

Title: Validation Stage IA - Changes to fees and frequencies inspections of children's social care providers IA No: Lead department or agency: Department for Education Other departments or agencies:	Impact Assessment (IA)	
	Date: 13/01/2014	
	Stage: Final	
	Source of intervention: Domestic	
	Type of measure: Secondary legislation	
Contact for enquiries: Lydia Affie 02077838777		
Summary: Intervention and Options		RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£m	£-3.03m	£0.29m	No NA

What is the problem under consideration? Why is government intervention necessary?
Inspections by Ofsted underpin the quality of services supplied by children's social care providers and improve the information that commissioners and service users have about quality. The current fees paid by providers to Ofsted to conduct these inspections do not cover the full costs borne by Ofsted. Intervention is necessary to ensure that children's social care settings pay a fee closer to the actual costs borne by Ofsted, thereby putting in place a fairer and more transparent approach to the cost of inspection.

What are the policy objectives and the intended effects?
To increase the fees paid by those children's social care settings whose fees do not currently cover Ofsted inspection costs. This will move those organisations closer towards equitably contributing to the cost of their own regulation.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
To increase the fees paid by those children's social care settings whose fees do not currently cover inspection costs by 10% from April 2014.

Will the policy be reviewed? It will/will not be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?				Yes / No / N/A	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes/No	< 20 Yes/No	Small Yes/No	Medium Yes/No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)				Traded:	
				Non-traded:	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible
SELECT SIGNATORY:

Dat
e:

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			
High			
Best Estimate			

Description and scale of key monetised costs by 'main affected groups'

Maximum of 5 lines

Other key non-monetised costs by 'main affected groups'

Maximum of 5 lines

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate			

Description and scale of key monetised benefits by 'main affected groups'

Maximum of 5 lines

Other key non-monetised benefits by 'main affected groups'

Maximum of 5 lines

Key assumptions/sensitivities/risks

Maximum of 5 lines

Discount rate (%) 3.5

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £0.3m	Benefits: £0.0m	Net: £-0.3m	No	NA

Evidence Base (for summary sheets)

Important Note

1. This Validation Stage Impact Assessment follows a Regulatory Triage Assessment (RTA) submitted to the Regulatory Policy Committee (RPC) under reference RPC13-FT-DfE-1891 (2). The RTA was confirmed as a low cost regulatory proposal.
2. The RTA consisted of two distinct measures. First, a 10 per cent increase in fees from social care providers to Ofsted. Second, a decrease in the frequency of inspections and fees for providers of holiday schemes for disabled children. The first measure was confirmed as out of scope of One-In, Two-Out (OITO) rules. This is because it refers to an increase in fees and charges without any changes to the scope of regulatory activity. This second measure was confirmed as in-scope of OITO as it related to a change of fees with a reduction of scope of regulatory activity and will have a direct net benefit to business (an 'OUT').
3. Following the submission of the RTA and a public consultation on the proposed measures, the Department has chosen not to pursue the second measure due to a lack of support from key stakeholders, including Ofsted. As such, this Validation Stage IA relates to the first measure only (i.e. a 10 per cent increase in fees from social care providers not at full cost recovery to Ofsted).
4. Through discussion with the RPC, the Department agreed to produce a very brief validation stage impact Assessment to show that the whole policy package is now out of scope of OITO.

The policy issue and rationale for Government intervention

5. Currently children's social care providers – children's homes, voluntary adoption agencies, adoption support agencies, fostering agencies, residential family centres, residential special schools, boarding schools, residential colleges and LA adoption and fostering functions – are required to pay fees to Ofsted for their inspection.
6. Ofsted evidence shows that current fees do not accurately reflect the costs of inspection. Providers pay less than the full cost, in some cases considerably less. Where providers do not pay the full cost of inspection, this means that Ofsted is subsidising these inspections and therefore the market as a whole. By having a transparent inspection process both providers and purchasers benefit from the greater certainty of high quality service available, providing each side with the confidence to make decision on how to purchase or provide services effectively. Given that providers benefit from these inspections, it is argued to be fair that they bear a higher share of the cost of them.

Policy objectives and intended effects

7. **The objective is to set fees and an inspection framework for children's social care settings whereby the actual costs borne by Ofsted in inspection are closer to the fees that children's social care settings pay, thereby putting in place a fairer and more transparent approach to the cost of inspection.**

Policy options considered, including alternatives to regulation

8. The option being considered is:
 - **To increase the fees paid by those children's social care settings whose fees do not currently cover inspection costs by 10% from April 2014 .**
9. The fees charged by Ofsted to each provider in 2010/11, 2011/12 and 2012/13 were set by applying a 10% annual increase to previous year fee levels, unless full cost had been achieved (full cost was assessed using their 2008/09 cost model).¹ In 2010/11 Ofsted changed their method for calculating the

¹ The fees paid by individual providers are listed in the Annex.

cost of inspection activities. Improved transparency and compliance with HM Treasury guidance were the key reasons for the change.

The new model calculates the cost of each inspection activity from two key components:

1. Number of inspection days (for each grade of inspector used) multiplied by
2. Day rates (for each grade of inspector used).

This provides a more accurate and transparent reflection of the time and resource involved in each inspection activity.

The fees charged by Ofsted in 2013/14 were set by applying a 10% increase to 2012/13 fee levels, unless full cost had been achieved (full cost was assessed using the new costing model).

The fees proposed by Ofsted for 2014/15 will be set by applying a 10% increase to 2013/14 fees. However, those providers whose fees were capped in 2013/14 based on the 2011/12 cost model will see no fee increase.

Expected level of business impact

10. By increasing fees by 10%, this represents a cost to providers (as they pay higher fees) and a benefit to Ofsted (as they receive extra revenue). Estimates supplied by Ofsted show that a 10% rise in fees across all social care settings (public and private sector) will provide an extra £523k in fee income (see table 1).

Table 1: Expected change in fees received by Ofsted across all providers (public and private sector)

Care Setting	Income 2013-14	Income 2014-15	Increase (10%)
Adoption Support Agency	£21,449.04	£23,593.95	£2,144.90
Boarding School	£97,717.30	£107,489.03	£9,771.73
Children's Home	£3,775,287.51	£4,133,703.25	£358,415.74*
Further Education College	£40,022.52	£44,024.77	£4,002.25
Independent Fostering Agency	£480,697.00	£528,766.70	£48,069.70
Local Authority Adoption Agency	£175,424.25	£192,966.68	£17,542.42
Local Authority Fostering Agency	£275,994.00	£303,593.40	£27,599.40
Residential Family Centre	£48,158.81	£52,974.69	£4,815.88
Residential Special School	£477,189.96	£524,908.95	£47,719.00
Voluntary Adoption Agency	£27,204.39	£29,924.83	£2,720.44
Total	£ 5,419,144.78	£ 5,941,946.25	£ 522,801.46

Notes: Income 2014-15 and Increase (10%) estimates are based on the recent profile of provider types and numbers (12 months to June 2013). Changes in the number of providers in 2014/15 would change income receipts. Income estimates are related to annual fee income (i.e. does not include registration/variation fees). * indicates a less than 10 per cent increase.

11. There is a mix of local authority and business sector provision for some settings. Based on the current local authority/business sector ratio in these settings, Ofsted have produced estimates of the expected change in fees from each sector. This is detailed in table 2.² We estimate that Ofsted will receive £352k more in fees from voluntary or private sector providers between 2013/14 and 2014/15.

² The fees paid by individual providers are listed in the Annex.

Table 2: Expected change in in fees received by Ofsted, by provider type

Care Setting	Estimated change in fees received by public sector providers	Estimated change in fees received by voluntary or private sector providers
Adoption Support Agency	£0	£2,144.90
Boarding School	£4,152.99	£5,618.74
Children's Homes	£92,807.17	£265,608.57
Further Education College	£762.33	£3,239.92
Independent Fostering Agency	£0	£48,069.70
Local Authority Adoption Agency	£17,542.42	£0
Local Authority Fostering Agency	£27,599.40	£0
Residential Family Centre	£328.36	£4,487.53
Residential Special School	£27,379.75	£20,339.24
Voluntary Adoption Agency	£0	£2,720.44
Total	£170,572.12	£352,229.05

Notes: Public sector includes Health Authority and Local Authority.

Headline Cost to Business estimates and OITO status

12. Changes to fees and charges set in regulation which do not result from an expansion or reduction in the scope of regulatory activity are out of scope of the OITO rule. This measure falls under this classification and therefore does not require RPC validation of the EANCB. The cost to business is set out in table 2 above. Over a ten year appraisal period, the Business Net Present Value is estimate to be £-3.03m. The net cost to business per year (EANCB on 2009 prices) is £0.29m.

Annex

The table below shows the proposed 10% change in fees for each social care provider setting. The total costs reported in Tables 1 and 2 in the main text are derived by multiplying the individual fees below with the number of providers in each setting.

SETTING	2013/14 Annual Fee	Variable Fee	2014/15 Annual Fee
Adoption Support Agency (Small)	£505.11		£555.63
Adoption Support Agency (Large)	£956.05		£1,051.66
Boarding Schools (0-3 places)	£632.49		£695.74
Boarding School (4-12 places)	£632.49	£38.07	£41.87
Boarding School (13-50 places)	£994.00		£1,093.40
Boarding School (OPM 51-100 places)	£1,391.00		£1,530.10
Boarding School (OPM 101-200 places)	£1,391.00		£1,530.10
Boarding School (OPM 201-500 places)	£1,391.00		£1,530.10
Boarding School (501-800 places)	£1,789.00		£1,967.90
Boarding School (800+ places)	£2,186.00		£2,404.60
Children's Home (0-3 places)	£ 1,455.32		£1,600.85
Children's Home (4-33 places)	£ 1,455.32	£144.95	£159.44
Children's Home (34+ places)	£ 6,399.31		£6,399.31
Independent Fostering Agency	£ 1,597.00		£1,756.70
Residential Family Centre (0-3 places)	£969.23		£1,066.16
Residential Family Centre (4 places)	£969.23	£121.52	£133.67
Residential Family Centre 5+ places	£ 1,138.00		£1,251.80
Residential FE College (0-3 places)	£632.49		£695.74
Residential FE College (4-11 places)	£632.49	£38.07	£41.87
Residential FE College (12-50 places)	£969.00		£1,065.90
Residential FE College (OPM 51-100 places)	£969.00		£1,065.90
Residential FE College (OPM 101+ places)	£969.00		£1,065.90
Residential Special School 0-3 places	£1,163.96		£1,280.36
Residential Special School (4-18 places)	£1,163.96	£115.66	£127.23
Residential Special School (19+ places)	£2,899.00		£3,188.90
Residential Special School (OPM 51-100 places)	£2,899.00		£3,188.90
Residential Special School (OPM 101-200 places)	£2,899.00		£3,188.90
Secure Children's Home (0-3 places)	£1,455.32		£1,600.85
Secure Children's Home (4-33 places)	£1,455.32	£144.95	£159.44
Secure Children's Home (34+ places)	£6,399.31		£6,399.31
Voluntary Adoption Agency (Small)	£505.11		£555.63
Voluntary Adoption Agency (Large)	£952.54		£1,047.79
LA Adoption	£1,161.75		£1,277.93
LA Fostering	£1,815.75		£1,997.33
Holiday Playschemes (CH)	£2,176.00		£2,176.00