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Introduction

We have been conducting a programme of research on third sector organisations (TSOs) supporting hard-to-reach individuals who are furthest from the labour market into work or training. This includes examining the impact that the devolution of the UK Shared Prosperity Fund (UKSPF) is having on their services. Our evidence is particularly relevant to the ‘call for evidence’ questions of:

Opportunities and challenges

- What might be some of the unintended consequences of devolving employment support?
- What impact could greater devolution of employment support have on the consistency and quality of scheme delivery? How could consistency be maintained across a more devolved system?

If employment support were to be further devolved:

- Upon what basis should funding be allocated and why?
- How should the boundaries of devolved areas be delineated?
- What balance should be struck between national employment support schemes and locally delivered schemes?

Our Evidence

Our evidence draws upon a local pilot survey and a UK-wide survey with staff and officers from TSOs, where most respondents were CEOs and senior managers. The pilot survey (13 respondents) was undertaken in December 2023-January 2024, and the UK-wide survey (64 respondents) in February-March 2024. Both surveys included a free-text response question which invited written comments on key challenges third-sector providers are experiencing with the transition from European funding to UKSPF. We also conducted in-depth, semi-structured interviews with a range of TSOs, with the help of the Employment Related Services Association (ERSA).

Third-sector providers typically emphasise the benefits of voluntary user participation and personalised, ‘wrap-around’ support with the help of dedicated key workers who support users on a one-to-one basis. The aim is to build relationships and address individuals’ multiple barriers to work at a pace which suits them and helps them find work that they want to do that fits with their life circumstances. They play a vitally important role in supporting long-term unemployed and ‘economically inactive’ persons who often benefit from a more tailored and holistic service. Our evidence draws on TSOs delivering government-funded employment support schemes (e.g. the *Work and Health Programme*) as well as those operating outside these schemes.

Many of these organisations benefitted from the European Social Fund (ESF), often matched with Lottery funding, particularly those operating outside government-funded schemes. ESF has now ended and is supposed to be replaced by the ‘People and Skills’ element within the UKSPF, which is devolved through local authorities. Our research suggests that organisations are in financial distress. Indeed, from our UK-wide survey of staff and officers from TSOs, we found that:

- Three-quarters (74%) had experienced reduced funding with the transition to UKSPF. For 59% the loss was ‘very significant’, and for 34% ‘quite significant’.
- Three-quarters said it would lead to fewer users being supported, and 95% said this would ultimately increase cost to the taxpayer.

- Almost 4 in 10 had laid off staff in the last year because of financial pressures; of those which had not, 42% expect to do so over the next two years.
- 15% said that their organisation was under threat of closure within the next 12 months, with most attributing this to lack of funding and lack of stable long-term funding.
- Less than 1 in 6 said that UKSPF would lead to greater local flexibility.

The problem of reduced funding with the transition to UKSPF has been compounded by lack of long-term planning by the UK government. This led to a widely-reported funding gap around people and skills priorities when UKSPF was first introduced, which saw many organisations close down or cut back services. There are now major concerns that there will be another ‘cliff edge’ with government yet to provide any clarity as to what will happen when UKSPF ends in April 2025. As many of our interviewees told us commissioning provision needs a reasonable lead-time, and without certainty going forwards many TSOs are forced to lose staff or watch them leave as contracts draw to a close. It then becomes very difficult to recruit staff if and when funding becomes available again. For many survey respondents and interviewees, this is sector in crisis, a crisis which is perceived as being largely unnoticed by policymakers.

“Loss of ESF (European Social Fund) funding is a disaster for 3rd sector organisations. The government does not value the contribution of 3rd sector organisations in helping disadvantaged people into employment... (Survey Respondent)

It is important to emphasise that lack of funding is a key problem, regardless of whether commissioning was more devolved or less devolved. However, our evidence suggests these problems have often been worsened by the way UKSPF has been implemented locally.

Local authority commissioning lacks consistency and transparency

We have heard that many cash-strapped local authorities are using UKSPF to fund their own ‘in-house’ employability support and maintain their own staff numbers rather than commissioning third-sector provision where there is clear evidence that the latter is more effective in meeting user needs. There are major concerns over the lack of transparency and consistency in how many councils are using UKSPF, which is further compounded by the lack of scrutiny by central government. Some councils are said to be simply copying ESF reporting and compliance requirements when designing tenders, with the promised reductions in bureaucracy associated with ESF failing to materialise. We heard of some local authorities who commission provision from the third sector making contract payments ‘in arrears’, expecting small providers with limited financial reserves to ‘carry staff’ for several months without any funding to cover their contracts.

All of this is taking its toll on the consistency and quality of provision:

Local Govt and devolution has resulted in havoc on quality provision by taking and keeping all government investment and not deploying Third sector at scale. (Survey respondent)

Some of them [local authorities] have just top-sliced UKSPF and kept their teams doing it... some of them are terrible, it’s just like doing ESF again ... whoever thought we’d say bring back ESF!’ (TSO6, interview)

[some councils are] pulling off the ESF forms they always use, taking the logo off and still asking us to submit the same paperwork ... commissioning bin collections is not the same as commissioning an employment programme, and there is a totally different skill set. (TSO1, interview)

This is also reflected in the UK-wide survey results, where only 38% of respondents indicated that the withdrawal of ESF funding had led to reduced funding bureaucracy.

Devolving UKSPF commissioning to lower-tier local authorities had led to fragmentation and inefficiency

Third-sector providers are having to spend considerable amounts of time submitting multiple bids to different local authorities (all of which have different procurement requirements) for small pots of short-term funding (typically less than £100,000 for a year, or less in practice). This makes it extremely difficult for third-sector providers to plan and is destabilising the sector in terms of the retention and recruitment of knowledgeable key workers. Nor does it meet the needs of vulnerable users who require long-term support. Some larger TSOs are opting not to submit bids, while others are struggling to make the contracts work and, in some cases, want to give them back.

There has been no consideration of increased resource required to be able to either get onto a LA framework and/or then bid with each individual local authority for funding when commissioning was previously done centrally. (Survey respondent)

... [Bidding has] taken a lot of staff time... we would argue that it's gone too local at the moment, which is taking away quite a lot of the efficiency. (TSO7, interview)

... the smaller contracts have disproportionately more amount of work per pound [£ sterling], if that makes sense... We look at the level of effort that's required and quite often we would walk away. (TSO4, interview)

They are not financially viable for us to run because they're just letting one year worth of funding for me to go out, recruit staff for one year, make them redundant. (TSO1, interview)

It was felt we would be doing beneficiaries [users] a huge disservice to set up a project just to close it back down 12 months later... we'd be picking people up and dropping them. (TSO network, interview)

There are problems in devolving employment support funding to local authorities covering small fragmented geographies

Devolution to 'lower-tier' local authorities can also create problems as local commissioning does not map neatly on to travel-to-work/travel-to-study areas. This creates confusion over who is responsible for funding provision when, for example, a young person 'not in employment, education or training' lives in one local authority area but travels to learn or undertake work experience in another area. The way in which UKSPF had been allocated to different local authorities according to levels of deprivation has also created gaps in employment support. One unintended consequence has been to leave relatively wealthy areas with no funding allocation to address 'pockets of deprivation'. We were told that under ESF, which was devolved through Local Enterprise Partnerships across a larger geographical area, it was easier to avoid these kinds of problems.

Some combined authorities may have more capacity to commission over a larger geographical area but the picture is not uniform.

We heard positive reports concerning Greater Manchester and the Greater London Authority. However, the picture does not appear to be uniform. In other combined authority areas, TSOs told us about constituent councils 'taking no interest in the third sector', using UKSPF 'to fill gaps in their funding for roles they've created in order to keep that money in-house', and the combined authority

itself being *'very traditional in their approach'*, having *'funding favourites'*, and not being *'evidence-led.'*

Some of our interviewees compared the highly fragmented nature of commissioning employment support under UKSPF, which is devolved to combined authorities and 'lower-tier' authorities, with the planned devolution of the Work and Health Programme from currently seven contract areas to 46 contract areas. The latter was seen by some TSOs as a better commissioning model because commissioning would at least be undertaken over a larger geographical area and involve local authorities coming together to build commissioning capacity. For some smaller local authorities, however, this may be something they lack the capacity to deliver and do not even want to be involved in. Again, there are also concerns that delays by central government in putting in place commissioning arrangements for the devolution of the Work and Health Programme could lead to a funding gap, with disastrous consequences for people with disabilities and long-term health problems.

"We could literally have no employment provision for people with disabilities in the UK as of the 1st of October [2024] because there will be a gap in provision because the funding will have stopped."

Getting the right balance of national and local schemes

Our data also provides insights into the right balance between nationally commissioned and locally commissioned employment support programmes. The general view from our interviewees is that you need a 'blended approach'. Nationally-commissioned programmes, which have typically used a 'payments-by-results' funding model, may be able to deliver at scale for users that are easier to help transition into employment, but they struggle to engage individuals who experience multiple barriers to work. There is an extensive literature around how such programmes can result in 'creaming' and 'parking', i.e. focusing attention on users who are easiest to move into employment at the expense of those with more complex barriers. For those with complex and often multiple barriers, a 'generic Vanilla-type service' does not work; you need personalised, one-to-one support delivered by experienced key workers who have case workers/client caseload ratios of no more than 1:25 (much lower than those on nationally-commissioned schemes), which grassroots, mission-led charities are often best-placed to deliver. The general consensus is that both types of programmes have better results where they are based on voluntary user participation. Both also rely on the ability to engage employers whose participation and involvement is vital to successful delivery.

...you need a model where you have a national provision, which is your economies of scale and can work with the volumes [of clients] you want and then for the specialist provision and that should be what is devolved now...You can't devolve it all or do it all nationally, because neither work for everybody... [TSO1]

...you need to have some sort of national programmes... if you want smaller charities to get involved, they might need a different type of financial model...rather than just selecting the primes [prime contractors] to instigate that...but I think going to the model of just devolving everything isn't going to work either, because we're seeing such a difference [in user needs]... [TSO6]

Two further points are worth noting. First, in Scotland, all funding for employment support, whether through UKSPF, the Scottish Government's *No One Left Behind* funding, and *Fair Start Scotland*, has been, or is being, devolved through local authorities. Our data suggests that many of the problems around fragmentation, inconsistency and lack of transparency are also evident in

Scotland, notwithstanding some pockets of good practice where local partnerships with the third-sector are firmly rooted.

There's pros and cons of putting money down to the local level and there's great things that can happen because it allows for diversity at local level but you can't just be putting money there... You've got to have the right mindset [in the local authority] ... the right partners around the table...I think it was naïve just saying put it all out the local authorities and they'll deal with it...and a postcode lottery as well. {Scottish TSO7}

...we're definitely seeing local authorities employing more employability people themselves [in house]... there's lots of local authorities where they're poacher and gamekeeper... commissioning services and then bidding for their own. [Scottish TSO5]

A blended approach would probably be our preference around being able to deliver at scale nationally because I have to submit 29 times the amount of bids every year... [Scottish TSO6]

The second point to note is the dominance of large private-sector 'primes' in England and the impact on smaller, local third sector providers. Previous literature has highlighted primes crowding-out the third sector from government contracts, using third sector providers as 'bid candy' to secure contracts but then failing to provide them with sufficient client referrals, and of primes referring clients to non-contracted third sector charities who are then expected to effectively subsidise the work of the primes for free. Our data suggests these issues have not gone away.

We are a specialist organisation providing support to disabled people and those with long term health conditions. Current commissioning approaches are favouring large private sector companies with a 'one size fits all' approach which are forcing us out of the employment and training market. Once those organisations have secured a contract, they frequently approach us for help and support with clients with complex needs that they can't or won't support themselves, often with no financial reward." [survey respondent]

We're all used as bid candy. We give them [prime contractors] all of our information...They said, 'Oh yeah, we'll take you in.' I said, 'when will you start contracting with us?' And they said, 'oh, we want you on call provision' and we never got anything from them. Yeah, they used us as bid candy in their application because they were tasked with working with local providers. [TSO8]

RECOMMENDATIONS

Based on the research findings, the Government should consider the following:

1. Undertake an audit of how local authorities have commissioned employment support through UKSPF and ensure lessons are learnt. This should also consider whether there are differences between combined authorities and lower-tier authorities.
2. Rolling-out local commissioning at speed without prior investment in the capability and capacity of local authorities to undertake commissioning around employment support is deeply problematic. Consideration should be given then to how such capacity might be developed. While commissioning by central government is not without its problems, there may be expertise in central commissioning teams that can be shared. A staged approach could be considered in which local authorities are involved in commissioning without being the commissioning body until such capacity exists. Ensuring that commissioning is done in

partnership with third-sector organisations and that there is transparency in the process is vitally important, building on any examples of good practice.

3. Put in place a national framework of clear rules and guidelines in terms of how local authorities are expected to commission employment support services and maximise the transparency of the commissioning process and funding outcomes.
4. More thought needs to be given to the level at which it is sensible to devolve to i.e., what constitutes a viable geographical area for commissioning employment support. Clustering local authorities together in order to commission UKSPF across a geographical area at least as large as that which used to be covered by a Local Enterprise Partnership may help to build capacity and tackle some of the problems around gaps in provision.
5. Providing clarity on what will replace UKSPF from April 2025 is a matter of urgency.
6. In addition to providing an adequate level of funding, there is a need for longer-term funding of at least three years, and preferably longer, to allow TSOs to plan, retain staff, and stabilise the sector. This is important if we want to avoid the collapse of many organisations that have a key contribution to make in terms of helping to address rising levels of economic inactivity in the UK.
7. In terms of getting the right balance between nationally-commissioned and locally-commissioned programmes, a blended approach which combines national programmes for those users closer to the labour with locally-commissioned programmes delivered by local, grassroots organisations that are trusted in their communities, would seem to be the way forward. Voluntary user participation is key. The Government should also look at how 'the market' is functioning in England, and look again at the role currently played by large prime contractors.

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