

Appendix 2

Financial Modelling for the Secure Children’s Home Project and PLV

There is a clear need to create more Secure Children’s Home provision for London. Detailed analysis supports the creation of 24 secure welfare beds.

These beds will allow London children to be placed within London.

The funding commitment from the Department for Education of £50+ million offers London an opportunity to invest significantly in improving outcomes for our most vulnerable children and young people.

Even with this additional funding, the financial, operational, and reputational risk required to take on this project is more than any single LA could manage. The case for creating this provision relies on collaboration between London LAs, and to this end, the establishment of the PLV will allow London LAs to share both the risks and benefits of the project. The PLV is the required infrastructure for the project to succeed.

This financial modelling outlines some predicted costs and estimated benefits for London local authorities. To compile these figures, we have used data submitted by London LAs on their use of secure placements and alternatives to secure, as well as detailed modelling from 2019-20. The figures from 2019-20 have been inflated to 2022 prices using the Consumer Price Index (CPI). *Please note, these figures are used to illustrate different scenarios - they do not represent the final placement prices or actual operating costs for the new provision.*

1. Annual Running Costs for the Secure Children’s Home and Pan-London Vehicle

The costings in the tables below are taken from the NEL business case. These final totals are then updated to 2022 prices using the CPI.

1.1: Secure Children’s Home

The current plan is for the proposed Secure Children’s Home provision to contain 24 beds, in one site. The below table from the business case shows the estimated annual running costs of various sizes of SCH in 2019/20 prices.

| Table 1 Accommodation Size | Indicative annual running costs 2019 |
|-------------------------------|--------------------------------------|
| 1 x 12 bed | £3.63m |
| 1 x 18 bed | £5.11m |
| 2 x 12 bed | £7.26m |
| 2 x 18 bed | £10.22m |

Shows indicative annual running costs for various sizes of SCHs.

Taking the proposal for 2 x 12 bed homes (24 beds), and updating this figure to 2022 prices, the current annual running cost for the Secure Children’s Home proposed is **£8.06m.**

1.2: Pan-London Vehicle

| PLV operational costs | Year 1 – start-up costs | Ongoing costs | |
|-----------------------|-------------------------|-----------------|---|
| Staff costs | £286,000 | £286,000 | The assumption is that hosting costs and start-up costs are likely to be lower if a London LA hosts the PLV |
| Hosting costs | £133,000 | £133,000 | |
| Start-up costs | £79,000 | - | |
| Total | £498,000 | £419,000 | |

Shows estimated costs of running the PLV annually and in the first year in 2019/20

Note: figures are rounded to the nearest £1k

| PLV operational costs in 2022 | Year 1 | Ongoing |
|-------------------------------|----------|----------|
| Total | £553,000 | £465,000 |

1.3: Transport Costs

Current transport costs (with no London SCH) in 2019/20 were estimated in the NEL business case to be £126,000. Updated to 2022 prices, this is £140,000.

The NEL business case suggested that LAs could expect the current transport costs to be halved by the creation of a London SCH. On this basis, transport costs in 2022, with the creation of a Secure Children's Home in London, would be: **£70,000**.

1.4: Total Indicative Cost to London

| | Estimated costs for 2022 |
|--|--------------------------|
| Running cost for 24 beds <i>including provider profit margin</i> | 8060000 |
| PLV Annual Cost | 465000 |
| Secure Transport Cost | 70000 |
| Total | £8,595,000 |

2. Costs and Benefits to Participating Local Authorities

The next section of the report compares a variety of scenarios to suggest estimated surplus or loss for different weekly costs of placement. Three sample costs of placements are used: £8.25k as mid-point of current secure children's home provision; £10k; and £12k, the latter recognising the often very high cost of alternative provision when Secure Children's Home places are not available. The outcomes of each scenario are compared at varying levels of occupancy and the effect of different

numbers of local authorities signing up. The scenarios consider occupancy at: 100%; 90%; 85%; and a final scenario (A4, B4, and C4) with occupancy of 50% in year 1 followed by 85% in each of years 2 and 3.

2.1: Scenario A

In these scenarios, the weekly placement cost which the SCH charges the LAs is £8250 across all years (no inflation factored in). *Please note, placements that could be made by other LAs, charged at a higher cost, have not been factored in.*

| Scenario A | A1 | A2 | A3 | A4 | | | |
|-------------------------------------|-------------|------------|------------|-------------|------------|------------|----------------|
| | | | | Year 1 | Year 2 | Year3 | Over 3 years |
| Occupancy Rate | 100% | 90% | 85% | 50% | 85% | 85% | Surplus / Loss |
| Annual Revenue Raised | £10,296,000 | £9266400 | £8751600 | £5,148,000 | £8,751,600 | £8,751,600 | N/A |
| Running Cost | £8,595,000 | £8,595,000 | £8,595,000 | £8,683,000 | £8,595,000 | £8,595,000 | N/A |
| Surplus/Loss | £1,701,000 | £671,400 | £156,600 | £-3,535,000 | £156,600 | £156,600 | £-1,073,930 |
| Surplus/Loss per LA with 33 members | £51,550 | £20350 | £4,750 | £-107,120 | £4,750 | £4,750 | £-32,540 |
| Surplus/Loss per LA with 25 members | £68,040 | £26856 | £6,264 | £-141,400 | £6,264 | £6,264 | £-42,960 |
| Surplus/Loss per LA with 16 members | £106,310 | £41960 | £9,790 | £-220,940 | £9,790 | £9,790 | £-67,120 |
| Surplus/Loss per LA with 8 members | £212,625 | £83925 | £19,575 | £-441,875 | £19,575 | £19,575 | £-134,240 |

2.2: Scenario B

In this scenario, the weekly placement cost is £10,000 across all years (no inflation factored in). *Please note, placements that could be made by other LAs, charged at a higher cost, have not been factored in.*

| Scenario B | B1 | B2 | B3 | B4 | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| | | | | Year 1 | Year 2 | Year3 | Over 3 years |
| Occupancy Rate | 100% | 90% | 85% | 5% | 85% | 85% | Surplus / Loss |
| Annual Revenue Raised | £12,480,000 | £11,232,000 | £10,608,000 | £6,240,000 | £10,608,000 | £10,608,000 | N/A |
| Running cost | £8,595,000 | £8,595,000 | £8,595,000 | £8,683,000 | £8,595,000 | £8,595,000 | N/A |
| Surplus/Loss | £3,885,000 | £2,637,000 | £2,013,000 | £-2,443,000 | £2,013,000 | £2,013,000 | £527,670 |
| Surplus/Loss per LA with 33 members | £117,730 | £79,910 | £61,000 | £-74,030 | £61,000 | £61,000 | £15,990 |
| Surplus/Loss per LA with 25 members | £155,400 | £105,480 | £80,520 | £-97,720 | £80,520 | £80,520 | £21,110 |
| Surplus/Loss per LA with 16 members | £242,810 | £164,810 | £125,810 | £-152,690 | £125,810 | £125,810 | £32,980 |
| Surplus/Loss per LA with 8 members | £485,625 | £329,625 | £251,625 | £-305,375 | £251,625 | £251,625 | £65,960 |

2.3: Scenario C

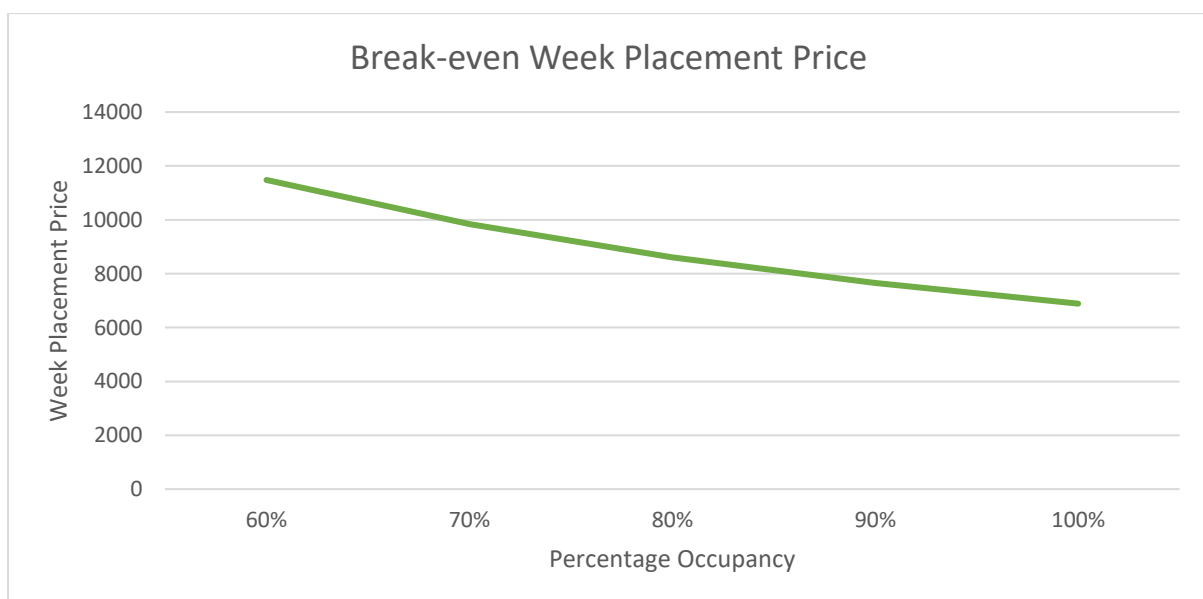
In this scenario, the weekly placement cost is £12,000 across all years (no inflation factored in). *Please note, placements that could be made by other LAs, charged at a higher cost, have not been factored in.*

| Scenario C | C1 | C2 | C3 | C4 | | | |
|-----------------------|-------------|-------------|-------------|------------|-------------|-------------|----------------|
| | | | | Year 1 | Year 2 | Year 3 | Over 3 years |
| Occupancy Rate | 100% | 90% | 85% | 50% | 85% | 85% | Surplus / Loss |
| Annual Revenue Raised | £14,976,000 | £13,478,400 | £12,729,600 | £7,488,000 | £12,729,600 | £12,729,600 | N/A |

| | | | | | | | |
|--|------------|------------|------------|-------------|------------|------------|------------|
| Running Cost | £8,595,000 | £8,595,000 | £8,595,000 | £8,683,000 | £8,595,000 | £8,595,000 | N/A |
| Surplus/Loss | £6,381,000 | £4,883,400 | £4,134,600 | £-1,195,000 | £4,134,600 | £4,134,600 | £2,358,070 |
| Surplus/Loss per LA with 33 members | £193,360 | £147,980 | £125,290 | £-36210 | £125,290 | £125,290 | £71,460 |
| Surplus/Loss per LA with 25 members | £255,240 | £195,336 | £165,384 | £-47,800 | £165,384 | £165,384 | £94,320 |
| Surplus/Loss per LA with 16 members | £398,810 | £305,210 | £258,410 | £-74690 | £258,410 | £258,410 | £147,380 |
| Surplus/Loss per LA with 8 members | £797,625 | £610,425 | £516,825 | £-149,375 | £516,825 | £516,825 | £294,760 |

3. Break Even Costs

The below graph demonstrates the weekly placement price the SCH would have to charge to break even at different levels of occupancy. This includes covering the costs of the PLV and secure transport. We can see that at below roughly 70% occupancy, the cost of a week placement in the secure children’s home needed for the home to break even rises above £1000. Of course, the running costs of the SCH will change with the number of children who are housed there, as staffing and food costs will vary. Therefore, we can expect that this model significantly overestimates the week-placement costs needed to break even at lower rates of occupancy.



The exact break-even weekly placement prices are shown in the table below, rounded to the nearest £10.

| Occupancy | Break Even Placement Price |
|-----------|----------------------------|
| 10% | £68,870 |
| 20% | £34,440 |
| 30% | £22,960 |
| 40% | £17,220 |
| 50% | £13,770 |
| 60% | £11,480 |
| 70% | £9,840 |
| 80% | £8,610 |
| 90% | £7,650 |
| 100% | £6,890 |

Cost of PLV

These estimates are taken from the NEL business case. We have included an updated cost for 2022.

Estimated Year 1 PLV Costs

The following Table shows the estimated costs of the PLV in Year 1 of operation based upon the assumption the PLV would be a standalone organisation. These costs have been separated out into set-up (A) and on-going (B) costs.

| Expenditure | A: Year 1 set-up | B: Year 1 on-going | C=A+B: Total Year 1 costs |
|--|------------------|--------------------|---------------------------|
| Staff Costs: Management | £0 | £285,795 | £285,795 |
| Professional Fees | £9,203 | £24,961 | £34,164 |
| Office rent, rates and service charges | £0 | £58,286 | £58,286 |
| Contracts | £0 | £18,108 | £18,108 |
| Fit-out and Furniture | £51,240 | £0 | £51,240 |
| IT and Hardware | £18,995 | £9,030 | £28,025 |
| Sundries and Supplies | £0 | £3,422 | £3,422 |
| Training | £0 | £10,500 | £10,500 |
| Other | £0 | £8,418 | £8,418 |
| Total | £79,438 | £418,520 | £497,958 |

| | | | |
|-----------------------------|---------|---------|----------|
| Totals in 2022 (CPI) | £81,187 | £433,00 | £514,819 |
|-----------------------------|---------|---------|----------|