows that placements provided by independent fostering agencies are growing rapidly and at a faster pace than local authority provision, having increased from 41% in 2020. If this trend continues, there is a real likelihood that private provision will supply the majority of fostering placements in the future, as is already the case in the children’s homes market.

### **Foster Carers by Sector, England, 2019-20 to 2023-24**

From: [Fostering in England underlying data 2024 final.ods](#)

% of approved carers in England which are:	2019–20	2020–21	2021–22	2022–23	2023–24
LA	58.5%	57.4%	57.6%	56.5%	55.7%
IFA	41.5%	42.6%	42.4%	43.5%	44.3%

10. Alongside the rapid growth in private provision, recent evidence shows that profits within the sector are excessive. In its 2022 study of the children’s social care placements market, the Competition and Markets Authority (CMA) highlighted: a lack of placements of the right kind, in the right places; materially higher prices and profits among the largest providers than the CMA would expect to see in a well-functioning market; and very high levels of debt among some of the largest private providers creating a risk of disruption to placements. The CMA estimated operating profit margins for large providers (between 2016 and 2020) were 22.6% for children’s homes; 19.4% for Independent Fostering Agencies and 35.5% for Supported Accommodation. This compares to net profit levels of private non-financial corporations of 8.8% according to the latest ONS quarterly data on the profitability of UK companies.<sup>3</sup>
11. Further to the CMA’s report, a report by Revolution Consulting published in September 2023 shows similar findings on profit making in the market<sup>4</sup>. The Revolution Consulting report found that council spending on privately run children’s homes more than doubled in the past six years. In 2021/22, local authorities in England spent £1.5 billion on independently-run residential care for vulnerable children – an 11 per cent increase on the previous year – and up from £736.6 million in 2015/16, representing a 105 per cent increase overall. At the same time, the aggregate fee income of the 20 largest independent children’s social care placement providers was £1.63 billion last year, increasing by 6.5 per cent over the previous year. Figures show 19 per cent of this was recorded as profit – amounting to £310 million overall.<sup>5</sup>

<sup>1</sup> Source: [Largest national providers of private and voluntary social care \(March 2024\) - GOV.UK](#)

<sup>2</sup> Source: [Fostering in England 1 April 2023 to 31 March 2024 - GOV.UK](#)

<sup>3</sup> Source: [Profitability of UK companies - Office for National Statistics](#)

<sup>4</sup> Source: [Alt Profit Making and Risk in Independent Children's Social Care Placement Providers final 2023](#)

<sup>5</sup> Source: [Biggest independent children's care providers made over £300 million profit last year – new LGA report reveals | Local Government Association](#)

12. Alongside some extremely high profit levels being made by private providers, we know that local authority budgets are under significant pressure largely due to rapidly increasing placement costs for children in care. There is a range of evidence to support this including from the Association of Directors of Children's Services safeguarding pressures research<sup>6</sup>, the Local Government Association's high-cost placements survey<sup>7</sup>, Ofsted inspection, and regional intelligence.
13. **Justification for intervention.** We need to take action to rebalance and stabilise the dysfunctional children's social care placements market. On 18th November 2024 we published our policy paper 'Keeping Children Safe, Helping Families Thrive'<sup>8</sup>, which set out ambitious reforms across children's social care. As part of these, we are taking forward a package of measures, including through legislation, to rebalance the children's social care placement market – covering children's homes, independent fostering agencies and supported accommodation. These measures will improve competition, regulation and commissioning of placements, and bring greater visibility to the prices local authorities are paying and the profits providers are making.
14. The children's social care placement market interventions we are making are wide-ranging and extensive. They include interventions to improve local practice in commissioning, forecasting and market shaping, better understand how the market is operating by improving the data that is available, boost the supply and diversity of provision in the market by encouraging social investment, and measures to better regulate the market.
15. It is not acceptable for providers to charge already financially stretched local authorities unreasonably high prices and make significant profits on the back of some of the most vulnerable children in the country, and we are committed to bringing profiteering under control. While we expect that our package of market reforms will deliver real change and help us to drive down excessive profit making, we need the power to be able to take further regulatory action if they do not sufficiently rein in profiteering. This is why we are taking powers to cap the profits of providers in the future. This sends a clear signal to the sector about the Government's determination to end unacceptable profiteering on the back of some of the most vulnerable children in the country. We recognise that this would be a significant regulatory intervention, which is why we will engage in full and extensive consultation with the sector in advance of using these powers to ensure that any action taken is proportionate, fair and robust.

### 3. SMART objectives for intervention

#### **What are the policy objectives of the action or intervention and the intended effects?**

16. As set out in Keeping Children Safe, Helping Families Thrive'<sup>9</sup>, ministers are committed to tackling excessive profiteering in the children's social care market and are taking a

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<sup>6</sup> [Safeguarding Pressures | ADCS](#)

<sup>7</sup> [High-cost children's social care placements survey | Local Government Association](#)

<sup>8</sup> [Keeping children safe, helping families thrive](#)

<sup>9</sup> [Keeping children safe, helping families thrive](#)

power to enable the level of profit-making of non-local authority children's social care providers to be capped in the future, if needed.

17. The specific objectives are to:

- a. Reduce excessive profit-making in the children's social care market;
- b. Reduce placement costs for local authorities. This will mean that more money is available to invest in other services, potentially decreasing the likelihood that children will need to come into care in the first place; and
- c. Improve placement quality and suitability for children. Providers may potentially increase the quality of their provision through training and paying staff more or improving the services and facilities they provide without increasing costs, if they are capped on the profit levels they can make. It could also mean that expensive placements that are better suited to the child's needs but were previously out of reach are now affordable for local authorities.

### **What is the intended outcome of the intervention?**

18. The intended outcome of the intervention is to restrict excess profit-making in the children's social care placements market. We are clear that there is, and will remain, a place for private, profit-making provision in the children's social care placements market but we need to balance the rights of providers to make a profit with value for money to the taxpayer and the need to ensure that high quality services which promote good outcomes for children are provided at a reasonable cost.

### **How do these objectives align with HMG objectives?**

19. When the Government came into power in July 2024, they set out 'first steps for change'<sup>10</sup>. These included steps to deliver economic stability and breaking down barriers to opportunity, setting children up for life. Under the mission to break down barriers to opportunity, the Labour Party manifesto stated that '*every child should have a loving, secure home. Labour will work with local government to support children in care, including through kinship, foster care, and adoption, as well as strengthening regulation of the children's social care sector*'<sup>11</sup>.

20. Furthermore, the Labour Government has come into power with a focus on being a '*mission driven*' government which will work '*towards long-term national goals*'. This would involve '*departments working together rather than in silos*' and '*partnership between national and local government*'<sup>12</sup>. One of the Government's six missions focuses on opportunity. This opportunity mission<sup>13</sup> is underpinned by building family security, which includes ensuring every child has a safe loving home.

21. The power to cap provider profits, if utilised, would deliver on these objectives. The aim of the policy is to ensure that high quality placements are delivered for looked after

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<sup>10</sup> [Our first steps for change - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/our-first-steps-for-change)

<sup>11</sup> [Break down barriers to opportunity – The Labour Party](https://www.labour.gov.uk/manifesto/2024/break-down-barriers-to-opportunity)

<sup>12</sup> [Mission-driven government – The Labour Party](https://www.labour.gov.uk/manifesto/2024/mission-driven-government)

<sup>13</sup> [Break Down Barriers to Opportunity - GOV.UK](https://www.gov.uk/government/consultations/break-down-barriers-to-opportunity)

children at a reasonable cost. This will support children’s wellbeing and help them to achieve the best possible outcomes while ensuring that local authorities are able to achieve best value for money. Savings delivered through a reduction in placement costs could be invested in other areas of the children’s social care system, such as earlier intervention, which would have an impact in terms of reducing the need for high-cost placements for some children by addressing needs and providing interventions and support at an earlier stage.

22. Our ultimate aim is to bring profiteering in the children’s social care placements market under control through the variety of other market interventions that we are introducing. The power to cap profits is intended to be a regulatory backstop and would only be used if the other wide-ranging measures did not reduce profiteering.

#### **4. Description of proposed intervention options and explanation of the logical change process whereby this achieves SMART objectives**

23. The preferred option is to take powers, exercisable, if needed, in the future, for the Secretary of State to cap the profits of non-local authority Ofsted registered providers of specified children’s social care placements.

24. Before this preferred option is exercised in future, if, indeed, it is, we will be implementing a wider package of market intervention measures, as set out in ‘Keeping Children Safe, Helping Families Thrive’<sup>14</sup>, which we expect to address the objectives set out in section 3. Our package of market intervention measures and an explanation of how they will achieve our objectives is set out below. In summary, the package includes measures to reshape the market at a national level as well as measures to empower local authorities to secure the best placements at a price that is fair to the taxpayer.

25. **Theory of Change:** Through the following 6 ‘underpinning market measures’, the Department for Education (hereafter “the department”) will i. reduce excessive profit-making in the children’s social care market, ii. reduce placement costs for local authorities, and iii. improve placement quality and suitability for children.

26. If this package of measures does work, changing market behaviour and bringing down local authority spending, then we will not need to use the profit cap powers. However, if market conditions continue to deteriorate and local authority spending continues to escalate, then the profit cap powers will be implemented as a measure of last resort. This would be subject to a full consultation where we would aim to learn more about how to operationalise a profit cap to best achieve our aims, before exercising the power to make regulations to cap profits. Broadly, this intervention, if required in future, would be used to ensure the three SMART objectives that were not achieved through other market measures, are achieved through our ‘hardest’ intervention option, to achieve the outcome(s) of helping to ensure that resources are focused on providing children in care with the best quality of care possible and freeing up local authority resources that could

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<sup>14</sup> [Keeping children safe, helping families thrive](#)

be invested in preventative services to reduce the numbers of children coming into care in the first place.

## 27. Data

- A. **Inputs and activities:** We are working to improve our data on placements to give local authorities the information they need to assess need in local areas and assess longer-term demand for placements.
- B. **Outputs:** We want to ensure that local authorities are supported to better understand, shape and commission placements that suit the needs of children in their area and bring transparency to the cost of placements.
- C. **Change mechanism:** Currently, there is a gap in the data around the underlying costs of different types of children's social care provision. It is difficult to access the data that individual local authorities hold on the prices paid for private placements and their cost breakdown, and there is often only piecemeal sharing of this data across some local authority groupings<sup>15</sup>. These gaps create challenges for assessing whether prevailing price levels in the sector are appropriate. Local authorities need more shared cost information to inform their commissioning practices.
- D. **Outcomes:**
  - i. Enable local authorities to negotiate effectively with providers to secure the best placement for children at the lowest possible cost.
  - ii. Bring about greater cost and price transparency which will aid local authorities in challenging profiteering providers and enable greater central government oversight of the placements market.

## 28. Regional co-operation arrangements and the national support programme

- A. **Inputs and activities:** The government has worked with the sector to design Regional co-operation arrangements and intends to continue working in partnership with local authorities and other services.
- B. **Outputs:** Introducing Regional co-operation arrangements nationwide would significantly reduce the number of bodies seeking to procure accommodation and enable greater efficiency, addressing issues highlighted by the CMA and independent Review of Children's Social Care both recommended a regional approach to planning and commissioning children's care places in their respective reports in 2022.
- C. **Change mechanism:** The Secretary of State is being given the power to direct local authorities to establish regional co-operation arrangements, which is intended to be used as a last resort.
- D. **Outcomes:** We expect RCCs to gain economies of scale and harness the collective buying power of individual local authorities. They will facilitate greater collaboration with relevant partners to improve services for looked after children.

29. Alongside the Regional co-operation arrangements programme, we are also working with areas to improve their local and regional capacity for commissioning, forecasting, and market shaping activities. This programme will support areas in forecasting their

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<sup>15</sup> Source: [Competition and Markets Authority - Final report](#)

future placement needs more accurately, and better understand the overall number of children likely to come into the care system and the different types of placements they might need.

30. Ultimately, we expect Regional co-operation arrangements – combined with our other measures – to bring down local government spending on children’s services and support the elimination of profiteering in the sector.

### 31. Investment in new provision

A. **Inputs and activities:** We are supporting local authorities by providing additional capital investment to boost the amount of children’s homes places available to them.

B. **Outputs:** The Autumn Budget announced £86 million of capital investment in local authorities for the 2025-26 financial year.

#### C. **Change mechanisms:**

- i. Following the Autumn Budget, in November we launched a bidding round for local authorities to apply for match funding to create up to 200 additional open children’s homes beds. Successful bidders will begin work on capital projects from late spring 2025.
- ii. We have also invested £36m to recruit and retain more foster carers – delivering 10 regional hubs (covering 64% of the country) to improve the recruitment process. We have also rolled out the Mockingbird retention programme across these hubs, and invested in Fosterlink, a new support service for local authority foster services. The recent budget announced a further £15 million investment to ensure that every local authority has access to a recruitment hub.

D. **Outcomes:** These projects will provide high quality, safe homes for some of our most vulnerable children and, should, over time, boost supply and thereby improve market conditions reducing the likelihood that the profit cap powers would need to be utilised.

### 32. Provider diversification

A. **Inputs and activities:** We will work with providers, investors, and the sector at large to support them with innovative funding mechanisms – for example social financing models like social outcomes partnerships – to break down barriers to setting up new residential care. We will additionally work with Ofsted to consider a fast-track route for the registration of selected new children’s homes, ensuring that the type of providers we are encouraging back into the market can establish new homes more quickly.

B. **Outputs:** Drive increased competition within the market forcing providers who are making excessive profits to trim these margins

C. **Change mechanism:** By encouraging ethical/social investment in the market we will further increase the number of placements available in areas that need them at a sustainable price.

D. **Outcomes:** To encourage non-profit providers back into the market, central government will act as an enabler. Local authorities looking to purchase placements can achieve the best value for money possible. If this can be achieved at sufficient

scale and speed we will reduce the likelihood that regulatory action in the form of a profit cap would be needed.

### 33. Planning and location assessment

- A. **Inputs and activities:** We are strengthening the location assessment to require that new children's homes applications include an endorsement from the relevant services team, indicating that there is a local need for the proposed home. We are additionally working in partnership with the Ministry of Housing, Communities and Local Government (MHCLG) to examine options to reform the planning process.
- B. **Outputs:** Easier to establish homes where they are needed across the country and preventing children having to be placed out of area because of a lack of suitable local provision.
- C. **Change mechanism:** This reform will give local authorities a greater say on the type and quantity of provision they need in their area and will allow Ofsted to refuse registration where provision is deemed not needed.
- D. **Outcomes:** This reform will help protect against situations we see currently whereby some providers are establishing new children's homes in areas where there are higher returns rather where homes are most needed. In addition, it could also support redirecting investment into areas where provision is most needed.

34. Financial oversight scheme. To help ensure that placements are stable, we will introduce a new financial oversight scheme. The scheme will increase financial and corporate transparency among the most 'difficult to replace' providers to allow us to actively monitor risk of financial failure and cessation of service that could impact stability of placements. This scheme is subject to a separate RIA being submitted in parallel.

35. Mandatory notice period. To complement the advance warning system as part of the financial oversight scheme,<sup>16</sup> we plan to consult on introducing a new requirement for all providers to give both hosting and placing local authorities sufficient notice if a provider makes the commercial/business decision to actively exit the market. The mandatory notice period changes are covered in the financial oversight scheme's separate RIA, referenced above.

36. Summary. Overall, we believe that our reform measures will rebalance the children's social care placements market, improve outcomes for our most vulnerable children, ease pressures on local authority budgets, and clamp down on profiteering by private providers. These measures will help to give us a better understanding of how the market works and monitor it over time, improve practice in local authorities, and boost the supply and diversity of provision in the market, thereby helping us to increase transparency and competition and drive down costs.

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<sup>16</sup> The proposed financial oversight scheme will increase financial and corporate transparency among the most 'difficult to replace' providers, allow for an accurate, real-time assessment of financial risk, and provide advance warning to local authorities of likely provider financial failure, so they can take swift action and minimise disruption to children.

37. Taking a power to step in to regulate through a profit cap also acts as an incentive for private providers to voluntarily change their behaviour. Ultimately, the ability for Government to step in and regulate in this way will ensure, in the event that our other interventions do not have the impact that we expect them to, that excessive profit-making within the children's social care placements market can be curbed.

## **5. Description of shortlisted policy options carried forward**

38. We considered the options that would achieve the best balance between three critical success factors in determining which options to short list. These success factors were that:

- a. The action to be taken was proportionate, i.e. it targets the specific issue as closely as possible.
- b. The action avoids unintended consequences, i.e. it limits the possibility that it could drive behaviours that might worsen the situation.
- c. The action is sufficient to achieve the policy objectives, i.e. the intervention is robust enough to drive down profiteering.

45. Option 1. Business as usual – Given our wider package of market intervention measures, which we believe should bring profiteering under control, we could have decided not to take any further regulatory action at this stage. However, we considered that this would leave an unacceptable gap if, for whatever reason, profiteering in the market was not reined in through our other interventions. This could leave local authorities, and vulnerable children, in an unacceptable position with Government unable to take regulatory action to bring excessive profit-making under control.

46. Option 2. Price cap – After appraising this shortlisted option further, this option wasn't taken forward because it is seen as a less direct solution to the problem, which is profits. It could be difficult to operationalise given that we would need to take account of regional variation in prices. It would also potentially create perverse incentives for providers to cut costs and therefore quality of provision in order to maximise profit under a price cap. In addition to these factors, a price cap has the potential to make some businesses loss-making if it is set at the wrong level which could drive them out of the market and disrupt provision. In summary, this option would be a less direct, and potentially more complicated, difficult to administer and costly (to Government and businesses) solution than a profit cap, with the possibility of greater adverse consequences if set at the wrong level.

47. Option 3. Profit cap – We determined that taking powers to introduce a profit cap is the most direct regulatory solution to addressing the issue of profiteering in the children's social care placements market. It is clear that there remains scope for profit-making in the sector if it is at a reasonable and sustainable level, provides good value for taxpayers and local authorities and delivers the best possible outcomes for some of the

most vulnerable children in the country. Our view is that if it is necessary for us to take further regulatory action to rein in profiteering in the market, a profit cap is the most direct and sensible way for us to do this and balance the competing needs of the various different stakeholders involved. There is a risk that supply of placements might be affected if providers choose to exit the market if we decide to implement a profit cap in the future. However, this will be mitigated as part of our wider market intervention strategy given that it includes taking steps to boost supply and diversify the market.

48. In summary, the preferred option is option 3, a profit cap, because we view it as a more direct solution to addressing the problem. The reasoning for this is explained in the next section.

### **Small and Micro Business Assessment (SaMBA) and medium-sized business impact assessment**

49. The preferred option of a backstop profit capping power, with accompanying duties on registered providers to submit annual returns to the Secretary of State in order for compliance with any future cap would, if implemented, have a direct impact on SMBs and medium-sized businesses. It is, however, important to be clear that there would be no impact on SMBs or medium-sized businesses whatsoever from taking this power in the Children's Wellbeing and Schools Bill itself. The Bill merely provides the power for the Secretary of State to cap profits in the future, with associated requirements to provide annual returns only having effect at the same point that a profit cap was introduced, if at all.

50. Should a profit cap be implemented, registered providers within scope, including any that are SMBs or medium-sized businesses, would be required to complete an annual return, with its contents and format to be determined at a later stage, setting out whether or not they have complied with any future profit cap. They would, if necessary, also be required to provide such supplemental and additional information that the Secretary of State might require in order to assess compliance with a future cap. There will also be associated monetary penalties available to the Secretary of State for breaching any future profit cap or failure to submit an annual return once required to do so.

51. We are committed to a full public consultation in advance of introducing a profit cap and the associated ancillary provisions. This will include specifically consulting with local authorities and representatives of providers, as required in the Bill. This consultation exercise will help to inform the level of any future profit cap, how profit will be determined and a range of other relevant information including the contents of any annual returns that will be required. This will include consideration of the impacts on SMBs and medium-sized businesses, particularly as the administration burden may be greater on them.

52. Lastly, there is a possibility that our wider children's social care market reforms support new entrants to the market, including SMBs or medium-sized businesses. This is because, as outlined in our policy paper, '[Keeping children safe, helping families thrive](#)', "we recognise that a major barrier to establishing new residential provision is the initial set-up cost. To encourage non-profit providers back into the market, national

government will act as an enabler. We will work with providers, investors, and the sector at large to support them with innovative funding mechanisms – for example, social financing models like social outcomes partnerships – to break down barriers to setting up new residential care” (page 21). Therefore, we could see new entrants, potentially of different sizes, enter the market as a result of this wider investment in the market. [Impact assessment continued on the next page, with the regulatory scorecard].

## 6. Regulatory scorecard for preferred option

### Part A: Overall and stakeholder impacts

(1) Overall impacts on total welfare		Directional rating
<p><b>(i) Description of overall expected impact</b></p>	<p><b>Looked after children</b></p> <p>We expect the policy to have an overall positive impact on looked after children. If exercised in the future, a profit cap would ensure that children’s social care placement providers could not make excessive profits. Reducing excessive profit making will help to ensure that resources are focused on providing them with the best quality of care possible and freeing up local authority resources that could be invested in preventative services to reduce the numbers of children coming into care in the first place.</p> <p><b>Local authorities</b></p> <p>We expect the policy to have an overall positive impact on local authorities. Local authorities have a statutory duty to ensure there is sufficient provision in their area for children in care and to make placements that best meet the needs of the child<sup>17</sup>. Currently, as highlighted by the CMA, there is a lack of placements of the right kind, in the right places; materially higher prices and profits among the largest providers than they would expect to see in a well-functioning market. We also know that – as highlighted by the Association of Directors of Children’s Services safeguarding pressures research<sup>18</sup> and the Local Government Association’s high-cost placements survey<sup>19</sup>, as well as evidence from Ofsted inspection, and regional intelligence – alongside the extremely high profit levels being made by some private providers, local authority budgets are under significant pressure largely due to rapidly increasing placement costs for children in care.</p> <p>Reducing profit levels in the market, and therefore costs for local authorities, will enable local authorities to focus resources on more effectively meeting their statutory duties in relation to children’s social care and more broadly. This will provide overall better value for money to the taxpayer and the public purse.</p>	<p><b>Positive</b></p> <p><b>Based on all impacts (incl. non-monetised)</b></p>

<sup>17</sup> Source: [Children Act 1989 \(legislation.gov.uk\)](http://legislation.gov.uk)

<sup>18</sup> Source: [Safeguarding Pressures | ADCS](#)

<sup>19</sup> Source: [High-cost children’s social care placements survey | Local Government Association](#)

<b>(1) Overall impacts on total welfare</b>		<b>Directional rating</b>
<b>(ii) Monetised impacts</b>	<p>See <b>Non-monetised impacts</b> below.</p> <p>The impact of a profit cap, if implemented in the future, will largely be evidenced through lower costs being charged to local authorities for children’s social care placements due to reduced profiteering.</p>	<p><b>Positive</b></p> <p><b>Based on likely £NPSV</b></p>
<b>(iii) Non-monetised impacts</b>	<p>The impact of a profit cap, if implemented in the future, will largely be evidenced through lower costs being charged to local authorities for children’s social care placements due to reduced profiteering.</p> <p>The profiteering that the profit cap would seek to control has adverse impacts for the wellbeing and outcomes of children affected.</p>	<p><b>Positive</b></p>
<b>(iv) Any significant or adverse distributional impacts?</b>	No	<p><b>Neutral</b></p>

## (2) Expected impacts on businesses

### (i) Description of overall business impact

The profit cap, if introduced in the future, would have a negative impact on some businesses within scope that were operating at a level of profit that exceeds the level of the cap. However, there could also be potential benefits for the businesses if they chose to reduce profits to fall into line with the cap by investing in improving the provision that they offer alongside reducing the costs to local authorities. Higher quality provision is likely to be more attractive to local authorities seeking placements and, in a world where there is greater diversity of provision and more competition within the market, this could provide a competitive advantage.

If the profit cap is introduced in the future, there will be some increased burdens on business both in terms of time and resources. One of the requirements of the profit cap system is that providers would have to submit an annual return to the Secretary of State in order that compliance with the cap can be assessed. Given that the method of calculation of the cap, and therefore the exact information that would need to be returned by providers, is still to be determined, it is difficult to quantify the additional burdens at this stage. We do, though, expect that the administrative/resource burden placed upon them to be relatively low, although the burden may be higher for those without dedicated and established finance functions. We would expect the burden to reduce over time as providers become used to the format and nature of the return.

The department will seek to minimise the administrative burdens on businesses as far as possible. The annual return content and format is something that would be consulted on if the Secretary of State decides to introduce a profit cap in the future. As outlined above, the department would engage in a full public consultation on the profit cap if it were to be introduced. The Children's Wellbeing and Schools Bill will specifically require consultation with representatives of providers. This will ensure that there is the possibility to work constructively with providers to minimise the administrative burdens arising from the profit cap.

**Negative**

<b>(2) Expected impacts on businesses</b>		
<b>(ii) Monetised impacts</b>	<p>It is not possible for the department to monetise the impact of any future profit cap at this stage. This is because the impact will depend on both the level at which any future cap is set and the market conditions – including profit levels, supply and demand and diversity of provision – at the time that a cap were introduced.</p> <p>Attempting to include straw man figures at this stage – far in advance of any decision about whether or not to introduce a profit cap – would be unhelpful and would have the potential to adversely impact the market by driving providers to make incorrect assumptions about the future level of any future cap based on such figures.</p>	<b>Negative</b>  <b>Based on likely business £NPV</b>
<b>(iii) Non-monetised impacts</b>	<p>As outlined above, there may be some potential benefits for the businesses operating above the level of any future profit cap if they chose to reduce profits to fall into line with the cap by investing in improving the provision that they offer alongside reducing the costs to local authorities. Higher quality provision is likely to be more attractive to local authorities seeking placements and, in a world where there is greater diversity of provisions and more competition within the market, this could provide a competitive advantage.</p>	<b>Positive</b>
<b>(iv) Any significant or adverse distributional impacts?</b>	No	<b>Neutral</b>

<b>(3) Expected impacts on households</b>		
<b>(i) Description of overall household impact</b>	We do not expect there to be any monetary impacts on households.	<b>Neutral</b>
<b>(ii) Monetised impacts</b>	N/A	<b>Neutral</b>  <b>Based on likely household £NPV</b>

<p><b>(iii) Non-monetised impacts</b></p>	<p>If introduced in the future, a profit cap would rein in profiteering in the children’s social care placements market and reduce costs to local authorities. Lower cost children’s social care placements would leave more money for local authorities to invest in other services which could have a benefit for households and the wider community. Alternatively, lower prices paid could allow local authorities to reduce the council tax burden on households leaving people with more disposable income.</p>	<p><b>Positive</b></p>
<p><b>(iv) Any significant or adverse distributional impacts?</b></p>	<p>No</p>	<p><b>Neutral</b></p>

## Part B: Impacts on wider government priorities

Category	Description of impact	Directional rating
<p><b>Business environment:</b></p> <p>Does the measure impact on the ease of doing business in the UK?</p>	<p>Any future profit cap would be designed in a way that takes a balanced, proportionate approach. The policy itself does not intend to limit competition and given the wider children’s social care market interventions outlined above we are taking steps to actively increase competition within the market.</p> <p>There are potential risks to the attractiveness of the children’s social care placement market to businesses given that a profit cap would, if introduced, place a limit on the amount of profit that could be made within the sector.</p> <p>The profit cap does not seek to regulate or restrict provider business innovation. However, there may be unintended impacts on business innovation. Innovation within a sector can be linked to the level of investment and if providers choose to reduce investment because the ability to make extremely high profit levels is restricted, this could impact the introduction of new technologies, products or business models. In addition, the continuing sufficiency issues within the CSC market has meant that investment is aimed at profiting from the market as opposed to innovation. As outlined above, therefore, the introduction of a profit cap in the future may encourage providers operating at a level above such a cap to invest in improving the services that they provide, potentially driving innovation.</p>	<p><b>May work against</b></p>
<p><b>International Considerations:</b></p> <p>Does the measure support international trade and investment?</p>	<p>We do not expect there to be any impact on international trade as a result of any future introduction of a profit cap.</p> <p>It is possible that a future profit cap could disincentivise foreign investment in the sector due to the fact that profit-making would be restricted and better margins might be available elsewhere.</p>	<p><b>Neutral</b></p>

Category	Description of impact	Directional rating
<b>Natural capital and Decarbonisation:</b>  Does the measure support commitments to improve the environment and decarbonise?	N/A	<b>Neutral</b>

## 7. Monitoring and evaluation of preferred option

53. Not applicable at this stage. Until a decision has been taken to introduce a profit cap in the future it is not possible to say how it would be monitored beyond the process of annual returns that would be part of such a scheme and the records of any monetary penalties issued for breaches.
54. We will, however, take steps to monitor the effectiveness of our market intervention measures as a whole which will inform decisions about whether the Secretary of State needs to utilise the profit cap powers and, if so, when. The legislation specifically requires that before using the profit capping powers the Secretary of State is “satisfied that it is necessary to do so, having regard to the public interest in securing that relevant providers are providing placements on terms which represent value for money”.

## 8. Minimising administrative and compliance costs for preferred option

55. As outlined above, if the profit cap is introduced in the future, there will be some increased burdens on business both in terms of time and resources in order to comply with the scheme. One of the requirements of the profit cap system is that providers would have to submit an annual return to the Secretary of State in order that compliance with the cap can be assessed.
56. The department will seek to minimise the administrative burdens on businesses as far as possible. The annual return content and format is something that would be consulted on if the Secretary of State decides to introduce a profit cap in the future. As outlined above, the department would engage in a full public consultation on the profit cap if it were to be introduced in the future. To that end, the Children’s Wellbeing and Schools Bill will specifically require engagement and consultation with representatives of providers. This will ensure that there is the possibility to work constructively with providers to minimise the administrative burdens arising from the profit cap.

# Declaration

Department:

Department for Education

Contact details for enquiries:

[Legislation.division@education.gov.uk](mailto:Legislation.division@education.gov.uk)

Minister responsible:

Minister Daby

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

A handwritten signature in black ink that reads "Jack Daby". The signature is written in a cursive style with a large initial 'J' and a long tail on the 'y'.

Signed:

Date: 28/01/25