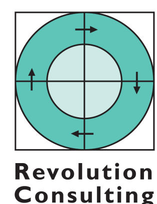
Profit making and Risk in Independent Children's Social Care Placement Providers.

4th Update Report: September 2023

Andrew Rome
September 2023



Page		Content
3		**Introduction and Copyright**
4		**Summary of Results**
5		**Sample representativeness**
7		**Visibility**
8		**Income and Profitability**
12		**Sustainability and Solvency risk indicators**
15		**Debt management (Going Concern)**
18	**Appendix 1**	**Method and technical description**
22	**Appendix 2**	**Ownership and entities**
25	**Appendix 3**	**Reporting Periods Acquisition activity trend**
27	**Appendix 4**	**Acquisition activity trend**
30	**Appendix 5**	**Limitations of data**

© LGA and Revolution Consulting Limited

Introduction

This is the fourth annual collection of publicly available evidence in relation to the financial performance of the largest independent sector children's social care provider organisations operating in England.

In this report reference to the independent sector includes both private companies and voluntary sector bodies, i.e., non-local authority or other state provision.

The first report in this series was published in January 2020 and covered the largest 16 providers. In 2021 the study was expanded to include the largest 20 providers and that number has been maintained through all studies since, if necessary, by adding providers to the study when others have merged.

Reference to "provider" in this report is to a group of companies or agencies all under common ownership or control.

The work is commissioned by the Local Government Association (LGA) and seeks to identify profitability of the largest independent children's social care providers in England, and to identify indicators of solvency and debt risk in those organisations.

The focus is on providers of regulated social care services (children's homes and fostering agencies) and does not look specifically at independent special schools, providers of supported accommodation services or other organisations supporting children and young people, except to the extent that such services are part of larger providers where fostering and children's homes are also a substantial part. The method statement in Appendix 1 describes the sample selection criteria more fully.

The predominant source of information for the study is at Companies House where, in accordance with Companies Act 2006 requirements, most of the provider organisations file financial statements for historical periods.

Those statements are prepared to UK and international accounting standards and are independently audited.

Whilst there are technical accountancy issues that need to be understood to perform the analysis required, wherever possible this report is written assuming the reader is not a qualified accountant or finance professional. Some technical terms are unavoidable, but explanations of such terms used are provided, and interpretation of the results seeks to use non-technical language.

Copyright statement

© Copyright: The Local Government Association (LGA) owns the copyright and publishing rights to this report. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means without the prior written consent of the LGA. The pre-existing Intellectual Property Rights and Databases used to produce this report remain the property of Revolution Consulting Limited. Anyone wishing to quote data from this report should contact the LGA to request permission and Revolution Consulting www.revolution-consulting.org for further information.

Disclaimer: Though every care has been taken to ensure accuracy of the material contained in this report, no liability can be accepted for errors or omissions. If the reader identifies any potential mistakes in this report, or would like to offer observations on it, please contact Andrew Rome at Revolution Consulting via www.revolution-consulting.org and we will endeavour to explain or rectify any incorrect details and take other observations into account in future studies.

Summary of results

Recent years have seen heightened awareness of the financial performance of independent sector children's services providers amongst policy makers and commentators. In response to this increased focus, the Department for Education published, in "Stable Homes, Built on Love", an intent to increase the monitoring of financial aspects of the sector, and to pilot ways of strengthening commissioning by the Local Authorities who are the dominant purchasers of services from the sector.

Information available to inform the Department for Education, as examined by The Competition and Markets Authority and the Independent Review of Children's Social Care is now out of date; in some cases, large provider organisations have reported financial results from two additional years since those studies were performed. This study therefore updates to the most current information as of August 2023.

Across the same timeframe, acquisitions and mergers activity at the provider level returned to pre-Covid levels in 2021/22 after a pause when Covid first appeared. Notable amongst transactions are the Outcomes First Group announcing a split of the organisation, with some substantial closures and repositioning of homes as part of that reorganisation; Caretech delisting from the London Stock Market and returning to private ownership; Aspris being formed to merge Priory and Sandcastle; Keys merging with Accomplish, and the Witherslack Group being brought under the ultimate control of the Government of the Emirate of Abu Dhabi.

One consequence of this activity is a disruption in the visibility of information that helps us to assess the financial performance of the sector. It is however still possible, with some careful analysis, to gain significant insight of the 2021/22 period that is the most recently reported by both Government and provider organisations.

Spending by local authorities in England on independent sector children's homes and fostering increased by a further 5% to **£2.39 billion** in 2021/22 compared to a year earlier. Over the last 6 years this spending has grown by 50% in real terms. Children's homes services spending has experienced the biggest growth, more than doubling since 2015/16, whilst spending with independent fostering agencies has increased at a much lower rate and is reported to have declined in 2021/22.

The aggregate fee income of nineteen of the twenty largest providers in this study (excluding Caretech as they no longer provide this information) is **£1.63 billion**, growing on average (where information makes this visible) by 6.5% over the previous year. If Caretech income was sustained at the level reported for the preceding year, the total sample income increases to **£1.94 billion**.

The average EBITDA margin, where there is visibility in the information available is **19.0%,** a reduction on the 19.8% reported in the previous study. This equates to EBITDA of **£310 million** for the sample excluding Caretech. The six largest providers make up between 74%-85% of income and profit of the whole sample in this study.

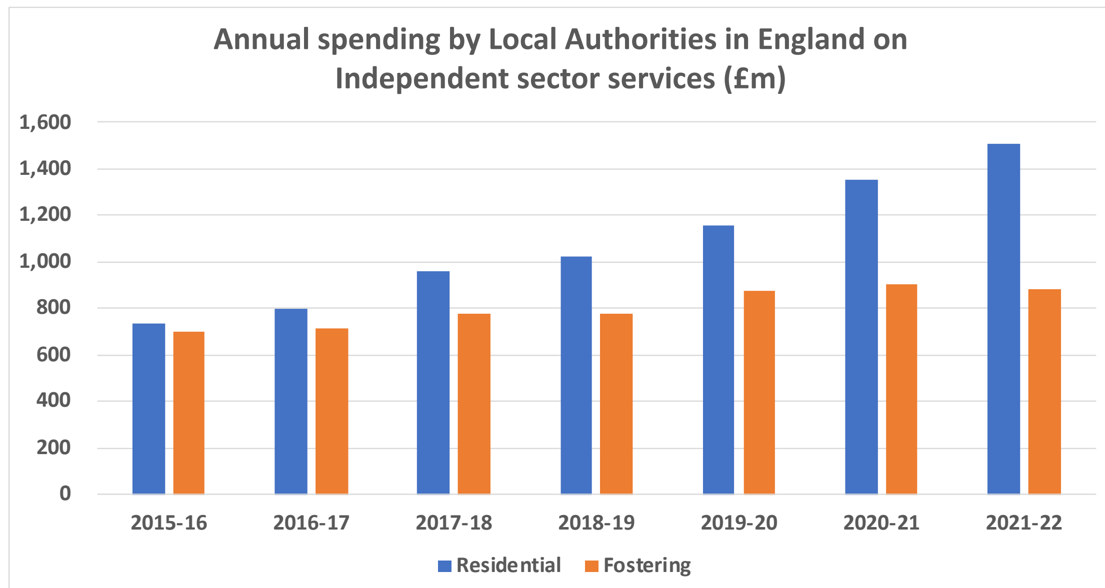
There is evidence for the first time in this series of studies of a trend of reducing absolute profits amongst many of the providers outside of the top six. Whilst there are mixed reasons for this, including investment in capacity and acquisition growth, and early impact of staffing shortages and inflation on costs, the reduction in profits leads to negative trends being seen in the solvency indicators for some providers. Increasing debt levels and the evidence from this study therefore supports the recommendations for greater strategic stewardship of the sector.

© LGA and Revolution Consulting Limited

Sample representativeness

This study is particularly concerned with the services that local authorities purchase from social care budgets. The fostering and children's homes sectors are therefore the primary target areas. These are also the sectors where local authority children's social care budgets have reported the highest levels of overspending in recent years.

Reported spending by local authorities on these elements of children's services and where there is significant outsourcing to the independent sector is illustrated below.[1]



Total reported spending on residential care and fostering with the independent sector by local authorities in England across the period of this study has grown to £2,392 million (an increase of 66% since 2015/16, 50% in real terms, and 5% in the last year). This comes against a background of increasing numbers of children in care (up 16.7% between 2016 and 2022, and up 1.7% in the most recent year alone). The spending increase has been led by residential care spending that has more than doubled since 2015/16 with growth of 105% across the whole period (11% in the last year). Spend on independent fostering has only grown 26% in the same 6-year period (with a 2% decline in the last year).

In addition to these areas of expenditure, councils also spend on placements for older children in supported accommodation and on placements in SEN/Special schools in the non-maintained and independent sectors from social care budgets.

The rate of growth of this spending continues to be driven by both increased numbers of children placed with independent providers, the mix of services purchased, and some price increases.

The total annual fee income for children's services of all types for the twenty providers included in this update study is estimated to be almost £2 billion (see page 9 below), with an indication of most recent annual growth of 6.8%. This aggregate income includes income for special schools' services that may be funded from non-social care budgets, also for leaving care and supported living services and services

[1] https://explore-education-statistics.service.gov.uk/find-statistics/la-and-school-expenditure

provided to local authorities outside of England, including some international services. Hence the aggregate income of the sampled providers is not directly comparable to England-only spending reported by councils (represented in the chart above) but provides a useful indicator of relative scale and offers persuasive evidence that the providers included in this study make up a significant majority of LA spending in England.

As described in the method statement in Appendix 1, an important source of information to select the sample of providers for this study comes from Ofsted, and their published data on the makeup of the provider sector.[2] This data provides further information as to the scale of the larger providers relative to the whole sector. Ofsted particularly highlight (as of 31 March 2023):

- The private sector in general, including the largest private operators have continued to invest and grow.

- The largest top 10 children's homes providers accounted for 30% of all children's homes, with the largest, Caretech, accounting for almost 8.5% of all private homes.

- The top 22 providers own 40% of all private children's homes.

- The 7 largest providers of fostering services account for 59% of all private sector places, with the largest, (Outcomes First Group - OFG), accounting for 18% of all private sector IFA places.

- Four organisations appear on the list of largest providers of both children's homes and IFAs. These are: Caretech, Outcomes First, Polaris and Compass, all feature in the sample in this study.

- Note however that Outcomes First Group announced in January 2023 that the National Fostering Group is to separate from OFG.

The sample selected for this report is listed in Appendix 2, identifying the legal entities studied and their ownership. In summary the ownership status is:

- 50% (10 out of 20) have a majority or minority private equity or sovereign wealth fund owner. This is the same proportion as in the previous 2022 study.

- Caretech delisted from the London stock market to return to private ownership meaning there are now no public market owned providers in the sector.

- Three have charitable status (2022 also three).

- Seven are now in private hands without recognised private equity backing, with a variety of constitutions including a social enterprise and an employee ownership trust.

---

[2] https://www.gov.uk/government/publications/inspection-outcomes-of-the-largest-childrens-social-care-providers/largest-national-providers-of-private-and-voluntary-social-care-march-2023

Visibility

Throughout this series of studies, we have reported on the limitations of the information available at Companies House (see Appendix 5). This latest research again experienced the impact of such limitations. Of particular note this time:

- Stock Market rules and practices often require more detailed disclosure than normal company reporting rules. When Caretech was taken private the provider decided to reduce the segmental reporting that had previously given insight to the children's services operations separately from Caretech's adult services.

  For this version of the report Caretech 2021/22 income and profit results for children's services are therefore unavailable. Solvency indicators are still available based on 21/22 for the whole Caretech group.

- Most providers with multiple types of service do not present segmented information to allow the assessment of children's homes and fostering services alone. For example, education-based funding for placements in schools (e.g. Witherslack and others), and funding of supported accommodation (e.g. Horizon and others) cannot be separated from the income reported in this study.

- Legal entities that fall outside of company reporting rules, such as Limited Partnerships, have no obligation to publish financial reporting information. For example, The Partnership of Care Today is identified by Ofsted as the 11th largest provider of children's homes in England, but there is no financial reporting for this organisation available to this study.

- Where ownership of a large provider changes, or where two providers merge, it is necessary to wait until the newly owned, or merged, entity produces accounts after the end of the next full accounting period. This can lead to a period of up to two years before reliable trend information and visibility of performance, financing and debt structures can be analysed. Examples in this study include the first visibility of Aspris and of Witherslack under new ownership. BSN also reported its first full year accounts under new ownership during the period of study.

- Looking ahead, we anticipate possible visibility issues with Keys Group after the merger with Accomplish, and a period after the separation of National Fostering Group and Outcomes First Group when the separate performance trends and debt structures will take time to become visible.

Income and Profitability

Fee income (or “turnover”) reported in the published financial statements of provider organisations gives the clearest indication of the level of purchasing of services by local authorities with each sampled provider. With no significant private-individual funding for the services covered by this research, the income of providers is almost exclusively derived from fees invoiced to councils for placements with providers.

The ability of the operations of each provider to deliver their services and to yield a profit or surplus out of the income is of fundamental importance to the sustainability of the providers, to their future investment in quality and growth, and (in the private sector) to their ability to distribute returns to owners. As discussed in Appendix 1 we use EBITDA as the measure to examine the financial performance of the providers in this study.

The results for both measures (income and profitability as measured by EBITDA) are set out in the table that follows on page 9, for each provider and in aggregate.

To provide a degree of comparability between providers we have used calculations of annualised absolute income/turnover (column 4) and annualised profit/EBITDA (column 6). More detail of the method of calculation involved in arriving at those figures are set out in Appendix 1.

Profitability is also expressed as a percentage of the income level; this is usually referred to as the profit or EBITDA “margin” (column 7).

Columns 5 and 8 are trend indicator calculations, showing the growth (or decline) in income as a percentage compared to the previous annualised period in column 5, and the percentage growth or decline in absolute annualised EBITDA profit in column 8.

© LGA and Revolution Consulting Limited

Fee income and profitability measures and trends for the largest children's social care providers

1	2	3	4	5	6	7	8
	Change vs previous study	Provider	Annualised children's services income (£)	Income change vs previous year (%)	Annualised EBITDA (£)	EBITDA margin as % of income	EBITDA change vs previous period (%)
1		Outcomes First	445,681,352	4.6%	93,089,860	20.9%	9.7%
2		Caretech	NA	NA	NA	NA	NA
3		Polaris	204,238,852	8.8%	43,835,580	21.5%	10.8%
4		Aspris	190,711,628	NA	47,890,755	25.1%	NA
5	+1	Witherslack	148,341,468	NA	39,260,207	26.5%	NA
6	-1	Keys	123,557,927	11.6%	27,718,203	22.4%	14.8%
7		Compass	95,273,287	16.8%	15,283,097	16.0%	1.9%
8	+2	Five Rivers	54,385,141	8.6%	3,147,857	5.8%	-7.7%
9		Horizon	53,863,521	-2.1%	4,056,587	7.5%	-46.4%
10	-2	BSN Social Care	53,666,835	2.3%	9,388,346	17.5%	NA
11	+2	Hexagon	35,052,475	15.2%	6,276,273	17.9%	17.8%
12	-1	Capstone	33,237,012	1.7%	5,687,294	17.1%	16.4%
13	-1	Together Trust	32,278,000	6.0%	2,149,000	6.7%	-2.5%
14		Esland	32,179,407	-6.0%	3,760,027	11.7%	-35.0%
15		TACT	25,376,000	-0.9%	1,216,000	4.8%	-42.9%
16	+4	Homes 2 Inspire	23,643,000	15.5%	-409,000	-1.7%	-151.5%
17	New	Ardenton	21,544,796	5.4%	2,616,710	12.1%	37.2%
18	+1	SWIIS	20,151,456	4.5%	437,885	2.2%	-31.4%
19	-1	Sunbeam	19,972,100	7.0%	1,223,774	6.1%	13.8%
20	-3	Your chapter	16,639,253	-12.2%	3,238,625	19.5%	-25.9%
		Total (excl Caretech)	1,629,793,510		309,867,080	19.0%	

Observations and comments:

A. Caretech's children's services performance is no longer available (see Visibility comments on page 7).

B. The total income of the remaining 19 of the largest children's social care providers is around **£1.63 billion**.

   If, in 2021/22, Caretech performed at a similar level to the previous year the aggregate income of all 20 providers would be around **£1.94 billion**.

C. Where reliable comparison at the individual provider level can be made to the previous year, income growth rates vary between providers, indicating that, as in most markets, there is a range of performance variability. The mixed average of comparable income growth rates is **6.5%** in the most recent year.

D. The variation in growth rate at the individual provider level ranges from 16.8%

© LGA and Revolution Consulting Limited

growth at Compass (due to rapid opening of new homes combined with acquisition activity), to a 12.2% decline at Your Chapter as some services were closed and repositioned during the last reported year.

All but four providers exhibited income growth in the latest period. In column 2 of the table above we indicate where providers have risen or fallen in size relative to the sample. Notable risers are Homes 2 Inspire with their LA partnership and block contract strategy yielding high growth.

E. The largest six providers are estimated to make up around 74% of the total sample when measured by their income from children's services. Visibility issues prevent a reliable assessment of the relative growth of the top five compared to the second tier.

F. The total profit/EBITDA for the visible sample is **£310 million**.

Where there is good visibility of the previous period (16 of the sample) EBITDA growth is **8.3%** compared to the previous year.

We estimate that the top 6 providers make up as much as 85% of the total profit in the study because of their higher EBITDA margin levels.

Results of the other 14 providers include a majority reporting lower profits than a year earlier (see J below).

G. The profit/EBITDA margin for the whole sample is **19.0%**, which represents only a small reduction compared to the previous study (19.8%), albeit based on samples that included some different providers and visibility issues.

H. It is again notable that the profit levels reported by smaller providers outside of this sample are at materially lower levels (absolute and margin %). Surveys of members of the Children's Homes Association by Revolution Consulting[3] confirm this for children's homes services.

I. Loss making would generally be an early indicator of potential solvency or sustainability issues for an organisation. In this update study the only loss-making organisation is Homes 2 Inspire who are investing in new long-term contracts and capacity. A relatively small part of the overall operations of the Shaw Trust, the children's services of Homes2Inspire is reported as continuing to have the Trust's support.

J. Reduced profit levels can also be an indicator that solvency issues may arise, and there are eight providers in the sample reporting lower profits than a year earlier.

All providers reporting reduced profits are outside of the top six. There are a variety of reasons for the reduced profit levels including planned periods of investment in growth of services, but also the impact of emerging pressures on staffing costs and inflationary effects are referenced by some providers.

As results that cover the 2022/23 period emerge those pressures may

[3] https://www.revolution-consulting.org/wp-content/uploads/2023/04/CHA-Spring-2023-final.pdf

become more evident in results. We recommend continued monitoring as results are published.

K. Acquisitions and corporate mergers continued during the year, especially involving the largest providers in the sample. A full list of activity reported in the accounts of providers, and the trend in numbers of corporate transactions is shown in Appendix 3.

L. Government has published its response[4] to both the Independent Review of Children's Social Care and the Competition and Markets Authority market study. This includes measures (e.g., Regional Care Cooperatives) that will seek to address independent sector profit levels in the future and increased financial monitoring of the sector.

[4] https://www.gov.uk/government/news/long-term-strategy-launched-to-fix-childrens-social-care

© LGA and Revolution Consulting Limited

Sustainability and Solvency risk indicators

The indicators used in these studies to give insight to debt and solvency issues are described more fully in Appendix 1 and are unchanged from previous studies. The table on the following page 13 includes the results for these indicators for all providers in the sample, where information is available to perform the calculations.

Columns 3 and 4 are derived from the balance sheet of the provider and indicate if, at the balance sheet date, the provider is reporting net assets or net liabilities. The second indicator excludes intangible assets (e.g., goodwill) from the calculation.

Column 5 gives a trend indicator by comparing the net tangible assets to the previous year where visibility allows.

Fundamentally these measures give indication if the provider has enough assets with which to meet its liabilities as at the balance sheet date. A negative measure requires further investigation into the relative timing of future transactions to judge if the provider has a reasonable expectation of being able to meet its liabilities as they become due.

Absolute values for liabilities and debt from the balance sheet are of limited value alone and need to be related to the ability of the underlying business to pay off the interest and principal amounts of the loans.

Columns 6 and 7 of the table below offer two straightforward indicators to begin to test the manageability of external debt. The two indicators are defined in Appendix 1. These indicators test if the operating profits of the provider are sufficient to at least pay the interest that is coming due on the external debt alone (interest cover) and, secondly, how many years of EBITDA would be needed to pay off the underlying external loans.

As a rule of thumb, interest cover (column 6) calculated this way would ideally need to be above 1.0. The number of years to repay debt (column 6) gives an initial insight into how indebted the provider is. A high figure suggests the need to investigate further the timing of the scheduled repayments of that debt and to assess the ability of the provider to make those repayments within the allocated number of years. Such information is not always fully available in the statutory financial statements of providers.

Column 8 provides a trend indicator for these two solvency indicators by comparison to the previous reported year.

As discussed in Appendix 1 it is critical to be able to access the full funding picture from the top level of the consolidated provider group in which the children's services sits to fully assess solvency issues.

The reason for the focus the external/bank debts is that they are more likely to require fixed repayment of interest and debt capital and, if defaulted against, may grant the bank or other lender rights to step in and assume control of the provider operations to recover amounts due to the lender. Bank debt is therefore generally monitored ahead of other debts loaned by the shareholders/owners who often do not require repayment until later dates or when the business is sold.

© LGA and Revolution Consulting Limited

Solvency and debt measures for the largest children's social care providers.

1	2	3	4	5	6	7	8
	Provider	Net Assets or (Liabilities) (£)	Net Tangible Assets or (Liabilities) (£)	Change in NTA vs previous period	Interest cover (External Debt)	Years to repay external debt	Trend in solvency indicators
1	Outcomes First	(387,584,000)	(644,779,000)	(28,124,000)	2.32	5.81	++
2	Caretech	410,934,000	201,943,000	(5,076,000)	5.24	3.99	--
3	Polaris	61,122,000	(94,327,000)	(352,000)	4.14	2.70	--
4	Aspris	92,000,000	(51,400,000)	NA	4.02	3.14	NA
5	Witherslack	(73,099,443)	(284,068,382)	NA	2.35	5.79	NA
6	Keys	(49,159,000)	(128,489,000)	(7,966,000)	2.91	5.13	--
7	Compass	(15,670,336)	(61,350,953)	(652,030)	5.09	3.44	--
8	Five Rivers	12,178,364	10,559,678	1,007,351	303.76	No net debt	+
9	Horizon	(6,953,669)	(55,040,442)	(7,124,808)	2.63	15.07	--
10	BSN Social Care	(8,350,442)	(93,690,862)	(5,088,692)	7.10	1.62	NA
11	Hexagon	11,575,924	11,191,101	2,413,290	30.27	No net debt	+
12	Capstone	11,547,659	(1,551,241)	4,056,405	38.41	0.04	++
13	Together Trust	28,547,000	28,547,000	1,454,000	47.76	No net debt	+
14	Esland	(28,953,298)	(50,619,214)	(8,167,516)	1.26	12.55	--
15	TACT	6,071,000	6,071,000	1,202,000	No int	No net debt	
16	Homes 2 Inspire	209,387,000	207,631,000	128,370,000	73.46	No net debt	+
17	Ardenton	(3,663,764)	(34,624,204)	(1,810,017)	2.86	3.71	++
18	SWIIS	4,021,457	4,021,457	542,783	26.36	No net debt	+
19	Sunbeam	6,379,846	6,379,846	(246,731)	No Int	0.57	+
20	Your chapter	8,858,995	8,234,649	1,920,595	10.57	0.59	-+

Notes:

Outcomes First Group debt will be reallocated when the provider splits.

Caretech debt is reported to have been largely eliminated through a sale and leaseback of assets after the end of the last reported period.

Keys debt is replaced/eliminated on merger with Accomplish after the end of the last reported period.

Observations and comments:

A. Eight providers reported negative net assets in this study period, an increase over just four in the last report. That number increases to eleven (nine in the last report) if intangible assets are excluded. All except Capstone (now owned by an Employee Ownership Trust) have private equity ownership.

More than half of the visible sample (55%) report weaker balance sheet

© LGA and Revolution Consulting Limited

positions compared to last year. The continued acquisition activity in the study period, financed through additional borrowing is a factor in this negative trend.

B. The results of the interest cover and years to repay external debt indicators vary widely and presents a greater mix of trend than in the previous study.

   The highest levels of interest cover relate to the voluntary sector and private individual owned providers. The lowest number of years indicated to repay external debt is also demonstrated by these providers. Several of this set of providers have no, or negligible external debt (indicated by “No net debt” in column 7). However, even amongst this set of the least financially stressed providers are situations that merit ongoing monitoring, such as the need for continued support of Homes 2 Inspire by the Shaw Trust during a loss-making period of development.

   Providers with private equity ownership involvement tend to demonstrate the impact of the external funding mechanisms typically employed by those owners. For these models of financing interest cover is typically in the lower range, but still above the benchmark 1.0 level, and years to repay debt is in the 1–6-year range typical of this financing model.

   The impact of Private Equity financing structures when a provider experiences a downturn in operating results can particularly be seen in the examples of Esland and Horizon. Both reported some of the most significant year on year profit decline percentages (see page 9 above) and this has a correspondingly negative effect on the solvency indicators for those providers.

   The ways in which the providers, their owners and funders, and their auditors assess the risk of debt is further considered in the following section (page 15).

C. Whilst the debt levels of some providers are substantial in actual terms the sector has not experienced any corporate failures amongst the largest providers during the period of study.

D. Government is committed (in “Stable Homes, Built on Love”) to the introduction of a financial oversight regime for children’s social care providers, following the CMA’s recommendation. The indicators and the results discussed above would generally support the need for the sector to improve transparency and to assess the sustainability of financial models employed by providers in real time.

© LGA and Revolution Consulting Limited

Debt Management (Going Concern)

All providers must consider ongoing solvency when preparing financial statements. As illustrated in earlier reports in this series, providers carry out a range of projections to justify why their accounts are prepared on the basis that the provider is likely to be able to keep operating for at least the next year or two.

Further illustrations were available to this study via the disclosures made in recent financial statements, and two are provided here.

Firstly, from Witherslack's 2022 accounts a description of the forecasting used to test if any debt related covenants might be breached, including a potential loss of 20% of all income:

Going concern

An assessment of the Group was undertaken by the Directors to determine the suitableness of the going concern basis of preparation.

At the balance sheet date, the Group showed a total comprehensive loss for the period of £73.6m (2021: £2.94m). The business is reliant on external funding comprising £240m of secured bank loans and overdrafts and £353m of preference shares. The bank loans are due to be repaid 7 years after issue, being August 2028 at the earliest. Early repayment is only enforceable should covenants be breached.

The nature of the Group's business activities comprises education and residential care for children under contracts in place with Local Authorities. In assessing the Group's ability to continue as a going concern, the Directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources.

This included consideration of a base case and a series of severe but plausible downsides incorporating reduction in education income. This included a remote scenario where revenues were decreased by up to 20% from the next Academic term. No reduction was made to the cost base to reflect the reduced income. The Directors then considered potential mitigations within their control; should it be required, capital expenditure would be constricted to mitigate any shortfall in liquid funds. Based on actual performance in the period since pandemic began, the Directors consider this scenario to be remote.

After conducting the financial projections exercise and making all appropriate enquiries, the Directors have a reasonable expectation that the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Group's financial statements.

Note that the independent auditors of the accounts also have a duty to comment on the appropriateness of the accounts being prepared on a going concern basis, so we can generally be assured that forecasts and cashflow modelling by providers will be subject to an independent challenge.

The second example relates to Ardenton and is a historical example from the 2021 accounts which openly details the options available to the provider if it experienced difficulties in managing debt. This followed a period in the 2020 year when bank covenants had been breached but where the bank and investors continued to support the provider:

© LGA and Revolution Consulting Limited

Going Concern

In assessing going concern, the Directors have considered the period to 31 March 2024. Forecasts of liquidity and covenant compliance have been prepared under a base case scenario and a downside scenario reflecting a reduction of average forecast placements from 88.3 to 85.4 and therefore related revenue, throughout the assessment period when compared to the base projections.

These forecasts indicate that the group will have sufficient liquidity to meet its usual operational obligations during this period, including payment of the deferred consideration which is out of the going concern period in April 2024.

These forecasts also indicate that the Company will meet covenant requirements as set out by the loan agreement with Clydesdale Bank Plc (trading as Yorkshire bank) in respect of bank loans outstanding. The forecasts however indicate that the leverage covenant is particularly sensitive to a reduction in placements below the downside sensitivity. The Directors are confident that the forecast occupancy numbers are achievable.

A further reduction in placements below the downside scenario results in these covenants starting to not be met at various points in 2023. The leverage covenant would be breached in June and September 2023 based on this scenario. Management would initially seek to negotiate changes in financing terms or receive waivers for the breaches. The Directors are confident, based on prior experience with the bank, that this would be achievable. If this were to be unsuccessful the company would request support from the parent entity.

A letter of support has been provided by Ardenton Capital Limited (ACL) which states that they provide comfort in respect of the provision of financial support to assist meeting the Companies liabilities as and when they fall due, but only to the extent that money is not otherwise available to meet such liabilities. ACL has also confirmed in the letter that they have the ability to provide such support until 31 March 2024. As noted below there is a separate material uncertainty regarding how ACL would finance any support required by the subsidiary entities. ACL have considered the following options as being available to them if such support was required:

1. Providing finance via the $10m debt facility set up at the Ardenton Capital Corporation level, following the formal exit of the CCAA process in January 2022;
2. refinancing debt in another operating company;
3. a new alternative debt funder could be sought; and
4. a minority stake could be sold in the company.

On the basis of their assessment of the Company's financial position, the Company directors believe that it is appropriate to prepare the financial statements on a going concern basis as they believe that both the parent company, and the bank, will continue to support the company to allow the Directors to operate and meet its liabilities.

However, the circumstances discussed above give rise to material uncertainties which may cast significant doubt on the Company's ability to continue as a going concern, and therefore, it may become unable to realise its assets and discharge its liabilities in the normal course of business. These material uncertainties are as follows:

- The sensitivity of the Company's revenue forecasts to fluctuations in the number of placements with resulting potential covenant breaches. There is uncertainty as to whether the Company could successfully negotiate covenant waivers or changes in financing terms if required. Were parental financial support to be required, there are uncertainties around whether and how ACL would be able to finance this if required, per the further material uncertainty discussed below.

- As above, there is a material uncertainty around how ACL would finance any support required by the Company or other support required by other investments owned by ACL. This reflects the material uncertainties disclosed in the ACL financial statements for the year ended 31 December 2021. Were funding to be required by the Company this would require ACL to consider a range of options, including seeking to raise additional financing or capital. The ACL Directors are confident that this can be achieved but this will be dependent upon the appetite of credit and equity providers, at that point in time, which cannot be predicted.

The Directors have also identified certain potential mitigating factors to these sensitivities: The Directors of Ardenton Capital have confirmed that the repayment of loan interest due to the Parent relating to outstanding Investor A loan notes can be deferred, if deemed appropriate by the Directors, to further support the business.

Note again how testing and forecasting is often most sensitive to occupancy, or utilisation rates of the services of the provider. This sends a clear message to commissioners of services that actions taken to reduce volatility of demand and purchasing have the potential to bring most benefit.

These two examples give rich insight into the complexity of managing debt. Metrics alone, such as those used in this study, are, at best, indicators that more detailed enquiry may be worthwhile, and that such further enquiry is likely to find considerable monitoring activity at the provider level. Beyond the monitoring activities there are several potential actions that may be taken by investors and banks in order to manage situations where solvency is challenged.

This is an area of Government policy development as detailed in “Stable Homes, Built on Love” where a voluntary oversight regime overseen by Ofsted was announced earlier in 2023. This regime faces the detailed challenges of what is achievable through oversight activity, and if any statutory interventions might be required in addition.

© LGA and Revolution Consulting Limited

Appendix 1

Method and technical descriptions

1. Local authority spending data (section 251 return based) was accessed to describe the level of spending on foster care and residential children's services as reported to the Department for Education by local authorities in England. Ofsted reporting in relation to the largest providers of services was also used to illustrate the representativeness of the sample of providers in this update.

2. The largest provider organisations were identified utilising a model that was primarily based on data provided by Ofsted in relation to the capacity of children's homes and fostering agency organisations operating registered services.

Where available the accounts of candidates for selection are accessed to examine revenue levels and to compare to revenues reported by the previous studies.

A draft list of candidate providers is circulated to trade associations for feedback.

Taken together, these activities allow the selection of the largest 20 providers based on their revenue levels from children's services and fostering.

LGA also reviewed the final list of selected providers to confirm that the expected organisations were present in the sample.

3. The latest available audited public accounts of the identified providers were downloaded from Companies House for the sample of providers (up to 31 August 2023).

4. Key information and indicators from the downloaded financial statements (see details in Appendix 2) were extracted.

The information extracted included turnover, operating profits, financing costs, data required to calculate EBITDA, external funding levels and terms, solvency indicators and data to calculate the same. Technical descriptions of data and calculations follow in this Appendix below.

5. Results were screened to identify providers where the separation of results of fostering vs children's homes vs other services can be achieved. The availability of such analysis was again severely limited and is not therefore reported in this study. Results presented in this report are therefore a mixed or blended aggregate of each provider's children's services combined.

6. To normalize results to an annual measure, adjustments to reported results are made in several ways to produce the analysis presented in this report. It is also important to use only meaningful balance sheet information for the solvency indicators, and that information exists for some of the providers studied at a higher parent or holding company level than the entity or subgroup where operations results are reported. For example:

- Periods of reporting that differ from 365 days are adapted on a pro-rata basis to produce annual estimates.

© LGA and Revolution Consulting Limited

- Part year acquisitions disclosed in parent group accounts are similarly estimated to a pro-rata annual equivalent.

- Most of the providers in this study are solely engaged in children's services and hence the whole result of the parent group is used in this report. However, for some the children's services results are only part of the results of the wider group and, in some cases, can be extracted from those of the larger groups in different ways. For this study the following specifics are relevant:

  For this version of the report, it has not been possible to estimate the children's services income and profit results from Caretech. Caretech solvency is assessed at the full group level.

  SWIIS Foster Care results are from the operations of the company in England, the results of a separate Scotland based operation are not included. However, solvency information can only be meaningfully taken from the parent SWIIS International entity.

  Homes 2 Inspire children's services performance is accessed via the entity bearing that name, but solvency data is accessed via the Shaw Trust parent entity.

7. **Profitability – what to measure?**

There are several different measures of profitability, each with its own purpose. Audited financial statements include several measures of profit in the published Profit and Loss Account statement (one of the key sources of information in any set of accounts).

The different profit measures used are essentially different from one another based on what they include and exclude from the calculations.

Some of the key differentiators are related to the inclusion or exclusion of:

- Corporate Taxes where these are payable (primarily in the private sector).

- Interest receivable and interest payable (this relates to the financing structure of the business).

These are not the only differentiators.

If the purpose of examining profitability is to obtain an understanding and insight to the profitability of the underlying trading or operations of an organisation, then there are additional profit measures that can be derived from the information disclosed in accounts. Some larger providers sometimes disclose this calculation in their own accounts, and we seek to use that calculation where possible.

This report seeks to examine that underlying trading picture as a key objective.

The financial accounts of a provider include all or most of the costs of providing the service in addition to the income levels. It is therefore possible to gain some indication of what level of profit is earned from the fees received using the accounts information.

The measure used in this study seeks to remove the “noise” of non-trading items from the profit measure it uses.

The measure is:

EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation

The elimination of depreciation and amortisation removes accounting complexities related to what are essentially capital transactions. Whilst not unimportant, they are often removed when just the underlying annual trading position is being examined.

This measure is also widely used in financial analysis and is used extensively by the investment industry. These calculations often seek to eliminate any exceptional, non-recurring costs from the EBITDA measure to illustrate the true underlying result of the operational performance. Such further adjustments may include one-off integration costs following a large acquisition, or exceptional one-off adjustments for example in relation to a large asset sale.

Some providers also treat the start-up costs of investment in new capacity as exceptional, non-recurring costs. However, this approach is not consistent across all providers. Where these costs are shown as exceptional, they are added back in the EBITDA calculation. For consistency we use the same method for the provider for both the current, and comparative year.

Most providers do not however self-disclose the EBITDA calculation, so it is derived and calculated from figures extracted from the accounts of those providers using the formula above.

Some of the non-recurring items that are excluded to calculate EBITDA are potentially subjective and may require further information that is not included in the published accounts. We would again invite any provider representatives to contact us is they would like to clarify or suggest changes as to how the calculations are made.

Some financial analyses go further in also looking to eliminate rental costs of property, but this study has not taken that further step. Several providers report sizeable operating lease costs, often in relation to rental of property used by the provider. These costs raise the possibility that and profit or loss on renting property to the operating business is not included in the reporting we have accessed.
It remains a possibility to extend this type of study in a way to examine this factor further.

8. **Solvency and sustainability – what to measure?**

Solvency of a business is essentially related to an organisation’s ability to generate cash and thereby to be able to pay its bills as they become due.

Without that ability an organisation’s survival becomes increasingly dependent on the willingness of those who are owed money to support the organisation while it goes about raising enough money to settle its liabilities.

If those parties owned monies lose confidence in the ability of the business to repay

© LGA and Revolution Consulting Limited

the sums due then it can lead to sale, liquidation, and cessation of the business altogether.

Some organisations are heavily dependent upon the continued support of the owners and funders of the business to remain sustainable in the short and medium term.

Measures used in this study look at both balance sheet measures of solvency and at the relationship of cash generated by the operational trade of the business to the requirement to pay interest and capital amounts back to funders.

As indicated above, where the children's services operations of a provider are only part of the activity of the wider organisation, or where funding comes from a parent company then the solvency indicators used are those of the group, as any subsidiary level analysis is relatively meaningless.

Solvency and Sustainability indicators

Balance Sheet Total Net Assets/(Liabilities) – fundamentally, does the business have more assets than liabilities as at the balance sheet date?

Net Tangible Assets/(Liabilities) – More of an acid test that assumes intangible assets such as the goodwill accounted for at acquisition of a business has zero value (e.g., in a winding-up process).

Interest Cover: (EBITDA: Interest Paid ratio) – Asks the question as to how easily the current operations can at least pay interest on borrowings as it becomes due for actual payment.

Years to pay bank debt – How many years would it take for current levels of trading to generate enough cash to pay off money due to third party banks/funders only (typically those with security over the business assets and the right to step in and liquidate if necessary)?

© LGA and Revolution Consulting Limited

Appendix 2

Ownership and entities

Group name in this study	Group entity(ies) accounts studied	Entity number(s) (Companies House number)	Ultimate ownership controlling party	PE involvement?
Outcomes First Group	SSCP Spring Topco Limited	09248650	SSCP Spring Holdings SCA (Luxembourg) is the ultimate parent undertaking. Funds managed by Stirling Square Capital Partners Jersey AIFM Limited are the ultimate controlling parties.	Yes
Caretech	Caretech Holdings Limited	04457287	Amalfi Topco Limited (Jersey) Controlling shareholders Haroon Sheikh and Farouq Sheikh	No
Polaris	Nutrius UK TOPCO Limited	11598370	CapVest Equity Partners III LP	Yes
Aspris	Aspris Holdco Limited	13534635	Waterland Private Equity Investments B.V.	Yes
Keys Group	Keys Group Limited Merged with Accomplish from July 2022	10625350 14101282 from May 2022	G Square Healthcare Private Equity LLP From March 2022 ownership is G Square Capital CV LLP	Yes
Witherslack	Witherslack Topco Limited	13538818	Mubadala Capital (from Aug 2021) via MIC Capital Partners III GP, LP (Cayman Islands). Ultimate controlling party is the Government of the Emirate of Abu Dhabi	Yes
Compass Group	Advent Topco Limited	11053915	A1 ordinary shares are held by funds managed by Graphite Capital. No individual holds more than 20%.	Yes
BSN Social Care	Orange Cloud	13044988	MML Capital Europe (Luxembourg) has significant control but in	Yes

	Topco Limited		the opinion of the directors there is no ultimate controlling party.	
Five Rivers	Midhurst Child Care Limited	05657414	P J McConnell	No
Horizon	Range Topco Limited	12135972	B ordinary shares are held by individuals and funds managed by Graphite Capital. No individual holds more than 20%.	Yes
TACT	The Adolescent and Children's Trust	2779751 Charity 1018963 Charity Scotland SC039052	Members/Trustees	No
Capstone	Capstone Foster care Limited	06128293	Capstone Employee Ownership Trust	No
Together Trust	The Together Trust	301722 Charity 209872	Members/Trustees	No
Esland/Oracle	Picnic Topco Limited	11732793	August Equity Partners IV GP Limited No single ultimate controlling party.	Yes
Hexagon	HCS Group Limited	11241666	M. Bell	No
SWIIS	SWIIS Foster Care Limited SWIIS Foster Care Scotland Limited SWIIS International Limited	03985713 SC273400 04499819	Controlling company SWIIS International Limited. Ultimate controlling parties G S Dadral and K Dadral	No
Sunbeam	Sunbeam Fostering Group Limited	07298774	M Haneef, N Ahmed, K S Dhull. No Ultimate Controlling Party	No
Your Chapter (formerly Care 4 Children until May 2020)	Your Chapter Holdings Limited (formerly Care 4 Children	10082417	R Khan has significant control. Directors do not consider there to be an ultimate controlling party.	Minority share held by Micota Capital

© LGA and Revolution Consulting Limited

	Holdco Limited. Renamed May 2022)			
Homes 2 Inspire	Homes 2 Inspire Limited Shaw Trust Limited	10592680 01744121 Charity 28775 Charity Scotland SC039856	Homes 2 Inspire ultimate ownership and controlled by Shaw Trust Limited Members/Trustees	No
Pebbles and others	Ardenton Care Holdings Limited	12230654	Immediate parent is Ardenton Capital Investments Limited. Ultimate parent undertaking is Ardenton Capital Corp (Canada)	Yes

Appendix 3

Reporting periods

	Legal entity	Brand	Jan-Mar 2020	Apr-Jun 2020	Jul-Sep 2020	Oct-Dec 2020	Jan-Mar 2021	Apr-Jun 2021	Jul-Sep 2021	Oct-Dec 2021	Jan-Mar 2022	Apr-Jun 2022	Jul-Sep 2022	Oct-Dec 2022	Jan-Mar 2023	Apr-Jun 2023	Jul-Sep 2023	Oct-Dec 2023
1	SSCP Spring Topco Limited	Outcomes First/NFG														Due 31/05/2024		
2	Caretech Holdings Limited	Caretech														Due 30/07/2024		
3	Nutrius UK Topco Limited	Polaris															Due 30/09/2024	
4	Aspris Holdco Limited	Priory/Sandcastle					Sold to Waterland/Aspris									Due 31/05/2024		
5	Keys Group Limited	Keys/Accomplish												Due 31/12/2023				
6	Witherslack Topco Limited	Witherslack				Sold to Mubadala										Due 29/07/2024		
7	Advent Topco Limited	Compass												Due 31/12/2023				
8	Orange Cloud Topco Ltd	BSN Social Care												Due 31/12/2023				
9	Range Topco Limited	Horizon														Due 31/05/2024		
10	Midhurst Child Care Limited	Five Rivers														Due 30/06/2024		
11	Capstone Foster Care Limited	Capstone												Due 31/12/2023				
12	The Together Trust	Together Trust												Due 31/12/2023				
13	HCS Group Limited	Hexagon												Due 31/12/2023				
14	Picnic Topco Limited	Esland															Due 31/08/2024	
15	The Adolescent and Children's Trust	TACT												Due 31/12/2023				
16	Your Chapter Holdings Limited (Formerly Care 4 Children Holdco Limited)	Your Chapter											Due 30/09/2023					
17	Sunbeam Fostering Group Limited	Sunbeam												Due 31/12/2023				
18	SWIIS Foster Care Limited/SWIIS Int.	SWIIS														Due 30/06/2024		
19	The Shaw Trust	Homes 2 Inspire														Due 31/05/2024		
20	Ardenton Care Holdings Limited	Pebbles											Due 30/09/2023					

(blue block) = new financial accounts used in this study

The list above shows all twenty provider groups studied, including identification of the legal entity at the top of the ownership chain. In addition, a brand name for each provider is allocated as these may be more recognisable to readers. Appendix 4 lists recent acquisitions into these providers.

Each blue block in the figure above represents financial information retrieved for this study. For UK based companies, the Companies Act 2006 generally requires companies and groups to submit independently audited accounts on an annual basis, and to do so within 9 months of the end of the year the accounts relate to (public limited companies (PLC) such as those listed on the London Stock Exchange (LSE) have only 6 months to do so).

Companies can select the annual start and end date for financial reporting; hence companies report to a variety of different schedules. As can be seen in the figure above, companies use a variety of start/end periods for their reporting, and in certain circumstances can alter the length of the period reported to a longer or shorter period than the usual annual reporting.

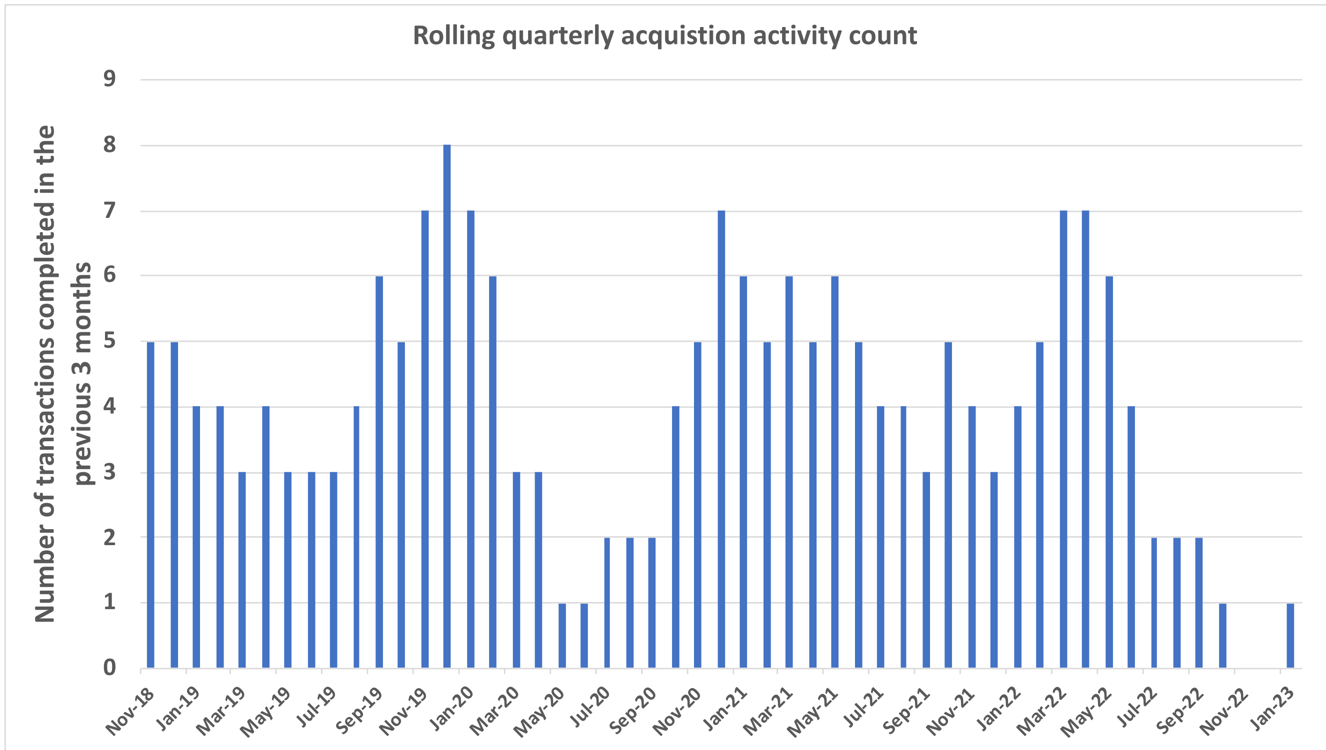
© LGA and Revolution Consulting Limited

The dark blue blocks are the most up to date information that has been published since the 2022 report and used in this update report. In some cases, providers have filed two sets of accounts since the previous study. On average, the study can be said to represent the year between July 2021 and June 2022.

Appendix 4

Acquisition activity trend.

The chart below is a rolling three-month count of the acquisition transactions reported by the top 20 providers in their statutory reporting.



Acquisition activity was increasing in the autumn of 2019 and early 2020 until the impact of Covid uncertainties and lockdowns on social care dampened the number of deals being concluded. However, by late 2020 activity had returned to pre-Covid levels.

Note that 2022/23 levels shown may increase once information provided retrospectively by the filing of accounts for 2022/23 is available.

The full list of acquisition activity that underpins the chart above is listed below. The primary source of information about acquisitions are the disclosures made in the specific financial statements that form the basis of the whole report, although these are supplemented by additional information discovered in the public domain during this update. It is not intended to be a comprehensive list of all activity in the sector.

Date	Target	Acquiring Group
Sep 2018	Safehaven	Five Rivers
Oct 2018	Reach Out Care	SSCP/Stirling Square
Oct 2018	Core Assets Group	Nutrius/CapVest Equity
Nov 2018	Safehouses North	Five Rivers
Nov 2018	The Fostering Company North East	Five Rivers
Dec 2018	Sandcastle Care	Waterland Private Equity

Jan 2019	PiCS and Boston Holdco B	Nutrius/CapVest Equity
Feb 2019	House of Falkland (Westfield Jacob)	SSCP/Stirling Square
Feb 2019	Esland Group	August Equity
Apr 2019	Family Placement.com	SSCP/Stirling Square
Apr 2019	SFS	TACT
May 2019	Aurora Care Young People's Services	Horizon/NBGI
Jul 2019 (Dec 2019 – CMA clearance)	Outcomes First Group	SSCP/Stirling Square
July 2019	Queensmead Property	Witherslack/Charme Cap
Aug 2019	Horizon	Graphite Capital
Aug 2019	Help Me Grow Fostering Services	BSN/Alderbury
Sep 2019	Ferndale Child Care Services	Compass/Graphite
Sep 2019	Cressy Oasis Ed	Horizon/Graphite
Oct 2019	Sussex Fostering	BSN/Alderbury
Nov 2019	Pathfinders (bus acq)	Sandcastle/Waterland
Nov 2019	Portixol UK	Sandcastle/Waterland
Nov 2019	Pebbles Care	Ardenton Capital
Nov 2019	Care Holdings	Ardenton Capital
Dec 2019	Tumblewood Project	Witherslack/Charme Cap
Dec 2019	Build-A-Future	Keys/G Square
Dec 2019	Cornerways Fostering Services	BSN/Alderbury
Feb 2020	Holistic Childcare (Gilmourbanks & High Trees)	OFG/SSCP/Stirling Square
Feb 2020	AS Investments (UAE)	Caretech
Feb 2020	Artemis/Unique Care Homes	Keys/G Square
May 2020	SWCS	Keys/G Square
July 2020	Oracle Care & Ed	Esland/August Equity
Aug 2020	Next Step Fostering (AW Consultancy & Lesley Ann Consultancy)	OFG/SSCP/Stirling Square
Oct 2020	Bryn Melyn	OFG/SSCP/Stirling Square
Oct 2020	Elevate Propco	Care 4 Children
Oct 2020	Smartbox	Caretech
Nov 2020	Enhanced Children's Services/Enhanced Foster Care/Wessex College	OFG/SSCP/Stirling Square
Nov 2020	Huntercombe Group (adult facilities)	Caretech
Dec 2020	North Lakes	Polaris/Nutrius/CapVest
Dec 2020	Capstone	Capstone Employee Ownership Trust

© LGA and Revolution Consulting Limited

Jan 2021	Priory Ed & Care	Waterland Private Equity
Jan 2021	Mayne Enterprises Ltd	Compass/Graphite
Feb 2021	Elevate II Limited	Care 4 Children
Mar 2021	Dove Adolescent	Polaris/Nutrius/CapVest
Mar 2021	3 Dimensions Care Ltd	OFG/SSCP/Stirling Square
Mar 2021	BSN Social Care	Significant control acquired by MML Capital Europe
Apr 2021	Area Camden Limited	Polaris/Nutrius/CapVest
May 2021	Southern Adolescent Care Services Limited	Keys Group/G Square
May 2021	Potton Homes Ltd	Compass/Graphite
June 2021	Quality Foster Care	Five Rivers/Midhurst
June 2021	Headway Adolescent Resources Ltd	Polaris/Nutrius/CapVest
Aug 2021	Priory Ed & Care	Aspris Holdco
Aug 2021	Witherslack	Mubadala Capital invests
Sept 2021	Olive Branch Fostering Ltd	BSN/Orange Cloud/MML
Oct 2021	WP Associates Limited	OFG/SSCP/Stirling Square
Oct 2021	Care First Management Limited, Respite Breaks Ltd, Community Prospects CIC	OFG/SSCP/Stirling Square
Nov 2021	REHAVISTA GmBH	Caretech
Jan 2022	Perpetual Fostering Ltd	BSN/Orange Cloud/MML
Jan 2022	Sandcastle/SC Topco	Aspris/Waterland
Jan 2022	Eagle House Group Ltd	Witherslack/Mubadala
Feb 2022	Wellness Group	Caretech
Feb 2022	Dmetco-Bayti Group	Caretech
Mar 2022	Peak Activity Holdings Ltd and Peak Activity Services Ltd	Keys Group/G Square
Mar 2022	Hollyblue Healthcare (Arden) Ltd	Aspris/Waterland
April 2022	Bramley Care Limited	Polaris/Nutrius/CapVest
April 2022	Bay View Child Care Holdings Ltd	Polaris/Nutrius/CapVest
April 2022	Considerate Care Limited	Keys Group/G Square
May 2022	Oasis Adolescent Services Limited	Your Chapter
July 2022	Keys and Accomplish merger	G Square
Aug 2022	The London Children's Practice (2009) Ltd	OFG/SSCP/Stirling Square
Jan 2023	BHIS Holdings	Aspris/Waterland
June 2023	Talk To Me Technologies	Caretech

© LGA and Revolution Consulting Limited

Appendix 5

Limitations of data and areas for potential further study

Limitation	Further study
Statutory accounting information includes some useful details in relation to debt repayment schedules, but the accounts are historical and do not offer information to assess ability to pay.	Further scrutiny of the terms of loans and other financing and the internal stress testing performed for going concern consideration would require additional disclosure by providers.
There is a perception of a lack of clarity as to responsibility for monitoring of provider solvency and performance.	The CMA also raised this concern and recommended a statutory monitoring regime.
Information at Companies House is historical and for corporate bodies only (i.e., excludes partnerships)	Extra-statutory reporting of management information and forecasts by providers are required for greater clarity.
Information at Companies House is limited for small and medium sized providers.	Consider additional disclosure requirements for all providers of children's social care services through statute or via a sector-led transparency code.
Information is usually for the whole company or group and not reported segmentally.	Consider development of a sector-led transparency code.
Profitability of some provider organisations is not completely visible due to transactions with other related parties or use of partnership structures.	Carry out EBITDAR (and other measures) analysis and interview providers. Consider development of a sector-led transparency code.
Charity accounts are not always suitable for this type of analysis and other issues arise for charities (e.g., pension liabilities)	Consider development of a charities-sector specific study.
Monitoring of return on investment made by private ownership is not a statutory requirement and sometimes not possible through reconstruction.	Consider development of a sector-led transparency code or increased disclosure regulation.

© LGA and Revolution Consulting Limited