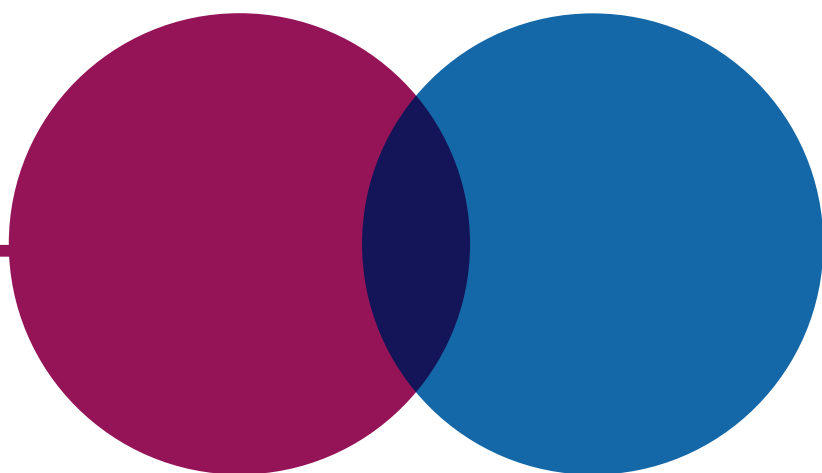




National Audit Office



REPORT

# Managing children's residential care

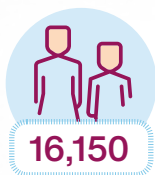
Department for Education

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SESSION 2024–2026  
12 SEPTEMBER 2025  
HC 1290

## Key facts

### The number of children in residential care is increasing gradually



Number of children in residential care in England, as at March 2024



Increase in the number of children in residential care between March 2020 and March 2024

### However, overall spend has increased significantly and costs per child are high



Increase in local authority spend on children in residential care between 2019-20 and 2023-24, from £1.6 billion to £3.1 billion

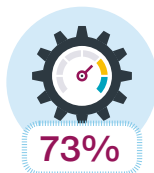


Estimated average spend per child in a children's home in 2023-24, compared with £239,800 in 2019-20 (2023-24 prices)

### This is placing a strain on local authority finances

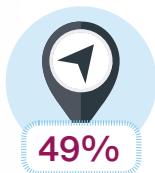


Overspend by local authorities on looked-after children in 2023-24, against a budget of £6.6 billion



Of upper-tier councils identifying spending on children's services and education as the most substantial cause of their short-term financial pressure in 2024

### Many children are also not being placed in the most appropriate setting



Of children in homes placed more than 20 miles away from their original family home, March 2024



Number of children reported to Ofsted as being placed in unregistered homes during 2023-24

### The Department for Education (DfE) is looking to address issues with the residential care market, but its planned changes are taking time to implement



Time elapsed since Independent Review of Children's Social Care. Government has not yet passed the legislation it needs to respond



Date first regional commissioning model launched operationally



Capital funding granted to DfE up to 2029 for building and repairing children's homes



Year DfE expects to improve the cost data it collects from local authorities

# Summary

**1** In March 2024, there were 83,630 'looked-after children' in England, many of whom were vulnerable and had complex needs. For example, 66% had a history of abuse or neglect. Local authorities have a statutory responsibility for the care, safety and welfare of looked-after children, which can include providing a place to live. As at March 2024, looked-after children included 56,390 living in foster care and 16,150 in residential care. Residential care includes children's homes, secure children's homes, and supported accommodation which allows older children to live more independently. Most settings within the residential care market are run by private companies, with the remainder run by local authorities or the voluntary sector. All providers must register with, and are regulated and inspected by, Ofsted. The Department for Education (DfE) oversees the regulatory framework and national approach to children's social care. The Ministry of Housing, Communities & Local Government (MHCLG) part-funds care through grants to local authorities, with local authority revenue covering the remaining spending.

**2** Between 2019-20 and 2023-24, the local authority costs of supporting looked-after children in residential care increased by 96% to £3.1 billion, contributing to wider local authority budgetary pressures. However, with the number of children in residential care increasing by just 10% to 16,150, other factors have contributed to cost increases. Challenges providing the right residential care, in the right locations, and at the right cost, are widely recognised. In 2022-23 and 2023-24, DfE assessed failure of the children's home market as one of its most significant risks. In 2022, the Competition & Markets Authority (CMA), and the Independent Review of Children's Social Care, chaired by Josh MacAlister (the MacAlister review), both recommended better market management.

**3** In 2023, DfE published its initial response to these recommendations as part of a broader children's social care strategy, *Stable Homes, Built on Love*. The government then published, in November 2024, a commitment to reform the children's social care system, *Keeping Children Safe, Helping Families Thrive*. This focused on supporting children to stay with their families, preventing the need for children to enter the care system. For 2025-26, government announced a £270 million Children's Social Care Prevention Grant, subsequently extended annually to 2028-29. It also announced a further £557 million for children's social care reform, including prevention, between 2025-26 and 2027-28. However, residential care will still be required and DfE is planning further interventions in the market. As part of these plans, DfE has proposed draft legislation currently being considered by Parliament: the Children's Wellbeing and Schools Bill. Among other aims, this seeks to provide greater financial and corporate transparency over providers assessed as 'difficult to replace' and their owners. It also seeks to ensure local authorities collectively commission more places.

## Focus of our report

**4** This report assesses DfE's response to challenges faced by local authorities in placing looked-after children in cost-effective, high-quality residential care in England. It:

- describes the characteristics of looked-after children, and how the current residential care system works in terms of costs and outcomes (Part One);
- examines the underlying reasons behind increasing residential care costs (Part Two); and
- assesses DfE's understanding, approach and response to supporting local authorities to meet their statutory duty to house looked-after children (Part Three).

**5** We use the term 'residential care' to cover accommodation for looked-after children in children's homes, secure children's homes, supported accommodation and other residential settings. This does not cover fostering, although, given its impact on demand for residential care, we have considered its availability and costs. We do not assess DfE's work to prevent children entering the children's social care system. We use the term 'wider settings' to cover other places where children can be accommodated, such as hospitals. While recognising their importance in caring for children, this report does not assess how well these settings operate. We use the term 'children' to cover all those under 18 years old. More detail on our approach can be found at Appendix One.

## Key findings

### Performance of the residential care system

**6** **Although most homes are rated as good or outstanding, too many placements fail to meet children's individual needs, affecting outcomes.** The quality and suitability of a setting will impact a child's future life chances. In 2024-25, Ofsted rated 82% of the 3,633 children's homes it inspected as outstanding or good, up from 76% in 2019-20. However, DfE and local authorities recognise that many children are not in appropriate settings based on their needs. In March 2024, nearly half of children were placed in homes more than 20 miles from their family home and 14% of children in homes had three or more moves in the last twelve months. Groups representing children have highlighted the distressing impact these changes can have. Also, increasing numbers of children are confined to homes without their consent. In the longer-term, young people leaving care can face more challenges than their peers. For example, they are three times as likely not to be in education, employment or training (paragraphs 1.15 to 1.17 and Figure 6).

**7 Local authorities report placing an increasing number of children in unregistered homes.** Ofsted cannot routinely inspect unregistered homes, to provide assurance over the quality of care. Between 2020-21 and 2023-24, the number of children reported to Ofsted as being placed in unregistered homes during each year rose significantly, from 147 to 982. Local authorities are not obliged to tell Ofsted when they place children in unregistered care, even though operating such homes is illegal. In 2024-25, Ofsted received reports indicating that at least 86% (132) of local authorities had used such care. Local authorities use unregistered care where it can be difficult to find registered places for certain children – often those with complex needs (paragraph 1.18).

**8 The cost of placing children in residential care has risen significantly in recent years.** Between 2019-20 and 2023-24, local authority spending on looked-after children increased by 54% to £8.1 billion in 2023-24, £1.5 billion more than the annual budget. This contributed significantly to local authorities' wider financial pressures. Nearly three-quarters (73%) of upper-tier councils identified spending across children's services and education as the most substantial cause of short-term financial pressures in 2024. Most of the cost increase relates to residential care spend almost doubling to £3.1 billion, although the number of children in residential care increased by only 10% between March 2020 and March 2024. In 2023-24, local authorities spent an average of £318,400 per child in a children's home, equivalent to £6,100 per week. The Local Government Association has identified placements costing up to £63,000 a week. DfE has described children's social care as financially unsustainable (paragraphs 1.6, 1.12 and 1.14, and Figure 4).

Reasons behind cost increases and DfE's response

**9 A mismatch between the supply and demand for places has fuelled a dysfunctional market and cost increases.** Residential care operates on a market basis, with private providers responsible for 84% of homes. An effective market would give local authorities choice, lowering costs and provider profits, with providers investing and joining the sector. However, in 2022 the CMA identified significant issues with insufficient places in the right locations, materially higher profits than expected, and a risk that children's care could be disrupted by provider failure. It estimated that from 2016 to 2020, the 15 largest private providers had average profit rates of 22.6% for children's homes, with prices increasing above inflation. The shortfall in supply to meet demand has led to local authorities competing for places and increasing costs. At the same time, private providers can choose which children to home depending on the support needed or profit levels available (paragraphs 1.8, 1.9, 1.11, 2.2, 2.3, 2.12 and Figure 9).

**Demand for places**

**10 A shortage of places in foster care and reduced use of wider settings has increased pressure on residential care.** Changes across public services, including a shift to community mental health support, have reduced the use of wider settings such as secure custody or inpatient mental health care. There are now 65% fewer children in custody than a decade ago and the number of days children spent in hospitals for mental health inpatient care fell 43% between March 2019 and March 2024. Without joint planning, the impact of these changes on children's residential care has been unclear to DfE and local authorities, and local authorities have told us they have struggled to respond. More widely, DfE has no joint bids with health or justice partners for capital funding. DfE is seeking to increase the number of foster carers. Between March 2020 and March 2024, the number of foster care households fell by 4%, or 9% when excluding fostering with friends and family. This reduces options for accommodating looked-after children: a 2022 Ofsted analysis of approximately 113 children in homes found that over a third had foster care in their original care plan. A children's home place costs eight times as much as a foster place. The number of children entering care also affects demand for residential care, and DfE told us preventative initiatives are an integral part of its response to reducing demand (paragraphs 1.5, 2.6, 2.7, 2.11 and Figure 8).

**11 Central government and local authorities have successfully worked together to accommodate unaccompanied asylum-seeking children.** Between March 2020 and March 2024, local authorities had to accommodate more unaccompanied asylum-seeking children, with the number in residential care increasing by 30% to 3,370. DfE and the Home Office jointly run a national transfer scheme, mandatory since December 2021, to ensure responsibility for unaccompanied asylum-seeking children is fairly distributed across local authorities. Local authority allocations reflect their existing social care pressures, and regional cooperation has meant some local authorities offering to take more children than assigned. The Home Office also incentivises local authorities through payments for quicker transfers and greater participation. Although supporting more children impacts costs, MHCLG assesses this as not significantly influencing wider cost increases, with most children in cheaper supported accommodation (paragraphs 1.6, 1.13, 3.18, 3.19 and Figure 4).

## **Supply of places**

**12 Providers face challenges supplying the residential care needed, due in part to workforce issues and barriers to setting up new homes.** Although the number of children's homes increased by 63% between 2019-20 and 2024-25, each home has, on average, fewer places and homes may not be where they are needed. Ofsted, local authorities and DfE have described continuing shortages. Providers and local authorities have described barriers to setting up new homes, including high property prices, securing planning permission, and the time taken for Ofsted to register homes, which Ofsted recognises is currently several months. Ofsted must register all homes where the application meets standards, even if they are in well-served locations. In 2024, Ofsted reported that almost one in three children's homes often or always reject referrals for children with complex needs, because of challenges recruiting trained staff. As at March 2025, 19% of children's homes in England that were active or suspended did not have a registered manager in post (paragraphs 1.8, 2.13, and 2.14 and Figure 3).

**13 DfE has allocated capital funding to expand and repair local authority residential care but will need better information to assess whether this addresses supply issues.** DfE has identified a need for more residential care for children with highly complex needs and, in 2022, four out of 13 secure children's homes risked losing places following under-investment. From 2021 to 2025, DfE secured £563 million capital funding up to 2029. It will work with local authorities to rebuild and repair three secure homes, build two new ones and carry out improvement works on all others. Separately, DfE has committed £110 million to create 547 residential care places to help local authorities meet their statutory duties. Local authorities bidding for places must demonstrate local need, but DfE lacks a national picture of capacity to tell whether the places created are where they are most needed (paragraphs 3.15 to 3.17 and Figure 11).

## **Commissioning approach**

**14 Local authorities' approach to commissioning residential care contributes to local authorities competing for places and to cost increases.** Local authorities often rely on finding placements just as children need to be housed, rather than planning ahead. In 2022, Ofsted reported that only 56% of local authorities had published forward-looking strategies. A lack of coordinated commissioning puts local authorities in competition with each other, weakening their negotiating power and allowing providers to charge higher prices. However, there are examples of successful approaches, and DfE is exploring ways to better support local authorities to improve their commercial capability (paragraphs 2.16 to 2.18).

**15 DfE has introduced regional commissioning, although it has not yet tested the full model.** The MacAlister review recommended a collective commissioning model to increase places within a region. DfE has facilitated two pilot regional care cooperatives (RCCs) involving neighbouring local authorities coordinating services. Although DfE intends RCCs to take on a significant role in supporting commissioning, those launched in 2025 test a more limited concept. This followed local authority concerns that regional commissioning would impact their ability to fulfil statutory duties. DfE plans to shape how RCCs develop after evaluating the pilots. The MacAlister review envisaged that RCCs would operate nationally from 2025. DfE has not made a public commitment for when this will be the case, but in a 2023 business case expected this could take ten years (paragraphs 3.11 to 3.14).

#### DfE's understanding and oversight

**16 DfE is progressing changes in response to challenges, but these are taking time and it is unclear how they will address all previous recommendations.** In 2022, both the CMA and the MacAlister review recommended changes, which DfE broadly accepted. However, DfE's response is still at an early stage, with many changes in progress or not yet started. DfE's planned changes include extending regional commissioning and introducing a financial oversight scheme. To support some changes, in December 2024, DfE proposed draft legislation which Parliament continues to consider. DfE told us the speed of its response had been impacted by the general election timing in 2024 (paragraph 3.10, Figure 10 and Appendix Two).

**17 DfE has not articulated what a productive and resilient market should look like.** DfE has set out the nature of changes it wants across the children's social care system, including reducing the dominance of private providers. However, it has not explained the mix of providers it would expect in the market, and does not fully understand demand for different types of care. Setting out a clear vision for local authorities and providers would help local authorities plan to create a productive and resilient market (paragraph 3.6).

**18 DfE does not collect comprehensive information to better understand the causes of market issues.** DfE lacks up-to-date information on children's needs to understand demand. It also lacks information on the places residential care settings can provide and whether children are placed in settings that meet their needs. Ofsted has secured funding for further analysis to assess how well local authorities can meet demand for children's social care. More widely, DfE does not have a systematic approach to gathering insights from local authorities or providers to identify and share challenges and good practice (paragraphs 1.3, 1.17, 3.4, 3.6, 3.7 and 3.17).



**19 Difficulties obtaining financial information make it hard for DfE to identify how much places should cost and excess profits.** As local authorities manage all provider contracts, DfE does not have direct visibility of contract and financial information. The complex ownership arrangements for many large providers make transparency hard. DfE does not fully understand how costs break down or what constitutes a reasonable price for residential care. Local government representatives told us there was considerable variation in the cost of similar placements. DfE does not currently have a market oversight function (similar to that of the Care Quality Commission in relation to adult social care) but is looking to introduce better financial oversight of some providers it assesses as 'difficult to replace.' DfE plans to improve cost data collected from local authorities and provide them with more transparency. It aims to introduce changes from 2028-29 following a local authority consultation (paragraphs 2.4, 3.3 and 3.6, and Figure 13).

## Conclusion

**20** The cost of supporting looked-after children in residential care almost doubled between 2019-20 and 2023-24, to £3.1 billion. And, with these vulnerable children not always receiving the support they need, the residential care system is not delivering value for money. A shortage of places for some looked-after children, particularly those with more complex needs, has driven cost increases. The demand for places, along with a largely private provider-led market has led to local authorities competing for places and providers charging higher fees. The estimated annual spend per child in a children's home has increased from an average of £239,800 in 2019-20 to £318,400 in 2023-24 in real terms – and more children are living in residential care settings that are not best suited to their needs.

**21** DfE recognises the scale of the challenge and has started to respond. Alongside investing in preventative care and fostering to reduce residential care demand, it is progressing legislation to improve financial oversight of private providers and encouraging local authorities to collectively commission places. These measures are taking time to implement with, for example, draft legislation introduced in December 2024. To ensure these changes deliver a residential care system that works, DfE needs to improve its understanding of the system, set out what it wants the market to look like and support local authorities to make effective decisions.

## **Recommendations**

**22** To establish a productive and resilient residential market, DfE should:

- a** provide clarity on its vision for the residential and foster care market so that local authorities, given their statutory and operational responsibilities, can consider these characteristics in determining local delivery models and planning;
- b** within the context of potential legislative changes, work quickly to define and develop its role overseeing the operation and resilience of private residential and foster care providers. It should gather and use proportionate cost, profit, staffing and capacity information to set a strategic direction and better support local authorities;
- c** after piloting regional commissioning, produce a clear plan for how to overcome legislative, cultural and procedural challenges to rolling this out as soon as possible; and
- d** building on learning from RCC pilots, establish regular information sharing between local authorities to better understand good practice and how to address any cost inconsistency for similar placements.

**23** To address why looked-after children are not always placed in the most appropriate care, DfE should:

- e** agree with the Department of Health and Social Care and the Ministry of Justice a cross-government approach to ensure looked-after children with the most complex needs are provided the most appropriate setting and care. This should set out shared accountability for the system to work effectively; how the impact of policy decisions will be assessed; and how to make joint funding bids;
- f** using its assessments of foster care initiatives, including regional hubs and peer support, prioritise existing and new approaches that have the best potential to increase recruitment and retention of fostering households;
- g** building on its work to improve the skills of children's care home workers, consider how it can bring together a package of interventions to support providers in having enough staff with the right skills. As part of this it should consider how it can learn from its approach to increasing early years sector staff; and
- h** provide local authorities with further guidance and support so they can more effectively maintain homes and reduce the need for expensive repairs or new buildings.