



**The experience of third sector  
subcontractors in the  
European Social Fund  
2007-13 Programme**

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# The experience of third sector subcontractors in the European Social Fund 2007-13 Programme

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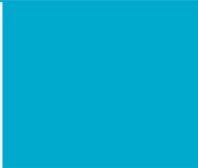
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## Executive summary

### Objectives

This report was commissioned by the Third Sector European Network (TSEN) to explore:

- the extent of the Third Sector involvement in the current ESF programme
- the experience of third sector organisations in **applying for and delivering ESF subcontracts**
- the **relationships** of third sector subcontractors with prime contractors or, for those delivering projects as a part of a consortium, lead partners.

### Overall experience

Third sector organisations delivering subcontracts are **largely positive about their experience**. They generally believe they deliver a valuable service that addresses the needs of disadvantaged client groups. Subcontractors are positive about relationships with lead organisations which are, in the main, regarded as genuine partnerships that provide the support required. The Programme is not an unqualified success however. There are **recurrent and often severe criticisms** of the way the bidding and delivery process operates. Many subcontractors feel that excessive levels of bureaucracy or inflexible contracts constrain their ability to deliver the highest quality service possible.

### Key findings

#### The profile of subcontractors

- **Subcontractors are much larger and employ more people than the 'average' third sector organisation** identified in other datasets. This suggests small to medium-sized third sector organisations are being 'squeezed out' in the competition for ESF subcontracts by larger third sector providers.
- It is estimated that the total value of all third sector subcontracts is £134.6 million; this only equates to **4 per cent of the estimated £3.4 billion<sup>1</sup> awarded through ESF 2007-13** so far. This may have implications for the capacity of the ESF Programme to support the 'hardest-to-reach' given the recognised strengths of the sector in engaging this group.
- Overall, the evidence suggests that **the Third Sector as whole does not secure significant amounts of available ESF funds to deliver prime contracts or subcontracts.**

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<sup>1</sup> This figure is the sum of all prime contracts listed on the ESF website and includes public sector match funding provided through programmes such as Flexible New Deal.

## Bidding

- A number of **concerns were raised about the process of bidding** with dissatisfaction centring on the volume and complexity of paperwork involved as well as inadequate feedback on unsuccessful bids.
- Some third sector organisations interviewed had made unsuccessful bids for prime contracts but subsequently secured smaller subcontracts. This led to a perception that bidding for subcontracts alone or as part of consortium was the only viable way for smaller third sector organisations to access ESF.
- Third sector organisations that had failed to secure any ESF funding in the 2007-13 Programme were highly dissatisfied with their experience of bidding and concerned about the negative impact this would have on their income and delivery capacity.

## Delivery

- There were mixed views among third sector organisations about the extent to which the Programme enabled them to deliver projects effectively.
- Whilst a majority of subcontractors felt delivery had proceeded as planned, there was **little sense that contracts could be negotiated** once awarded.
- **Excessive administrative demands and inflexible contractual requirements** constrained the ability of third sector organisations to provide the quality of service they felt they were capable of delivering.

## Outcomes and rewards

- Most of the subcontractors interviewed felt that the **targets set were demanding** although the majority had met or were on course to meet them.
- A majority of third sector organisations interviewed believed soft outcomes should be rewarded although survey results indicated this only occurred in a minority of cases/.
- Some subcontractors felt able to engage 'hard-to-reach' groups. However, the research also uncovered **evidence of 'cherry-picking'** or, at least, concerns that organisations facing difficulties in meeting targets may have to resort to 'quick-wins'.

## Relationships

- third sector organisations were **largely positive about relationships with lead organisations** whether contracted directly to a prime contractor or working with a lead partner in a consortium.
- Whilst there were concerns about some aspects of relationships with lead organisations, particularly with regard to inflexibility or changing administrative requirements, this did not seem to seriously undermine the perceived quality of relationships.

# 1. Introduction

## 1.1 Objectives and scope of the report

This report was commissioned by the Third Sector European Network (TSEN) to explore the experience of third sector organisations in delivering European Social Fund (ESF) subcontracts in the 2007-13 Programme. The core objectives of the research are to understand:

- the **extent of the third sector involvement** in the current ESF programme
- the experience of third sector organisations in **applying for and delivering ESF** subcontracts
- the **relationships** of third subcontractors with prime contractors or, for those delivering projects as a part of a consortium, lead partners.

This study originated from the recommendations of a previous evidence review commissioned by TSEN to examine the impact of the ESF Programme on those furthest from the labour market<sup>2</sup>. The review identified a lack of data on allocations of ESF funding to the third sector as well as limited evidence on the experience of third sector organisations as subcontractors within the Programme. This made it difficult to assess the ability of third sector organisations to access and deliver ESF at the subcontracting tier. The review recommended, therefore, that further research was undertaken to address these gaps in knowledge.

## 1.2 Methods

The research objectives identified above have been examined using two methods:

- a **postal survey** of all third sector organisations thought to have been awarded ESF subcontracts plus a smaller number of 'discouraged' or 'unsuccessful' bidders
- in-depth **telephone interviews** with a group of subcontractors and some 'discouraged' or 'unsuccessful' bidders.

The precise methods used are detailed below. The profile of third sector organisations that participated in the survey is outlined in more detail in section two.

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<sup>2</sup> Crisp, R., Gore, T. and Wells, P. (2009) Evidence review of the impact of the ESF on those furthest from the labour market. London: TSEN.

### 1.3 The postal survey

The survey involved a large postal questionnaire of 666 third sector organisations thought to hold subcontracts from ESF 2007-13. These 666 organisations were drawn from a longer list of 1,266 individual subcontracts provided by TSEN based on listings on the European Social Fund website<sup>3</sup>. Using this list of subcontracts the research team were able to identify 706 unique third sector organisations. This difference between the total number of subcontracts and unique third sector organisations is accounted for either by organisations with multiple subcontracts or projects awarded to local branches or affiliates of large national charities. A data provider (Guidestar UK) provided addresses for 605 of these organisations and the research team were able to identify a further 61 addresses through internet searches.

Of the 666 organisations included in the survey mail-out:

- 137 subcontractors responded to the questionnaire (21 per cent).
- 19 questionnaires were returned by Royal Mail
- 61 organisations responded stating they had never held a subcontract in the ESF 2007-13 Programme. Many of these organisations explained that they had been listed on bids by prime contractors as *potential* subcontractors but had not subsequently been contracted to deliver services when the bid was successful.

If the sample is adjusted to 586 to take into account organisations that could not be contacted or did not have a subcontract, the overall response rate rises to 23 per cent. However, the 61 organisations that responded stating that did not hold a subcontract are likely to be only a proportion of the 'true' number. If we assume that the response rate for non-contract holders is the same as those who did have contracts, it can be estimated that 199 of the 666 organisations that initially received a questionnaire did not have a subcontract and should not have been included in the original sample. Adjusting the response rate based on this estimation reduces the sample population to an estimated 448 organisations and increases the **final response rate to 31 per cent**.

The research was also interested in the experiences of organisations that had never successfully secured funding in the ESF 2007-13 Programme. To this end, a revised survey was sent to a further sample of 34 organisations identified by TSEN as either:

- 'discouraged' organisations that had considered bidding for ESF in the 2007-13 Programme but had not made a formal approach or application to secure funds.
- 'unsuccessful' applicants that had bid for one or more contracts in the ESF 2007-13 programme but had not won any contracts.

This second survey of discouraged and unsuccessful applicants received 16 responses which equates to a response rate of 47 per cent.

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<sup>3</sup> This listing is available at: [http://www.esf.gov.uk/esf\\_in\\_action/esf\\_projects.asp](http://www.esf.gov.uk/esf_in_action/esf_projects.asp)

## 1.4 In-depth interviews with subcontractors

The research also undertook a series of in-depth interviews by telephone with third sector organisations including:

- 15 third sector organisations that held ESF subcontracts in the current round (2007-13)
- 4 third sector organisations that had not been awarded ESF contracts in the current round but had either considered bidding or made unsuccessful applications<sup>4</sup>.

These interviews explored the experiences of individual third sector organisations involved in the ESF 2007-13 Programme in terms of:

- the process of **bidding** for contracts
- experiences of **delivery** including the factors constraining and enabling service provision
- **outcomes** in terms of meeting targets, receiving payments and ability to engage 'hard-to-reach' clients
- **relationships** with prime contractors or lead partners in consortiums
- **overall experiences** of involvement in the ESF Programme.

The final sample of subcontractors interviewed was chosen carefully from survey responses to reflect the balance of satisfaction levels indicated by the survey and to ensure a mix of organisations by organisation and contract size, region, priority, sector of prime contractor (private, public or third) and whether the bid was led by a prime contractor or consortium. Accordingly, the group comprised:

- 10 organisations that were satisfied with their experience of delivering ESF according to their survey response compared with five that were unsatisfied or neither satisfied or dissatisfied
- 10 third sector organisations that delivered projects in Priorities 1 or 4 (employment) and five within Priorities 2 and 5 (skills)
- nine organisations delivering contracts as consortia and six third sector organisations directly subcontracted to prime contractors
- five organisations contracted by third sector prime contractors or working in third sector consortiums compared with five working with the private sector and four with the public sector (one did not know the sector of the prime contractor)
- third sector organisations from a number of regions including London (5), Yorkshire and Humber (3), the North West (2), Cornwall (2) and one each from the East of England, South East and Merseyside.

Organisation size varied considerably as Table 1.1 below indicates:

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<sup>4</sup> A total of five interviews were undertaken but one had to be discounted on the basis that the organisation turned out to be a private company.

**Table 1.1: Organisation size by income band**

		<b>N</b>
Small	Less than £250K	3
Small-medium	£250K to £499K	3
Medium-large	£500K to £999K	2
Large	£1 million to £2.49 million	3
Very large	More than £2.5 million	4

**Nearly half of responses were from large or very large organisations** which is representative of the composition of the broader population identified through the survey (see section 2.1).

The range of services these organisations delivered through subcontracts is too broad to summarise fully but included:

- Information, Advice and Guidance (IAG)
- basic skills (numeracy and literacy)
- English for Speakers of Other Languages (ESOL)
- developing soft skills (confidence, motivation)
- accredited and non-accredited learning
- in-work training
- providing opportunities to gain work experience and volunteering

In terms of total ESF income as a proportion of gross annual income, the interview sample was skewed to organisations with **a greater reliance on ESF** than survey respondents (see 2.1). Table 1.2 below shows that nearly two thirds of third sector organisations interviewed had contracts equivalent to 20 per cent or more of their annual turnover.

**Table 1.2: ESF income as a proportion of gross annual income<sup>a</sup>**

	<b>n</b>
Less than 10 per cent	3
10-19.9 per cent	2
20-49.9 per cent	3
More than 50 per cent	6

<sup>a</sup>One TSO did not know their contract income

The importance of ESF funding is reflected in comments by interviewees. A majority stated that ESF was a significant proportion of their income stream, describing it variously as *‘very important’*, *‘the most important [source of funding]’*, *‘critical’* and *‘without it we don’t exist’*. Only a minority suggested it accounted for a small proportion of income such as one large organisation with an annual income over £40 million that regarded it as *‘insignificant’*.

## 1.5 Background to the ESF

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 €4.3bn<sup>5</sup>. 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 four main priorities<sup>6</sup>:

- 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.
- Priority 4 - '*Tackling barriers to employment*' – seeks to tackle barriers to employment in Cornwall and the Isles of Scilly by helping more people enter employment or engage in activity leading to employment, particularly disadvantaged groups
- Priority 5 - '*Improving the skills of the local workforce*' – aims to help all people in Cornwall achieve the highest levels of skills and qualifications they can in order to enable them to find jobs and improve their chances of career progression.

## 1.6 ESF funding mechanisms

The 2007-13 ESF Programme is a **single, national Programme** but funds are awarded at the regional level by Co-Financing Organisations (CFOs). Co-financing was introduced in September 2001 to bring ESF and match funding together in a single funding stream. This replaced the direct bidding system whereby providers designed and submitted their own proposals to Government Offices (GOs), with all applicants expected to match fund any ESF awarded. Co-financing allocates funds through a commissioning model under which regional CFOs award funding to deliver prime contracts through a series of competitive tendering rounds. CFOs commission either:

- **prime contractors** who may, in turn, recruit subcontractors to deliver elements of the prime contract;
- or with **consortia** of organisations that come together to submit a joint bid with one of these organisations nominated as a lead partner.

<sup>5</sup> As identified in ESF (2008: p36) *ESF 2000-2006 Objective 3 Operational Programme for England and Gibraltar, Annual Implementation Report 2007*.

<sup>6</sup> Priorities 1 and 2 apply to all English regions except Cornwall and the Isles of Scilly which has its own priorities - Priorities 4 and 5 - as a 'Convergence area' that, unlike the other English regions, has a regional GVA less than 75 per cent of the European average. Priorities 4 and 5 effectively mirror Priorities 1 and 2, however, with the dual focus on employment and skills. 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.

These research focuses on both third sector organisations subcontracted directly to prime contractors and those that deliver subcontracts within a consortium headed by a lead partner. For the purposes of clarity, the terms 'prime contractor' or 'lead partner' are used consistently to differentiate between non-consortia and consortia delivery arrangements. Where the distinction is not important, the general term 'lead organisation' is used to refer to the body with whom third sector organisations are subcontracted.

## 1.7 Report structure

The structure of the report is as follows:

- section two looks at the profile of third sector ESF subcontract holders as identified by the postal survey
- section three considers experiences of applying for ESF subcontracts and considers the factors explaining both successful and unsuccessful bids
- section four examines experiences of delivery in terms of the factors that support or constrain the work subcontractors undertake
- section five explores outcomes, payments and the ability of third sector organisations to engage the 'hard-to-reach'
- section six looks at the nature of relationships with lead organisations as well as consortium partners
- section seven reflects on the overall experience of third sector organisations involved in ESF
- section eight reviews the key findings and suggests ways the ESF Programme could be improved.

## 2. Profile of third sector subcontractors

This section examines the characteristics of the third sector organisations that responded to the postal survey and reflects in particular on the type of organisations most likely to hold ESF subcontracts.

### 2.1 The profile of survey respondents with ESF 2007-13 subcontracts

This section profiles the 137 subcontractors that responded to the postal survey in terms of their size as well as the scope and nature of service they provide.

#### *How many subcontracts do they have?*

Respondents were asked to tell us how many subcontracts their organisation had applied for and how many they had been awarded under ESF 2007-13:

- the mean number of contracts applied for was 2.02 while the mean number of subcontracts awarded was 1.73
- a large proportion of respondents (67 per cent) had only applied for one or two contracts
- 20 per cent of respondents had applied for between three and nine contracts but less than two per cent of respondents had applied for more than 10 contracts
- similarly, a large proportion of respondents (76 per cent) had only been awarded one or two subcontracts
- 17 per cent of respondents had been awarded between three and nine subcontracts but less than two per cent had been awarded more than five subcontracts.

These figures show that most third sector organisations bid for or deliver one or two ESF subcontracts.

#### *What are these subcontracts worth?*

Respondents were also asked to provide an exact figure or estimate of the total value of subcontracts their organisation received:

- The **mean value of these contracts to respondents was £275,754** but the **median value was £87,000**. This variance can be explained by a few very large subcontracts that had been awarded:
  - one organisation had multiple subcontracts worth £4.5 million and six per cent of all respondents had subcontracts worth at least £1 million
  - by contrast the smallest sub-contract was worth only £2,250 and seven per cent of all respondents had subcontracts worth less than £10,000.

The value of subcontracts is broken down in more detail in Table 2.1 below:

**Table: 2.1 Total value of subcontracts to respondents**

	n	Per cent
Less than £50K	41	33
£50K-£99k	24	20
£100K-£499K	42	34
More than £500K	16	13

Base=123

This shows that a majority of subcontracts were relatively small:

- 53 per cent of respondents had subcontracts totalling less than £100k
- 33 per cent had subcontracts worth less than £50k.

### ***What size are ESF subcontractors?***

Respondents were asked to provide an exact figure or estimate of their organisation's approximate annual turnover or income for the most recently completed financial year (i.e. 2009/10):

- the mean annual income of respondents was £3,160,901 (£3.2 million) while the median annual income figure was lower at £781,845 (£782 thousand). This variance can be explained by a few very large organisations in the response sample:
  - eight per cent of respondents had annual incomes in excess of £10 million
  - the largest organisation had an annual income of £62 million
  - the smallest organisation had an income of only £34,450.

The organisation size of respondents is broken down by band in Table 2.2 below.

**Table 2.2: Organisation size by income band**

		n	Per cent
Small	Less than £250K	26	20
Small-medium	£250K to £499K	21	16
Medium-large	£500K to £999K	23	17
Large	£1m to £2.49m	37	28
Very large	More than £2.5m	26	20

Base=133

This shows that **a large proportion of respondents were from large or very large organisations, with fewer responses from smaller organisations:**

- nearly half of responses (48 per cent) were from large or very large organisations
- about a third of responses (33 per cent) were from medium-sized organisations while only one-fifth (20 per cent) were from small organisations.

Respondents were also asked to provide the approximate number of full-time equivalent (FTE) members of staff employed by their organisation:

- the **mean number of FTE staff employed by respondents was 85.1** but the **median number of FTE staff was much lower at 19.0**. Similarly to income, this variance can be explained by a small number of very large employers:
  - five per cent of respondents employed more than 500 people
  - the largest employer had 1,650 FTE staff
  - two per cent of respondents employed only one person (there were no organisations without paid staff in the response sample).

The number of FTE staff employed by respondents is broken down in the Table 2.3 below:

**Table 2.3: Organisation staffing levels by band**

	n	Per cent
Less than 10 FTE Staff	41	31
10-19 FTE Staff	25	19
20-49 FTE Staff	30	23
50-99 FTE Staff	21	16
100 or more FTE Staff	16	12

Base=133

This confirms the findings from the income data that **organisations with subcontracts tended to be large:**

- around a third (31 per cent) of respondents were relatively small employers with less than ten FTE staff

- about a fifth (19 per cent) had between 10 and 19 FTE staff
- around half (50 per cent) were large employers with more than 20 FTEs.

The data on income size and staffing was also reflected in the **geographic coverage** of respondent organisations:

- the majority of organisations (92 per cent) with ESF subcontracts worked at the level of their local authority or higher
- relatively few organisations (seven per cent) worked at a neighbourhood level.

These findings about the size of organisations with ESF sub-contract are **in stark contrast to what is known about the wider population of third sector organisations:**

- large or very large organisations only make-up 2.7 per cent of third sector organisations in the UK (NCVO, 2010<sup>7</sup>)
- more than half of registered third sector organisations (56 per cent) in England do not employ any paid staff and only 5 per cent employ more than 30 people (Ipsos MORI, 2008<sup>8</sup>)
- neighbourhood level organisations are known to make up 34 per cent of registered third sector organisations nationally (Ipsos MORI, 2008).

This demonstrates the extent to which larger organisations, and those that operate 'above' the neighbourhood level, are over-represented amongst ESF subcontract holders.

### **Who benefits from ESF subcontracts?**

Respondents were asked to identify the main groups that had benefited from their ESF subcontract. The five most frequently identified categories are outlined in the Table 2.4 below:

**Table 2.4: Main beneficiaries of ESF subcontracts**

	<b>n</b>	<b>Per cent</b>
People in areas where unemployment is high	81	60
People without basic skills and qualifications	73	55
Women	61	46
Young people not in employment, education or training (NEET)	55	41
Lone parents	51	38

Base=134

This demonstrates that respondents delivered ESF funding support to a wide range of beneficiary groups. Unsurprisingly, the two highest categories of beneficiaries (the

<sup>7</sup> Clark, J., Kane, D., Wilding, K., Wilton, J (2010). *The UK Civil Society Almanac*. NCVO: London

<sup>8</sup> Based on data collected by Ipsos MORI through the National Survey of Third Sector Organisations undertaken in 2008. Data accessed online at <http://www.nscsesurvey.com/> (last accessed 5 October 2010)

unemployed and those with basic skills needs) reflect the two core priorities of the Programme.

### ***Who are subcontracts held with?***

Respondents were asked to identify the sector of their prime contractor or lead partner for the largest sub-contract:

- the largest proportion of respondents said their prime contractor was from the third sector (42 per cent)
- fewer respondents said their prime contractor was from the public sector (30 per cent) or private sector (22 per cent).

Respondents were also asked whether they had been awarded their subcontract as part of a consortium of providers and about the make-up of the consortium:

- **Overall, 67.7 per cent of respondents were involved in a consortium of some sort:**
  - 34 per cent were in a consortium with other third sector providers
  - 8 per cent were with private sector providers
  - 5 per cent with public sector providers
  - 21 per cent with providers from a range of sectors.

Respondents who were part of a consortium of providers were asked to identify their reasons for bidding in this way and about their experience of working as part of a consortium:

- 56 per cent said they entered a consortium because they were too small to deliver on their own but only 16.1 per cent felt they did not have sufficient expertise to deliver on their own
- 63 per cent said that working as part of a consortium had been a positive experience.

This appears to show that **consortia do provide a mechanism for smaller third sector organisations to access ESF that might otherwise not be able to deliver prime contracts or larger subcontracts on their own**. This is further supported by the qualitative evidence presented in section 3.2.

### ***How important financially are ESF subcontracts to third sector organisations?***

The importance of ESF subcontracts to respondents as a source of income was analysed by calculating the total value of ESF income as a proportion of gross income for the most recently completed financial year<sup>9</sup>. The results are broken down in Table 2.5 below.

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<sup>9</sup> It is important to note that this is not annual ESF income as a proportion of gross income as ESF income will typically be spread over more than one year between 2007 and 2013.

**Table 2.5 : Total ESF income as a proportion of gross annual income**

	n	Per cent
Less than 10 per cent	56	46
10-19.9 per cent	20	17
20-49.9 per cent	23	19
More than 50 per cent	22	18

Base=121

This shows that **ESF income was only a small part of total income for a large proportion of organisations.** For 63 per cent of organisations it was equivalent to less than 20 per cent of gross annual income. However, given that for 18 per cent of respondents ESF was equivalent to more than 50 per cent of gross annual income, it is important to explore this in more detail by breaking responses down by organisation size.

This reveals that **small organisations with an annual income of less than £250k were more likely to be reliant on ESF funding as a significant source of income than larger organisations:**

- for 41 per cent of organisations with an annual income of less than £250k their ESF funding was equivalent to more than 50 per cent of annual income compared with:
  - 8 per cent of organisations with an income of between £250k and £499k
  - 23 per cent of organisations with an income of between £500k and £999k
  - 14 per cent of organisations with an income of between £1m and £2.49m
  - and 5 per cent for organisations with an income of more than £2.5m.

This would suggest **the ability to access ESF is far more important for the sustainability of smaller third sector organisations** for whom it constitutes a larger proportion of their income.

## **2.2 Estimating the characteristics of all third sector subcontractors**

From the headline data provided by questionnaire respondents, and drawing on assumptions made in calculating the adjusted sample frame and response rate (see section 1.3), it is possible to estimate the characteristics of all third sector subcontractors:

- we estimate that there are **488 third sector organisations** with ESF subcontracts
- they have a total of **844 subcontracts** between them
- the total value of these subcontracts is approximately **£134.6 million.**

Despite this apparently large figure of £134.6 million, it should be emphasised that it is comparatively small when considered against the total income of the Third Sector. The

most recent NCVO Almanac<sup>10</sup> estimates that the total annual income of the Third Sector in 2007/08 was £35.5 billion of which £12.8 billion was from statutory sector sources (NCVO, 2010). This means that **the total value of ESF subcontracts is equivalent to only 0.4 per cent of all annual income and 1.1 per cent of statutory sector income into the Third Sector each year.**

It is also important to note that the estimated £134.6 million of subcontracts held by third sector organisations only equates to **4 per cent of the estimated £3.4 billion<sup>11</sup> awarded through ESF 2007-13** so far. The £3.4 billion figure is the sum of all prime contracts listed on the ESF website and includes public sector match funding provided through programmes such as Flexible New Deal.

This suggests that third sector subcontractors do not account for a significant proportion of ESF delivery. Given that the previous evidence review of the 'Impact of the ESF'<sup>12</sup> also found that the third sector only receives 17.7 per cent of the total value of prime contracts, it would appear that **the sector plays a limited role at both prime and subcontracting tiers.**

However, it is important to exercise caution in interpreting these figures. The total value of prime contracts (£3.4 billion) is not equal to the total value of all subcontracts as prime contractors will take some of this in the form of a management fee. For this reason, the figure of 4 per cent potentially underestimates allocations to the third sector. Nonetheless, if they are close to the true figure then this could be a concern for Programme managers as subcontracting arrangements were designed, in part, to enable smaller third sector organisations working with the 'hardest to reach groups' to deliver ESF funded activity.

## 2.3 Summary

The data presented in this section provides a valuable insight into the types of third sector organisations that hold ESF subcontracts. Some key characteristics stand out. Firstly they appear to be typically much larger and employ more people than the 'average' third sector organisation compared with the broader population of third sector organisations identified by other datasets (NVCO, 2010; Ipsos MORI, 2008). This also means their work tends to cover a wider area with most focusing activities on the local authority level or above. Evidently, it is important to note that this analysis is based on survey responses only but it is likely these findings are indicative of trends in the broader population of all third sector subcontractors involved in the ESF 2007-13 Programme.

These findings raise important questions about the extent to which small community and neighbourhood-based organisations are involved in ESF delivery. The previous evidence review of the 'Impact of the ESF'<sup>13</sup> noted that very large third sector organisations dominated access to ESF funding at the prime contract level. This research appears to show that a similar pattern is replicated at the subcontracting tier where large organisations are over-represented.

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<sup>10</sup> Clark *et al.*, (2010), op cit.

<sup>11</sup> An alternative lower figure might be **£2.31bn**. This is the total sum of Regional Co-Financing Beneficiary Agreements 2007-10 (ESF plus public match) published on the ESFD website. Using this figure increases third sector subcontractor's share of ESF to **5.8 per cent**.

<sup>12</sup> Crisp *et al.*, (2009), op cit.

<sup>13</sup> *Ibid.*

One important caveat is that this research does not consider Community Grants and is not able to comment on whether this scheme provides an important alternative source of ESF for smaller third sector organisations. Nonetheless, Community Grants are capped at £12,500 which is significantly below the average subcontract value (£87,000) and perhaps only appropriate for the smallest organisations. The finding remains, therefore, that small to medium-sized third sector organisations are perhaps being 'squeezed out' in the competition for ESF subcontracts by larger providers, including those from the Third Sector. Such findings could be a concern for practitioners and policymakers alike as the third sector, including smaller organisations, are often recognised as having particular expertise in engaging 'harder-to-reach groups'<sup>14</sup>.

Whilst larger Third Sector organisations are more successful than their smaller counterparts in winning ESF contracts, **the Third Sector as a whole does not appear to secure substantial proportions of total ESF funding available**. This is particularly the case at subcontracting level where the Third Sector is estimated to receive only 4 per cent of all ESF funding awarded. Even allowing for the management fees of prime contractors, this appears to show that only a small amount of ESF funding filters down to third sector organisations operating at this tier.

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<sup>14</sup> See for example House of Lords European Union Committee (2010: 23) *Making it Work: the European Social Fund, Volume 1: Report*. London; The Stationery office.

## 3. Bidding

This section considers experiences of bidding for ESF contracts.. It considers a number of themes including:

- perceptions of the level and complexity of paperwork
- reasons given for successful and unsuccessful bids
- the impact of failing to secure any ESF funding in the 2007-13 Programme
- views on the adequacy of feedback provided on unsuccessful bids.

### 3.1 Paperwork

There were **mixed views among Third Sector organisations interviewed on the ease of submitting bids and the level of complexity and paperwork involved**. Some third sector organisations interviewed found the process straightforward, describing it variously as '*lengthy but not unduly bureaucratic*' and '*nice and simple*'. By contrast, other third sector organisations describing the process of contributing to bids as slow or, in the following case, as involving excessive paperwork:

*I can't help thinking it's a sledgehammer to crack a nut. It must be easier to simplify the contract. The amount of money that is tied in writing them and reviewing them on our side [is excessive].*

Such comments may explain some of the reasons why a majority of subcontractors surveyed (53 per cent) felt the process was '*overly bureaucratic*'. This figure rose to 77 per cent for 'unsuccessful' or 'discouraged' applicants.

Another organisation also suggested the process could **discourage first-time applicants** because, "*the way you have to write bids is formulated and strict. If you are not familiar with the jargon you would be at a disadvantage*". They had a previous bid rejected because, among other things, that had not observed rules regarding margin sizes. Such findings are supported by the survey result that 45 per cent of all respondents and 69 per cent of 'discouraged' or 'unsuccessful' bidders felt that the application process placed new applicants at a disadvantage. It was also the case, however, that only 37 per cent of third sector organisations that identified themselves as new applicants did not think the process disadvantaged new entrants. The perception, therefore, appears to be more widespread than the actual experience of facing barriers as a new applicant.

### 3.2 Explaining successful bids for subcontracts

All interviewees with ESF subcontracts were asked to reflect on why bids were successful. By far the most commonly cited factor was **a track record of successful**

**delivery** of both ESF and other contracts. One third sector organisation with two contracts for ESOL and basic skills services noted, for example, *'We have a track record. You've got to be able to show delivery on target'*. Other elements identified as contributing to successful bids included:

- a demonstrable **capacity to engage** target groups: one third sector organisation observed they had both the existing client base and well-established referral routes
- a **focus on hard outcomes**: one employment service provider described how *'we don't write pink fluffy outcomes. We are target driven and innovative, we do things differently'*.
- **appropriate expertise**: one third sector organisation felt their specialist skills in numeracy and literacy gave them an advantage as there was less competition in this particular area of skills provision.

Whilst the variety of reasons offered suggests there is no 'magic bullet' for winning bids, there was a consensual view that a demonstrable track record of effective delivery of ESF was often a critical factor in success. One implication is that this could disadvantage first-time applicants who cannot demonstrate past experience of delivering ESF, as some of the survey results discussed in section 3.1 suggest.

### 3.3 Explaining unsuccessful bids for prime contracts

Four organisations interviewed that held subcontracts had bid unsuccessfully for prime contracts – three as prime contractors and one as a lead partner within a consortium. Explanations given for rejections included:

- **inadequate systems**: two organisations had tenders turned down by CFOs on the grounds they lacked, respectively, appropriate management and quality or health and safety systems.
- **fierce competition**: one organisation attributed an unsuccessful application to ESOL being a *'very competitive'* area of funding where a number of other organisations have appropriate expertise.
- **lack of capacity**: one CFO provided feedback that the third sector organisation was too small to deliver the subcontract as the prime provider and recommended re-bidding as a subcontractor, which they subsequently did successfully.

It was notable that third sector organisations were largely **unsatisfied with the feedback provided by CFOs on unsuccessful bids**. In one case, an organisation challenged the view that their health and systems were inadequate and claimed to have evidenced them fully by submitting their health and safety policy and risk assessment. More frequently, third sector organisations complained of **a lack of transparency and clarity** in the feedback process. One small community organisation providing employment services to ethnic minorities noted, for example, that *'no reason [was given] why we didn't get [contracts]. I wouldn't mind if they said the others are better'*. Another organisation suggested the lack of clarification bred *'mistrust'*, especially when other third sector organisations perceived to be less well qualified were awarded contracts. These findings were also confirmed by the survey which showed that only 8 per cent of organisations that had bids rejected reported they received sufficient feedback from the CFO.

In all cases where bids as prime contractors or lead partners were rejected, third sector organisations subsequently made successful applications as subcontractors or partners in a consortium led by an organisation. This contributed to **a perception that bidding for subcontracts was the only viable way for smaller organisations to access ESF**. One charity supporting women facing multiple disadvantage with an annual turnover of £500,000 suggested *'it is almost impossible to get funding in any other way'*. This view was echoed by an organisation with an annual income of approximately £100,000 providing employment services to a disadvantaged BME group. They expressed frustration at the perceived inability of *'grassroots'* organisations like themselves to access prime contracts. They felt ESF primarily benefited the *'big boys'* and did not filter down to organisations *'in the community they serve'*.

Evidently, it is not possible to comment directly on the quality of bids submitted by third sector organisations relative to those of competing providers. There is certainly a **consensual view, however, that ESF systematically directs smaller organisations down the route of subcontracting**. This may be a fair reflection on the inadequate capacity or quality of systems of these organisations to deliver larger prime contracts. It also indicates that smaller organisations are not systematically excluded from the entire Programme because bidding for subcontracts does reap success. This includes consortia bids which, as the survey evidence also indicates (see section 2.1), do appear to provide one route to access ESF for organisation too small to bid for prime contracts. Nonetheless, it does suggest that smaller organisations are being *'squeezed out'* of the prime contract tier. This supports the finding of the previous evidence review on the impact of the ESF which concluded *'that small and medium-sized third sector organisations may be 'squeezed out' by the demands made on subcontractors'*.<sup>15</sup>

### 3.4 Experiences of third sector organisations that had not secured any ESF

Interviews were also undertaken with four organisations that had not secured *any* ESF funding. Three of these had considered bidding in the current round but had not, in the end, submitted a formal application with a prime contractor or as part of a consortium. The fourth organisation submitted two bids for subcontracts but these were both unsuccessful. Of these four organisations, two had secured ESF funding in the previous round (2000-06). In terms of the size of organisations interviewed, two had annual incomes in the most recent financial year of below £250,000 whilst the other two had incomes in excess of £20 million pounds.

**Reasons given for not making a formal approach** to secure ESF funding included:

- **expertise no longer aligned with Programme priorities:** one third sector organisation that provides support services for women who had experienced domestic violence felt its remit no longer aligned with the two priorities of skills and employment: *'the contracts being financed don't match with what we do.'*
- **a breakdown in negotiations with the prime contractor** at the bidding phase in the case of one charity providing employment and training services to the disabled.

Reasons given for **unsuccessful bids** included:

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<sup>15</sup> Crisp *et al.*, (2009), *ibid*, piii.

- **disqualification on the basis of size:** one new, smaller third sector organisation that provides employment services to BME groups was turned down on the basis that the funding applied for was greater than their annual income
- **not being informed of bid outcomes by prime contractors:** one larger third sector organisation reported being invited to join bids by prime contractors who then never informed them of outcomes
- **not being offered a subcontract even when named on successful bids for prime contracts** (see below).

All four organisations expressed **dissatisfaction with the process of bidding for ESF**. One small organisation expressed concern about the unfairness of using organisational income as a '*benchmark*' to determine the maximum level of ESF that could be applied for. They felt this discriminated against them as a new third sector organisation established three years ago and did not recognise their capacity to grow and secure further income. The two larger third sector organisations also outlined frustrations about working with prime providers on bids including poor communication and a lack of interest in genuine partnership. Both gave examples of being involved in bids but subsequently dropped without explanation or of not being informed of outcomes. Such practices may be widespread given the relatively large number of third sector organisations that returned the postal survey stating they had been named on successful bids but not awarded contracts.

Organisations also discussed **the impact of failing to secure ESF** on both income and the service they provide. In terms of income, the two smaller third sector organisations observed that the inability to access ESF could have a critical effect on organisational capacity or sustainability. One of these expressed particular fears for their future viability because the funding environment had become '*more severe*' and, at the same time, one of their two non-ESF contracts to deliver employment services had come to an end.

Another organisation that provides support services to women had managed to find alternative funding sources after four ESF contracts awarded in the previous round came to an end. Nonetheless, they observed that the loss of ESF had a detrimental effect on the quality of the service delivered. In particular, they had lost funding for courses that were not directly employment or skills-related but, nevertheless, had sometimes proved a '*watershed*' in rebuilding the confidence of victims of domestic violence. Moreover, these courses had sometimes provided the necessary boost in self-esteem to later engage in training or contemplate a return to work.

Overall, discouraged or unsuccessful organisations interviewed were highly dissatisfied with their experience of trying to secure ESF. This is also backed up by the survey. Unsuccessful or discouraged applicants who had not won any bids were particularly dissatisfied with their overall experience of applying for ESF subcontracts, with only 25 per cent saying they were satisfied and 67 per cent saying they were dissatisfied.

### 3.5 Summary

Both the survey and interview data highlighted a number of concerns about the process of bidding. Dissatisfaction centred on the volume and complexity of paperwork involved as well as inadequate feedback on successful bids. A track record of past delivery was considered one of the most important factors in explaining successful bids. This could

explain why a large proportion of survey respondents felt that new entrants were disadvantaged in the bidding process.

One important finding was that third sector organisations had often submitted unsuccessful bids for prime contracts. This may provide qualitative evidence to confirm the suggestion from the previous evidence review<sup>16</sup> that small to medium -sized organisations are 'squeezed out' at this tier. Subsequent success in securing subcontracts, including through consortium bids, suggests this does provide an alternative route for accessing ESF, albeit for contracts of lower value. It must also be remembered, however, that survey evidence presented in a section 2.1 also indicated that the smallest third sector organisations may still find it difficult to secure funding opportunities at this subcontracting level. Furthermore, interview data detailed above also suggests that third sector organisations may effectively be deterred from bidding entirely if their remit does not align with core Programme priorities. In combination, these factors could impact on the capacity of the Programme to engage and support some of the 'hardest-to-reach' clients if these processes exclude smaller, more specialised third sector organisations that see themselves as effective in working with marginalised groups.

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<sup>16</sup> Crisp *et al.*, (2010)

## 4. Delivery

This section considers experiences of delivering ESF subcontracts. Key themes explored include:

- programme factors supporting or constraining effective delivery
- scope for flexibility or innovation in service delivery
- external factors constraining delivery

### 4.1. Factors affecting delivery

Overall, there were **mixed views on the extent to which delivery had proceeded as planned**. Only just over half of survey respondents agreed delivery had proceeded as planned. By contrast, the 14 organisations interviewed seemed more inclined to suggest the contract had been delivered as intended but, clearly, this is a less representative sample. These interviews do provide an opportunity, nonetheless to reflect on factors affecting delivery, with the two- sub-sections that follow contemplating factors that supported and constrained delivery respectively.

### 4.2. Factors supporting effective delivery

Some third sector organisations interviewed reported factors that had contributed to effective delivery including:

- **efficient administrative systems:** one medium sized training provider emphasised the importance of having the *'the right paperwork'* upfront and credited their prime contractor with organising this in advance of delivering the project.
- **effective partnership working:** this was highlighted as critical by a number of third sector organisations (see section 6.2).
- **support from the prime contractor to trial innovative** approaches (see box 2 in section 4.4).
- **high quality delivery staff** that have the expertise to engage and support the target group including the 'hard-to-reach'.
- a **focus on outcomes:** one trainer provider suggested it was also important that staff were outcome focused rather than *'do-gooders, pink or fluffy, social workers'* although this view was not widely shared.

On balance, however, there was no **consensual view on the 'success factors'** contributing to effective delivery. What worked seemed to vary significantly across the organisations interviewed with no 'magic bullet' identified.

### 4.3. Factors constraining effective delivery

The third sector organisations interviewed also identified a number of factors that constrained effective delivery. These broadly fell into four categories relating to:

- **delays** in starting contracts
- the **level of paperwork or administrative burden** involved in starting projects, signing up clients, recording outcomes or making claims
- the **lack of flexibility** within contracts with particular concerns voiced about eligibility criteria, delivery requirements and contract length
- **external factors** including the impact of the recession (detailed separately in section 4.5)

Taking each in turn, two third sector organisations experienced **delays** in the project start date caused by administrative hold-ups or staff changes on the part of their respective CFOs. This did not have too negative an impact, however, for one of the subcontractors concerned as it was a new area of activity for which they only needed to put new resources in place at the point of starting delivery. They noted, though, that such delays could be an issue for organisations using existing staff and resources that remain unfunded during the period of delay. The second subcontractor affected by delays was forced to deliver an 18 month contract in 11 months. Whilst they suggested it did not affect the quality of service they provided, it had required them to work with a level of intensity they had not anticipated: *'it was not a nice leisurely process'*.

Of far more concern to a number of third sector organisations interviewed was **the level of paperwork or administrative burden involved in enrolling clients or recording outcomes**. This manifested itself in two key ways. Firstly, some respondents expressed frustration at the **excessive volume of paperwork** they had to complete. Typical descriptions include that it *'gave us huge headaches'*, *'was ridiculous'* or proved the *'main difficulty'* in delivering the service. One provider estimated it was three times the level demanded by mainstream contracts awarded through national programmes.

At times, this was seen to impose an unnecessary and intrusive burden on clients, with one training provider describing how participants became *'sick and tired of filling in forms'*. It was also noted that there was sometimes **duplication** in recording outcomes as in the case of one organisation providing employment support for lone parents. They observed that paperwork filled in by outreach workers who engaged clients was replicated by keyworkers who subsequently delivered training

A second issue raised by respondents in relation to paperwork concerned **changes in administrative requirements**. One provider working with vulnerable young people described how extensive paperwork had to be resubmitted because of changes in rules regarding acceptable evidence of NEET status. Another large third sector organisation that used sport as a *'hook'* to engage marginal groups such as ex-offenders in literacy and numeracy courses described how *'the changing requirements [of the prime contractor] have been a nightmare'*. This included inconsistent guidance on whether client forms could be handwritten or had to be typed as well as a sudden decision that photocopied forms were ineligible. Responding to these changes was seen to impact adversely on quality service as *'it takes time away from clients when you're redoing paperwork'*. Moreover, it was seen to affect staff morale in that *'it causes angst and*

*distress. It demotivates the team in terms of interactions with clients and I don't think people understand how important that is.'*

It should be noted, however, that **not all organisations viewed administrative requirements as excessive or unduly bureaucratic**. One larger basic skills provider described the process of recording outcomes as *'straightforward'*. In other cases, prime contractors seemed to shoulder a significant amount of the paperwork with one third sector organisation describing how they were *'absolutely brilliant in taking the pressure off'*. These were largely atypical accounts, however, as the evidence overwhelmingly supported the view that **the level of paperwork was unreasonably high to the possible detriment of the time available to provide frontline services**. This is not to suggest that third sector organisations did not acknowledge the legitimacy of contractual requirements to record client engagement and outcomes. One described it as *'essential'* whilst another recognised that the ESF Programme needed to be *'rigorous in managing public money'*. Nonetheless, there was a consensus that the volume and complexity of paperwork exceeded what was necessary to ensure transparency.

A final concern identified by third sector organisations was the **lack of flexibility** within contracts in terms of three main factors:

- length of contract
- eligibility criteria
- delivery specifications

Taking each in turn, the **length of contract** was raised as an issue by a small number of third sector organisations who felt that it was insufficient to enable them to try out innovative approaches. One organisation using sports activities to engage disadvantaged groups in basic skills classes found that the 18 month timescale **limited the scope for innovation** because *'you don't have time to claw [losses] back'* by re-designing services if initial approaches do not prove financially sustainable. This may be one reason why only just over half (58 per cent) of survey respondents felt that subcontracts were of sufficient length of time to enable effective delivery.

A second concern highlighted by a small number of third sector organisations was the way in which **restrictive eligibility criteria** affected their capacity to engage clients. This seemed to particularly affect organisations delivering ESOL courses because of the requirement to demonstrate entitlement to reside and study in the UK. One ESOL provider suggested that it was onerous and intrusive to the point where *"I'm not sure it's appropriate. Morally, I don't think it's right to have to fill it in"*. Another organisation felt that it forced them to play a role they were not comfortable with: *'we are not detectives'*. Whilst neither of the two organisations indicated that it impacted on the quality of the service delivered, they did suggest that these requirements has **deterred some potential students** who lacked the necessary documentation or were *'suspicious'* about the motives for demanding this amount of personal information. It would seem, therefore, eligibility requirements may have the effect of excluding some individuals from accessing ESOL through the ESF Programme.

A third issue highlighted by third sector organisations regarding the lack of flexibility was **tightly prescribed contract specifications** that constrained their ability to deliver services. Specific issues identified included:

- **limits on the number of contact hours:** one provider delivering ESOL courses, for example, suggested that 36 hours of learning was insufficient for clients who can *'barely grasp English'*
- **inappropriate targets:** two third sector organisations suggested targets for equipping individuals with lower-level skills or qualifications were inappropriate given the nature of demand in the area they worked. One of these organisations provided accredited and non-accredited training to enable individuals to work in the creative industries. They found the NVQ Level 1 and 2 targets imposed by the CFO restrictive because *'the workforce is made up of practitioners with degree level plus qualifications and they aren't interested. We also have to deliver basic skills, which is just not relevant'*.

In many cases, these inflexibilities were seen to be derived from the obligations of prime contractors to meet targets imposed by CFOs. This led to tightly prescribed subcontracts that were inappropriate given subcontractors' expertise and the demand from, or needs of, their target client group. The possibilities for addressing such constraints would seem limited, however, given that the survey found that only 35 per cent of subcontractors were able to negotiate aspects of the subcontract once it had been awarded. Third sector organisations seemed bound to deliver contracts as specified even when inappropriate.

Individual organisations sometimes experienced a number of inflexibilities that constrained service delivery, as outlined in Box 1 below:

**Box 1: Restrictive delivery specifications – a case study**

One medium-sized third sector organisation with three ESF contracts to provide ESOL, skills development and employment support identified a number of inflexibilities within contract specifications. Firstly, they felt the 30 hour limit placed on working with NEETs was insufficient to meet the intensive needs of clients. Indeed, they sometimes exceeded this by providing additional hours subsidised through other funding sources.

In one case, they worked with a young person in danger of becoming NEET who gained his literacy qualification with them. They helped him to re-engage with school and also found him work experience with a local estate agent who eventually employed him and he is now enrolled at college. However, this required them to exceed the 30 hours of support for which they are funded, but they were willing to do this to help him realise his ambitions – *'we're so happy for him'*.

A second concern raised was the tightly prescribed pathways for individuals engaged on the NEETs project: *'we have very, very little flexibility'*. The subcontract specified that the 14-16 year-old group could only be assisted into further education whilst the 16-19 year-old group had to be placed in employment. There was no *'crossover'* which meant, for example, that a 17 year-old helped to enrol to college would not be funded through the ESF contract.

The organisation suspect this is why they are currently struggling to attract clients aged over 16 as they can *'only offer to fill in gaps in personal skills'* rather than the opportunity to study for formal qualifications. They believe that if

they were not *'tied'* to the Work Pathway for 16-19 year-olds, they could offer Level 1 and 2 Basic Skills courses that would enable learners to subsequently access FE courses. This might prove more attractive in that they *'we would have something more solid to offer'* than basic employment support.

Overall, the third sector organisation felt that a less tightly specified contract would enable them to support more individuals: *'If funding was a little bit more flexible, more holistic, you would get better outcomes'*. They also feel there should be more scope for *'befriending and mentoring'* as this helps to build the trust and rapport that later makes it easier to encourage participants to engage in formal learning or consider work.

On balance, there was a strong view that narrowly prescribed specifications within contracts sometimes constrained the ability of third sector organisations to provide the scope or intensity of service they felt clients needed. Moreover, it was sometimes those with the greatest learning and support needs that appear to be disadvantaged or excluded by the limits placed on subcontractors, particularly in terms of contact hours.

#### 4.4. Scope for innovation

This is not to suggest, however, that there was no scope for flexibility. The survey indicated that 63 per cent of third sector organisations felt their subcontract provided flexibility in how they delivered services to their client group. In addition, some third sector organisations interviewed **identified areas where they had been able to innovate** even when contracts were considered inflexible:

- One third sector organisation providing ESOL and qualification conversion courses for migrant workers offered learners the opportunity to *'pick and choose'* when and for how long they studied so long as they attended for at least six hours a week. They were able to provide this flexibility despite frustrations about rigid limits on total contact time.
- Another organisation with two ESF contracts to deliver skills training noted that whilst eligibility targets were *'inflexible'*, they had found ways to innovate in delivering services. For example, they delivered some courses on-site at other institutions where it made sense to do so such as children's centres that had childcare facilities. The ESF contract made no provision for childcare<sup>17</sup> so this provided one avenue for delivering services to parents who would otherwise have not been able to attend.
- One subcontractor designed an innovative project that used sport to engage individuals facing multiple disadvantage in basic skills provision (see Box 2 below).

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<sup>17</sup> Contracts issued through previous rounds of ESF before 2007 did provide additional funding to support 'wrap-around' services such as childcare. The removal of this element in the current Programme means that subcontractors have had to innovate or cross-subsidise childcare from other contracts if they still want to offer childcare services to beneficiaries.

### Box 2: Innovation in delivery - Big Issue in the North

Big Issue in the North (BIITN) devised a project to engage marginal groups in basic skills provision by using sport as a 'hook'. They took the idea to Working Links, a large private sector prime contractor, who agreed to fund BIITN for 18 months to deliver the service. It currently provides Football Level 1 and level 2 coaching alongside literacy, numeracy and employability support. The project targets individuals with significant barriers to employment such as those staying in hostels for the homeless or referred through the Criminal Justice system and social care agencies.

BIITN believe Working Links were willing to fund their proposal because *'they were interested in innovating, attracted by the idea, they liked our brand and thought we had the right structures and processes'*. They had discussions with several organisations about funding the football project but it was ultimately Working Links who *'picked it up and ran with it'*.

Another third sector organisation explained that they bid for ESF because it was *'less prescriptive about how to meet the needs of the client group'* relative to other mainstream funding. This was a minority view nonetheless, with most third sector organisations highlighting inflexibilities in contract specifications. Where innovation was possible, as in some of the examples above, this seemed to be achieved *in spite of* Programme rigidities. There was **little sense that the ESF Programme systematically encouraged third sector organisations to deliver services in the way they felt most appropriate for clients**. Rather, subcontractors had to work within, or around, the parameters laid down by contractors to deliver services as best they could.

#### 4.5. External factors constraining delivery

Finally, subcontractors highlighted a series of **external factors** that constrained their capacity to deliver services including:

- **a lack of employer commitment:** one subcontractor found employers reluctant to release migrant workers for ESOL lessons .
- **a lack of support from other agencies:** one organisation described how they successfully found a college course for a young man who had been *'on the verge of going to court'*, only to find the educational authorities refused to release the necessary funds to support his attendance.
- the **recession** which made it harder to meet targets: one smaller third sector organisation providing employment services to BME groups observed that *'the project has come at a time when the labour market is tight. We have to work hard to lobby for clients. It has been an uphill struggle. It's very hard.'*

Of all the external constraints identified, only the recession was seen to be one in which CFOs or prime contractors had scope to make adjustments in terms of setting realistic targets. Otherwise, external factors were, by their very nature, considered beyond the control of those in charge of programme delivery.

## 4.6. Summary

Both the survey and interview data indicated mixed views about the extent to which the ESF programme enabled third sector organisations to deliver subcontracts effectively. Whilst a majority of survey respondents felt delivery had proceeded as planned, the interview data highlighted a number of factors that constrained their capacity to use their organisational strengths to meet the demands or needs of clients. Those attributable to the Programme itself included delays, administrative burdens or inflexible contract requirements.

Not all experiences of delivery were negative however. Third sector organisations interviewed highlighted a number of factors that improved their capacity to deliver a quality service including efficient administrative systems, partnership working, support from prime contractors and appropriate expertise among staff. Furthermore, there appeared some scope for innovation in delivering subcontracts. On balance, however, the evidence suggests that the design and specifications of subcontracts often limited the ability of third sector organisations to innovate or deliver services to their full capability.

## 5. Outcomes and rewards

This section draws primarily on the evidence from in-depth interviews to reflect on a number of themes relating to outcomes and rewards including:

- meeting targets
- soft outcomes
- payments
- engaging and supporting hard-to-reach groups

### 5.1. Meeting targets

Most of the subcontractors interviewed felt that the targets set were demanding. Whilst some expressed a view they were *'realistic'*, one third sector organisation claimed they *'over ambitious'* even though they had managed to meet them. Another subcontractor observed that they had to *'negotiate hard'* with their prime contractor to get achievable targets agreed. Only one third sector organisation suggested that they were not *'tough enough'* and was critical of the way there is a *'a lot of payment for process and not enough for rewarding employability outcomes. The whole sector is riddled with that'*.

In terms of performance, the majority of subcontractors had met or were on course to meet targets. Indeed, a small number of third sector organisations had significantly exceeded targets with one provider awarded a further tranche of funding when it became clear they could achieve far higher outcomes with additional resources. Other subcontractors found meeting targets less straightforward. One organisation described the process of achieving specified outcomes as a *'struggle'* whilst another observed that, whilst meeting targets, they had not engaged as many clients *'as hoped'*. In one case, targets had been re-negotiated when it became clear that ESOL learners were unlikely to reach the Leitch target of Level 2 due to the very low levels of existing skills. A proportion of targets were subsequently set for entry-level achievement. This did not appear a common experience, however, with none of those struggling to meet targets (see below) suggesting it was possible to revise targets in the light of emerging demand.

Four organisations reported **difficulties in meeting targets**. In three cases, projects are still live but unlikely to achieve specified outcomes by completion whilst a fourth subcontractor pulled out when it became clear they could not deliver the contract. Reasons given for difficulties in meeting targets including:

- **the recession** which made it harder to place clients in employment in the case of one smaller provider working with BME groups<sup>18</sup>
- the **failure of prime contractors to provide adequate support** to one third sector organisation subcontracted to engage disadvantaged groups with Jobcentre Plus (see Box 3 in section six for more details), particularly in terms of promised referrals
- the **difficulties in engaging the target group** of NEETs described as ‘a very, very difficult target group’ by the subcontractor concerned.

The failure to meet targets had two main implications. Firstly, it meant that some providers **lost money** on the project. Two reported estimated losses of £15,000 and £12-15,000 respectively. A third organisation who terminated a subcontract they could not deliver saw organisational income fall by 50 per cent which forced them to implement a pay cut of 40 per cent for all staff (see Box 3 in section six).

These financial losses are perhaps all the more significant given that the proportion of annual income provided by ESF ranged from 36 to 98 per cent among these four subcontractors. Clearly, organisations with high reliance on ESF funding are particularly vulnerable to any inability to meet the targets on which payments are based.

A second implication highlighted by one project is that they may have to work with less disadvantaged clients because of the difficulties they experienced in engaging NEETs. These difficulties were attributed, in part, to the limit placed on contact hours with clients, which they considered inadequate to work with a group that requires intensive, long-term support. Again, this suggests that inflexibilities in contract requirements can constrain the ability of providers to work with some of the hardest-to-reach.

One final observation about the third sector organisations that struggled to meet targets is that they were all small to medium-sized providers with the largest receiving an annual income of £600,000. This suggests that it is smaller third sector organisations who find it harder to meet the targets laid down in subcontracts.

## 5.2. Soft outcomes

Some organisations monitored soft outcomes internally but these were not rewarded through contracts. Soft outcomes monitored included:

- confidence
- self-esteem
- motivation

Most subcontractors who expressed a view suggested **soft outcomes should be rewarded** financially through ESF contracts, otherwise important milestones go unrecognised. Given this view of the importance of soft outcomes, it is disconcerting that the only 36 per cent of respondents to the survey felt that their subcontract rewarded these 'soft outcomes' in some way.

<sup>18</sup> This echoes concerns in a separate report by Auriga Consultants (2009, p26) on Third Sector access to European structural funds which noted: ‘organisations running ESF programmes in the current round felt that linking outcomes to payments created the risk of their organisation not being able to recover full costs, particularly in the current labour market’.

It was acknowledged by one third sector organisation that this could be a '*challenge*' as identifying soft outcomes was '*very subjective*'. Only one third sector organisation suggested that rewarding soft outcomes is not necessary as these were invariably realised as clients progressed through the stages specified within the contract: '*if you have got someone from point A to Point B, you will have achieved soft outcomes*'.

### 5.3. Payments

Subcontractors interviewed were, on balance, more likely to suggest they had experienced complications in receiving payments than report that all claims had been processed efficiently. Those that experienced no problems suggested variously that the process was '*fine*', '*worked well*' and that had payments had been timely '*on the whole*'. Two of the subcontractors that were positive about payment processes also noted that the sequencing of payments worked to their advantage. One organisation described how a 100 per cent upfront payment had been very important in enabling them to recruit an adviser to advise disabled people on welfare rights. Another third sector organisation delivering ESOL noted that staged payments for outcomes (starts, IAG, enrolment, completion and feedback) gave ESF '*an advantage*' over other types of mainstream contract: '*you are paid as you go along and not at the end. It is one of the biggest assets of ESF.*'

It was more common, however, that subcontractors experienced **difficulties in receiving payments** including :

- **delays in prime contractors signing off reported outcomes** and making payments: one third sector organisation observed, for example, that it took 12 weeks for enrolment claims to be rewarded.
- **end-loading** where most funding was awarded on the basis of final outcomes: one subcontractor, for example, was paid 10% for enrolling students and the rest on completion of qualifications (NVQ level) which took up to six months to obtain. This concern was also echoed by the survey which found that 44 per cent of subcontractors felt that the timing of the subcontract payments placed a disproportionate amount of risk on their organisation.
- **a failure of standard payments to reflect the different levels of support required by clients** at different stages of learning or returning to work.

It was notable that a number of organisations experiencing cash-flow problems as a result either of delays or the end-loading of payments could only manage these through drawing on other non-ESF resources. One third sector organisation described themselves as '*fortunate*' to be able to do this whilst another provider felt they similar they were '*lucky*', in having a '*very understanding trustee board*' prepared to cover the temporary shortfall in cash flow by drawing down from organisational assets. One implication of these findings is that smaller organisations who do not have access to other significant income streams or assets may experience difficulties in accommodating delays or payment structures.

## 5.4. Engage and supporting 'hard-to-reach' groups

There were mixed views among third sector organisations interviewed about the extent to which the subcontract enabled them to engage 'hard-to-reach' clients. Subcontractors who felt that **ESF enabled them to support more disadvantaged individuals** volunteered two explanations:

- Their **existing client base was 'hard-to-reach' by definition** so ESF funding simply increased their capacity to support this group: one provider working to help a specific BME community into employment noted, for example, that all participants *'live in impoverished areas and have all kinds of problems'*, including those suffering from the psychological trauma of fleeing civil war.
- The **level of funding was generous enough to support work with hard-to-reach groups**: one provider with three ESF contracts to deliver employment support to disabled individuals suggested that ESF paid more per client than other mainstream programmes and, therefore, enabled them to work more with 'harder-to-reach' clients requiring more intensive support.

An equal number of subcontractors, however, expressed a view that they had **not been able to engage fully with 'hard-to-reach' individuals**. Reasons given included:

- **targets encouraged 'cherry-picking'**: three organisations indicated that the need to meet targets had already led them to target less disadvantaged clients or would encourage them to do so in the remaining phase of delivery. One provider seeking to engage marginalised groups such as the homeless and young offenders in basic skills courses described how they struggled to meet targets because referrals had come through *'difficult agencies'* including bail hostels and other parts of the Criminal Justice System. This discouraged them from recruiting through these routes in the future: *'Would we go for the most in need in the future? We would be wary of it and that's not ideal as we work with the hard-to-reach'*.
- **subcontracts did not provide adequate funding**: one third sector organisation contracted to engage and refer workless individuals to Jobcentre Plus felt that the £900 per client made available was inadequate. They claimed it forced them to provide a *'Mickey Mouse'* service that was insufficient to support individuals to move off benefits: *'we can't do our work on a shoestring'*.
- **inadequate time to engage and support clients**: one provider delivering ESOL to migrant workers suggested they had had to turn people away who were unlikely to achieve set outcomes in the time available: *'you can't take someone on with no English and get them an entry-level certificate in 30 hours. You could do it six months'*.
- **partner agencies engaged in cherry-picking**: one third sector organisation contracted to engage and refer lone parents and women to another provider for employment support suggested this agency only wanted those who were job-ready.
- **partner agencies lacked expertise**: one organisation found that partner agencies could not accommodate the language needs of BME clients they referred for employment support.

These findings suggest that **cherry-picking is not an isolated phenomenon among subcontractors but a fairly widespread practice**. This is not to suggest providers are

doing anything underhand but merely that pressures to meet targets or fulfil contractual requirements do, in some cases, encourage third sector organisations to pursue ‘quick-wins’. In addition, the evidence shows that subcontractors may also be compromised in their ability to engage the hard-to-reach by the approach and attitude of partners.

These findings **raise issues, therefore, about the extent to which the ESF programme can realise its objective of supporting disadvantaged groups**. The way targets are set and contracts are designed can, in some cases, constrain the ability of third sector organisations to work with some of the most disadvantaged within the potential client group. Again, this evidence must be set against the accounts of subcontractors who express satisfaction with their ability to support the hard-to-reach using ESF funds. Moreover, one third sector organisation also raised the issue that *‘the very, very hard-to-reach will always be a challenge for any funder’*. There is clearly a question about what it is reasonable to expect *any* large-scale Programme to address. Nonetheless, the difficulties highlighted above suggest that there are areas of contract design and the setting of targets that could be addressed to improve the capacity of providers to engage and support more disadvantaged groups.

## 5.5. Summary

Most of the subcontractors interviewed felt that the targets set were demanding although the majority had met or were on course to achieve the outcomes specified. A small number of third sector organisations did report challenges, however, in meeting targets, due to factors including the economic downturn, a lack of support from prime contractors and difficulties in engaging hard-to-reach clients. This had severe financial implications for some of the smaller subcontractors affected who relied heavily on ESF as a source of funding.

Most organisations interviewed felt that soft outcomes should be rewarded although survey results indicated this only occurred in minority of cases. Further concerns were raised about payments. Whilst some third sector organisations had experienced no difficulties, others had encountered delays or been forced to shoulder risks upfront where contract payments were end-loaded. One implication of these findings is that smaller organisations that do not have access to other significant income streams of assets may experience difficulties in accommodating delays or payment structures.

Finally, the research found that some third sector organisations felt able to engage ‘hard-to-reach’ groups but also uncovered evidence of ‘cherry-picking’ or, at least, concerns that organisations facing difficulties meeting targets may have to resort to ‘quick-wins’. This indicates that the way contracts are designed and rewarded can restrict the ability of third sector organisations to engage some of the most disadvantaged individuals that could potentially benefit from services provided.

## 6. Relationships

This section looks at the relationship of subcontractors with prime contractors or lead partners as well as other subcontractors within consortia. It considers both survey and interview data in relation to a number of themes:

- the nature of relationships with lead organisations (prime contractors and lead partners in consortia)
- positive aspects of good relationships with lead organisations
- negative aspects of relationships with lead organisations
- understanding of needs
- the responsiveness of lead organisations
- the nature of relationships with other subcontractors in consortia

### 6.1. Relationships with lead organisations

Survey respondents were largely positive about relationships with lead organisations. Most subcontractors felt that there was effective communication and the support and information they required was available:

- 75 per cent said they had clear lines of communication with the prime contractor
- 64 per cent felt that the prime contractor provided appropriate support and guidance and 62 per cent felt that they provided sufficient information and updates in relation to the sub-contract
- 79 per cent reported that they had a good relationship with the individual from the prime contractor with responsibility for managing the sub-contract.

These survey findings were largely confirmed by the evidence from interviews. Nearly all subcontractors stated that they had a good relationship with their lead organisation. Comments included:

*'The relationship with [the prime contractor] has been generally positive..generally constructive'.*

*'They are very good, helpful...very supportive'.*

*'The relationship 'worked well'.*

*'They have been superb. We have been really lucky'.*

## 6.2. Positive aspects of relationships with lead organisations

The interviews undertaken with subcontractors explored some of the factors underpinning good relationships with lead organisations. These comprised:

- **support in managing administrative demands:** one subcontractor valued the work the prime contractor had put into making sure their system was compliant with ESF and CFO requirements. This has meant that *'we don't have to develop any paperwork ourselves – they provide us with templates'*. Another organisation described how *'[the lead partner's] paperwork is fabulous..they had all the forms ready at the beginning with 'step-by-step instructions'*.
- **effective communication:** one third sector organisation described their provider as *'brilliant at keeping people informed with regular meetings'*.
- **an understanding of local context:** having a prime contractor based in the region was seen as critical by one organisation because they understood particular issues in working with rural and dispersed populations.
- **responsiveness of prime contractors to concerns or queries** (see section 6.5 below).
- **efficiency in processing claims**
- **a genuine sense of partnership:** one provider contracted to deliver specialist employment provision described how *'we sit round the table on an equal basis. They recognise we are the specialists in disability. If I could describe it one word it would be equal. The fact they lead is neither here nor there.'*

Of all the above factors, support in devising and administering monitoring systems seemed particularly valued. This suggests that **prime contractors or lead partners can play an important role in mitigating some of the concerns about the level or complexity of paperwork** highlighted in section 4.3 above.

## 6.3. Negative aspects of relationships with lead organisations

The survey suggested that there were a number of **areas where the relationship with the prime contractor could be improved:**

- only 52 per cent felt that the monitoring requirements were proportionate to the purpose and value of the subcontract
- 55 per cent reported that the prime contractor made changes to aspects of the subcontract after it had been awarded.

Moreover, **there was evidence that the principles of the Compact<sup>19</sup> were not being fully implemented:**

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<sup>19</sup> Commission for the Compact (2009). *The Compact on relations between the government and the third sector in England*.

- The mean contract length was only 1 year 11 months while 58 per cent of contracts were for less than three years.
- Only 42 per cent of respondents reported that the principles of full cost recovery (FCR) had been adhered to by their prime contractor.

This compares unfavourably with government commitments within the Compact to **funding periods of at least three years** and the principle that it is appropriate to include relevant **overhead and administrative costs in applications (i.e. FCR)**. Long-term contracts provide third sector organisations with a degree of security regarding their income and enable more effective planning in areas such as staffing and volunteers. Meanwhile, FCR ensures that the true cost of delivering a service is recovered to ensure the third sector organisation does not make a loss. Both are important factors in ensuring that third sector organisations can deliver the service in the most effective and efficient way.

Whilst interviews with subcontractors indicated they were largely positive about relationships with their lead organisation, they also highlighted a small number of issues about the practices of lead organisations including:

- **a lack of flexibility in setting contract targets** with one subcontractor criticising the inappropriate focus on basic skills within a contract designed to support people to find employment in the creative industry.
- **prime contractors repeatedly changing administrative rules and requirements** (see section 4.3 above).
- **a series of changes in project managers** on the part of the lead partner initially caused difficulties for one third sector organisation but this was resolved, enabling them to develop a more '*stable*' relationship.

However, these concerns were expressed as minor difficulties within an otherwise positive relationship. It was notable that only one organisation had an overwhelmingly negative experience of working with their prime contractor as outlined in Box 3 below:

### **Box 3: Negative experiences of working with a prime contractor**

One organisation interviewed specialised in providing employment services to disabled people including support to become self-employed. They were offered a subcontract by a private sector prime contractor to engage people who had no previous contact with employment services in order to encourage them to access Jobcentre Plus (JCP).

The subcontractor had several initial reservations about this activity because this was *'an area they had no knowledge about'* and did not fit with their core strength in helping disabled people into work. They also felt that the target group had been poorly conceived as few workless individuals had never had any contact with JCP. Once the contract got under way, they felt the prime contractor did not offer adequate funding to enable them to support clients and, contrary to initial promises, did not provide any referrals: *'They never made one referral. After five months of horrendous bureaucracy we hadn't seen one client'*. Moreover they claim support was *'non-existent'* with the prime contractor failing to answer emails or phone calls.

Having failed to engage a single client, the subcontractor pulled out of the contract. This withdrawal coincided with another ESF contract ending with the same effect that income fell 50 per cent. This forced them to implement 40 per cent pay cuts for all staff members.

The subcontractor firmly believes that the failure can be attributed to the poor design of the project and the lack of support provided by prime contractor rather than their own organisational capabilities. They have a track record of successfully delivering ESF contracts which includes achieving two years worth of targets in 14 months when delivering a previous contract for JCP. Indeed, their performance was acclaimed by the CFO: *'JCP piled glory on us. We were flavour of the month and nominated for rewards'*.

This account shows that the relationship with prime contractors can, from the perception of subcontractors, play a critical role in the capacity to provide services. Where the relationship breaks down, so too does the ability to deliver the subcontract. Fortunately, this was a rare example amongst an otherwise positive set of accounts.

## **6.4. Understanding of needs**

The research explored the degree to which third sector subcontractors felt their lead organisation understood the needs and priorities of:

- clients
- their own organisation (i.e. that of the third sector subcontractor)
- the Third Sector as whole

Taking each in turn, there were **mixed views on the extent to which lead organisations** had a good understanding of the client group supported through the ESF

subcontract. Some third sector organisations interviewed reported that lead organisations did have an awareness of the needs of clients, particularly if the lead organisation had previous experience of working with this group. Survey results were also generally positive with 71 per cent of subcontractors agreeing lead organisations had a good understanding of client needs. Moreover, only 37 per cent felt that the lead organisation was focussed on targets ahead of the needs of the client group.

It was also the case, however, that some third sector organisations interviewed felt that lead organisations did not appear to understand the needs of clients. One described, for example, an inability to appreciate the kind of outreach work that was necessary to engage individuals living in disadvantaged areas. Another noted the inability of the prime contractor to understand the intensity of support needed to work with the most marginalised of the workless population: *'they couldn't grasp that people are on benefits for years and years and need to take baby steps to get back into work'*.

There was a more positive consensus, though, that prime contractors or lead partners **understood their organisational needs**. This was attributed to three main factors:

- **a relationship that had built over time** despite, in one case, the *'steep learning curve'* initially described by one third sector organisation
- **good commissioning** where subcontractors had been invited onto bids precisely in recognition of organisational strengths
- the willingness to build the relationship around what one third sector organisation labelled **'genuine partnership'**.

These findings are supported by survey data showing that show that a majority of subcontractors (55 per cent), albeit not a substantial one, felt that the objectives and values of the prime contractor were aligned with those of their own organisation.

Finally, the majority of organisations felt their lead organisation had a good **understanding of the third sector** as a whole. One organisation delivering two ESF skills contracts suggested, for example, that the public sector lead partner was committed to working with the third sector in recognition of its strengths in delivering employment-related projects. This included an ability to support clients from disadvantaged areas into work: *'they look at the need and who's best to fit that need'*.

There were some criticisms however. One third sector organisation suggested their private sector prime contractor had a good understanding of their organisational need because of a shared business-like approach. As a large charity that included social enterprises they were *'reasonably commercial'* and could *'meet [the prime contractor] on a level playing field'*. Nonetheless, this did not necessarily extend to an understanding of the sector as whole: *'I'm not sure I'd like to be a small charity'*. Another subcontractor felt that although they had a good relationship with the public sector organisation leading their consortium, they still failed to understand that the Third Sector could not always subsidise activities using volunteer time.

Only one subcontractor, though, suggested their prime contractor had no understanding of the Third Sector at all. They felt this private sector organisation was reluctant to refer clients and *'give money to [the subcontractor]. In business that doesn't work, why should they pay someone else?'* This was a minority view, however. There was **little evidence**

overall that prime contractors or lead partners from others sectors did not have at least some understanding of the needs and strengths of the third sector.

## 6.5. Responsiveness

Third sector subcontractors were asked how responsive prime contractors or lead partners were in terms of:

- consultation on the design and delivery of projects
- providing feedback
- responding to queries

The majority of subcontractors who expressed a view felt there had been adequately consulted. **Consultation appeared to take place at a number of stages including:**

- **bidding:** one third sector organisation described the value they placed on having the opportunity to comment on bids drawn up by the prime contractor before submission.
- **contract negotiation:** a handful of third sector organisations spoke of the ability to negotiate targets and delivery requirements when contracts were being drawn up, although one noted that this could be difficult for organisations who lack the confidence or experience to assert themselves.
- **design of systems for recording outcomes:** some third sector organisations spoke of the willingness of prime contractors or lead partners to jointly develop administrative or management systems.
- **on-going delivery:** one subcontractor noted for example, that the lead partner invited them to comment on the design of the website and reflected that *'they are very good at giving us a chance to input and taking on board our comments'*.

Only a minority of third sector organisations expressed reservations about the adequacy of consultation arrangements. This included comments such as *'there have been intensive meetings but it has not always felt like a consultation'*. Another partner observed that the lead partner in their consortium was *'strict'* about using forms which had led to *'glitches'*. Nonetheless, these comments were largely exceptions and even where there were concerns about consultation, these rarely seemed to have a significant impact of the perceived quality of relationships with lead organisations.

There was a consensus that prime contractors or lead partners undertook regular reviews and were **largely responsive to any feedback**. Two subcontractors noted, for example, that service improvements identified through reviews were subsequently adopted as good practice. In one of these cases, a prime contractor took on board the process and paperwork used by the subcontractor to observe staff involved in frontline delivery.

Finally, there was a common view that prime contractors and lead partners were **responsive to concerns and requests** for information or advice. Comments included:

*'We have only got to ring them up with a problem and the answer is there.'*

*'Where they can help or change something, they have been good.'*

One example included a lead partner who intervened with a CFO on a subcontractor's behalf when targets proved unachievable. The subcontractor had found they could not make claims for ESOL learners receiving IAG as advisers did not have the language skills necessary to support this group of learners. The CFO subsequently agreed to devise a more appropriate target.

## 6.6. Relationship with consortium partners

Third sector organisations involved in consortia were **overwhelmingly positive about their relationship with other partners in the consortium**. The benefits identified of working as a consortium included:

- drawing **on the respective strengths of each organisation** to support others: one third sector organisation spoke of how *'if we are strong in certain areas, we can benefit other organisations'*.
- **sharing good practice** through, for example, regular meetings.
- providing **opportunities for both themselves and others to bid jointly for funding they could not secure alone** (see section 3.3 above).
- **supporting smaller partners** by inviting them to join consortium bids: one large third sector organisation, for example, reflected how they helped other organisations with particular specialisms to become involved *'that wouldn't stand a chance'* of accessing ESF funding otherwise.
- **receiving referrals** from other partners or utilising the contacts of partners to find employers who might place project participants.
- **allocating targets** across each consortium partner to reflect individual organisational strengths: one organisation noted, for example, that their targets for placing 16-19 year olds in employment were reallocated to another partner better equipped to achieve this outcomes.

Criticisms of consortia partners were rare. One third sector organisation felt other partners were too inclined to encourage them to cherry-pick but otherwise considered the relationship to work well. There was one notable case, however, where a subcontractor **suffered considerable financial losses** when a lead partner became insolvent. The third sector organisation was forced to take out a £70,000 loan to cover the shortfall and only narrowly avoided insolvency themselves. They regard the CFO as culpable for failing to intervene despite early warnings. The third sector organisation affected has since entered a new consortium that has won ESF funds but now regards it as a high risk activity: *'we are very careful about how we do things and extra vigilant about keeping on top of payments'*.

This experience appeared an exception, however, in view of the largely positive experiences of working as part of a consortium. Nonetheless, it highlights the risks involved in working with other organisations from any sector as part of a consortium, particularly in the present economic climate when many organisations are facing financial difficulties. This suggests that third sector subcontractors need to think about

how they can mitigate such risks. Requiring partners to demonstrate due diligence may be one way of doing this, albeit one that also increases the level of bureaucracy involved in delivering ESF subcontracts.

## 6.7. Summary

Third sector organisations were largely positive about relationships with lead organisations. Key factors underpinning good relationships included support with administrative requirements, effective communication, an understanding of local context and efficiency in processing claims. Whilst there were concerns about some aspects of the relationship, particularly with regard to inflexibility or changing administrative requirements, this rarely seemed to seriously undermine the perceived quality of relationships.

In the main, lead organisations were considered to have a good understanding of both organisational and sector-specific concerns although there were mixed views on the extent to which they recognised the needs of clients. They were also identified as responsive in terms of opportunities for providing consultation, undertaking adequate reviews and addressing feedback from subcontractors. Finally, the evidence suggested that third sector organisations involved in consortia enjoyed a good relationship with other subcontracting partners.

## 7. Overall experience

This section considers evidence on the overall experience of delivering ESF using both survey and interview data. Themes explored include:

- overall satisfaction with experiences of delivering ESF
- factors that impact on levels of satisfaction
- reflections on the quality of service delivered

### 7.1 Overall satisfaction with experiences of delivering ESF

Survey respondents were asked about their overall level of satisfaction with their experience as a subcontractor for the ESF 2007-13 Programme. They were **generally, if not overwhelmingly, positive** with 63 per cent of respondents describing themselves as satisfied and 20 per cent dissatisfied. Similar or, indeed even more positive views emerged in interviews with subcontractors. Most subcontractors interviewed were positive about their overall experience of delivering subcontracts through ESF which was described respectively as *'very good'*, *'very valuable'* and *'a fantastic source of funding'*.

Evidently, it is important to set satisfaction levels in context. How significant, for example, is an overall satisfaction level of 63 per cent? On the one hand, it indicates that a majority of subcontractors were satisfied with their overall experience of the ESF 2007-13 Programme. On the other hand, it does compare unfavourably with other benchmarks such as data collected through the National Survey<sup>20</sup> of third sector organisations. This survey asked respondents how satisfied or dissatisfied they were with local statutory grant funding/contract bidding arrangements (question 16). Responses to this question can be broken down according to whether or not the respondent was successful. This shows that 91 per cent of 'very successful' respondents and 88 per cent of 'fairly successful' respondents were satisfied with arrangements. In this context it would appear that the overall experience of third sector ESF subcontractors does not compare particularly well with those of third sector organisations in receipt of funding from other statutory bodies at a local level.

### 7.2 Factors influencing levels of satisfaction

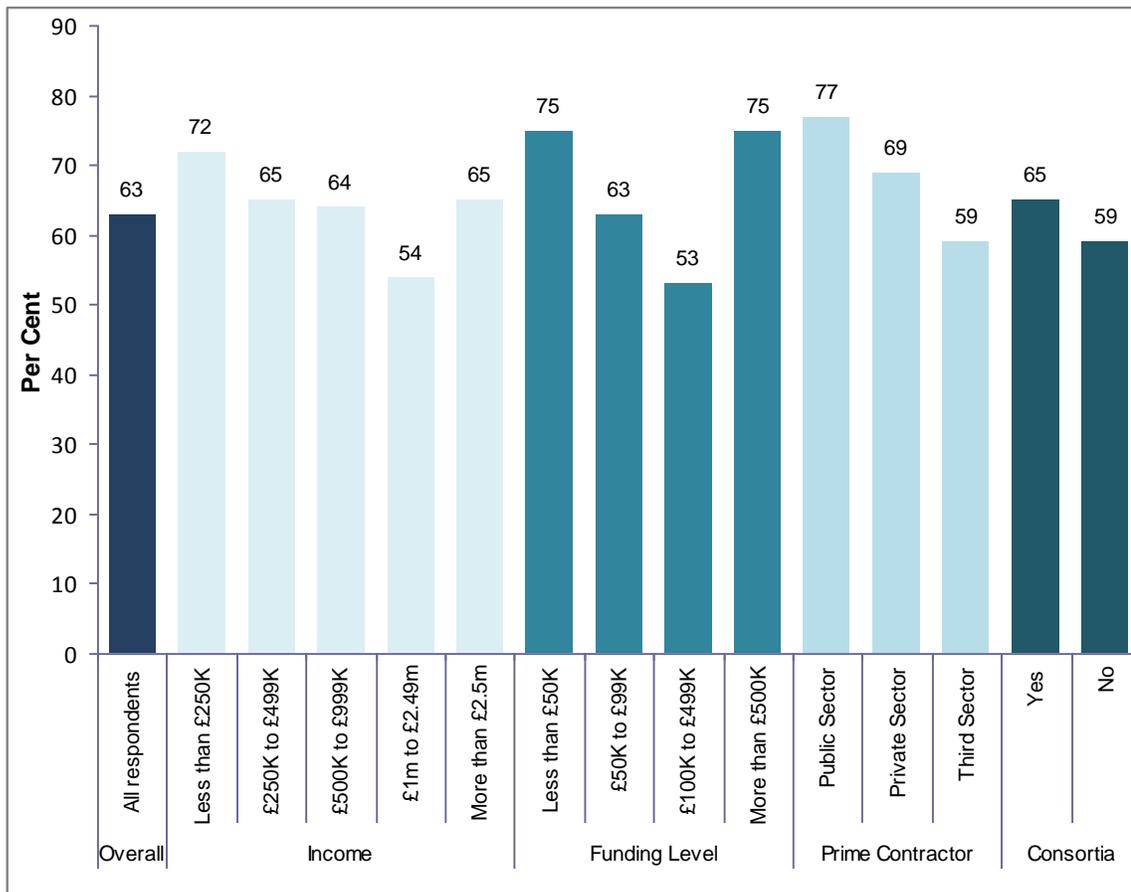
Further analysis of survey data to explore **factors that might influence levels of satisfaction** (see Table 7.1 below) uncovered few significant variations:

- Satisfaction levels **did not vary greatly by income size** but satisfaction was highest amongst the smallest providers.

<sup>20</sup> Ibid (see footnote 9)

- **Organisations working with a prime contractor from the third sector were less likely to be satisfied** than those working with public and private sector organisations. It should be noted that it this does necessarily mean that satisfaction levels are directly influenced the type of prime contractor. However, at the very least, it does seem to indicate that **third sector prime contractors are no better at mitigating challenges facing third subcontractors** than prime contractors from the public and private sectors.
- **Consortia working did not appear to influence overall satisfaction a great deal**, but consortia members were slightly more likely be satisfied overall.

**Table 7.1: Levels of satisfaction with experience as a subcontractor in ESF 2007-13**



Whilst the analysis above provides little evidence of significant differences around the criteria explored, a number of interesting themes did emerge when looking across the data. Firstly, **smaller organisations did not seem to have a more negative experience:**

- Smaller organisations (i.e. those with an annual income of less than £250 thousand) have not had a worse experience than larger organisations despite the fact it appears harder for these organisations to access ESF funding in the first place. For example, 76 per cent of small organisations said the prime contractor provided appropriate support and guidance compared to only 61 per cent of other respondents.

- Organisations with the lowest value subcontracts (i.e. less than £50 thousand) appear more likely to reflect positively on their experience than those in receipt of larger amounts. For instance, 90 per cent of organisations with the lowest value subcontracts said the prime contractor had a good understanding of their work compared to only 67 per cent of other respondents.

These findings suggest that whilst the smaller third sector may organisations experience difficulties in accessing ESF at both prime and subcontract levels (see sections 2.1 and 3.4), those that make successful bids are generally positive about the experience. This may reflect the value they place on the service it enables them to deliver as explored more fully in section 7.2 below.

Secondly, there were also interesting findings about **variations in experiences by sector of lead organisations**:

- Although private sector prime contractors appear less likely to share a similar ethos with third sector subcontractors this does not appear to have significant negative impact on the overall experience of the subcontractor. Only 38 per cent of respondents with private sector prime contractors felt they shared similar objectives and values. Despite these differences, 72 per cent of respondents with private sector prime contractors said their prime contractor had a good understanding of their clients' needs.
- Third sector subcontractors appear more likely to enjoy a positive relationship with public sector lead organisations than those from the private and third sectors. For example, 73 per cent of respondents with public sector prime contractors said the prime contractor provided sufficient information and updates necessary for delivery compared to 55 per cent working with prime contractors from the private and third sectors.

These findings suggest that **shared sector origins are not necessarily the most important elements of a good relationship**. Lead organisations from the third sector do not seem to provide a 'natural home' for third sector subcontractors. Moreover, whilst there may be differences in ethos and values with lead organisations from the private sector, this does not necessarily affect the overall experience of delivering ESF contracts. This is no strong suggestion of difficulties in working with private sector partners. One possible explanation is that differences in ethos are not significant barriers to partnership working if systems and processes work smoothly. One third sector subcontractor interviewed that worked with a private sector lead organisation observed that: *'they are very good, very efficient, very professional. We can learn a lot from them.'*

### 7.3 Reflections on quality of service delivered

Survey respondents were **generally positive about their ability to deliver positive outcomes for clients** through their subcontracts:

- 76 per cent reported that the subcontract enabled them to use their organisation's strengths when working with the client group
- 66 per cent felt that the subcontract enabled their organisation to work with the most disadvantaged members of their client group

- 66 per cent said that the subcontract enabled their organisation to deliver a high quality service to its clients.

It is notable, however, that there is some variation in the strength of views, with third sector organisations less inclined to say that they felt able to work with the most disadvantaged groups or provide a high quality service. Clearly, these statements still apply to a majority of subcontract holders but, equally, they are not unanimous endorsements.

The qualitative evidence provides an insight into precisely how third sector organisations felt that ESF enabled them to deliver a valuable experience. Positive experiences were attributed to a number of factors including the:

- ability to use ESF to **address genuine needs** among disadvantaged client groups: one organisation working with women facing multiple disadvantage described how *'It has enabled us to meet the needs of the client group and has had great impact on addressing the needs of some BME communities'*.
- opportunity to **provide unique services** that might not have been supported through other mainstream funding sources.
- capacity to **support clients who would might not otherwise have been able to access support**: one organisation observed, for example, that ESF *'helped us to help 10 people find employment that would not have found work otherwise'*.
- the fit with **organisational remit and strengths** which meant ESF enabled organisations to extend the coverage of existing services.
- opportunity to get involved in **new areas of delivery**: one provider spoke of how it enabled them to fulfil an ambition to expand services to include training for volunteers and voluntary organisations.

It should be noted that organisations that were largely positive about the ESF Programme still felt that **certain elements could be improved**. Most notably, some third sector organisations spoke of how they managed to deliver an effective service *in spite* of the onerous level of paperwork. One subcontractor also suggested that the level of *'risk'* for third sector subcontractors was underestimated. Moreover, as section four above shows, there were a number of concerns relating to the design of contracts that seemed to constrain effective delivery.

Nonetheless, most third sector organisations did not perceive these factors to fundamentally affect their organisational capacity to deliver a valuable service that met an important need. In other words, recipients of ESF felt that funding enabled them to draw on organisational strengths to deliver a service that mattered. Indeed, some organisations considered themselves **reliant on ESF** to deliver significant proportions or their services. One third sector organisation reflected, for example, that *'it enables us to do what we are doing. Without the funding, we couldn't do it. It sounds like I am grumbling but we absolutely need it and depend on it'*.

At the same time, it is important to note that a minority of providers interviewed were **highly critical of the Programme**. This was particularly notable in relation to those who had previous experiences of securing and delivering ESF contracts under direct bidding arrangements. One third sector organisation suggested, for example, the move to co-financing saw them lose the ability to bid for and deliver their own contracts alone: *'we*

*were very successful and we overachieved. Now you have to be such a big organisation to bid and we are not in that league*'. Another organisation working with women facing disadvantage observed that direct bidding '*made sense*' as it meant that '*we could get smaller amounts of funding locally and we could provide the extras to meet people's needs*'. Furthermore, one smaller subcontractor described themselves as '*sad*' that the Programme no longer supported capacity building unlike previous rounds of ESF.

These comments provide evidence that some third sector organisations feel they have been adversely affected by the move to co-financing which is associated with **a loss of independence, flexibility and control**. Nonetheless, this remained a minority view amongst respondents. Most organisations felt that ESF enabled them, to some degree, to deliver what they do best.

## 7.4 Future Intentions

Survey participants were asked if they expected their organisation to apply for future rounds of ESF funding:

- 92 per cent said they would apply to ESF again: 34 per cent would apply on their own and 59 per cent would apply as part of a consortium
- 8 per cent said they would not apply again: 6 per cent said this was because of their experience of ESF 2007-13 and 2 per cent cited other organisational reasons.

There was a clear correlation between respondent's future intentions and their satisfaction with their experience of ESF 2007-13:

- 96 per cent of 'satisfied' respondents expected to apply to ESF again
- 80 per cent of 'dissatisfied' respondents expected to apply again.

Surprisingly, a large proportion of unsuccessful applicants that had secured no subcontracts said that they expected their organisation to apply for ESF funding again in the future:

- 83 per cent said they would apply again: 33 per cent would apply on their own and 50 per cent would apply as part of a consortium
- 17 per cent said they would not apply again as a result of their experience of applying to the 2007-13 programme.

Overall, these findings suggest that a large majority of organisations with ESF subcontracts from the 2007-13 programme are likely to apply to ESF again should further funding programmes be introduced in the future. Even most unsuccessful applicants said they were likely to apply again. This is perhaps **evidence of the importance of ESF funding to subcontract holders** and the way it enables them to support the needs of their clients. These survey findings were corroborated by evidence from interviews in which a clear majority of third sector organisations stated that they would bid again if a suitable opportunity arose.

## 7.5 Summary

Subcontractors were **largely if not, overwhelmingly, positive about their experience of participating in the ESF 2007-13** Programme although these satisfaction levels were not particular high compared with other benchmarks. Similarly, a majority of survey respondents felt subcontracts enabled them to draw on organisational strengths, work with disadvantaged clients and deliver a high quality service. Interviews also showed that, on the whole, subcontractors felt that the Programme enabled them to address a genuine need and to support individuals that might not otherwise have received this assistance.

At the same time, the 2007-13 Programme was compared less favourably with previous rounds. In particular, **co-financing arrangements seemed associated with a loss of independence, flexibility and control**. Such concerns, however, did not seem to deter organisations from contemplating bidding again. This perhaps indicates the importance of ESF as an income stream as well as the perception that it does, in the main, enable organisations to deliver a valuable service.

The data also revealed some interesting trends about the experiences of organisations by size and by sector of lead organisations. Smaller organisations were more positive about their experiences than larger organisations. This suggests that whilst smaller third sector organisations may experience difficulties in accessing ESF at both prime and subcontracting levels, those that make successful bids fare well. The data also indicated that shared sector origins are not necessarily the most important elements of a good relationship. Lead organisations from the third sector do not seem to provide a 'natural home' for third sector subcontractors.

## 8. Final reflections

This concluding section reflects on the main implications of the findings and also suggests potential improvements to the Programme. The purpose is not to summarise all findings as this is done in both the executive summary and individual section summaries.

### 8.1 Key findings and implications

What emerges from the both the survey and interviews undertaken is a picture of a Programme that works on the whole. Third sector organisations that have delivered or are currently delivering subcontracts are **largely positive about their experience**. They also generally believe they are delivering a valuable service that addresses the needs of disadvantaged client groups. Subcontractors seemed particularly positive about their relationships with lead organisations which are mostly regarded as genuine partnerships that provide the support they require.

**The Programme is not an unqualified success** however. There are **recurrent and often severe criticisms** of the way the bidding and delivery process operates. Many subcontractors feel that excessive levels of bureaucracy or inflexible contracts constrain their ability to deliver the highest quality of service possible. Rigid contractual requirements or challenging targets appear to hamper the ability of organisations to fully realise their strengths in working with clients. There was even evidence that this encouraged cherry-picking, a finding supported by the recent House of Lords Committee report on the ESF<sup>21</sup>.

What are the implications of these findings? One important consideration is that the ESF Programme positions itself as a Programme that targets *'people who are at a disadvantage in the labour market, including those who experience multiple disadvantages'* [author's emphasis]<sup>22</sup>. The evidence in this study suggests, however, that the way in which subcontracts are designed and awarded may limit the degree to which it can realise these objectives. Narrowly prescribed eligibility criteria or tightly defined targets, for example, appear to restrict the scope of some third sector organisations to engage and support some of the most marginalised individuals. This may confirm the concern raised in the previous evidence review<sup>23</sup> that the focus on hard outcomes does embed **a programmatic tendency to design and deliver contracts that target those closer to the labour market**<sup>24</sup>.

One further observation is that profile data suggests that larger third sector organisations appear to find it easier to access ESF funding than smaller organisations. This may **limit the ability of the Programme to achieve its objectives of supporting individuals**

<sup>21</sup> House of Lords European Union Committee (2010) Making it Work: the European Social Fund, Volume 1: Report. London; The Stationery office.

<sup>22</sup> DWP/DIUS (2007: p12) England and Gibraltar European Social Fund Convergence and Competitiveness and Employment Programme 2007-13. TSO: London

<sup>23</sup> Crisp *et al.*, (2009)

<sup>24</sup> Crisp *et al.*, (2009)

**facing multiple disadvantage** given the recognised strengths of smaller, third organisations in working with the hardest-to-reach. The House of Lords Committee report concluded, for example, that:

*'No particular sector has a right to funding...We acknowledge, though, the special value that the Third Sector can bring to the programme and therefore conclude that it is important that **'small operators'** have a fair opportunity to innovate and to be involved [author's emphasis]'.*

The estimate that the Third Sector as whole only secures 4 per cent of all available ESF funding may also be of concern to policymakers. It suggests the Programme is systematically disadvantaging a sector whose strengths and experience would seem to fit closely with ESF core priorities.

One final reflection is that **these findings may also have implications for other national Programmes** that also subcontract third sector organisations such as the forthcoming Work Programme. It suggests such programmes need to take care to ensure that procurement processes do not disadvantage the prospects of smaller third sector providers that may be able to play an important role in providing employment opportunities to beneficiaries.

## 8.2 Potential improvements to the Programme

The findings presented in this report suggest a number of improvements could be made to the Programme:

- The ESF Programme needs **to review the ability of third sector organisations to access ESF**. The previous evidence review on the Impact of the ESF<sup>25</sup> suggested that the Third Sector was being 'squeezed out' at the prime contacting tier. The new evidence in this report indicates that third sector organisations, especially smaller ones, may also find it difficult to access ESF at the subcontracting level. One option is to provide more financial support or advice, particularly for smaller organisations, at the bidding phase. 'Meet the contractor' events are, by themselves, perhaps not enough to enable them to successfully secure funding. Another option is to continue to support third sector networks as a potential source of advice and guidance for smaller third sector organisations<sup>26</sup>.
- Consortia do seem to provide an important avenue for smaller third sector organisations to secure ESF subcontracts. There is value, therefore, in continuing to promote this possibility to third sector organisations. At the same time, there is still a preference among some organisations for directly securing and managing contracts alone as permitted before the introduction of prime contracts. **There is perhaps more scope, therefore, for extending the value of contracts available directly to smaller third sector organisations** e.g. through raising the value of Community Grants to avoid the loss of control experienced as subcontractors
- Contractual requirements and targets are narrowly specified and sometimes compromise the ability of organisations to work effectively with disadvantaged

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<sup>25</sup> Ibid.

<sup>26</sup> This need is recognised in the *Operational Programme* (ESF, 2008, p135).

clients. Evidently, transparency and accountability are essential but this should not come at the expense of third sector organisations being able to deploy their organisational strengths to the full. One possible compromise is formalise **the possibility for subcontractors to discuss and, where necessary, renegotiate terms at an early stage of delivery**. This would require the full support of CFOs as the ultimate determinants of the targets passed down through prime contractors.

- **Third sector subcontractors need to be encouraged and supported to be involved in contract design.** Consultation does happen but this seems limited to the issues relating to operational systems. It seems counterintuitive that subcontractors recognised for their specialist expertise are largely excluded from the design of the services they will deliver. The ‘top-down’ process by which contracts are drawn up and awarded through lead organisations surely stymies the creativity and innovation that subcontractors could contribute to the pre-award phase
- **Encouraging lead organisations to provide longer contracts could encourage greater innovation.** Organisations will remain risk-averse if there is limited scope to change direction and recover costs if early activities are not entirely successful
- **Payment delays and ‘end-loading’ need to be addressed** so that organisations do not need to draw on other income streams or assets to manage cash-flow difficulties. This is important as perceptions of financial risk could deter smaller organisations from applying
- **More could be done to reward soft outcomes.** It is unlikely that the ESF Programme is going to relinquish its focus on the ‘hard outcomes’ of skills and employment. Nonetheless, providing financial rewards for a small number of ‘distance travelled’ outcomes would provide an opportunity for subcontractors to address important elements of personal development such as soft skills, confidence and motivation. Soft outcomes may not be easy to assess objectively but this should not be a justification for disregarding them altogether.

## 9. References

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