National Audit Office

REPORT

Managing children's residential care

Department for Education

SESSION 2024–2026
12 SEPTEMBER 2025
HC 1290



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National Audit Office

Managing children's residential care

Department for Education

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

4 September 2025

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Key facts

The number of children in residential care is increasing gradually



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



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

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



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

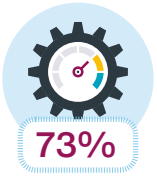


Estimated average spend per child in a children's home in 2023-24, compared with £239,800 in 2019-20 (2023-24 prices)

This is placing a strain on local authority finances

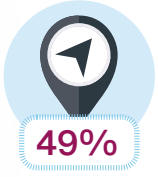


Overspend by local authorities on looked-after children in 2023-24, against a budget of £6.6 billion



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

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



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



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

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



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



Date first regional commissioning model launched operationally



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



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

Summary

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

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

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

Focus of our report

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

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

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

Key findings

Performance of the residential care system

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

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

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

Reasons behind cost increases and DfE's response

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

Demand for places

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

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

Supply of places

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

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

Commissioning approach

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

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

DfE's understanding and oversight

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

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

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

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

Conclusion

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

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

Recommendations

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

a provide clarity on its vision for the residential and foster care market so that local authorities, given their statutory and operational responsibilities, can consider these characteristics in determining local delivery models and planning;

b within the context of potential legislative changes, work quickly to define and develop its role overseeing the operation and resilience of private residential and foster care providers. It should gather and use proportionate cost, profit, staffing and capacity information to set a strategic direction and better support local authorities;

c after piloting regional commissioning, produce a clear plan for how to overcome legislative, cultural and procedural challenges to rolling this out as soon as possible; and

d building on learning from RCC pilots, establish regular information sharing between local authorities to better understand good practice and how to address any cost inconsistency for similar placements.

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

e agree with the Department of Health and Social Care and the Ministry of Justice a cross-government approach to ensure looked-after children with the most complex needs are provided the most appropriate setting and care. This should set out shared accountability for the system to work effectively; how the impact of policy decisions will be assessed; and how to make joint funding bids;

f using its assessments of foster care initiatives, including regional hubs and peer support, prioritise existing and new approaches that have the best potential to increase recruitment and retention of fostering households;

g building on its work to improve the skills of children's care home workers, consider how it can bring together a package of interventions to support providers in having enough staff with the right skills. As part of this it should consider how it can learn from its approach to increasing early years sector staff; and

h provide local authorities with further guidance and support so they can more effectively maintain homes and reduce the need for expensive repairs or new buildings.

Part One

Performance of the residential care system

1.1 The Department for Education (DfE) oversees the children's social care system in England to support local authorities to meet their statutory duty to care for, and often accommodate, looked-after children. This part of the report describes the characteristics of looked-after children, and how the current residential care system works in terms of costs and outcomes.

Context

Roles and responsibilities

1.2 Local authorities have a statutory duty to protect children from harm and, where needed, support them to achieve a reasonable level of health and development. This includes finding children an alternative safe and stable home if they cannot stay with their birth family. Local authorities can provide these children (looked-after children) with places in residential homes or with foster carers.

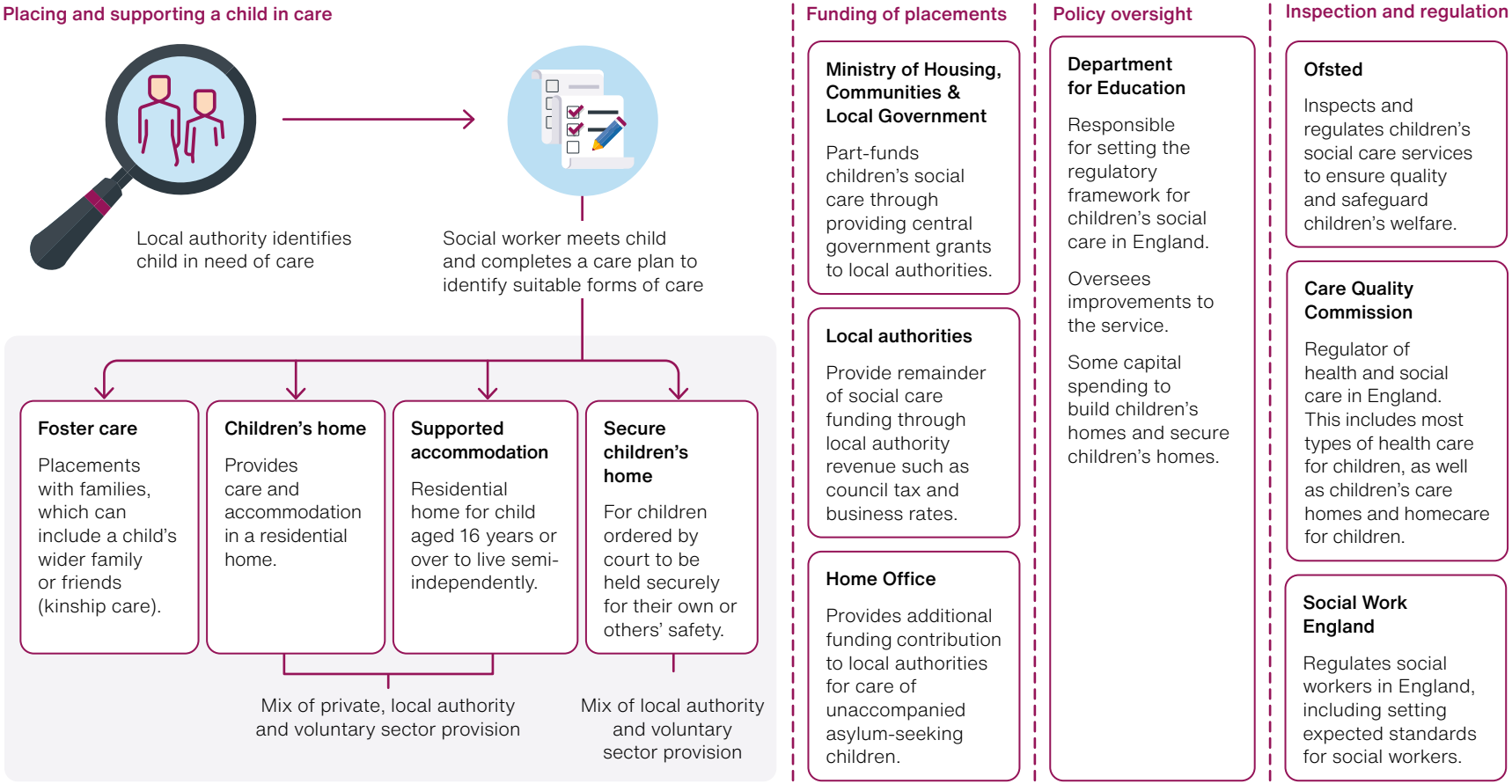
1.3 Various public bodies must fulfil critical roles to enable local authorities to meet their statutory duties (**Figure 1** overleaf). DfE sets the national direction and supports improved children's social care services, with overarching responsibility for the legal, policy and regulatory frameworks. Its statutory guidance, the *Children's Social Care National Framework*, published in December 2023, sets out the purpose of children's social care as being "to support children, young people and families, to protect them from harm... and provide care for those who need it so that they grow up and thrive with safety, stability and love."[1] Local authorities must assess a child's needs, and then provide the most appropriate setting. Ofsted considers the quality of these assessments through inspections, while DfE retains overall responsibility for how the system works.

1 Department for Education, *Children's Social Care National Framework: Statutory guidance on the purpose, principles for practice and expected outcomes of children's social care*, December 2023.

Figure 1

Organisations responsible for overseeing and providing for looked-after children, as of September 2025

The Department for Education has overall policy responsibility for the children's social care system, with other public bodies having critical supporting roles



Notes

1 Local authorities place 87% of looked-after children within one of these four settings. The other children are placed in adoption, with parents or other person with parental responsibility, residential schools or other placements (which includes those not registered with Ofsted).

2 Secure children's homes care for young people who have either been remanded or sentenced for criminal offences or whose behaviour is deemed by court to present a significant and immediate threat to their safety or the safety of others.

3 Home Office funding for unaccompanied asylum-seeking children is in addition to money for children's social care that local authorities receive through the Local Government Finance Settlement and finance arrangements which apply to the devolved administrations

Source: National Audit Office analysis of Department for Education documents

Children in care

1.4 As at March 2024, 153 local authorities in England had responsibility for 83,630 looked-after children, equating to 70 in every 10,000 children. The proportion of looked-after children varies significantly regionally. The North East has the highest proportion (114 looked-after children per 10,000) and the East of England the lowest (50 per 10,000). Looked-after children tend to be older, with 65% aged 10 or older, have complex needs, and have experienced challenging personal circumstances. For example, 66% have a history of abuse or neglect and 57% have special educational needs – three times more than all school pupils.

Choosing appropriate provision

1.5 Local authorities must formally assess each looked-after child to determine how they are best protected and supported. Based on this assessment, and the availability of places, local authorities had placed 87% of the 83,630 looked-after children in March 2024 within foster or residential care.[2] This includes:

- **56,390 (67%) in foster care,** which can include with a child's wider family or friends (kinship foster care). Local authorities can use their own fostering services, or private and third-sector fostering agencies;
- **8,540 (10%) in children's homes,** including some residential special schools providing care and accommodation;
- **100 (<1%) in secure children's homes,** which accommodate children remanded or sentenced for criminal offences, as well as children whose behaviour is deemed by a court to present a significant and immediate threat to their safety or that of others; and
- **6,250 (7%) in supported accommodation** for children over 16 years old to live semi-independently.

Children's homes and secure children's homes are the most expensive settings, as they tend to care for children with the most complex needs. The Ministry of Housing, Communities and Local Government (MHCLG) estimated that in 2023-24, local authorities spent an average of £318,400 per child in children's and secure children's homes, compared with £57,900 per child in supported accommodation and other residential settings, and £38,100 per child for a fostering placement.

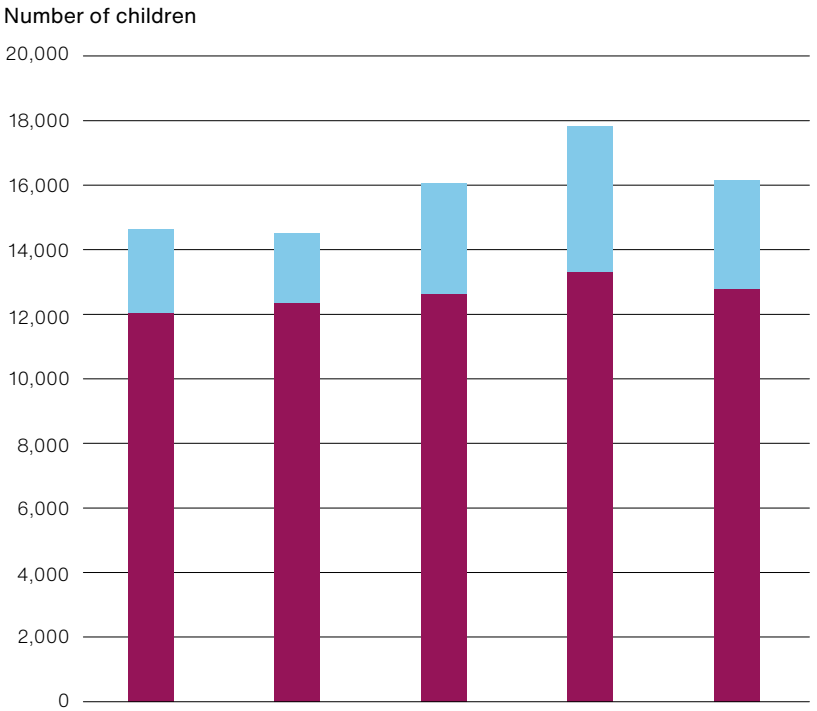
1.6 Between March 2020 and March 2024, the number of children in foster care fell by 1%, while the number in residential care increased by 10% to 16,150 (**Figure 2** overleaf). This includes children seeking asylum and not accompanied by a parent or carer. The number of unaccompanied asylum-seeking children in residential care increased 30% over this period to 3,370. Not including this group, there was a 6% increase in looked-after children in residential care.

2 The remaining children are placed in adoption, with parents or another person with parental responsibility, residential schools, or other placements (which includes those not registered with Ofsted).

Figure 2

Number of children in residential care, March 2020 to March 2024

The number of children in residential care increased by 10% between 2020 and 2024



	2020	2021	2022	2023	2024	Percentage increase 2020–2024
All other children in residential care	12,040	12,360	12,630	13,330	12,780	6
Unaccompanied asylum-seeking children in residential care	2,590	2,150	3,410	4,510	3,370	30
Total	**14,630**	**14,510**	**16,040**	**17,840**	**16,150**	**10**

Notes

1 Residential care includes children's homes, secure children's homes, supported accommodation and other types of residential settings.

2 The number of children in residential care peaked in 2023, partly due to an increase in unaccompanied asylum-seeking children.

Source: Department for Education data, *Children looked after in England including adoptions*, reporting year 2024

1.7 All residential homes, along with supported accommodation and independent fostering agencies, must register with Ofsted. Unregistered children's settings are illegal to operate. Ofsted routinely inspects registered homes, to assess their quality and protection of children, and inspects local authorities on the effectiveness of their services. Supported accommodation providers had to register with Ofsted by October 2023, with government introducing mandatory standards and Ofsted now conducting inspections. Previously, with settings unregulated, there were concerns too many children were placed in substandard accommodation with poor support. In March 2023, 8,650 children (10% of looked-after children) were in unregulated supported accommodation.

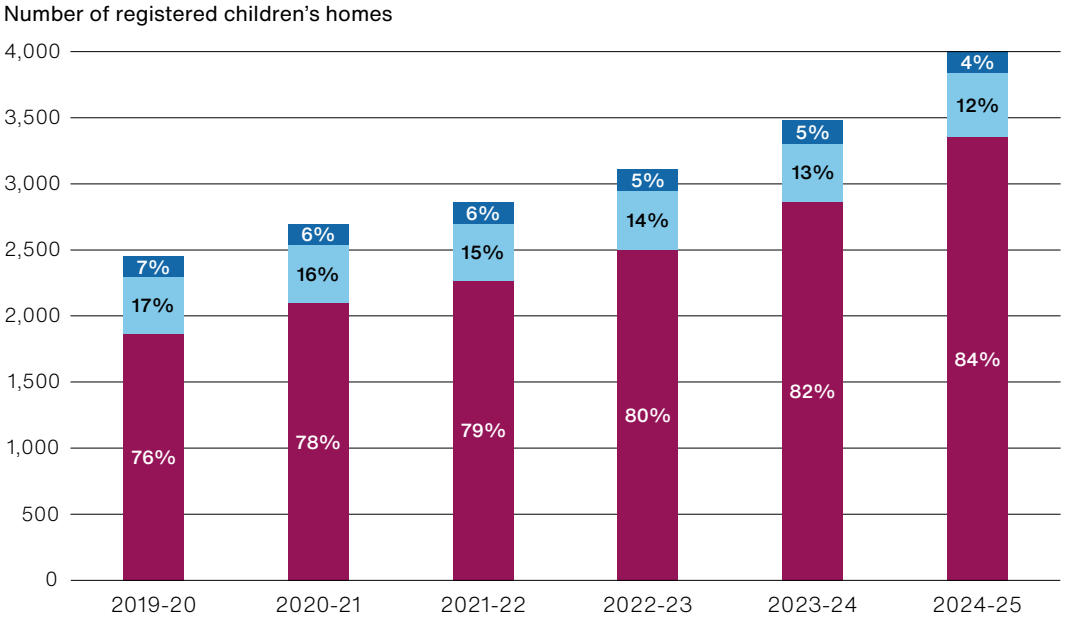
Characteristics of the residential care market

1.8 The composition of the residential care market will differ between local authorities, although most children's homes are privately owned. In 2024-25, 84% of the 4,009 homes registered with Ofsted were privately owned (up from 76% in 2019-20), 12% were local-authority-owned and the remaining 4% were in the voluntary sector. The market share of private providers has grown, with a 79% increase in registrations between 2019-20 and 2024-25, while the number of local authority and voluntary sector residential homes has stayed more stable (**Figure 3**). Although the overall number of homes has increased by 63%, the average number of places per home has decreased (paragraph 2.13).

Figure 3

Number of registered children's homes by ownership type, 2019-20 to 2024-25

The number of registered homes increased by 63% between 2019-20 and 2024-25, almost entirely due to an increase in private provision



	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Private	1,870	2,104	2,267	2,506	2,863	3,354
Local authority	423	435	430	440	445	483
Voluntary	160	158	167	164	174	165
Total	**2,460**	**2,706**	**2,873**	**3,119**	**3,491**	**4,009**

Notes

1 'Total' includes residential care registered with Ofsted as a children's home, secure children's home or residential special school registered as a children's home. Unregistered providers are excluded. It includes between seven and nine homes owned by health authorities in each year.

2 For consistency, we exclude the 890 supported accommodation providers registering with Ofsted from April 2023 when it became a requirement.

3 Data is as at 31 March for each year.

Source: Ofsted data, *Children's social care in England* 2020-2025 publications

1.9 Private providers are critical to the system, given their market share and ability to provide certain types of care. Private providers report often providing more longer-term or focused care for those with complex emotional or behavioural needs, or a history of abuse or neglect, when compared with local authority owned homes. They are less likely to support autism spectrum disorders, learning difficulties or complex health needs and physical disabilities. In 2022, the Competition & Markets Authority identified that the cost to local authorities of providing their own places is no lower than procuring places from private providers, despite their profit levels.[3]

1.10 The private sector also provides supported accommodation and independent fostering agencies. In 2024-25, private providers were responsible for 87% of supported accommodation registered with Ofsted and 84% of independent fostering agencies, with the rest run by voluntary organisations. Independent fostering agencies accounted for 35% of all fostering households as at March 2024.

State of the children's home system

1.11 In 2022, two major independent reviews found that the residential care market was not working, which DfE recognised.[4] These reviews, which also made recommendations (see paragraph 3.10 and Appendix Two) comprised:

- a review by the **Competition & Markets Authority (CMA)** which concluded that the market was not working well and would not improve without focused policy reform. It found there were insufficient places of the right kind in the right locations, so children did not consistently receive support that met their needs; that prices and profits of the largest private providers were materially higher than would be expected in a market working well; and that some of the largest private providers had very high levels of debt, creating a risk that children in care could be affected by disorderly failure of providers; and
- **an independent review of children's social care,** chaired by Josh MacAlister (the MacAlister review), which concluded that the whole system was "increasingly skewed to crisis intervention, with outcomes for children that continue to be unacceptably poor and costs that continue to rise". The review highlighted the need for: a child's relationships, rather than profit, to be prioritised when finding a place; more joint working between professions; and fewer handovers between services.

3 Competition & Markets Authority, *Children's social care market study final report*, March 2022.
4 Competition & Markets Authority, *Children's social care market study: final report*, March 2022; Josh MacAlister, *Independent review of children's social care: final report*, May 2022.

Costs

1.12 Local authorities must provide DfE with their budgeted spend on looked-after children, although this often reflects the funding available rather than expected demand. In 2023-24, local authorities spent £8.1 billion, £1.5 billion more than the budgeted £6.6 billion, with all but three local authorities overspending.[5] The total spend was 16% more than the £7.0 billion spent in 2022-23 and 54% more than in 2019-20. Most of this increased spend related to residential care costs, which increased by 96% from £1.6 billion to £3.1 billion (**Figure 4** overleaf). Between 2019-20 and 2023-24, the average spend per child in a children's home increased from £239,800 to £318,400 (2023-24 prices), equivalent to an increase in weekly cost from £4,600 to £6,100. The Local Government Association has identified placements costing as much as £63,000 a week. Costs for fostering and other residential settings remained relatively stable over this period (**Figure 5** on page 21).

1.13 MHCLG estimates that the cost of supporting unaccompanied asylum-seeking children accounts for around a fifth of the increase in residential care spending between 2019-20 and 2023-24. The Home Office funds local authorities to cover these costs, which is in addition to funding that local authorities receive through their financial settlements and agreements. These children are typically older (89% are aged 16 years or over, compared with 27% of all looked-after children) so more likely to be placed in supported accommodation if it meets their needs. This costs less than accommodation in children's homes. In March 2023, 60% were placed in supported accommodation, 1% in children's homes and 38% in foster care.

1.14 Upper-tier local authorities have reported that increases to their spending on looked-after children have significantly contributed to their wider financial pressures. It equated to 55% of their spend on children and young people (excluding schools) in 2023-24, a higher proportion than the 50% in 2019-20 and 43% in 2015-16.[6] The Local Government Association has said that children's social care is "increasingly cited by councils with this responsibility as their key source of financial pressure and overspend." In 2024, nearly three-quarters (73%) of upper-tier councils identified spending on children's services and education as the most substantial cause of their short-term financial pressures. In 2023-24, three-quarters of local authorities used reserves to balance their total budgets. DfE has described the cost of children's social care as "financially unsustainable."

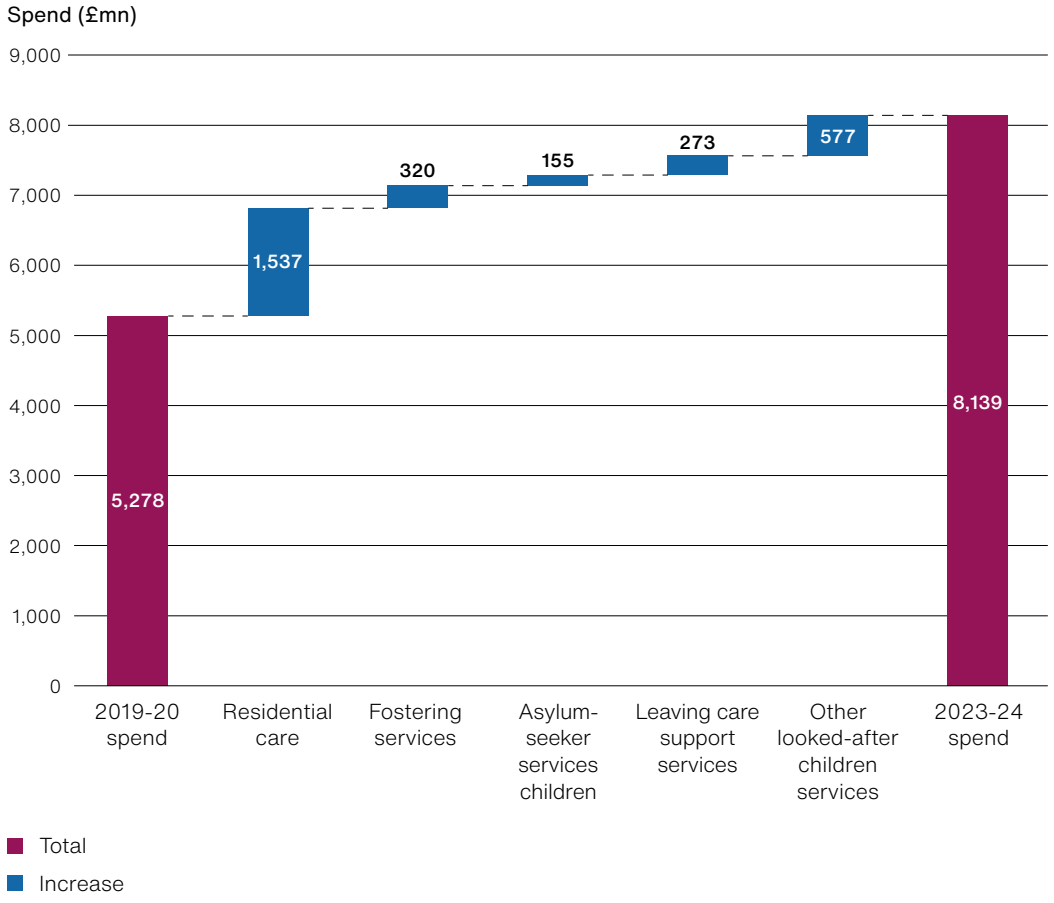
5 This is the gross expenditure. Net expenditure (gross expenditure minus income) shows a planned spend of £6.1 billion against an actual £7.7 billion.

6 Spending on children and young people covers: looked-after children, family support, safeguarding children and young people, other services for young people, Sure Start and children aged under 5, and youth justice.

Figure 4

Change in local authority spend on looked-after children by category of expenditure, 2019-20 to 2023-24

Spend on residential care contributed most to increased spending on looked-after children between 2019-20 and 2023-24



Notes

1 Figures are in cash terms.

2 'Asylum-seeker services children' covers expenditure related to these children that has not been recorded elsewhere. For example, the costs of a fostered asylum-seeking child are captured within 'fostering services'.

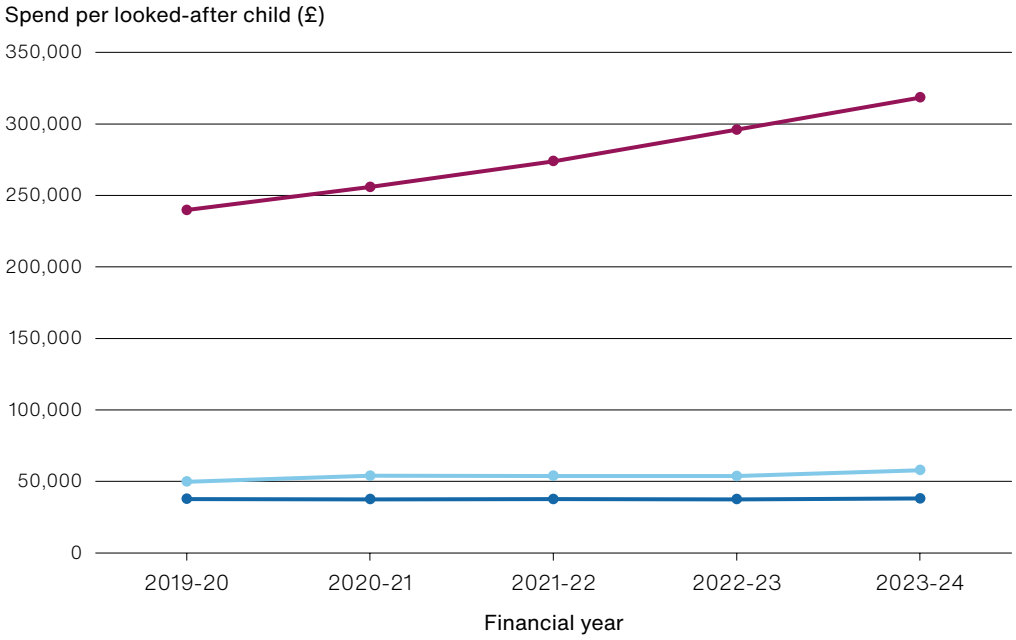
3. 'Other looked-after children services' covers all other spending on looked-after children such as education, adoption services, special guardianship support, advocacy services, expenditure on children placed with family and friends and other children and family services.

Source: Department for Education data, *Local Authority and School expenditure* publication, 2023-24

Figure 5

Comparison of estimated spend per child per year for children's homes, fostering and supported accommodation/other residential settings, 2019-20 to 2023-24

A children's home place costs five times as much as supported accommodation/other residential settings and eight times as much as fostering, more than in 2019-20



	2019-20	2020-21	2021-22	2022-23	2023-24
Children's homes	239,800	255,900	273,900	296,000	318,400
Supported accommodation/ other residential settings	49,800	54,000	53,900	53,700	57,900
Fostering	37,700	37,500	37,600	37,500	38,100

Notes

1 All figures are in 2023-24 prices.

2 All figures are approximations. Spend per child is calculated as the total spend by local authorities divided by the number of children in care.

3 Children's homes covers children's homes, secure units, residential care homes and residential schools.

4 Supported accommodation/other residential settings covers independent and semi-independent living arrangements, supported accommodation, and various other smaller 'other residential settings' and 'other placements'.

Source: Ministry of Housing, Communities & Local Government estimates using Department for Education *Children looked after in England* and *Local Authority and School expenditure* publications

Outcomes for children in care

1.15 The quality of children's experiences in care will significantly affect their longer-term life chances. Many young people leaving care need more support than their peers, with cost implications including for healthcare or housing support. Those leaving care are three times as likely to not be in education, employment or training and more likely to have a drug or alcohol problem. Of the UK homeless population, an estimated 26% have a care background. The Local Government & Social Care Ombudsman told us it was concerned that children in care did not have a voice, with complaints below the expected numbers. While the majority (66%) of 1,050 young people having experienced care surveyed said they had a generally positive experience, there remained a significant minority (28%) who had a generally negative experience.

1.16 To help protect children in care, Ofsted inspects registered children's homes at least once each financial year, which includes assessing children's overall experience and progress.[7] In 2024-25, Ofsted rated 82% of children's homes as outstanding or good, up from 76% in 2019-20 (**Figure 6**). Our analysis of Ofsted ratings found no meaningful differences according to whether homes were publicly or privately owned.

1.17 For children to be most effectively supported they need to be in stable settings that meet their support and care needs. DfE, alongside local authorities and stakeholders, recognises that some children are placed in inappropriate settings. This can negatively affect children, meaning they need further support, and can have cost implications (see Part Two). Indications that children are not in appropriate settings include that:

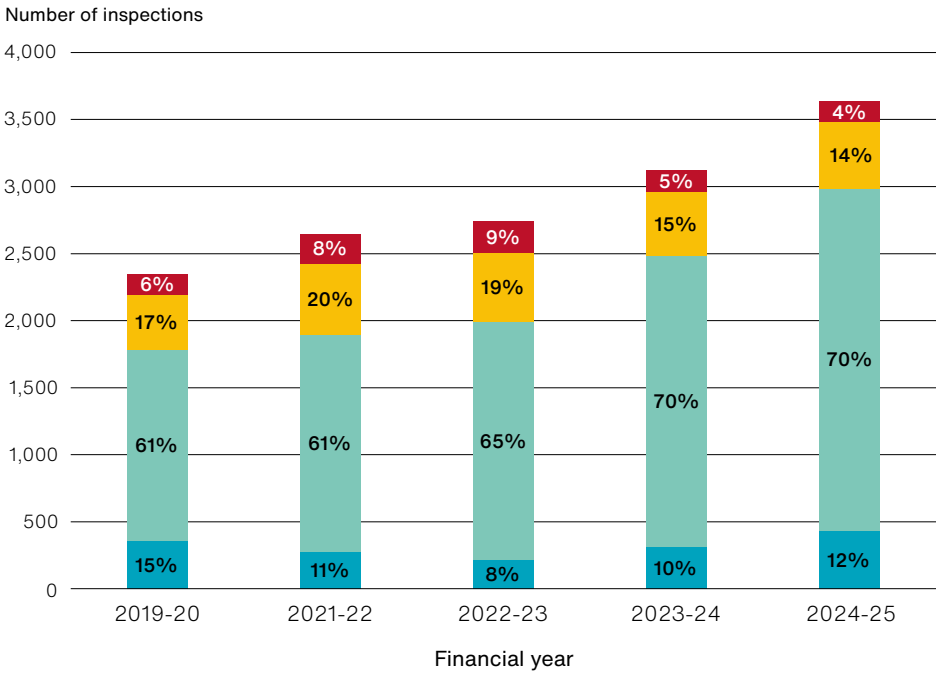
- in March 2024, 14% of children in homes had three or more different placements in the last 12 months, which can increase costs and disrupt education;
- in March 2024, 67% of children in homes were placed outside their home local authority, with 49% placed more than 20 miles away from their family home. There are imbalances across the country in how often this happens (**Figure 7** on pages 24 and 25). While distant placements can be better for some children, the CMA described the large number of these placements as one indicator of a fundamental failure in market performance. Groups representing children have highlighted how this can disrupt healthcare and education, separate children from their support networks, and increase risks of sexual or criminal exploitation; and
- more children in care being deprived of their liberty (1,280 in 2024) through court orders confining them, without their consent, to a certain location for specified times. In 2024, the Children's Commissioner found that many children under such orders were not provided with the therapeutic support they needed.

7 The Care Quality Commission regulates and inspects health services across England, including child and adolescent mental health services and health services provided within residential settings for looked-after children and care leavers. It does not regulate residential care or accommodation.

Figure 6

Ofsted overall inspection ratings for children's homes, 2019-20 to 2024-25

In 2024-25, Ofsted rated more than four in five children's homes as outstanding or good, compared with three in four children's homes in 2019-20



	2019-20	2021-22	2022-23	2023-24	2024-25
Outstanding	359	282	215	311	434
Good	1,428	1,611	1,777	2,174	2,555
Requires improvement to be good	411	536	515	473	493
Inadequate	152	217	234	162	151
Total	**2,350**	**2,646**	**2,741**	**3,120**	**3,633**

Notes

1 Ofsted must inspect registered children's homes at least once a year based on the Social Care Common Inspection Framework, which includes assessing a child's experience and progress. Inspectors use descriptions of what 'good' looks like as the benchmark against which to grade and judge performance.

2 Ofsted did not carry out full inspections in 2020-21 due to the COVID-19 pandemic.

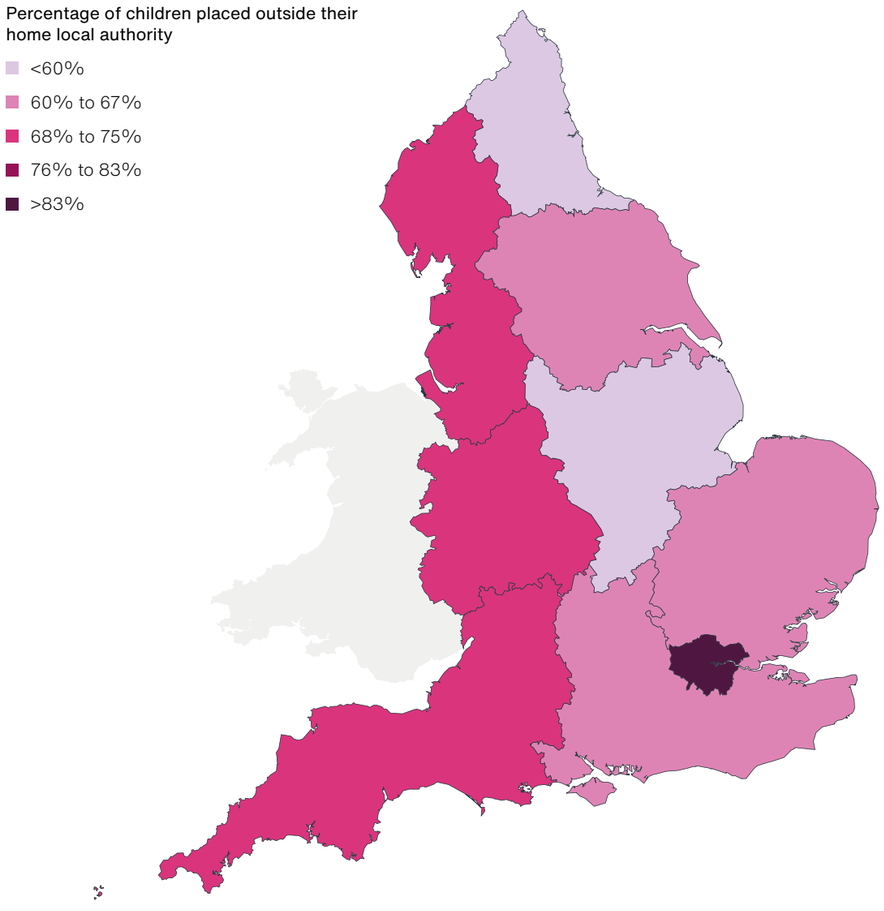
3 Children's homes covers children's homes, secure children's homes and residential special schools registered as children's homes. Ofsted commenced supported accommodation provider inspections in 2024-25 and applies different inspection ratings for these providers.

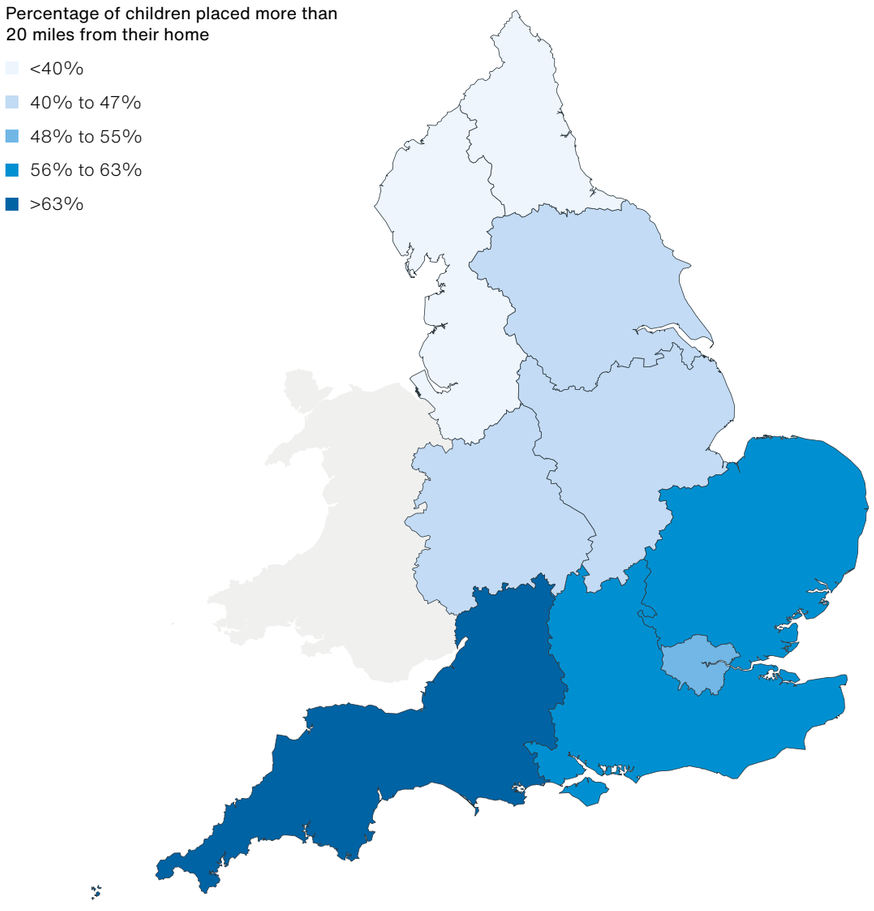
Source: National Audit Office analysis of Ofsted ratings

Figure 7

Children's homes placements: regional comparison of children placed outside their home local authority and placed more than 20 miles from their home, March 2024

Children can be placed far from their original home, with variations across regions





Notes

1 A child is considered as being placed outside their home local authority if the placement is outside the local authority geographical boundary. London is the region with the highest proportion of its children placed outside their home local authority, at 89%. The North East is the lowest, at 53%.

2 The right-hand map is based on the distance in miles between the child's original home and their children's home placement. The South West is the region with the highest proportion of its children placed more than 20 miles from their home, at 71%. The North West is the lowest, at 32%.

3 Children's home placements includes secure children's home placements as well as children's homes placements. In 2025 there were 199 places in secure children's homes in England, so most secure children's home placements would likely be outside the council boundary.

4 Figures exclude children with short-term placements.

Source: National Audit Office analysis of Department for Education internal data on looked-after children. Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data @ Crown copyright and database right 2025

1.18 Also, between 2020-21 and 2023-24, the number of children reported to Ofsted as being placed in unregistered homes each year rose significantly from 147 to 982. Local authorities are not obliged to inform Ofsted when they place children in unregistered care, even though operating such homes is illegal. In 2024-25, Ofsted received reports indicating that at least 86% (132) of local authorities had used such care. It has reported that local authorities sometimes make these placements when they cannot find registered provision for certain children, often with complex needs. In December 2024, the Children's Commissioner found that 31% of children in unregistered placements were subject to a deprivation of liberty order, 66% had special educational needs (compared to 18% of the overall pupil population) and 41% received mental health services (compared to 8% of all children). Ofsted cannot routinely inspect unregistered homes.

Part Two

Factors affecting cost increases

2.1 With the spend on residential care increasing 96% between 2019-20 and 2023-24, this part of the report examines the reasons for cost increases. These include the operation of the market, pressures on the demand and supply of the right places for children, and competition between local authorities.

The residential care market and private providers

2.2 In 2024-25, 84% of residential care settings, including supported accommodation, registered with Ofsted were owned by private providers of varying sizes. A further 5% were owned by voluntary organisations. A well-functioning market is critical to value for money. As set out by the Competition & Markets Authority (CMA), this would involve profitable providers investing in the sector, and new providers joining, so local authorities could choose between places, lowering both costs and provider profits.

2.3 With barriers to entry and competition between local authorities, the market has not functioned effectively, leading to cost increases. Given competition between local authorities for certain places, providers can set their prices or choose not to accept individual children based on, for example, profit levels or challenges associated with caring for them. In 2022, the CMA estimated that between 2016 and 2020, the fifteen largest providers of children's social care had average profit rates of 22.6% for children's homes, and that their prices increased by an average of 3.5% above inflation each year. It concluded that the prices and profits of the largest providers were materially higher than expected.

2.4 There are no restrictions on the ownership of children's homes – our analysis shows that seven of the ten providers supplying most homes are ultimately owned or part-funded by private equity firms. Complex ownership arrangements can make it harder to understand providers' financial position. This includes tracking providers' profits, whether they reinvest profits, and those with high debt levels at risk of suddenly exiting the market. The Department for Education (DfE) has commissioned some work to estimate risks relating to providers. The CMA identified private-equity-owned providers as having much higher debt levels than other providers, giving greater concerns that these firms may exit the market. DfE plans to introduce a new financial oversight scheme, but has not yet set out how it will monitor market resilience (Part Three).

Demand for residential care

2.5 A lack of places to support children in fostering, or wider settings not commissioned by local authorities, creates pressures and trade-offs across residential care (**Figure 8**). Ofsted, DfE and local authority representatives have all acknowledged shortages in particular locations and types of care. Placing children in residential care when it is not the most suitable setting can increase costs and not meet their needs (paragraph 1.17). For example, DfE acknowledges it can be considerably cheaper to place children who need to be deprived of their liberty for welfare reasons in secure children's homes rather than to deprive them of liberty in other settings. A 2023 Local Government Association (LGA) survey found that over 90% of councils linked high-cost placements to a lack of choice and the support needed by those children with complex needs or challenging behaviours. It also found that 91% of councils had at least one child's placement costing more than £10,000 a week in 2022-23, up from 23% in 2018-19.

2.6 The number of children becoming looked after and needing care, whether in a residential home or fostering, impacts demand. DfE told us reducing these is integral in its response to reducing demand. We have previously reported how immediate financial pressures impacted local authorities' ability to invest in prevention, with spending falling since 2015-16.[8] For 2025-26, government announced a £270 million Children's Social Care Prevention Grant, subsequently extended annually for three years to 2028-29. It also announced a further £557 million for children's social care reform, including prevention, between 2025-26 and 2027-28.

Foster placements

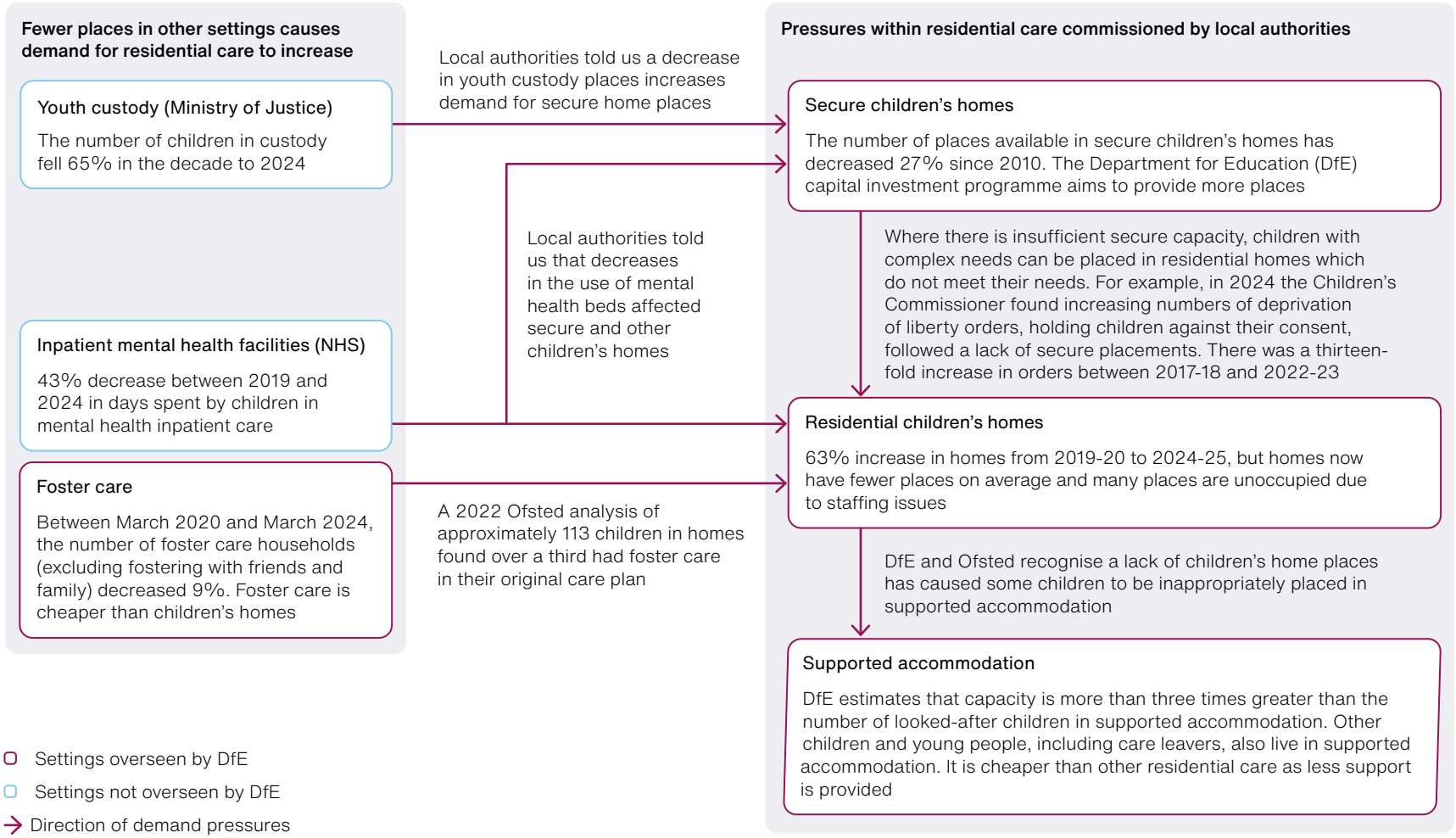
2.7 DfE is seeking to increase the number of foster carers. Between March 2020 and March 2024, the total number of foster households fell 4% (or 9% when excluding fostering with friends and family), and the proportion of looked-after children in foster care decreased from 71% (56,950) to 67% (56,390). DfE and stakeholders suggest there are fewer foster carers due to a range of pressures, including wider societal and economic changes such as housing shortages and cost of living increases. Placing children in a children's home is, on average, eight times as expensive as a foster place.

8 Comptroller and Auditor General, *Local government financial sustainability*, Session 2024-25, HC 691, National Audit Office, February 2025.

Figure 8

Explanation of how changes in availability of care provision can impact demand for other settings

Shortages in places to match children's needs have wider cost and outcome impacts



Notes

1 Deprivation of liberty orders set out the maximum restrictions that may be imposed on a child, usually including constant supervision. Ofsted views children subject to deprivation of liberty as receiving care, and therefore expects the places they live in to be registered as children's homes. Children in secure children's homes are held on a separate legal basis.

2 'Youth custody' refers to places where children on remand or sentenced for crimes are accommodated, including young offender institutes.

Source: National Audit Office analysis of Department for Education documents

2.8 Independent fostering agencies are private- and voluntary-sector companies that approve, train and support foster carers. After excluding foster placements with friends and family, between March 2020 and March 2024 the share of foster households provided through independent agencies grew, with local authority provision reducing. DfE believes this relates to the approach of independent agencies, and the financial and wider support they provide. It told us that while independent agencies initially found homes for those with more complex needs, they are now used more widely. This has cost implications – DfE has used data from a 2018 independent review of foster care, adjusted for inflation, to estimate that placements involving agencies cost local authorities an estimated £53,000 per year – £21,000 more than local authority places. In 2022, the CMA identified that local authorities could provide some placements more cheaply. It estimated that between 2016 and 2020, the average profit margins for fostering services of the 15 largest private children's social care providers were 19.4%.

2.9 In 2022, the CMA recommended that DfE should help local authorities increase their fostering provision and reduce reliance on private providers.[9] In response, DfE is undertaking specific initiatives but still recognises having enough foster carers as a risk. For example, in September 2023, DfE launched its first regional recruitment hub. DfE's 2025 early impact evaluation of the first six months did not find any significant difference between the number of foster households approved in areas supported by the hub and elsewhere. However, the evaluation noted that more time might be needed for results. Also, DfE invested more than £15.5 million to provide foster carers with more peer support. In 2024 a charity, The Fostering Network, found that this helped to retain 9.5% of carers who would otherwise have resigned.

Supporting those with complex needs

2.10 In 2024, Ofsted reported that children who might otherwise have been in more specialised facilities were increasingly in residential care funded by local authorities. Many of the stakeholders we spoke to identified this as having a significant impact on children and costs. According to the LGA, in May 2025 the sector felt that there was a link between increasing complexity of need of children and high-cost placements. DfE-commissioned research from 2019 found that children with multiple care needs cost more to support, including through homes where they are placed having to reduce how many children they can support. However, DfE does not have data on how many children have complex needs.

9 Competition & Markets Authority, *Children's social care market study final report*, March 2022.

2.11 Reduced use of wider settings has increased pressure on residential care. DfE has limited influence on wider government decisions about how many children are held in custody or are provided inpatient mental health care, although these decisions may impact the demand and costs for residential care. Though there are forums for cross-government information sharing, a lack of joint planning has made it unclear to DfE and local authorities how these changes will affect them. Local authorities have told us that they have struggled to respond. Also, DfE has no joint initiatives with health or justice partners – such as joint capital funding bids. Examples of where the availability of spaces in specialised settings may impact demand for residential care include the following:

- **Mental health accommodation:** The NHS commissions inpatient mental health support for children and young people who require more intensive and specialised care. While DfE and the NHS sometimes collaborate on mental health, the NHS decides on the number of beds to provide. NHS England told us clinical evidence showed that providing more care in the community was better for children. It described changing its model and reinvesting to reduce inpatient care. The number of days children spent in hospital for mental health inpatient care reduced by 43% between 2019 and 2024.

- **Youth offender institutions:** The Ministry of Justice (MoJ) has responsibility for the size and management of institutions that accommodate children in custody, typically those aged between 15 and 17 years. The number of children in custody fell by 65% in the decade to 2024. As the youth custody population has fallen, so has capacity. MoJ told us that evidence on the impact of this reduction on children's residential care was unclear, and that it would welcome more evidence to inform the government's approach.

- **Secure children's homes:** These accommodate vulnerable children, typically aged 10 to 17 years, in custody. DfE has policy responsibility for secure children's homes, with both the Youth Custody Service and local authorities able to place children in these settings. The number of places available in secure children's homes has decreased 27% since 2010. In 2024-25 there were approximately 42 referrals for each secure children's home placement. DfE is expanding secure children's home capacity (paragraph 3.16).

2.12 Across England, places for those with specific needs are unevenly distributed (**Figure 9** overleaf). For example, in 2020, Ofsted reported that of the 475 homes that could support children with mental health difficulties, 5% were based in London compared with 21% in the North West. As a result, children may be placed outside their local authority or far from home (paragraph 1.17). As well as impacting children, out-of-area placements can lead to unexpected costs and make it harder for local authorities to identify children's needs.

Figure 9

Distribution of children's homes by region and children catered for, March 2020

There are regional discrepancies in demand and supply for places catering for children with certain needs

	Demand	Supply			
Region	Original location of children in homes, 2020	Share of all homes catering for mental health problems, 2020	Share of all homes catering for autism spectrum disorder, 2020	Share of all homes catering for learning disabilities, 2020	Share of all homes catering for abuse and neglect, 2020
	(%)	(%)	(%)	(%)	(%)
East Midlands	9	7	10	11	10
East of England	8	10	10	9	8
London	12	5	7	5	5
North East, Yorkshire & The Humber	18	13	9	12	13
North West	19	21	18	23	23
South East	15	17	18	14	13
South West	8	8	6	7	8
West Midlands	12	18	22	19	20

- Share of homes considerably *less* than share of overall population (difference of 3 or more percentage points)
- Share of homes slightly *less* than share of overall population (difference of 1–2 percentage points)
- Share of homes equal to share of overall population
- Share of homes slightly *more* than share of overall population (difference of 1–2 percentage points)
- Share of homes considerably *more* than share of overall population (difference of 3 or more percentage points)

Notes

1 Share of children's homes placements is based on the original home location of the child; the child may then be placed outside their home region.

2 When a children's home opens, it must provide Ofsted with a statement of purpose. This document gives a detailed description of the children's home, including its specialities and the type of care it provides. Ofsted categorised the types of care that children's homes provided under eight high-level needs; we have selected the four most common types (excluding 'complex needs', which 93% of homes cater for).

3 The share of homes may not necessarily correlate with the share of places.

4 Figures are rounded to nearest whole number and colour shading is based on difference between rounded figures.

Sources: Department for Education data, *Children looked after in England including adoptions*, reporting year 2024. Ofsted research publication, *What types of needs do children's homes offer care for?*, published 8 July 2022

Supply of residential care

2.13 Local authorities and private providers face barriers and lack incentives to open homes and create places matching children's needs at the scale required. Barriers include local authorities not granting planning permission for new homes following local community pushback, and high property prices, particularly in more expensive locations. This means that it is often easier to open homes in locations, or of types, where there is less need. The LGA has highlighted the "unequal geographical distribution" of children's homes and the need to look at whether enough places of the right type are available, rather than home numbers. DfE told us that providers have increasingly opened smaller homes, given costs, which may impact staff-to-child ratios and therefore costs per child. The average number of places per home decreased from 4.4 in 2014 to 3.6 in 2025. Ofsted acknowledges that it can take several months to register new homes. It must register all homes where the application meets standards, even if they are in well-served locations. DfE's plans include reform of the planning process to enable providers to more easily set up homes where they are most needed.

2.14 Children's homes employ a range of staff, such as mental health practitioners. Although the sector workforce grew from around 20,000 in 2014 to 46,000 in 2024, the move towards higher staff-to-child ratios accounts for some of this increase. In 2024, 37% of homes responding to a survey reported having a staff-to-child ratio of six or more to one, an increase from 32% in 2023. A lack of suitable staff has affected the availability of places, with homes:

- not filling all their available places – in 2024, 13% of homes with unoccupied beds felt recruiting and retaining staff to be the cause. Also, children's homes must have a manager to operate legally, and managers must register with Ofsted. As at March 2025, 19% of active or suspended children's homes in England did not have a registered manager in post;[10] or
- choosing not to support certain children – in 2024, Ofsted reported that almost one in three children's homes often, or always, reject referrals for children with complex needs because of challenges recruiting trained staff. Around a quarter rejected referrals as they felt they could not meet or maintain the staffing ratio needed for the child.

10 Ofsted can suspend a childcare provider's registration where it believes children's safety and wellbeing are at risk. Suspension gives Ofsted (or other agencies, such as the police or the local authority) time to look into concerns. It also gives Ofsted, or the provider, time to take steps to reduce or remove any risk to children.

2.15 DfE has described ensuring residential settings are staffed by enough skilled staff as key to children being cared for and protected. In 2023, it committed to invest over £50 million a year over two years to recruit and train social workers to work with children and families. In its 2023-24 annual report, DfE highlighted social worker capacity as one of its highest risks. However, it believes it has few levers to influence the size or quality of the residential care workforce, describing its role as setting the legal and regulatory framework without getting more actively involved. Providers are responsible for staff recruitment, pay and conditions, and training so that they can meet the needs of children in their care. Although DfE periodically runs a sector workforce census to understand recruitment and retention issues, DfE describes having limited evidence on effective interventions and has not set out how it could support providers to address workforce gaps. DfE has a similar role in relation to early years education and childcare, where it has created an ambitious workforce growth strategy with measures designed to increase and better use the workforce, and improve staff retention.

Local authorities' commercial oversight

2.16 Local authorities often rely on purchasing individual places just as children need to be housed, rather than forecasting demand based on current needs to source places earlier. Local authorities described how this 'spot purchasing culture', together with authorities buying places outside their own area, puts them in competition with each other. This weakens their negotiating power and allows private providers to charge high prices. They felt providers would not commit to future prices when they could charge more for last-minute placements.

2.17 In 2022, Ofsted reported that only 56% of local authorities had published forward-looking sufficiency strategies. It also identified challenges around local authorities' data and understanding. Research, commissioned by DfE in 2024, reported that local authorities found it hard to anticipate gaps in provision without integrated data across local authorities, and that they had limited market intelligence.[11] It also found that data on children's needs and services could be more standardised, local authorities did not always understand the market and costs, and they could better use benchmarking to negotiate costs. DfE commissioned a programme of support for some local authorities on forecasting, commissioning and market shaping. It has made materials from this programme available to other local authorities and is exploring options for future support.

2.18 Lancashire County Council provided an example of how reframing commissioning can have a positive impact. In March 2024, 37% of its children in private sector residential homes were living outside of Lancashire, with some also in unregistered homes. Its changes included improving how requirements were communicated with potential providers, improving planning, and establishing shared objectives and accountability across local authority teams. By March 2025, Lancashire County Council halved the number of children living in unregistered homes compared to December 2023 and reduced the number in private homes outside of the area to 27%.

11 Mutual Ventures, *Forecasting, Commissioning and Market Shaping*, Research report, December 2024.

Part Three

DfE's approach and response

3.1 The Department for Education (DfE) recognises the challenges in providing a productive and resilient children's residential care system. This part of the report assesses DfE's understanding and response, alongside its progress with initiatives designed to improve the system, such as regional care cooperatives (RCCs) and capital investment.

DfE's understanding of the challenges

3.2 In 2022, a review by the Competition & Markets Authority (CMA) and an independent review of children's social care, chaired by Josh MacAlister (the MacAlister review) set out challenges across the system.[12] DfE assessed failure of the market as one of its most significant risks in 2022-23 and 2023-24. However, it has few detailed insights on performance and costs, and lacks a full understanding of cost increases, to inform its approach. DfE cannot break down costs by, for example, staff or buildings and does not currently have data to support local authorities to determine the reasonableness of prices. Recent cost driver analysis by the Ministry of Housing, Communities and Local Government could not explain increases or model the effect of market dynamics and change in children's complexity of needs.

3.3 As local authorities contract providers, DfE relies on their information. DfE recognises that there can be considerable variation in how much a similar placement costs between local authorities. Local government representatives told us that local authorities do not always have a good understanding of what they are paying for. In 2022, the MacAlister review found wide recognition that spending data collected from local authorities was poor and incomparable. In 2024, a DfE-commissioned review recommended an overhaul of the financial information that local authorities provide to DfE.[13] Information that local authorities find useful, such as unit costs, was only provided to a very limited extent, if at all. DfE is making changes, although these are not expected until 2028-29, given the need to consult local authorities.

12 Competition & Markets Authority, *Children's social care market study final report*, March 2022; Josh MacAlister, *Independent review of children's social care: final report*, May 2022.
13 Section 251 of the Apprenticeships, Skills, Children and Learning Act 2009 requires local authorities to submit a children and young people's services outturn statement to the Secretary of State for Education.

3.4 More widely, DfE does not regularly survey local authorities or providers to understand, for example, challenges in meeting need or delivery risks. In 2024, we reported how DfE regularly surveyed these bodies to understand its extension of early years entitlements, bringing responses together with other data and insights as part of internal reporting and programme decision-making.[14]

3.5 To understand performance, DfE relies on Ofsted inspecting settings, although Ofsted has struggled to keep up with increasing demand for registrations, and consequently inspections. In 2023, Ofsted's workload increased substantially as it started regulating supported accommodation for older looked-after children. As at 31 March 2025, Ofsted had registered 890 new supported accommodation providers which it expected to start inspecting from April 2024. This was delayed to September 2024 given the volume of registration applications. In 2024-25, Ofsted planned 130 inspections of these providers. It carried out 50 (38%) of these, having agreed with government to prioritise the large volume of registration applications. Our analysis has not shown Ofsted's commitments to routinely inspect children's homes more widely as having been impacted by these additional responsibilities.

Setting out how the system should work

3.6 DfE has taken steps in response to challenges but could do more to help local decision-making and forward planning. For example, it cannot:

- **articulate its vision for what a productive and resilient market should look like for local authorities to consider in their local context:** DfE is clear that private providers have a role providing residential care, but it has suggested that it needs to reduce reliance on private provision. Its vision for the mix of providers in the desired market is not clear. Also, DfE has not indicated the role it wants independent fostering agencies to play;

- **provide a national picture of the places that may be needed over the coming years:** DfE lacks up-to-date information on the support children need, demand for places, and places available to help local authorities make decisions. Local authorities categorise children's needs when they first enter the care system; although DfE collates this information, it only gets further information for the minority of children in secure children's homes.[15] It has some information on the type of care providers offer, which they share when registering with Ofsted, but DfE and Ofsted do not require this to be updated, limiting its usefulness. In 2025, Ofsted secured funding for further analysis to assess how well local authorities can meet demand for children's social care. Its analysis will include the availability and suitability of provision; nor

14 Comptroller and Auditor General, *Preparations to extend early years entitlements to working parents in England*, Session 2023-24, HC 701, National Audit Office, April 2024.

15 For example, in the first quarter of 2024, 79% of young people referred to secure children's homes were referred for mental health needs, the highest since the beginning of data collection in 2017.

- **indicate how much placements should cost:** DfE is looking at how it can improve available cost data and provide more transparency for local authorities to assess what is a reasonable charge for placements.

3.7 DfE has taken some steps to identify and share challenges and good practice across local authorities but does not yet have systems in place to do this regularly. Through our work, we identified examples that could be shared more widely, such as Lancashire County Council reflecting on how it had increased places, and other areas taking a more integrated approach with NHS England. The Education Select Committee recently highlighted examples of good practice, with local authorities working to reduce children placed out of area. As part of Ofsted's analysis of local authorities, it plans to share examples of how they are responding to challenges in meeting need.

3.8 More widely, in considering how the system should work, DfE has looked at good practice across several countries. This includes Sweden which DfE identified in 2024 as having the most similar care system. It has a similarly high proportion of residential care offered by private providers (78% of places in 2020 compared with 84% of settings in England in 2024-25). However, DfE has not provided examples of how it has applied learning from this work, or from the UK devolved administrations.

Responding to challenges and considering what works

3.9 In response to recognised challenges, in 2023 DfE published an overarching children's social care strategy.[16] It followed this in November 2024 with a policy statement setting out the government's commitment to reform the children's social care system.[17] This focused on wider plans to better support families to prevent children from needing to be looked after, and provided a vision for changes to the residential care market. Plans include DfE taking a more hands-on approach to bringing down costs through a better-working market, addressing excess profit-making and increasing provision.

3.10 DfE has acted in response to independent reviews, although its responses do not always fully address the recommendations and are taking time to implement (Appendix Two). In July 2025, the Education Select Committee found that "many of the problems highlighted by the Independent Review of Children's Social Care in 2022 persist, and in a significant number of cases have worsened" after a lack of comprehensive reform. DfE will need legislation to implement some changes. It told us the timing of its response was affected by the 2024 general election. In December 2024, it introduced draft legislation, the Children's Wellbeing and Schools Bill, to provide a framework for implementing some changes. As of September 2025, given the number of amendments, the legislation continues to pass through Parliament. Looking ahead, DfE faces challenges effectively implementing proposals set out in legislation (**Figure 10** overleaf).

16 Department for Education, *Stable Homes, Built on Love: Implementation Strategy and Consultation,* February 2023.
17 Department for Education, *Keeping Children Safe, Helping Families Thrive: Breaking down barriers to opportunity*, November 2024.

Figure 10

National Audit Office (NAO) assessment of relevant considerations for implementing selected measures in the Children's Wellbeing and Schools Bill

The Department for Education (DfE) will need to consider various factors to implement provisions

Children's Wellbeing and Schools Bill measure	NAO assessment of relevant considerations
Compelling local authorities to join regional care cooperatives.	DfE must determine how to balance local authorities' statutory responsibilities with regional cooperation. Some local authorities opted out of pilots, given these concerns. The two pilots have progressed more slowly than expected and will not test the full regional commissioning model initially envisaged (paragraphs 3.11 to 3.14).
Secretary of State powers to determine an acceptable level of profit that can be made from children's social care placements and to cap providers' profits if required.	Complex ownership arrangements have made it hard for DfE to understand and track profit levels, and how providers use profits, which will be needed to determine an appropriate cap. This power is intended to be used only if other reforms have not had the desired impact in tackling profiteering. The Children's Homes Association has described large companies being more able to 'game' any cap, with smaller providers more likely impacted. The Welsh government has introduced legislation to make all children's homes and fostering agencies "not for profit", and its progress could provide insights. From April 2026, all new providers must register as a not-for-profit organisation, and from April 2027, a transitional process will begin for current providers.
Giving Ofsted the ability to fine providers offering unregistered care placements.	Local authorities continue to use unregistered homes if they assess this as the best option for a child. One stakeholder questioned the impact of fines, with providers offering unregistered places often charging high fees.
Financial oversight of strategically important providers.	Not having a good understanding of providers' financial position will make it harder for DfE to understand sector risks. In 2022, the Competition & Markets Authority suggested similar oversight to the Care Quality Commission's oversight of the adult social care market. DfE is taking this forward through the Children's Wellbeing and Schools Bill in the form of a financial oversight scheme. Our previous report on how government can respond to companies in distress focused on effective monitoring of sector vulnerabilities and learning from this.

Note

1 The Children's Wellbeing and Schools Bill is progressing through parliament as of September 2025.

Source: National Audit Office analysis based on Department for Education documents

Regional care cooperatives

3.11 In 2022, the MacAlister review recommended that local authorities group together in regional care cooperatives (RCCs),[18] taking collective responsibility for running public-sector residential care and fostering, and all commissioning. It envisaged RCCs operating fully from early 2025, to address sufficiency challenges by 2027. DfE plans to introduce regional commissioning but more slowly. It decided against an immediate national rollout, given insufficient evidence on potential benefits, instead opting for pilots in two regions to test regional commissioning. Delays meant the pilot RCCs launched operationally later than the envisaged spring/summer 2024 period. The Greater Manchester RCC launched operationally in April 2025 and the South East RCC in June 2025. DfE has not made a public commitment on when the RCCs will operate nationally, but in its 2023 initial business case for evaluating the programme, it expected that it could take around ten years.

3.12 The pilots will not test the full commissioning model proposed by the MacAlister review. During DfE's early engagement, local authorities raised concerns about the impact of regional commissioning on their statutory responsibilities, particularly around the risk of a local authority not finding a suitable place for a child. In response, DfE removed the expectation that RCCs would discharge local authorities' statutory responsibilities. DfE has not confirmed whether the pilot RCCs will later acquire these responsibilities, or how this will be tested, but has committed to move towards the full model incrementally. Local authority representatives have highlighted the scale of change, and the Local Government Association has said DfE needs to test and learn to build a "far stronger evidence base". DfE continues to consider options for scaling up RCCs.

3.13 Despite their reduced scope, the pilot RCCs have each developed ambitious strategies which should provide useful learning for DfE and future RCCs. For example, the Greater Manchester RCC is delivering various projects aimed at reducing costs, shaping local markets, improving placement quality and outcomes, and growing fostering provision. Across seven of its 16 outcomes for which it has assessed benefits, it has estimated at least £3 financial benefits for every £1 invested. We have also seen examples of the two RCCs sharing good practice, and local authorities using lessons from outside their region. DfE is currently estimating the benefits it wants to gain from RCCs, alongside other measures included in the Children's Wellbeing and Schools Bill.

3.14 In line with good practice, DfE has considered how it will evaluate RCCs from the start. It has developed a theory of change, setting out (for example) how local authority funding and support may lead to short-, medium- and longer-term outcomes. It also plans to develop a baseline of placement cost across participating local authorities, and to routinely monitor outcomes for children. DfE expects this to help shape how RCCs could be developed nationally. DfE expects to publish an initial evaluation report of the pilots later in 2025, followed by yearly impact evaluation reports, with a final overall evaluation in 2029.

18 See footnote 12.

Capital investment to increase local authority provision

3.15 Our 2024 report *Making public money work harder* highlighted significant risks to the resilience of public services when public assets, including buildings, fall into disrepair.[19] In 2022, a DfE review of the secure children's homes estate identified under-investment, and local authorities not always bidding for funding, contributing to a more expensive major capital investment programme. DfE aims to address shortfalls in residential places, particularly in secure settings, and the risk of settings closing or losing places due to dilapidation. In the 2021 spending review, DfE received £259 million capital funding, revised upwards by £85 million in 2023. This was followed by £165 million in the 2024 spring budget, and £54 million in the 2025 spending review. As at July 2025, DfE expects to spend £508 million (90% of the total £563 million capital funding) across various projects by 2029 (**Figure 11**). The 2025 spending review described DfE receiving £560 million to continue refurbishing and expanding children's homes and foster care places. This figure combines new and existing funding.

3.16 Most of DfE's capital investment has been across secure children's homes. In 2022, it identified investment requirements across 13 secure children's homes to better meet children's complex needs, with four of these needing rebuilding to avoid losing 54 places by 2027. DfE is working with local authorities to rebuild three of these, with an early estimated cost of around £188 million, and has conducted feasibility plans for rebuilding the fourth. It also plans to build two new secure children's homes to increase capacity, at an estimated cost of around £166 million.

3.17 More widely, DfE has identified a need to invest in other residential care, particularly to increase places for children with complex needs considered to be high risk and who could be declined places by private providers, and those at risk of being deprived of their liberty or placed in high-cost, unregistered accommodation. DfE is committing £110 million, matched by local authorities, to create 547 places. Local authorities bidding for places must demonstrate local need, but DfE lacks a national view of whether created places are where they are most needed. DfE told us that it expects RCCs to hold this information at the regional level in future.

19 Comptroller and Auditor General, *Making public money work harder*, Session 2024-25, HC 131, National Audit Office, July 2024.

Figure 11

The Department for Education's (DfE's) planned capital investment in residential care up to 2029, announced between 2021 and 2025

DfE expects to spend £508 million across its capital projects and create around 640 additional places in children's homes by 2029

Project type	Location	Additional places after works	Expected completion dates	Expected cost to DfE
				(£mn)
Open children's homes				
Creating additional places in homes	Projects across 68 homes	347	2026	57
Building new homes	49 new homes	200	2029	53
Secure children's homes				
Rebuilding existing homes	Lincolnshire, Devon, Hampshire	34–38	2026, 2029, 2029	188
Building new homes	West Midlands, London	48	2027, 2028	166
Improvement projects	56 projects across 12 homes, with two projects undertaken to increase bed capacity	8	2029	44
Total		**637–641**		**508**

Notes

1 Expected costs show either forecast costs or funding allocations. These are high-level due to the early stages of these projects. Final figures are subject to change based on the scope of individual projects.

2 Improvement projects are intended to improve standards and avoid losing places. They include refurbishing bedrooms or works to improve fire safety or security.

3 Open children's homes projects are funded by DfE and local authorities equally. This figure only includes DfE's funding.

4 DfE expects to confirm later in September 2025 the planned capacity of its projects to rebuild existing secure children's homes, after completing site feasibility studies. The range given reflects the possible outcomes.

Source: National Audit Office analysis of Department for Education documents and data

Caring for unaccompanied asylum-seeking children

3.18 As at March 2024, local authorities were responsible for 7,380 unaccompanied asylum-seeking children. So the children are fairly distributed, DfE and the Home Office jointly run a scheme to transfer statutory responsibility for these children away from the entry local authority, primarily Kent, to other local authorities. This scheme has been mandatory since December 2021. The Home Office uses five metrics reflecting local authorities' social care pressures to determine an allocation of children to each local authority and in turn their region (**Figure 12**). The Home Office provides local authorities additional funding to cover costs, £143 per child per night as of April 2025. The Home Office also makes payments to local authorities to incentivise quicker transfers and greater participation in the scheme.[20]

3.19 Some local authorities, for example in metropolitan areas, are in a better position to accommodate children given more availability of wrap-around services such as legal support and interpreters. Joint working between local authorities and within regions has facilitated children being placed in suitable locations with some local authorities offering to take more children than assigned. As Home Office funding is not ringfenced, local authorities can use it for other purposes.

20 The payments consist of £5,000 for every unaccompanied child transferred within five working days, and £10,000 for every unaccompanied child transferred within two working days. The £5,000 funding incentive is planned to run between 1 June 2025 and 31 October 2025, and the £10,000 incentive is planned to run between 1 June 2025 and 30 September 2025.

Figure 12

National Audit Office analysis of published metrics relating to the National Transfer Scheme for unaccompanied asylum-seeking children, by region, 2020–2024

Between 2020 and 2024, the North East received the least unaccompanied asylum-seeking children (UASC), but had the highest looked-after child population per head and supported asylum-seekers population per head

		National Transfer Scheme allocation metrics with published data			
Region	Published data on children transferred in through scheme, 2020–2024	Average total child population, 2020–2024	Looked-after children per 10,000 children, 2020–2024 average	UASC per 10,000 children, 2020–2024 average	Supported asylum seekers per 10,000 people, 2020–2024 average
East Midlands	540	997,900	65	4	9
East of England	898	1,339,000	51	6	5
London	700	1,911,500	51	8	16
North East	434	528,200	111	3	21
North West	502	1,572,300	96	4	18
South East	752	1,949,700	55	6	4
South West	658	1,091,700	60	4	4
West Midlands	511	1,301,600	87	5	15
Yorkshire & The Humber	524	1,153,200	80	3	14

Notes

1 The Home Office uses five metrics reflecting local authorities' social care pressures to decide how many children each local authority in every region or nation (devolved governments) should accommodate. There is no publicly available data on one metric, UASC care leavers per 10,000 people, so this is excluded from the above table.

2 A local authority's participation in the mandated national transfer scheme is paused when the number of UASC it is looking after is in line with or greater than 0.1% of its general child population. Local authorities may choose to continue accepting transfers once they have reached their threshold.

3 Local authorities can offer to take more children than allocated, which would be offset against potential future allocations.

4 Scotland and Wales are included in the scheme but not in this figure given this report's focus on residential care in England.

Source: Office for National Statistics for population data, Department for Education for looked-after children and UASC population data, Home Office for children transferred and supported asylum seekers data

Appendix One

Our audit approach

Our scope

1 This report evaluates whether the Department for Education (DfE) is achieving value for money in its oversight of residential care settings across England. We use the term 'residential care' to cover accommodation of looked-after children in children's homes, secure children's homes, supported accommodation and other residential settings. This does not cover fostering (although, given its impact on demand for residential care, we have considered its availability and costs). We did not assess DfE's work to prevent children entering the children's social care system. We use the term 'wider settings' to cover other places where children can be accommodated, such as hospitals. While recognising their importance in caring for children, this report does not assess how well these bodies operate.

2 Our independent conclusions are based on the analysis of evidence we collected between March and July 2025. In forming our conclusions, we used the study methods and evidence sources set out in the paragraphs below. The study examines DfE's oversight of the residential care market, within the broader context of children's social care, to assess whether the Department:

- understands the key challenges facing the market;
- is taking sufficient and effective action to address value for money concerns; and
- is ensuring that children's homes are financially sustainable, cost-effective, and delivering positive outcomes for children.

Our evidence base

3 To examine these issues, we drew on a range of evidence sources, including five teach-ins with DfE, interviews with relevant DfE officials, discussions with wider sector stakeholders such as local authorities and Ofsted, a review of key documents and quantitative analysis.

Interviews

4 We conducted interviews with officials from DfE to gain insights into the key challenges facing the children's residential care sector. We held interviews via Microsoft Teams which covered:

- the use and impact of out-of-area placements;
- the needs of children entering residential care;
- workforce issues in children's social care, including staffing capacity and planning;
- market capacity and demand for placements;
- DfE's reforms to the placement system;
- DfE's commercial strategy, funding of local authorities, and the spending review;
- DfE's relationships and collaboration with other government departments; and
- the use of data and analysis by DfE teams to inform policy and decision-making.

5 We held five teach-ins with officials from DfE to develop our understanding of its responsibilities, planned reforms, and the structure of the children's home market. These focused on:

- fostering;
- local authority interventions;
- the placement market;
- unaccompanied asylum-seeking children; and
- an overview of children's homes, secure children's homes and supported accommodation.

6 We also carried out interviews and meetings with the wider sector, with a particular focus on local authorities, including:

- Ofsted;
- the Competition & Markets Authority;
- the Institute for Government;
- the Local Government Association;
- the County Councils Network;

- Ministry of Justice and NHS England officials responsible for youth custody and children's mental health provision respectively;
- an experienced social worker; and
- Coram Voice.

Document review

7 We reviewed approximately 200 key documents on children's homes, including:

- DfE internal management reporting, such as quarterly business reports;
- DfE internal research papers, such as an analysis of the financial state of selected children's social care providers and research on fees paid by local authorities for children's homes in England;
- minutes from project boards, for example, supported accommodation project board;
- DfE children's homes workforce census;
- business cases for building local-authority-owned care homes;
- DfE internal statistical analysis, for example percentage of children in homes who are placed out of area; and
- Ministry of Housing, Communities and Local Government analysis of drivers of increased spend on residential care.

Quantitative analysis

8 We reviewed published statistics from DfE on the volume and characteristics of children in care, as well as local authority expenditure on residential care. This analysis was used to understand trends in population and spending, and any regional variation in care provision. Data on spend per place (Figure 5) are estimates and comparisons between different placement types assume local authorities have categorised their placements in the same way. Figure 7 presents data at a regional rather than local authority level to avoid possible disclosure risks.

9 We also analysed Ofsted data on registered children's homes to examine the regional distribution of homes and the profile of ownership over time (for example, private, voluntary, or local-authority-run). It should be noted that the share of homes may not necessarily correlate with the share of places. We reviewed the frequency of Ofsted inspections to explore whether Ofsted is meeting its targets for timeliness of inspections and the impact of the recent requirement for supported accommodation providers to register. In addition, we reviewed Ofsted blogs and research papers, for example, on the types of care provided by homes and information on the frequency and timeliness of Ofsted inspections, to explore how regulatory oversight may vary across providers or regions.

Appendix Two

DfE's response to recommendations

Figure 13

Description and National Audit Office (NAO) assessment of the Department for Education's (DfE's) response to selected recommendations from the Competition & Markets Authority (CMA) and MacAlister reviews, July 2025

DfE's progress against previous recommendations has been mixed

Recommendation	Source	DfE actions or response	NAO assessment of progress
Market shaping			
Adopt a more collective approach to the placements market, including establishing regional bodies to carry out market shaping and procurement.	CMA	DfE planned to co-create regional care cooperatives, with two pilots in Greater Manchester and the South East launching in April and June 2025 respectively.	DfE has secured funding and intends to nationally roll out regional care cooperatives, but this will take several years.
Establish up to 20 regional care cooperatives to plan, run and commission residential care, fostering and secure care, with a regional sufficiency duty replacing the local authority sufficiency duty.	MacAlister		
Provide additional support to local authorities and collective bodies for forecasting, market shaping and procurement.	CMA	DfE contracted private sector forecasting, commissioning and market shaping support for some local authorities, and made materials available to local authorities.	DfE is exploring ways to introduce more support for local authorities to improve their commercial capability. It has not yet finalised what form this will take.
Market resilience			
Create an appropriate statutory oversight regime capable of assessing the financial health of the most 'difficult to replace' providers of children's homes.	CMA	Provisions in the Children's Wellbeing and Schools Bill allow DfE to introduce a statutory financial oversight scheme for the most 'difficult to replace' children's social care providers and their corporate owners.	The scheme will be introduced subject to passing of the Bill and approval of secondary legislation.
Require the most 'difficult to replace' children's home providers to maintain a contingency plan that sets out how they are mitigating the risk of provision having to suddenly close due to financial difficulties of insolvency.	CMA		
Workforce			
Annual workforce assessment to provide a clear overview of staffing pressures and concerns, and recommend measures to address bottlenecks.	CMA	DfE undertook a workforce census in 2023 and 2024, and has said it will explore how to best gather regular workforce data and information.	DfE has completed two workforce surveys but is not planning an annual survey or wider assessment.

Figure 13 *continued*
Description and National Audit Office assessment of the Department for Education's (DfE's) response to selected recommendations from the Competition & Markets Authority (CMA) and MacAlister reviews, July 2025

Recommendation	Source	DfE actions or response	NAO assessment of progress
Regulation			
Review the regulation relating to the provision of placements, considering whether specific regulations are unnecessarily restricting the effective provision of placements.	CMA	DfE set up an expert working group to review all existing legislation and regulation, and develop a common set of standards for fostering, children's homes and supported accommodation. The first meeting was in November 2022, and as at September 2023, there had been five expert group meetings.	DfE is scoping but has not settled on any concrete actions.
Introduce new and ambitious care standards, applicable across all homes for children.	MacAlister		
Give Ofsted the power to financially regulate independent fostering agencies and children's homes.	MacAlister	The Children's Wellbeing and Schools Bill includes some additional powers for Ofsted oversight, including of unregistered homes.	DfE has narrowly interpreted this recommendation, only focusing on unregistered homes, and still needs to consider implementation.
Review planning requirements and consider removing any distinction between small children's homes and domestic dwellings for the purpose of the planning regime. For children's homes that remain in the planning system, the UK government should also introduce national guidance clarifying when planning permission may be required, and the circumstances in which it is likely to be granted or refused.	CMA	The government issued a joint ministerial statement covering planning for accommodation on 23 May 2023. DfE plans to address barriers to new provision by working with the Ministry of Housing, Communities & Local Government to reform the planning process.	DfE plans to implement this through secondary legislation after the Children's Wellbeing and Schools Bill.
Data			
The National Children's Social Care Framework should include a balanced scorecard of indicators to support learning and improvement. To support this, there should be an overhaul of what data is collected and how those collections work, so that we have more meaningful metrics and more regular data to help drive transparency and learning in the system.	MacAlister	DfE committed to produce a children's social care dashboard by 2024. It first published the dashboard in October 2024, which has not yet been updated.	DfE is making progress, but changes are not expected until 2028 at the earliest.
Fostering			
Support local authorities with targeted funding to increase foster care provision and reduce reliance on private provision.	CMA	DfE created a fostering recruitment and retention programme, setting up 10 regional fostering recruitment hubs and expanding its peer support programme.	DfE's evaluation of the first year hub did not identify significant improvements but noted more time might be needed for the hub to yield results. DfE has not set a public recruitment target.
National recruitment campaign to recruit 9,000 more foster carers.	MacAlister		

Note
1 We have selected those recommendations most relevant to the scope of this report.

Source: National Audit Office analysis based on Department for Education documents

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