**“When Markets go wrong: how private sector outsourcing failed children in care in England”.**

**Do care markets respond to need in children’s social care? An observational analysis of children’s homes in England 2014-2023.**

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Target journals: 1) SS&M after spamming top PH journals?

1. **Introduction**

Children in care in England are increasingly placed outside of their local area, in unregulated placements, or aren’t receiving the kinds of care they need (1,2). The poor provision of these services has led to the independent regulator of markets describing the sector as “dysfunctional” (3). The consequences can be severe, children in care have their lives disrupted with many placements moves, and often end up living far away from their families and support networks and are criminalised at extensive rates (4). The reasons for this development are heavily contested, with some blaming the rise in for-profit provision, and others blaming market regulation and funding.

What is this crisis of care provision? Often termed ‘sufficiency’, the levels of needed provision aren’t available. In England, children in care are primarily placed in foster care, children’s homes, or are adopted by families – all of which are reportedly undersupplied (5). Services are funded by Local Authorities (England’s local government jurisdictions), then it is the duty of Local Authorities to commission services from a competing market of private and public providers. The number of children in care has increased by 30% since 2010 – but during the same time, the real terms spending power of LAs has declined (6). The prospects, then, for LAs to invest capital in creating new publicly-owned provision is limited. In lieu, LAs have turned to the private market – but this has failed to resolve the sufficiency issue and the problems around placement quality have worsened.

One particular issue pertains to the children’s homes market – qualitative accounts report that residential services are too often located in rural areas (7). And then, children are forced to move many miles from home to be placed in children’s homes, losing touch with their support networks, social workers, and family. In theory, private markets are argued to be more responsive to consumer need than public services – so why has it gone wrong for children’s social services?

Answers as to why the market is failing to deliver the necessary services are contentious. Some suggest that the market has inverse incentives, higher profit-motive from for-profit children’s homes providers means they are locating in cheaper areas to maximise profits. Others suggest that the market isn’t the issue, but rather commissioning, the matching of children to the right placement, and planning and licencing regulations limiting supply have resulted in less ideal services for children in care (8).

This is the puzzle of this paper – is the market responding to need and providing services where they are needed? And if not, does profit-seeking mean children’s homes are opening where they aren’t needed? This is of huge importance, because the answer could clarify whether the solution is to liberate the private market – or reign it in. The paper answers this by looking at a data resource identifying complete openings and closures of children’s homes in England 2014-2023. We first categorise and test children’s homes companies according to theorised profit-motive. Before assessing the relationship between this and the homes’ locations.

* 1. **How do outsourced care markets meet need, theory and practice**

Many health and social care services have been marketised in high-income countries. Creating a purchaser-provider split has been implemented with the intention of utilising competition as the driving force of innovation, quality, and cost-efficiency (9). Proponents of this move argue that an outsourced market varies provision in a way that allows consumers to choose, and the best services to prosper. The arguments often rely on economic theory, around the behaviour of rational actors in ideal market systems.

However, care markets have many distinctive features that sometimes make competition less evidently desirable. First, competition needs easily measured and widely known measures of quality (10). This is often not the case in care markets where quality is a complex concept and the communication of quality is often obscure to ‘consumers’ of these services (11). Second, the costs of service failure are much higher. A market functions through variation – good services thrive, bad services fail. But if a care service fails, this has huge implications on the lives of the users. Receiving poor care, and experiencing disruption to care can be deadly in many cases (12,13). Moreover, variation intrinsically involves inequality in service provision – maybe this is desirable in fulfilling specialised needs, but it is also likely to result in some people systematically receiving poorer care than others (14). Third, the ability of consumers to choose different services is constrained in many ways. Often there are public commissioners assigning service provision, and changing service may not be a feasible option for people with acute care needs (11).

Children’s social care in England functions in a particularly distinctive way, in that the child’s preference is often not the determining reasons for a service being chosen. There is often limited or no choice between different services, limited opportunity for the children to feedback on the services publicly, and no self-funded market for people to be ‘voting with their feet’. As such the market dynamics are intended to function primarily through the processes of local commissioning. But the demands on commissioners to shape their local market are often extreme and Local Authorities frequently report difficulty ensuring the market is providing adequate care in their area (5).

Without the right incentives, markets are then theorised to prioritise financial gain over quality. England’s children’s social care system had no cap on financial activities, no price-setting function or tariff, and no standardisation on pay conditions. All of which, at least in theory, means there is the potential for profit to be extracted at the expense of quality. Whether or not this is happening in England’s children’s social care market is a heavily contested empirical question which this paper seeks to address.

**1.2. For-profit provision in England’s children’s social care**

Children’s homes and fostering services are increasingly run by for-profit providers in England. This trend is related with the worsening of care quality – a phenomenon attributed to the different, and potentially cost-cutting, behaviours of profit-motivated providers. The commercialisation of this particular service has more political provocation than most, given the risk it is perceived to run for children, many of whom have experienced severe trauma and are in positions with minimal power. Ethically too, many are concerned with the creation of financial surplus, at the direct expense of children in care. And the policy responses are beginning to be implemented, with Wales banning for-profit provision and England proposing capping profits.

Two major debates exist: first is a debate around mechanisms. For-profit care coinciding with worse quality placements does not necessitate that for-profit providers are the source of the issue. Potentially, they could do different kinds of services, which makes comparison difficult – either underestimating the difference, or potentially over-estimating it. There could also be a selection effect whereby the worst quality public providers have ceased to operate because of the competition from the private sector. To identify the impacts of ownership and outsourcing on the quality of care, researchers can turn to a few different strategies, they could identify quasi-experimental settings. Or the strategy of this paper is to identify mechanisms of impact. If it is the case that for-profit provision is causing worse outcomes, we would expect to see profit-seeking behaviours in the sector, for example, locating in areas with low need for provision.

The second key debate for the service is about whether the categorisation of “for-profit” provider hides lots of variation between different kinds of companies – effectively those with interest in social good, and those without. Is it the case that outsourcing to all for-profit providers is bad, or whether if the service was constrained to a sub-type of for-profit provision? Again, this is one of the contributions of this paper, categorising different children’s homes providers according to a more complex organisational structure – differentiating according to ‘independent-owned’, ‘corporate-owned’, and ‘investment-owned‘ companies.

These are the two debates this paper seeks to address: are placements worsened by for-profit provision? And can we identify this in providers with theoretically the strongest profit motives.

1. **Objectives**
2. To test whether the residential market in children’s social care is responding to area need.
3. To test whether profit-motive is related to care home location.
4. To test whether the geographic determinants of care home quality and profitability.

**3, Methods**

* 1. **Data**

We categorise children’s homes into different ownership categories: “Local authority”, “Third sector”, “Investment owned”, “Individual owned”, and “Corporate owned”. To achieve this we analyse the shareholders, persons of significant interest and global owners across the entire corporate group of each organisation reported by Ofsted to run children’s homes. We analyse over 5 million different combinations of shareholders and owners from FAME (15). For a full description of the process, a decision tree, and a list of the manual, and systematic checks we conducted during double-coding of ownership categories see appendix (ax - ax).

We operationalise a concept of area need through the measure of “net loss”. We requested from the DfE access to data reporting each Local authority’s net loss for children living in children’s homes 2014-24. This is a measure of all the children placed outside the local authority boundary subtracting the number of children placed, by any authority, within a local authority boundary. The way we are operationalising this measure is assuming that if there are a high number of additional children placed outside your area than within, then there is effectively an ‘undersupply of provision and the area need is highest, and vice versa if an area doesn’t have a net loss and gains children, then there will be an oversupply of provision in that area. We present a comparison of this variable with other measures in appendix (ax).

We create two datasets, one at Local authority region level – where we count the number of children’s homes and places in each area and append a number of control variables including, area deprivation, population density, and demographic variables. We also produce a children home level dataset with home characteristics such as age (how long the home has operated), and chain size. We present a full list of variables, data sources, descriptive statistics, and definitions in table ax in the appendix.

A full data and coding library is available at https://github.com/BenGoodair/Care-Markets for reproduction of all analyses in this paper. All data is openly published there – except for the underlying ownership and accounting data which was obtained through a FAME licence which does not permit sharing. However, to allow for reproduction of our code for ownership categorisation, we also provide a synthetic exemplar dataset and output for comparison.

* 1. **Analysis**

We conduct a three-stage analysis. First, we descriptively analyse the patterns of children home provision, regional need for children’s homes, and the profit margins of children home companies. This will describe the market and assess whether it is responding to need – or whether conditions are worsening over time.

Second, we run multi-level, multinomial regression models, to estimate how area-level conditions predict children home characteristics of ownership, profitability, and quality. These models allow us to estimate the effect of between-LA variance on children home characteristics, whilst accounting for the hierarchical nature of the data with children’s homes nested within Local Authorities. We use a range of estimation techniques, including Bayesian hierarchical models, simple multilevel models, and bivariate multinomial models. We prefer the Bayesian model, because it allows us to model the hierarchical data but is more flexible and efficient in converging with complex models, however we still operationalise inferential statistical reasoning, assessing the likelihood of relationships being zero given a sampling distribution. We analyse whether area need, wages, house prices, and demographics predict the sector, profit-margins, and quality of children’s homes.

Third, we transform our data into aggregated regional data by counting the number of children’s homes in each Local authority. We do this to conduct longitudinal models to evaluate whether changes over time are corresponding with area need variably by children home characteristics. We pool our panel data because we are interested in understanding the variation across Local Authorities, given that is where our variation is theoretically located. In our panel regression model, we control for a range of potential confounders to the relationship between placements and need, including demographic density and age. We cluster our standard errors robustly, using small n-adjustments (16).

* 1. **Sensitivity and robustness checks**

We provide a range of sensitivity checks to our panel regression model, systematically adjusting our variables and control variables, so we present the results for all possible combinations of our regression and all possible transformations of our main dependent variable, area need.

We also run a falsification test, to test whether planning application leniency explains the differences in opening patterns. Perhaps, councils are obstructing the opening of children’s homes variably by sector. To test this, we repeat our regressions using care homes registered to serve people over the age of 65. We also control for political party affiliation in our model.

We run subgroup analysis removing schools that are registered as children’s homes. We also test our alternative hypothesis that house prices positively explain for-profit children’s home location.



1. **Results**



Figure 1 – Changes to residential children’s social care in England 2014-24

A graph of different colored lines

AI-generated content may be incorrect.

Table 1 descriptive

Table 2 reg, multinom, multilevel, Sector,

Figure 3:

Figure 4 – Area level predictors of children home count

A graph with black and white lines

AI-generated content may be incorrect.

**Discussion:**

* Why does it matter? We know the market is failing but is the answer just to make the market freer?... maybe not…
* Solution = a) make care pay or b) burn the market to the ground

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