

Title: Impact of changes to Regulations and National Minimum Standards for Residential Family Centres IA No: DFE0026 Lead department or agency: Department for Education Other departments or agencies:	Impact Assessment (IA)		
	Date: 09/03/2012		
	Stage: Consultation		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
Contact for enquiries: Charlotte Hollom, 02077838798. charlotte.hollom@education.gsi.gov.uk			
Summary: Intervention and Options			RPC Opinion: GREEN

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, Measure qualifies as One-Out?
£51.50m	+£0.05m	£-0.006m	Yes
			Zero Net Cost

What is the problem under consideration? Why is government intervention necessary?

The Residential Family Centre Regulations (2002) and National Minimum Standards (2002) focus primarily on the organisation and management of Residential Family Centres. They do not refer to robust, evidence-based assessments of parenting capacity - the principal function of such Centres. Ofsted have raised concerns about their ability to carry out effective inspections of the Centres, and the services they provide, on the basis of the current Regulations and Standards. There is a need, therefore, to revise the Regulations and Standards to reflect better the outcomes of the Centres. Please refer to sections 2 and 3 of the evidence base for further information.

What are the policy objectives and the intended effects?

The main objective is to alter the focus of the Regulations and Standards so that they better reflect the function, and desired outcomes, of Residential Family Centres - providing robust, evidence-based assessments of parenting capacity. This will enable more accurate decisions to be made about the child's future. It will also allow Ofsted to develop a new framework for inspection and to make more effective judgements of the service that Residential Family Centres provide. This will enable providers to focus on providing a high-quality service to parents and children.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1/ Reference case: Leave Regulations and National Minimum Standards unaltered.

Option 2: Revise the Regulations and National Minimum Standards by increasing the requirements for assessments of parenting capacity.

Option 3: Revise Regulations and National Minimum Standards by reducing the overly-prescriptive outdated current requirements.

Option 4 - the Preferred Option: Revise Regulations and National Minimum Standards through a combination of both Option 2 and 3.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2016						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A		Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description: The reference case

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £0	High: £0	Best Estimate: £0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0	0	£0
High	£0	0	£0
Best Estimate	£0	0	£0

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

There are no additional costs associated with this option as it is the 'do nothing' option and so the baseline for the assessment of other options.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	0	£0
High	£0	0	£0
Best Estimate	£0	0	£0

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

There are no additional benefits associated with this option as it is the 'do nothing' option and so the baseline for the assessment of other options.

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

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: £0	No	NA
Benefits: £0		
Net: £0		

Summary: Analysis & Evidence

Policy Option 2

Description: Revise the Regulations and National Minimum Standards by increasing the requirements for assessments of parenting capacity

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £3.39m	High: £89.73m	Best Estimate: £50.64m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£25,005	£0	£25,005
High	£61,771	£0	£61,771
Best Estimate	£43,388	£0	£43,388

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

The one-off transition cost consists of (a) the cost to Residential Family Centres (RFCs) of staff having to familiarise themselves with the revised National Minimum Standards (NMS) and (b) the adaptation costs to RFCs of changing their assessment procedures to conform with the new NMS. The adaptation costs are anticipated to be a one-off exercise.

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

We are also anticipating financial resource costs to Ofsted as the inspection procedure may need configuring. However, Ofsted has assured us that there would be no changes to the inspection days and thus financial resource costs. However, we do believe that there may still be an opportunity cost involved as Ofsted may have to divert some additional resources initially which could have been used in some other way.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£366,754	£3,416,867
High	£0	£9,637,808	£89,790,639
Best Estimate	£0	£5,440,133	£50,683,001

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

The main benefit are the avoided external costs to society from the delay caused by an erroneous decision to leave a child with a 'troubled' parent, as opposed to placing the child in care immediately. The on-going parental neglect and emotional abuse can have a significant and harmful impact on the child's development.

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

Any proposed changes to NMS which aim at increasing the quality of experience may have the benefit of improving overall well-being of families involved in the assessment. However, any improvements in well-being are currently difficult to quantify, but it may be possible to capture changes on a qualitative basis at a later stage.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

While there is some completed and on-going research regarding the costs to society associated with neglectful parenting and emotional abuse, it is however not straight forward to estimate the likelihood and severity of negative outcomes (such as mental health problems) and risky behaviours (such as offending) which are correlated with neglectful parenting and emotional abuse. Please refer to the section on risks and assumptions on page 16 for further information.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.005m	Benefits: 0	Net: -£0.005m	No	IN

Summary: Analysis & Evidence

Policy Option 3

Description: Revise Regulations and National Minimum Standards by reducing the overly-prescriptive outdated current requirements.

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £0.12m	High: £0.25m	Best Estimate: £0.18m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0	1	£0	£0
High	£0		£0	£0
Best Estimate	£0		£0	£0

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

As no new regulations or National Minimum Standards aimed at improving the effectiveness of assessments or the quality of experience are introduced, there are no additional costs relative to the reference case.

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

Similar to the reference case, we believe that there are possibly further resource costs to Local Authorities due to repeat contact of these families with Social Services. However, we have - at this stage - not been able to verify the the frequency of these incidents for England as a whole. Further private costs which have not been accounted for are lower levels of well-being of children and their immediate neighbourhood from neglectful parenting and emotional abuse.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	1	£6,622	£61,695
High	£0		£13,244	£123,389
Best Estimate	£0		£9,933	£92,542

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

The only monetisable benefit we could identify is potential resource savings to the Residential Family Centres in the form of fewer hours being spent on internal progress or compliance reports against the existing set of regulations and National Minimum Standards.

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

The reduced number of regulations and National Minimum Standards may also lead to a lower inspection burden to Ofsted and may thus free up inspections hours which could be diverted to other areas. However, we have not been able to quantify this effect at this stage of the Impact Assessment.

Key assumptions/sensitivities/risks

A key sensitivity are the assumptions around the on-going costs to society from on-going neglectful parenting and emotional abuse. While there is some completed and on-going research in this field regarding the range of costs, it is very difficult to attribute which children will and to what degree develop one or more negative outcome or risky behaviours.

Discount rate (%)

3.5

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0	Benefits: £0.011m	Net: +£0.011m	Yes	OUT

Summary: Analysis & Evidence

Policy Option 4

Description: The Preferred Option - Revise Regulations and National Minimum Standards through a combination of both Option 2 and 3.

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £3.99m	High: £90.88m	Best Estimate: £51.50m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£25,005	£0	£25,005
High	£61,771	£0	£61,771
Best Estimate	£43,388	£0	£43,388

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

The one-off transition cost consist of (a) the cost to Residential Family Centres (RFCs) of staff having to familiarise themselves with the revised National Minimum Standards (NMS) and (b) the adaptation costs to RFCs of changing their assessment procedures to conform with the new NMS. The adaptation costs are anticipated to be a one-off exercise.

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

We were also anticipating financial resource costs to Ofsted as the inspection procedure may need changing. However, Ofsted has assured us that there would be no changes to the inspection days and thus financial resource costs. However, we do believe that there may still be an opportunity cost involved as Ofsted will have to divert some resources initially which could have been used in some other way.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£428,449	£3,991,644
High	£0	£9,761,197	£90,940,193
Best Estimate	£0	£5,532,675	£51,545,167

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

We anticipate that there are two main monetisable benefits: (a) the avoided delay in finding a safe placement for the child and therefore external costs of on-going neglectful parenting and emotional abuse of children through introducing new regulations and standards to ensure effectiveness and (b) the resource savings to Residential Family Centres from the reduced regulations and standards they need to track progress against.

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

Similar to Option 3, the reduced number of regulations and National Minimum Standards may also lead to a reduced inspection burden to Ofsted and may thus free up inspections hours which could be diverted to other areas. However, we have not been able to quantify this effect at this stage of the Impact Assessment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

The avoided external costs from on-going neglectful parenting and emotional abuse form the largest proportion of benefits. A key sensitivity are the assumptions around the on-going costs to society from on-going neglectful parenting and emotional abuse. While there is some completed and on-going research in this field regarding the range of costs, it is very difficult to attribute which children will and to what degree develop one or more negative outcome or risky behaviours.

BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.005m	Benefits: £0.011m	Net: +£0.006m	Yes	Zero net cost

Summary: Analysis & Evidence

Policy Option 5

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	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'

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

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'

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

Key assumptions/sensitivities/risks	Discount rate (%)
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BUSINESS ASSESSMENT (Option 5)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs:	Yes/No	IN/OUT/Zero net cost
Benefits:		
Net:		

Evidence Base (for summary sheets)

1. Background

1.1. The purpose of Residential Family Centres

Residential Family Centres (RFCs) are centres where 'troubled' parents undergo a residential assessment of their ability to care safely for their children.

The families which are being assessed have a history of non-accidental injury, abuse, substance misuse, domestic violence, neglect, prostitution or a history of poor parenting skills in general.

The purpose of parenting assessments is to provide robust, timely and low cost information to courts which in turn helps them make an informed decision on the most efficient option to ensure safe care for children.

1.2. The rationale for assessments

While the majority of parents are able to care for their children, the above mentioned group of parents are not able to do so due to bounded rationality.

Bounded rationality is the idea that in decision making, the rationality of individuals is limited by either (a) the information they have, (b) the cognitive limitations of their minds or (c) the finite amount of time they have to make a decision.

In this case, parents are not able to care safely for their children due to the specific issues. The cost to society of parents not being able to care for their children safely is potentially high, ranging from worsening emotional and behavioural difficulties, poor education results, severe physical harm from abuse and neglect. Therefore Government intervention is justified on the grounds of equity and ensuring that all children are being cared for safely.

The assessments are delivered by 61 RFCs across England (mostly privately owned, 58 out of 60) and are commissioned by courts and paid for by Local Authorities. The Children Act (2004, S38(6)) states that courts may give direction as considered appropriate for assessments to be carried out, but does not address how these are to be funded. From October 2007 changes in legal aid funding were introduced so that no costs relating to a residential assessment of a child may be charged to the Legal Services Commission, leaving the local authority to carry the costs.

1.3 Legal context

The specific **outputs** RFCs contribute towards are laid out in the Care Standards Act 2000:

- (a) accommodation is provided for children and their parents;
- (b) the parents' capacity to respond to the children's needs and to safeguard their welfare is monitored or assessed; and
- (c) the parents are given such advice, guidance or counselling as is considered necessary.

Residential Family Centres are governed by the Residential Family Centres Regulations 2002 (the Regulations) and the National Minimum Standards for Residential Family Centres (the NMS).

The Regulations govern the setting up, conduct and management of RFCs. They cover such matters as the fitness of the registered provider, appointment and fitness of the manager, health and welfare of residents, arrangements for the protection of children and the complaints procedure. The NMS contain guidelines on a range of matters including the quality of care, parents' and children's rights, child protection, premises and staffing arrangements.

RFCs are registered by Ofsted and inspected by them on a three-year cycle. When making judgements about the centres, Ofsted will consider compliance with the Regulations and must take into account how the provider meets the NMS.

2. The problem under consideration

As stated above, the outcome of the assessment process is a robust, timely and low cost recommendation on how the safety of children can be assured.

However, at present, Ofsted does not have a formal inspection framework against which to make evaluations of the work of Residential Family Centres. This is because the current NMS (upon which an inspection framework would be based) do not address the effectiveness of the service provided but rather focus on procedural and organisational issues.

The current set of NMS allows Ofsted inspectors to judge only the above mentioned outputs (a) and (c), so the *environment* the RFC creates. There is therefore a danger that the robustness of assessments RFCs deliver may be of low quality, which in turn may lead to courts making inefficient decisions.

To create a robust, new inspection framework tailored to the work of Residential Family Centres, Ofsted would like to see new Regulations and NMS that focus on the core function of the Centres – providing high quality assessments of parenting capacity.

This would allow Residential Family Centres to focus their attention on the effectiveness of the service they provide (i.e. the assessments of parenting capacity and whether these prove, subsequently, to be successful decisions). It will also allow Ofsted to create a robust, new inspection framework which is tailored specifically to the work of Residential Family Centres.

In this way, we would expect to see Centres which are awarded an ‘Outstanding’ grade by Ofsted (for the high-quality of their parenting assessments) to receive more referrals from Local Authorities. Similarly, those Centres which receive lower grades are likely to receive fewer referrals, resulting in a natural progression towards an improved quality of service from Residential Family Centres.

3. The rationale for intervention

In theory, RFCs should deliver high quality parenting assessments given that they are (a) assessed regularly against fulfilling a set of National Minimum Standards (NMS) and (b) the fact that there are other publicly available guidelines from the DH “*Framework for Assessing Children in Need and their Families*”¹.

However, there is the issue of asymmetric information, a case where one party is better informed than the other and uses this to their advantage. In this case, RFCs may - due to not being fully observed on the quality of their assessment - choose to not produce fully robust and consistent parenting assessments to lower their costs.

This problem is also known as a principal-agent problem. This occurs in situations where a principal (in this case the court) contracts an agent (in this case the RFC) to provide a service, yet the principal can not fully observe the agent’s behaviour and the interests of the agent are not fully aligned with those of the principal.

Research from the Department for Education (2011)² suggests that poor assessments “*may expose children to risks of further maltreatment and placement breakdown. Instability in care often leads to a downward spiral with potentially far-reaching consequences including worsening emotional and behavioural difficulties, further instability and poor education results.*”

4. The scale of the problem

How many assessments may be of poor quality? There is not much evidence available in this field, but a study by Ward et al (2010)³ on the quality of safeguarding assessments in ten local authorities found that “*two thirds (of assessments) advised that children should remain with birth parents, but in over half of these cases the children eventually had to be removed*” (page 4).

¹ Department of Health (2000),

http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4003256

² DfE Research Brief (2011), “Social work assessments of children in need: what do we know?”, DfE-RB092

³ DfE Research Brief (2010), “Infants suffering, or likely to suffer, significant harm: A prospective longitudinal study”, DfE-RB053

In these latter cases, the children are subject to the consequences of further neglectful parenting and emotional abuse until such time as social services intervene to take the child into care. **The delay caused by erroneously leaving the child with the parents after the placement has finished, as opposed to placing them in care immediately can have a significant and harmful impact on the child's development.**

It may, for example, trigger the development of behavioural and emotional problems (Davies and Ward (2011)⁴). The authors of the same study also highlighted that “emotional abuse is known to be particularly harmful when experienced in the first three years of life (...) Children who are emotionally abused show early signs of problems through a steep decline in performance from as young as 9 to 18 months”.

Moreover, according to the HMG guide “Working Together to Safeguard Children” (2010), the process for removing a child from his/her parents (when judged as likely to continue to suffer significant harm) includes calling a child protection conference. The calling of this conference and section 47 enquiry may take up to 50 days to complete thus increasing the delay and harmful impact on the child involved.

How many children may be affected? According to statistics published by Ofsted in 2011, the number of Residential Family Centre places provided at any one time varies from between 392 and 417 places, usually occupied by one parent and one child. Thus between 196 and 209 children could be taking part in the assessments each year. Of these around 2/3 remain with their parents (minimum 107 to max 114 children) and around 51 per cent (figure taken to represent ‘more than half’ - Ward et al (2010)) could be erroneously remaining with their parents. This translates into around 67 to 71 children per cohort (see Chart 1).

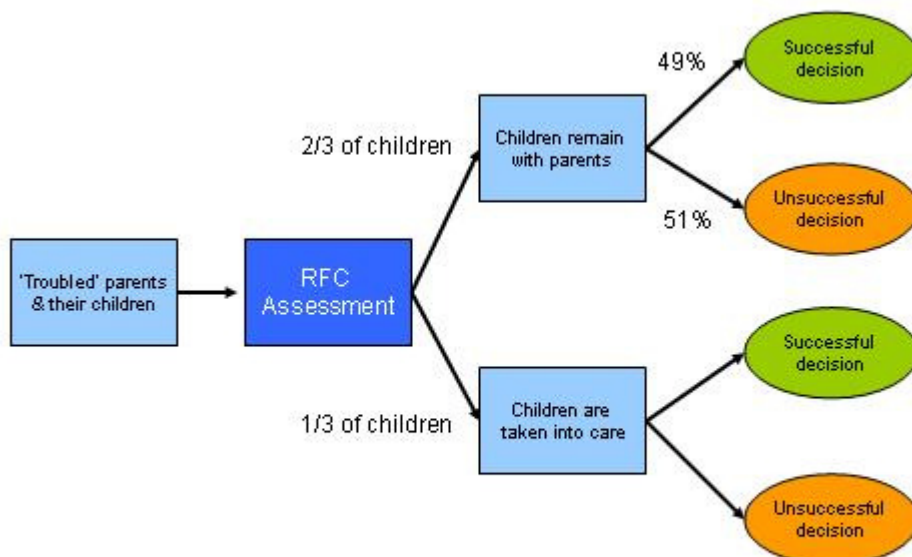


Chart 1 – Children who may erroneously remain with their parents due to low quality assessments

4.1. The impact of neglectful parenting

Children who erroneously remain with their parents may be exposed to neglectful parenting which, according to Davies and Ward (2011), may lead to children having poorer emotional knowledge, being less able to discriminate between different kinds of emotions and may also have lower self-esteem and higher levels of emotional problems. Neglected children tend to be more aggressive than children who are not neglected and are also more uncooperative and noncompliant.

There is also a related impact on children's social development: the evidence suggests that neglected children are more withdrawn and socially isolated and less socially competent than their peers. Data from the large American longitudinal LONGSCAN sample show that at the age of eight ‘general neglect’,

⁴ Davies and Ward (2011), “Safeguarding Children Across Services – Messages from Research”, Kingsley Publishers, London

as identified by child protection services, continues to be associated with behaviour problems, impaired socialisation and problems with daily living skills.

The stage of life at which a child experiences neglectful parenting is important, as is the duration of the experience. Neglected children may experience a lack of stimulation in early childhood, resulting in delayed speech and language problems. This means that these children start school at a disadvantage, and may be one reason why neglect has been shown to have a serious impact on educational achievement and cognitive development.

The Recognition of Adolescent Neglect Review (2011)⁵ found that neglect is most damaging in both the early stages of life and in the teenage years. By adolescence neglect and/or neglectful parenting are associated with poorer physical and mental health, risky health behaviours, risks to safety including running away, poorer conduct and achievement at school, and negative behaviours such as offending and anti-social behaviour’.

The evidence collated by Davies and Ward (2011)⁶ suggests that neglectful parenting and emotional abuse are directly correlated with poor mental health, which in turn is linked to subsequent poorer education related outcomes as well as increased risk of youth offending.

Given the difficulty of the interconnectedness of these negative outcomes the difficulty of assigning the individual unit costs of these, we have decided to use the annual total cost of poor mental health as quoted in a recent cross-study analysis by the World Health Organisation (WHO) as a proxy for the aggregated impact of neglectful parenting and emotional abuse.

The WHO study estimates the cost of poor mental health during childhood and adolescence at an annual cost of £11,000 to £59,000 per child⁷ (in 2008 prices), depending on the ages included and conditions examined. This includes cost to the health system, social services, education system, criminal justice system and voluntary services.

5. Policy objective

The policy objective is to improve (i) the quality of experience to families undergoing an assessment and (ii) the effectiveness of assessments.

The outcome is to reduce the likelihood of erroneous placement decisions due to low quality assessments.

6. Description of options considered

Options	Description
Option1 / Reference case	Describes the cost to society of ‘doing nothing’ in terms of negative outcomes from low quality assessments.
Option 2	Keep existing National Minimum Standards (NMS), but add further standards to improve the effectiveness of assessments and quality of experience for families.
Option 3	Reduce the existing National Minimum Standards, where deemed unnecessary and not compromising existing quality and effectiveness.
Option 4	Combination of Option 1 and Option 2. Reduce the existing NMS, where deemed unnecessary, and introduce new NMS to increase quality of care and effectiveness of assessments.

⁵ Rees, Stein, Hicks and Gorin (2011), <http://php.york.ac.uk/inst/spru/research/summs/neglected.php>

⁶ Davies and Ward (2011), “Safeguarding children across Services – Message from research”, Kingsley Publishers, London

⁷ World Health Organisation (2008), “Economic aspects of mental health in children and adolescents”, WHO European Office for Investment for Health and Development

7. Costs and benefits of each option (including administrative burden)

IMPORTANT NOTE

The presented discounted costs and benefits for the following Options are calculated over 10 years of the policy, but have different underlying time periods.

The costs to society are calculated, according to HM Government guidance on the Impact Assessment Toolkit, over a time period of 10 years (see page 19 of guidance).

The benefits to society, in the form of avoided costs of poor mental health, are calculated over ten cohorts (yearly intakes) accruing over 30 years of their life time, discounted to their present value.

7.1. Option 1 / The reference case – The on-going cost to society of the status quo

The erroneous placements affect two groups of children: (i) those that should be in care, but are not ((C), bottom left quadrant of the table) and (ii) those that should not be in care, but are ((B), top right quadrant of the table).

	Children not in care	Children in care
Should <u>not</u> be in care	<input checked="" type="checkbox"/> Correct decision (A)	<input type="checkbox"/> Incorrect decision (B)
Should be in care	<input type="checkbox"/> Incorrect decision (C)	<input checked="" type="checkbox"/> Correct decision (D)

However, it is very difficult to obtain estimates on the size of the latter group (B), thus we have concentrated on the former group (C), where a recent study by Ward et al (2010)⁸ found that 2/3 of assessments advised that children should remain with birth parents, but in over half of these cases (51%) the children eventually had to be removed. As described in section 3, we estimate that between 67 and 71 children could be affected by erroneous care decisions each year.

As described in section 3, children who erroneously remain with their parents may be prone - due to the consequences of neglectful parenting and emotional abuse - to poor health, education related outcomes as well as involvement in youth delinquency. The table below provides an overview of the cost to society for each of the negative outcomes.

	£ min	£ max	Unit
Cost of poor mental health	£4,832	£5,739	Cost per case
Cost of school exclusion	n/a + £10,000 per annum for alternative education provision	£63,851+ £10,000 per annum for alternative education provision	Average per child over a life time
Cost of persistent truancy	n/a	£44,468	Average per child over a life time
Cost of youth delinquency	£75,000 (mild to moderate)	£225,000 (severe conduct problems)	Average per child over a life time
WHO aggregate cost	£11,000	£59,000	Average cost per child per annum

Table 1 – Overview of costs due to neglectful parenting and emotional abuse in 2008 prices for one cohort of children; References – see end of Annex 1

Given the difficulty of the interconnectedness of these negative outcomes the difficulty of assigning the individual unit costs of these, we have decided to use the annual total cost of poor mental health as quoted in a recent cross-study analysis by the World Health Organisation (WHO) as a proxy for the aggregated impact of neglectful parenting and emotional abuse.

⁸ DfE Research Brief (2010), "Infants suffering, or likely to suffer, significant harm: A prospective longitudinal study", DfE-RB053

The WHO study estimates the cost of poor mental health during childhood and adolescence at an annual cost of £11,000 to £59,000 per child⁹ (in 2008 prices), depending on the ages included and conditions examined. This includes cost to the health system, social services, education system, criminal justice system and voluntary services.

In addition to the above costs of negative outcomes, parents of children who may have erroneously been placed into care may appeal against care orders. Both parents and the child in question can appeal against a care order within 21 days of the order being made¹⁰. The average costs per court appeal (in 2012 prices) are estimated at £1,665¹¹, this includes the permission to appeal fee of £465, the listing fee of £110 and a flat-fee of full appeal of £1,090.

7.2. Option 2 - Keep existing National Minimum Standards (NMS), but add further standards to improve the effectiveness of assessments and quality of experience for families.

The benefit of this option is to improve the quality of experience to families and effectiveness of assessments. Regarding the latter, the new NMS could help reduce the likelihood of children ending up in the top right quadrant (B) or bottom left quadrant (C) and thereby moving more children into 'correct' placements, i.e. the top left (A) and bottom right quadrant (D).

	Children not in care	Children in care
Should <u>not</u> be in care	<input checked="" type="checkbox"/> Correct decision (A)	<input type="checkbox"/> Incorrect decision (B)
Should be in care	<input type="checkbox"/> Incorrect decision (C)	<input checked="" type="checkbox"/> Correct decision (D)

Description of the Option

This involves adding new standards to the NMS which increase requirements for providing robust, evidence-based assessments of parenting capacity. Previously, there were no minimum standards prescribed for assessments. As a result of these proposed changes, we would expect providers to improve the quality of the assessments made, in line with the minimum standard. In addition, Ofsted inspect the providers on the basis of the NMS so an extra standard on assessments would be included in the new inspection framework, providing an added incentive.

If the assessments improve in quality (albeit by improving staff training /staff spending more time with the families) we would expect the quality of experience for the residents to improve as a consequence.

We have, for this stage of the impact assessment, not described the exact nature of the new National Minimum Standards as we will seek views from stakeholders in the consultation.

The benefit of reducing the number of children in quadrant (C)

NB: Whilst there is evidence to show that there are negative outcomes associated with growing up in care¹²; we are not able to quantify the benefits of reducing the number of children in quadrant (B). This is because no evidence exists on the number of children from RFCs who are incorrectly placed in care when they should have, in hindsight, remained with their families. Chart 1 on page 9 shows that whilst we have data to show whether or not children who remain with the parents should have done, we do not have the equivalent data to verify decisions for children sent into care.

⁹ World Health Organisation (2008), "Economic aspects of mental health in children and adolescents", WHO European Office for Investment for Health and Development

¹⁰ Citizen's Advice Bureau, http://www.adviceguide.org.uk/index/your_family/family_index_ew/children_and_local_authority_care.htm#What_happens_once_a_care_order_has_been

¹¹ Ministry of Justice (2011), "Fees in the High Court and Court of Appeal Civil Division"

¹² Department for Education (2011) Outcomes for children looked after as at 31 March 2011 SFR 30/2011

The potential benefit of reducing the number of children in quadrant (C) is the avoided or at least partly avoided cost to society in terms of negative outcomes associated with on-going neglectful parenting and emotional abuse, as detailed in Table 1. The aggregate avoided cost of these negative outcomes could be between £11,000 and £59,000 per annum per child (in 2008 prices). A further avoided cost could be court appeals by parents.

However, the introduction of new regulations and National Minimum Standards may not lead to a full reduction in the number of children who erroneously placed. We estimate that the reduction in erroneous placements from currently 51 per cent could be reduced between 5 percentage points (low estimate) and 15 percentage points (high estimate). Our central or best estimate could lie between these two scenarios at 10 percentage points. We have trawled through existing evidence which may support these assumptions, but have not been able to identify any directly applicable evidence. Therefore these assumptions are conservative and will need to be verified in an ex-post evaluation.

Thus the lower bound estimate for the discounted present value of benefits associated with adding new regulations and standards and thus the avoided external cost of on-going neglectful parenting and emotional abuse of children of one single cohort is estimated to range between £366,754 (lower scenario) and £9,637,808 (higher estimate). The discounted present value over 10 cohorts is estimated to range between £3,416,867 (lower estimate) and £89,790,639 (higher estimate).

For example, the lower bound estimate is derived by multiplying the (a) lower bound proxy cost for negative outcomes (WHO estimate of £11,000) with (b) the lower bound estimate of children which could be 'saved' from erroneous placements and (c) the likelihood of them developing a mental health problem. Research has shown that developing mental health problems from on-going neglectful parenting and emotional abuse is the trigger for the development of further negative outcomes, such as poor health and low attainment.

Starting with (a), we adjust the lower bound proxy estimate from the WHO of £11,000 from 2008 to 2012 prices £12,107 by using the GDP deflator.

Turning to (b), we derive the lower bound estimate for the number of children which could be 'saved' from being erroneously placed with their families – which is 7 children (rounded). The overall estimate is that at a minimum 196 children are assessed in RFCs across England each year (see section 3) and of these around 2/3 remain with their families (or 131 in absolute terms); of these 51 per cent are deemed to be erroneously left with their families or 67 in total ($196 \times 2/3 \times 51\%$).

In the lower bound estimate the percentage of children who may be erroneously placed could be reduced by 5 percentage points to 46%, which are 60 in total ($196 \times 2/3 \times 46\%$). Thus the reduction of erroneous placements by 5 percentage points would translate into 7 children per year ($67 - 60 = 7$).

Last but not least (c), the lower bound estimate of the likelihood of children developing a mental health problem is estimated at 21 per cent. This is derived from a study by the Office for National Statistics (2005) on "Mental health of children and young people in Great Britain" suggests that around one in ten children (10.3%) have a diagnosable mental health problem. However, as these children are exposed to higher risks, we believe that the chance of developing one or multiple mental health problems is significantly higher.

A recent study by Young et al (2011) "*Children's perceptions of parental emotional neglect and control and psychopathology*" found that children who were exposed to neglectful parenting are more than three times more likely to develop a depressive disorder (OR 3.10) when comparing neglectful parenting with optimum parenting, and a more than twice as likely to develop a behavioural disorder (OR 2.07) and any type of disorder (OR 2.41).

We therefore assume for this specific group of children that the likelihood of developing a mental health problem from on-going parental neglect and emotional abuse may range between 21 per cent, the (lower estimate) and 32 per cent (high estimate). Our central or best estimate is however 25 per cent. In all three cases we have multiplied the baseline population estimate of 10.3 per cent with the three different Odd Ratios (OR) presented in the study by Young et al (2011). For example, the higher estimate is

calculated by multiplying the population estimate of 10.3 per cent by the Odds Ratio of 3.10, which gives us 32 per cent.

We would like to emphasise that the likelihood of neglected children developing a mental health problem, as outlined above, is likely to be a slight overestimation as the increased likelihood of neglected children having a mental health problem is applied to the whole population and not adjusted for the percentage for non-neglected children. However, this is a necessary estimation because there is no direct evidence on the proportion of neglected or non-neglected children with a mental health problem.

Thus lower bound estimate present value of external costs is £12,107 x 7 children x 21 per cent which equals £16,949,¹³ the non-discounted annual avoided costs. Using this figure over a 30 year period (one single cohort) and discounting this at a rate of 3.5 per cent leads us to the discounted present value of £328,681. And over 10 cohorts the corresponding discounted figure is £3,062,153.

It is important to state that the proposals outlined in this Impact Assessment are designed to improve the quality of judgements, made in Residential Family Centres, of parents' capacity to care for their children. This does not, however, mean that the number of families entering Residential Family Centres for such an assessment will differ, as a result of the policy, or that the number of children entering care, following an assessment will differ.

It is therefore not possible to estimate the likely costs (or savings) to Local Authorities or having more (or fewer) children in care, as a result of the proposal. However, it is possible that a reduction in the number of children erroneously placed in care would be balanced out by a reduction in the number of children erroneously sent home with the parents thus resulting in a cost neutral outcome for Local Authorities. We will however test this assumption during the consultation.

The benefit of improving the quality of experience

A survey conducted by the Commission for Social Care Inspection in 2006¹⁴ provides an overview of proposed structural (such as improving facilities or providing more social activities) as well as non-structural (such as providing more information on the care plan) improvements.

The former may be linked to increased costs to RFCs, while the latter may have very low or no costs attached to them. We will seek views in the consultation which would be most suitable to improve quality of experience to families and will revisit the costs thereafter.

Cost of increasing children in quadrants (A) and (D)

As the number of erroneously placed children may decrease, the number of correctly placed children will subsequently rise.

While increasing the number of children in (A) should not lead to any additional public sector cost, the additional 'correct' care orders for (D) may lead to increased costs of residential or foster care places. According to the Personal Social Services Research Unit (2011), the costs of a residential care home can vary between £2,557 and £2,965 per week. However, these could be set against the avoided costs of negative outcomes should the children have not been placed correctly.

Administrative cost of increasing National Minimum Standards

Additional National Minimum Standards may increase the financial cost of the inspection burden or pose at least an opportunity cost to Ofsted. However, Ofsted have indicated (from initial, informal discussions) that the additional inspection time could be internalised through increased productivity and would not lead to an increase in inspection time or tariff. We will test this theory formally in the consultation.

However, the increase in NMS may increase the burden on RFCs, through time spent on parental assessments. We intend to issue a consultation on revised Regulations and NMS which will ask RFCs to consider the costs of additional standards.

¹³ This figure is lower than £12,107x7x21 per cent due to rounding

¹⁴ Commission for Social Care Inspection (2006), "Young People's Views on Residential Family Centres"

The estimated cost to RFCs of familiarisation with revised National Minimum Standards

The current set of National Minimum Standards applies to around 61 Residential Family Centres and any changes to the National Minimum Standards (NMS) will apply to all of these. The proposed changes to NMS may incur additional administrative costs to all RFCs of familiarising themselves with the new NMS, but we expect these costs to be minimal.

We do not have any evidence about when, how long or how often individual RFCs need or want to consult any proposed new regulation, so estimating any re-familiarisation costs is difficult and speculative at this stage. It is likely that most RFCs only consult the regulations infrequently, but at least once when new NMS come into force. We can, however, crudely – at this stage before the consultation – estimate the order of magnitude of the potential administrative burden on RFCs of having to consult the new regulations.

The one-off costs are calculated by multiplying the average hourly salary cost by the estimated time spent of familiarisation with the new standards by the number of RFCs.

To derive the salary costs of Residential Family Centres we used the salary costs of fully staffed living settings as a proxy as detailed in the latest edition of 'Unit Costs of Health and Social Care' published by the Personal Social Services Research Unit in 2011, these are estimated at £964 per week (including direct and indirect staffing costs).

Moreover, we have assumed that the average employee works around 43.5 weeks per annum and 44.4 hours per week, as detailed in the 2006/07 UK General Practice Workload Survey, or 1,931.4 hours per annum. This translated into an average annual salary cost of £41,934 or £21.71 per hour in 2012 prices (£41,934 divided by 1,931.4 hours).

Furthermore we assume that RFCs may initially need 15 hours of familiarisation (central estimate) in each of the 61 Residential Family Centres¹⁵. We have also considered a lower and a higher bound estimate, this reflects the high level of uncertainty in the central estimate. For the one-off cost of familiarisation we have calculated the higher bound estimate on the basis of 20 hours and in the lower bound estimate a need for 10 hours of familiarisation.

Thus the non discounted one-off cost of familiarisation of the proposed new NMS could be as follows:

Scenario	One-off cost
Best	£19,866 (based on 15 hours)
High	£26,488 (based on 20 hours)
Low	£13,244 (based on 10 hours)

The estimated cost to RFCs of adapting to meet new NMS requirements

In addition to the initial costs of familiarisation, the RFCs may have to adapt their assessment procedures to take account of the new NMS.

Similar to the estimation of the one-off costs of familiarisation, we have no evidence on which to base any estimate of the potential resources costs to RFCs at this stage prior to the consultation, but any costs are also expected to be one-off. We have again attempted a crude estimate of the magnitude of the potential administrative burden to RFCs of having to adapt to the new NMS.

We have used the same methodology as in the previous section to estimate the workforce costs. The estimated average weekly direct and indirect employee costs are valued at £964, which is £21.7 per hour (when divided by the 44.4 average weekly working hours) or £192.80 per week (when divided by 5 days).

¹⁵ DfE Survey of RFCs ending 23 December 2011

We further assume that the necessary adaptation of assessment procedures may amount to one day of staff time in the lower case scenario, two days in the central estimate and three days in the higher bound scenario. In addition, we assume that one employee may implement the necessary changes.

On the basis of these assumptions, the one-off administrative costs of adapting the assessment procedure would be around £23,522 (£192.80 x 2 days x 61 Residential Family Centres) over the ten year period. The equivalent cost in the higher bound scenario would be £35,282 (£192.80 x 3 days x 61 Residential Family Centres) and in the lower bound scenario £11,761 (£192.80 x 1 day x 61 Residential Family Centres).

In summary

The discounted present value of adding new regulations (one-off familiarisation and one-off adaptation costs) of National Minimum Standards is estimated at £43,388 in the best case, £25,005 in the low case and £61,771 in the highest case. We will gather from the consultation what the perceived administrative costs are to RFCs.

The discounted present value of benefits associated with adding new regulations and standards and thus the avoided external cost of on-going neglectful parenting and emotional abuse of children is estimated to range between £3,416,867 (lower scenario) and £89,790,639 (higher estimate) over ten cohorts. We have selected a 30 year period as the avoided external costs of neglectful parenting and emotional abuse can be long-term.

The column on the far right hand side shows the resulting low, high and best estimate net present values (NPV) (in 2012 prices) calculated over a 10 year period using a 3.5% discount rate. The net present values are all positive, suggesting that this would be an improvement over the status quo. Our best estimate NPV is between these two scenarios and estimated at £50.64m.

	Costs (PV)	Benefits (PV)	Net Present Value
Low estimate	£25,005	£3,416,867	£3,391,862
High estimate	£61,771	£89,790,639	£89,728,869
Best estimate	£43,388	£50,683,001	£50,639,614

7.3. Option 3 - Reduce the existing National Minimum Standards, where deemed unnecessary and not compromising existing quality and effectiveness.

The main benefit of option is to reduce the burden of unnecessary NMS, but it would not increase the quality of experience to families nor improve effectiveness of assessments.

Description of Option

This involves reducing the existing NMS where deemed unnecessary. This reduction would focus on the standards that deal with the organisation and management of the Centres. By reducing this burden on providers, we would expect providers to have more time to focus on the principal function of the Centres – providing robust evidence-based assessments of parenting capacity. However, without additional NMS on assessments, there would be no way of ensuring that the extra time gained from reducing requirements elsewhere would be spent on improving the quality of assessments.

By reducing the number of NMS, staff at the Centre would have more time to spend with the residents of the Centre, rather than complying with procedural and organisational issues. We would therefore expect the quality of experience to improve as a result.

We have, for this stage of the impact assessment, not described the exact nature of the new National Minimum Standards as we will seek views from stakeholders in the consultation.

Administrative benefit of reducing National Minimum Standards

Reducing the National Minimum Standards may potential resource savings to Residential Family Centres in the form of fewer hours being spent on internal progress or compliance reports against the existing set of regulations and National Minimum Standards.

We assume that producing these internal reports may take 15 hours on an annual basis in the best case, 20 hours in the high case and 10 hours in the low case.

The hourly wage rate is derived by dividing the average annual salary of a team leader (Source: UK General Practice Workload Survey) of £41,934 by the average number of 1,931.4 working hours which leads us to an hourly salary rate of £21.71.

As set out in section 2 (“The problem under consideration), most of the current National Minimum Standards (NMS) do not address the effectiveness of the service provided by the RFCs and focus on procedural and organisational issues. We have assumed that around 50% (central estimate) of these NMS could be removed without compromising the existing quality and effectiveness of the service. This assumption is based on initial, informal discussions with Ofsted and on the reduction in detail in the recently-amended NMS for Children’s Homes (where there is considerable policy overlap). However, we will consult with stakeholders in the consultation whether this central estimate is realistic.

Based on these assumptions, we estimate that this benefit could be valued at an annual non-discounted benefit of £9,933 (15 hours x £21.71 hourly wage rate x 61 RFCs x Factor 0.5) in the best case: £13,244 in the high case (20 hours x £21.71 hourly wage rate x 61 RFCs x Factor 0.5) and £6,622 in the low case (10 hours x £21.71 hourly wage rate x 61 RFCs x Factor 0.5).

In addition to the above cashable savings to RFCs, there may be a reduction in the inspection burden to Ofsted. However, at this pre-consultation stage, it is not clear how this might reduce costs for Ofsted or administrative costs to the RFCs.

The on-going cost of the number of children erroneously placed children

As this option does not envisage any changes to focus the NMS more clearly on the desired outcomes of placements (i.e. robust, timely and low-cost assessments), there may not be any change to the quality nor effectiveness of assessments. Thus the on-going cost, as detailed in the reference case, may persist.

In summary

The discounted present value of costs associated simply removing dated regulations and National Minimum Standards are estimated to be zero as there are no additional costs relative to the reference case.

The discounted present value of benefits relating to removing dated regulations and National Minimum Standards is estimated at £92,542 in the best case, £123,389 in the high case and £61,695 in the low case. We will gather from the consultation what the perceived administrative costs are to RFCs.

The column on the far right hand side shows the resulting low, high and best estimate net present values (NPV) (in 2012 prices) calculated over a 10 year period using a 3.5% discount rate. The net present values are all positive, suggesting that this would be socially desirable over the status quo. However, there is no improvement regarding the quality of experience to families nor an improvement regarding the effectiveness of assessments.

	Costs (PV)	Benefits (PV)	Net Present Value
Low estimate	£0	£61,695	£61,695
High estimate	£0	£123,389	£123,389
Best estimate	£0	£92,542	£92,542

7.4. Option 4 - Combination of Option 2 and Option 3. Reduce the existing NMS, where deemed unnecessary, and introduce new NMS to increase quality of care and

effectiveness of assessments.

Similar to Option 1, this option could not only increase the quality of experience to families and effectiveness of assessments but it would also reduce the administrative burden of dated, existing NMS.

Description of Option

This involves adding new standards to increase requirements for providing robust, evidence-based assessments of parenting capacity at the same time as reducing unnecessary NMS in areas related to the organisation of management of the Centres. In this way, by reducing requirements around procedural issues, providers will have more time to spend improving the quality of the assessments of parenting capacity. Moreover, given that Ofsted inspect the providers on the basis of NMS, an extra standard on assessments would be included in the inspection framework thus providing an added incentive for providers.

As a result of these changes, we would expect the quality of experience to improve for residents as they receive higher quality assessments from better trained staff. The staff would also have more time to spend with them, as a result of fewer Standards related to the management and organisation of the Centres.

We have, for this stage of the impact assessment, not described the exact nature of the new National Minimum Standards as we will seek views from stakeholders in the consultation.

The benefit of reducing the number of children in quadrant (B) and (C)

As described under Option 1, the main benefit of introducing new NMS is the avoided or at least partly avoided cost to society in terms of negative outcomes associated with on-going neglectful parenting and emotional abuse, as detailed in Table 1, for those children in the bottom left quadrant (C). The aggregate avoided cost of these negative outcomes could be between £11,000 and £59,000 per annum per child (in 2008 prices). A further avoided cost could be court appeals by parents who could be avoided.

For the children in the top right quadrant (B), the benefit could be the reduction in stress or trauma of being separated from the family and possibly connected to this the likelihood of placement breakdowns. However, we do not have any research findings on this and are therefore unable to monetise or quantify this. A further benefit to (B) would be the reduction in the number of care places which have erroneously been delivered. According to the Personal Social Services Research Unit (2011), the costs of a residential care home can vary between £2,557 and £2,965 per week (in 2011 prices).

The benefit improving the quality of experience

As described under Option 1 NMS aimed at improving the quality of experience could relate to structural (such as improving facilities or providing more social activities) as well as non-structural (such as providing more information on the care plan).

The former may be linked to increased costs to RFCs, while the latter may have very low or no costs attached to them. We will seek views in the consultation which would be most suitable to improve quality of experience to families and will revisit the costs thereafter.

Administrative benefit of reducing dated National Minimum Standards to Ofsted and Local Authorities

Reducing the National Minimum Standards may reduce the inspection burden to Ofsted. However, at this pre-consultation stage, it is not clear how this might reduce costs for Ofsted. Secondly, the introduction of the new NMS may cancel out, depending on the length and scope of them, the gain in having removed unnecessary, existing NMS.

Turning to the cost to Local Authorities, the removal of unnecessary NMS could reduce the overall cost of RFC assessments; however, the introduction of new NMS to improve the quality of care and effectiveness of assessments may cancel out this gain or even increase it. The planned consultation will provide us with a clearer indication of these potential benefits/costs.

Cost of increasing children in quadrants (A) and (D)

As the number of erroneously placed children will decrease, the number of correctly placed children will subsequently rise.

While increasing the number of children in (A) should not lead to any additional public sector cost, the additional 'correct' care orders for (D) may lead to increased costs of residential or foster care places. According to the Personal Social Services Research Unit (2011), the costs of a residential care home can vary between £2,557 and £2,965 per week. However, these could be set against the avoided costs of negative outcomes should the children have not been placed correctly.

It is important to state that the proposals outlined in this Impact Assessment are designed to improve the quality of judgements, made in Residential Family Centres, of parents' capacity to care for their children. This does not, however, mean that the number of families entering Residential Family Centres for such an assessment will differ, as a result of the policy, or that the number of children entering care, following an assessment will differ.

It is therefore not possible to estimate the likely costs (or savings) to Local Authorities or having more (or fewer) children in care, as a result of the proposal. However, it is possible that a reduction in the number of children erroneously placed in care would be balanced out by a reduction in the number of children erroneously sent home with the parents thus resulting in a cost neutral outcome for Local Authorities. We will however test this assumption during the consultation.

The estimated cost to RFCs of familiarisation with revised National Minimum Standards

The costs of familiarisation are deemed to be the same as detailed under Option 2. We assume that the one-off (annual, non-discounted) and triennial administrative cost of familiarisation of the proposed new NMS could be valued as follows:

Scenario	One-off cost
Best	£19,866 (based on 15 hours)
High	£26,488 (based on 20 hours)
Low	£13,244 (based on 10 hours)

The estimated cost to RFCs of adapting to meet new NMS requirements

As described under Option 2, we also believe that there may be in addition to the costs of familiarisation, a one-off cost of adapting to the new NMS.

On the basis of the assumptions detailed under Option 2, we estimate that the one-off administrative costs of adapting the assessment procedure would be around £23,522 (£192.80 x 2 days x 61 Residential Family Centres) over the ten year period. The equivalent cost in the higher bound scenario would be £35,282 (£192.80 x 3 days x 61 Residential Family Centres) and in the lower bound scenario £11,761 (£192.80 x 1 day x 61 Residential Family Centres).

In summary

The discounted present value of costs of adding new regulations and National Minimum Standards is estimated at £43,388 (cost of familiarisation £19,866 and adaptation £23,522) best estimate for now. The estimates for the high and low cost scenario are detailed below in the table. We will gather from the consultation what the perceived administrative costs are to RFCs.

The discounted present value of benefits associated with adding new regulations and standards (see section above) and thus the avoided external cost of on-going neglectful parenting and emotional abuse (see Option 2 for detailed explanation of calculations) of children is estimated to range between £3,813,387 (lower scenario) and £90,878,423 (higher estimate). We have selected a 30 year period as the avoided external costs of neglectful parenting and emotional abuse can be long-term.

The column on the far right hand side shows the resulting low, high and best estimate net present values (NPV) (in 2012 prices) calculated over a 10 year period using a 3.5% discount rate.

The net present values are all positive, suggesting that this would be an improvement over the status quo. Our best estimate NPV is between these two scenarios and estimated at £51.50m.

	Costs (PV)	Benefits (PV)	Net Present Value
Low estimate	£25,005	£3,991,664	£3,966,639
High estimate	£61,771	£90,940,193	£90,878,423
Best estimate	£43,388	£51,545,167	£51,501,779

8. Risks and assumptions

While there is an encouraging amount completed and on-going research regarding the costs to society from neglectful parenting and emotional abuse, it is however not straight forward to estimate the likelihood and severity of correlated negative outcomes (such as mental health problems) and risky behaviours (such as offending).

While research collated by Davies and Ward (2011) suggests that neglectful parenting and emotional abuse is correlated with poorer physical and mental health, risky health behaviours, risks to safety including running away, poorer conduct and achievement at school, and negative behaviours such as offending and anti-social behaviour. However, these negative outcomes and risky behaviours may materialise at different stages in the child's future development. Research suggests that the adverse impact of neglectful parenting and emotional abuse may show first of all in deteriorating mental health which may lead to later further negative outcomes.

However, not all children may develop mental health problems. A study by the Office for National Statistics (2005) on "Mental health of children and young people in Great Britain" suggests that around one in ten children (10.3%) have a diagnosable mental health problem. However, as these children are exposed to higher risks, we believe that the chance of developing one or multiple mental health problems is significantly higher.

A recent study by Young et al (2011) "*Children's perceptions of parental emotional neglect and control and psychopathology*" found that children who were exposed to neglectful parenting are more than three times more likely to develop a depressive disorder (OR 3.10) when comparing neglectful parenting with optimum parenting, and a more than twice as likely to develop a behavioural disorder (OR 2.07) and any type of disorder (OR 2.41).

We therefore assume for this specific group of children that the likelihood of developing a mental health problem from on-going parental neglect and emotional abuse may range between 21 per cent (lower estimate) and 32 per cent (high estimate). Our central or best estimate is however 25 per cent. In all three cases we have multiplied the baseline population estimate of 10.3% times the three different Odds Ratio (OR) presented in the study by Young et al (2011).

We will seek views on these assumptions in the consultation.

9. Direct costs and benefits to business calculations (following OIOO methodology)

The Equivalent Annual Net Cost to Business (EANCB) for Option 4 is estimated to be £-0.006m (£-5,657); in fact businesses are estimated to have a net benefit of £49,154 over the ten year period. This is the net difference between the value of removing dated regulations and the cost of adding new ones.

This present value of costs to businesses is estimated at £43,388 (best estimate) which represents an equivalent annual cost of £0.005m (£5,040); this consists of the one-off cost of familiarisation and adaptation of introducing new regulations. We will gather from the consultation what the perceived administrative costs are to RFCs. On the other side stand the benefits of removing dated regulations which is valued at £92,542 over the ten year period, representing an equivalent annual benefit of £0.011m (£10,751).

The estimated cost to RFCs of adapting to meet new NMS requirements

In addition to the initial costs of familiarisation, the RFCs may have to adapt their assessment procedures to take account of the new NMS.

We have no evidence on which to base any estimate of the potential resources costs to RFCs at this stage prior to the consultation, but any costs are also expected to be one-off. We have again attempted a crude estimate of the magnitude of the potential administrative burden to RFCs of having to adapt to the new NMS.

The methodology we have applied to derive the adaptation costs is: average daily rate x number of working days x number of RFCs.

Starting with the daily rate, the estimated average annual direct and indirect employee costs are valued at £41,934 per person, per annum. We have derived this from the proxy salary costs of fully staffed living settings as detailed in the latest edition of 'Unit Costs of Health and Social Care' published by the Personal Social Services Research Unit in 2011, these are estimated at £964 per week (including direct and indirect staffing costs). Moreover, we have assumed that the average employee works around 43.5 weeks per annum and 44.4 hours per week, as detailed in the 2006/07 UK General Practice Workload Survey.

The daily rate is calculated as follows: Firstly, we calculate the hourly rate by dividing the average annual employee cost of £41,934 by the average working hours per annum by 1,931.4, which gives us the hourly rate of £21.7. Secondly, we multiply the hourly rate by the average weekly working hours of 44.4 and divide this by 5, the number of working days, which leaves us with the average daily rate of £192.80.

We further assume that the necessary adaptation of assessment procedures may amount to one day of staff time in the lower case scenario, two days in the central estimate and three days in the higher bound scenario. In addition, we assume that one employee may implement the necessary changes.

The current set of National Minimum Standards applies to around 61 Residential Family Centres and any changes to the National Minimum Standards (NMS) will apply to all of these.

On the basis of these assumptions, the one-off administrative costs of adapting the assessment procedure would be around £23,522 (£192.80 x 2 days x 61 Residential Family Centres) over the ten year period. The equivalent cost in the higher bound scenario would be £35,282 (£192.80 x 3 days x 61 Residential Family Centres) and in the lower bound scenario £11,761 (£192.80 x 1 day x 61 Residential Family Centres).

The estimated cost to RFCs of familiarisation with revised National Minimum Standards

We do not have much evidence on when, how long or how often individual RFCs need or want to consult any proposed new regulation, so estimating any re-familiarisation costs is difficult and speculative at this stage. It is likely that most RFCs only consult the regulations infrequently, but at least once when new NMS come into force. We can, however, crudely – at this stage before the consultation – estimate the order of magnitude of the potential administrative burden on RFCs of having to consult the new regulations.

To derive the salary costs of Residential Family Centres we used the salary costs of fully staffed living settings as a proxy as detailed in the latest edition of 'Unit Costs of Health and Social Care' published by the Personal Social Services Research Unit in 2011, these are estimated at £964 per week (including direct and indirect staffing costs). Moreover, we have assumed that the average employee works around 43.5 weeks per annum and 44.4 hours per week, as detailed in the 2006/07 UK General Practice Workload Survey. This translated into an average annual salary cost of £41,934 or £21.71 per hour in 2012 prices (£41,934 divided by 1,931.4 hours).

Furthermore we assume that the 61 Residential Family Centres¹⁶ may initially need 15 hours of familiarisation in the best case, 20 hours in the high case and 10 hours in the low case. Thus the total one-off administrative cost of familiarisation of the proposed new NMS could be valued at £19,866 (hourly rate of £21.71 x 15 hours x 61 RFCs) in year 1 in the best case, £26,488 (hourly rate of £21.71 x

¹⁶ DfE Survey of RFCs ending 23 December 2011

20 hours x 61 RFCs) in the high case and £13,244 in the low case (hourly rate of £21.71 x 10 hours x 61 RFCs).

However, we will gather from the consultation what the perceived administrative costs are to RFCs.

The value of removing dated National Minimum Standards

The estimated present value of removing NMS is put at £ £9,933 per year or £ £92,542 over 10 years, as detailed in Option 3.

10. Summary and preferred option with description of implementation plan

Option 4 is preferred as it has the highest net present value of all considered options; it is valued at £51.50m (its discounted costs outweigh its discounted benefits).

The next best option to consider would be Option 2 with a positive NPV of £51.64m. The only difference between these two options is the potential resource savings to both RFCs and Ofsted through removing dated regulations and National Minimum Standards.

11. Post-Implementation Review

- 11.1.** Basis of review: There is a sunset clause in the Regulations that requires review of the policy.
- 11.2.** Review objective: The purpose of the review is to ensure that, as a result of revising Regulations and National Minimum Standards, Residential Family Centres have a greater focus on providing robust, evidence-based assessments of parenting capacity and that Ofsted are better able to evaluate their performance on this basis.
- 11.3.** Review approach and rationale: The two main groups to be involved in the review will be the RFCs and Ofsted. We are regularly in contact with both groups which provides the opportunity to discuss and review the impact of these changes on an on-going basis.
- 11.4.** Baseline: For RFCs, the baseline is the current number of children who are erroneously sent home with their parents as a result of poor quality parenting assessments. A proxy could be the number of repeat contacts of families with Social Services. For Ofsted, the baseline is the current inspection system.
- 11.5.** Success criteria: A reduction in the number of children erroneously sent home with their parents and who are thus exposed to on-going neglectful parenting and emotional abuse. Ofsted's ability to create a new inspection framework on the basis of revised Regulations and National Minimum Standards.
- 11.6.** Monitoring information arrangements: Both formal and informal contact with RFCs and Ofsted. We will send out formal evaluation surveys to review the policy. However, we will also remain in contact, informally, with RFCs and contacts within Ofsted to understand the impact of the policy.

ANNEX 1 - The economic cost of poor emotional and mental health

According to the supporting document¹⁷ to HM Government’s new mental health strategy, mental ill health is the single largest cause of disability in the UK, contributing up to 22.8% of the total burden, compared to 15.9% for cancer and 16.2% for cardiovascular disease. The wider economic costs of mental illness in England alone have been estimated at £105.2 billion each year. This includes direct costs of services, lost productivity at work and reduced quality of life.

The study by the World Health Organisation also provides a picture of the overall burden. Costs accrued by the health system comprise only a very small proportion of the overall costs (1.5–15 per cent, with an average of 6.1 per cent). A large part of the burden appears to fall on the education system (2.1–91 per cent, with an average of 45 per cent between studies), which highlights the particular interest of the Department for Education.

According to the Personal Social Services Research Unit (PSSRU), the average treatment cost per case per child is between £4,832 and £5,739 to the NHS.

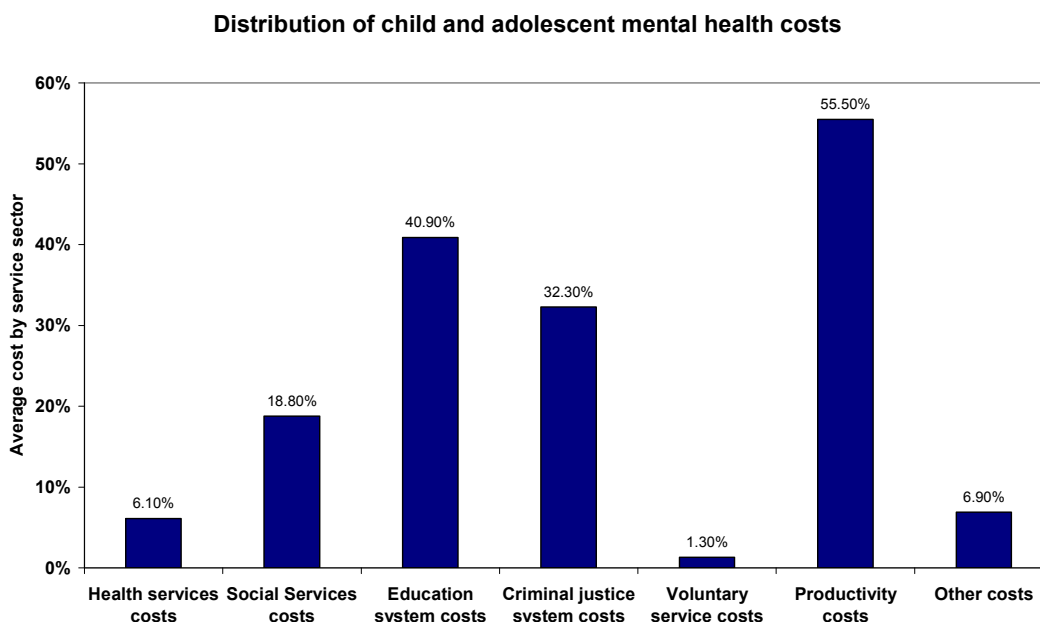


Chart 2 – Distribution of child and adolescent mental health costs; Source: World Health Organisation (2008), “Economic aspects of mental health in children and adolescents”, WHO European Office for Investment for Health and Development

The economic cost of poor education outcomes

We’ve also reviewed the existing evidence base and found that a number of studies agree that mental health problems have a negative impact on attainment as well as attendance.

¹⁷ HM Government (2011), “No health without mental health – Supporting Document – The economic case for improving efficiency and quality in mental health”

The impact of poor mental health on basic skills

A study by the ONS (2004)¹⁸ found that over half (56 to 57 per cent) of children with conduct disorders had difficulty with reading and mathematics and nearly two-thirds (64 per cent) had problems with spelling. Among those with no such disorder these proportions were around a quarter (21, 23 and 29 per cent).

Furthermore the study shows that difficulties of children with conduct disorders also have an effect on their overall functioning in relation to what would be expected of a child of that age: 59 per cent were rated as being behind their overall intellectual development. In comparison, 'only' 24 per cent of children without a disorder were ranked behind the development of their peers.

The impact of poor mental health on attendance and exclusion

The same study by the ONS found that children with conduct disorders were more likely to miss school, 79 per cent compared to 68 per cent of children with no disorder. Children were also more likely to be absent for longer periods, 42 per cent had more than five days absence and 14 per cent has more than 15 days absence in a school term. Amongst those with no conduct disorder these proportions were lower at 21 per cent and four per cent respectively.

While the majority of school absences were authorised, still around 28 per cent of children had absent unauthorised compared with only 8 per cent with children with no disorders.

The average life time cost of persistent truancy¹⁹ is estimated, by a study by New Philanthropy Capital (NPC), at £44,468. This figure splits roughly half between costs to the individual and half of costs borne by the rest of society.

A third of children with conduct disorders had been excluded from school at some point and nearly a quarter (22 per cent) has been excluded more than once. For children with no conduct disorder, the proportions were 2 per cent and 1 per cent. Overall, eight per cent of exclusions had been permanent and 14 per cent of children had received some educational provision after exclusion.

The same NPC study puts the life time cost of exclusion per average excluded child at an estimated £63,851 (2005 prices); this includes costs to the child as a consequence of lost earnings resulting from poor qualifications and costs to society in from criminal activity, and additional use of health and social services. More than three quarters of the costs fall on society.

In addition, Local Authorities have a duty, under section 19 of the Education Act 1996, to provide suitable education for children of compulsory school age who cannot attend school - because of illness or exclusion, for example. The cost of providing 'alternative education provision' is estimated at £15,000 per annum²⁰ per child, which compares to around three times the cost of a place in a mainstream school.

The impact of emotional abuse

The second largest impact of ineffective assessments is the on-going cost of emotional abuse to children if erroneously placed.

Many authorities consider that emotional abuse is a component of all forms of child maltreatment. According to Davies and Ward (2011), there is powerful evidence of its harmful effects whether alone or associated with other forms of maltreatment.

The Emotional Abuse Intervention Review²¹ provides a valuable summary of this evidence. Emotional abuse is known to be particularly harmful when experienced in the first three years of life. It affects an infant's ability to form a secure attachment with an adult caregiver and to develop trust in others to provide a stable environment.

¹⁸ Office for National Statistics (2004), "Mental health of children and young people in Great Britain"

¹⁹ Source: New Philanthropy Capital (2007), "Misspent Youth: the cost of truancy and exclusion"

²⁰ DfES (2008). "Back on Track - A strategy for modernising alternative provision for young people"

²¹ Barlow and Schrader (2010), <https://www.education.gov.uk/publications/eOrderingDownload/DCSF-RBX-09-09.pdf>

Toddlers who experience rejection of their bids for attention will have difficulty in developing a sense of self-worth and belief in the availability of others.

In adolescence emotionally abused children may display higher levels of social problems, such as delinquency and aggression; they may also be more prone to eating disorders. Retrospective studies have also identified specific and unique types of problem associated with emotional abuse compared with other forms of maltreatment, particularly aggression in later childhood and dissociation, such as conduct problems.

At the more severe end, emotional abuse is known to be linked with children attempting suicide and suffering multiple mental health problems. One prospective follow-up study found that children who had been emotionally abused in early childhood reported more attempted suicides by adolescence. The majority received at least one diagnosis of mental illness and 73 per cent had two or more disorders.

The economic cost of youth offending

According to a study by the Sainsbury Centre for Mental Health (2009)²² around 80 per cent of all criminal activity is attributable to people who had conduct problems in childhood and adolescence, including about 30 per cent specifically associated with conduct disorder.

The term ‘conduct problem’ is used to describe a range of oppositional or anti-social forms of behaviour in childhood such as disobedience, lying, fighting and stealing. In some cases the severity and persistence of these problems is sufficient to justify a diagnosis of a conduct disorder, a recognised psychiatric condition. Conduct disorder affects about 6 per cent of all children aged between 5 and 16, according to a study by the Office for National Statistics (2005)²³.

Moreover, the study by the Sainsbury Centre found a particularly strong association between conduct problems in early life and the subsequent likelihood of involvement in criminal activity. The authors of the study also provide some estimates on the proportion of total crime committed by people with early conduct disorders. The table below shows that the 5 per cent of individuals who had severe conduct problems or a diagnosed conduct disorder during childhood were responsible for around 21.7 per cent of all recorded crime.

	Per cent of population	Per cent of crime (unadjusted)	Per cent of crime (adjusted)
Severe problems / conduct disorder	5.0	30.0	21.7
Moderate problems	15.0	37.4	30.3
Mild problems	30.0	21.9	27.7
Total combined	50.0	89.3	79.7

Table 2 – Early conduct problems and subsequent offending; Source: Sainsbury Centre for Mental Health (2009), “The chance of a lifetime – Preventing conduct problems and reducing crime”

One way of measuring crime-related costs of conduct problems is to measure them on an individual life time basis, instead at an aggregate level. The Sainsbury Centre has calculated, by combining data on adult outcomes from a longitudinal study from New Zealand and figures on the costs of crime published by the Home Office, that the overall lifetime cost of adverse outcomes among the 5 per cent of people with conduct disorders in childhood is around £225,000 per case. In contrast, the lifetime cost among the 45 per cent who have mild or moderate conduct problems in childhood is around £75,000 per case.

List of references for table

- Cost of poor mental health, Source: PSSRU, <http://www.pssru.ac.uk/pdf/uc/uc2011/uc2011.pdf>
- Cost of school exclusion, Source: New Philanthropy Capital (2007), “*Misspent Youth: the cost of truancy and exclusion*”
- Cost of persistent truancy, Source: Source: Source: New Philanthropy Capital (2007), “*Misspent Youth: the cost of truancy and exclusion*”

²² Sainsbury Centre for Mental Health (2009), “The chance of a lifetime – Preventing conduct problems and reducing crime”

²³ ONS (2005), “Mental health of children and young people in Great Britain”

- Cost of youth delinquency, Source: Sainsbury Centre for Mental Health (2009), "*The chance of a lifetime – Preventing conduct problems and reducing crime*"
- Total aggregate cost of poor mental health, Source: World Health Organisation (2008), "*Economic aspects of mental health in children and adolescents*", WHO European Office for Investment for Health and Development.