Children and Young People's Centre for Justice

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Financial transparency and profit limitation in children's residential care consultation

CYCJ Response

Collaborating for rights-respecting justice
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Overview

The Children and Young People's Centre for Justice (CYCJ) welcomes the opportunity to respond to the Scottish Government's consultation on Financial transparency and profit limitation in children's residential care. This consultation connects with proposals in the Children (Care, Care Experienced and Services Planning) (Scotland) Bill, and you can read our response to the recent Call for views on the bill.

Summary of CYCJ position

Our response draws from our practice, participation, research and policy expertise and evidence. In summary, we strongly welcome proposals to create greater financial transparency for, and remove the making of profit from, the care of children in Scotland. This should involve applying these measures across the system, including to secure care, secure care transport and for future models developed through Reimagining Secure Care. We welcome the proposals for further consultation on future proposals and this should include establishing a shared and workable definition of key terms such as profit and surplus.

Consultation response

Q1: Do you agree that the provisions outlined should cover both children's residential care home services and residential schools provided by persons other than a local authority?

Yes

Can you give reasons for this?

The Children and Young People's Centre for Justice (CYCJ) works towards ensuring that Scotland's approach to children and young people in conflict with the law is rights respecting, contributing to better outcomes for our children, young people, and communities. Over the past five years our work has centred on achieving the aims of the Promise and our response to this consultation is drawn from our practice, participation, research and policy expertise and evidence.

We strongly welcome proposals to create greater financial transparency for, and remove the making of profit from, the care of children in Scotland. CYCJ believes these are both vital components of the wider goal of providing the best quality, trauma-informed, rights-respecting care available. We also believe this needs to be applied across the care system and this should include both residential schools and care home services for children. As identified in the consultation document, the Independent Care Review (p.111, 2020) stressed there was "no place for profiting in how Scotland cares for its children" and that funds needed to be "properly directed to the care and support of children."

As well as this basis in the Promise, such proposals would fit within a wider policy landscape in Scotland of regulating profit within the delivery of essential services, such as fostering services being required to operate on a not-for-profit basis. By increasing transparency and seeking to deliver the maximum value for every pound of public money spent, this approach would also fit neatly within wider public service delivery principles in Scotland (Christie Commission 2011; Scottish Government Public Sector Reform Strategy 2025). We also note the provisions contained within the recently enacted Health and Social Care (Wales) Act 2025, aimed at eliminating private profit from the care of looked-after children, and understand that the UK Government is currently examining the issue for children in England.

We understand and welcome moves to first establish a greater understanding of the flow of money throughout residential childcare before decisions on profit are taken. An integral part of that would be work to agree workable definitions for terminology such as profit, surplus, etc within the context of the children's care sector. The Competition and Markets Authority (CMA, 2022) review into the children's social care market concluded there was an insufficient level of data to properly understand the situation of profit in Scotland. The Independent Care Review's Follow the Money (2020) report also identified significant challenges around the process of identifying where money had been spent.

From the evidence available, however, there is significant cause for concern. As has been shown through investigate journalism, high levels of profit are currently being generated across the UK in the delivery of care for some of the most vulnerable children. A recent report from the UK Government's National Audit Office (NAO, 2025) found that the cost of providing residential childcare in England had risen to an annual average of £318,000 per child's place, leading to a 23% profit margin. One local authority in England faced a bill of £48,000 to provide care for just one weekend, for example (Coventry Telegraph, 16/9/2025). The NAO report builds on the CMA review (2022) which examined data for fifteen large providers across England, Scotland and Wales found "steady operating profit margins averaging 22.6% from 2016-20", with average annual increases of 3.5%, after inflation had been accounted for. The CMA report, form the limited data available, concluded that an average of £28,000 profit was being made per placement in children's homes in Scotland.

The CMA (2022) report was clear that this generation of higher than expected profit was occurring within a market which was not functioning well. This included significantly high levels of debt being held by several of the largest private providers thus posing a significant threat to the operation of the system and, ultimately, the children in their care. Due to the possibility of significant profit margins, it is perhaps unsurprising that LGA research in 2022 found that eight out of the ten largest providers of children's social care, which includes residential care, in the UK had some form of private equity funding. It is worrying to see connections to bodies whose ethos and values are not aligned to that of social work. For them, the delivery of residential care is seen as an investment opportunity rather than a commitment to the best interests of the child.

A key consequence of the dysfunctionality of the market has been the significant costs which have been borne by local authorities in the placing of children. Greater transparency and a reduction in the ability to make profit could lead to lower prices being charged to local authorities. It may even pave the way for more local authority provision, thus reducing the need for outsourcing of residential childcare to begin with.

The most alarming consequence, however, from the current picture is that the CMA report found significant substandard outcomes in the delivery of children's residential services across the UK. This has included the inability of local authorities to source suitable placements. The National Audit Office also highlighted that the quality of care provided in these 'high cost' placements were not of a satisfactory standard, whilst a longitudinal survey in England has shown that the outsourcing of residential child care is linked to poor outcomes, and less secure care (Bach-Mortensen et al. 2023). This has led former Children's Commissioner in England, Anne Longfield, to describe the commissioning model as "completely dysfunctional" and "broken".

It is clear that there are significant shortcomings with the current provision of care for children across the UK, including in Scotland, and that greater transparency, with subsequent limitations on profit, is required across the board, including for residential settings.

Q2: Do you agree that both Not-for-Profit and Private services should be included in these proposals?

Is there anyone else we would need to capture?

Can you give reasons for this?

Yes

CYCJ believes that both service types should be included in these proposals. As outlined in response to question one, a greater level of transparency regarding finance is needed across the children's care sector. This is a vital prerequisite for determining any decisions on profit and surplus, as well as monitoring and determining the maximum value of public money spent.

Q3: Should the Bill provisions also cover other services such as secure care? Y/N

Yes

Can you give reasons for this?

The Independent Care Review was referring to the entire system when it stated that there was "no place for profiting in how Scotland cares for its children" and that funds needed to be "properly directed to the care and support of children." As such, we believe that secure care and other parts of the system, including secure transport, should also fall within these measures for greater transparency and decisions around profit control.

It is important to recognise the current challenges and complexities around sourcing care placements for children, as well as secure transport. This is particularly true when a placement comes at short notice, such as through police custody or having been remanded through court. For a significant part of 2025, the levels of secure care provision for children were at an acutely challenging level, resulting at times in children being supported in the community in situations of high levels of risk and providers being frequently at full capacity. Through our partnership work we have also heard anecdotal evidence of local authorities consistently paying exorbitant costs, often significantly above the agreed framework placement rate, and other challenges such as the necessity of using 'emergency' beds.

The situation with secure care beds has significantly improved over the last few months, but we do recognise that levels of provision must be maintained throughout any introduction of requirements around increasing transparency and limiting profit. Secure care is a key component of the wider suite of resources that provide residential care to children. Whilst secure care is currently delivered by not-for-profit organisations this may change in the future as there is nothing in legislation currently forbidding for profit bodies from applying for contracts. Indeed, the ability of secure care providers to seek profit may be an invitation for them to enter this field if controls are brought in to other parts of residential childcare. Were that to happen, the concerns outlined in our response to question one would become particularly germane, especially for those children who are in the need of the highest standard of care.

It is also an area set to undergo significant change with the Scottish Government's commitment to the Reimaging Secure Care. That makes it even more imperative that this area of the residential childcare system is not overlooked with measures to increase transparency and potentially limit profit. We believe that, where possible, these measures should be future-proofed for potential new models of delivery, such as flex-secure outlined in the Reimagining Secure Care report should also be included.

Q4: Do you agree with the proposal to increase financial transparency? Y/N

Yes

Could you give you reasons for this response?

We agree in principle with the proposal to increase financial transparency. Given the concerns we have highlighted in our response to question one, regarding the involvement of private equity funds, significant profit levels generated and high levels of debt, as well as the quality of care being delivered, any step which permits greater transparency is to be welcomed. It is clearly a vital precondition for achieving the aim of the Promise to remove profiting from the care of children in Scotland.

Scotland's children and families should have confidence that a body investing in the residential care sector is of sound financial footing, centres practice which is reflective of the ethos of the Promise, and is providing the best value for every public pound spent.

In order for this proposal to be taken forward, we believe there needs to be greater detail provided as to how the process outlined will increase transparency and we are uncertain as to how full a picture it will provide. Involvement of local authorities, for example, would seem to be vital for understanding the wider operational context.

Q5: What implications will financial transparency have on the different types and sizes of residential children's homes?

The process outlined does not appear particularly onerous. It may require smaller organisations to make some adjustments to the manner in which the report their finances, but we do not believe that this in itself will result in organisations leaving the sector. If a requirement to demonstrate the source and destination of funds did prove a significant problem, it could be argued that that organisation may not be motivated to provide the care expected of them, and that they may not have the infrastructure in place to deliver what is required in any case.

Q6: How could we minimise any negative impacts you have outlined above?

There are several important actions which could be taken to help minimise negative impacts. Firstly there needs to be a shared and workable definition of key terms such as transparency, profit and surplus across the sector to deliver compliance. This will require a follow-up consultation process to establish this and help arrive at the necessary contextual understanding. More fundamentally, a better understanding is needed of the current levels of care being provided for children in Scotland. It is vital to identify which needs are currently being met/unmet by the continuum of care and what is the current level of lack of appropriate provision. This is fundamental to inform decisions as to what is required at a local and national level.

The impact on the continuum of care of any proposed change has to be recognised and be part of any monitoring process. Action in part of the sector may cause ripple effects more widely, across all types of provision. Profit and commissioning, for example, are inherently linked so any focus on one part needs similar attention on the other.

Q7: In order to cause the least impact to businesses, what format do you believe the financial transparency request should take? i.e. audited annual accounts or a more detailed version of the information captured in forms such as those provided to SXL or CI.

This question is largely outside of our remit. We would just like to note that we understand the importance of minimising additional demand as far as possible as that would run counter to the aim of delivering maximum value for every public pound spent. That said, there needs to be a degree of detail to this to make it meaningful, and, where possible, it should be delivered in a format which is easily understandable to members of the public.

Q8: What explanatory information would you want to provide alongside the financial information collected to demonstrate the ways in which the finances are structured? (i.e. additional funds being saved to open a new home)

It is vital to understand what is done with the public money which is not spent on the immediate care of a child, be that profit, surplus, savings or labelled in another way. Profit dividends compared with the redevelopment of services for the benefit of the children in their care, for example, are clearly at opposite ends of the spectrum of what an organisation may chose to do with any extra funds and it is vital that greater transparency is provided around this. As mentioned previously, shared and workable definitions around key terms such as surplus and profit will be vital for this.

Q9: Do you agree that the information should be provided at individual service level, provider level and at parent/associated company level?

Can you please explain your answer?

Yes

This is important as it would provide a clearer picture of the system and would discourage unscrupulous actors from attributing inaccurate financial losses to one portion of the organisation, whilst making significant profit in others. This would in turn skew the financial records and could encourage continued profit-driven approaches to service delivery.

Q10: Is there any additional information that the Scottish Government should be collecting that is not included in the proposal above?

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Q11: Would it be useful to use the financial information collected to watch for potential market failure?

Yes

Can you give reasons for this?

We believe this would be a key benefit of increased financial reporting. The Competitions and Market Authority report (2022) was clear on the current dysfunctionality of the market and the significant consequences associated with that. The importance of avoiding market failure in the care of children is obvious.

Q12: Do you agree with the proposed measures outlined above? Y/N

Yes

Could you please explain your reasons for your answer?

CYCJ supports the principle of ministers having the ability to introduce profit limits where necessary. We agree with the proposals of first generating a greater understanding of the financial situation in order to determine action and believe that a shared and workable definition of key terms is vital. Once this has been reached we would then be in a position to determine our support for proposed measures on “excessive” levels of profit as this may, in our opinion, differ from the intention of the Promise to remove profit.

Q13: How would you define profit for these purposes?

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Q14: Could this impact a residential childcare service’s ability to meet their aims/function and objectives?

Generating greater financial transparency is clearly in the interests of supporting the social care market and, ultimately, in delivering the best level of care. As outlined in the consultation, the proposals for this are not particularly onerous and should be comfortably delivered without any meaningful resource impact. If an organisation is currently able to meet the needs of those in their care - which must always be their primary objective - whilst making profit then it suggests that the surplus income is not necessary in order to provide the care and support that children need. Were that surplus to be reinvested in a productive way, such as through increasing staff training and/or developing physical infrastructure, then the service’s ability to meet their aims and objectives would be enhanced.

Q15: What challenges would services face in trying to reduce profit/surplus and how could this be supported?

Services which are geared towards profit making would need to reorientate their objectives and business model, moving away from, for example, private equity funding. Other services which base other parts of their operation on the generation of surplus through the childcare placement would also need to reexamine their financial model. Any implementation of these changes should be carried out in a staged and measured process in order to ensure continuity of provision is maintained.

Q16: What impacts could these provisions have, both positive and negative, on providing the best care for Children and Young People?

There are clear disadvantages to the continuance of the status quo. As outlined in the CMA report, the current social care market in the UK is dysfunctional, resulting in overcharging of local authorities, excessive profit being generated, and significant levels of debt creating precariousness. Most importantly, this is taking place alongside some substandard outcomes of care. There is a clear need for greater financial transparency and limits to profit making to curb the current situation.

These changes could deliver significant benefits to the provision of care. For instance, a CYCJ survey of local authorities found that the biggest challenges to delivering the Whole System Approach and implementation of the Children (Care and Justice) (Scotland) Act is the lack of skilled staffing and adequate resources (Gibson, 2024). Funnelling any profit/surplus into the training of staff can therefore assist organisations to remain within the constraints of legislation, whilst enhancing the quality and capabilities of staff. Such funds could also be directed towards creating new or increased services that meet the need of children in Scotland, rather than improving the finances of investors and bank balances.

Another result of these changes could be residential care providers lower the costs they charge to local authorities for provision of such care. By doing so organisations can remain within the regulatory limits, whilst local authorities would benefit from increased capital that – in turn - can be used to support more children who require it, to enhance their own provisions, and to ensure that staff receive remuneration in line with their skills and abilities.

Q17: Do you have any comments on the partial Business and Regulatory Impact Assessment?

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Q18: Do you have any other comments on the residential childcare proposals in the Children and Young People (Care and Services Planning) (Scotland) Bill?

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CYCJ is primarily funded by the Scottish Government and based at the University of Strathclyde.

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