NAFP

NATIONWIDE ASSOCIATION OF FOSTERING PROVIDERS

Comparative unit costs of foster care

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When a local authority asserts that the 'in-house' unit cost of foster care is substantially lower than that of an external independent and voluntary sector fostering provider (IFP), the comparison is likely to require closer inspection. Evidence collected over the course of the last two years for NAFP suggests that unit cost comparisons are often materially flawed.

This briefing lists the main areas where the comparison goes wrong and suggests actions that may be taken to question unit cost calculations produced by local authorities.

1
Figures that initiate perceptions

Many local authorities post details of the payments they make to the local authorities' own foster carers on their own local authority website. These are just the payments to carers, and they are typically a weekly amount. The amount charged by an IFP is also typically quoted, charged or invoiced as a weekly fee. The "per week" nature of both figures can lead to a perception that the carer payment is somehow comparable to the fee from the IFP. As discussed in the following sections of this paper that perception is wholly incorrect.

The weekly allowance paid to a foster carer will vary depending upon a number of factors, but for some local authorities in-house fostered children the allowance paid to the carer may be as low as £200 per week. By comparison, the cost of an external IFP placement is likely to be the full invoiced or tendered price per week, and might typically be over £700 per week.

Perceptions of relative unit costs may begin to be developed from these two figures. Clearly, the two costs are not comparable. The local authority allowance to the carer is just one element of the total cost to the local authority whereas the IFP fee is a total, all-inclusive cost including return on investment and risk.

2
Age, need, pocket money, holiday allowance, respite and retainer

The same local authority tables that show foster carer allowances bear closer inspection as they include other useful information. The tables reveal a list of additional factors that indicate the direct cost of the local authority foster placement is much more than just the allowance paid to the carer. Local authorities do not all have the same structure to fees, but there is a reasonable likelihood that as the age of the child placed increases, then the fee to the carer increases also.

Other factors related to the needs or circumstances of the child also feature in adding to the weekly fee, with supplemental amounts and higher fees being paid for children on remand, or children with additional needs (e.g. learning disabilities), or to carers willing to take emergency placements.

Simply looking towards the typical fees for an older teenager identified as more challenging in the local authority tables it is possible to identify carer allowances more likely to be in the £400-500 region.

The costs seen in the tables do not stop there. In addition to the carer allowance, there are typically arrangements for weekly pocket money for the child (again varying with age), holiday and birthday allowances, retainers paid to some carers while they have no child in placement, and respite carer costs. Whilst it can be more complex to calculate how all of those allowances and fees impact on the unit cost of the local authority, it is clear that there are many sources of direct fostering costs in a local authority over and above the weekly carer allowances.

Examples and models based purely on information derived from published local authority tables have been developed during NAFP research and these show examples of direct fostering costs for in-house local authority placements that can easily accumulate to £500-600 per week for the placements of older children.

3
Cohorts and averages

Especial care is needed if averages are quoted. Comparison cannot be made between the average costs of in-house local authority fostering compared to the average cost of IFP-purchased places without considering whether the two cohorts of children placed are comparable. Historically, IFPs have looked after a cohort including a higher proportion of older and more challenging young people, and local authority in-house services have usually included more younger children and babies as a proportion of the cohort placed in-house.

As an examination of local authority in-house allowances discloses, those allowances can vary significantly depending on the age and other needs of each child in the group. Hence the mix of ages and needs of the group influence any aggregation and averaging of allowances for a group or cohort of children. As a bare minimum the age profile of children in in-house care should be examined relative to the age profile of the IFP-placed children. The mix of allowances paid relative to the profile of each cohort can have a substantial impact on the average.

During the research into local authority costs it has been possible to model calculations that went part of the way in trying to take into account the impact of the different cohort profiles. The calculation model looked at the application of local authority in-house unit costs to a cohort of older children placed externally with IFPs, i.e. to calculate an average equivalent in-house unit cost as if this older cohort had been placed in-house rather than externally. This approach to testing like-for-like cohorts produced average unit costs that were more than £250 per week higher than for a typical LA cohort.

This predominantly mathematical effect is therefore potentially substantial. A like-for-like stipulation is a pre-requisite condition for comparison of average unit costs across a cohort, and especially between in-house and externally placed cohorts.

4
Semi-direct costs

Irrespective of whether they are contracted to a local authority or an IFP, foster carers are recruited, trained, assessed, supported and supervised by other social work staff, typically managers and resources within the fostering organisation's structure.

Hence a local authority will employ supervising social workers and administrators to support the fostering team, and utilise management and infrastructure to host and facilitate their work. Carer and staff recruitment and training costs will be incurred, be it through further in-house resources or through external advertising and third party training for example. Out-of-hours support for carers will also add structure and cost. All of these costs can and should be fairly attributed to the provision of placements and hence to the unit cost. It is often the case that all of these costs are not routinely included in unit cost calculations by local authorities.

Where the support costs are through staff employed by the council, the cost should include the full cost of salary, bonuses and other incentives, expenses, employer burden (including National Insurance, Employer pension contribution and any employer paid benefits such as health insurance). The nature of some local authority pension scheme arrangements is such that allocating the true employer cost of pensions to unit costs is extremely difficult. If the relevant pension scheme is in deficit then the local authority will incur additional funding and cost and this also needs factoring into unit cost calculations.

5
Layers of overheads

A service infrastructure such as an in-house fostering service that employs managers and other staff is also likely to occupy premises space of the host authority. It is likely to use IT, furniture and fittings, telecommunications and other office equipment of the authority all of which should be fairly costed into the unit costs, and all of which often are not included by local authority costings.

The in-house fostering service will ultimately be the responsibility of a Director/Assistant Director of the local authority. It will rely on central HR, accounting, administration, training, legal, communications, commissioning and purchasing, insurance, governance and compliance services of the authority. All of these should have some fair portion of cost allocated to the fostering service and thus to the unit cost.

Studies have shown that authorities vary widely in their practice in this area. Some allocate no overheads; others use simple percentages to add onto direct costs, with little or no evidence offered to support the rates used. Few if any use any form of activity based costing that may offer some more accurate insight into the true unit costings of in-house fostering services. Local authority capital expenditure on premises, equipment and assets is rarely allocated to operational budgets using depreciation methods that would commonly be used by IFPs.

An IFP is likely to track the capital and start-up costs for a new branch or agency and will raise funds if necessary to invest in that service, funds on which interest and other fees may be payable (e.g. if borrowed from a bank), and therefore may be included in IFP unit costs. A local authority is extremely unlikely to include the equivalent funding costs for its service into a unit costing exercise.

6
Marginal costing vs. full costing

Unit cost based discussions may encounter the "marginal costing" argument, alternatively referred to as the "sunk costs" argument. This might take the form of a position taken by a local authority looking for a placement where that authority has its own sizeable in-house fostering service or the option of placing externally with an IFP.

The argument given is that to place just one more child with an in-house vacancy only adds the allowances paid to the carer to the total cost of the service. I.e. the infrastructure, support, supervising social worker, trained and vetted carer already exist, those costs are already on board and paid for by the LA so this next placement only adds the variable or marginal cost, the additional allowances. The mindset adopted by this argument is therefore that the £200-300 of allowances is the only additional cost for the in-house option as compared to an IFP cost of perhaps over £700.

This argument is not a true comparison of unit costs.

Extrapolating the argument just a little sees it begin to unravel. If the argument were used to justify why the next 20 placements were all made in-house because of the lower marginal cost then it is likely the extra activity might require a new supervising social worker, and possibly further carer recruitment. As the argument expands to consider more placements it becomes clear that the full costing comes back into focus and the marginal costing approach cannot be sustained.

It is perhaps beyond the remit of this briefing paper, but this topic begins to ask the question as to whether the commissioning and purchasing practices of local authorities in relation to foster care could take better advantage of an approach that recognises the close similarity of structures and costs within IFP and local authority fostering services. If commissioners worked more closely with providers to optimise both local authority and provider efficiencies there is potential to improve upon the predominantly spot-purchasing based methods that create both surplus capacity and shortages of carers under current practices.

7
National approaches to cost information

There are publicly available sources of information about the costs and activities of local authority, including information about the annual spend on both in-house and external placements. The Personal Social Services Research Unit (PSSRU) at the University of Kent publishes unit costs of foster care using these sources and through aggregating the data for all local authorities. The PSSRU has, over a number of years moved away from a side-by-side comparison of unit costs between in-house and external placements, in part due to the volatility of results produced with the data.

Where local authority unit costs are calculated using these sources the calculation tends to capture kinship placements, which can cost very little for a local authority. This skews the calculated unit cost to a lower average.

Both s251[1] and ssda903[2] data are subject to criticism. Both The National Audit Office and CIPFA (the public sector accounting profession body) have questioned the accuracy of cost data[3], with CIPFA going so far as to suggest the s251 reporting is not fit for purpose. Revolution Consulting has also discussed ssda903 data with local authority representatives and they confirm a need for great caution in relying on the accuracy of this information, derived as it is from social work recording systems that do not always receive top priority.

CIPFA also operate a benchmarking club for local authorities (CIPFA claim over 80 local authority members) who submit common forms of cost and activity data such as fostering costs. The process is likely to produce more consistent results from those authorities although the results are not published. The degree to which all costs and overheads are included, and the degree to which the like-for-like testing of cohorts is examined are therefore unknown. However, benchmarking club data submitted as evidence to NAFP in the last two years suggests it is not designed to answer those challenges.

Finally, it is worth noting that Multidimensional Treatment Foster Care (MTFC) is separately costed by PSSRU in recognition that intensively supported foster placements for the most complex cases generate much higher costs. PSSRU use a process-costing approach and do not offer a calculation for a typical weekly MTFC unit cost. Some IFPs also offer intensive support packages and the unit costs of those placements may mirror the high costs of MTFC. In any local authority or IFP unit costing for foster care it is important to know if any MTFC project is included or separate from the whole service costing.

1,2,3 See Appendix for explanatory notes

8
What logic would tell us

Fundamentally, the fostering services of local authorities and IFPs perform very similar tasks, with similar resources and payment structures.

IFPs tend to argue that their services are more likely to be designed with higher levels of support and training due to the likelihood of them looking after higher proportions of older and more complex cases. In addition to the simple comparison of age profile of cohorts in foster care it can be worthwhile to look at other indicators alongside unit costs. These may include (but are not restricted to) supervising social worker to foster carer ratios, percentages of children in full time education, average length of placement, number of previous placements, average Strength & Difficulty Questionnaire, SDQ, scores etc.).

IFPs are predominantly private sector companies who will include a return on investment level in their pricing, whereas local authorities, being public sector bodies tend not to account for any capital or borrowing against the operational services. However, IFPs are also likely to run lean and efficient services, as the service is often the entirety of their business, as opposed to local authorities that perform a multitude of functions and are greatly more complex organisations. Although the organisation structures of local authorities and IFPs are very different, it is not unreasonable to assert that types of overheads of both will have some similarity.

Hence there are factors that might cause the unit costs of IFPs and local authorities to differ, but it is difficult to logically explain why one might be more than double the other for example. It is more likely the calculations behind such an assertion are flawed.

9
In summary: the questions that should be asked

Faced with any form of argument that local authority in-house fostering costs are significantly different from those of IFPs there are many questions that need to be raised to test the assertions made.

- What are the figures being used and how were they constructed? Are they simply a comparison of a local authority carer allowance vs. the full price of an IFP? Are unit costs based on actual or budget figures?

- Examine the local authority foster carer payment structure and rates. Does the local authority service costing include an allocation of the costs of pocket money, retainers, respite, birthday and holiday allowances?

- Has kinship care been mixed into the calculations to lower the average unit cost? What occupancy rates are assumed in unit cost calculations?

- If calculations are based on groups or cohorts, are they like-for-like?

  Has even a simple age based analysis been performed?

- Have other indicators of the needs, challenges and resources required for the cohorts been compared?

- Have the other costs of the local authority fostering service been included?

  For example, supervising social workers, service manager, fostering panel, admin support, out-of-hours support, recruitment, and training?

- Have overheads been included in the local authority unit cost? How?

  For example, Director/Assistant Director and CEO/governance allocation? Insurance, HR, accounting, legal, commissioning, compliance, communications?

- Wherever the local authority employs staff and management does it cost the staff to include employer burden such as National Insurance, Employer Pension, other benefits, training, office space, IT and communications costs?

- How are the capital costs of buildings, equipment (IT, communications, transport) included in local authority costing? Are the costs of borrowing related to capital investment included?

- Is marginal/incremental vs. full cost being argued? If so use the argument outlined in section 6 to challenge this approach.

- If unit costs based on annual reports of s251 costs and ssda903 activity data are in use, have these been tested in all of the ways discussed above? The like-for-like testing of cohorts would be especially relevant to test.

- If the local authority provides MTFC, has its unit cost been calculated? What were the results and how do they compare?

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Appendix

Reference	Explanatory Note
Section 251 reporting	Local authorities are required under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009 to report both budget and actual outturn statements. These statements cover a range of detailed financial information related to schools, education and children's services. DfE administers data collection.
ssda903 reporting	Local Authorities are to report information for every child who is looked after during the course of each year. The purpose of ssda903 is to provide government with the necessary information to evaluate the outcome of policy initiatives and monitor objectives on looked after children. DfE administers data collection.
National Audit Office criticisms of quality of data reporting.	Section 3 of Data Assurance report 2012-13 to DfE by the Comptroller and Auditor General. February 2013. Children in Care report by the Comptroller and Auditor General. November 2014.
CIPFA criticism of quality of data reporting.	Research on Children's Services Spending and Budgeting – Section 251 Returns and Analysis. John Freeman OBE and Sukhjit Gill. October 2014.

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