

New thinking on adoption funding:

Proposals on
the way
forward

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Executive summary

The current adoption system is fragmented, and removing the artificial barriers between different Local Authorities (LAs), Voluntary Adoption Agencies (VAAs), and other stakeholders can help bring lasting improvements. A more integrated adoption system has the potential to improve the speed and quality of matching and adoption support, while generating efficiencies guaranteeing the future sustainability of the system.

Alma Economics carried out an in-depth review of the way the adoption system is funded, with a particular focus on the elements relating to cross-organisational collaboration. Our proposed reforms are consistent with the government's strategy and vision, and can help ensure every child for whom adoption is right is placed quickly and efficiently with the most suitable family, while having access to effective support throughout the adoption process and in the post-adoption period.

Proposed short-term reforms

The inter-agency fee is well understood and trusted by the sector, and it should continue to be the main funding mechanism for inter-agency adoptive placements. That said, a number of reforms should be introduced in the short-term (over the next 1-2 years) to ensure the fee fully supports the government's vision while safeguarding the sustainability of the sector.

- **The level of the fee should be different for different categories of children.** At the

moment, the level of the fee is too low to cover the costs associated with placing harder to place (HTP) children and to provide the necessary incentives for recruiting parents who are willing and able to adopt these children. At the same time, the level of the fee is too high to incentivise the use of inter-agency placements when the child in question is deemed to be relatively less difficult to place.

- **The level of the fee should be determined based on demand and supply, not cost.** Pricing on the basis of cost does not provide the necessary incentives to increase or reduce the supply of parents suitable for different types of children, and as a result there can be too many parents recruited for certain types of children, and too few for other types. Allowing adoption agencies to more than meet their costs when providing parents for children for whom demand is relatively low, i.e. children deemed HTP, will incentivise investment and innovation to meet actual needs, while diverting resources away from recruiting parents for whom there is limited demand – e.g. because they are unwilling to consider adopting HTP children.
- **Central government should consider subsidising the fee,** creating a wedge between the amount paid by the LA placing a child and the amount received by the external agency recruiting the parents. This way, the government can oversee the creation of a more integrated market to meet policy aims – reducing incentives resulting in sequential decision-making in matching¹ while strengthening the incentives of adoption agencies to recruit the type of parents needed

¹ By 'sequential matching' we refer to a Local Authority first considering the pool of approved adopters it has recruited

and if that does not prove to find a successful match, then looking at external agencies.

based on the profile of children put up for adoption.

- **The cash flow profile of the fee needs to be improved.** The current payment structure of the fee places undue financial burden – and increases financial risk – for adoption agencies recruiting parents, jeopardising investment in the sector.
- **There needs to be clarity regarding what the fee pays for.** There is a lack of a common understanding of exactly what the fee pays for – notably with regards to the amount of post-adoption support covered by the fee – creating uncertainty for all stakeholders and hindering effective planning.

In addition to reforming the inter-agency fee, there should be concrete steps to **standardise support (financial and in-kind) to children and parents facing similar circumstances** – providing certainty to parents and increased confidence they will be adequately supported when adopting, and hence increasing their propensity to do so.

Proposed longer-term reforms

In the long-run, ensuring the best outcomes for children and a sustainable, efficient adoption sector requires reforming funding mechanisms to support a fully integrated adoption system. This is possible even while retaining the basic structure of the current adoption system and associated funding streams, but it requires taking steps to fully dismantle the artificial barriers impeding its effective and efficient functioning.

More specifically, it is necessary to:

- **Raise standards in matching practice, and equalise funding for adoption regardless of whether a child is placed internally or**

with a different adoption agency. The same funding, on the same terms, should be made available for both internal and external placements, ensuring the decision on which parents to place the child with is made purely on the basis of what is best for the child in question and is not affected by financial or administrative considerations. To make this possible, it is necessary to institute improved standards in matching practice that are on a par with public sector procurement in other areas, and also to introduce a so-called ‘commissioner/provider’ split in adopter recruitment.

- **Standardise and increase support for parents.** Providing clarity to prospective adopters regarding the support they will receive following adoption can provide confidence to parents. Having access to reliable support – whether financial or in-kind – can significantly increase parents’ willingness to adopt HTP children, especially for parents on average or lower incomes.
- **Introduce parental choice to help drive standards.** Parents currently have very little choice when it comes to adoption-related services, whether this relates to matching (with parents not allowed to switch adoption agencies after approval, even if they have valid complaints) or post-adoption support (where they are not allowed to choose provider or type of services). Introducing choice (and hence the ability to direct funds to higher quality/more efficient providers) has helped drive standards across the public sector in areas as diverse as health and education, and it can have a similar effect if appropriately applied to the adoption sector.

- **Improve information collection and dissemination, and standardise data collection processes.** At the moment, data relating to adoption is only available at an aggregated level, which impedes planning and the smooth functioning of the adoption system in a number of ways. For example, aggregated data does not allow for monitoring the overall adoption system at a sufficiently granular level to identify where there are mismatches between the types of children placed for adoption and parents waiting to adopt, which prevents the effective allocation of funding to address shortages.

Section 1. Introduction

This report aims to provide new thinking on how the adoption system should be funded, together with specific, actionable recommendations on the way forward.

In order to assess different funding options, we first outline some key principles for a well-functioning adoption system. These principles establish the guiding characteristics of an effective funding system. By breaking down the problems of the current system, considering the evidence for alternative options, and assessing them against the principles, we come up with recommendations for funding reform. These options range from minor 'tinkering' with current funding arrangements to wider reform of the system.

The methodology for the findings in the report is based on a combination of desk-based research and discussions with experienced professionals in the adoption sector in England. The starting point for the research was an international literature review which investigated different international arrangements for governments contracting third party organisations to provide adoption services, as well as other financial incentives used to encourage adoptions e.g. financial support to parents (see Annex 2 for more details). Stakeholder engagement formed another important component of our evidence base - we discussed our principles and key reform proposals with representatives from the adoption sector in England.

Structure of the report

Section 1. Introduction – This section sets out the background for the report and describes the

approach taken to collect the evidence underpinning the recommendations.

Section 2. Principles of an effective funding system – This section explains the five principles we believe should guide an effective adoption funding system.

Section 3. Review of the current system – This section includes a discussion of the current inter-agency fee including background, issues with the fee, and an assessment of the fee against the principles. The section then examines some widely held myths about adoption funding.

Sections 4 and 5. Recommendations for funding reform – These sections present our proposals for funding reform broken down into short-term changes which could be implemented relatively quickly (Section 4), and longer-term reforms (Section 5). Each option includes a description, a discussion of the advantages and disadvantages/risks, as well as a high-level feasibility assessment.

Attached to the report are five annexes:

Annex 1. Cost of the adoption system in England – This section includes a summary of existing published research on adoption costs in England. In order to have an idea of the overall sums involved in adoption spending in England, we also map key funding flows from VAAs, LAs and central government. Part of this work involved estimating how much is spent on the inter-agency fee to VAAs.

Annex 2. International literature review – This section includes a review of the international literature in the areas of financial support for adoptive parents, measures to encourage adoption from foster care, and experiences from public-private contracting in the United States.

Annex 3. Services relating to the adoption

process – This section lists the different activities undertaken as part of the adoption process for the child and the adopter. It is useful to have an idea of the services that are being funded. The list is based on Holmes et al. (2016). For each activity, we note whether they are typically performed by an LA and/or a VAA.

Annex 4. Options not recommended – We

considered a number of funding options that were not recommended in the report, e.g. case-by-case payments based on average costs and grant funding. These are briefly discussed in this annex.

Annex 5. Some statistics – The final annex looks

at variations in timings of the adoption process across LAs. Having a large variation in timings is an indicator that costs of the adoption process may also vary significantly within a LA.

Box 1: Flows into the adoption system

A key limitation of the report is that it does not look across all children's services, with its focus being solely on what happens once a child receives a placement order. However, in some cases adoption funding may be a factor contributing to a LAs decision not to place a child for adoption in the first place. Once the decision to proceed with adoption has been made, adoption funding can also affect the matching process. If the current funding system does not sufficiently encourage an efficient matching process, while also disincentivising the use of external organisations (i.e. other LAs or VAAs), it may result in fewer harder to place children being placed quickly, if at all. This report considers the second aspect, that adoption funding affects the matching process, but does not discuss the impacts of adoption funding on the decision to place a child for adoption.

The current quality reporting processes in the sector e.g. the Adoption Scorecard, provide an incentive for LAs to match and place children quickly. While a well-functioning adoption system should place children in a timely manner, it is possible that these measures also affect the decision to place a child for adoption. For example, pressure to have good Scorecard results could affect the decision about which pathway to choose for a child who is likely to take a long time to place for adoption. The extent to which this happens is unknown but the fact remains that the Adoption Scorecard provides a clear incentive in this direction. We believe that some trends in the adoption sector indicate that the decision to place a child for adoption may not always be wholly driven by the best interest of the child. While out of scope of this report, this issue is critical to investigate in future as the decision on whether to place a child for adoption or not should never be affected by financial or administrative considerations.

Box 2: Use of economic language in the report

We have tried to abstain from using technical economics jargon in the report where possible. However, there are a few instances where we talk about the adoption market and supply and demand. This language is used for clarity when talking about price setting.

This report is about funding in the adoption sector. With the sector functioning in its current form, a price is paid by LAs for external agencies recruiting suitable parents for a child. In economics, a market is one process (the most common in our society) by which prices are established. We use the language of economics to describe how prices in the adoption sector can be set more efficiently than the current inter-agency fee. Some explanations of how we use the language of economics are outlined below.

Demand can be used to discuss LA demand for suitable parents or to discuss parents' demand for children with certain characteristics. For example, if on average it takes longer to find a match for children who are registered disabled, that illustrates that there is a higher demand in LAs for prospective adopters willing and able to adopt disabled children. If there are many more approved adopters waiting for a baby under 6 months old than those with other preferences, that shows that prospective parents' demand for very young babies is high. In the price setting context, demand will refer to LAs' demand for parents, as the LA's willingness to pay external organisations for parents they need will be a key factor in setting the price.

Supply can be used to discuss the number of children with placement orders who have not been matched, or approved adopters. In terms of setting the price for parents, supply refers to the number of approved adopters available. The relationship between external agencies' cost and the price is a key factor in determining supply as agencies will be able to recruit different numbers of suitable adopters depending on their costs and the money they receive for each placement (which for VAAs needs to cover all their other costs).

If waiting times for some groups of children e.g. children deemed harder to place, are higher than what is deemed acceptable, then demand for parents willing and able to adopt those children is not being met. If waiting times on average are lower than expected, demand for parents is more than being met.

We understand that adoption is a complicated process where dedicated professionals take great care to consider each prospective parent and child involved to get the best outcome for children in their care. The economics language does not detract from that; it simply allows a discussion about setting the inter-agency fee (which is the price of adoption using external organisations) in a specific and precise manner.

Section 2.

Principles of an effective funding system

In order to provide an assessment of the current funding system for adoption, we have designed a set of principles that we believe would characterise an effective system. These principles will both inform the strategic goals that the system should aim to achieve, as well as provide the yardstick by which different funding options will be assessed and evaluated.

We have developed the principles based on a review of the literature (professional and academic) on funding systems for public services. We have also discussed the principles with key stakeholders.

An effective system for funding adoption should:

1. Incentivise the provision of high-quality placements and services.

This means generating clear signals in terms of current, as well as future, demand and supply. This requires the effective flow of information to ensure resources are focused where it matters, for example around recruiting specific types of parents to cater for children with specific needs by shifting overall resources towards or away from recruitment vis-à-vis other key services (e.g. post-adoption support). Critically, as far as funding is concerned, there are also few (and weak) 'price signals' to guide provision towards the types of parents and types of services needed.

2. Enable children and families to have access to high-quality placements and services.

This requires reducing artificial barriers to accessing placements and services. There are currently many artificial barriers (with the inter-agency fee being the most prominent) to accessing parents recruited by external adoption agencies (other LAs and VAAs). From the point of view of the child or prospective adopters, it should not matter who recruited the prospective parent when it comes to matching with children; the system should be designed in such a way so that there is no bias towards certain parents solely due to how they were recruited.

3. Encourage greater efficiency.

All aspects of adoption services (including parent recruitment, matching and post-adoption support) should be done efficiently i.e. at the lowest cost given the desired high quality of service. A funding system should encourage efficient provision of services. This includes having low costs of administration as well as upholding standards of efficient procurement for services.

4. Create the conditions for sustainability of services.

This principle is related to but is not the same as efficiency. Efficiency, our third principle, is about reducing costs for a given level of service but the sustainability principle is about the life of the wider adoption sector. It is theoretically possible to have agencies in the system who are running efficiently, but are unable to operate sustainably due to the lack of children being placed. Note this principle is not about the survival of every organisation working on adoption, it is broader than that – it is about ensuring that key parts of the adoption sector continue to function. This includes a vibrant, innovative voluntary sector working closely with equally vibrant and innovative LAs.

Sustainability encompasses predictability of cash flows for LAs, VAAs and central government.

Economic theory and empirical evidence in this area are clear: the greater the unpredictability in cash flows and the larger the capital requirements (given that VAAs will often need to have capital to invest with repayment coming later), the lower the quantity/quality of provision, and the higher the overall costs. A system that addresses these issues will ensure both that VAAs have lower costs of operation (increasing quality and quantity of provision) and that they face fewer risks – which will attract further resources to the sector or at least ensure no resources are diverted away from adoption.

5. Provide fairness for children and adopters.

At the moment, there is little in the system guaranteeing basic ‘fairness’ for children and prospective adopters. For example, it is perfectly possible that two essentially identical children in terms of their needs and characteristics could face a very different ‘journey’, with one swiftly matched with a parent and the other waiting for years, and the same can be said of parents. An effective funding system should have in-built features promoting fairer treatment of both children and adopters.

Section 3.

Review of the current system

Adoption in England

LAs are responsible for children in care and are responsible for making decisions about whether a child in care should be placed for adoption. LAs then require court authority to place that child in an adoptive placement, in the form of a placement order granted by the court. These children remain in LA care until they are placed with their new family. Options available to LAs are i) to place children with adopters they have approved themselves, ii) to place children with adopters approved by another LA, or iii) to place children with adopters approved by a VAA.

Both LAs and VAAs recruit, assess and approve prospective adopters. One key difference is that since VAAs do not have children in their care, they can only access children requiring placement through an LA. For more information about the different services related to the adoption process, and which are performed by LAs and/or VAAs, see Annex 3 which is based on the work of Dr. Holmes et al. (2016) at Loughborough University.

The inter-agency fee

To adopt a child in England, a prospective parent must either do so through an adoption agency that is part of a LA or through a Voluntary Adoption Agency.

If placing a child with another LA or a VAA, LAs reimburse the agency that recruited the adopter through the inter-agency fee. The fee is intended to cover the cost of recruiting and assessing prospective adopters, finding matches and providing a basic level of adoption support². Since 2011, the inter-agency fee has been set at £27,000 for one child anywhere in the United Kingdom (with the exception of London, which has an additional 10 percent enrichment). The fee for groups of siblings is tapered (that is, additional children in sibling groups do not get the full £27,000). Before 2013, the fee paid by an LA to another LA was lower than the fee paid to a VAA (or in some cases when the LA was a member of a consortium there was no payment). In 2013, the fees were equalised, which levelled the playing field between VAAs and other LAs. The move was intended to remove the disincentive LAs faced when placing children with the more expensive VAAs (BAAF, 2014).

There is no formal mechanism for agreeing the level and structure of the inter-agency fee. Historically, the fee has been set unilaterally by the Consortium of Voluntary Adoption Agencies (CVAA) on behalf of the VAA sector. However, the agreement in 2013 involved negotiation with several other organisations³ representing LA adoption services, and so it seems likely that any changes to the fee in future will have to be agreed with these organisations as well as CVAA if a level playing field is to be maintained.

According to the British Association for Adoption and Fostering (2014), the fee consists of three equal amounts that cover: 1) the recruitment work up until adoptive parents have been approved, 2) the work the agency does with the parents until the child is placed, and 3) the support provided by the agency

² Internal CVAA reports.

³ These organisations were the Local Government Association (LGA), the Association of Directors of

Children's Services (ADCS) and the Society of Local Authority Chief Executives (SOLACE).

to the family until the adoption order is granted (or one year after the placement, whichever comes sooner). While many players in the sector believe they understand exactly the services for which the fee pays, there is no clear agreement among VAAs and LAs about the precise services that are covered by the fee. For example, some may expect the fee to cover more aspects of post-adoption support than others⁴.

The fee is paid in two parts. The first part, which amounts to £18,000 (£19,800 for London), is paid on placement. The second part, which amounts to £9,000 (£9,900 for London), is notionally paid when the adoption order is made or one year after the placement, whichever is sooner. The second part can be either paid (lump-sum) at the end of a year, or – as is more often the case in practice – in monthly or quarterly instalments. Furthermore, a monthly amount of £750 (£825 for London) is charged when an adoption order has not been granted after one year and the VAA continues to provide placement supervision (BAAF, 2014). For a history of the inter-agency fee see Selwyn et al. (2009).

Issues with the inter-agency fee

While the inter-agency fee has existed in one form or another since 1978, it suffers from a number of issues that mean the adoption sector works less efficiently and effectively than it potentially could. Despite this, there are many who argue that it should remain unchanged, as it provides certainty, is well understood by sector participants and the VAA sector has survived even recent difficult times with the fee.

The VAA sector has received (directly or indirectly) central government funding over the past few years in the form of the Expansion Grant Programme and the Inter-Agency Fee Fund. The £12.5 m Expansion Grant Programme was created to support new VAA activity, and the cash injection allowed VAAs to continue providing services even under adverse circumstances. The Inter-Agency Fee Fund is a policy where central government pays the fee on behalf of LAs for harder to place children. But these are patches, and their time-limited nature means they cannot provide certainty. Even if they were permanent arrangements, they would still be sub-optimal solutions to the issues at hand.

A fixed fee, at whatever level it may be set, cannot be the solution. As it stands the inter-agency fee is a fixed fee to cover a service where activities and costs vary significantly. This has a number of implications:

The fee is too high in some cases and too low in others. While it is never easy to find the right family for a child waiting to be adopted, it is a fact that *on average* children with some characteristics take longer to place. Adoption Leadership Board statistics define the children with any of the following characteristics as harder to place: 5 years or older, black and minority ethnic (BME), disabled or part of a sibling group.

For the more complex cases, which require more services, costs are higher. For example, parents may need intensive training and support pre and post placement or it also may take longer to find suitable parents. For these children, the fee is not high enough – in the sense that the level of the fee

⁴ Note that the processes involved in the adopter's journey (shown in Annex 3) fit with the 3 stages that the inter-agency fee purchases

does not provide sufficient incentives to recruit, train, and support enough suitable parents.

In the past two years, VAAs have been placing more children deemed harder to place and many anecdotally report that the fee, which has not changed since 2011, no longer covers their costs.

At the same time, the fee may be too high to encourage many LAs to decide to use external (VAAs or other LAs) services to find parents for children with characteristics associated with shorter waiting times and a greater number of suitable parents. In those cases, LAs may try to place a child with parents recruited internally even if more suitable parents are available in other adoption agencies, and even if the LA in custody of the child is less efficient than other adoption agencies (whether VAAs or other LAs).

The fee affects the number and characteristics of children LAs choose to place with adopters approved by external adoption agencies. The fee provides financial incentives that affect the behaviour of LAs when they decide which children to place in house, or externally. There will be a range of other factors at play when LA staff make this decision, but during times of constrained LA budgets, the financial incentive is an important one. Some argue that the fact that LAs have continued to use external agencies following every increase in the fee suggests that their decisions are not really affected by the price. However, even though some LAs use external services with a higher fee, it is likely they would use them *more* if the fee was lower for children who are relatively less difficult to place.

In terms of the principles, the fee does not support access to high-quality services for all children and families. It disincentivises LAs making placements with externally approved adopters, potentially leading to delays for children; and could affect parents' choice of provider as some may feel they

have a better chance of getting a quick successful match if they go through a LA who has access to the children.

Over the relatively short-term e.g. around 18 months and under, changing fundamentally ingrained behaviours of staff is difficult. Adoption teams in LAs have their contacts and processes that they follow to get children placed. However, over the longer-term, more fundamental changes to practice norms can occur as behaviours are adapted.

The fee takes little account of required post-adoption support. There is a shared (albeit ill-defined) understanding between VAAs and LAs that the fee is expected to buy some post-placement support until the adoption order is made or 12 months have passed. Historically one sixth of the fee was to be set aside for post-adoption support. Currently VAAs can choose how to split the fee to cover pre and post adoption services. While more flexibility is welcome, taking post-adoption services explicitly into account would be preferable. The Adoption Support Fund (ASF) was launched in May 2015 for all LAs with the aim of funding assessment and therapeutic interventions for adoptive families. However, different LAs take widely differing approaches and use of the fund is inconsistent. For players in the sector for whom the fee makes up the majority of their income, at times of financial constraint, with the fee barely covering costs, and with relatively few children flowing into the system, there is a risk that some spending will have to be reduced. With the fee at current levels, we believe that the area of the adoption process most likely to see spending fall is post-adoption support, since recruitment is core to income generation.

Considering the principles of a good funding system, the fixed fee does allow for the provision of high-quality services which we know many organisations are offering. However, as the current

fee becomes increasingly less able to cover agencies' costs (as they place children with more complex needs whose families need more support, and have to support their on-costs which increase over time as court cases are taking longer), the ability to provide some services may diminish. There is room for improvement when thinking about designing a funding system which incentivises provision of high-quality services in adoption. In the current system where LAs hold the money and make decisions e.g. about spending the Adoption Support Fund, the system does not encourage families to access some VAA services.

The fee has no formal system for uprating.

Inflation is defined as a sustained increase in the general level of prices in an economy. In the UK, inflation is often measured by the 12-month Consumer Price Index (CPI), which has been positive in all but 7 months since January 2011. This means that generally prices have been increasing since January 2011.

It is common for the government to uprate tax thresholds, and pension provisions by inflation which does not currently happen with the inter-agency fee. The fee was last increased in 2011 to its current level of £27,000. If we apply the 12-month inflation rate as measured by CPI to the inter-agency fee of £27,000 in May 2011, the fee would have increased to £29,049 in May 2016, a rise of 8%.

The fee does not currently allow for innovation.

The flexibility of the fee is a theoretical positive design feature in a world where VAAs more than cover their cost and have the spare cash to invest in innovation. However, in today's world where costs are often not covered and VAAs are placing more complex children, any financial headroom provided by the fee to create capacity to invest is increasingly limited, if it exists at all. In the past, temporary grants have supported the VAA

sector in this regard e.g. the Expansion Grant Programme, but there would be more certainty if the standard funding structure allowed the space for innovation, as the fee was originally designed to do.

Its back-loaded feature causes financial issues for VAAs.

The fee is associated with simplicity and certainty, but its back-loaded nature puts a financial strain on VAAs and possibly smaller LAs which is bad for the sustainability of the overall sector.

Myths about the current system

Myth 1: A 'one price fits all' approach to setting the interagency fee can work effectively

The current system implicitly assumes that one price for the inter-agency fee is appropriate for all adoption cases, regardless of the individual characteristics of the child. But a fee that is invariant to child characteristics cannot reduce the inherent LA propensity toward self-placement for less difficult cases and external placement (with VAAs or other LAs) for more difficult cases. This leads to an unsustainable and inefficient equilibrium: children who are less difficult to place are placed internally even if other adoption agencies are more cost-efficient and/or have access to more suitable parents for the child in question, while harder to place children tend to be placed externally in a financially unsustainable way, as the fee is often insufficient to meet the costs incurred by the adoption agency.

Raising the fee across the board would result in fewer children being placed externally – whether with VAAs or other LAs. Furthermore, the children whom LAs choose to send to VAAs would tend to have, on average, a higher prevalence of characteristics for which it proves difficult to find

matches. This, in turn, would increase the cost of finding matches for VAAs, who would eventually require a higher fee to remain financially viable. The result is a vicious circle with increasingly more hard to place children being placed externally, requiring further increases in the fee to allow external adoption agencies to meet their costs. Therefore, a 'one price fits all' fee, at whatever level it may be set, cannot be a sustainable long-term solution.

Myth 2: It is impossible to set a price for children with different characteristics

Many are concerned that it is impossible to predict how much it may cost to place any particular child and provide post-adoption support, and hence having a fixed fee for all children is the only feasible way forward. While it is true that costs are difficult to predict with certainty, we can say with near certainty that placing an older child, or a child with disabilities, carries additional difficulties and additional costs *on average*. We also know that it costs less, on average, to find a placement for a healthy baby. Every child is unique, but certain characteristics have some predictive ability.

Price differentiation based on differences in group averages can be extremely beneficial, and there are plenty of examples around us. People have a range of life expectancies, with some living until fifty years old, and others living to one hundred. But a life insurance company can price its products differently by knowing that, on average, a person forty years old is likely to survive longer than a person that is fifty years old. In doing so it can provide cheaper insurance for everyone.

A similar concept applies to adoption. By having a variable fee that depends on demand and supply conditions for different *categories* of children – e.g.

by charging a higher fee for children who *on average* are harder and more expensive to place – the adoption system would become better at serving the needs of children at a lower overall cost.

Myth 3: The fee should be set at average cost plus a small margin

Estimating the cost of adoption is rife with conceptual difficulties. For example, since children with placement orders have a wide range of characteristics and the ability of prospective adopters to cope with children also differs, it is likely that the cost of each case varies. This implies that the average cost of all placements made in a year is not likely to be an accurate representation of the costs of placing the next child with a placement order⁵. To give another example, while the cost of recruiting, approving, training and supporting any given parent may not vary substantially based on whether the parent is willing to adopt an HTP child or not, the effective cost may still vary by a large margin. This is because an adoption agency will generally be able to find a child for the vast majority of parents willing to adopt HTP children while being unable to find a child for a large proportion of parents unwilling to adopt HTP children.

More fundamentally, even if it was somehow possible to estimate the actual cost of placing any given child, a system that merely covers costs does not create the incentives for expanding supply when there is a shortage of certain types of parents, or for reducing supply when too many parents of a particular type are recruited.

Hence, the fee should be set with a view to incentivise an increased supply of parents of particular types (e.g. willing to take on HTP children) when this is not sufficient to meet the demand in a

⁵ In economics, we say the average cost differs from the marginal cost.

timely manner, while disincentivising the supply of parents when the existing stock exceeds the number of children available. By allowing adoption agencies to more than recoup their costs when supplying parents for whom there is high demand, there is an incentive for them to increase their provision by investing more resources and innovating, while new entrants may also be incentivised to enter the sector. On the other hand, by providing a lower fee in the case of parents for whom there is little demand, there is an incentive for adoption agencies to invest fewer resources in recruiting the types of parents who are unlikely to be matched with a child.

Pricing should also take into account that the market is highly fragmented and heterogeneous: market-wide, aggregated indicators (for example, indicators based on the number of parents or children waiting) are not very informative, and can be outright misleading. There is a need for better disaggregated data in order to set and update prices for different categories of children and parents.

Myth 4: Regional Adoption Agencies (RAAs) will render VAAs redundant

There is some concern in the sector that LAs working more closely together in RAAs will lead to VAAs being pushed out of the adoption sector, especially in a market with a short supply of children flowing into the adoption system. However, while there may be performance improvements expected from RAAs (though we note there is little correlation between the number of approved adopters and match times), there is a lot of room in the system for improving quality e.g. faster and better quality matches. Evidence suggests the adoption market is far from clearing, there is a stockpile of children and approved adopters, and there is room for improvement in the timing of the adoption process. LAs, even operating in RAAs, are unlikely to be able

to achieve market clearing and the desired levels of performance without VAAs.

Myth 5: A system in which LAs combine the roles of commissioner and provider of adoptive placements can work effectively

LAs have all the decision making power about matching since they are responsible for the children in their care. Sometimes aspects of the decision making process can be problematic. For example, many LAs make matching decisions sequentially: first considering the pool of approved adopters it has recruited; then, if a match cannot be found, looking at adopters approved by external agencies. This produces sub-optimal outcomes and makes the process take longer and cost more. In a system where LAs are making the decisions about where children are placed, while also recruiting parents themselves and incurring additional costs for placing children with externally recruited parents (often not considering how the costs compare to their own cost per placement), there will not be efficient matching. Incentives are such that sequential matching is built into the system. The current structure is flawed.

Central government has tried to address the sequential matching problem through regionalisation and temporarily subsidising the inter-agency fee for harder to place children. Central subsidisation can help to move towards a streamlined, integrated adoption market but not in the current proposed programme of the Inter-Agency Fee Fund. Subsidising the inter-agency fee centrally may be the best way to go – but the Department for Education (DfE) pilot suffers from certain deficiencies and is not likely to yield instructive findings regarding the long-term impact of changing how the inter-agency fee is funded.

The main issue is the fact that the Fund is time-bound and relatively short-term. The pilot does not

give sufficient time for LAs to make structural changes. Any adjustments to staff, premises, and norms take time to design and implement – and LAs would only make these if they expect a *permanent* change in the cost of placing children externally. The pilot may well be a success in that LAs may try to clear up a backlog quickly, which is positive, but it will not be informative about what a permanent payment of the fee from DfE would look like.

For a system with correct incentives, it would be necessary to introduce a so-called ‘commissioner/provider split’ in adopter recruitment, separating out the functions of matching decision-making and adopter recruitment within LAs.

Myth 6: The rights of the prospective parents should be an afterthought

Participants in the adoption sector care about the welfare of children and their parents. Many individuals work hard to ensure all who go through the adoption process have a positive experience. However, relative to other countries such as the US, parents looking to adopt in the UK have significantly less power and control over decisions that affect their future.

In the UK, adults seeking to adopt are required to provide extensive information e.g. about their financial situation, their values and motivations, and their preferences for the type of family they want. In return, they get what they are given. This could be a speedy process where they are well informed throughout and end up with the family they aspired to have. However, it could equally be years of waiting on a database after jumping through many hoops to get approved, with no real information provided to them regarding their chances of finding a family. While there is always going to be variation

as every individual is different, in the UK very similar parents can have vastly different experiences.

We believe that giving parents more information and choice will improve the adoption system. Firstly, we know that consumer choice can help drive quality of service provision. While feedback from parents is collected by some adoption agencies, this usually appears in the form of carefully selected quotes on websites, as opposed to full transparent information. Secondly, better rights and information for prospective parents will encourage more to come forward and to stay in the system. Parents should have information about raising children with different histories e.g. those who have experienced various types of traumas at different stages. They should understand the support that will be available if a child display various issues and how long this support lasts e.g. whether support can continue 10 years after placement. Parents would also benefit from information about the provision of support for children with more complex needs. Even with the welcome introduction of the Adoption Support Fund, there is no information about what parents can expect to get, and there may be large discrepancies in service provision across LAs.

Parents could make more informed choices if they were provided with greater information on potential adjustment issues, support services available and comparative data on adoption agencies (i.e. the ability to compare the waiting times and available support from different agencies and LAs in different areas). This would drive up quality of adoption services, pre and post adoption order.

Parents should be aware that there is a transparent objective process that decides matches, which currently is not the case. They should feel like they can be totally honest with social workers about their preferences. Currently some parents may feel they need to strategise when it comes to revealing their

preferences for children, and there may be incentives in place that encourage parents not to be fully open e.g. if parents would prefer one child, but say they are willing to take up to three, their social worker can then only consider sibling groups of 3. The lack of transparency in the matching process allows for this. Parents who are more flexible and reveal their preferences may be more likely to get a child with more complex needs, which is excellent if that is what they want but not if they are nudged into that decision based on incomplete information.

Myth 7: Since every child is different, a completely ad hoc approach is required

Any service dealing with individual children is going to need to consider their specific case details and decisions in adoption such as matching and post-adoption order support are no exception. However, this fact does not imply that there cannot be some standardisation to ensure that similar prospective parents or children have a similar experience in different LAs. At the moment, there are many frameworks in place to attempt to raise standards, such as Ofsted inspections, the Adoption Scorecard, and Independent Review Officers. However, these are not currently effective in preventing a large number of children waiting too long to be adopted, as well as inconsistent decisions making processes and outcomes for children and prospective parents.

It is not optimal to have a completely ad hoc system, especially post-regionalisation when the numbers of children and parents considered by adoption teams is likely to expand. Better information is needed about what works well in adoption. In health and education there is a wealth of evidence about what works for different groups

of children, and we need the same type of research in adoption. With better information, some evidence-based systemisation can occur, to complement individual decision-making.

In order to provide a fairer and therefore more consistent service, increased transparency and accountability is needed. At the moment, there is relatively little accountability to children in the system, especially to those who are not being placed as there is no court oversight to decision making⁶. While we understand each LA is driven by making the best decision for their children and will have their own processes for prioritising cases, since they are not transparent, it is impossible to assess the effectiveness of these policies. Any guiding principles around key decisions such as the matching process need to be transparent and standardised across LAs.

⁶ Children should receive a review every 6 months, which is a long time in the life of a child, but this does not prevent some children falling through the net and not being placed.

Box 3: Current data collection

Funding reforms are dependent on the available data that is collected, as well as what aspects of that data are aggregated, sent to central government and/or published. For example, a funding system with a variable fee based on the child's age requires that data is recorded about the age of children in the adoption system.

In the short-term, it is difficult to put new data collection exercises in place as this may require fairly substantial information technology (IT) procurement, as well as changes in social work practice (in terms of the information recorded and how that is passed on). Therefore, any short-term reforms should seek to operate with existing data systems. In the longer-term, having learned lessons from short-term reforms, new data collection exercises could be conducted if any additional information is needed.

Who collects data and what do they collect

LAs have case file data on individual children including their history and notes from meetings with social workers/foster carers. LAs also have information about the adults who go through the adoption process. More information is available as individuals get further through the process e.g. there is more information on adults who get approved compared to those who just register interest. We know from looking at the Adoption Register that information on parents includes potential parents' marital status, sexuality, age, as well as their preferences for the types of children they are willing to consider adopting. LAs may collect other information about parents e.g. their financial history. VAAs collect similar data on parents as LAs.

How the data is aggregated and by whom

Out of the wealth of data collected, relatively little disaggregated information on children and parents is publicly available, though we understand this is partially due to confidentiality considerations. The main data sources about potential parents and children in the adoption sector are the Adoption Leadership Board quarterly data, annual Looked After Children statistics and the Adoption Scorecard. While useful, these sources do not allow readers to know waiting times for children with different needs e.g. those deemed harder to place. They also do not record the number of harder to place children at any stage in the adoption process.

Section 4.

Recommendations for short-term funding reform

Short-term reform

For the purpose of this report, we define short-term reforms as those which will use the same institutional framework and require relatively little system change.

The inter-agency fee has to be at the heart of any short-term reform. Despite the problems with the fee, it is well understood by LAs and VAAs, it is popular with the sector, it provides certainty (albeit often without covering costs), and importantly it is trusted.

While the inter-agency fee is at the core of short-term reforms, some key characteristics of the fee need to change in order to improve the effectiveness of funding in the adoption system.

Move from a fixed to a variable fee – there are many ways a variable fee could be constructed, from a two-tier system with a higher fee for more complex cases and lower fee for others, to a multi-tiered system with a range of rates set for children with different characteristics. As outlined in Section 3, any variable fee would be an improvement on the fixed fee, and should lead to increased use of external organisations where it is better to do so (i.e. for higher quality matches or faster matches).

Fee should be market driven not cost driven –

The variable fee should be set, not at levels that just cover a VAA's average costs, but at levels that clear the market. This means the prices should be set such that all children with placement orders get placed in reasonable time, where resources are available⁷. Waiting times could be used as a proxy to set the variable fees so that children who wait longer as a group on average e.g. harder to place children, receive a higher fee. Over time with better, more disaggregated information, more refined group averages could be used e.g. a different fee for disabled children and children over 7.

Since the number of children in the adoption system changes over time, the variable fees will need to be updated to reflect the different children in the system. For example, consider a system with many disabled children waiting to be placed and relatively few children under 1, where there is a distinct higher fee for children who are registered as disabled and a lower fee for children under 1. After some time, this may result in all disabled children with placement orders being placed and more children under 1 waiting. The fees could be updated so the fee for disabled children is lowered to account for the change in characteristics of children waiting.

Having a fee that is market driven does *not* mean that prices change constantly. We envisage a system where prices are updated on a regular basis, no more often than annually, and announced in advance so participants can plan (see later in the section for more details).

Any DfE funds for adoption, especially around increasing HTP placements, should be spent on subsidising the fee to LAs. Over the past few years,

⁷ Even this picture is not perfect since there may be children for whom adoption is best who are not granted placement orders e.g. they may be considered too old.

central government has found pots of money to spend on the adoption sector. When it comes to placing HTP children, they have opted to spend this money on ad hoc grants e.g. Expansion Grants and the Inter-Agency Fee Fund. We would argue that a more efficient way of spending this money would be to subsidise LAs in paying the inter-agency fee. It is more efficient to directly subsidise placing children deemed harder to place and the subsidy would make the LA budget go further, as well as provide more stability in the system than time-limited grants. The subsidy could take many forms and be flexible depending on the level of funding available. One example would be any increase in the fee for children deemed harder to place would be paid for by central government so LAs would not face a higher fee for any child (subject to sufficient funds being available). Another option would be for LAs to continue paying a sibling taper, while central government pays VAAs the full fee for each sibling. An additional positive characteristic of a central subsidy of the variable fee is that it allows DfE to influence behaviours. For example, if they want LAs and VAAs to recruit more parents for disabled children, they can increase that fee.

Additional short-term changes

As well as making the inter-agency fee variable, demand-driven and subsidised by central government, there should be increased clarity about what exactly the fee is purchasing, especially around post-adoption support. There was a time when LAs were sent brochures detailing the services covered by the fee, and it would be better for all players in the sector (parents, children, LAs and VAAs) if there was a return to that established understanding.

System requirements

In order to enact this system, there would need to be i) consensus on what the distinct categories for the variable fee would look like, ii) processes agreed around updating the prices regularly including a feedback process to central government (the price setters), and iii) analysis undertaken to set the variable prices.

Recommendations

SR1: Make the inter-agency fee variable based on children's characteristics

How it would work: This reform covers both making the fee variable and changing it from cost-driven to being set to increase placements of children waiting longer on average. The varying levels of the fee will be based on relatively fixed child characteristics that could follow the current Adoption Leadership Board definitions for 'harder to place' (when a child is 5 years or over, BME, disabled, or part of a sibling group). Where a child falls in more than one category, there could be an additional premium paid.

The prices should not be based on costs, but on 'clearing the market' – i.e. providing incentives to increase the supply of parents for types of children where it is needed and reduce it for types where demand is low. This would mean getting as many children as possible placed in a timely manner, given available resources.

Transitioning to the new system will mean that effective adoption agencies are able to more than cover their costs for providing certain types of parents. This feature in itself is not a bad thing, as it would allow efficient agencies to expand their services and/or attract new entrants to the adoption sector.

Advantages: This system should result in more children being placed for adoption more efficiently than under the current system, especially children with characteristics that would have historically meant waiting longer. The price incentives would exist to improve market efficiency by encouraging faster, higher quality placements. This reform supports the principle of efficient matches in the sense that it gives clear signals about current and future demand, since the price could be updated to reflect the characteristics of children waiting to be adopted. The higher prices for harder to place children should support sustainability of the voluntary sector, as well as those LAs/RAAs who find placements for children in different LAs/RAAs. Those who get income from the inter-agency fee and place more complex cases should have the financial space to be able to innovate more compared to current funding arrangements. This system should also promote better access to services since when costs are restricted, some services may need to be stopped or reduced. By paying higher inter-agency fees, HTP children and their families will be more likely to have access to high-quality services they need.

Some are concerned that a higher fee for HTP children would result in fewer HTP placements made. However, we believe that even large increases in the fee paid for HTP children compared to the current fee, would be much lower than the price some LAs are willing to pay for finding suitable parents for children with more complex cases⁸. This is because the price paid would still fall far below the amount it would cost them to either find and train suitable parents, or for any alternative care pathway for those children e.g. long-term fostering.

Disadvantages/risks: A variable fee is more complex than a simple fee and would have higher administration costs—some resources would need to be dedicated to set and review the levels of the fee. There is a possible risk around predictability of cash flows for VAAs and LAs as prices are changed each year. However, this can be mitigated if the mechanism for pricing and review is transparent i.e. the dates for any price change announcements are known in advance and time is provided to plan for the changes. This system also does not totally remove barriers to adopter source neutrality as there is still the incentive for an LA to first try to place a child in their care with one of their own recruited adopters, however it is an improvement on the current system.

Budgetary impact of short-term reform: The variable fee can be structured in such a way so that it has no overall effect on total funding vis-à-vis the current fixed fee. By creating additional efficiencies (for example, by allowing external agencies to provide placements in cases where they are more efficient to do so), it will create overall savings in the system. When the system as a whole is saving from operating more efficiently (i.e. with more suitable parents recruited and quicker matches), then depending on how the fee is structured, the fiscal position of LAs, VAAs and/or central government could be improved. The reform should make the pie bigger so the surplus can be shared among all adoption sector participants. The final list of beneficiaries and the amounts by which they will gain will depend on the design of the fee. See below for an illustrative example of costs. There are other ways for limiting the budgetary impact of the fee while still leading to efficiency gains in the system e.g. by uprating the fee for HTP children but not uprating the fee for children with less complex

⁸ In economics language, it is likely that LAs demand for placing more complex children is likely to be relatively inelastic, that is, not responsive to changes in price.

cases, which should result in more children flowing through to those external agencies who can make placements more efficiently.

Feasibility assessment: The fee is very popular with the sector and provides a bedrock of stability. We understand that there will be concerns about any changes to such an established system. We have heard that sector participants feel that setting a variable fee will be difficult since predicting the cost of placing each individual child is believed to be unrealistic. However, even though it is possible to set a variable cost-based fee, such as those used by insurance and health sectors, the proposed variable fee is not attempting to find a per child cost. The variable fee would not be based on cost at all and would likely be higher than the current fee for HTP children, therefore VAAs and LAs who export parents should be willing to consider the new system. LAs may be understandably concerned about facing a higher cost for certain children, however if this results in HTP children getting placed quicker, they could see cost savings from having children in their care for less time. LAs/RAAs could also benefit from central government subsidies (see next section).

Next steps to implementation: Specific proposals for how the variable fee would be set, including illustrative prices for groups of children with different characteristics on average, would need to be designed. A process for reviewing prices needs to be agreed by all sector participants including the timings of announcements and price changes. To communicate this information and allow LAs and VAAs to express their views, there needs to be a consultation process which allows adequate time for any concerns to be addressed. In addition, a detailed analysis of budgetary impact, depending on different formulations for the fee and subsidy, is required. This would include establishing a range of cost-neutral options.

We believe this project could be implemented over a 12-month period. Suggested timing includes:

- initial price design project – 3 months,
- initial process agreement (concurrent to initial price design project) – 2 months,
- consultation document drawn up – 1 month,
- consultation open – 3 months (including meetings to bring sector players together to discuss final price design project – 2 months),
- final process agreement (concurrent to final price design project) – 2 months.

SR2: Central government should subsidise the inter-agency fee

How it would work: Depending on the level of funds available from central government, they should design a subsidy of the variable inter-agency fee which is given to LAs and/or VAAs that explicitly allows for the government's adoption goals to be met in a direct, targeted manner. For example, in recent years the government has spent over £12 million on Expansion Grants with the aim of increasing placements of HTP children and has now allocated £30 million to pay the inter-agency fee on behalf of LAs placing HTP children with external agencies. These policies suggest an objective of increasing placements of HTP children. A subsidy could be designed to pay LAs and/or VAAs the additional fee for HTP children. Under this system, LAs would pay the same, possibly lower than currently, inter-agency fee for all children placed, but the government would top that up for different categories of harder to place children. This could be done in a number of ways depending on government objectives. For example, if there was an aim to increase placements of disabled children, they could subsidise the fee for disabled children more, relative to other subsidies.

There may be cash flow problems if the subsidy is received at the end of each financial year, after the activity has taken place. To ease any liquidity issues, the subsidy could be paid in full at placement or even in advance (for example, it could be based on the number of placements carried out in the previous year and reconciled at the end of each financial year). We recognise that this is more administratively complex but believe the advantages make it worthwhile.

Advantages: The subsidy system allows the government to directly target its aims for the adoption sector. It is also incredibly flexible, meaning if the government changed its aims, for example to reflect changes in the system, the subsidy could be updated to reflect those changes (though frequent changes will be bad for predictability). A central government subsidy allows existing LA funds to go further and should therefore lead to more placements. The subsidy should contribute to the provision of high-quality services and matches as it supports generating clear signals about the children waiting to be placed and the parents needed. By providing higher fees to those placing HTP children, it should also contribute to increased access to quality services. More efficient providers should be able to make more placements, therefore the reforms support efficient provision. It allows organisations who place HTP children to get the additional income that they need to continue to operate. The subsidy gives no advantage to larger operators.

Disadvantages/risks: The trade-off with increased flexibility is reduced certainty. Cash flows become less predictable if government regularly changes the level of the subsidy. If the subsidy is updated at predetermined, regular intervals (for example annually in April), it would limit the uncertainty in the sector.

Budgetary impact: The budgetary impact for LAs and VAAs will be positive. LAs will receive cash from central government which should allow them to make more placements, therefore reducing the cost of their adoption services (if the subsidy means they face a lower fee compared to the counterfactual). VAAs who specialise in placing HTP children will receive a higher fee for the children they place, therefore gaining financially. In terms of the budgetary impact on central government, the flexibility of the subsidy system extends to the overall level of expenditure allocated to the subsidy. As discussed previously, their current approach of ad hoc grants is not the most efficient way of addressing their policy goals. See the end of this sub-section for an illustrative cost example.

Feasibility assessment: Based on our conversations, the principle of a subsidy would be welcome by LAs making placements for other LAs and VAAs. There are many ways the subsidy could be designed depending on objectives e.g. if government wanted to increase sibling placements, it could pay a subsidy to organisations who place sibling groups such that they receive the same fee for each sibling in a group while LAs pay the reduced amount for each sibling (not including the first child), as they currently do.

Next steps to implementation: Specific proposals are required for the design of the subsidy, and there needs to be an agreed process for updating the subsidy in a manner that reduces financial uncertainty. The DfE could consult with sector participants about ideas for the subsidy. In addition, a detailed analysis of the budgetary impact of the subsidy is required.

SR3: Improve the cash flow profile of the inter-agency fee

How it would work: Organisations working in adoption can struggle with cash flow, especially

those for whom the fee is their main source of income, as they do not receive any payment of the fee until placement. Placement occurs after they have incurred many costs, for example recruiting prospective adopters, running the approval process, and providing support.

Earlier cash injections will therefore incentivise investment in recruiting parents so on balance the reform should help the whole sector.

Any upfront payment system requires dealing with the uncertainty that activity may not happen, that is, parents recruited may never have children placed with them. One design used elsewhere is pre-purchasing payments. LAs/RAAs can pre-purchase a number of placements from VAAs at the start of each financial year, based on their historic placement numbers and information about the current year.

We also propose that the inter-agency fee be split into 3 stages, so that the first third is paid up front (for example, at the start of the financial year via a zero percent loan which can be clawed back if activity does not happen), the second third is paid on placement (instead of the current two thirds) and the final third is paid 12 months later or when the adoption order is finalised. In calculating how many fees to pay up front, central government could look at the average placements made by VAAs over the last 3 years. We do not suggest extending this system to LAs who make placements, since LAs tend to be larger organisations who have proportionately more income generated from outside the inter-agency fee.

Advantages: This aspect of short-term funding reform is designed to improve the sustainability of the VAA sector. It does not affect other principles.

Disadvantages/risks: This option does add complexity to the system, in the sense that

contracts will be required to deal with pre-purchases and resources will be needed to consolidate any financial accounts each year to ensure correct payment. There may be individual organisations who do not make the placements required and have to return money which can be difficult, especially for small organisations. However, with proper planning to minimise the risk of VAAs overpromising, we feel the additional complexity is worthwhile given the cash flow benefits.

We have heard that pre-purchases can also affect incentives to match. For example, if a LA has pre-purchased 10 placements from an external organisation, they may select a match with that agency, even though a better quality match is available from a different agency.

Budgetary impact: This component of the reform should be revenue neutral.

Feasibility assessment: Upfront payments are something many people in the sector want to see happen, therefore there should be no real resistance to the proposed change (with the exception of pre-purchases where there is concern about distorting incentives). Designing the detail of the reform should be included in the consultation.

Next steps to implementation: In consultation with VAA and LA finance teams, CVAA should come up with proposals for incorporating an upfront element to the inter-agency fee, ensuring any options for pre-purchases avoid perverse incentives.

SR4: Clarify what the inter-agency fee pays for

How it would work: Discussions with people in the adoption system revealed that there is some disagreement about precisely what the inter-agency fee pays for, especially around post-

adoption support. While the VAAs we spoke to agreed that 'low-level' post-adoption support was included, there was little understanding about precisely what this meant. Uncertainty about services may lead some risk averse individuals to buy less of a service, especially when they know that they can deliver it themselves. It could also leave children and their parents missing out on important post-adoption support that LAs believe is being funded, but in fact is not. Another possible outcome of the current system is that VAAs are funding post-adoption support services, that LAs believe the fee is purchasing, but they are actually using non-fee income which is likely to be unsustainable.

The CVAA should produce specific guidance about what services the inter-agency fee is expected to pay for, which they have done in the past. This should be agreed on by VAAs and all Directors of Children's Services (DCSs). Once the guidance is agreed, the CVAA should circulate a brochure to all adoption teams in LAs/RAAs.

Advantages: Increased standardisation of the types of services that are included in the fee should improve the provision of and access to high-quality services. Standardisation also supports the principle of fairness to children and their families, who will have more certainty about what they can expect before any formal assessment for the Adoption Support Fund.

Disadvantages/risks: There will be a small cost in developing the materials around this process.

Budgetary impact: There should be minimal budgetary impact for this measure. Though, in some cases, it may result in LAs paying for some post-adoption support they previously believed was included in the inter-agency fee but was not being provided.

Feasibility assessment: The stakeholders we spoke to all agreed that more certainty around what the fee was purchasing would be helpful.

Next steps to implementation: The CVAA should start discussions with VAAs and DCSs and produce and disseminate a brochure outlining what the inter-agency fee purchases.

SR5: Standardise support to parents facing similar circumstances and make information transparent

How it would work: There appears to be relatively little information available up front for prospective adopters about post-adoption support. While the services to which a family is entitled will rightly depend on the specific needs of each child and their parents, there should be clear information about the services they may be eligible for based on their circumstances. For example, if you adopt a child who presents with x needs, you can expect to get y types of services. Holmes et al. (2013) found most parents request post-adoption support assessments once their family had already reached crisis point. This indicates that they may not be asking for support at the most appropriate time. Better upfront information may encourage parents to seek support earlier. Their survey of LAs also found that there was a variation in service provision across responding LAs (for example, only 13 of the 22 LAs offered short break services). Services should always be tailored to specific families' needs but the system should be designed so that there cannot be large differences in provision for families with similar circumstances in different parts of the country. There should also be standardisation of services available from the Adoption Support Fund so that families with similar circumstances can expect the same services. One way to support these goals is to increase transparency about services, for example by publishing more specific information about services delivered in each area. Currently the Adoption Support Fund information

describes how many families have been supported. There is no information available to allow comparisons across LAs.

Having access to information about expected support may significantly affect the confidence of prospective adopters, and therefore their behaviour. For example, it may change the decision whether to go through the process or not, or it may affect their choices about the characteristics of children they feel they are able to raise.

Advantages: This reform should improve access to services, therefore increase fairness for children and their families. Over time, it should lead to better services for some families compared to what they would have received without the reform, therefore contributing to the sustainability of the sector. Better equipped parents and better supported children should minimise disruptions and other problems, which would be good for the adoption sector as a whole.

Disadvantages/risks: This reform will have a low administrative cost as it relies on existing data collection mechanisms. The information that should be disclosed is already collected by LAs. All that will be required is publishing the information in a non-disclosive manner that protects privacy, which can be done with rounding and by not displaying low numbers (as happens with other published adoption statistics).

Budgetary impact: One consequence of this reform may be an increase in access to post-adoption support services, which could increase LA costs. But if families are deemed to require these services, it is right that they should be provided. However, if certain types of services are increased, there may be opportunities for economies of scale for the providers of those services.

Feasibility assessment: We realise that post-adoption support is a complex area and children often present with a range of issues. It is important to consult experts about progressing this part of the short-term reform. There are further complications around the delivery of post-adoption support, both assessments and service provision, in the sense that LAs differ widely in how their teams are structured and how much of the services are delivered internally (though this may all be changing as they move to RAAs). However, these complications are not insurmountable—they only imply that there needs to be sufficient time for planning.

Next steps to implementation: It is important to gain an understanding of post-adoption support provision to identify any regional variability through a national survey. In addition, consultation with practitioners will be required to develop objective criteria for accessing the range of available support services. Further data should be collected and statistics published about post-adoption support provision.

Box 4: Illustrative budgetary impact of short-term reforms

To illustrate the range of costs potentially associated with the short-term reforms we use an illustrative example. For context, we estimate that £15.5 million was spent on paying the inter-agency fee to VAAs in 2014-15, based on the number of placements and adoption orders in that year. For further information about costs of the adoption system, including how this estimate was calculated, see Annex 1.

We assume that placement orders and adoption numbers are the same in 2016-17 as they were in 2014-15 (the latest year for which we have a full year of data available). We also assume that the proportion of London placements is the same as in 2014-15. We assume that the percentage of harder to place children placed by VAAs is 60%, based on the average percentage of HTP placements made by Expansion Grant recipients in 2014-15.

We set a 2-step variable fee which is unchanged for less complex children, and increased by 20% for HTP children. We assume that central government pays a subsidy to LAs to cover the higher fee for HTP children, so LAs pay the same fee for all children placed by VAAs.

Under these circumstances, total spending on the inter-agency fee to VAAs is £17.2 million—an increase of almost £2 million. LAs spend the same money as they did in 2014-15, with central government paying the subsidy of under £1.8 million. To put that spending in context, it represents less than 15% of expenditure on the Expansion Grant programme.

Over time, this policy should lead to LAs choosing to place more children deemed harder to place with VAAs. If 100% of VAA placements involved HTP children, the subsidy would cost around £3 million. If the government spent the £30 million earmarked for the Inter-Agency Fee Fund on a subsidy, it would cover all VAA placements made in that year and have £11.5 million left over.

Section 5.

Recommendations for longer-term funding reform

Longer-term reforms

Characteristics of the long-term adoption system

Over the longer-term we would expect to see more substantial improvements to the functioning of the entire adoption system, and it is important that any changes to the funding system support a more efficient and effective adoption sector.

Long-term reforms should bring about our vision for the adoption sector where the principles outlined in Section 2 are met. Achieving an adoption sector with these qualities will take time to implement as it requires system-wide changes.

To make the system fairer for children and prospective parents, there needs to be more standardisation in processes so everyone is clear about how decisions are made in each part of the adoption process (since there is already standardisation regarding approving adopters, this refers to matching and post-adoption support), what the process involves and what exactly is being paid for. Some specifics are mentioned below:

- **Standardise the matching process** to make it more objective, and truly get rid of sequential matching.
- **Standardise how information is collected** about parents and children so the system can be more transparent, with local comparisons being straightforward across LAs and VAAs.
- **Standardise the post-adoption support services** that people in similar circumstances are entitled to.

In the long-term, there should be an integrated database of children and approved adopters to reduce matching costs and allow the consideration of matches across the field. This recommendation would meet the principles of fairness and ensure optimal matches across the board. The database could be secure, offline and only accessible to certain staff in the adoption sector.

LAs need to be accountable in their decision making, specifically regarding matching. One can view LAs purchasing placements from other LAs and VAAs as a type of public sector procurement. When undertaking public sector procurement there are specific standards in place about how decisions to spend funds are made. Principles, enshrined in law, are attached to purchases such as non-discrimination, equality of treatment and transparency (Crown Commercial Service, 2016). LAs using external organisations to recruit parents to adopt is a form of public sector procurement. Bringing LAs in line with public sector procurement standards in adoption, would likely lead to an improvement in outcomes in the sector.

The system would also benefit greatly by giving parents better information (e.g. about waiting times and post-adoption support services) and more choice about providers and services.

The better use of data can also help extend power to parents and the sector more widely. If there is more information about the range of children waiting for matches, recruiters can aim to do more child-specific recruitment.

All these changes should allow a well-functioning, integrated market to emerge.

Recommendations

LR1: Raise standards in matching practice

How it would work: None of the short-term reforms change incentives in the system to achieve adopter source neutrality (making sure that parents recruited by external organisations—be they VAAs or other LAs—are treated equally to parents recruited by the LA caring for a child in question). In the longer-term, the system for assessing suitable parents needs to have higher standards, similar to those in other areas of public sector procurement. This is particularly relevant since considering a wider pool of parents at the start is better for the child than sequential matching and the LA is using public funds to purchase these parents. The aim should be for an integrated national pool of parents where objective criteria are used to create a short list. Some argue that social workers do not have time to consider large numbers of potential applicants. However, with changes to working practice, this is possible using technology. There are many examples of sensitive policy areas where defining quality is difficult and expert judgement is important. However, the opinions of informed experts can sit alongside objective criteria (e.g. health practice, a doctor will make a judgement about treatment but there is objective NICE guidance around the options available) so we can do the same with adoption.

Advantages: Good public sector procurement is about spending public funds in a way that is transparent and guarantees value for money. Non-sequential matching should reduce time taken in many cases, and considering a wider pool of prospective parents will improve the quality of matches.

Disadvantages/risks: Any change to social work practice can be expected to take time to implement, and is likely to be met with resistance.

There is a risk that some members of the workforce will leave—they are already facing adverse circumstances with austerity and uncertainty from the formation of RAAs. To minimise the risks of losing valuable expertise, reforms should be designed alongside detailed consultation with the sector.

Budgetary impact of reform: There are likely to be set-up costs with implementing a new system. However, once the system is in place, the running costs are expected to be lower than they are at the moment.

LR2: Standardise and increase support for parents

How it would work: Any support pre or post adoption order should be child-specific and depend on the needs of the family. Support should be means-tested so public funds are targeted effectively. There should be more information available to prospective adopters so that they have clarity and increased certainty about what services they can expect. This may incentivise adoptions for children with relatively more complex needs. By raising the provision of support and the levels of funding available, over time social workers may consider adoption as a viable permanent option for more children, especially older children. This would enable them to enjoy the love and support of a family for the rest of their lives, rather than the alternatives.

Advantages: This reform is about increased public funds going towards adoption support, as well as improved information and consistency. It should increase the provision and access of high-quality services and it is important for fairness of parents and children.

Disadvantages/risks: Means testing support is administratively more complex, though LAs already collect information on prospective adopters’

financial circumstances so it should not be too costly.

Budgetary impact of reform: This reform will impose a cost on the Exchequer. There would need to be a budgetary impact assessment to estimate the value of the increase. It would be sensible if this assessment followed a review of current adoption services e.g. the Adoption Support Fund.

LR3: Allow parental choice for services

How it would work: On the advice of experts in LAs/VAs, parents should be allowed to have more of a say about the adoption services they are offered. We note that many adopters work well with their social workers and they have a trusting, confident, and honest relationship. However, this is not true for everyone. We also know that there is relatively little choice for parents in the UK relative to the US. There are a range of options for delivering this, for example, tax credits or vouchers to adoptive parents which allows them to purchase services. Prospective adopters currently do have a choice in which provider they use to register, but we have heard that some feel they need to register with the LA to increase their chances of getting matched. The system should allow parents to switch between adoption service providers, for example, changing agencies dealing with their approval if they have a valid complaint. There should also be an independent ombudsman where they can complain if they are unhappy with a service.

Advantages: This reform supports the provision of and access to better services. It also helps guide funding for services to the most effective providers.

Disadvantages/risks: Having parents switch agencies will be bad for sustainability as the predictability of cash flows may fall, however those

who provide a quality service will not experience these risks.

Budgetary impact of reform: This reform could be designed in a way that is revenue neutral for the adoption system as a whole, but it is likely to result in those agencies with worse service attracting fewer parents and losing income.

LR4: Improve information collection and standardise

How it would work: Better, more disaggregated information is required to support longer-term reforms that will lead to a system that meets the principles we set out at the start of this report. While the short-term reforms can be achieved with the current data available, more radical reforms can happen with better data. We have mentioned throughout the recommendations where changes to publically available information is required. Once a set of reforms has been agreed, a data requirements project will need to consider: (i) what additional information needs to be collected (if any); (ii) what supplementary information needs to be sent to central government, and (iii) what information is published. Much information is already collected so we believe the key issue will be about providing more disaggregated information centrally for analysis (and there can be additional discussions about what is published). Any published information will have to consider data security procedures to ensure that no child or prospective adopter can be identified from the data, as happens with other published adoption data.

Advantages: The adoption system is predicated on different organisations working together. Any standardisation of information that allows for bulk processes and assessments will allow improved collaboration, bring down costs and increase effectiveness.

Disadvantages/risks: Any changes to data reporting and publishing must be done in a manner that minimises the burden on adoption teams.

Budgetary impact of reform: There may be set-up costs to establishing better data availability.

For a list of alternative funding options considered and an explanation about why we do not recommend these options, see Annex 4.

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Annex 1.

Cost of the adoption system in England

In order to put adoption funding into perspective i.e. to have an understanding about the magnitude of spending flows around the adoption system, we will summarise the existing published research about adoption costs in England. We also estimate how much is spent on the inter-agency fee to VAAs. While we do not believe the costs of adoption should be used in setting the fee, it is useful to have an idea of the overall sums involved in adoption spending in England, as well as an understanding of the funding flows between LAs, VAAs and central government. The final reason we include an analysis of the costs of adoption in England is to put the overall expenditure on the inter-agency fee in the context of other adoption spending.

Selwyn et al. 2009

A key study about adoption costs in England is Selwyn et al. (2009). The two central contributions of the report are its estimates regarding overhead/indirect costs and the average cost per adoption for LAs and VAAs.

In order to estimate overhead costs, the study obtained the financial accounts of seven LAs and ten VAAs. However, no London boroughs were included in the sample. The overhead costs explored included premises (e.g. maintenance, power, lighting, rental costs etc.), running costs (e.g. central services, IT, HQ management and expenditures of the day-to-day running of the office) and indirect payroll (cost of managers and

administrators and the cost for the time not spent directly on casework by social workers). The study presented the following findings: (i) for LAs overheads accounted for approximately 43% of total expenditure (where adoption allowances, inter-agency fees and all other payments to adopters are excluded) and for VAAs overheads accounted for approximately 39% of total expenditure; and (ii) when overheads were calculated as a percentage of total payroll costs, the proportion was approximately 66% for LAs and 56% for VAAs.

To calculate the average cost per adoption for LAs and VAAs, a different sample was used. The sample consisted of eight LAs and ten VAAs. The method used to obtain the calculations is described below:

VAAs - First the authors calculated the average number of full-time equivalent employees (FTEs), the average payroll cost per FTE and the average overhead cost per FTE. Then, based on the author's analysis, the overhead costs were adjusted to account for 43% of payroll costs. Next, the average payroll cost and average overhead cost were added and multiplied by the average number of FTE. In this way, it was calculated that the overall costs for a standard VAA was approximately £1,115,00. Given that on average VAAs facilitated around 30 adoptions per year, the estimated cost per adoption for a standard VAA was £36,905.

LAs – Similar to VAAs, the authors calculated the average FTE and average payroll cost per FTE for LAs. Looking at the financial accounts, the authors found that the average overhead costs were about 43% of the payroll costs. This value was used to determine the average overhead cost per FTE. Next, after the average overhead cost per FTE was calculated, it was added to the average payroll cost per FTE and then this sum was multiplied by the average number of FTE. In order to get an estimate

of the average cost per adoption, the authors also added the average inter-agency fee paid by a standard LA. Consequently, the overall adoption cost for a standard LA was estimated to be approximately £1,084,000. Given that on average LAs arranged around 33 adoptions each year, the estimated cost per adoption was approximately £33,099.

The authors note that the above result is based on an average inter-agency fee payment of £23,200. However, the actual cost as shown above was £36,905. Thus, they adjust the inter-agency fee payments based on the real costs and apply this adjustment to the LA costs to get an estimated average cost per adoption for a LA of £35,340.

It is worth highlighting that the Selwyn study had several issues, including:

- the sample was a convenience sample;
- there is limited published data on which comparisons can be made;
- calculations were based on the available evidence and estimations were made where data were missing;
- the financial data only covered one year and may have been subject to particular circumstances which would have introduced error; and
- the financial data supplied by the VAAs was not interrogated by a suitably qualified financial expert.

Uprating Selwyn's figures to 2016 using the Consumer Price Index, **the cost per adoption would be £42,903 for VAAs and £41,084 for LAs.**

Personal Social Services Research Unit (PSSRU) 2015

The PSSRU's report *Unit Costs of Health and Social Care 2015* provides an insight into the average unit cost of adoption. The report examines data collated from a range of sources, including Dance et al. (2008), Bonin et al. (2013), Neil et al. (2010), and Sharac et al. (2011).

Dance et al. (2008) explores some of the costs associated to steps in the adoption process. A questionnaire completed by 74 LAs and 16 VAAs revealed the following results: (i) on average, a child's assessment took 55 social work hours to complete over a 4-month period at a cost of £2,500; (ii) completing the assessment form for prospective adoptive parents took 64 social work hours over 6 months at a cost of £2,200; (iii) preparing a child's profile took 6 hours to complete and costed on average £147; and, (iv) talking to children, families and professionals as part of the linking process took 3.5 days and costed £1,200. Thus, Dance et. al (2008) estimates that the average cost of these four processes is £6,100. PSSRU (2015) estimates that the uprated cost from 2007/08 would be approximately £6,600.

In Bonin et al. (2013), the authors present information about the costs of post-adoption services and financial support used over a six-month period. The study is based on data obtained from 19 adoptive families, six months after a child had been placed with them. The average total cost for post-adoption services over a 6-month period, as uprated by the PSSRU, was estimated to be £3,065, comprising of £2,415 in adoption support and social care, £524 in health care, £11 in education support and £115 in specialist services. The average cost for the financial support (e.g. adoption allowances, settling-in grants, reimbursed expenses over the introductory period, benefits and

tax credits) over a 6-month period was estimated to be £4,282 (PSSRU 2015, pp. 93).

Sharac et al. (2011) reported that for parents that adopt children with severe behavioural difficulties, adoption support costs over an average of 12 months from placement were around £3,348 (as uprated by PSSRU). In complex cases where agencies maintained direct contact with families, Neil et al. (2010) found that the average family used support services 12 times a year at an average total cost of £1,115.

It is important to note that often averages hide substantial variation across individual cases. Looking at the data from the ALB for the first two quarters of 2015-2016, it is evident that there is variation in the average time LAs take for different stages of the adoption process. The average number of days between a child entering care and being placed in England in the first two quarters of 2015-2016 was 529 days, over 1 year and 5 months. The range between the fastest and the slowest LAs was 730 days, meaning the slowest LA took around 2 years longer on average than the fastest one. In terms of the average number of days between an LA receiving a court authority to place a child and the LA deciding on a match, the average number of days for England is 291 days, around 9 and a half months. In this case, the range in the data is under 674 days, which is around 1 year and 10 months⁹. Some VAAs have expressed concern regarding the decline in timeliness for adoption processes, particularly due to increased court delays, and noted the impact it has had on their operating costs.

Alma Economics

Extrapolating our own existing research on adoption costs shows that in England in 2015/16 the total costs of adoption services was around £1 billion. When indirect costs such as HR, IT, premises etc. are excluded, the costs of adoption in England in 2015/16 was around £500 million. This gives an average cost per adoption, excluding indirect costs of around £89,000.

⁹ See Annex 5 for more detailed analysis of variation in timings across LAs.

2015-16

Central Government

DfE paid VAAs around £6 million a year during the Expansion Grant Programme 2014 - 16

DfE pay LAs a grant to cover the inter-agency fee payments for some HTP children - £30 million

Voluntary Adoption Agencies

Voluntary donations £4.5 million (own calculations)
Fundraising income £2 million (own calculations)

Local Authorities

Staff costs £115 million
Non-staff costs excluding indirect payments £195 million
Additional payments £188 million
Total around £500 million

LAs pay VAAs around £12-15 million a year through the inter-agency fee. LAs commission VAAs to provide other services e.g. around post-adoption support

Estimating LA spending on the inter-agency fee to VAAs

We tried to get a rough estimate of the income that VAAs earned from the inter-agency fee in 2014-2015 and in the first two quarters of 2015-2016. These calculations are based on the assumption that VAAs got two thirds of the inter-agency fee on placement and the remaining one third when the adoption order is granted.

From the ALB quarterly data for 2014-2015 and the first two quarters of 2015-2016, we found the number of adoptive families with children placed with them (560 for 2014/2015 and 60 for the first two quarters of 2015/2016) and the number of

adoption orders granted (530 for 2014/2015 and 50 for the first two quarters of 2015/2016) for all VAAs in England.

Next, we adjusted for the London weighting. We assumed that the following ten VAAs operate in London: Action for Children, Adoption Plus, Barnardo's, Coram, Family Futures, Intercountry Adoption Centre, PACT, SSAFA, and TACT. We use the number of placements and adoptions orders corresponding to those VAAs to calculate a London weighting.

Finally, taking into account the fact that the inter-agency fee (£27,000) is 10% higher for London, we used the following formula to get our estimate: $0.66 * [£27,000 * (\text{number of adoptive families with}$

children placed with them, excluding London) + £29,700*(number of adoptive families with children placed with them in London)] + 0.33*[£27,000*(number of adoption orders granted, excluding London) + 0.66*[£29,700*(number of adoptions orders granted in London)]]. Using this method, **for 2014-2015 we estimate that around £15.5 million was spent on the inter-agency fee to VAAs**, while for the first two quarters of 2015-2016 we estimate around £6.3 million was spent on the inter-agency fee to VAAs.

While the inter-agency fee figure is small relative to other VAA funding sources, as noted in the report completed by ESRO for CVAA, “Agencies [VAAs] depend on this fee to varying degrees: some agencies rely heavily on the fee whilst others are ‘topping up’ by offering adoption support services or subsidising adoption through funding from their wider organisation for example (Rowe et al., 2015).”

Annex 2. International literature review

We present a short literature review related to adoption funding in different countries. The section begins by presenting some options for financial support for the prospective adoptive parents. Next there is a description of various government measures aiming to increase adoption numbers. Finally, we summarise the US experience of public-private contracting and highlight the main payment methods that have been used.

Financial support for adoptive parents

In many countries, prospective adoptive parents can get financial support to cover their adoption expenses. An Adoption Tax Credit, which is a tax credit given to adoptive parents (e.g. in the US and Canada) is one way prospective parents can cover their adoption costs. In the US, for adoptions finalised in 2015, there was a federal Adoption Tax Credit of up to \$13,400 (approximately equivalent to £ 10,080). The Adoption Tax Credit is intended to cover qualified adoption expenses such as: adoption fees, court costs, attorney fees etc. An additional characteristic of the tax credit is that it has a five-year carry over period. If the credit is more than the tax owed, then the unused credit can be carried forward. This can be done for up to five years or until the credit has been fully used, whichever comes first. For children deemed “special needs”, adoptive parents can benefit from the maximum amount of the credit regardless of expenses. In addition to the federal Adoption Tax Credit, many states also offer adoption tax credits.

Besides tax credits, adoptive parents can seek support from other sources. For example, about 25% of the companies in USA offer some adoption benefits to their employees. These benefits can include repayment of adoption expenses and paid leave in addition to vacation days/sick days.

In the UK, an adoptive parent can be eligible for statutory adoption leave (up to 52 weeks) or/and statutory adoption pay (up to 39 weeks). The latter is equal to 90% of the person’s salary for the first 6 weeks. For the remaining 33 weeks, the parent is paid £139.58 a week or 90% of their gross average weekly earnings, whichever is lower.

Adoptive parents can also be eligible for support through adoption allowances or adoption grants. In Switzerland, some states provide adoption allowances. In Geneva, for instance, the allowance is paid to the adoptive mother or father provided that some criteria are met. The adoption allowance is paid as a daily allowance and it amounts to 80% of the person’s income before the allowance. The allowance cannot exceed CHF329.60 per day (approximately £ 254.13) and there is a minimum level of CHF62.00 (approximately £ 47.79). In France, an adoptive parent can be eligible for an adoption premium (€1846.15 per child) or a monthly allowance, known as Basic Allowance (€184.62 or €92.31 depending on the parents’ resources).

In some countries, such as Sweden or Finland, adoptive parents can get a grant for an international adoption. For example, in Finland, persons that adopt a child from abroad can claim an adoption grant from Kela (the Social Insurance Institution of Finland) to cover some of the adoption expenses. The amount of the adoption grant depends on the child’s country of origin: Estonia (€1,900), South Africa, China, Kenya and Colombia (€4,500), The Philippines, Ethiopia and Russia (€3,800) and other countries (€3,000).

Finally, parents can get financial help from different agencies and organisations. In the US, support is available through organisations such as: (i) The National Adoption Foundation which has helped over 6,000 adoptive families with financial assistance from grants, loans and other programs since 1993; (ii) America's Christian Credit Union which offers loans up to \$50,000 for families that want to adopt domestically or internationally for terms up to 60 months at competitive interest rates; and (iii) A Child's Desire which offers grants to parents and non-profit agencies that adopt harder to place children including children over the age of eight.

Measures to encourage adoption from foster care

Besides taking measures that encourage parents to adopt, the US government has tried to incentivise an increase in the number of adoptions from foster care. In this regard, the "Adoption and Safe Families Act" (1997) is important. The law has shortened the time frame for a child's first permanency hearing, set new requirements for States to petition for termination of parental rights and offered monetary incentives to states to increase adoptions from foster care. Incentive payments may include states receiving a bonus payment for each child if it has approved more adoptions than a given baseline number. For example, states got \$4,000 (about £4,003 in 2015¹⁰) for each adoption from foster care above a foster care adoption baseline plus an additional \$2,000 (about £2,002 in 2015) for a total of \$6,000 (about £6,005) for each additional adoption above the special needs adoption baseline.

The incentive payment program has since been updated in statute (e.g. "Adoption Promoting Act", 2003, "Fostering Connections to Success and Increasing Adoption Act", 2008). Each update has made some changes, e.g. the categories for which awards can be earned, the "baseline" used and/or individual incentive award rate (Stoltzfus, 2013).

Most recently, the Adoption Incentive Payments Program was revised in 2014 to the "Preventing Sex Trafficking and Strengthening Families Act". The program was renamed to the "Adoption and Legal Guardianship Incentive Payments" program and recognised improved performance both in adoption and legal guardianship of children in foster care. States can earn incentive payments in four categories which are described below.

For the fiscal years (FY) 2013-2015, the states could get an incentive equal to: (i) \$5,000 (approximately £3,749.57) for each foster child adoption which is above the product of the base rate of foster child adoption for the State for the FY and the number of children in foster care under state supervision on the last day of the preceding FY; (ii) \$4,000 (approximately £2,999.64) for each foster child guardianship above the product of the base rate of foster child guardianships for the State for the FY and the number of children under state supervision on the last day of the preceding FY; (iii) \$7,500 (approximately £5,626.22) for each pre-adolescent child adoption and child guardianship above the product of the base rate of pre-adolescent child adoptions and child guardianships for the State for the FY and the number of children (aged 9-13) in foster care under the supervision of the State on the last day on the previous FY, and (iv) \$10,000 (approximately £7,503.34) for each older (14 years and older) child adoption or older

¹⁰ In order to obtain this figure, we converted \$4,000 to pounds by using the 1997 exchange rate (\$1.64) which

gave us £2,439.02. Next, in order to get the relative value of this amount in 2015, we updated it using the Retail Price Index.

foster child guardianship above the product of the base rate of older child adoptions and the number of children in foster care under State on the last day of the preceding financial year¹¹.

Experiences from public-private contracting

Many states in the US have started to contract private providers with the aim of improving the foster care and adoption services. This section presents the contracting models employed by four states: Kansas, Michigan, Illinois and North Carolina. The analysis that follows is mainly based on Blackstone and Hakim (2003) and Hakim et al. (2004). There are however many other studies that analyse the US's contracting experience with private agencies in the child welfare sector (see Snell 2000, QIC PCW 2009 and QIC PCW 2006).

Kansas

In 1996, Kansas moved towards the privatisation of its adoption and foster care services. As was the case with the foster care system, the state-wide contract for the adoption services was determined by a bidding process. Initially, the only bidder was the Lutheran Social Services which won the contract. The contract was offered for a period of 4 years and was renewed annually. Kansas established some performance standards that were used to decide whether the contract should be renewed. These standards required the placement of 70% of the children within 180 days of the referral or that 90% of the adoptive placements remain intact 18 months after finalisation. In addition, the agency was paid \$13,556 per child to provide all

adoption services, including child maintenance (Blackstone & Hakim, 2003).

However, the amount paid to the contractors was insufficient. During the first four years of the contract, the adoption agency registered large losses which were in part due to expenses that were not under the agency's control (e.g. court delays, medical costs). Thus, in 2000 the payment system was changed and the agency was now paid on a monthly basis (\$2,101 per child per month). In addition, the performance measures were revised to reflect lessons learned during the first years of implementation. The problem with the new payment system was that the agency had little incentive to place a child quickly. However, as Blackstone and Hakim (2003) mention the annual renewal of the 4-year contract based on performance measures left the agency with an incentive to avoid delays.

Michigan

In Michigan, either the state agency or the care provider that manages the child is given a period of 6 months to place a child. If the child is not placed, then it has to be listed on the Michigan Adoption Resource Exchange. Then any of the 53 licensed adoption agencies can compete to place the child. Competition and readily accessible, transparent information about children are key characteristics of Michigan's model.

As Blackstone and Hakim (2003) mention, before 1992 agencies were paid either their actual cost or an average price for a placement. The larger adoption agencies that were able to provide detailed cost estimation received between \$15,000-\$18,000 per adopted child. On the other

¹¹ For other details see ACF (2015) and 42 U.S. Code § 673b - Adoption and legal guardianship incentive payments.

hand, smaller agencies that could not provide a detailed cost estimation received a reduced amount of \$3,900, which did not allow them to deal with many adoptions. Thus, as Blackstone and Hakim (2003, pp. 490) mention this “cost-plus system for the larger agencies meant that some children were stuck in foster care”.

After 1992, the payment system changed. Under the new system, agencies are paid depending on how quickly they place a child or the characteristics of the child. For example, if an agency places a child within 5 months they receive \$8,660 (£ 6,576.84) but if a child is placed after 7 months then they would receive \$4,160 (£ 3,159.08). An amount of \$10,000 (£7,503.34) is paid to an agency that places a child directly from residential care. The child must be placed within 120 days of leaving residential care (MDHHS, 2016).

Illinois

The Illinois Department of Children and Family Services started using performance-based contracting in the 1997 for its foster care case management. The private agencies were expected to place 24% of the children in its care in permanent arrangements over the course of the year. If the agencies placed more than 24% of children, it received the same amount the next year and was allocated more children. It might also receive a bonus above the standard payment. If, however, the agency placed less than 24%, the funding remained the same for a larger number of children and the agency may not be allocated additional children in the future (Blackstone et al. 2004, pp.1040). The cases were assigned to each agency on a rotational basis to ensure that each agency had an equal opportunity to receive new cases (Kearney and McEwen 2007). The model appears to have positive results and has led to a reduction in the number of children in foster care and lowered

the time children waited in foster care. Another result was that some inefficient agencies, that did not meet performance goals, were eliminated while better-performing agencies remained. The same standards were applied to public agencies with similar results. For more details about the performance-based model see Kearney and McEwen (2007).

North Carolina

North Carolina pays providers percentages of an “average placement cost” at certain milestones. More specifically, providers receive 60% of the average placement cost when the child is placed in an adoptive home, 20% when the decree of adoption is finalised and 20% when the child has been in the home for one year after the decree of adoption. The private sector and the state worked together to design the payment schedule (Vinson, 1999).

In North Carolina, payments are only made if some specific outcomes have been achieved. However, in other states, some contracts can include an upfront payment that does not depend on the achievement of specific outcomes, such as the Michigan Wayne County Foster Care Pilot (McCullough, 2007).

Annex 3.

Services relating to the adoption process

We present a high-level list of the services currently run by LAs and VAAs with respect to adoption. This list is based on the mapping exercise of adoption services carried out by a team of academics at Loughborough University led by Lisa Holmes and Samantha McDermid. In order to be able to understand funding, knowledge about key services, and how they are currently priced is useful e.g. what services is the inter-agency fee currently expected to cover.

The team at Loughborough University have mapped adoption activities for the child and the adopter (Holmes et al., 2016).

The processes around the child's journey are split in the following stages:

- Originating care proceedings – from start to placement order made. All done by LAs.
- Interim legal and placement options. All done by LAs.
- Adoption placement to order – from looking for suitable adopters to the adoption order. Some steps are done exclusively by LAs but some steps (e.g. identifying suitable adopters, introductions, placement made) are done by VAAs in some cases.

- Adoption support – currently only LAs can do an assessment of need, though VAAs believe they have the expertise to undertake this role.
- Post-adoption support – this stage describes the process around deciding what adoption support is needed as opposed to delivering the support. As above, the formal assessment of need has to be done by the LA but a VAA may well have been working with the family, assessed their need, and will send a report to the LA as a contribution to the assessment of need, or to kick start the assessment of need.
- Post-adoption support provision¹².
- Birth parents' legal options – exclusively by LAs.

The activities around the adopter's journey are split into the following stages:

- Recruitment of perspective adopters/ preparation and assessment of adopters – done by both LAs and VAAs.
- Linking and matching – The legal responsibility for matching a child with adopters rests with the LA and their Agency Decision Maker makes that final decision. However, before that stage the VAA is responsible for facilitating matches for their approved adopters, and taking action to lead to a match such as placing their names on the Adoption Register etc. Once a link is being pursued to a match, the VAA social worker will be expected to co-author the Adoption Placement Report with the child's social worker, and that then goes to the Adoption Panel of the child's agency.
- Adoption Panel – VAAs have their own panels for recommending approval of their adopters; LA panels have responsibility for

¹² We have added this stage to the Holmes et al. list.

recommending approval of the adopters they have recruited and assessed and for recommending matches of adopters (whether they have recruited the adopters themselves, through another LA or a VAA) with their children. If matching is with a VAA adopter, the social worker and the adopters would be expected to attend the LA matching panel, though it is not a legal requirement to attend.

- Placement of child – the LA has overall responsibility for the child being placed but if they use VAA adopters, the VAA would be expected to take part in planning introductions, monitoring the adopters and supporting the family post-placement and pre-adoption order. LAs usually informally delegate the responsibility for supporting the placement to the VAA who knows the family well, but the child's LA social worker will remain involved and the LA has a duty to review the placement in accordance with regulations until an adoption order is made. Technically the adoption application to the court is made by the adopters themselves, with both the child's social worker and the adopters' social worker co-authoring the report to the court.
- Post-adoption support provision¹³.

Since the children waiting to be adopted are the responsibility of the LA, the activities around the child's journey are almost exclusively performed by LAs. VAAs are more heavily involved in the processes involved in the adopter's journey.

The processes involved in the adopter's journey fit with the 3 stages that the inter-agency fee currently is believed to purchase: i) the recruitment, assessment and approval of prospective adopters; ii) for linking and matching and support during

introductions and placement; and iii) post-placement support up to either the first year of placement or when the adoption order has been granted.

There are arguments to suggest that a funding system should price each activity separately rather than having a single price buying unknown services, which can mean parents and children with similar characteristics have vastly different experiences. It may be desirable to give purchasing power to the adopters, along with transparent information about each activity and support from VAAs or LAs. This would allow parents to pick and choose what services they want to purchase, subject to criteria ensuring a child's needs are met.

¹³ We have added this stage to the Holmes et al. list.

Annex 4.

Options not recommended

Grants

Grants have been widely used in the adoption sector and the injection of funds is welcome. They can be designed in a way that encourages high-quality service provision and access, for example by having well designed metrics that organisations need to target. However, in thinking of an efficient funding system, we do not believe grants are optimal. Quite often grants have high administrative costs as they require significant resources to design, administer and oversee them. They often also require a bidding process which can be costly, especially for smaller organisations. Therefore, grants do not meet the principle of efficient provision.

Grants also tend to be time limited e.g. the Expansion Grant Programme lasted two years, while the Inter-Agency Fee Fund was originally intended to last 12 months, even though it has now been extended. These temporary pots of money are not conducive to the sustainability of the sector, which would benefit from more certain, long-term funding streams.

A final note on grants relates to avoiding supplementary targets. There are examples of grants having a metric that recipients need to target, which have not been well-designed. For example, with the Expansion Grant Programme, originally VAAs were paid on the basis of the number of adopters they approved. Two overriding aims of the programme were to increase the number of harder to place children being placed with VAAs, and the sector increasing its market

share. The target of approved adopters is only indirectly linked to these aims. This aim is likely to have contributed to the growing stockpile of adopters, many of whom will not be matched with a child, which is not a good outcome.

A variable inter-agency fee using the number of days a child has been waiting as the metric

At first glance having a variable fee which is based on the number of days a child has been waiting, either for a match or for the date they move in with their new family, may appear to be a reasonable measure. It would certainly provide incentives for LAs who place children with external organisations (other LAs or VAAs), to act quickly to reduce their costs. However, when assessing a funding option, we have to consider the incentives that option has for all players in the system. This funding system does not provide the right incentives for external adoption agencies as they would stand to financially gain by dragging their feet. We know that people who work in the adoption sector are passionate about placing children, and we do not expect any LA/VAA staff to take extreme action to make children wait. However, people across many vocational sectors have been shown to respond to financial incentives (see Atkinson et al. 2009). For example, there may be some minor actions taken resulting in delays such as not finishing some paperwork on a Friday and leaving it for Monday instead or if a child cannot be placed until the adoptive parents have completed a particular training course run by an external organisation, that organisation has the incentive to delay the course dates. This option does not align with the principle of incentivising high-quality matching and services and improving access to services, which may affect fairness to children (some organisations or individuals may respond more to the incentives than others which would be unfair to children and

parents). Even if the undesirable behaviour may only occur on a small scale, when designing an optimal funding system, we should seek to have incentives in place that eliminate any undesirable behaviour.

This option would also not meet the principle of sustainability of the sector, as the final level of the fee for each child would not be known until fairly late in the process which would make planning difficult for LAs and VAAs.

Global budget transfers

A global budget transfer is when a fixed proportion of the state's budget is allocated to a third party to provide services. For example, in Florida, the state government give a predetermined percentage of the state's annual operating budget for child welfare services to agencies who provide community-based care. These agencies are required to provide all services, in whatever amount needed, regardless of how many children and families in their geographic area may require services. The allocation is based, in part, on historic caseload size and previous spending for the geographic area covered, and, in part, on assumptions about future usage patterns.

There are some positives to this system. Most notably the upfront payment is good for cash flow and provides certainty both to the government and the agencies. It also allows agencies to be flexible in deciding how they provide their services which enables innovation. Global budget transfers are relatively simple and therefore the administrative costs are likely to be low.

Despite these strengths, we do not recommend this system as we believe the risks more than outweigh the benefits. For example, all the financial risk is on the suppliers, so a situation could arise where sustainability is threatened, often due to factors outside the agency's control – e.g.

unexpected delays in court proceedings. Another negative feature of this system is that it is not sensitive to the number of children allocated to the agency – if there are too many there will be a shortage of funds, too few and the agency will have too much public money. It is not a very well targeted funding system and does not necessarily encourage efficient procurement.

Case by case payments based on average costs

Paying a specified fee per case is the most common method used in the US for provision of child welfare services by third party organisations. Payments can be blended e.g. a single fee based on the average cost of the overall caseload, or stratified where there are different fees set for different types of cases. This system may encourage agencies to recruit parents for specific types of children, if they receive a higher fee for them. However, a single fee will suffer from many of the shortcomings of the current inter-agency fee. The variable fee based on different costs becomes close to a cost-recovery funding model, which is not desirable, as it does not allow space for innovation. This system is also likely to have relatively high administrative costs, as all organisations will be required to provide accurate cost and activity information so prices can be set and updated on a regular basis. Finally, it is difficult for a cost recovery model to work without a system for external adoption agencies to recoup costs not directly related to a particular placement – e.g. overheads or costs related to recruiting parents who then drop out before adopting a child.

Bidding combined with performance-based payments

Some models of third party organisations providing public services require organisations to bid for

contracts and use a payment by results model to decide on remuneration once contracts have been delivered, for example the Work Programme.

There are many ways to structure performance related payments. Here we are referring to the model used in the Kansas adoption sector where agencies had to bid for contracts with the state government (see Annex 2 for more information). In order to maintain the contracts, the agencies had to meet certain performance criteria including 70% of children had to be placed within 180 days of the referral and 90% of the adoptive placements ought to have remained intact 18 months after finalisation.

One advantage of bidding is that it may encourage efficient provision and access to services through the competitive process. However, with our regional adoption system, there are unlikely to be many players bidding for individual contracts which weakens this effect. Also, these bidding processes tend to be administratively complex and require regular resources from the administrators, as well as for those taking part. The performance related aspect also requires regular oversight (though it is important to note that improved targeted data collection could be a welcome consequence of the system).

One implication of the performance-based system is that players are only encouraged to reach the target boundary e.g. for the target where 70% of children had to be placed within 180 days of the referral, there is no incentive for providers to place children as fast as possible, merely to do so before 180 days. A better target would be one where payments are increased, the shorter the time taken (though we recognise this is more administratively complex). We are not against incorporating performance related payments into a funding system. One of our recommendations incorporates a premium to incentivise faster placements. But

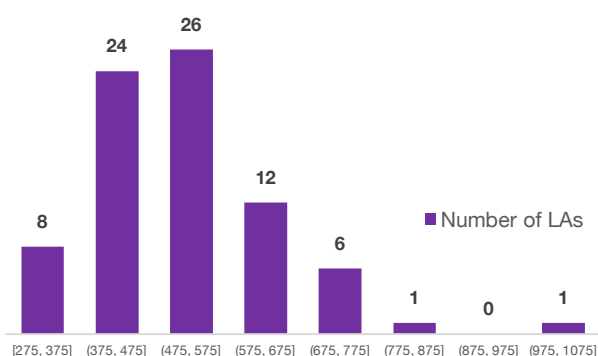
these should be designed to promote increased efficiency, not to chase a blunt target.

Annex 5.

Variation in timings of the adoption process across LAs

The report showed that the range between the fastest and slowest LA in terms of the average number of days taken between a child entering care and being placed was 730 days. However, one disadvantage of the range as a measure of dispersion is that it is influenced by extreme values (highest and/or lowest). Thus, another measure is also calculated, the Inter-Quartile Range (IQR) which looks at the difference between the points where 25% of all LAs are located and the point where 75% of all LAs are located. It shows the dispersion where the middle 50% of LAs lie. In terms of the average number of days taken between a child entering care and being placed, the IQR is 158 days. Hence, the middle 50% of LAs ranged from 424.5 to 582.5 days i.e. a range of 158 days or about 5 months. A histogram of this data is presented below:

Frequency distribution of the average number of days between a child entering care and being placed

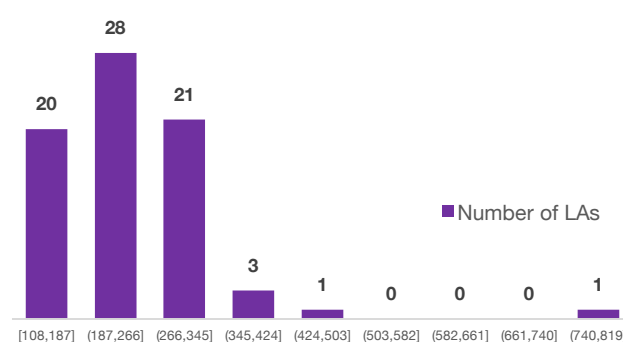


Source: ALB quarterly data. Q₁ and Q₂ of 2015-2016

As we can see from the above graph, the main volume of LAs (about 75% of the LAs from the available sample) belongs to one of the three ranges: 375-475 days, 475-575 days and 575-675 days. One can also observe that there is one LA that needed a very large number of days for this indicator. This can explain the large range (730 days) that we got for this data. If this outlier is excluded, then a range of 501 days is obtained.

Regarding the average number of days between a LA receiving a court authority to place a child and a LA deciding on a match, the range in the data is 674 days. The IQR is 98 days. Thus, the middle 50% of all LAs take between 187 to 285 days for this stage i.e. a range of 98 days. The histogram for the data is presented below:

Frequency distribution of the average number of days between a LA receiving a court authority to place a child and its decision on a match



Source: ALB quarterly data. Q₁ and Q₂ of 2015-2016





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