

Evaluation of ESF Objective 3 Co-financing in England

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This report presents the findings of a study to evaluate the impact of the European Social Fund Objective 3 co-financing regime in England, undertaken by GHK Consulting and the Gilfillan Partnership. The study was undertaken between March and December 2005 and followed a qualitative approach to assess the impact of the co-financing mechanism, rather than of individual co-financed contracts and projects per se. Three specific 'themes' were explored, namely:

- **Maintaining and raising standards** – to examine the steps taken to maintain or raise the standard of delivery under co-financing, and so improve beneficiary outcomes.
- **Access and targeting** – to examine the influence of co-financing on access to ESF funding for both providers and beneficiaries (particularly disadvantaged groups).
- **Coherence and contribution** – to examine how the co-financing approach influenced the degree of coherence with and contribution to local, regional and national policy aims, and engendered a more strategic approach to the delivery of ESF.

The study approach included case study-based fieldwork in five English regions, and interviews with Government Offices, co-financing organisations (CFOs), a range of regional stakeholders (including Regional Development Agencies, local authorities and voluntary and community sector umbrella groups) and over 40 former and current service providers.

The Objective 3 co-financing approach was introduced in September 2001, and brought ESF and match funding together into a single funding stream with the intention of:

- Reducing the level of bureaucracy and administrative burden on providers – by removing the requirement to secure match funding.
- Improving the strategic direction and effectiveness of ESF expenditure.
- Promoting alignment with Government programmes, and maximising added value to their delivery.
- Promoting a more co-ordinated and targeted approach to Objective 3 provision, supporting innovation and creativity, and placing an increased emphasis on quality provision.

Under co-financing, CFOs are responsible for the allocation of ESF funding, based on a competitive funding process following the production of prospectuses and service specifications, and the management of the resulting activities. This represented a move towards more of a commissioning model compared to the previous direct bidding approach, where providers submitted bids on a project basis to Government Offices.

Key findings

Following a challenging introductory period, co-financing has become established as the main mechanism for the allocation of Objective 3 funding in England. Over time, and consecutive contracting rounds, the processes underpinning the co-financing mechanism have become more refined in each of the case study areas, with steps being taken to address many of the practical issues experienced initially.

While the limited availability of management information made drawing conclusions on the achievement of the core objectives of co-financing difficult, the qualitative study approach served to illustrate developments since the previous evaluation in 2003. The study concluded that:

- The **standard of delivery** under co-financing has been at least maintained or raised in the case study regions, as a result of mechanisms such as CFO appraisal processes and the application of standards, enhanced monitoring procedures and the provision of pre- and post-application support.
- CFOs have made considerable effort to ensure **access for providers** from a wide range of sectors and sizes – including a range of marketing and enabling activities. However, smaller providers can face challenges to engagement, such as the requirement for outputs/outcomes as payment triggers and a tendency towards larger contracts.
- In terms of **beneficiary access**, the study found that beneficiary targeting under co-financing remained in line with the RDPs in the case study regions. While LSC and Jobcentre Plus CFOs, particularly in recent rounds and following new sectoral policy directions, had focused increasingly on harder to reach and more challenging target groups, for other CFOs disadvantaged groups had been a key focus from the outset. However, without taking specific steps to counter, providers may be reluctant to work with the more challenging beneficiaries – primarily due to the increased focus on achieving outcomes and the associated risks.
- The study concluded that considerable progress had been made in some of the case study regions towards promoting **coherence** and the truly **strategic use of ESF** – both between CFOs in the same sector and through cross-sectoral planning and proposal development. The move to more integrated, regional level planning did however raise concerns amongst many of the interviewees, around the potential dilution of local focus and impacts in terms of beneficiary coverage.

The study also identified that a wide range of views continue to be held by providers, stakeholders and CFOs on the appropriateness, equity and effectiveness of the co-financing mechanism. The majority of providers considered

co-financing to be an appropriate means of allocating ESF funding in theory at least, recognising both the benefits and consequences of the mechanism. In other cases, interviewee's views appeared to be based on perceptions rather than reality, or on negative experiences of the early stages of the co-financing regime.

Stakeholder views also varied, with key concerns being the emphasis on the organisational agendas and perceived mismatch with the fundamental objectives of ESF. For some, a residual mistrust and suspicion remained around the emphasis on the LSC sector in particular, but more broadly around links with mainstream national programmes. This suggested a continued tension with co-financing's aim of promoting alignment with and contribution to mainstream programmes.

Summary of research

Developments since the previous evaluation

The study identified a series of developments in the implementation of co-financing since the last evaluation in 2003. The main developments identified by the case study interviewees included:

- **Increased levels of co-financing activity** – with successive tendering rounds and increased Jobcentre Plus involvement leading to the embedding of the mechanism, an increased familiarity with its principles and processes, and the view that CFOs 'have got better at what they do'.
- **Increased levels of co-ordination** – both between CFOs and between CFOs and their partners and stakeholders, including the development of harmonised approaches and increased collaborative activity.
- The **increased influence of regional and sub-regional strategies**, and of the Objective 3 Mid Term Review, on CFO plans and services. While Regional Development Plans (RDPs) remained the key 'strategic reference points' for activities in each of region, the influence of LSC and Jobcentre Plus CFOs' organisational priorities were a cause of concern for some stakeholders.
- A **tendency towards fewer, larger contracts**, amongst the LSC CFOs at least, with partnership/consortium approaches being

encouraged to enable smaller providers to participate. However this was paralleled in some CFOs by an increase in smaller contracts, focusing on the more challenging target groups.

- **The further development of approaches and systems for collecting data on match funding** – particularly for LSCs, where concerns were raised in the previous evaluation report and where national systems have been introduced.

The majority of CFOs considered the co-financing mechanism an appropriate means for the distribution of ESF, with the potential for enhancing strategic co-ordination and targeting beginning to be realised to different degrees. However a series of continued challenges were reported by the case study CFOs, including: the variable ability to report on their successes and challenges of evaluating the impact of co-financed ESF; the continued need to develop understandings between providers and stakeholders on the co-financing approach; the need to further reduce bureaucracy while ensuring monitoring data is robust and fit for purpose; and ensuring that CFO staff are appropriately trained to manage the process.

Delivery standards

The study sought to identify the steps taken by CFOs and their influence on maintaining or raising delivery standards, and concluded that standards had been at least maintained or raised in the case study regions. Key steps identified amongst the case study CFOs included:

- **Application and appraisal processes** – here CFOs' own contract tendering procedures formed the basis of the approaches followed under co-financing, which in all cases were found to be effective and equitable. There were some concerns regarding specification development and the feasibility of their requirements, compliance with open and competitive tendering (for example, in restricting discussions with potential providers), the provision of feedback and the contract negotiation process.
- **Enhanced monitoring procedures** - the shift in responsibility for delivery monitoring from Government Offices to CFOs had led to an increase in the scale of available monitoring resources. While the CFOs considered these

extra resources were having a positive impact on standards, the providers commonly considered monitoring to be an additional burden with limited benefit to them beyond evidencing contract compliance. However, a small number of providers reported benefiting from enhanced monitoring activities, where closer observation had led them to raise their standards.

- **An increased focus on outputs and outcomes** – the link between beneficiary outputs and outcomes and provider payments had also contributed to delivery standards. For some providers the requirement to achieve, and report, beneficiary outputs and outcomes was a positive driver for improvement - with a small number citing the emphasis on outcomes as a driver for raising standards.

Access and targeting - providers

The ability of CFOs to engage with the most appropriate providers to deliver services under Objective 3 was also a key element in maintaining or raising delivery standards. The study identified three main steps taken by the CFOs to ensure the most appropriate providers were engaged, namely:

- **Communicating opportunities to tender for contracts** – with CFOs extending their existing contractor databases to use in mailshots, and communicating tendering opportunities through a range of media.
- **The application and appraisal processes** – as well as influencing delivery standards, the process could also influence provider access by reducing the bureaucracy and administrative effort associated with applying for funding. Here the introduction of common or simplified application forms, initial 'expressions of interest' or pre-qualification questionnaires, and common plans or prospectuses were welcomed by many providers.
- **Support and preparation for delivery** – in addition to support with preparing bids, CFOs often offered support before and in the early stages of delivery. Technical Assistance funds were often used here, and the LSC CFOs also commonly offered formalised support through their 'new provider' programmes.

Views varied on the impact of co-financing on the current ESF provider base. While a degree

of churn was expected as a result of steps to raise standards, the (limited) quantitative and anecdotal information collected suggested that co-financing had led to a widening of the range of providers used by the case study CFOs – with up to 50% of some CFOs' current providers being new to them. These new providers were often reported as being small and from the voluntary and community or private sectors, engaged to work with particularly challenging target groups where their specialist abilities and experience were required.

The study also identified a series of potential barriers, particularly for smaller organisations, to their participation in co-financed delivery, including:

- The **actual and perceived risks associated with output/outcome related payments** – resulting from the linking of payments to beneficiary achievement, the positive effects of which were balanced against the implications of under-performance for providers working with the more challenging beneficiary groups.
- The **actual/perceived scale of bureaucracy** associated with working under ESF – where the positive influence of increased monitoring activities was balanced by providers' views on the level of accompanying bureaucracy.
- The **move towards larger scale contracts** – and the reduction of opportunities for smaller providers to participate as sole contractors.
- **Provider perceptions of co-financing** – which in some cases were reported as acting as barriers to participation, and based on experiences of the mechanism in its early stages.

The case study CFOs had taken steps to reduce these potential barriers, including being more flexible about the nature of the outcomes required under contracts (and considering what is appropriate and 'achievable' for the target group in question), encouraging partnership or consortia approaches, offering smaller, more specifically focussed contracts, and continuing to promote co-financing opportunities widely.

Access and targeting - beneficiaries

The study found that across the case study CFOs beneficiaries were being targeted in line with the Regional Development Plans for their

respective regions, with LSC and Jobcentre Plus CFOs focusing increasingly on more challenging target groups in line with sectoral policy developments and the recommendations of the Objective 3 Mid Term Review. However, factors were identified which could lead to providers being less willing to work with the more challenging target groups, and of particular relevance to smaller private and voluntary sector providers.

These factors were similar to those with the potential to influence provider access, the most important of which related to securing outcomes for the more challenging Objective 3 target groups, and the risks to provider payments. This potential barrier was recognised by the case study CFOs, with steps to negotiate it including:

- **Ensuring contract outcomes were achievable** for the target group in question – and with numerical targets allowing for variable completion rates.
- **Producing more specific/directed tender specifications** – setting out the characteristics of the beneficiaries to be targeted as well as the outcomes expected.
- **Ensuring tender requirements are based on relevant and timely labour market information** – to ensure the resulting contracts are achievable.

In addition, many of the CFOs had also taken steps to re-balance the emphasis between securing 'hard' and 'soft' outcomes, and the use of other indicators of achievement based on individual progression.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84712 039 3. Research Report 359. June 2006).

It is available from Paul Noakes at the address below.

You can also download this report free from: www.dwp.gov.uk/asd/asd5/rrs-index.asp

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