

Evidence review of the impact of the ESF on those furthest from the labour market 2007 - 2013

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Produced for the Third Sector European Network
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Evidence review of the impact of the ESF on those furthest from the labour market

**Produced for the Third Sector European
Network (TSEN)**

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Executive Summary

This report was commissioned by the Third Sector European Network (TSEN) to review the evidence on **the impact of the European Social Fund (ESF) Programme on those furthest from the labour market**. The research addresses three central concerns in terms of the:

- **impact of ESF-funded employment programmes** on those furthest from the labour market
- **role of the Third Sector** as a provider of ESF-funded services to disadvantaged groups in the labour market
- **impact of the introduction of the co-financing mechanism** on Third Sector providers and on the capacity of the Programme to engage the hardest-to-reach.

The key findings of the report are set out below.

On the quality and availability of evidence:

- there is considerable variation in the quality and availability of evidence across the ESF Programme
- the limited availability of data after the introduction of the co-financing mechanism makes it difficult to evaluate the impact of this funding mechanism on the Programme's capacity to support those furthest from the labour market
- there is insufficient data available, as yet, to comment fully on the impact of the present ESF Programme (2007-13) on the hardest-to-reach.

The impact of the ESF on those furthest from the labour market:

- the concept of **multiple disadvantage** is useful for identifying those 'furthest from the labour market'; but it can also be difficult to capture as ESF datasets do not always record the full range of barriers associated with multiple disadvantage
- in terms of **engagement**, the 2000-2006 ESF Programme engaged a higher proportion of beneficiaries experiencing multiple disadvantage than found in the general working-age population; it would be more meaningful, however, to compare levels of engagement with the proportion of those facing multiple disadvantage in the *workless* population, but this data is not available
- data showing an apparent fall in the number of beneficiaries experiencing multiple disadvantage from 19 per cent in 2002 to 16 per cent in 2004 is unlikely to be statistically significant
- ESF projects are engaging with some groups with a single, identifiable disadvantage at a rate above that found in the general working-age population but, again, the data makes no comparison with the workless population
- there is a mixed record of engagement over time with individuals experiencing a single identifiable disadvantage; support for inactive beneficiaries fell in the middle phase of

the 2000-2006 Programme, but also increased for those with no/low qualifications and the disabled

- evidence after 2005 on the engagement of those furthest from the labour market within the Objective 3 Programme is very limited
- in terms of **outcomes**, there have been significant gains in soft outcomes for beneficiaries facing multiple disadvantage in the 2000-2006 Programme; and these soft gains are highly valued by those beneficiaries
- the 2000-2006 Programme was also effective in helping those with three or more disadvantages to gain qualifications, move into employment or move out of inactivity
- but inactivity is an intractable status for many beneficiaries with almost half of all inactive beneficiaries still inactive when surveyed after participating in ESF provision
- in terms of **strategy**, there is a lack of clarity about the extent to which the ESF Programme supports the hardest-to-reach
- the recommendation of the *Update to the mid-term evaluation* that the 2007-2013 Programme refocus on sick/disabled beneficiaries 'relatively near' to the labour market is based on a flawed analysis of outcome data and a limited understanding of the dynamics of worklessness
- despite this recommendation, the 2007-13 Programme appears to have retained an emphasis on those furthest from the labour market, including individuals experiencing multiple disadvantage
- but the 2007-13 Programme certainly prioritises economic outcomes over the type of social objectives that featured in earlier rounds of ESF programming.

The role of the Third Sector as a provider in the ESF Programme:

- the **Global Grants Programme** was effective in engaging the hardest-to-reach, and in helping this group to achieve soft outcomes or move closer to, or back into, into the labour market
- the Global Grants Programme played an important role in developing the capacity and profile of the Third Sector through its involvement as Intermediary Bodies
- there is little substantive evidence on the involvement and effectiveness of the Third Sector as a provider within the **broader Objective 3 Programme**
- data on projects delivered by the Third Sector Organisations in 2000-2003 in Objective 3 demonstrates a capacity to engage hard-to-reach groups, with two fifths of participants also experiencing a positive outcome in terms of movement into work, education, training or volunteering
- but there remains a lack of analysis on the performance of Third Sector providers within the later phase of Objective 3; this means the impact of the introduction of the co-financing mechanism on the capacity of the sector to support the hardest-to-reach cannot be fully assessed.

The impact of the introduction of co-financing in the ESF Programme:

- evidence of the impact of the introduction of co-financing in **the 2000-2006 Objective 3 Programme** is limited; there is a lack of data to quantify any changes that resulted in either allocations by sector or levels of engagement with those furthest from the labour market

- qualitative evidence indicates co-financing created new barriers to access that 'squeezed out' some smaller providers including a tendency to issue larger contracts, the risks associated with 'payment by results' and the perceived scale of bureaucracy
- CFOs claim they have sought to address these barriers and remain committed to using the Third Sector in recognition of its ability to engage the hardest-to-reach
- but a lack of data on contracts awarded by sector in the 2000-2006 Programme means it is not possible to corroborate or refute claims that the introduction of co-financing systematically disadvantaged smaller, Third Sector organisations
- there is no substantive evidence to establish the impact of co-financing on ESF support for those furthest from the labour market
- concerns have been expressed that the hardest-to-reach are systematically disadvantaged by co-financing because payment by results encourages 'quick-wins', and smaller, Third Sector organisations best placed to work with marginal groups face barriers in sourcing ESF are being squeezed out; but the evidence base does not exist to support, or refute these claims
- **ESF data on prime contracts awarded in the 2007-13 Programme** shows that the Third Sector has secured a fairly significant share of contracts (a quarter) but this only translates into just over one sixth of funding; this is a substantially lower proportion of funding than both the private and public sector
- these differences in allocations by sector occur because the Third Sector tends to lead smaller projects that are, on average, less than half the value of the larger contracts awarded to the private sector; but it remains unclear as to *why* funds are awarded unequally across sectors
- a disproportionate share of ESF funding flows to a small number of large, well-established Third Sector providers that deliver a number of large contracts; this suggests that small and medium-sized Third Sector organisations may be 'squeezed out' by the demands made on prime contractors
- the ESF contract data also shows significant regional/sub-regional variations in the involvement of the Third Sector; it has a very strong presence in some areas but is absent so far in others
- there are stark differences in the distribution of funding to sectors by different CFOs; the Third Sector appears to lose out disproportionately as one of the sectors receiving the smallest share of funds from the LSC as this is the largest CFO
- the lack of evidence from evaluations of the ESF Programme on performance by sector means that **is not possible to conclude that these allocations reflect the effectiveness of different sectors**. Success in securing a larger proportion of funding does not necessarily demonstrate greater expertise
- in view of the lack of data on the performance of different sectors within the ESF Programme, sectoral variations in securing funding do not necessarily reflect effectiveness in delivering ESF projects; it is not clear precisely why certain sectors capture a disproportionate slice of ESF funding
- there is a high rate of attrition among organisations that enter the process of bidding for LSC prime contracts; an online survey by TSEN found that only 19 per cent of those that entered the PQQ phase were successful in gaining contracts; there is also some indication that those that win contracts tend to be organisations with a track record of securing ESF funding.

Suggestions for future research

- the forthcoming Cohort Survey may provide important insights into the capacity of the 2007-13 Programme to help those furthest from the labour market; but it is critical that results are published in time to influence any revisions made to CFO plans and ESF Regional Frameworks in the second half of the Programme
- it is unlikely that the current Programme evaluation strategy will generate research that analyses the impact of projects by sector, or details the allocation of funding at subcontractor level
- Third Sector organisations may want to commission qualitative research into the experience of Third Sector organisations as subcontractors to address gaps in the evidence base on how ESF operates at this tier.

1. Introduction

1.1. The objectives and scope of the report

This report was commissioned by the Third Sector European Network (TSEN) to review the evidence on **the impact of the ESF Programme on those furthest from the labour market**. The research addresses three central concerns:

- the **impact of ESF employment** Programmes on those furthest from labour markets
- the **role of the Third Sector** as a provider of ESF-funded services to disadvantaged groups in the labour market
- the **impact of the introduction of the co-financing mechanism** on the involvement of the Third Sector in the ESF Programme.

The report examines these issues by reviewing the evidence from both the previous 2000-06 ESF Programme, including Objectives 1, 2 and 3, and the current 2007-2013 ESF Programme in England. The **analysis focuses primarily on the Programme's impact at a national level** through Objective 3 between 2000-2006 as this is where the most relevant and comprehensive evidence base exists. Evidence on the impact of the regional ESF Programmes delivered through Objective 1 and Objective 2 in 2000-2006 on those furthest from the labour market is very limited.¹ As yet, little Programme monitoring data or evaluation material has been released for the current 2007-2013 Programme, although this is included in the report where available.

The report is structured as follows:

- the remainder of Section 1 outlines methods, issues with the quality of evidence available, the background to the ESF, and identifies the economic context and welfare reform agenda in which the ESF operates
- Section 2 considers the impact of ESF employment Programmes on those furthest from labour markets
- Section 3 examines the role of the Third Sector as a provider within the ESF Programme including its effectiveness in engaging and supporting those furthest from the labour market

¹ It was originally planned to include case studies identifying the impact of the ESF through regional Programmes. However, a review of a number of key evaluations uncovered little analysis or discussion of the impact on those furthest from the labour market or of the role of the Third Sector in Programme delivery. These evaluations included Leeds Metropolitan University/ University of Hull (2003) *Mid Term Evaluation of the Yorkshire and Humber 2000-2006 Objective 2 Programme Final Report*. Leeds: Leeds Metropolitan University; GOYH (2005) *Update of the Mid-term Evaluation of the Yorkshire and Humber Objective 2 Programme*; Regeneris (2003) *Mid-term Evaluation of the Objective One Programme for Merseyside 2000-06*. Cheshire: Regeneris; ECOTEC (2003) *Mid Term Evaluation of the Objective 1 Programme for the South West, 2000-2006*. Birmingham: ECOTEC; CSES (2003) *Mid Term Evaluation of the East Midlands 2000-06 Objective 2 Programme*; GOEM (2005) *Update to the Mid Term Evaluation of the East Midlands Objective 2 Programme*; ECOTEC (2003) *Mid-Term Evaluation of the London Objective 2 Programme, 2000-2006*. London: ECOTEC.

- Section 4 considers the impact of the introduction of the co-financing mechanism on the involvement of the Third Sector in the ESF Programme and the capacity of the Programme to support those furthest from the labour market
- Section 5 presents conclusions and reflects on the implications of the findings.

1.2. Methods

Two methods are used to review the evidence of the impact of the ESF on those furthest from the labour market:

- **documentary analysis** of formal Programme evaluations, Programme performance reports such as Annual Implementation Reports (AIRs) and key strategic documents
- **data analysis** of two key datasets:
 - ESF data on contracts awarded through Co-Financing Organisations (CFOs) within the 2007-2013 Programme
 - an online survey carried out by the TSEN on the experience of Third Sector providers in bidding for funding through the Learning and Skills Council (LSC).

There is considerable **variation in the quality and availability of evidence** across the ESF Programme. Past evaluations of the 2000-06 Programme identified three major gaps in the evidence base:

- firstly, the two major evaluations – the *Mid-Term Evaluation*² and *Update to the mid-term evaluation*³ – were published to satisfy the regulatory requirements of the Structural Funds rather than at the most appropriate point in the Programme⁴; one consequence is that the *Update to the mid-term evaluation* was published too early in terms of the availability of data to identify changes that could be attributed to recommendations made by the earlier Mid-Term Evaluation⁵
- secondly, the limited availability of appropriate quantitative data after the introducing of co-financing in 2001 has restricted the capacity of evaluators to study the impact of this funding mechanism⁶; this has made it difficult to identify any subsequent, related change in the capacity of the Programme to engage and support individuals facing disadvantage in the labour market
- thirdly, evaluations have not sought to measure ‘additionality’ in terms of outcomes that would have occurred anyway even if beneficiaries had not accessed ESF provision; this means that gains made by beneficiaries such as movement into employment cannot be directly attributed to participation in ESF projects.⁷

² For a summary see DWP (2003) *Mid-term Evaluation of the Objective 3 Operational Programme for England and Gibraltar, Summary of Final Report, December 2003*. London: DWP.

³ Smith Y., Hardcastle, R., Mooney, M. and Redden, S. (2006) *Update to the mid-term evaluation of the Objective 3 operational programme for England and Gibraltar*, Research Report No. 322. HMSO: London.

⁴ DWP (2007) *Ex-ante evaluation of the European Social Fund Convergence, Competitiveness and Employment Operational Programme in England 2007-2013*. London: DWP.

⁵ See Smith *et al.* (2006: p2).

⁶ Lloyd, R. and Gilfillian, C. (2006: p11) *Third evaluation of European Social Fund co-financing in England*. London: DWP.

⁷ See for example the discussion of the difficulties of attributing employment outcomes to participation in the Global Grants Programme in Jones, G., Pemberton A., Coleman, N. and Edwards, E. (2008: p5) *The effectiveness of European Social Fund Objective 3 Global Grants in increasing the employability of the most disadvantaged*. HMSO: London.

Efforts have been made to improve monitoring systems and reporting requirements within the 2007-13 Programme to address these gaps in the evidence base⁸. However, insufficient Programme monitoring or evaluation data exists, as yet, to comprehensively assess the impact of this round of ESF. Funding data on contracts awarded through the co-financing mechanism is now available, though, at least at prime/lead contractor level, and this is discussed further in section 4.3.

1.3. Background to the European Social Fund

The European Social Fund was set up in 1957 to improve the employment prospects of residents of the European Union by raising the skill levels and employability of those outside the labour market. ESF funds provided through the 2000-2006 Programme in England totalled €4.3bn⁹. A further €3.08bn will be allocated during the present 2007-13 programming period, with this sum match-funded by €2.96bn from domestic funding streams.

The current ESF Programme in England has a dual remit of addressing worklessness and workforce skills through the two main priorities¹⁰:

- priority 1 - ‘*Extending employment opportunities*’ - targets groups not in work including the unemployed and economically inactive, with a particular emphasis on those at a disadvantage in the labour market
- priority 2 - ‘*Developing a skilled and adaptable workforce*’ - focuses on training those who lack basic skills or have no or low qualifications.

Strategically, the ESF supports the EU's Strategy for Growth and Jobs (formerly the 2000 Lisbon Agenda¹¹) and the strategic priorities identified through the European Employment Strategy.¹² It also contributes to the UK government's national employment and skills strategies.¹³

The 2007-13 ESF is a single, national Programme but funds are awarded at the regional level by Co-Financing Organisations (CFOs) through successive rounds of competitive tendering. Each region is required to develop its own strategy for using ESF funds to address its distinctive regional, sub-regional and local needs through Regional ESF Frameworks¹⁴. These Frameworks inform the CFO Plans drawn up by the regional CFOs to determine strategic priorities for awarding funds.

⁸ DWP/DIUS (2007: p148) *England and Gibraltar European Social Fund Convergence and Competitiveness and Employment Programme 2007-13*. TSO: London

⁹ As identified in ESF (2008: p36) *ESF 2000-2006 Objective 3 Operational Programme for England and Gibraltar, Annual Implementation Report 2007*.

¹⁰ For a full list of priorities and explanation of the architecture of the Programme, see DWP/DIUS (2007: p12) *England and Gibraltar European Social Fund Convergence and Competitiveness and Employment Programme 2007-13*. London: TSO.

¹¹ The Lisbon Agenda was agreed by the European Council in 2000. It set a new strategic goal for the next decade for the EU to ‘*become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*’ It was subsequently relaunched in 2005 as the EU's Strategy for Jobs and Growth to focus more sharply on these twin priorities (see DWP/DIUS (2007: p92) for more detail).

¹² The European Employment Strategy is based on a set of Integrated Guidelines for Growth and Jobs that are intended to inform National Reform Programmes (effectively national employment strategies) for each country.

¹³ For more on these strategies and how they align with ESF, see DWP/DIUS (2007: esp. Chapter 2) *England and Gibraltar European Social Fund Convergence and Competitiveness and Employment Programme 2007-13*. TSO: London.

¹⁴ For more on Regional ESF frameworks see Devins, D. and Usher D. (2009) *Regional European Social Fund Frameworks: A case study evaluation*. HMSO: London.

1.4. The ESF in context: the UK labour market and welfare reform

The ESF in the UK currently operates in a turbulent economic and political context, with the main political parties fiercely contesting the appropriate means to plug the deficit opened up by the government's fiscal response to the financial crisis. As such, it is important to note that **the strategy for the current ESF Programme (2007-2013) was drawn up before the present economic downturn**. It therefore reflects labour market conditions during a period of sustained economic growth when unemployment levels fell to a 25 year low. Accordingly, the strategy focused on tackling persistent concentrations of worklessness among particular groups or in deprived areas within an economy that was otherwise deemed to be performing well¹⁵. Economic conditions have deteriorated since with unemployment increasing steadily since the first quarter of 2008. The most recent data on unemployment¹⁶ as measured by the International Labour Organisation (ILO) definition showed a rise of 210,000 to 2.47m (7.9 per cent of the working-age population). The Programme has responded to this deterioration in economic circumstances by providing an additional £158m¹⁷ of ESF funds gained through revaluation to be split between:

- £79 million used to enable 66,000 people to develop their confidence, life skills and motivation while looking for work; this will target jobseekers claiming JSA for more than six months, or new JSA claimants facing particular disadvantages in the labour market¹⁸
- £79 million for additional work-related training and careers advice for people who are at risk of losing their jobs or have very recently lost their jobs.

Section 2.4 further discusses the likely impact of the economic downturn on the strategic focus and funding priorities of the ESF.

The ESF is also operating in a period of rapid welfare reform. The recent 'Raising Expectations' White Paper¹⁹ outlines far-reaching and controversial plans²⁰ to extend the scope of welfare-to-work to cover nearly all groups outside the labour market. The reforms will mean that only three groups will remain exempt from requirements to engage in some form of work-related activity as a condition of benefit entitlement: the most severely sick and disabled Employment and Support Allowance²¹ claimants, lone parents with babies under one and full-time carers. This clearly has implications for the ESF as a Programme that is intended to align with domestic programmes to tackle worklessness. This relationship between ESF and domestic welfare reform is further discussed in Section 2.4.

¹⁵ See DWP/DIUS (2007: 11).

¹⁶ In the three months to July 2009.

¹⁷ This consists of £158m of ESF Funds gained through the revaluation of the Programme match funded with £79m of DWP funds (New Deal and other employment programmes) and £79m of LSC funds (Train to Gain and Next Steps).

¹⁸ The groups targeted are ex-offenders; refugees; homeless people; people with drug and alcohol problems; people leaving residential care; former armed forces personnel; people with language, literacy and numeracy problems; lone parents; and disabled people.

¹⁹ DWP (2008) *Raising expectations and increasing support: reforming welfare for the future*. London: TSO.

²⁰ For a critical review of the direction of welfare reform see Crisp, R. (2009) Motivation, morals and justice: Discourses of worklessness in the welfare reform green paper. *People, Place and Policy Online* 2, (3), pp. 172-185; and Crisp, R., Batty, E., Cole, I., Robinson, R. (forthcoming) *Work and worklessness in deprived neighbourhoods: Policy assumptions and personal experiences*. York: JRF.

²¹ The Employment and Support Allowance is being phased in to replace Incapacity Benefit.

2. Impact on those furthest from the labour market

This section considers the impact of the ESF on those furthest from the labour market. It begins by defining ‘those furthest from the labour market’, before identifying the extent to which the Programme has engaged this group. It moves on to consider outcomes for those disadvantaged groups that participate in ESF projects, and concludes with an analysis of the strategic focus of the current Programme on the ‘hardest-to-reach’.

2.1. Defining those furthest from the labour market

It is clearly important for this research to define ‘those furthest from the labour market’. One measure that is frequently used to identify those individuals most distanced from employment is the concept of ‘**multiple disadvantage**’. This is derived from research showing that combinations of disadvantage can significantly increase the risk of worklessness. Berthoud’s (2003)²² study of 55,000 Labour Force Survey (LFS)²³ records examined the risk of worklessness among individuals in one or more of six categories associated with higher levels of labour market exclusion:

- the over 50s
- those without partners including individuals with no children and lone parents
- those with low skills or qualifications
- people with an ‘impairment’ (ill-health or disability)
- minority ethnic groups, particularly those from Bangladeshi and Pakistani groups
- those who live in ‘low employment demand’ regions of the country as measured by unemployment rates.

Crucially, Berthoud found combinations of disadvantage had an ‘*additive*’ effect whereby:

[the] greater the number of disadvantages, the greater the level of non-employment – from just three per cent of individuals with no problem, up to an appalling 91 per cent of those with six problems.

A recent study of multiple disadvantages among ESF beneficiaries²⁴ developed Berthoud’s research by proposing the definition be expanded to encompass a number of additional groups including:

- those who suffer from drug or alcohol addiction
- those whose first language is not English

²² Berthoud, R. (2003) *Multiple disadvantage in employment: A quantitative analysis*. York: JRF.

²³ The Labour Force Survey (renamed the Annual Population Survey in 2004) is a quarterly survey of approximately 60,000 households in Great Britain to identify trends in population change and participation in the labour market.

²⁴ Hirst, A., Tarling, R. Lefauchaux, M., Rinne, S., Delvaux, J. and Marshall, B. (2005) *Research into multiple disadvantaged groups in European Social Fund Objective 3*. London: HMSO.

- other disadvantaged groups including ex-offenders, refugees, the homeless and care leavers.

The authors concluded after consultation with key stakeholders and providers within the ESF Programme that **three or more barriers** should be used as the criterion for identifying ESF clients facing multiple disadvantage²⁵. This working definition of ‘three or more barriers’ is therefore used in this report as a measure of those furthest from the labour market.

One difficulty in using this definition is that **multiple disadvantage can be difficult to capture** as ESF datasets do not always record the full range of barriers associated with multiple disadvantage²⁶. It is also the case, however, that individuals within certain single, identifiable categories of disadvantage are disproportionately likely to experience multiple disadvantage. For example:

- 45 per cent of inactive beneficiaries had two or more additional disadvantages (as measured by the 2004 Follow-Up Survey of ESF beneficiaries)²⁷
- 35 per cent of disabled beneficiaries had two or more additional disadvantages (as measured by the 2005 Beneficiary Survey)²⁸.

This means that data on groups based on a single, identifiable disadvantage such as inactivity or disability is likely to capture high proportions of those with multiple disadvantage who are furthest from the labour market. For this reason, this report defines ‘those furthest from the labour market’ as:

- those with three or more disadvantages
- *or* those with a single, identifiable disadvantage that has a strong statistical relationship with the risk of facing two or more additional disadvantages.

It is clearly desirable that the report focuses on multiple disadvantage *where evidence exists* as the best measure of those furthest from the labour market. Finally, it should be noted that this report uses the terms ‘furthest from the labour market’ and ‘hardest-to-reach’ interchangeably.

2.2. Engagement with those furthest from the labour market

The most recent survey data on multiple disadvantage from 2004/05 indicates that 16 per cent of all ESF beneficiaries faced three or more disadvantages²⁹ in terms of:

- being a lone parent
- belonging to a minority ethnic group

²⁵ Hirst *et al.* (2005: 72).

²⁶ Hirst *et al.* (2005: 72).

²⁷ Cf. Taylor J. and O’Connor, W. (2005: p2) *European Social Fund: A profile of ‘inactive’ beneficiaries*, Research Report No 254. DWP: London. Inactivity is defined in the survey as including disabled people; those with long-term illness not actively seeking work; lone parents in receipt of benefit; those with intensive caring responsibilities; and women returners to the labour market not registered as unemployed. The 2004 Follow Up Survey interviewed beneficiaries two years after participating in the 2002 Leavers Survey to identify longer-term outcomes for ESF beneficiaries.

²⁸ Cf. Smith *et al.* (2006: 7) The 2005 Beneficiary Survey surveyed beneficiaries accessing ESF training provision in the winter of 2004/05 and again in the summer of 2005 after they had finished their course.

²⁹ Cubie, A. and Baker, O. (2006: 21) *European Social Fund Objective 3: The 2005 beneficiary survey for England*. London: DWP.

- not speaking English as main language
- having a disability or health problem
- and being a carer.

As with Berthoud's (2003) study, this group of ESF beneficiaries experiences very high levels of labour market exclusion. Compared with the overall profile of beneficiaries, those with multiple disadvantage are more than twice as likely to have been inactive on entry (49 per cent compared with 23 per cent) and much less likely to have been employed (12 per cent compared with 40 per cent)³⁰.

Interestingly, there are **notable differences in the extent to which different CFOs engage and support individuals facing multiple disadvantage**. Data from the 2005 Beneficiary Survey³¹ indicates that the total proportion of beneficiaries with three or more disadvantages was far lower for projects funded by Jobcentre Plus (10 per cent) and the Learning and Skills Council (LSC) (17 per cent) than the combined figure for all other CFOs (38 per cent). This indicates that two of the largest providers – DWP and the LSC – tended to work with groups closest to the labour market. The group of 'other CFOs' comprises a diverse mix of organisations dominated by Regional Development Agencies, local authorities and Connexions. It is therefore difficult to speculate why they might have been more willing or effective in engaging the 'hardest-to-reach'.

At first glance, the data from two separate surveys appears to show that levels of engagement with beneficiaries with multiple disadvantage have fallen from 19 per cent in 2002 to 16 per cent in 2004³². But this data should be interpreted with caution as there are some difficulties in directly comparing the two figures. This is due to differences in the way the surveys measured multiple disadvantage³³. In addition, surveys are sample based and generate a margin of error which means that a fall of three percentage points in overall levels of multiple disadvantage is unlikely to be of statistical significance. Of more importance is the observation that in 2002, the proportion of ESF beneficiaries experiencing multiple disadvantage was significantly higher at 19 per cent than the 7 per cent of all individuals of working-age experiencing three or more disadvantages as measured by the LFS³⁴. This suggests the ESF Objective 3 Programme engaged with a far higher proportion of individuals with three or more disadvantages than found in the working-age population.

It must be remembered, though, that the LFS captures the attributes of *all* adults of working-age in employment, many of whom will face no significant disadvantage. Any programme engaging with the workless is more likely, therefore, to capture a higher proportion of those experiencing multiple disadvantage as this group face a disproportionate risk of experiencing multiple disadvantage. It would have been more

³⁰ Cubie, A. and Baker, O. (2006: p20).

³¹ Cubie, A. and Baker, O (2006: p104).

³² Cf. Smith *et al.* (2006: p81) based on data from the 2005 Beneficiary Survey (Cubie, A. and Baker, O. (2006)) and the 2002 Leavers Survey (Atkinson, J. (2004) *ESF Leavers Survey 2002, Objective 3 England*. London: DWP). These figures are based on employment status one week before joining an ESF-funded project.

³³ Both the 2002 Leavers Survey and the 2005 Beneficiary Survey define multiple disadvantage using the categories of being a lone parent; belonging to a minority ethnic group; not speaking English as main language; having a disability or health problem; and being a carer. However, the 2002 Leavers Survey also appears to include having no qualifications on entry to the project; being long-term unemployed (or inactive) on entry; and being a returner to the labour market after an absence of at least one year as additional categories of disadvantage. The higher number of categories measured by the 2002 Leavers Survey may, in part, explain the higher incidence of multiple disadvantage it records in 2002 (19 per cent) relative to the 2004 figure (16 per cent) generated by the 2005 Beneficiary Survey.

³⁴ Smith *et al.* (2006: 123) The authors do note, however, that the ESF figure is based on the 2002 Leaver's Survey which canvasses for a wider range of disadvantages than Berthoud's study from which the LFS figure is taken.

relevant to compare levels of multiple disadvantage faced by ESF beneficiaries with the wider *workless* population, but this analysis was not undertaken in the Update document.

There is a **mixed record of engagement with individuals experiencing a single identifiable disadvantage**. Overall, two-thirds of beneficiaries (66 per cent) surveyed in 2004 identified one or more labour market disadvantage.³⁵ There is some evidence that **levels of engagement among one of these groups has fallen**, with the participation of the inactive (sick/disabled or looking after family/home) declining from 20 per cent to 13 per cent between the Mid-Term Evaluation (2003) and the Beneficiary Survey conducted in 2004/05³⁶. This reduction in support for the economically inactive runs counter to the guidance given within the Mid-Term Evaluation to increase support for the inactive³⁷. It must be remembered, however, the data was collated too soon after the Mid-Term review made its recommendations to identify any subsequent and related changes to Programme performance³⁸.

At the same time, a comparison of the Beneficiary Survey with the earlier 2002 Leavers Survey indicates that levels of engagement increased for other disadvantaged groups between 2002 and 2004:

Table 2.1: Incidence of discrete labour market disadvantage among entire sample³⁹

Disadvantage	As % of all beneficiaries (2002)	As % of all beneficiaries (2004)	Percentage point increase
No qualifications	21	27	6
Long-term unemployed or inactive ⁴⁰	27	35	8
Disabled	18	20	2

Moreover, the results of the 2002 Leavers' Survey suggest that ESF projects are **engaging with some groups with a single, identifiable disadvantage at a rate above that of the general population of the LFS⁴¹**:

- 18 per cent of ESF beneficiaries in the leavers survey had an impairment (ill-health or disability) compared with 13 per cent in the LFS
- 21 per cent of ESF beneficiaries had low skills or qualifications compared to 12 per cent in the LFS.

Nonetheless, this does raise the question again, of how the ESF beneficiary data would compare with the proportion of those facing disadvantage in the wider workless population.

Overall, the **ESF Programme appears to have had some success in engaging those furthest from the labour market**, both in terms of those facing multiple disadvantage and single, identifiable disadvantages. The apparent fall in support for

³⁵ Cubie, A. and Baker, O (2006: 20). For the full list of disadvantages see footnote 31.

³⁶ Smith *et al.* (2006: 80).

³⁷ At the Mid-term review, the Operational Programme was adjusted to place greater emphasis on helping people who are economically inactive on the basis that economic inactivity overshadowed unemployment – in crude statistical terms by a factor of four to one. As a result, helping the inactive was introduced into measure descriptions and target groups in Policy Fields 1 to 3. In addition, £130 million was added to measures intended to help to tackle inactivity (Smith, *et al.* (2006: 21-22)).

³⁸ Smith *et al.* (2006: 5).

³⁹ Adapted from Smith *et al.* (2006: 80).

⁴⁰ This does not contradict the fall in engagement with individuals that are inactive observed earlier as this group combines both the long-term unemployed and the inactive. This means it is not directly comparable.

⁴¹ Hirst, *et al.* (2005: 15).

those experiencing multiple disadvantages is unlikely to be statistically significant, whilst the data also indicates that the Objective 3 Programme engaged a growing proportion of beneficiaries with different categories of disadvantage. In view of these findings, it is difficult to support the contention made by the evaluators in the *Update to the mid-term evaluation* that the evidence ‘strongly suggests that the focus of the Programme has moved towards those beneficiaries that are closer to the labour market’⁴². A more nuanced reading of available data reveals a far more positive picture, with the ESF Programme supporting a far higher proportion of those that could be considered ‘furthest from the labour market’ than found in the general working-age population.

It should be noted, however, **that evidence after 2005 on the engagement of those furthest from the labour market within the Objective 3 programme is very limited** as no major surveys or evaluations have been undertaken since. The final 2007 Annual Implementation Report (AIR)⁴³ does report that 19 per cent of the 765,000 beneficiaries supported by Policy Field 2 (Equal Opportunities and Social Inclusion) were disabled, suggesting that high proportions from this particular group continue to be supported. But this only relates to a single Policy Field and data is otherwise sparse. This means **it is not possible to reflect on the extent to which the Objective 3 Programme continued to support those furthest from the labour market after 2005** as the Programme moved into the final, wholly co-financed phase. Data on the present Programme (2007-13) is also limited, and this is discussed further in section 2.4.

2.3. Outcomes for those furthest from the labour market

The impact of the ESF Programme cannot be simply measured in terms of engagement alone. It is also important to consider the extent to which the Programme has generated positive outcomes for beneficiaries experiencing labour market disadvantage. To this end, the 2005 Beneficiary Survey provides the most recent and comprehensive account of outcomes for ESF participants. This includes both ‘hard’ outcomes relating to movement into employment and ‘soft’ outcomes such as skills development or improvements in confidence. Looking firstly at **soft outcomes** for those facing multiple disadvantages, the survey reports⁴⁴ some significant gains:

- 86 per cent said the course helped to improve skills they would need at work
- 84 per cent said course helped in building their self-confidence at working.

Importantly, there seems to be considerable value placed on these ‘soft’ gains by disadvantaged groups such as the inactive. The report on the 2005 Beneficiary survey noted, for example, that *„across the board, all beneficiaries felt that they gained work-related skills, qualifications and self-confidence, but it was the soft skills which appear to be of particular benefit to inactive entrants”*⁴⁵. There is also evidence from qualitative research within the Objective 1 Programme that these soft outcomes were highly valued by ‘hard-to-reach’ beneficiaries. An *Impact Analysis of the Objective 1 Programme in Cornwall and the Isles of Scilly*⁴⁶ found that soft outcomes such as confidence building were identified by beneficiaries as a meaningful end in

⁴² Smith *et al.* (2006: 123).

⁴³ ESF (2008: 46) *ESF 2000-2006 Objective 3 Operational Programme for England and Gibraltar, Annual Implementation Report 2007*.

⁴⁴ Cubie, A. and Baker, O (2006: 53-60).

⁴⁵ Cubie, A. and Baker, O. (2006: 3).

⁴⁶ SLIM (2008) *Impact Analysis: ESF Objective One Programme, Cornwall and the Isles of Scilly Volume 1: Findings and Recommendations Report*. South West Observatory.

itself. For some beneficiaries, these gains also equipped them with the motivation and confidence to go on to achieve 'harder' outcomes such as training and employment at a later point.

Moving on to consider **hard outcomes**, the 2005 Beneficiary Survey⁴⁷ for Objective 3 indicates that the Programme was effective in helping those with three or more disadvantages to gain qualifications, move into employment or move out of inactivity:

- 70 per cent gained some form of qualification as a result of participating in ESF-funded provision
- employment rates among those facing multiple disadvantage rose 20 percentage points (13 to 33 per cent) from the point of entry onto a course to the time of survey (approximately 6-12 months later)
- inactivity rates fell from 45 to 33 per cent for the same group over the corresponding period.

Evidently, it is difficult to identify the extent to which positive outcomes can be attributed to participation in the ESF as the Programme evaluators did not measure additionality, as noted earlier. Even so, it is highly likely that some of these gains are directly related to involvement in ESF provision. On balance, there appears to be a sizeable 'ESF effect' in terms of outcomes for participants with three or more disadvantages.

Similarly impressive outcomes seem to have been achieved by groups facing at least one of the labour market disadvantages closely associated with multiple disadvantage. Combined data from the 2002 Leavers Survey and 2004 Follow-up Survey⁴⁸ indicates that between 2001/2 and 2004 employment rates increased by:

- 16 percentage points for those with no qualifications (27 to 43 per cent)
- 18 percentage points for those with a disability (15 to 33 per cent)
- 27 percentage points for lone parents (27 to 54 per cent)
- 32 percentage points for a combined group of the long-term unemployed and inactive (0 to 32 per cent).

Once again, there are difficulties with attribution, but it remains likely that many of these moves into employment will have been assisted through participation in ESF provision.

Nonetheless, the data also shows that **a large proportion of disadvantaged beneficiaries do not move into employment following participation in ESF projects**. The 2004 Follow-Up survey which measured outcomes for participants two years after leaving an ESF course found that 51 per cent of those who had been inactive on entry to courses were inactive⁴⁹. Similarly, the later Beneficiary Survey reported that 43 per cent of all beneficiaries inactive at the point of accessing ESF provision were inactive at the point of being surveyed some months after leaving the course⁵⁰. This clearly indicates that ESF provision through Objective 3 was failing to generate positive employment outcomes for nearly half of all inactive participants in

⁴⁷ Cubie, A. and Baker, O (2006: p63, pp.83-84).

⁴⁸ Presented in Smith *et al.* (2006: p91).

⁴⁹ Smith *et al.* (2006: p92). It should be noted that this means beneficiaries may have remained inactive in the intervening two years *or* changed employment status since leaving the course but moved back into activity at the point of the survey.

⁵⁰ Cubie, A. and Baker, O (2006: p6)

the later stages of the Programme. It may be the case that these beneficiaries still achieve valuable soft outcomes, as noted earlier, but the focus of Programme evaluations remains on understanding why this group do not find work (see below). Soft outcomes alone are clearly not regarded as adequate measures of success.

Qualitative research conducted among 33 inactive beneficiaries⁵¹ has linked the apparent intractability of inactivity among some beneficiaries to work orientation. Inactive beneficiaries were classified into four groups according to their perceptions on the likelihood of working, comprising those for whom:

- **work was an immediate priority** where beneficiaries anticipated they would start work as soon as possible
- **work was an option at some point** but would require a change in personal circumstances such as a youngest child reaching school age or an improvement in health conditions
- **work was not an option** because, although desired, it was considered unattainable because of the severity of health conditions or, among older beneficiaries, the proximity to retirement and the perceived discrimination against older workers in the labour market
- **work was not a consideration** because beneficiaries had retired or were financially secure and had no need or desire to work.

The researchers found that the effect of ESF was most limited amongst the two groups furthest from the labour market – those who considered work not to be an ‘option’ or a ‘consideration’.⁵² They concluded that whilst beneficiaries may experience positive outcomes from participation, *„it is unlikely that ESF alone could have tackled the insuperable barriers to work and the disadvantaged circumstances faced by some beneficiaries“*.⁵³

Crucially, this qualitative evidence on work orientations was used alongside the quantitative data on the persistence of inactivity among beneficiaries to propose a fundamental re-evaluation of the continuing role that ESF should play in supporting some inactive groups. The *Update to the mid-term evaluation* concluded that:

*the barriers to employment experienced by some beneficiaries are so profound that it may not be realistic or reasonable to expect them to work. The question here is the extent to which ESF should provide support to these individuals.*⁵⁴

The *Update* subsequently recommends (Recommendation 6) that the future 2007-2013 Programme move away from supporting those furthest from the labour market with a health condition or disability and concentrate:

*funding on support for those individuals with a disability/health problem that are **relatively near** to the labour market and where ESF can provide the most added value to domestic resources by helping them gain employment on leaving ESF, or progress their position so that employment is a realistic proposition at some point in the future.* [author’s emphasis]⁵⁵

This recommendation that the Programme refocus support away from the ‘hardest-to-reach’ has a number of important implications. Firstly, it appears to **reposition**

⁵¹ Taylor J. and O’Connor, W. (2005: 2).

⁵² Taylor J. and O’Connor, W. (2005: 7).

⁵³ Taylor J. and O’Connor, W. (2005: 7).

⁵⁴ Smith, *et al.* (2006: 4).

⁵⁵ Smith, *et al.* (2006: 213)/

the ESF as a Programme with an explicit focus on efficiency in terms of prioritising ‘hard’ employment outcomes over ‘soft’ gains in skills, motivation and confidence. As the ex-ante evaluation notes, this has an explicit economic logic:

The reason why the Update report suggested that the 2007-2013 Programme should focus on these limited areas⁵⁶ was because of the reduced level of funding which would be available for the 2007-2013 Programme. Analysis had indicated that support for the disadvantaged (e.g. those with a disability or ethnic minorities...) was expensive.⁵⁷

The evidence of the soft outcomes gained by those facing multiple disadvantage (see page 18 above) does not seem to have persuaded the evaluators of the value of these personal gains.

Secondly, it **runs counter to some of the aims and spirit of the Objective 3 Programme** which explicitly include ‘*promoting social inclusion*’ (Policy Field 2) and ‘*assist[ing] individuals with multiple disadvantage*’ (Measure 2.2). Moreover, it also places the ESF outside the ‘*No-One Written Off*⁵⁸’ welfare reform agenda subsequently adopted by the UK government. This is explicitly focused on expanding the scope of employment and welfare-to-work provision to ensure that all groups, including all but the most sick and disabled, are expected to find work.⁵⁹ The Programme evaluators seem, by contrast, to propose reducing support for precisely such groups.

Thirdly, it deploys a circular logic that implies that the ESF should refocus support away from those furthest from the labour market precisely because it has had least success in moving this group into work. This fails to consider the possibility that the design and delivery of the Programme itself could be, at least partly, responsible for such outcomes. In doing so, it also demonstrates a weak understanding of the dynamics of worklessness. This recommendation effectively writes off some beneficiaries as ‘unemployable’ because of a weak orientation to work, without fully considering that such orientations may be a realistic assessment of employment prospects given their level of disadvantage. This is especially the case in areas of low labour demand where, for example, low skills or poor health will effectively place individuals at the back of a long ‘*queue for jobs*’.⁶⁰ The fault may lie, therefore, with the flawed supply-side emphasis of the ESF Programme on the employability of individuals that fails to understand how this interacts with labour market conditions. The risk that follows is that the Programme withdraws support from those who need it most because of shortcomings in the Programme, rather than the inability of the ‘hardest-to-reach’ to be helped.

Finally, it fails to consider precisely how those ‘relatively near’ the labour market might be identified. Type of disability or illness is, by itself, not a reliable indicator of distance from the labour market as the extent to which it excludes individuals from

⁵⁶ The sick/disabled that were relatively closer to the labour market was one of groups or themes identified by the Update that should be prioritised in the new Programme. The other three priorities were lone parents, the Global Grants Programme (in terms of establishing a successor scheme in the new Programme), and support for an adaptable workforce.

⁵⁷ DWP (2007) *Ex-ante evaluation of the European Social Fund Convergence, Competitiveness and Employment Operational Programme in England*. London: DWP.

⁵⁸ As first outlined in the Green Paper: DWP (2008c) *No One Written Off: Reforming Welfare to Reward Responsibility*. London: TSO.

⁵⁹ This approach is not without its controversies, not least because of its strong element of conditionality. See Crisp (2009) for further discussion.

⁶⁰ For a discussion of the concept of the ‘queue for jobs’ and how levels of labour demand impact on the employability of those facing labour market disadvantage see Alcock, P., Beatty, C., Fothergill, S., Macmillan, R. and Yeandle, S. (2003) *Work to Welfare: How Men Become Detached from the Labour Market*. Cambridge: CUP.

work will depend on how it interacts with a number of other factors such as levels of skill and motivation and, more broadly, labour market conditions. At the same time, any reliance on self-identified levels of motivation in respect of those with the strongest orientation to work would increase the risk of 'deadweight'. This is where individuals supported would have found work anyway without Programme assistance. In short, there is no single, reliable measure of proximity to the labour market.

Evidently, it is important to consider the extent to which this recommendation became embedded within the present 2007-13 programming period and this is the focus of the section which follows.

2.4. Strategic focus on those furthest from the labour market in the 2007-13 ESF Programme

This section considers the strategic focus of the present ESF Programme on those furthest from the labour market. It concentrates mainly on the Programme strategy as **there is insufficient data available, as yet, to comment fully on the impact of the present ESF Programme (2007-13) on the hardest-to-reach.**⁶¹ Early monitoring returns⁶² show that, in the period to 2009, 29 per cent (143,000) of all ESF participants were disabled. Within Priority 1 (*Extending Employment Opportunities*), data for Programme starts⁶³ in 2008 indicates that among all participants, 32 per cent (55,239) are inactive, 40 per cent (67,823) have health conditions and disabilities and 21 per cent (35,491) are young adults who are not in education, employment or training (NEET)⁶⁴. These **early returns suggest the present Programme is effectively engaging groups further from the labour market.** Nevertheless, it should be remembered these are early returns based on low numbers of total starts (171,157 participants in Priority 1 in 2008). It will not become clear as to how far this level of engagement with harder-to-reach groups is sustained until more recent data is released.

Moving on to consider the strategic focus of the 2007-2013 ESF Programme, the **extent to which the Programme has adopted the recommendation made within the Update to the mid-term evaluation to refocus on those 'relatively near' to the labour market is unclear.** In some respects, it appears that the present Programme has not embedded this recommendation within its current strategy, as the 2007 Operational Programme document retains an explicit focus on some of those furthest from the labour market:

*Priorities 1 and 4 will improve the employability and skills of unemployed and inactive people, and tackle barriers to work faced by people with disabilities or health conditions, lone parents, people aged 50 and over, ethnic minorities, people with no or low qualifications, young people not in education, employment or training (NEET) or at risk of becoming NEET, and other disadvantaged groups, including people experiencing multiple disadvantage. In particular, funds will be targeted on people who are at a disadvantage in the labour market, including those who experience multiple disadvantages [author's emphasis].*⁶⁵

⁶¹ It should be noted that whilst the Programme officially began in 2007, most projects started in 2008 so returns are effectively from the period 2008 onwards.

⁶² ESF (2009) *England and Gibraltar European Social Fund Convergence, Competitiveness and Employment Programme Monitoring Committee 2007-13, 2007 – 2013 Programme Progress Report.*

⁶³ From ESF (2009: p45-49) *England and Gibraltar European Social Fund Convergence, Competitiveness and Employment Programme, 2007-13, Annual Implementation Report 2008.*

⁶⁴ Make reference to latest LFS figures.

⁶⁵ DWP/DIUS (2007: p12, 87).

The Operational Programme also states that, '[f]or some participants, particularly those who were economically inactive or who experience multiple disadvantage, the outcome will be progress towards labour market entry rather than a job⁶⁶'. This would suggest some recognition of the value of soft outcomes contra to the recommendations made in the *Update to the mid-term evaluation*.

At the same time, the Programme has a clear strategic focus on hard outcomes in terms of employment and training as embodied in the two main priorities:

- priority 1: extending employment opportunities
- priority 2: developing a skilled and adaptable workforce.

This focus on work and training aligns the ESF closely with domestic strategies on employment and skills that increasingly promote paid work as the most appropriate remedy for a range of social challenges including worklessness (*No One Written Off*)⁶⁷, poverty and social inclusion (*Working Together*)⁶⁸ and urban deprivation (*Transforming Places*)⁶⁹.

Whilst it is perhaps inevitable that the ESF increasingly adheres to a work and skills agenda given the direction of domestic reform and the strategic obligation to align with this process, it does represent a distinct shift in priorities. An analysis of previous programming documents in the 2000-2006 ESF Programme reveals a far stronger strategic emphasis on social objectives. Consider, for example, the description of Priority 3 of the Objective 2 Programme in Yorkshire and the Humber in the Mid-term Evaluation:

Community-led economic and social renewal is one of the central planks of O2 in the region. The SPD states that the logic of this theme is to enable the expertise and strengths which reside within communities to be used to contribute to economic growth: "this makes sound economic sense – but it is also right in terms of social cohesion and justice. People can take greater control over those factors which are within their grasp. They can capture the value which resides within communities".⁷⁰

Important to note here is the theme of economic *and* social renewal, and the broad social objectives of 'cohesion' and 'justice'. This Programme had a far wider remit than employment and skills. It is also interesting to observe comments made by the evaluators of Objective 1 in the South West about the *debate* within Programme as to the extent to which social issues should be supported:

The most significant „fault line“ within the partnership is over the question of how far the Programme should go to support projects with a social as opposed to an economic development focus. Addressing the „distance from the mainstream labour market“ of the economically inactive (as reflected in the pathways approach) clearly has potential long run benefits in terms of raising GDP. However, the focus of the selection criteria and the targets generally is

⁶⁶ DWP/DIUS (2007: p130).

⁶⁷ See DWP (2008a) and DWP (2008c) *No one written off; reforming welfare to reward responsibility*. London: DWP.

⁶⁸ DWP (2008b) *Working Together' – United Kingdom National Action Plan on Social Inclusion 2008-2010*. London: DWP.

⁶⁹ CLG (2008) *Transforming Places; changing lives: a framework for regeneration*. London: CLG.

⁷⁰ Leeds Metropolitan University/ University of Hull (2003: p122) Within this priority ESF provided £17 million for Measure 3 - Building Community Confidence and Capability – to support the other two Measures: Measure 1 Re-coupling Communities to Economic Growth – and Measure 2 Re-coupling Communities to Economic Growth.

*overwhelmingly on relatively short term economic outputs and the general approach is only to support projects which have a fairly clear economic dimension.*⁷¹

Whilst it would seem that the argument for focusing on economic objectives was gaining ground at the time of the evaluation in 2003, it is significant in itself that this 'faultline' was still being debated. No such tension is evident in the current Programme, with the Operational Programme including little reference to social objectives. Priorities are firmly focused on hard economic outcomes in line with the domestic agenda of the UK government.

In the 2007-13 Programme, this strong emphasis on labour market outcomes is manifest in a series of targets that explicitly prioritise movement into work and training. Of the 20 results indicators for Priority 1 (see Appendix A), only one measures distance traveled⁷². As this indicator includes movement into further learning, it is still, at least partially, a measure of hard outcomes despite suggestions in the Operational Programme that it captures soft outcomes⁷³. All the remaining indicators focus exclusively on movement into education, training or employment. This emphasis on hard outcomes is attributed to the difficulty in capturing soft outcomes consistently, although providers are 'encouraged'⁷⁴ to devise their own soft indicators at project level. In doing so, however, it runs counter to recommendations in an earlier DWP evaluation⁷⁵ of multiple disadvantage that monitoring systems should be adapted for the capture of 'near employment' outcomes. Such outcomes were identified as 'essential progress measures for many multiple disadvantaged clients'.

One potential consequence of focusing on hard outcomes is that **it could embed a programmatic tendency to design and deliver contracts that target those closer to the labour market**. This would see providers engage those beneficiaries who are easiest to place in education, training or employment. Evidence of such 'creaming' would require a systematic review of tenders issued by CFOs, as well as scrutiny of, as yet unavailable, Programme monitoring data. This is beyond the scope of this research, but clearly worth keeping under review as more evidence becomes available.

One final observation to make about the present ESF Programme is that **the economic downturn has already led to a partial refocus towards those closer to the labour market**. As noted above in Section 1.4, additional funds have been released to enable the Programme to target those facing redundancy or at risk of long-term unemployment. This mirrors the shift in domestic priorities that has seen the government provide extra funds for short-term initiatives to tackle worklessness. These primarily target unemployed young people as the group considered most likely to be 'scarred' by long-term unemployment as skills and job prospects atrophy.

The centrepiece of this package of measures is the Future Jobs Fund that provides funding for 150,000 short-term jobs targeted primarily at 18-24 year olds out of work for 12 months or more. Whilst the additional funds delivered through the ESF for short-term interventions to tackle recession are small compared to the overall size of the Programme, it does raise the issue of how the Programme balances a

⁷¹ ECOTEC (2003: 38-39) *Mid Term Evaluation of the Objective 1 Programme for the South West, 2000-2006*. Birmingham: ECOTEC

⁷² This measures 'economically inactive participants engaged in jobsearch activity or further learning on leaving' (DWP/DIUS, 2007: 129).

⁷³ DWP/DIUS (2007: 130).

⁷⁴ (DWP/DIUS, 2007: 129); see also Dewson, S., Eccles, J. Tackey, N. D. and Jackson A. (2000) *Guide to Measuring Soft Outcomes and Distance Travelled*. Brighton: IES.

⁷⁵ Examples of potential outcomes in-house include work experience, supported short-term placements, work experience and jobs for eight hours or less. Hirst *et al.* (2005: 73-74)

commitment to help the harder-to-reach with the more immediate concern of stemming the tide of job loss. Again, it is too early to speculate on how this tension is playing out in terms of Programme delivery because of a lack of appropriate data. The recent targeted responses do suggest, nonetheless, that **the recession does have the potential to draw funds and strategic focus away from those furthest from the labour market.**

Overall, **the strategic focus of the Programme appears to have retained its emphasis on those furthest from the labour market**, including individuals experiencing multiple disadvantages. At the very least, the recommendation to concentrate funding and support on those 'relatively near' the labour market does not seem to have become explicitly embedded in the Operational Programme. At the same time, the focus on hard outcomes within Priority 1, as well as pressures to align with domestic policy agendas on employment and skills and respond in the short-term to the steady rise in unemployment, could steer CFOs and providers away from engaging those furthest from the labour market. It is also the case that the 2007-13 Programme has largely dispensed with the type of social objectives evident in earlier Programme rounds. Stripped of these broader social priorities, it has become a Programme with a narrow remit to improve labour market outcomes. Ultimately, it remains **too early to determine the impact of these competing strategic tendencies.**

3. The Role of the Third Sector

This section considers **the role of the Third Sector in terms of its impact in delivering ESF-funded projects that support those furthest from the labour market**. The value of funding allocated to the Third Sector through ESF, and the impact of the co-financing mechanism on the level and nature of Third Sector involvement, is considered in Section 4 which follows.

This section begins by considering the effectiveness of the Third Sector in delivering the Global Grants Programme, before reviewing the evidence on its contribution within the broader ESF Programme. Once again, **nearly all performance data and evaluation material relates to the 2000-2006 Programme, especially Objective 3**. It is too early to identify the role of the Third Sector in the current programming round, with the exception of the funding allocations made through CFOs which are analysed in Section 4. Nonetheless, the Operational Programme for 2007-2013 does outline a strategic commitment to use Third Sector providers on the basis that they *'are particularly well placed to engage people who are excluded from or at a disadvantage in the labour market'*⁷⁶. This section provides a useful opportunity, therefore, to consider this claim by reviewing the effectiveness of the Third Sector in engaging those furthest from the labour market in the 2000-2006 Programme.

3.1. The Global Grants Programme

The Global Grants Programme was introduced in 2001 and provided small grants of up to £10,000 to non-governmental organisations (NGOs) that would find it difficult to access mainstream ESF funding. A key objective of the Programme was to make ESF resources available to small, local organisations that were well placed to reach disadvantaged communities. Grants were awarded through Intermediary Bodies that were required to match fund ESF allocations. Global Grants have been replaced by Community Grants in the 2007-2013 Programme. Community Grants continue to target smaller, community-based groups but the key difference is that, unlike Global Grants, the Intermediary Bodies administering Community Grants are not required to find match funding. The maximum award was also increased to £12,000 under Community Grants.

There is, as yet, only evidence on the performance of the Global Grants Programme within Objective 3 as Community Grants have not yet been evaluated. The performance of the Global Grants Programme is directly indicative of the effectiveness of the Third Sector as Global Grants were exclusively awarded to organisations outside the public and private sectors. This section considers the role of the Third Sector both as provider of Global Grant funded provision and, more briefly, as an Intermediary Body administering Global Grant awards.

A recent evaluation of the Global Grants Programme⁷⁷ found that that the Programme had been effective in terms of **engaging the hardest-to-reach**:

⁷⁶ DWP/DIUS (2007: 127).

⁷⁷ Jones *et al.* (2008: 3).

- over half of participants (51 per cent) were economically inactive compared with 23 per cent of Objective 3 cohort as whole
- 32 per cent of beneficiaries had an illness or disability
- 16 per cent had basic skills needs.

This led the evaluators to conclude that ‘*the Global Grants Programme met one of its key aims of successfully reaching those furthest from the labour market*’.⁷⁸

There is also regional evidence to support the findings of national evaluations that Global Grants have been effective in engaging those furthest from the labour market. The South West Foundation, an Intermediary Body operating in the South West, supported 3,348 individuals through its Solid Foundation Programme between 2003-2005, of which:

- 19 per cent (564) had a mental health problem
- 11 per cent (347) were recovering from addictions
- 15 per cent (463) were physically disabled
- 10 per cent (312) were ex-offenders.⁷⁹

Of particular note here is the ability of the Programme to capture small but significant proportions of groups such as ex-offenders and those with drug or alcohol dependencies that are often highly marginalised from the labour market.

In terms of **outcomes**, an earlier qualitative evaluation of the national Global Grants Programme found that it had been effective in moving some of those furthest away from employment back into the labour market:

*There was ample evidence of success reported in the shape of positive outcomes, both hard and soft, achieved by project beneficiaries, most of whom gained skills and increased their confidence, motivation and self-esteem. Many were said to have moved into work, training and volunteering.*⁸⁰

A survey of Global Grant beneficiaries⁸¹ also found that:

- 86 per cent of participants expressed a view that participation had improved self-confidence and motivation
- 74 per cent believed they had gained new skills that could be used in a job
- 19 per cent said participation had helped them to get a job (excluding those still involved in projects).

That one in five participants attributed movement into work to help from the project indicates a high degree of effectiveness given the distance from the labour market of many Global Grants beneficiaries.

Two key design features were identified as contributing to the effectiveness of the Programme⁸²:

⁷⁸ Jones, *et al* (2008: 3).

⁷⁹ Crawley, J. (2006: 4) *Global Grants: Setting Solid Foundations*, South West Foundation.

⁸⁰ Jones, G., Mitchell, A. and Griffiths, R. (2005: p67) *Evaluation of the European Social Fund Objective 3 Global Grants Programme*. London: DWP.

⁸¹ Jones, *et al*. (2008: 42).

⁸² Jones, *et al*. (2008: 27-30)

- **the accessibility and flexibility** of provision, with many organisations already known to, and trusted by, their target communities
- **the focus on ‘progression towards the labour market’ rather than hard outcomes**; this released organisations from the pressure to ‘cream off’ the most job-ready candidates.

In addition to its role as provider, **the Global Grants Programme was also considered to have played an important role in developing the capacity of the sector through its involvement as Intermediary Bodies administering ESF funds.** An evaluation⁸³ noted that smaller, voluntary sector IBs felt they had raised their profile among Government Offices (GOs) and large public sector match funders as credible, professional organisations with the skills and capacity to manage public funds. The Global Grants Programme has, therefore, provided an opportunity for individual organisations, and the sector as whole, to assume a more prominent position vis-à-vis both the ESF and public sector delivery infrastructure.

Nonetheless, the highly positive evaluations of the Global Grants Programme must be balanced against the consideration that, with a total value of £30.2 million, it only accounted for a small fraction of ESF spend. This means it remains important to consider the role played by the Third Sector in delivering larger scale projects within the broader regional and national Programmes.

3.2. The role of the Third Sector in the broader ESF Programme

There is **little substantive evidence on the involvement and effectiveness of the Third Sector within the broader Objective 3 Programme** in supporting those furthest from the labour market. No comprehensive analysis comparing the size, nature or effectiveness of interventions delivered by the Third, public and private sectors has been undertaken by the Programme evaluators, or by individual CFOs⁸⁴.

Some limited observations on the involvement of the Third Sector can be made by analysing data provided by DWP to TSEN on projects delivered under the direct bidding system⁸⁵. These projects were delivered between 2000 and 2003 by Third Sector organisations under Priority 2 (*Equal opportunities and Social Inclusion*) of Objective 3. This was the ESF Priority which had the highest level of Third Sector involvement (48.6 per cent of all applications in 2000/01).⁸⁶

In terms of **engagement**, this data shows that of a total of 156,000 beneficiaries engaged in Third Sector projects:

- 18.4 per cent (29,948) were disabled
- 13.9 per cent (22,258) were ex-offenders

⁸³ Jones, G., Mitchell, A. and Griffiths, R. (2005: 2).

⁸⁴ This is set to change with a forthcoming piece of research by the LSC that looks at the role of the Third Sector in delivering ESF as part of a broader evaluation of the involvement of the sector in delivering LSC-funded provision through FE, Work-Based Learning or ESF. The research is not due to be published though until November 2009. Otherwise, little sectoral analysis of this kind seems to exist. Correspondence with the Research and Programme Monitoring teams at DWP revealed that data on performance by sector was never systematically captured or analysed for the Objective 3 programme.

⁸⁵ Direct bidding is the financing mechanism that preceded co-financing. For a more detailed explanation see section 4.1.

⁸⁶ According to data on ESF applications in 2000/01 provided by DWP. By contrast, the proportion of Third Sector applications was 20.8 per cent for Priority 1 (Active labour market policies); 17.2 per cent for Priority 3 (Lifelong learning); 8.8 per cent for Priority 4 (Adaptability and entrepreneurship); and 4.4 per cent for Priority 5 (Improving women’s labour market position).

- 8.9 per cent (14,152) were drug and alcohol users.

These figures **demonstrate a capacity to engage hard-to-reach groups**, including some of the marginal groups in the labour market including ex-offenders and substance misusers.

The data also indicated positive outcomes for project participants. Of the 141,156 who were not in employment the day before the project, 39.6 per cent experienced a positive outcome on leaving the course comprising:

- 12.5 per cent moved into full-time, part-time or self-employment
- 24.4 per cent moved into education, training or another government programme
- 2.7 per cent engaged in voluntary work.

These are relatively high outcomes given the evidence above that a significant proportion of beneficiaries faced considerable labour market disadvantages. The data also shows well over three times as many beneficiaries (39.6 per cent) experienced a positive outcome (work, training or volunteering) as moved into unemployment (11.2 per cent). These figures should be interpreted with caution, however, as outcomes were not recorded for 39.2 per cent (over 55,000) of beneficiaries. This means the figures for either positive outcomes or unemployment, or both, could be significantly higher.

In summary, the evidence shows that, **under the direct bidding system, the Third Sector did engage with significant proportions of non-working beneficiaries facing labour market disadvantages, of whom a sizeable proportion moved into employment, education, training or volunteering after completing courses.** But the value of this data is compromised by a lack of data to benchmark the effectiveness of the sector with the public and private sector across the same period. More significantly, the lack of any sectoral analysis in the latter stages of the Objective 3 programme as it moved to a wholly co-financed system precludes any possibility for assessing the impact of this new funding mechanism on the capacity of the sector to support and engage those furthest from the labour market. Overall, whilst the capacity of the Third Sector is amply evidenced through the two Global Grants evaluations, **there remains a critical lack of evidence on the role of the sector within the wider Objective 3 programme.**

4. The impact of co-financing on the ESF Programme

This section considers the impact of the introduction of the co-financing mechanism in the ESF Programme. It begins by outlining the rationale for co-financing before reviewing the evidence on the impact of co-financing within the 2000-2006 programme in terms of:

- the capacity of the Third Sector to secure ESF funding
- the extent to which the Programme engages and supports the hardest-to-reach.

The section concludes with an analysis by sector of funding allocations made by co-financing organisations (CFOs) in the 2007-2013 Programme. It also presents findings from an online survey conducted by TSEN on the experience of Third Sector organisations in bidding for ESF funding from the LSC between 2007 and 2008.

4.1. The rationale for co-financing

Co-financing was introduced in September 2001 to bring ESF and match funding together in a single funding stream. The aims⁸⁷ of the new funding mechanism were to:

- improve the strategic direction and effectiveness of ESF expenditure
- reduce the level of bureaucracy and administrative burden on providers by removing the match funding requirement
- align ESF activity with Government programmes to 'add value' to domestic programmes.

Co-financing allocates funds through a commissioning model under which regional CFOs award funding through a series of competitive tendering rounds. This replaced the direct bidding system whereby providers submitted their own proposals to Government Offices (GOs), with all applicants expected to match fund any ESF awarded.

4.2. The impact of co-financing in the 2000-2006 Objective 3 programme

Evidence on the impact of co-financing in the 2000-2006 Objective 3 Programme is limited. The most recent research on co-financing within the ESF programme - *The Third evaluation of European Social Fund co-financing in England* – reported that, up to October 2005, a total of £1.457m of ESF (58 per cent of all Objective 3 commitment) had been awarded through co-financing⁸⁸. In terms of the distribution of all co-financed ESF funds by CFO type:

⁸⁷ As outlined in Smith *et al.* (2006).

⁸⁸ Lloyd and Gilfillian (2006: 16-17).

- the LSC allocated 77 per cent (£1,120m)
- DWP allocated 17 per cent (£242m)
- all other CFOs⁸⁹ allocated 6 per cent (£95m).

This clearly indicates **the dominance of the LSC** in the distribution of ESF funds, but there is no data on allocations to different sectors so the implications of this for the Third Sector remain unclear.

These headline figures aside, the report was **unable to meet its initial aim of quantifying the impact of co-financing** because of a lack of appropriate quantitative data⁹⁰. Instead, it adopted a largely qualitative approach comprising interviews with CFOs, stakeholders and providers. This meant the report could not identify the extent to which the introduction of co-financing impacted either on the ability of providers within different sectors to access ESF⁹¹ or the capacity of the Programme to engage and support those furthest from the labour market. This leaves **a critical gap in the evidence base**.

Nonetheless, the report does offer limited qualitative insights into **the impact of co-financing on Third Sector providers**. It found that that *„the co-financing mechanism can potentially present **barriers to participation amongst smaller providers** – both the private, and voluntary and community sectors⁹² due to:*

- **the tendency towards larger scale contracts** and the associated reduction in opportunities for smaller providers to participate as sole contractors
- **risks associated with output-/outcome-related payments** for smaller organisations working with more challenging groups where the risks of drop out or non-achievement are greatest
- **the actual/perceived scale of bureaucracy** including increased monitoring activities.

The report also identified concerns among Third Sector stakeholders in one region that the sector had *‘lost out’* significantly as a result of the barriers to accessing ESF created by co-financing.

Not all perceptions of co-financing were negative however. Some organisations reflected that, at least in theory, this was an appropriate mechanism for allocating funding⁹³. Others felt they had benefited from the removal of the match funding requirement⁹⁴. There is also regional evidence from the South West Objective 1 programme that the Third Sector has developed good links with CFOs and successfully sourced ESF, including 50 per cent of all Jobcentre Plus activities⁹⁵. But the dominant view from the national evaluation was that **co-financing had introduced a new set of barriers** for smaller Third Provider seeking to access ESF⁹⁶.

⁸⁹ This includes local authorities, RDAs, Business Links and Connexions.

⁹⁰ Lloyd and Gilfillian (2006: 11).

⁹¹ Lloyd and Gilfillian (2006: 39).

⁹² Lloyd and Gilfillian (2006: 39).

⁹³ Lloyd and Gilfillian (2006: 2).

⁹⁴ Lloyd and Gilfillian (2006: 2).

⁹⁵ SLIM (2008: 28).

⁹⁶ Lloyd and Gilfillian (2006: 2).

CFOs interviewed appeared to recognise these barriers to Third Sector participation and identified **steps taken to address them**⁹⁷. These included:

- rebalancing the focus away from ‘hard’ to soft’ outcomes in recognition of the challenges in working with ‘hard-to-reach groups’
- actively encouraging consortia or partnership approaches that enabled smaller Third Sector organisations to bid for larger contracts
- offering smaller, more focused contracts.

Moreover, the report identified **a commitment among CFOs interviewed to use Third Sector providers** given:

*a wide recognition of the important roles that different organisations could play, and particularly small, locally-focused voluntary and community organisations in engaging with more particularly disadvantaged individuals and those at greatest distance from the labour market.*⁹⁸

The report also presented qualitative evidence that CFOs had widened the provider base to include ‘voluntary and community or private sectors, engaged to work with particularly challenging target groups where their specialist abilities and experience were required’⁹⁹. Nonetheless, there is no data on contracts awarded to substantiate such claims. As the Third evaluation acknowledges, CFOs **could not establish whether particular sectors had ‘lost out’** because of a lack of both the necessary contract data and a suitable baseline measure to compare funding allocations under direct bidding and co-financing¹⁰⁰. This means it is **not possible to corroborate claims that co-financing did not systematically disadvantage smaller, Third Sector organisations.**

The Third Evaluation also reflects on the **impact of co-financing on the capacity of the programme to support disadvantaged groups in the labour**. Again, evidence is limited because of a lack of data to assess the performance of co-financed projects in engaging and helping those furthest from the labour market¹⁰¹. Nonetheless, the Third Evaluation did reflect on Programme capacity to help the hardest-to-reach based on a limited analysis of CFO plans and qualitative interviews with CFOs. The report found that both LSC and Jobcentre Plus felt they were increasingly using ESF to target hard-to-reach groups¹⁰². In one case study region, for example, Jobcentre Plus targeted groups such as refugees and people with disabilities, learning difficulties or mental health problems that were not ready to engage with mainstream employment programmes¹⁰³. Ultimately, though, the lack of quantitative data **precludes the possibility of fully assessing the impact of co-financing on the capacity of the Programme to support those furthest from the labour market.**

In light of this gap in the evidence base, two concerns remain about the impact of co-financing on support for the hardest-to-reach. Firstly, as the evaluation partially recognises¹⁰⁴, the capacity of the Programme to engage those furthest from the labour market may decrease if smaller, community-based providers with expertise in reaching marginalised groups are being ‘squeezed out’. Secondly, Third Sector

⁹⁷ Lloyd and Gilfillian (2006: 50-51).

⁹⁸ Lloyd and Gilfillian (2006: 39-40).

⁹⁹ Lloyd and Gilfillian (2006: 4).

¹⁰⁰ Lloyd and Gilfillian (2006: 39-40).

¹⁰¹ Lloyd and Gilfillian (2006: 53).

¹⁰² Lloyd and Gilfillian (2006: 53-57, 60).

¹⁰³ Lloyd and Gilfillian (2006: 55).

¹⁰⁴ Lloyd and Gilfillian (2006: 2).

organisations have expressed concerns that the introduction of ‘payment by results’ in the co-financing model encourages providers to seek out ‘quick wins’ that could exclude the most disadvantaged¹⁰⁵. The lack of quantitative evidence means that **these concerns about the potential for co-financing to systematically disadvantage those furthest from the labour market have still not been addressed** some eight years after its introduction.

4.3. Allocations of ESF funds by sector in the 2007-2013 Programme

There is a more comprehensive evidence base on funding allocations to sectors through the co-financing mechanism in the 2007-2013 Programme as contract data has been made publicly available on the ESF in England in website (<http://www.esf.gov.uk/>). This data is analysed below. It should be noted first, however, that difficulties remain in assessing the *impact* of co-financing for three reasons. Firstly, there is no comparable data on funding allocations by sector through the direct bidding system, so it is not possible to establish whether particular sectors ‘gained’ or ‘lost’ when co-financing was introduced. Secondly, no beneficiary data has yet been released to assess the impact of co-financing on those furthest from the labour market. Planned beneficiary surveys will provide some data on support for these groups in the present programme. But the lack of appropriate comparator data for the direct bidding system in place during the first half of 2000-2006 means it will still not be possible to conduct a full impact analysis. Thirdly, the data relates only to approved projects; it is not possible therefore to set this within the broader context of failed applications that were unsuccessful or not pursued to the bidding phase. Despite these limitations, it remains possible to make important observations about sectoral allocations under co-financing, and ‘success rates’ in bidding for contracts.

The findings presented in this section are based on an analysis of contracts awarded to all prime contractors by CFOs in England to deliver ESF projects since 2007¹⁰⁶. The analysis has been undertaken at both a national and regional/sub-regional level to highlight geographical variations in the distribution of funds. In terms of subcontractors, analysis has been limited to calculating the average number per project by area or by sector of prime contractor. This is because details of the value of these subcontracts have not been released, and subcontractors have not yet been fully classified in terms of their sector. As a result, this analysis only provides a partial insight into the allocations by sector as it does not capture any subsequent distribution of funds below the prime contracting tier. It is feasible, for example, that a private sector prime contractor may subcontract a number of Third Sector providers, but this redistribution of funds across sectors will not be reflected here. Nonetheless, the analysis does show the extent which each sector has secured access to ESF funds at the prime contract level at which the *largest* contracts are available.

Table 4.1 highlights geographical variability in the size and number of all projects commissioned. In some areas such as Cornwall and South Yorkshire, CFOs have a clear tendency to issue a small number of large contracts involving multiple sub-contractors. In other regions (notably East Midlands and London), CFOs have

¹⁰⁵ See for example the response of the Tees Valley European Partnership to the consultation on the 2007-2013 Programme, available at: <http://www.teesvalley-jsu.gov.uk/old/tvepmeetings/tvepopresponse.pdf> (accessed on 10 August 2009).

¹⁰⁶ It should be noted that ESF datasets do not classify prime contractors by sector, so this classification was undertaken by TSEN and the CRESR research team in accordance with methodology developed by LSC to standardise the definition of Third Sector organisations. Minor amendments were made to the full list of contracts extracted from the ESF website due to gaps in data or duplications. These are detailed in Appendix B.

commissioned more projects but these are smaller and, on average, involve fewer subcontractors. Other regions appear to have supported a mixture of the two.

Table 4.1: ESF Prime Contractors: Summary of all Projects Commissioned by Region/Sub-region

Region/Sub-region	Number of Projects	Total Funding	Number of subcontractors	Average Project Size	Average Number of Partners per Project
Cornwall	24	£57,155,967	166	£2,381,499	6.92
East Midlands	98	£71,819,814	118	£732,855	1.20
East of England	62	£59,185,146	424	£954,599	6.84
London	242	£151,115,030	692	£624,442	2.86
Merseyside	63	£82,590,426	334	£1,399,838	5.30
North East	21	£34,333,539	158	£1,634,930	7.52
North West	90	£78,455,572	511	£881,523	5.68
South East	64	£74,712,256	459	£1,167,379	7.17
South West	53	£44,187,666	265	£866,425	5.00
South Yorkshire	14	£37,313,916	128	£2,665,280	9.14
West Midlands	79	£78,890,478	585	£1,024,552	7.41
Yorkshire & The Humber	37	£55,868,758	304	£1,509,966	8.22
ENGLAND	847	£825,628,568	4144	£985,237	4.89

Table 4.2 shows the extent to which the Third Sector has been involved as a prime contractor across regions/sub-regions. This reveals a wide variation, with Third Sector organisations leading on almost half of all London projects, almost a third of those in the East Midlands, and over a quarter of those in the South East. By contrast, no Third Sector organisations have been commissioned as prime contractors in the North East, South Yorkshire and Yorkshire and the Humber, and very few in Cornwall and Merseyside.

At a national level, **the share of total ESF projects (25.5 per cent) is higher than the share of total ESF funding (17.7 per cent)**, although this does not hold across all regions. However, the higher average amounts for Third Sector organisations in the South East and the West Midlands are distorted by a small number of very large projects in each, respectively accounting for 70 per cent and 80 per cent of the Third Sector totals. The overall pattern nationally, and in most regions, is for the Third Sector to secure smaller commissions than other sectors (see also Table 7 below). On average, contracts led by Third Sector organisations also involve fewer subcontractors than other providers (3.24 per project); this compares with 5.68 for public sector contracts and 4.86 for private sector contracts (not shown in the tables). This may reflect the larger contracts awarded to other sectors. The lower level of involvement of Third Sector organisations compared to other sectors may also be linked to the generally large size of many ESF contracts; the requirements of tenders may exceed the capacity of many small and medium-sized Third Sector organisations.

Table 4.2: ESF Prime Contractors: Share of Third Sector by Region/Sub-region

Region/Sub-region	Number of Projects	% of Total	Total Funding	% of Total	Average Project Size	Average Number of Partners per Project
Cornwall	1	4.2	£1,140,000	2.0	£1,140,000	10.00
East Midlands	31	31.6	£9,503,686	13.2	£306,571	0.58
East of England	14	22.6	£9,922,753	16.8	£708,768	3.29
London	116	47.9	£47,797,196	31.6	£412,045	2.46
Merseyside	4	6.3	£2,306,986	2.8	£768,995	21.33
North East	0	0.0	£0	0.0	£0	0.00
North West	12	13.3	£14,357,838	18.3	£1,196,487	5.75
South East	17	26.6	£29,913,350	40.0	£1,759,609	7.71
South West	12	22.6	£11,338,344	25.7	£944,862	2.75
South Yorkshire	0	0.0	£0	0.0	£0	0.00
West Midlands	9	11.4	£19,996,552	25.3	£2,221,839	4.89
Yorkshire & The Humber	0	0.0	£0	0.0	£0	0.00
ENGLAND	216	25.5	£146,276,705	17.7	£680,357	3.24

Tables 4.3 and 4.4 consider levels of involvement of the Third Sector across regions/sub-regions by ESF Priority. Table 4.3 shows that Third Sector organisations play a significant role in England in delivering Priority 1 contracts (*Extending employment opportunities*) in some regions, leading on almost a third of these (compared to a quarter of all ESF contracts). Indeed, the Third Sector leads more than half the ESF P1 provision in London, and around a third in the East Midlands, the South East and South West. In the North West, South East, the South West and the West Midlands, this scale of activity is more than matched by funding allocations, with the sector's share exceeding the proportion of contracts secured. However, in some areas (East Midlands, London) the proportion is considerably less. Overall, this suggests that, in some regions, **Third Sector organisations are recognised by CFOs as being well-placed to deliver projects that focus on tackling worklessness**. This may reflect the commitment outlined in the Operational Programme document that Third Sector organisations can be particularly effective in engaging and supporting 'hard-to-reach' groups (see Section 3, page 25).

Table 4.3: ESF Prime Contractors: Share of Third Sector in Priority 1¹ projects

Region/Sub-region	Number of Projects	% of Total	Total Funding	% of Total	Average Project Size	Average Number of Partners per Project
Cornwall	1	7.7	£1,140,000	4.4	£1,140,000	10.00
East Midlands	25	35.2	£8,567,077	15.4	£342,683	0.20
East of England	12	27.3	£9,507,800	26.0	£792,317	3.83
London	112	56.3	£45,461,214	36.5	£405,904	2.43
Merseyside	3	7.9	£2,256,225	3.2	£1,128,113	21.33
North East	0	0.0	£0	0.0	£0	0.00
North West	10	16.1	£13,437,891	21.0	£1,343,789	5.60
South East	15	37.5	£18,953,927	38.1	£1,263,595	4.67
South West	9	30.0	£9,359,571	34.4	£1,039,952	1.44
South Yorkshire	0	0.0	£0	0.0	£0	0.00
West Midlands	9	15.8	£19,996,552	31.6	£2,221,839	4.89
Yorkshire & The Humber	0	0.0	£0	0.0	£0	0.00
ENGLAND	196	32.1	£128,680,257	21.1	£659,899	2.96

NOTE: 1: Priority 4 in Cornwall

By comparison, **the Third Sector is far less involved in Priority 2 contracts** (*Developing a skilled and adaptable workforce*), securing less than 10 per cent of contracts and funding at a national level (see Table 4.4). It does continue, however, to play a prominent role regionally in the East Midlands and the South West. It should be noted that the large slice of funding awarded to Third Sector organisations in the South East is skewed by the presence of one very large (£9m) contract involving over 60 sub-contractors. Otherwise **the focus of Priority 2 activity on workforce skills does not seem to align with the main strengths and interests of most Third Sector organisations** as closely as the Priority 1 emphasis on tackling worklessness.

Table 4.4: ESF Prime Contractors: Share of Third Sector in Priority 2¹ Projects

Region/Sub-region	Number of Projects	% of Total	Total Funding	% of Total	Average Project Size	Average Number of Partners per Project
Cornwall	0	0.0	£0	0.0	£0	0.00
East Midlands	6	22.2	£936,609	5.7	£156,102	2.17
East of England	2	11.1	£414,953	1.8	£207,477	0.00
London	4	9.3	£2,335,982	8.8	£583,996	3.25
Merseyside	1	4.0	£50,761	0.4	£50,761	0.00
North East	0	0.0	£0	0.0	£0	0.00
North West	2	7.1	£919,947	6.3	£459,974	6.50
South East	2	8.3	£10,959,423	43.9	£5,479,712	30.50
South West	3	13.6	£1,978,773	11.7	£659,591	6.67
South Yorkshire	0	0.0	£0	0.0	£0	0.00
West Midlands	0	0.0	£0	0.0	£0	0.00
Yorkshire & The Humber	0	0.0	£0	0.0	£0	0.00
ENGLAND	20	8.5	£17,596,448	8.2	£879,822	6.00

NOTE: 1: Priority 5 in Cornwall

Table 4.5 outlines the distribution of prime contracts by sector to identify how the Third Sector fares in comparison with the private, public and not-for-profit¹⁰⁷ sectors. The figures show that, at a national level, **the Third sector has been commissioned to deliver a quarter of all ESF projects, compared to nearly two-fifths for the public sector and just under a third for the private sector.** Regionally, the Third sector is the largest provider in only one region (London) and second largest only in the East Midlands. The private sector also has a majority share in only one region (East of England), but is second largest (though often not by much) in nine of the twelve regions or sub-regions. **The public sector clearly plays the most prominent role**, especially in Cornwall, the North East, the North West, South Yorkshire and the West Midlands, where it accounts for more than half of all projects. The 'not for profit' sector appears to make an above average contribution in Cornwall and Yorkshire and the Humber, but it is important to point out that all of the projects in the former, and five of the seven in the latter, involve just one organisation (a training consortia in both regions).

¹⁰⁷ Not-for-profit organisations are excluded from the Third Sector because of a lack of social aims; they all effectively operate in either the private or public sector (as per LSC methodology)

Table 4.5: ESF Prime Contractors: Distribution of Projects by Sector (as % of all Projects)

Region/Sub-region	Not for Profit	Private	Public	Third
Cornwall	29.2	4.2	62.5	4.2
East Midlands	3.1	23.5	41.8	31.6
East of England	0.0	50.0	27.4	22.6
London	0.4	26.4	25.2	47.9
Merseyside	7.9	39.7	46.0	6.3
North East	4.8	33.3	61.9	0.0
North West	0.0	35.6	51.1	13.3
South East	0.0	35.9	37.5	26.6
South West	0.0	35.8	41.5	22.6
South Yorkshire	7.1	35.7	57.1	0.0
West Midlands	3.8	31.6	53.2	11.4
Yorkshire & The Humber	18.9	35.1	45.9	0.0
ENGLAND	3.3	31.5	39.6	25.5

The proportion of ESF funding distributed across the four sectors is summarised in Table 4.6. **This shows that the Third Sector has received considerably less ESF funding than the private and public sectors.** Nationally, it has been awarded 17.7 per cent of all allocations by CFOs, around half that awarded to the public sector (35.2 per cent) and the private sector (41.1 per cent). One striking aspect of the figures is that **private sector firms account for a higher take of ESF funds compared to their share of projects** (see Table 4.5). At a regional/sub-regional level, the Third Sector has only been awarded the highest share in one region (the South East), and the second largest proportion in just one region (London). The private sector has gained the highest share of funding in seven regions or sub-regions, and is in second place in four. The public sector, in contrast, is in first place in three regions or sub-regions, but in second place in seven.

Table 4.6: ESF Prime Contractors: Distribution of Funding by Sector (as % of all ESF Funding)

Region/Sub-region	Not for Profit	Private	Public	Third
Cornwall	43.0	14.5	40.5	2.0
East Midlands	2.9	44.5	39.4	13.2
East of England	0.0	58.6	24.6	16.8
London	0.5	41.7	26.2	31.6
Merseyside	5.4	43.3	48.5	2.8
North East	8.7	47.2	44.1	0.0
North West	0.0	54.2	27.5	18.3
South East	0.0	36.5	23.5	40.0
South West	0.0	36.7	37.7	25.7
South Yorkshire	10.7	45.3	43.9	0.0
West Midlands	1.6	29.6	43.4	25.3
Yorkshire & The Humber	16.1	42.0	41.8	0.0
ENGLAND	5.9	41.1	35.2	17.7

Table 4.7 shows that **the larger share of ESF funding awarded to the private sector is explained by its tendency to secure larger than average contracts** (almost a third larger than the overall ESF average). Third Sector organisations are, by comparison, involved in smaller than average initiatives. Private sector commissions are, on average, just under twice the value of Third Sector contracts. The public sector, on the other hand, has achieved a more balanced allocation, with its average being just over 90 per cent of the overall national figure.

Table 4.7: ESF Prime Contractors: Average Size of Projects by Sector (£)

Region/Sub-region	Not for Profit	Private	Public	Third	All
Cornwall	£3,507,700	£8,297,728	£1,544,289	£1,140,000	£2,381,499
East Midlands	£694,814	£1,388,512	£690,144	£306,571	£732,855
East of England	n/a	£1,118,669	£857,862	£708,768	£954,599
London	£705,070	£983,793	£650,000	£412,045	£624,442
Merseyside	£888,584	£1,491,058	£1,483,524	£768,995	£1,399,838
North East	£2,993,653	£2,313,845	£1,164,844	n/a	£1,634,930
North West	n/a	£1,328,132	£479,945	£1,196,487	£881,523
South East	n/a	£1,184,568	£731,410	£1,759,609	£1,167,379
South West	n/a	£853,190	£831,936	£944,862	£866,425
South Yorkshire	£4,001,080	£3,384,053	£2,049,072	n/a	£2,665,280
West Midlands	£420,456	£934,995	£856,442	£2,221,839	£1,024,552
Yorkshire & The Humber	£1,288,376	£1,806,356	£1,374,559	n/a	£1,509,966
ENGLAND	£1,752,181	£1,276,658	£886,280	£680,357	£985,237
% of national average	177.8	129.5	90.0	69.1	100

An important point to note is that, although the Third Sector is leading on 216 ESF projects, this actually involves 115 different organisations. Several are acting as prime contractors on multiple projects, often across a number of regions. Table 8 summarises the activities of those with the most projects to their name. By far the most prominent is the Shaw Trust, with around 10 per cent of all Third Sector projects. The table also shows that 12 Third Sector organisations account for almost 40 per cent of all ESF contracts awarded to the Third Sector. Clearly, there are some dominant players commandeering a significant slice of ESF funds distributed to the sector.

Table 4.8: TSOs with 4 or More ESF Contracts

Name	Number of Projects	Average Funding per Project	Average Number of Partners per Project	Number of Regions/Sub-regions
Shaw Trust	21	£2,197,615	7.05	9
Tomorrows People Trust	8	£1,378,743	1.13	2
NACRO	7	£670,061	2.71	4
Princes Trust	7	£152,424	7.86	3
Asphaleia	6	£239,896	3.17	2
Careers Development Group Careers Enterprise	6	£751,934	1.00	3
Pecan	6	£493,305	1.83	1
Community Links	5	£485,847	3.00	1
YMCA	5	£186,085	2.00	3
Islington Training Network	4	£386,916	3.25	1
Red Kite Learning	4	£397,197	3.50	1
St Giles Trust	4	£277,579	3.00	1

A final set of tables (Tables 4.9, 4.10 and 4.11) show trends in the distribution of ESF funding to sector by CFO type. The data is presented separately for the two largest CFOs, the DWP and LSC, and aggregated for the remaining eight CFOs as 'all other CFOs'¹⁰⁸. These tables show that, at a national level, there are distinct variations in allocations by different CFOs. The DWP CFOs award almost three quarters of its funding to the private sector (73.6 per cent) compared to just over one-fifth (21.3 per cent) to the Third Sector. This includes five regions where DWP CFOs have *only* allocated funds to the private sector.

¹⁰⁸ These comprise Regional Development Agencies, Local Authorities and the Merseyside 'Phasing-in' Stream which is not technically a CFO but does allocate ESF funds.

By comparison, the LSC CFOs (Table 4.10) tend to allocate funds to the public sector (49.8 per cent) compared to 27.4 per cent to the private sector and only 12.2 per cent to the Third Sector. One implication is that the Third Sector is losing out disproportionately as one of the sectors receiving the lowest share of LSC funding; the LSC allocates the largest share of ESF funds (£458m) compared to the DWP (£257m) and other CFOs (£109m) and will therefore have a considerable bearing on the overall slice of funds allocated to sectors. The 'other CFOs' (Table 4.11) appear to distribute funds more evenly across sectors, with the public sector gaining most funding (45 per cent) relative to the Third (32.5 per cent) and private sectors (22.5 per cent). Unlike DWP, neither the LSC nor the 'Other CFOs' have awarded contracts exclusively with only one sector in certain regions.

The stark differences in national allocations to sectors by different CFOs show that the co-financing mechanism has generated clear 'winners and losers' in terms of sectoral allocations. This data cannot explain these patterns, however, it could be the case, for example, that the private sector is most successful in securing DWP funding because it has the capacity to manage the large contracts awarded or is perceived to have the expertise to deliver the contracts tendered by DWP CFOs. The lack of evidence from evaluations of the ESF programme on performance by sector does mean, though, that **is not possible to conclude that these allocations reflect the effectiveness of different sectors**. Success in securing a larger proportion of funding does not necessarily demonstrate greater expertise.

Table 4.9: Sectoral Distribution of Funding from DWP (as % of all ESF Funding)

Region/Sub-region	Not for Profit	Private	Public	Third
Cornwall	0.0	59.3	40.7	0.0
East Midlands	0.0	100.0	0.0	0.0
East of England	0.0	66.3	0.0	33.7
London	0.0	86.9	0.0	13.1
Merseyside	0.0	100.0	0.0	0.0
North East	0.0	100.0	0.0	0.0
North West	0.0	69.1	0.0	30.9
South East	0.0	65.5	0.0	34.5
South West	0.0	49.9	0.0	50.1
South Yorkshire	0.0	100.0	0.0	0.0
West Midlands	0.0	20.7	24.8	54.5
Yorkshire & The Humber	0.0	100.0	0.0	0.0
ENGLAND	0.0	73.6	5.1	21.3

Table 4.10: Sectoral Distribution of Funding from LSC (as % of all ESF Funding)

Region/Sub-region	Not for Profit	Private	Public	Third
Cornwall	56.9	0.0	40.5	2.6
East Midlands	4.3	28.0	57.0	10.7
East of England	0.0	65.2	33.0	1.8
London	1.3	28.7	42.0	28.1
Merseyside	12.1	38.4	43.2	6.3
North East	14.1	14.7	71.2	0.0
North West	0.0	41.3	51.2	7.5
South East	0.0	21.8	33.5	44.7
South West	0.0	30.4	55.6	14.0
South Yorkshire	17.9	8.9	73.2	0.0
West Midlands	2.6	35.0	54.7	7.7
Yorkshire & The Humber	23.7	14.8	61.5	0.0
ENGLAND	10.7	27.4	49.8	12.2

Table 4.11: Sectoral Distribution of Funding from the 'Other CFOs' (as % of all ESF funding)

Region/Sub-region	Not for Profit	Private	Public	Third
Cornwall	n/a	n/a	n/a	n/a
East Midlands	0.0	9.2	8.2	82.6
East of England	0.0	30.0	48.4	21.6
London	0.0	22.8	29.1	48.1
Merseyside	0.0	19.8	80.2	0.0
North East	n/a	n/a	n/a	n/a
North West	n/a	n/a	n/a	n/a
South East	0.0	28.8	43.0	28.2
South West	n/a	n/a	n/a	n/a
South Yorkshire	n/a	n/a	n/a	n/a
West Midlands	n/a	n/a	n/a	n/a
Yorkshire & The Humber	n/a	n/a	n/a	n/a
ENGLAND	0.0	22.5	45.0	32.5

In summary, the ESF contract data highlights a number of distinct trends:

- the Third Sector has secured a fairly significant share of contracts (a quarter) but this translates into just over one-sixth of funding; this is **a substantially lower proportion of funding than both the private and public sector**
- the differences in allocations by sector are largely accounted for by contract size; the Third Sector tends to lead smaller projects that are, on average, less than half the value of the larger contracts awarded to the private sector; this appears to corroborate the evidence in Section 4.2 that some Third Sector organisations lack the capacity to bid for larger contracts
- there are significant regional/sub-regional variations in the involvement of the Third Sector; it has a very strong presence in some areas but is absent so far in others
- **a small number of Third Sector providers are commandeering a large proportion of funding awarded to the sector**
- there are **stark differences in the distribution of funding to sectors by different CFOs**; and the Third Sector loses out disproportionately as one of the sectors receiving the smallest share of funds from the LSC as the largest CFO
- in view of the lack of data on the performance of different sectors within the ESF Programme, sectoral variations in securing funding do not necessarily reflect effectiveness in delivering ESF projects; **it is not clear precisely why certain sectors capture a disproportionate slice of ESF funding.**

It must be remembered, however, that the data does not capture any subsequent distributions of ESF funds across sector at the subcontracting level. This is a crucial gap in the evidence base as the Third Sector may, at least in theory, secure a higher proportion of funds at this stage as there could be some element of re-distribution across sectors between the prime and subcontracting tier. Evidently, more research is needed to understand the nature of subcontractor involvement. It would also **seem appropriate and timely, therefore, that the ESF Programme Committee collate and release data on the value of subcontracts to maximise the transparency and accountability of the Programme.**

4.4. Third Sector experiences of bidding for ESF funds

This final section presents initial findings from an online survey conducted by TSEN in 2009 on the experience of Third Sector organisations that considered, or entered the process of, bidding for LSC contracts as a lead contractor. In total, 230 Third Sector organisations responded to the survey on the experience of applying for funding through the LSC as a lead contractor. Of these 230 organisations, 161 (70 per cent) submitted a Pre-Qualification Questionnaire (PQQ) for the LSC to assess their suitability as potential contractors. Of these 161 organisations:

- 70 per cent (112) passed the PQQ phase
- 40 per cent (65) responded to an Invitation to Tender (ITT)
- 19 per cent (30) were successful in their bid and received a contract.

This shows a relatively high rate of attrition among those organisations that entered the PQQ phase, with just under one in five (19 per cent) eventually securing a contract. It is worth noting, though, that just under half of those who submit an ITT (46 per cent) are successful, indicating that organisations that are able to respond to ITTs have a high chance of success.

It is also worth noting that 25 of the 30 organisations that secured LSC contracts had won ESF contracts in the past. This suggests that there is a tendency for organisations with a track record of success to gain new contracts in the present 2007-2013 Programme. It must also be remembered, though, that according to ESF data, the LSC has awarded a total of 587 contracts. This survey only captures a very small number of providers within the overall provider base, though clearly it would be interesting to see if this pattern holds for all LSC-funded prime contractors.

5. Conclusions and recommendations for further research

5.1. Key findings

The 2000-2006 ESF Programme appears to have had **some success in engaging those furthest from the labour market**, including both those facing multiple disadvantage and single, identifiable disadvantages. It has also **proved effective in moving these groups into training, education or employment**. There is a critical lack of data, however, for the later phase of this Programme which makes it difficult to assess whether these successes have been sustained. This also makes it difficult to reflect on how, if at all, the introduction of the co-financing mechanism has impacted upon the level of support provided by the Third Sector to the 'hardest-to-reach' through the Programme. Indeed, **the limitations of available data is a common refrain** throughout this evidence review and recommendations for addressing this gap in the evidence base are laid out in the section which follows.

Given these apparent successes, it is surprising that the *Update to the mid-term evaluation* recommended a refocus on those 'relatively near' the labour market. Despite this, the **strategic focus of the 2007-2013 ESF Programme appears to have retained its emphasis on those furthest from the labour market**, including individuals experiencing multiple disadvantage. At the very least, the recommendation to concentrate funding and support on those 'relatively near' the labour market does not seem to have become embedded in the Operational Programme.

At the same time, the focus on hard outcomes within Priority 1, as well as pressures to align with domestic policy agendas on employment and skills and to respond in the short-term to the steady rise in unemployment, could **steer CFOs and providers away from engaging those furthest the labour market**. It is also the case that the 2007-2013 Programme has largely dispensed with the social objectives that featured in earlier Programme rounds. Stripped of these broader social priorities, it has become a Programme with a narrow remit to improve labour market outcomes. This could encourage 'creaming' as providers attempt to meet contract targets work with those easiest to place in employment. Ultimately, however it remains **too early to determine the impact of these competing strategic pressures**.

In terms of **the role of the Third Sector**, the effectiveness of the sector in engaging and supporting those furthest from the labour market through the Global Grants Programme is well-documented. However, there remains **a critical lack of evidence on the role of the sector within the wider Objective 3 programme**. Whilst the limited data available on projects delivered through the direct bidding system demonstrates a capacity to engage and support the 'hardest-to-reach' before 2003, there is no comparable evidence for later phases of the programme. One implication of this lack of analysis is that it precludes any possibility for assessing the impact of co-financing on the capacity of the Third Sector to deliver ESF-funded provision to those furthest from the labour market. Moreover, the paucity of data comparing the effectiveness of different sectors in delivering ESF provision is a critical omission in a competitive funding environment. It leaves providers unable to demonstrate past performance as the basis for future bids and, at the same time,

means that CFOs cannot justify variations in sectoral allocations on the basis of proven effectiveness.

The impact of the introduction of co-financing in the 2000-2006 Objective 3 Programme is not clear. There is insufficient data to quantify any changes that resulted in either allocations to sectors by CFOs or levels of engagement with those furthest from the labour market. This means concerns about smaller providers being 'squeezed out', including those best placed to work with the hardest-to-reach, remain unaddressed. One implication of such concerns is that any benefits to smaller organisations of removing the match funding requirement may have been cancelled out by the imposition of new barriers to accessing ESF. Whilst the evidence to support this remains inconclusive, it is certainly the case that **some of the alleged advantages of co-financing for providers remain unproven.**

More recent data provides **some evidence of Third Sector organisations being 'squeezed out' by the move towards larger contracts under co-financing.** ESF contract data for the 2007-2013 Programme shows that the proportion of contracts awarded to the Third Sector is not reflected in the overall level of funds secured. The Third Sector receives a quarter of all contracts but just over one sixth of all funding, largely because of its tendency to be awarded smaller contracts than the public, and particularly the private sector. This suggests the larger contracts issued by CFOs may disadvantage Third Sector organisations who lack the capacity to manage contracts of this size.

It is also the case that **a large share of funding allocated to the Third Sector flows disproportionately to a small number of larger providers.** ESF is disproportionately captured by a few dominant players, with the effect that overall figures on Third Sector involvement may give an unbalanced impression of the number of providers involved. Nearly half of all prime contracts awarded to the Third Sector are awarded to just 12 organisations. Co-financing patently does not distribute funds evenly across the sector.

One further implication of the dominance of large organisations at the prime contracting level is that medium-sized Third Sector organisations may find themselves **caught in the void** between the two tiers of the ESF funding architecture; too large to bid for the sub- £12,000 grants issued through the Community Grants Programme, but too small to compete for the larger contracts issued by CFOs. This is precisely the gap indicated in an earlier Global Grants evaluation¹⁰⁹ which, it would seem, continues to remain unaddressed.

One important caveat to note is that it is possible that Third Sector providers secure a larger slice of ESF funding at the sub-contractor level, with prime contractors from other sectors redistributing funds across sectors. But the lack of any data on the value of subcontracts issued makes it impossible to investigate this possibility. Once again, this highlights **the lack of transparency embedded within the Programme** regarding the levels of involvement of different sectors.

One final reflection on funding allocations is that the failure of the ESF programme to systematically monitor or evaluate the performance of the four key sectors **raises fundamental questions about the uneven distribution of funding across sectors.** In particular, it is not clear why the private and public sectors are able to commandeer more than double the total value of prime contracts than the Third Sector. There is no evidence base to demonstrate that these two sectors are capable of delivering employment and training provision more effectively. Moreover,

¹⁰⁹ Jones, G. *et al.* (2005: 34) Evaluation of the European Social Fund Objective 3 Global Grants Programme. London: DWP.

it appears to run counter to the commitment outlined in strategic Programme documents to use the Third Sector given its expertise in targeting and supporting the hard-to-reach.

Unless proven otherwise, the data on contract allocations across sectors will continue to fuel concerns that CFOs tend to issue large contracts that favour well-established private and public sector providers at the expense of smaller Third Sector organisations with more specialised remits. From this perspective, size and organisational capacity rather than ability to support those furthest from the labour market appears to determine success in securing ESF. In view of such concerns, it seems incumbent upon the ESF Programme to urgently address such issues by ensuring that future Programme evaluations include analysis of performance by sector, as the next section outlines.

5.2. Recommendations for future research

This evidence review has highlighted a number of gaps in existing knowledge on the impact of the ESF programme on those furthest from the labour market. Some of these gaps will be addressed by forthcoming research outlined in the Evaluation Strategy. Principle among these is the **Cohort Study**¹¹⁰ that will survey two waves of ESF project beneficiaries in 2009 and 2010. As with the previous large-scale Beneficiary Survey¹¹¹, this should be able to analyse the performance of the Programme in engaging and supporting those furthest from the labour market. Indeed, the Evaluation Strategy for the 2007-13 Programme¹¹² makes an explicit commitment to analyse engagement and outcomes for groups facing multiple disadvantage. The Cohort Survey would be an obvious source of data for this analysis, and could provide an important insight into the capacity of the present Programme to support the hardest-to-reach. The timing of publication of results will be critical, however, if the evidence is to be used to shape any revisions to CFO plans and ESF Regional Frameworks for the 2010-2013 phase of the current Programme.

There is no explicit commitment, though, to use the Cohort Survey to establish any difference in the impact of the Programme on beneficiaries by sector. This was not a feature of the earlier Beneficiary Survey and seems unlikely to be replicated in this new survey research. This means **the critical gap in the evidence base in terms of the effectiveness of key sectors may remain unplugged**. The Third Sector could try to address this deficit by commissioning its own large-scale survey, but this is a costly and time-consuming exercise that may not produce results in time for mid-Programme strategic revisions. Whilst it may be too late to influence the design of the Cohort Survey, Third Sector organisations could benefit from applying pressure on Programme evaluators to release results on engagement and outcomes by sector, assuming the survey captures the sector delivering projects to those beneficiaries interviewed. With this kind of knowledge, it would be possible to reflect on the implications of the current imbalances on funding distributions by sector on the capacity of the Programme to support those furthest from the labour market.

In the short-term, it may make most sense for the Third Sector to focus resources for any future research on **the dynamics of the ESF Programme at subcontracting level**. Whilst it is unlikely that contract values will be released at this level as CFOs are not required to collect or release this information, it would be possible to **conduct a focused qualitative exploration of the experience of Third Sector organisations as subcontractors** in order to:

¹¹⁰ http://www.esf.gov.uk/esf_in_action/cohort_survey.asp

¹¹¹ Cubie, A. and Baker, O. (2006).

¹¹² DWP (2008b: 10) European Social Fund, Convergence, Competitiveness and Employment Operational Programme, Programme Level Evaluation Strategy and Plan for England and Gibraltar

- identify the scale and nature of activities for which Third Sector organisations are subcontracted to deliver through ESF
- understand the experience of Third Sector organisations in applying for ESF, including both 'success factors' and barriers to accessing ESF
- probe perceptions of the quality of tender specifications including their responsiveness to local need and ability to support the hardest-to-reach
- examine the 'fit' of contracts and tenders with organisational remit and capacity
- explore perceived difficulties for 'new entrants' to secure funding in preference over organisations with an established relationship with CFOs or lead contractors
- identify experiences of involvement in consortium bids, and assess the extent to which this enables Third sector organisations to bid for ESF contracts they would otherwise lack the capacity to manage.

This research would ultimately seek to address frequently expressed concerns that the introduction of the co-financing mechanism has adversely affected the capacity of the Third Sector to secure and deliver ESF funds to support those furthest from the labour market. In particular, it could explore the experiences of smaller-to-medium sized providers that, as yet, have not featured prominently in formal Programme evaluations. Such research could provide valuable evidence to influence the development of CFO plans and Regional ESF Frameworks in the second phase of the 2007-2013 Programme.

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Appendix A - Results indicators for Priority 1 (extending employment opportunities)

Results indicators with targets are:

- participants in work on leaving
- participants in work six months after leaving
- economically inactive participants engaged in jobsearch activity or further learning on leaving
- and 14 to 19 NEETs, or at risk of NEET, in education, employment or training on leaving.

Results indicators which do not have quantified targets are:

- unemployed participants in work on leaving
- unemployed participants in work six months after leaving
- economically inactive participants in work on leaving
- economically inactive participants in work six months after leaving
- participants with disabilities or health conditions in work on leaving
- participants with disabilities or health conditions in work six months after leaving
- lone parents in work on leaving
- lone parents in work six months after leaving
- participants aged 50 or over in work on leaving
- participants aged 50 or over in work six months after leaving
- ethnic minority participants in work on leaving
- ethnic minority participants in work six months after leaving
- female participants in work on leaving
- female participants in work six months after leaving
- participants who gained basic skills
- participants who gained qualifications.

Appendix B - Revisions to ESF contract listings

All ESF contracts listed on the ESF website¹¹³ were placed in a single database. Before proceeding with the analysis, a number of adjustments were required to address minor gaps in the database. Firstly, three prime contractors¹¹⁴ were classified as 'unknown' in the sector column. Further investigation revealed that two of these were actually private companies, and the third a public sector agency, so the figures relating to their projects were included under these respective headings. Secondly, nine projects¹¹⁵ had no funding value associated with them. This meant that they had to be subtracted from all project totals used to calculate average funding amounts per project. Thirdly, some projects listed the same subcontractor more than once. Without further information on detailed subcontracting arrangements, it was decided to count these cases as a single subcontractor. This had the effect of reducing the number of subcontractors by 21, from the 4165 listed in the master database to the 4144 that appear in the overall summary (Table 1).

Initial analysis involved the calculation of totals for number of projects (or prime contracts), total funding and total number of subcontractors, disaggregated by CFO, Priority, sector or prime contractors, and grouped by region/sub-region. This then allowed the derivation of overall regional and national totals. These were then used as the source for the calculation of average size of project (in terms of both funding and number of subcontractors), and as the building blocks for the summary tables that are included in the rest of this section.

¹¹³ Contracts listed at the time the database was compiled. Contracts listed are those awarded from second half of 2008 up until the 'version date' indicated on the bottom of each page of the listings. For all CFOs except the LSC the version date is 20 June 2009. For the LSC the version date is 26 March 2009. See full list at (http://www.esf.gov.uk/esf_in_action/esf_projects.asp).

¹¹⁴ These were: Deans (LSC London 'Changing Skills' project) - private training firm; GMPLF (LSC North West 'Capital of Culture Badged Apprenticeship' project) - public sector agency; and Careers Enterprise VT (LSC South East 'Sector Routeways to Employment' project) - private training firm.

¹¹⁵ All of these are LSC funded projects - 4 in Merseyside; 1 in the North West; 2 in the South West; and 2 in the West Midlands. 7 involved public sector contractors, 1 private sector, and 1 Third Sector.



European Union
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Investing in jobs and skills



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