Crisis in children's care

The budget gap, cost shunting to councils, and the risks for children in Wales

The evidence set out in this report leads to a clear conclusion: The policy to eliminate profit from children's residential care was developed in a different context, under different system conditions, and with assumptions that no longer hold. Continuing to implement it unchanged, in the current environment, carries foreseeable and avoidable risks for children, local authorities, and the wider care system.

A paper from
The Children's Homes Association

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Executive summary

Welsh Government's policy to eliminate profit from children's residential care was conceived in a different era: when demand pressures were lower, financial conditions were less constrained, and there was confidence that alternative capacity would expand quickly enough to replace existing provision.

At a glance

Children's residential care in Wales is operating under sustained demand and sufficiency pressure.

Policy assumptions underpinning the elimination of profit no longer reflect current system realities.

Placement instability and reliance on emergency provision are already increasing risk for children.

The Final Budget 2026–27 names the policy destination but does not fund its safe delivery.

Key budget decisions will be taken by the Senedd on 27 January 2026.

We are now only weeks away from the first commencement stage of the Health and Social Care (Wales) Act 2025 taking effect in April. At this point in the policy cycle, responsible government means stress-testing assumptions against current reality—and being willing to adjust course where the evidence shows material risk to children.

Those original assumptions have not proven true. Demand and complexity pressures remain high. Foster care sufficiency has deteriorated. Local authorities are already struggling to secure appropriate placements, and the system is increasingly relying on emergency, out-of-area, and unregistered settings because there is nowhere else for children to go. **For children, this translates into greater instability, more placement moves, and increased exposure to risk.**

At the same time, Welsh Government's own commissioned evidence does not support the claim that for-profit ownership is associated with poorer care or worse outcomes. Quality and inspection outcomes in Wales are generally strong across ownership models.

In this context, this is not primarily an argument about ideology. It is about sufficiency, value for money, outcomes for children, and the future of Welsh-born-and-bred providers—many of them micro and SME organisations embedded in local communities and local labour markets.

The value-for-money implications are material. Welsh Government's published unit-cost figures* indicate average weekly costs of around £5,265 for local authority-run residential provision compared with £3,811 for independent provision.

*record.senedd.wales/WrittenQuestion/92150

At current system scale (around 900 residential beds), transitioning from independent to local authority provision implies additional recurrent pressure of approximately £67–68m per year (around £335–340m over five years), before inflation or capital costs are taken into account. This equates to approximately £250 for every household in Wales over five years). **In practice, these pressures are associated with increased placement instability and greater reliance on emergency provision for children with complex needs.**

The urgency of this assessment is heightened by the Welsh Government's Final Budget 2026–27, which the Senedd is scheduled to debate and vote on **27 January 2026**. While the budget narrative identifies "*Children's care services – aiming to end profit-making in children's care*" as a priority, it does not set out a costed or ring-fenced implementation programme. **On the evidence published to date, there is no identified funding envelope capable of delivering the policy at scale without creating material risk to children and local authority services.**

The Children's Homes Association (CHA) therefore calls on Welsh Government to show humility, put children first, and pause further restrictive implementation while it commissions an independent, time-limited review focused on: placement sufficiency; demand and workforce realities; fiscal impact (including who pays); and the consequences for children, Welsh communities, and local economies. **This report also sets out a practical, risk-reducing route forward that preserves the policy's intent while maintaining placement sufficiency and stability for children.**

CHA reiterates a pragmatic compromise first offered four years ago: widening the list of permitted "not-for-profit" models to include regulated, mission-locked, investable forms such as Community Interest Companies limited by shares (with an asset lock and statutory dividend caps—35% of distributable profits, meaning at least 65% is reinvested) and Employee Ownership Trusts (EOTs). This would protect the policy's intent while reducing the risk of a sufficiency cliff edge by enabling Welsh providers to transition without collapsing capacity or destabilising children's care.

Our request

Pause implementation of the eliminate policy while an independent, time-limited review is undertaken to prevent harm to children and young people

Actively consider pragmatic, regulated transition routes that will protect children and reduce risk to local authorities.

1.
A policy shaped in a different context

The commitment to eliminate profit from children's residential care emerged from a broader values-based debate about the role of markets in public services. When it was first articulated, it reflected a political moment of optimism that the system could be reshaped without significant disruption.

Implicit in that vision was the assumption that the system had enough resilience to absorb structural change without harming children or destabilising local provision. The passage of time has shown that this assumption was optimistic. The system now operates in shortage conditions, with high levels of placement pressure and limited capacity to absorb shocks.

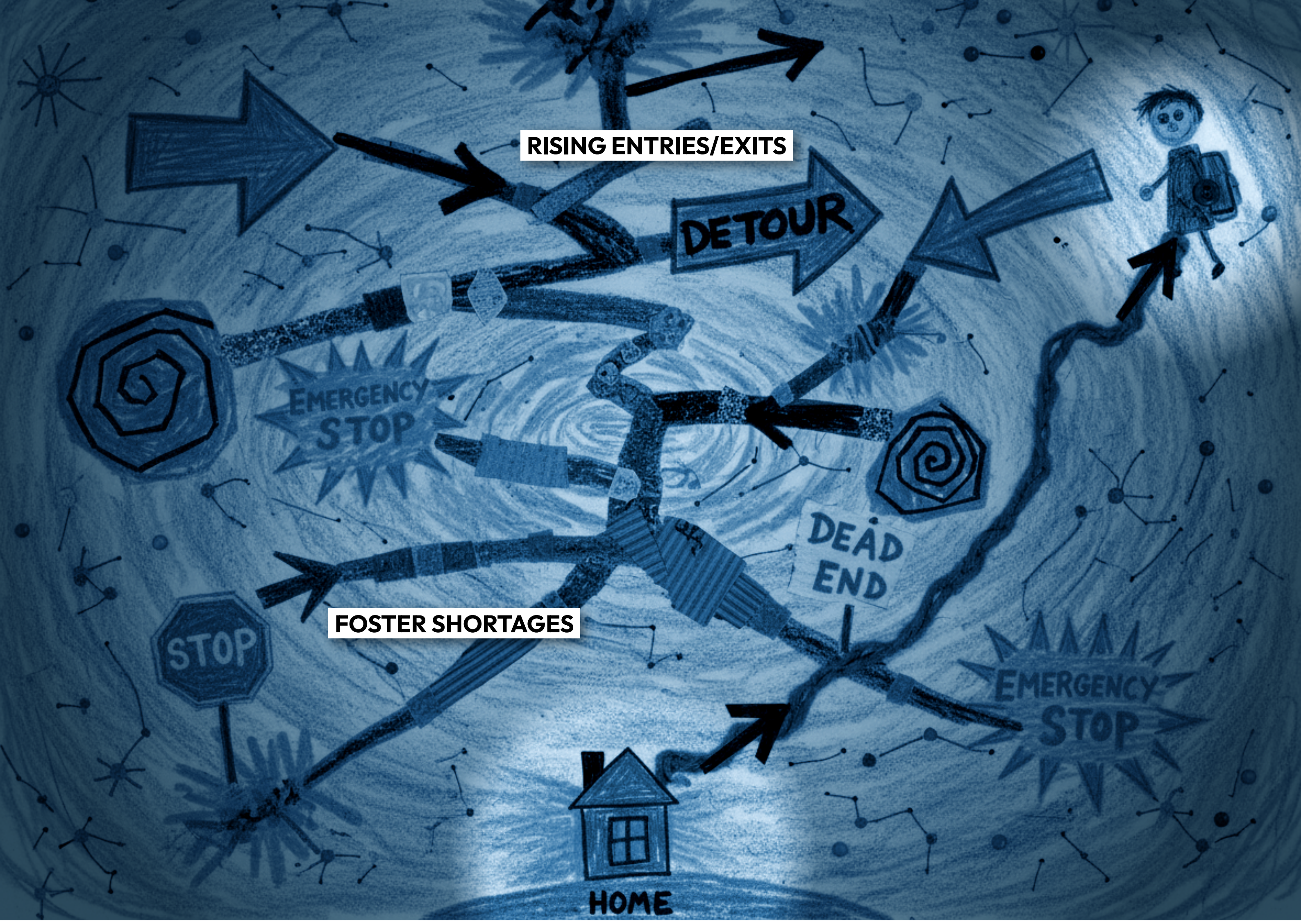
Good policy making includes the ability to revisit decisions when the underlying conditions change. The danger lies not in making ambitious commitments, but in pressing ahead unchanged when evidence shows that circumstances have shifted materially—and when the risks fall most heavily on children.

2.
Quality and outcomes: what the evidence shows

A central narrative accompanying the elimination of profit has been the suggestion—sometimes explicit, sometimes implied—that profit is associated with poorer care. This claim carries moral weight, but it requires evidential support if it is to justify far-reaching structural intervention.

Welsh Government's own commissioned market intelligence does not provide that support. Analysis of inspection outcomes and provider performance shows that children's residential care in Wales is generally of good quality across ownership models, with no meaningful difference in quality indicators attributable to ownership type alone.

This matters because policy should intervene where harm is evidenced. Eliminating a category of lawful provision without evidence of inferior outcomes risks substituting ideology for analysis—and it risks destabilising a service that children rely on today.



3.
Sufficiency, demand, and the reality of children's lives

The most pressing challenge in children's residential care today is not ownership structure but sufficiency. Demand at the front door of children's social care has increased since the early 2020s, while the looked-after population remains high and stable—meaning continued high volume of placement-making, transitions, and "system churn."

At the same time, foster care sufficiency has declined. Programme Board market intelligence prepared for Welsh Government links fostering insufficiency directly to rising residential demand and warns that residential care cannot be "right-sized" until foster care capacity grows—otherwise the system risks greater use of unregistered provision, which carries higher risk.

In shortage conditions, policy does not operate in a neutral environment. Any approach that constrains existing residential capacity or discourages investment is likely to increase instability for children: more moves, greater distance from home, and heightened risk to wellbeing.

Indicators in the official record that point toward steady high (and potentially rising) placement pressure include:

- Safeguarding escalation is materially higher than in 2020–21: Initial Strategy Meetings rose from 21,657 (2020–21) to 28,126 (2023–24) (around +30%). Over the same period, Strategy Meetings progressing to Section 47 enquiries increased from 13,273 to 17,762 (around +34%).
- The looked-after population remains high and broadly flat: 7,198 children were looked after on 31 March 2024 (7,188 the previous year), with a longer-term peak of 7,241 in 2021.
- Higher "system churn" means sustained placement-making pressure even when the headline number is stable: in 2023–24, 1,957 children started to be looked after (up 49; +2.6% year-on-year) and 1,955 children left care (up 172; +9.6% year-on-year), the highest exits since 2015–16.
- The placement mix signal is moving toward higher-intensity settings: 12.3% of children looked after were in secure units/children's homes/hostels on 31 March 2024, and this proportion has increased substantially over the longer term.
- Programme Board market intelligence links foster care insufficiency directly to rising residential demand and warns that residential provision cannot be "right-sized" until foster care capacity grows—otherwise the system risks increased reliance on unregistered provision.

What local authorities are already reporting

Across Wales, councils' own committee and cabinet papers describe sustained demand, limited supply, and increasing difficulty securing suitable placements locally. Reported themes include:

- **Cardiff**: Cabinet reporting references sustained demand and limited supply of suitable placements, warning that implementation may intensify pressures by reducing the number of external placement options.
- **Cardiff**: Papers also evidence the direct knock-on from fostering shortages, including 40 instances where children were placed in residential care due to a lack of available foster care.
- **Swansea**: A cabinet paper cautions that the implementation timetable may prove challenging and could further destabilise a fragile system if not carefully planned and managed.
- **Pembrokeshire**: Reported front-door pressure has risen sharply over time (Q1 2018/19 → Q1 2024/25): contacts 1,150 → 2,535; child protection reports (CPR) 64 → 116; children looked after 135 → 266.

- **Pembrokeshire**: Papers cite a national shortage of available foster placements and increased competition for placements across West Wales, including placements purchased by authorities outside the region.
- **Neath Port Talbot**: Committee/cabinet reporting describes significant challenges driven by increasing need and demand alongside reduced capacity within the placement market and within the local authority.
- **Powys**: Cabinet-level reporting links rising cost pressure to placement sufficiency issues and increased reliance on more expensive placements.
- **Conwy and Carmarthenshire**: Strategic reporting emphasises the need to increase local placement options and expand in-house fostering and residential provision to reduce out-of-area reliance.

So what: if the system is already operating in a constrained market, any additional restriction on supply—without funded, investable replacement routes—predictably drives emergency purchasing, higher unit costs, and greater placement instability for children.

Here's what really matters.

The immediate and ongoing impact on children, outcomes and workforce

The following case studies show how decisions driven by an unworkable implementation timetable and constrained capacity are already shaping children's lives on the ground.

They illustrate what happens when policy pressures come before needs, the heartbreaking and costly trajectories that result from placement disruption, and the real risks to children and the workforce of a policy that ideologically relies on placing children with complex needs in newly created provision, rather than established private providers.

These are real-world consequences of placement instability, disrupted care, and change pursued faster than the system can safely absorb.

1. From stability to crisis through policy-led placement disruption

Stage 1: Young person stable in placement

At the outset, the young person in Case A was settled in an independent residential placement. The placement was stable, education was being maintained, and consistent relationships with staff were in place. There were no safeguarding failures or quality concerns identified.

Stage 2: Upcoming policy changes pressure an unnecessary placement move…

The decision to move the young person was driven not by placement breakdown or assessed need, but by growing pressure on professionals to reduce reliance on for-profit provision in anticipation of forthcoming legislative requirements.

Stage 3: …to an unsuitable local authority placement where behaviour escalated and future plans felt unstable.

The local authority placement did not adequately match the young person's needs. Behaviour escalated, care planning became unclear, and the young person received mixed messages from professionals about expectations and future plans.

Stage 4: The placement breaks down due to a serious incident and emergency moves to even more unsuitable provision…

A serious incident led to further emergency moves into temporary accommodation, largely staffed by agency workers. At this point, established attachments and safety nets were broken.

Stage 5: …creating a trajectory of multiple placement changes, trauma and instability.

Over a short period, the young person experienced multiple placement changes. With each move, stability reduced further, attachment became harder to sustain, and distress intensified as the young person anticipated further disruption.

Stage 6: Crisis point

The young person reached a point where no suitable long-term placement was available. The system had shifted from planned care to crisis management.

Stage 7a: Consequences for the child — cumulative trauma

Repeated disruption resulted in compounded emotional harm. The loss of stable relationships, uncertainty about where they would live next, and a growing sense of rejection undermined the young person's wellbeing. Trauma was not resolved through care; it was intensified by instability.

Stage 7b: Consequences for the workforce — fragmentation and burnout

Frequent placement breakdowns placed sustained pressure on staff across multiple settings. Agency reliance increased, continuity of care reduced, and professionals experienced frustration and moral distress at being unable to provide stability. The cumulative effect was increased burnout risk and erosion of workforce resilience.

2. When forced "local" placement embeds risk rather than removing it

Stage 1: Escalating exploitation risk at home

In Case B, a 14-year-old young person was experiencing significant criminal and sexual exploitation within their local community. Despite sustained early intervention and family support, the family was no longer able to keep the young person safe.

Stage 2: Entry into care to reduce immediate harm

A Section 47 investigation led to an Interim Care Order to remove the young person from immediate risk. Foster care was explored but deemed unsuitable due to the complexity of need.

Stage 3: Specialist placement identified to meet the young person's needs

Professional assessment identified a specialist residential placement as the most appropriate option, offering trauma-informed support and staff trained to manage exploitation-related risk.

Stage 4: Policy influence leads to inappropriate placement location

The young person was encouraged into a local authority-run home close to their home area, aligned with a policy preference for local provision and short-term care with a view to reunification.

Stage 5: Exploitation returns

While the home itself was well run, its location placed the young person within easy reach of exploitative networks. Frequent missing episodes followed, with repeated returns to those exploiting the young person.

Stage 6: Placement becomes unsafe

Safeguarding concerns escalated as missing episodes continued and the level of exploitation increased. The placement became untenable — not due to care quality, but because geography made effective protection impossible.

Stage 7a: Consequences for the child — compounded trauma

The young person experienced repeated exposure to harm, loss of safety, and further trauma. The protective purpose of care was undermined, increasing distress and embedding patterns of risk that care had been intended to disrupt.

Stage 7b: Consequences for the workforce — moral injury and attrition risk

Staff experienced significant emotional strain and moral distress arising from being unable to keep the young person safe despite appropriate care and professional commitment. Low morale, burnout, and the risk of experienced staff leaving the sector were reported consequences.

In this case, care did not reduce risk — proximity preserved it. The harm extended beyond the child, weakening the very workforce relied upon to deliver protection.

3. When policy hinges sufficiency for complex needs on newly created services

Journey 1: Established provision

Care built on experience, stability, and preparedness

Stage 1 — Starting position

A child with complex needs is placed into an established home with an experienced, stable staff team and known specialisms.

Stage 2 — Matching and impact assessment

The Registered Manager knows the home, staff team, and existing young people well. Impact assessment is detailed, realistic, and informed by lived experience.

Stage 3 — Staff team readiness

Staff strengths and development needs are well understood. Targeted upskilling can take place before the child arrives.

Stage 4 — Environment and risk management

The physical environment is well understood. Previous placements inform adaptations to reduce risk and stress.

Stage 5 — Team culture and confidence

A confident team draws on experience of complex placements. Consistency, calm, and peer support underpin safe care.

Stage 6 — Multi-agency working and local integration

Established relationships with education, health, and community services enable coordinated support from day one.

Stage 7 — Likely outcomes

Greater stability, emotional safety, and sustained progress for the child, with reduced risk of crisis or breakdown.

Journey 2: Policy-preferred new provision

Care delivered amid uncertainty, teething issues, and emerging systems

Stage 1 — Starting position

A child with complex needs arrives in a newly opened service still developing its staff team, systems, and routines.

Stage 2 — Matching and impact assessment

Matching is based on limited experience of the home and team. Triggers, peer dynamics, and staff responses are not yet fully known.

Stage 3 — Staff team readiness

Staff are newly recruited and still building trust with one another. Managers cannot yet predict how individuals respond under pressure.

Stage 4 — Environment and risk management

Environmental risks emerge in real time. Layout, furnishings, and routines may unintentionally increase stress or risk.

Stage 5 — Team culture and confidence

Staff confidence is still developing. Uncertainty can be sensed by the child, increasing anxiety and escalating behaviours.

Stage 6 — Multi-agency working and local integration

Local partnerships and community links are underdeveloped. Support pathways may be slower to establish or fragmented.

Stage 7 — Likely outcomes

Higher likelihood of instability during the service's early period, with increased risk of escalation, disruption, and trauma.

Established provision reduces risk through knowledge and experience. Policy-preferred new provision introduces risk through uncertainty — regardless of intent.

4. The financial reality – the policy is named but the reality is not funded

The financial consequences of the current approach are substantial and unavoidable. Welsh Government's own published figures show that local authority-run residential provision is significantly more expensive than independent provision.

When demand is transferred away from lower-cost independent capacity and into higher-cost alternatives, recurrent expenditure rises structurally.

CHA's modelling, using Welsh Government's published unit-cost figures, illustrates the scale of exposure. Average weekly costs are around **£5,265** for local authority-run residential provision compared with **£3,811** for independent provision — a gap of roughly **£1,454 per week** (around **£75.6k per bed per year**).

At current system scale (around **900 residential beds**), transitioning from independent to local authority provision implies additional recurrent pressure of approximately **£67–68m** per year (around **£335–340m over five years**), before inflation or capital costs are taken into account. This equates to approximately **£250 for every household in Wales** over five years).

In practice, these additional costs are associated with greater placement instability, increased use of emergency provision, and reduced continuity of care for children with complex needs.

These figures are conservative. They do not account for continued growth in demand and complexity of recent and future cohorts, nor for the premium costs associated with emergency, unregistered, or out-of-area placements when capacity is constrained. They also exclude the capital investment required to build replacement provision at pace.

Replacing capacity is not cost-neutral

In a constrained market, restricting existing supply does not reduce demand; it reallocates it. Where independent capacity is constrained or exits the sector, local authorities are forced into higher-cost provision, emergency purchasing, or temporary arrangements. This dynamic increases unit costs, reduces commissioning leverage, and introduces volatility into already stretched budgets.

Welsh Government's own impact assessment recognises the risk of losing "significant investment" currently provided by independent organisations and accepts that the policy may require public sector investment. Constraining the investable not-for-profit toolkit increases the likelihood that, in practice, **the replacement bill lands with local authorities**, without a clearly specified long-term Welsh Government replacement budget.

In practice, this turns a ideological policy decision into a recurrent spending pressure — one that compounds over time rather than resolving, taking money from every household in Wales.

The Final Budget 2026–27: Where's the Eliminate funding?!

The Welsh Government's Final Budget 2026–27 highlights "*Children's care services – aiming to end profit-making in children's care*" as a policy priority. However, no dedicated or ring-fenced funding line for implementing the Eliminate policy is set out in the published budget narrative.

The quantified "new money" in the Final Budget is instead framed around:

- **£180m** additional fiscal resource for Health and Social Care, primarily described as supporting the NHS; and
- **£112.8m** additional resource funding for local authorities (an average **4.5% uplift**), presented as funding "*key services*" across the board rather than as a specific Eliminate transition fund.

Neither allocation is identified as funding the Eliminate policy, nor is a costed implementation programme published alongside the budget. This matters because Eliminate is not an administrative change, it is the most significant change to children's social care in a generation. It requires active market transition, including replacement capacity, commissioning redesign, workforce development, legal and contractual change, and hundreds of millions of capital investment.

The Senedd is scheduled to debate and vote on the Final Budget 2026–27 on 27 January 2026. As currently published, the budget narrative identifies "*Children's care services – aiming to end profit-making in children's care*" as a key priority within Health and Social Services, but **attaches no quantified funding allocation or costed implementation plan.**

For children, this creates a risk that funding decisions taken now will translate into disrupted placements, reduced choice, and increased instability on the ground.

Taken together, the Final Budget 2026–27 and Welsh Government's published impact assessments reveal a significant gap between policy ambition and funded delivery.

On the evidence published to date, there is no identified funding envelope capable of delivering the Eliminate policy at scale without creating material risk to children and local authority services. The absence of a costed, ring-fenced implementation programme means that the pressures generated by market transition, replacement capacity, commissioning redesign, workforce development, and capital formation are not underwritten centrally.

So who pays in practice? Cost-shunting and fiscal risk

In the absence of a transparent implementation funding, the default payer becomes local authorities — not through an explicit decision, but through cost-shunting. Councils must absorb placement price shocks, emergency purchasing pressures, and transition disruption within already constrained settlements.

The practical choices for councils are stark:

- divert funding from other statutory or local priorities;
- ration demand through tighter thresholds or delayed step-down, increasing system pressure; or
- accept escalating overspends driven by emergency and higher-cost placements.

Each of these outcomes undermines stability for children and increases risk elsewhere in the system. Cost does not disappear; it is displaced — from national policy ambition to local authority balance sheets, and ultimately to residents through service reductions and council tax increases.

The position is therefore clear: **the policy destination is named, but the reality is not funded. A vehicle with no fuel, driver or sat nav.**

Final Budget 2026–27 and the ‘Eliminate’ funding gap

Eliminate is signposted, not costed

The Final Budget identifies “*aiming to end profit-making in children’s care*” as a priority, but provides no dedicated or ring-fenced implementation funding line for delivering the policy in practice.

General funding is not a transition budget

The **£180m** additional Health and Social Care funding (primarily described as supporting the NHS) and the **£112.8m** local government uplift are presented as general support for services, not as a costed Eliminate implementation programme.

No transition capital is identified

The Final Budget holds **£120m of capital** for the next government, assumes no drawdown from the Wales Reserve, and shows no additional Health and Social Care capital allocation to support replacement residential provision.

Costs do not disappear — they are displaced

In the absence of an explicit implementation envelope, the costs generated by the Eliminate policy are absorbed elsewhere in the system, primarily through higher placement costs, emergency purchasing, and pressure on already stretched local authority budgets.

There is no funded route to delivery without harm

On the evidence published to date, there is no identified funding envelope capable of delivering the Eliminate policy at scale without creating material risk to children, including increased placement instability, disrupted care, and escalation into emergency or unsuitable provision.

5. Welsh providers, jobs, and local economies

Much of Wales's residential care capacity is delivered by Welsh-born-and-bred providers rooted in their communities. Many are micro and SME organisations founded by people who began their careers as care workers and built services that local authorities rely upon to meet statutory duties.

These organisations support jobs and skills in local labour markets—often in areas where good employment opportunities are scarce. Their spending supports local supply chains (maintenance, food, transport, training) and keeps economic value circulating in Welsh communities.

The current policy trajectory freezes growth, undermines long-term planning, and erodes business value. For some owners, it represents the forced winding-down of a life's work carried out lawfully and in good faith. The risk is not only the loss of capacity, but the loss of experienced teams and the disruption of stable homes for children.

When providers exit or investment stalls, the impact is felt twice: children experience fewer suitable options, and communities lose jobs, spending, and local enterprise—while councils face higher costs for emergency and out-of-area provision.

6. The moral case: what this does to Welsh family businesses and future entrepreneurs

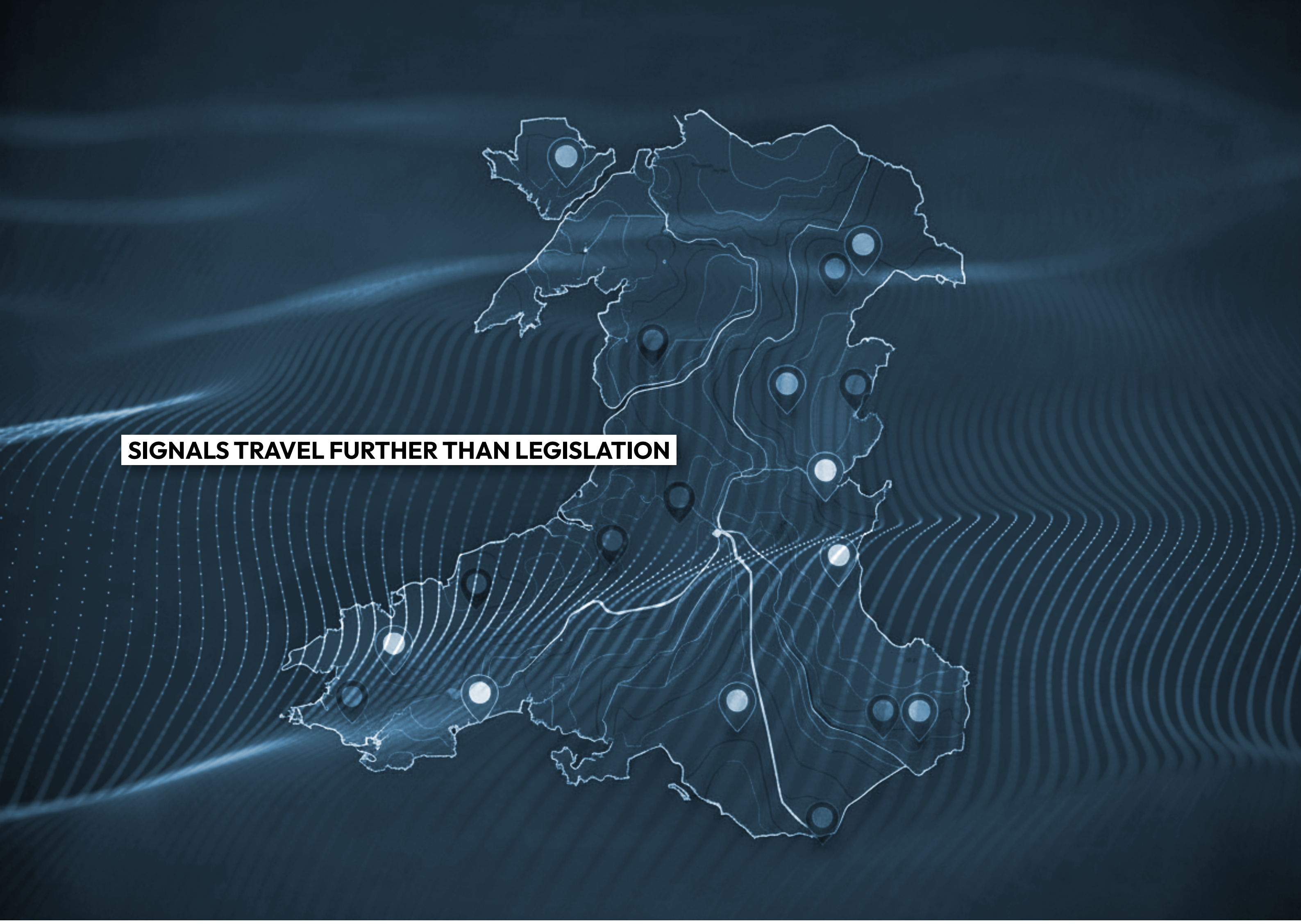
Beyond the policy mechanics, there is a moral question sitting in plain sight: what does it say about Wales when government policy deliberately eliminates Welsh-owned, Welsh-built family businesses—often without compensation, recognition, or any meaningful transition support?

Many providers are not distant investors. They are local people who took personal risks to build homes, teams and services in communities where the state itself struggled to create capacity. Some refinanced their homes to raise capital. Some have poured savings into property and workforce development rather than pensions, assuming the business was the long-term plan. Some have built multi-generational enterprises with the expectation that their children would one day take on the family business. Whatever one thinks about profit in public services, those lived realities are not abstract—they are the human consequences of a policy choice.

If the result is closure by design, then the ethical burden shifts: it is no longer simply "market change." It is the state using legislation to remove a lawful, locally rooted part of the economy, and doing so in a way that can strand families with debt, erase retirement plans, and unwind years of community investment. That is not a neutral transition. It is a message.

And the message to entrepreneurs is bleak: build in Wales, employ in Wales, invest in Wales, and you may still be legislated out of existence—with little acknowledgement of the risk you carried, and no clear route to fair treatment when the rules change. In a small nation that needs people to innovate, start businesses, and commit capital for the long term, this is a serious self-inflicted wound. It chills investment far beyond children's services, because it signals unpredictability and a lack of basic respect for locally owned enterprise.

If Welsh Government wants to claim the moral high ground, it must confront this moral harm directly—by pausing to review, by adopting a pragmatic compromise that protects children and capacity, and by putting in place fair transition arrangements that recognise the legitimate expectations and personal stakes of Welsh families who built these services in good faith.



7.
The wider message: investment, confidence, and the risk of a state-only model

This approach also sends a message beyond children's services. For investors and entrepreneurs, it implies that Wales may retrospectively judge lawful participation in essential services as unacceptable, regardless of quality and contribution. The practical signal is: Wales is closed for business—at least in this part of the care economy.

Once the state establishes a precedent for excluding whole categories of independent provision, it is reasonable to ask what sector might be next. That uncertainty chills investment, deters innovation, and undermines the kind of locally rooted enterprise that Welsh economic policy elsewhere seeks to encourage.

CHA members have reported being told by a senior civil servant that Welsh Government did not want any independent providers in this space—not even not-for-profit providers. Whether or not that reflects the formal policy intent, the effect of the legislation is to narrow independent provision and move steadily toward a state-only model.

Is that “nationalisation”? In strict terms, nationalisation usually means the state takes ownership of private assets. The Act does not automatically transfer ownership of existing providers into public hands. However, where the policy compels market exit and leaves the public sector as the only viable operator, it functions as a form of de facto state monopoly. The question for Wales is whether that is the right destination—especially in a shortage market where children need safe, stable placements now.

8. The case for a pause and an independent review

In these circumstances, pressing ahead unchanged would be policy rigidity, not resolve. The responsible course is to pause further restrictive implementation and reassess the approach in light of current evidence and system pressures.

CHA calls on Welsh Government to commission an independent, time-limited review that examines: placement sufficiency and demand trends; workforce capacity; fiscal and distributional impacts (including council tax pressures); market stability and investment; and outcomes for children. The review should also test the practicality of a controlled, regulated expansion of eligible provider models to include investable, mission-locked forms as a risk-reduction compromise—for example, CICs limited by shares with an asset lock and statutory dividend caps (35% of distributable profits, meaning at least 65% is reinvested), and Employee Ownership Trusts (EOTs).

Pausing to review is not a sign of weakness. It is a sign of competent governance—and of putting children before ideology.

Solutions are available to reducing risk while protecting policy intent

A risk-reduction compromise, not a retreat from principle

The Children's Homes Association proposes a pragmatic compromise: enabling regulated, mission-locked, investable provider models—such as Employee Ownership Trusts (EOTs), co-operatives, and Community Interest Companies (CICs) limited by shares—as part of the transition away from for-profit ownership.

This approach should be understood as a **risk-reduction measure**, not a dilution of the policy objective to prevent profiteering in children's care. Its purpose is to reduce exposure for local authorities, preserve placement sufficiency, and maintain stability for children during a period of system transition.

Why CICs and other mission-locked models matter

Community Interest Companies are a particularly relevant example because the UK CIC regime was explicitly designed to support social enterprise activity with **legally enforceable safeguards**.

Official GOV.UK guidance confirms that CICs are subject to a compulsory asset lock, ensuring that assets and profits are used for community benefit. CICs may be limited by shares or by guarantee, but where shares are used, dividend distribution is tightly regulated. The Community Interest Company Regulations 2005 set an aggregate dividend cap of **35% of distributable profits**. The CIC Regulator has made clear that this means at least **65% of surplus profits must be retained and applied to community purpose**.

In addition, the Regulator's published guidance for funders confirms that a CIC limited by shares under an asset-locked distribution model is regarded as "*not for profit*" in the sense that it cannot distribute profits to members unless they are themselves asset-locked bodies.

These safeguards are statutory, not voluntary, and can be strengthened further through Welsh-specific conditions, including enhanced controls on related-party transactions and extraction.

Why a pragmatic compromise is necessary

Welsh Government's own published documents recognise that the transition away from for-profit provision may be costly, may require public sector investment, and carries risks to placement sufficiency if existing providers exit or replacement capacity is not developed quickly enough.

Welsh Government's cost modelling also assumes that local authorities may be required to underwrite capital investment for new not-for-profit provision, with indicative figures such as **£700,000 per home**, alongside potential transitional uplifts in placement fees.

Under the current policy design, these costs are concentrated on local authorities while long-term funding clarity is deferred into future budget rounds and the next Senedd term (post-7 May 2026).

A credible alternative that reduces risk

A controlled expansion of eligible provider models to include **regulated, asset-locked, dividend-capped investable forms**—such as CICs limited by shares, EOTs, and co-operatives—would allow patient social capital to contribute to the replacement programme.

This would:

- reduce the scale of capital exposure faced by local authorities;
- support faster development of replacement capacity; and
- preserve safeguards against disproportionate private extraction.

Crucially, it would remain aligned with the stated policy intent that public money is reinvested to improve outcomes for children, while reducing the risk of an avoidable fiscal crunch and placement instability during transition.

In short, widening the eligible not-for-profit toolkit to include high-integrity, mission-locked, investable structures provides a credible and proportionate route forward—protecting children, supporting local authorities, and preserving system stability without reopening the door to profiteering.

Conclusion:

Put children first, always, especially in a system under strain

The evidence set out in this report leads to a clear conclusion. The policy to eliminate profit from children's residential care was developed in a different context, under different system conditions, and with assumptions that no longer hold. Continuing to implement it unchanged, in the current environment, carries foreseeable and avoidable risks for children, local authorities, and the wider care system.

As this report has shown, the intended policy has already and will continue to cause harm to children and young people through real but unintended consequences.

Children's residential care in Wales is operating under sustained pressure. Demand remains high, complexity has increased, and placement sufficiency is fragile. In this context, policies that restrict existing capacity before replacement provision is securely in place do not operate in a neutral way. They shape decisions on the ground, introduce instability, and increase reliance on emergency and unsuitable provision. For children, this means greater disruption, repeated moves, and increased exposure to harm.

At the same time, Welsh Government's own evidence does not support the proposition that ownership model, in itself, is a reliable proxy for quality or outcomes. Inspection results across Wales are generally strong, and many independent providers are Welsh-based, community-embedded organisations with long-standing relationships with local authorities and skilled workforces. Removing this capacity without a funded and credible transition plan risks undermining the very outcomes the policy seeks to improve.

The financial analysis reinforces this concern. Displacing demand from lower-cost independent provision into higher-cost alternatives creates significant recurrent pressure for local authorities, while the Final Budget 2026–27 provides no identified funding envelope to deliver the policy safely at scale. Decisions taken now risk locking in instability and cost-shunting before the funding, workforce, and delivery implications are properly understood. Without doing so, whoever is in government in May, will start their term with a several hundred million pound black hole. The Welsh public and importantly children deserve better.

What needs to happen now

Pause and review to prevent further harm and risk

Pause additional regulatory or commissioning changes until an independent, time-limited review has assessed system sufficiency, workforce capacity, fiscal impact, and—critically—the lived experience and outcomes of children in care. This pause is necessary to prevent avoidable instability while evidence is properly considered.

Listen to solutions

As part of that review, actively consider widening the range of eligible not-for-profit models to include regulated, mission-locked, investable structures—such as Employee Ownership Trusts, co-operatives, and Community Interest Companies limited by shares. This would protect the policy's intent while reducing capital exposure for local authorities, supporting replacement capacity, and maintaining stability for children during transition.

The Children's Homes Association

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