

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.5	4.3

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

The monetised cost is the total increase in fees paid by social care providers that are inspected by Ofsted. These include children's homes, voluntary adoption agencies, adoption support agencies, fostering agencies and residential family centres, residential special schools, boarding schools and residential colleges, and local authorities for inspection of their adoption and fostering functions.

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

None

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.5	4.3

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

The regulations cover Voluntary adoption agencies, Adoption support agencies, Fostering agencies, Children's homes, Residential family centres, Boarding schools, Residential colleges (Further education), Residential special schools, and Local Authority adoption and fostering functions.

The monetised benefit is the increase in fees received by Ofsted from these social care providers.

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

The fees will move towards a situation of full cost recovery, which is more equitable between all the settings inspected by Ofsted; with increased transparency in that the fees will reflect Ofsted's costs of inspection as determined through the tariff (number of inspector-days) times cost per day.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

The key assumption is that providers pay the fees that are payable under the regulations. There is a risk that some might be unwilling or unable to pay. However, we consider this to be unlikely in light of responses to the consultation, which included the fee increases.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base (for summary sheets)

1. Fees are payable to Her Majesty's Chief Inspector of Education, Children's Services and Skills ("the Chief Inspector") for applications for registration, or variation of registration, in respect of children's homes, voluntary adoption agencies, adoption support agencies, fostering agencies and residential family centres, and as annual fees for regulation and inspection by these establishments and agencies and for inspection by residential special schools, boarding schools and residential colleges, and by local authorities for inspection of their adoption and fostering functions. This covers approximately 3,800 providers. The majority are small organisations – eg the typical children's home has less than three places. However some are larger, such as boarding schools or local authorities.

2. The fees are set by Regulation.

3. The current fees do not, in general, accurately reflect the costs of inspection. The majority of providers pay less than full cost, in some cases considerably less. The current situation where providers do not all pay the full cost of inspection, effectively means Ofsted is subsidising these inspections and therefore the market as a whole. Both providers and users of services benefit from a transparent inspection regime. Providers benefit from the fact that the quality of the service they offer is recognised, which they can reflect in their fees. Purchasers of the services benefit as they can factor service quality into their decisions about which providers to use and helping them make optimal choices. We therefore dismissed option (0) – to leave the fees unchanged.

4. In 2001, the Department of Health (DH) consultation paper Frequencies of Inspection and Regulatory Fees proposed a fee structure for regulatory work undertaken under the Care Standards Act (CSA) 2000 and to move over several years towards an objective of full cost recovery. There have been increases in fees in recent years, and some providers now have fees reflecting Ofsted costs (these are capped at this level), however about three quarters have fees below cost. The overall approach of moving towards cost recovery remains the direction of Government policy.

Proposed changes to Fees

5. For those providers whose fees have reached full cost, we consulted on a proposal in 2009/10 that Ofsted's cost data from 2008-9 (which was the latest available prior to consultation) will form the basis for setting the annual fees for inspection from April 2010, for three years.

6. For the majority of providers, who currently pay significantly less than the actual cost of inspection, we consulted also on how to move to a more robust and transparent approach to setting annual fees, which will aim to achieve full cost recovery over time.

7. The consultation proposed (option 1) that those providers who are currently paying less than the average cost of inspection will have an annual 10% increase to their annual fee from 1 April 2010, for three years, unless they reach full cost recovery (in which case they would be capped at that level). Those providers whose fees reach full cost will remain at this level until the next review.

8. We considered an alternative option (2) to have a higher rate of annual increase - above 10% - to reach full cost recovery quicker. However, given the current economic climate and the fact that many of the providers - particularly children's homes - are small, we have set the increase at 10% in order to set a balance between full cost recovery and affordability.

9. Responses to consultation agreed to the 10% annual increase, and that this continues for three years. The 10% increase in 2011 will be the second year of increase at this rate. We plan to review the policy on our approach to fees in 2013.

Costs and Benefits of preferred option

Costs

10. The fees from April 2012 are set out in the Annex. The increase in total fees raised as a result of the changes, compared to the 2011 levels, is approximately £½ m per annum.

11. Faced with the increased fees, providers can decide to 1) absorb the increased cost, 2) pass on the cost to the Local Authority through renegotiated prices, or 3) reduce provision of childcare. Given that the supply of demand by the Local Authority is fixed, it is likely that much of the increased cost will be passed onto the Local Authority. This is an effective transfer of funds from the Local Authority to Ofsted. The consultation, as well as the relatively low-level of fees compared with total costs, strongly suggests that there will not be a decrease in provision.

Benefits

12. The general benefit of moving towards full cost recovery is that it ensures that costs are transparent and are borne more equitably by the providers of services, as providers will no longer be significantly under- or over- charged in relation to the cost of inspection.

13. The quantified benefit of the increase in fees paid by providers is a corresponding increase in revenue to Ofsted. The benefits and costs are therefore equal.

14. We rejected option 0 (which would have no costs or benefits).

15. Option 2 was rejected on grounds of concern about affordability for providers, particularly the smaller organisations, and we have not costed it. The costs and benefits would equal each other unless providers went out of business, which would be an additional cost.

Implementation

16. Ofsted will invoice providers according to the times set in the regulations, similarly to previous years.

17. The administrative costs of paying fees at the new levels are the same as at the 2011 levels, so there is no new administration burden for providers.

Consultation

18. The Department carried out a 12 week consultation until 11/2/10:

- 86% of respondents agreed that our approach towards full cost recovery over an extended time period strikes the right balance between full cost recovery and affordability
- 75% of respondents supported 10% increases per annum for those providers whose fees are less than the actual cost of inspection.
- 86% agreed with our proposals to move over time towards more a transparent structure for the setting of fees; where fees are based on the actual cost to Ofsted of inspection (rather than the number of places), with fees for those which have reached this level already being capped so that they do not exceed it.
- 88% of respondents preferred to have a three yearly review of fees.

A report of the consultation outcome is available at:

<http://www.education.gov.uk/consultations/index.cfm?action=conResults&consultationId=1573&external=no&menu=3>

19. Following the decision to have 10% increases per year for three years, following the consultation, new Ministers decided in Autumn 2010 to continue with this approach. The fees set out in the 2011 regulations are the same as set out in the impact assessment that accompanied the consultation (to apply for the coming year).

Risks and assumptions

20. The key assumption is that providers pay the fees that are payable under the regulations. There is a risk that some might refuse to pay, or go out of business. However, in light of the consultation on the level of increase, we consider it to be affordable.

Summary

21. The option to do nothing was rejected in order to move towards a system where the fees for children's social care inspection cover the costs of the inspection regime.

22. We rejected the option to pursue faster increases in fees on grounds of concern about affordability in the present economic climate.

23. We will set in regulations the fees payable to Ofsted for 2012 as consulted upon,

- with 10% increases for social care inspection and regulation for those providers who are paying less than full cost;
- we will cap the fees for providers who are paying at, or near to, full cost.

24. Ofsted will invoice providers and collect fees as in previous years.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below. Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

We will review the fee income arising from the Regulations, in comparison to Ofsted's costs, in Autumn 2012 - before making plans for the fees to apply in 2013.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

The review will check the success of the Regulations in respect of the collection of income towards Ofsted's costs.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

The review will be undertaken with Ofsted. We next plan to consult with the social care sector in 2012, about the approach to fees for 2013.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The impact is measured as changes compared to the fees for 2011-12 under current regulations.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

Success will be assessed as whether the fees paid to Ofsted are closer to the costs of inspection.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

Ofsted collect systematic information about the fees received from social care settings. They also produce audited accounts reflecting their costs.

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

N.A.

Annual Fees 2012-13

Voluntary adoption agencies

£918.39; or £459.20 in respect of each small branch.

Adoption support agencies

£918.39, or small adoption support agency £459.20.

Fostering agencies

£1597.

Children's homes

- 3 or fewer approved places, £1323.01;
- 4 - 62 approved places £1323.01 plus £131.77 for each approved place from the 4th to the 62nd place inclusive;
- more than 62 approved places, £9120.

Residential family centre

- 3 or fewer approved places, £881.12;
- 4 - 5 approved places £881.12, plus £110.47 for each approved place from the 4th to the 5th place inclusive;
- more than 5 approved places, £1138.

Boarding school

- 3 or fewer approved places, £574.99;
- 4 - 15 approved places £574.99, plus £34.61 for each approved place from the 4th to the 15th place inclusive;
- 16 - 50 approved places, £994;
- 51 - 500 approved places, £1391;
- 501 - 800 approved places, £1789;
- more than 800 approved places, £2186.

Residential college

- 3 or fewer approved places, £574.99;
- 4 - 14 approved places £574.99, plus £34.61 for each approved place from the 4th to the 14th place inclusive;
- more than 14 approved places, £969.

Residential special school

- 3 or fewer approved places, £1058.15;
- 4 - 20 approved places £1058.15, plus £105.15 for each approved place from the 4th to the 20th place inclusive;
- more than 20 approved places, £2899.

Local authority adoption and fostering functions

- relevant adoption functions £1549

• relevant fostering functions £2421. [Note: this represents full cost (figures from 2008/09) thus does not have 10% increase in this year.] There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing);
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business calculations (following OIOO methodology);
- Wider impacts (consider the impacts of your proposals, the questions on pages 16 to 18 of the IA Toolkit are useful prompts. Document any relevant impact here and by attaching any relevant specific impact analysis (e.g. SME and equalities) in the annexes to this template)
- Summary and preferred option with description of implementation plan.