

In-house Report 144

Second Evaluation of Co-financing in England

Second Evaluation of Co-Financing in England

Alec Fraser and Sheila Christie
Fraser Associates

May 2004

© Crown copyright 2004. Published with permission of the Department for Work and Pensions on behalf of the Controller of Her Majesty's Stationery Office.

The text in this report (excluding the Royal Arms and Departmental logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the report specified. The DWP would appreciate receiving copies of any publication that includes material taken from this report.

Any queries relating to the content of this report and copies of publications that include material from this report should be sent to: Paul Noakes, Social Research Division, Room 4-26 Adelphi, 1-11 John Adam Street, London WC2N 6HT

For information about Crown copyright you should visit the Her Majesty's Stationery Office (HMSO) website at: www.hmso.gov.uk

First Published 2004

ISBN 1 84388 287 6

ISSN 1 368 244X

Contents

		Page
Acknowledgements		i
The Authors		ii
Summary		iii
Chapter		
1	Introduction	1
2	Progress in Programme Delivery Through Co-financing	3
3	Strategic Content and Direction of Co-financing Plans	11
4	CFO Status, Plan Development and Co-ordination	19
5	Participation, Accessibility and Transparency	27
6	Added Value	47
7	Other Impacts of Co-financing	50
8	Administration of Co-financing	66
9	Incorporation of the Cross-cutting Themes	73
10	Conclusions and Recommendations	76

Acknowledgements

The authors would like to acknowledge assistance received from ESF Division, the Government Regional Offices, the Learning and Skills Councils and JobCentre Plus, both nationally and regionally, other co-financing organisations, umbrella bodies and providers across England, whose co-operation made the study possible.

The Authors

Alec Fraser is Principal of Fraser Associates and has worked in economic development research and consultancy for 20 years. He has been involved in the evolution of evaluation practice in economic development since its introduction in the mid-1980s, and its extension to EU Programmes.

He has evaluated the implementation of ESF in many UK regions as well as national-level work on Objective 3 and ADAPT. Alec is currently benchmarking business support in four EU Member States and mentoring the Government of Romania in its preparations for accession.

Sheila Christie has worked on training and education issues for the past 12 years. In consultancy, she has led evaluations of LEONARDO and Investors in People, in addition to recent work on ESF co-financing and the Mid-term Evaluations of several regional Programmes.

Her experience includes periods as an ESF practitioner in Further Education and in the transfer of good practice in training and education to Russia. Sheila is currently researching the development of childcare provision.

Summary

Introduction

This report constitutes the second evaluation of European Social Fund (ESF) Co-financing in England and builds upon the findings from the initial evaluation, which took place while co-financing was in its pilot stage.

ESF co-financing started in September 2001 and is a means of channelling both ESF and the required match funding to providers in a single funding stream. Co-Financing Organisations (CFOs) allocate funding under contractual arrangements to providers to deliver ESF funded activities.

The five specific objectives of the study were to assess the implementation of co-financing in terms of:

- the strategic content and direction of co-financing plans.
- the impact of co-financing on trainee beneficiaries.
- transparency of the bidding process – in this second evaluation, specifically the processes through which training providers bid to CFOs.
- accessibility to ESF for disadvantaged groups and individuals.
- comparative analysis of administrative effort associated with the contracting and sub-contracting process.

Most of the research took place over a period of six months from January to July 2003. The methodology behind the research comprised a combination of:

- a) Desk research, incorporating review of a sample of co-financing plans and associated Regional Development Plans, and analysis of interim management data provided centrally by DWP;
- b) Consultations with Government Offices and samples of CFOs (a mix of 'new' and 'existing' organisations), providers (mainly contracted to CFOs but also some that had been unsuccessful in seeking to contract);
- c) Telephone survey of providers: a total of 500 telephone interviews of recently active ESF providers was carried out. The population of nearly 1,900 providers from which the sample was taken was drawn from recent (since 2002) direct applicants to Government Offices and CFO contractors. The intended ratio of CFO contractors to non-contractors in the sample was close to that in the population.

Progress of co-financing

Interim management data covering financial and physical progress under co-financing up to the end of June 2003 was analysed as part of the evaluation. It should be noted however that the data provide only a partial picture, since the majority relate to co-financing under LSCs only.

With regard to the financial data, the total spend forecast to the end of June 2003 was £345.9m, of which only £189.8m had been claimed, some 55% of profile. Aggregate progress by Policy Field to the end of June 2003 varied from 45% (Policy fields 1 and 5) to 59% (Policy field 2) of profile. Reasons for this slow progress include:

- actual under-performance within projects in terms of recruitment and expenditure.
- delays in receiving claims from CFOs and their processing by the relevant Government Office.
- constrained claims by LSCs as a result of technical problems in linking match funded beneficiaries to ESF support.

Progress in terms of the numbers of beneficiaries recruited has likewise been affected by these issues. To the end of June 2003, a total of 109,801 beneficiaries had been recruited under co-financing, with Policy Field 3, Lifelong Learning, accounting for by far the largest proportion of all beneficiaries (41%).

Recruitment of ethnic minority and disabled beneficiaries is generally above their representation in the population. The exception is Policy Field 4, where ESF does not appear to be leveraging as much participation of equal opportunities target groups among employed beneficiaries as might be hoped. In regional terms, both the North East and the North West appear light in terms of ethnic and disabled participation. With almost two-thirds of beneficiaries from ethnic minorities in London, Objective 3 appears to be performing a different role the London labour market than elsewhere.

Strategic Content and Direction of Co-financing Plans

The sample of co-financing plans examined contained a larger proportion of good quality plans than was encountered in the initial evaluation. Where weaknesses were identified, the deficiencies were essentially as before - weak connection between analysis and proposed actions; and weak linkage to Regional Development Plans (although the quality of RDPs was in some cases an issue). Other sources of strategic guidance, notably the Framework for Regional Skills Action (FRESAs), were perceived as more relevant than the RDPs in some regions.

Analysis of plans and consultations with relevant stakeholders suggests some inherent tensions in the current 'mechanical' model of co-financing, which assumes that RDPs set out priorities and quantified targets that are a realistic reflection of regional needs and opportunities, and that co-financing plans amount to contracts under which CFOs will procure, as a minimum, an agreed portion of the RDP targets.

In fact it appears that regional partners are constrained by both the financial allocations and the performance targets in the England Operational Programme to which individual regional Plans have to contribute a share. Accordingly, the scope to vary the weighting of the different Policy Fields and Measures at regional level is limited. In practice, RDPs are developed around a resource allocation and, for the most part, a given share of the England Operational Programme targets that is not clearly based on the distinctive needs and opportunities at regional level. Indeed, the proportion of resources by Policy Field differs only to a limited extent between regions notwithstanding quite dramatic differences in labour market conditions, most notably between those prevailing in London and the South East and those in the North East of England.

An extensive overhaul of the model is considered desirable, but is recognised as unlikely to be practicable given the timescales and the remaining life of the Operational Programme. , As an alternative, it is recommended that there should be a more modest revision of RDPs coupled with a different concept of the relationship between co-financing plans and the RDP. This approach recognises the limitations of the RDP as a rational basis for tightly corseting

CFOs and seeks to empower CFOs to operate strategically. Under this approach revision to RDPs should emphasise:

- clarifying the role for Objective 3 in the regional labour market taking account of both identified needs and opportunities at regional level and the scale and focus of parallel actions.
- clear identification of target groups and their relative scale.

This loosening of the RDP corset should be balanced by more specific and better justified co-financing plans, setting out in quantified terms what groups the CFO proposes to target and what types of provision it intends to procure.

CFO Status, Plan Development and Co-ordination

The processes of bidding for CFO status, and preparing and negotiating co-financing plans have become significantly easier as a result of a combination of improved guidance and new applicants being able to build on the experience of the pathfinders, including being able to see examples of agreed plans.

However, implementation of co-financing has been adversely affected by capacity issues:

- CFOs have been subject to significant discontinuity in the personnel responsible for co-financing. Both LSCs and JC+ CFOs have been affected by staff turnover and, in the case of JC+, significant organisational restructuring. Several GOs and numerous providers have highlighted operational difficulties arising from this.
- concerns were raised both by GO and CFO consultees about the capacity within the GOs to manage co-financing, with some GO representatives having doubts about their remit in this regard.

The designation of a larger number and variety of CFOs has brought with it the need for a negotiated approach to allocating activity / target groups and views differ on whether there is a real overlap of remit between JC+ and the LSCs. There are good examples of co-operation between CFOs but this has not always produced a clear division of responsibility. Not all of the GOs have been pro-active in trying to achieve a coherent allocation of activity / targets under the RDP, and CFOs would generally have welcomed a stronger lead.

Participation, Accessibility and Transparency

The large scale provider survey shows that co-financing has resulted in the engagement of a very significant number of providers that are new to ESF and also a strong indication that many are new providers to their CFOs. Thus, of the providers surveyed that were contracted with CFOs (65% of the sample of 500), 35% were new to ESF; while around 40% of the CFO contractors sampled had not previously been on CFOs' approved lists of contractors.

The voluntary sector accounts for by far the largest group of successful providers in the sample that had not previously been on their CFO's approved list. This holds true both for voluntary organisations with prior ESF experience and those with none.

A total of 108 organisations (22% of the sample) that were delivering ESF under alternative bid arrangements but not delivering provision for a CFO and who had not bid for funds were

sampled. Almost 45% of these were not aware of the opportunity to bid. Amongst the remainder that were aware, there was no predominant reason or single barrier preventing organisations from bidding to CFOs. Indeed, 40% that had not bid reported that they were 'very likely' to bid to a CFO in the future, with a further 28% saying they were 'fairly likely' to do so. The evidence from both the face-to-face and telephone surveys of providers strongly suggests that CFOs' quality standards have not presented a significant barrier to participation.

Among the voluntary sector organisations that had not yet bid, the most common reasons given were that they were busy and/or additional funding was not needed. However, 6 out of the 34 voluntary sector organisations sampled that were aware of the opportunity but had not bid reported that there was some tension between their area of work and the criteria or specifications issued by CFOs.

Of the 114 organisations that were delivering provision for a CFO but had not previously been involved in ESF, 60% said that the availability of match funding had a 'significant' effect on their decision to apply; a further 17% said that this had had 'some' effect.

There is a very high level of awareness among providers of both the process through which bids would be appraised and the criteria that would be employed. A very high proportion of providers surveyed are satisfied with or neutral towards the information provided by CFOs on bidding, and towards the transparency and the fairness of the selection process. However, while the vast majority of unsuccessful bidders were also aware of the guidance, nearly 40% expressed dissatisfaction with the information they received.

The greatest source of dissatisfaction among unsuccessful bidders and others that were less satisfied appears to be the provision of feedback and, to a lesser extent the limited active help provided in the pre-tendering stage. Indeed, the importance of feedback as a factor in relation to the legitimacy of the co-financing process has emerged as a highly important issue for providers; where feedback has been absent, it has been the cause of significant dissatisfaction amongst organisations whose bids to CFOs were not successful.

Respondents generally tended to be more satisfied with the information they received from CFOs than with the help provided. This may reflect a reduction in the level of 'mentored' bidding under co-financing, particularly as CFOs are moving towards more strict competitive tendering methods.

Since the initial evaluation, there has been a move towards a greater degree of formality in the competitive tendering process. Both LSCs and JC+ CFOs have near standardised processes for the submission of bids. Nevertheless, there is still considerable diversity in the criteria used and the degree of specificity within prospectuses. Among providers, there appears to be a diversity of views on what constitutes competitive tendering and how this will be reflected in the selection process.

Added Value

On the basis of the research that has been possible here, it is evident that co-financing is both extending mainstream Government provision (scale additionality) and adding value to it (qualitative additionality) but the balance of these effects is unclear, as is the appropriateness of the balance.

The LSC national office (LSCNO) position remains that ESF is substantially being used for non-mainstream activities and it is argued that this is evident from the non-mainstream match-funding that is being used. Elsewhere, consultees are more equivocal that co-

financing has extended, or at least made more visible, the integration of ESF with mainstream Government provision.

Other Impacts of Co-financing

Around two-thirds (of 450 responding) providers reported an increase in employment in the preceding 18 months, with 40% overall attributing this at least in part to the introduction of ESF co-financing. Some 4% attributed a decrease in employment in their organisation to the introduction of co-financing. Half of experienced i.e. 'not new' to ESF, CFO providers said they had increased employment (vis-à-vis nearly 60% of 'new to ESF' CFO providers). Relatively few unsuccessful bidders (4 out of 44) reported a decrease in employment and attributed this, at least in part, to the introduction of co-financing. A very similar pattern of changes in investment and its attribution to co-financing was also found.

Looking ahead, almost 40% of providers surveyed perceive that co-financing will enable them to expand provision in the next 18 months, while only 4% expect that their provision will contract as a result. Given that the scale of ESF is unchanged, these findings suggest that co-financing has resulted in ESF become more highly dispersed than before. This is consistent with the findings, reported elsewhere, that co-financing has drawn in a large number of new providers.

Analysis of the findings by sector and consultations suggests that:

- co-financing has provided less opportunity for the Higher Education sector, consistent with the sector not coming within the remit of the main CFOs.
- co-financing has been associated with some restructuring of the FE sector's involvement in ESF - anecdotal evidence points to more targeted and less mainstream use.
- co-financing has benefited smaller and more specialised Voluntary Sector providers while larger, more general organisations have not all sustained previous levels of ESF take; this is consistent with anecdotal evidence.

Overall, 60% of all those who responded felt that provision for disadvantaged groups has generally improved since the introduction of co-financing, while 82% considered that the position was at least as good as before. However, within this, the range of responses varies quite considerably between different classes of provider. Notably, while almost half of new providers perceived a significant improvement, not a single unsuccessful applicant reported this, and nearly half of this latter group felt that provision had deteriorated slightly or significantly.

The voluntary sector is slightly more polarised on the issue of provision for disadvantaged groups than other sectors, recording relatively large positive and negative responses. Nearly 60% of experienced voluntary sector providers thought that provision had improved, while over 40% thought it had remained the same or deteriorated. Two regions, London and the West Midlands stand out, with the former returning a relatively less positive report and the West Midlands being exceedingly positive.

The impact of co-financing upon innovation is not clear. The perspectives of the GOs, CFOs and providers consulted differed. Thus, GO consultees acknowledged that they did not have a clear view at this stage of the extent to which co-financing was, or was not, encouraging innovation. Only one of the 9 GOs felt that co-financing was encouraging innovation, while the several examples the CFOs provided of innovative activity were in most cases plausible. A number of those providers consulted thought that the closer CFOs move towards fully competitive tendering, the more creativity becomes stifled: the more rigid their tender

specification, the less freedom providers have to develop innovative approaches. The research suggests that there may be more innovation than GO and provider consultees are aware of, but further analysis of what CFOs are actually buying, particularly from new providers, is required to support firm conclusions.

The scope and appropriate balance of capacity building actions is a matter of controversy, and was not researched as part of the present study. However, the research found that, under co-financing, overall spending on capacity building projects (primarily by the LSCs) accounts for significant resources. In addition, the co-financing process involves considerable capacity building through its support for provider development.

The prevailing view among those providers surveyed is that capacity building effort at local level has improved since the introduction of co-financing. Almost two-thirds of those responding held this view (including 60% of experienced providers), while almost 90% considered that it had become no worse. It is not clear from the responses that the generally positive view reflects a more strategic use of capacity building resources under co-financing; the strong positive response from new providers suggests that the support provided to them by CFOs may be one dimension. Similarly, it is not possible to conclude from the research findings that there has been no change in the balance of capacity building actions.

Administration of Co-financing

Problems in identifying matching beneficiaries from LSCs' mainstream activities have had a serious effect, constraining claims and making it impossible to establish actual financial and physical progress. It was reported that a technical solution was in the process of being implemented although it was unclear how long that this would take to clear the backlog of claims.

The majority of CFOs report that they are able to work within the 5% management cost limit or that they are able to absorb overruns. However, under the model of co-financing operated by the LSCs and JC+, it is only the ESF which is buying additional activity. Accordingly, 5% of total eligible cost could amount to 11% of ESF.

The more formal tendering processes used by some CFOs are very different from preparing a direct ESF application; some examples have been found of this being bureaucratic and unfriendly, which may have been exacerbated by pressure from a large volume of tenders.

The benefits of simplified applications procedures and from reporting to only one funding body are perceived to have been eroded to some degree by increased monitoring demands, but *may* be helping to raise provider standards. Thus, from the research that has been possible in this area it is not clear that progress is being made towards the objective of reduced administrative costs and demands overall.

Incorporation of the Cross-cutting Themes

While the representation of the cross-cutting themes on paper has improved, the majority of interviewees in CFOs concede that only equal opportunities is being pursued with any vigour. It is however difficult to identify these perspectives as being a specific feature of co-financing.

Most, but not all CFOs, outlined a combination of passive (e.g. provision of written guidance) and active approaches (e.g. use of scoring criteria and post-tender negotiations) to

integrating equal opportunities. Indeed, equal opportunities was reported to be already firmly embedded within CFO policy and culture. Accordingly, consultees in these organisations are sceptical of the value added through its formalisation as a cross-cutting theme.

Sustainability is regarded as the most difficult of the cross-cutting themes to 'pin down' and to implement in the context of human resource interventions, while the Information and Communications Technology (ICT) theme is widely considered to have been rendered redundant by the extent to which ICTs have already been mainstreamed in delivery and management of delivery.

1 INTRODUCTION

This report sets out the findings from the second evaluation of European Social Fund (ESF) Co-financing in England. It is designed to build upon the findings from the initial evaluation, which took place while co-financing was in its pilot stage.

ESF co-financing started in September 2001 and is a means of channelling both ESF and the required match funding to providers in a single funding stream. Co-Financing Organisations (CFOs) allocate funding under contractual arrangements to providers to deliver ESF funded activities. It is intended that eventually co-financing will operate across all three Objectives in England. This evaluation focuses on the impact of co-financing in Objective 3, although CFOs from Objective 1 regions were included in the study.

The rationale behind the implementation of co-financing was to:

- secure better value for money for ESF activities.
- ensure that ESF adds more value to the delivery of Government programmes.
- address the regional priorities in European programmes while continuing to allow for innovation and creativity at regional and local levels.
- promote greater coherence, co-ordination and targeting of provision without impacting adversely on any particular sector.
- reduce bureaucracy and administration for providers.

The global aim of the study was the evaluation of whether, in practice, co-financing is becoming consolidated and whether the added value that was anticipated by its architects is now being realised.

The five specific objectives of the study were to assess the implementation of co-financing in terms of:

- the strategic content and direction of co-financing plans.
- the impact of co-financing on trainee beneficiaries.
- transparency of the bidding process – in this second evaluation, specifically the processes through which training providers bid to CFOs.
- accessibility to ESF for disadvantaged groups and individuals.
- comparative analysis of administrative effort associated with the contracting and sub-contracting process.

Most of the research took place over a period of six months from January to July 2003, with periodic reference to a Steering Group comprising personnel from the Department for Work and Pensions (DWP) and key sectoral representatives.

The methodology behind the research comprised a combination of:

a) Desk research

- review of 15 co-financing plans and associated Regional Development Plans.
- analysis of interim management data provided centrally by DWP.

b) Consultations with

- 9 regional Government Offices.
- 12 'new' co-financing organisations (comprising 6 JobCentre Plus (JC+), 2 Local Authorities, 1 Business Link, 1 Regional Development Agency and 2 Learning and Skills Councils (LSCs)).
- 6 'existing' co-financing organisations that had taken part in the first evaluation (comprising 4 LSCs and 2 Local Authorities).
- 18 providers (two in each GO region, and comprising representatives from all sectors) delivering ESF funded provision on behalf of a CFO. It belatedly transpired that one of these organisations was in fact an unsuccessful applicant, therefore only 17 valid interviews took place.
- 9 organisations (one in each GO region) that had bid to a CFO for funding, but had been unsuccessful.

The consultation was designed to incorporate six organisations from each of the nine Government Office regions, involving a total of 54 face-to-face interviews. Supplementary interviews were carried out with key representatives from DWP, JobCentre Plus and the Learning and Skills Council at national level.

c) Telephone survey of providers

A total of 500 telephone interviews of recently active ESF providers was carried out (30 by Fraser Associates, the remaining 470 by the research organisation MORI).

The population from which the sample was taken was based on 2002 direct applicants to Government Offices (i.e. with CFO contractors stripped out) and CFO contractors (mainly 2002). The total population comprised 1,889 contractors of which the sample of 500 represented 26.5%. The intended ratio of CFO contractors to non-contractors in the sample was close to that in the population. The fluid position within the population was underlined by the fact that 26 of the non-CFO contractors identified through the sampling process had become contracted by the time of the survey, while a further 22 were awaiting the outcome of bids.

MORI was instructed to control the sample by sector and by region and, as far as the population allowed, to secure a minimum of 30 cases in each region or sector.

The remainder of the report comprises Chapters covering:

- progress in programme delivery through co-financing.
- strategic content and direction of co-financing plans.
- CFO status and Plan development.
- participation, accessibility and transparency.
- added value.
- impact of co-financing.
- incorporation of the cross-cutting themes.
- capacity building.
- conclusions and recommendations.

2 PROGRESS IN PROGRAMME DELIVERY UNDER CO-FINANCING

2.1 General

It is only since spring 2002 that co-financing has come to represent a significant proportion of activity supported through the Objective 3 Programme. Its progressive introduction will see the vast majority of activity from the beginning of 2004 being on a co-financing basis.

This Chapter examines such information as is available on the financial and physical implementation of co-financing. It takes account of:

- the first release of interim management data.
- the findings from consultations with CFOs on the progress with contracting and delivery.

2.2 Analysis of Interim Management Data

2.2.1 The Form of the Interim Management Data

Traditionally, financial and physical progress data for ESF have only become available at the final claim stage. With multi-annual approvals now common under the 2000-06 Programme, there is a longer lead-time before final claims data become available.

In order to manage the risks associated with resources being committed in larger volume under co-financing, a requirement for interim management data has been established, although it has taken some time to agree the detail and regularity of this reporting.

The data gathered through this process are much simplified from those assembled at the final claims stage. They cover:

- ESF claimed against financial profile.
- beneficiaries recruited in total, by gender, and by ethnic minority and disabled category.
- destination of leavers by status of beneficiary - unemployed, in employment, other positive outcome and not known.

Care is required in interpreting leaver statistics from the interim management data, as it relates to projects that are in process and cannot, therefore, be compared with final claims data in a meaningful fashion.

Government Offices were asked to secure interim management data from CFOs to the end of June 2003 by the end of July. This has been part-processed by ESFD before it was made available to the evaluators for this study. The financial data provided covers all Objective 3 Regions and Objective 1 Programme Areas. However, it was not possible to provide physical progress data in East Midlands and South West Objective 3 areas because the majority of CFOs in those regions operate on a different quarterly reporting cycle which did not require interim data to be provided at the end of June 2003.

The physical progress data provided in a significant number of cases are incomplete. Often the total beneficiaries were identified, but were not disaggregated further. Accordingly, the analysis that has been possible is only a partial one, and is substantially skewed towards returns from LSCs.

2.2.2 Delivery of Interim Management Data

As noted above, no physical data had been furnished for the East Midlands or for the South West. Data provided for the North East and Yorkshire / Humberside was generally in good order, whereas that provided by the South East contained numerous gaps.

The majority of Interim Management Data provided relate to LSCs. LSC data were mainly complete. In some instances where there were no data recorded against LSC Measure level bids, we were able to confirm that these were at an early stage and no data were due before the quarter ending in September 2003.

No data were provided for JobCentre Plus CFOs in any region. For technical reasons, it has been agreed that JobCentre Plus will submit management information quarterly in arrears. Therefore, the first management information for the majority of their provision will not be available until their September (2003) returns are submitted.

In a small number of cases, CFOs had reported global numbers of beneficiaries, but had provided no breakdown by gender or other equal opportunities target group. This was most commonly found among Local Authority CFOs.

2.2.3 Progress Against Expenditure Profile

Data were provided covering 323 Measure Level projects within which a total of 109,801 beneficiaries had been recruited. The total spend forecast to the end of June 2003 was £345.9m, of which only £189.8m had been claimed, some 55% of profile.

This compares with Programme level targets of £2.4bn in ESF and just over 4 million beneficiaries, so it is clear that the recorded contribution for co-financing is at an early stage in building up.

TABLE 2.1: OBJECTIVE 3 CFOS, PROFILE AND ACTUAL SPEND TO JUNE 2003			
Profile Spend	Actual Spend	Shortfall	Actual as % Profile
£345,975,673	£189,835,248	£156,140,425	54.87%

The shortfall in forecast expenditure is attributable to a combination of factors:

- actual under-performance within projects in terms of recruitment and expenditure.
- delays in receiving claims from CFOs and their processing by the relevant Government Office.
- constrained claims by LSCs as a result of technical problems in linking match funded beneficiaries to ESF support.

It is understood that this latter issue is close to having been eliminated for new beneficiaries, but that it will take some time to identify suitable matching beneficiaries for 2002. In some cases payments have been restricted to 45% of the level that will ultimately be paid. In the short term, this results in a significant distortion in the

financial progress data. It is important to stress that this does not reflect forecast activity not having taken place.

While clearly a matter for some concern, this performance needs to be seen in the context of past performance against forecast expenditure. Given the short-term issues highlighted above, the evaluators would not have been surprised if the shortfall against forecast expenditure at this stage had been greater.

Table 2.2 shows the forecast and actual claimed expenditure by Objective 3 Policy Field.

	Profile Spend	Actual Spend	Shortfall	Actual as % Profile
Policy Field 1	£59,954,049	£27,151,357	£32,802,692	45.29%
Policy Field 2	£56,656,180	£33,691,038	£22,965,142	59.47%
Policy Field 3	£159,914,291	£91,024,666	£68,889,625	56.92%
Policy Field 4	£56,471,855	£32,051,049	£24,420,806	56.76%
Policy Field 5	£12,979,299	£5,917,139	£7,062,160	45.59%
Total	£345,975,673	£189,835,248	£156,140,425	54.87%

The analysis is confined to the Objective 3 CFOs. Although the ESF provisions of Objective 1 Programmes cover the same Policy Fields as Objective 3, these do not in all cases clearly map onto the Policy Field and Measure structure of the England Operational Programme (OP).

It may be seen that, for the population of CFOs providing management returns, aggregate progress by Policy Field to the end of June 2003 varied from 45% to 59% of profile.

Objective 3	Profile Spend	Actual Spend	Shortfall	Actual as % Profile
East	£31,743,787	£23,994,514	£7,749,273	75.6%
East Midlands	£26,241,810	£10,755,699	£15,486,111	41.0%
London	£87,949,992	£47,367,447	£40,582,545	53.9%
North East	£45,310,885	£34,895,193	£10,415,692	77.0%
North West	£41,861,233	£14,178,831	£27,682,402	33.9%
South East	£14,583,159	£12,247,698	£2,335,461	84.0%
South West	£12,230,464	£3,978,261	£8,252,203	32.5%
Yorkshire /Humber	£31,624,438	£19,411,990	£12,212,448	61.4%
West Midlands	£54,429,917	£23,005,615	£31,424,302	42.3%
Total	£345,975,685	£189,835,248	£156,140,437	54.9%
Objective 1				
Merseyside	£18,898,669	£891,765	£18,006,904	4.7%
South Yorkshire	£96,349,324	£56,084,139	£40,265,185	58.2%
Cornwall	£1,758,813	£343,951	£1,414,862	19.6%
Total	£117,006,806	£57,319,855	£59,686,951	49.0%

Progress under Policy Field 5 projects, for which it has been more difficult to secure CFO interest, is tardy, although on a par with that for Policy Field 1. Against Policy

Fields 2 to 4, processed claims represent between 57% and 59% of forecast expenditure to June 2003. Table 2.3 shows the forecast and actual claimed expenditure by Objective region for those regions furnishing data.

In terms of Objective 3, it may be seen that there are considerable variations in spend against profile by region, with CFOs in the North West and the South West lagging their counterparts in the rest of England. The reasons for this are not clear from the interim management data. However, the most likely reasons include:

- delays in the contracting stage (most likely in the North West where co-financing has been introduced more recently).
- the incidence of different sources of match-funding in use (the LSCs' difficulty in identifying match beneficiaries is understood to be concentrated where mainstream match funding, rather than development funding, is in use).

Within the Objective 1 areas, progress against profile in Merseyside is particularly limited. Again, this may reflect the very early stage of introducing co-financing, but will merit close monitoring.

2.2.4 Beneficiary Data

It should be noted that the beneficiary data provided cover only actual progress. No forecast of beneficiary recruitment is included alongside the progress data.

To the end of June 2003, a total of 109,801 beneficiaries had been recruited under co-financing. LSCs account for the vast majority of data generated so far and under-reporting of beneficiaries also occurs (as well as under-reporting of financial progress) in an unknown proportion where mainstream funding is used as match.

Tables 2.4 and 2.5 show the total number of beneficiaries analysed by gender and equal opportunities target group for all Measure level bids where full data were supplied.

	Male	Female	Total	Ethnic Minority	Disabled
Policy Field 1	7,741	7,757	15,498	4,866	1,344
Policy Field 2	9,407	7,825	17,232	3,895	3,232
Policy Field 3	16,528	17,850	34,378	5,449	3,658
Policy Field 4	5,796	8,586	14,382	1,221	393
Policy Field 5	86	2,309	2,395	879	241
Programme Total	39,558	44,327	83,885	16,310	8,868
Policy Field 1	49.9	50.1	100.0	31.4	8.7
Policy Field 2	54.6	45.4	100.0	22.6	18.8
Policy Field 3	48.1	51.9	100.0	15.9	10.6
Policy Field 4	40.3	59.7	100.0	8.5	2.7
Policy Field 5	3.6	96.4	100.0	36.7	10.1
Programme Total	47.2	52.8	100.0	19.4	10.6

It may be seen that, so far, Policy Field 3, Lifelong Learning, accounts for by far the largest proportion of all beneficiaries (41%). Under Policy Fields 1, 2 and 4, fairly similar numbers of beneficiaries have been recruited, accounting for between 17 and

20% of all beneficiaries. Recruitment under PF5 is at a much lower level, at only 3% of the total.

There is a distinct pattern of recruitment by gender across the Policy Fields. Women account for a majority of beneficiaries in all Policy Fields except PF2, where the preponderance of men is consistent with their representation in the long-term unemployed. Perhaps more surprising is the balance in favour of women in PF4 which suggests that ESF is playing a positive role in providing employed women with access to training.

The ethnic minority component varies significantly across the Policy Fields. Ethnic minority representation is strongest in the Policy Fields that are mainly targeting people who are out of work. The relatively small proportion being supported in PF4 that is mainly concerned with people in employment is a matter for some concern.

The proportions of disabled people supported under Policy Fields 1, 3 and 5 are approximately in line with that which may be expected in the workforce as a whole. The proportion in PF2 is much higher and may be associated in part with the known phenomenon of discouraged workers migrating from unemployment into disability benefit as well as more tangible health issues among disadvantaged groups. The data suggest that, under co-financing, ESF is providing considerable support for disabled people who are unemployed or at risk from exclusion. However, a much lower proportion of employed beneficiaries are identified as disabled. While the reasons for this are not clear from the data, the apparently limited access to training for disabled people who are in employment is a matter for some concern.

	Male	Female	Total	Ethnic Minority	Disabled
East	5,694	5,813	11,507	1,291	1,360
London	6,322	7,885	14,207	9,085	1,539
North East	10,746	10,942	21,688	597	1,959
North West	4,358	4,340	8,698	445	652
South East	2,269	3,344	5,613	1,035	688
Yorks & H	4,857	6,388	11,245	1,822	1,143
West Midlands	5,312	5,615	10,927	2,035	1,527
East	49.5	50.5	100.0	11.2	11.8
London	44.5	55.5	100.0	63.9	10.8
North East	49.5	50.5	100.0	2.8	9.0
North West	50.1	49.9	100.0	5.1	7.5
South East	40.4	59.6	100.0	18.4	12.3
Yorks & H	43.2	56.8	100.0	16.2	10.2
West Midlands	48.6	51.4	100.0	18.6	14.0

Analysis of beneficiary data by region produces some surprising results, although it should be appreciated that this may reflect differences in the weighting by Policy Field in the data provided from the various regions to date. There will inevitably be an element of smoothing at aggregate level.

The female beneficiary component in the South East is notably higher than elsewhere, although that in Yorkshire and Humberside is also well ahead of the national average for female participation in the workforce.

Notwithstanding the more pronounced multicultural population in the capital, the extent of skewing towards ethnic minorities in London is surprising, particularly when compared with other regions where there are significant ethnic minority populations. This suggests that Objective 3 is playing a rather different role in the labour market in London than elsewhere. The North East does have a small ethnic population, but ethnic participation in the North West is surprisingly low.

There is a considerable range in participation by disabled beneficiaries although, again, this may be a reflection of differences in the Policy Field share in the data by region. Again, the North East and the North West report notably smaller proportions of disabled beneficiaries under co-financing than elsewhere. In the case of the North West, the Policy Field 2 share of beneficiaries is presently well below average, but so too is the disabled component within it. The figure for the North East is particularly surprising given that the region has one of the highest levels of disability claimants in the UK.

2.2.5 Leaver Data

As noted above, care is needed in interpreting leaver data from the interim management information as, in many cases, they relate to projects that are in progress. For each Policy Field, in at least half of the cases the destination of leavers is not known, a further source of distortion. The reasons for the high number of "not known" returns is not clear at this stage but may relate to the lags between completion and follow-up, or delays in the entry of management information.

To the extent that data are available it may be seen that unemployment accounts for some 40% of known outcomes in PF1 and 27% in PF5. This falls to around 20% for Policy Fields 2 and 3, and only 6% in PF4 where most beneficiaries are generally in employment at the start of their course.

In PF2, more than half of the beneficiaries for which the outcome is known have achieved a positive outcome other than employment, underlining past findings that PF2 actions are primarily taking beneficiaries along a pathway to employment. However, significant proportions of beneficiaries under Policy Fields 1 and 5 also recorded this type of outcome.

	Leavers	Employed	Unemployed	Other Positive Outcome	Not Known
Policy Field 1	15,722	840	1,567	1,542	11,773
Policy Field 2	6,891	745	616	1,482	4,048
Policy Field 3	20,270	6,074	1,937	1,937	10,322
Policy Field 4	4,984	2,013	147	143	2,681
Policy Field 5	600	86	70	96	348
	48,467	9,758	4,337	5,200	29,172
Policy Field 1	100.0	5.3	10.0	9.8	74.9
Policy Field 2	100.0	10.8	8.9	21.5	58.7
Policy Field 3	100.0	30.0	9.6	9.6	50.9
Policy Field 4	100.0	40.4	2.9	2.9	53.8
Policy Field 5	100.0	14.3	11.7	16.0	58.0
	100.0	20.1	8.9	10.7	60.2

2.3 Findings From Consultations With CFOs

The consultations with CFOs explored how the procurement process had gone, whether there had been problems with recruitment and the progress being made in relation to spend profile.

Most had received a good response to tendering, although bids were reported to be lower than CFOs expected in relation to some activities such as capacity building, where some reported that insufficient bids were received to take up the available resource.

Most CFOs reported a slow start as a result of delays in the contracting process, mainly related to initial support for new providers. In the case of JC+ CFOs, a higher than anticipated volume of bids allied to limited administrative capacity had contributed to delays.

Once contracts are underway it is clear that implementation is much more actively managed than was the case under direct bidding, particularly where LSCs and JC+ are concerned. CFOs acknowledged that some projects had not gone as well as planned, but reasonably pointed out that this was not unique to co-financing. It appeared that contract managers had few qualms about reallocating resources out of underperforming projects.

With regard to financial progress, the LSCs conceded that they were up to 30% behind profile at the time of interview. Most expected to catch up, although one had asked for an extension to the spend period. It was acknowledged that technical problems in identifying match beneficiaries had delayed claims significantly. The responses obtained from Local Authorities were more mixed. One reported that spend was going well but that claims were overdue pending audit clearance. Another only expected to achieve 80% of planned spend.

When asked whether they were managing to recruit the targeted profile of beneficiaries, CFOs' responses were less clear-cut.

It was noted by LSCs that their targets (based on a share of those in the RDP) were quite conservative and that they would obtain most, if not all of these from the match-funding alone. In terms of recruiting within their ESF contracting, some LSCs reported that they had in fact over-recruited in most areas. Others acknowledged that to fill gaps, they had to issue some targeted specifications in their more recent bidding round. Some respondents did not have information to hand and were unable to comment. It was noted by some LSC interviewees that the introduction of a bespoke ESF management system would shortly provide a clearer picture of progress. The general impression gained from interviews, however, was that CFOs do not have any real concerns about their ability to recruit to profile.

A small number of CFOs noted that recruiting in the mainstream is presently below targeted levels because of tightness in the labour market. Another noted constraints in the supply of tutors for lifelong learning activities.

KEY POINTS

- The first release of Interim Management data provide only a partial picture of progress under co-financing and is subject to distortion due to omissions and the balance of data by Policy Field provided so far.
- The data presented for LSCs so far (which account for the vast majority of data) involve under-reporting, both in terms of financial and physical progress, due to temporary difficulties in identifying matching beneficiaries.
- The consultations carried out with CFOs suggest that the actual position on spend is rather better than appears in the interim management data and will improve further (but this is dependent on resolving the problems in identifying matching beneficiaries).
- The consultations with CFOs suggest that, in general, good progress is being made in recruiting targeted beneficiaries and it would appear that most CFOs are actively managing progress towards their contracted targets.
- Within the interim management data, recruitment of ethnic minority and disabled beneficiaries is generally above their representation in the population. The exception is Policy Field 4, where ESF does not appear to be leveraging as much participation of equal opportunities target groups among employed beneficiaries as might be hoped. In regional terms, both the North East and the North West appear light in terms of ethnic and disabled participation. With almost two-thirds ethnic participation, Objective 3 appears to be performing a different role in the London labour market than elsewhere.
- The leaver data provided need careful interpretation as they are not comparable with final claims data. Where beneficiary outcomes are known, these are highly skewed towards positive outcomes other than employment in Policy Field 2, but this type of outcome also features strongly in Policy Fields 1 and 5.

3 STRATEGIC CONTENT AND DIRECTION OF CO-FINANCING PLANS

3.1 General

This Chapter examines the relationship between the Objective 3 Regional Development Plans (RDPs) and the co-financing plans. It considers, firstly, the extent to which co-financing plans are in fact aligned with Objective 3 RDPs, based upon:

- a review of a sample of Plans from all regions of England.
- consultations with GOs and CFOs on the factors driving the strategic alignment of the Plans.

Thereafter it considers to what extent the RDPs provide an adequate basis to drive co-financing in a detailed manner, and what changes in approach may be appropriate.

3.2 The Strategic Quality of Co-financing Plans

3.2.1 General

The Co-financing plans of some 18 new CFOs were reviewed to assess their strategic quality, taking account of such issues as:

- the quality of the analysis underpinning the proposals.
- the extent of justification for targeting in the underlying analysis.
- the extent of linkage to the RDP and other strategic guidance.

The consideration of strategic quality has combined desk-based research, looking at the sample plans, and consultations with people involved in appraising the plans at GOs and those within CFOs that were involved in their preparation.

3.2.2 Findings From Desk Research

The initial evaluation noted how the content of CFOs' plans tended to flow from their own local strategic plan, which might have been consistent with RDP objectives but was not specifically drawn from them. To a certain extent, this remains the case in the current study. Some acknowledge the RDP as a secondary influence, devoting much of their contextual information to their own organisational aims and objectives. The better plans, however, make a more systematic effort to show how their own strategy complements the objectives of the RDP. As in the initial evaluation, some co-financing plans have lifted entire paragraphs of text directly from the RDP.

While the plans sampled in this second evaluation provide, in general, a significant amount of detail from the RDP, it is not always evident that the information in the RDP has been analysed in a way that affects the co-financing proposals. Large sections of socio-economic and labour market data are reproduced in several co-financing plans without supporting analysis that makes sense of its meaning, or what implications it contains for the actions proposed in the co-financing plans. However, as in the previous evaluation, several of the better plans supplemented the standard socio-economic data sources with the findings from local and/or regional surveys and translated the analysis of local issues into priorities for action.

The weaknesses in the quality of socio-economic analysis seen in the current study are essentially the same as those identified in the initial evaluation:

- where the socio-economic analysis comprised mainly data sets, with little accompanying exploration of the implications of the data or consideration of what relevant conclusions could be drawn from it.
- where a co-financing plan proposed quite specific, niche actions, but asserted their justification against the background of a very general set of regional-level data.
- where the targets in a co-financing plan could clearly be seen to be unrealistic in relation to the scale of the target beneficiary group.

The initial evaluation revealed that at the level of Policy Fields and Measures, the strength of the linkage between the co-financing plan and the RDP depended crucially on the quality of the RDP, upon which we comment further below. The better RDPs provide a clear differentiation of the Policy Fields and Measures (the OP lacks clarity in this regard) and set out clearly the different actions that fall within the eligible scope of the Measures. In the initial evaluation, a small number of the co-financing plans reviewed identified exactly which Measure scope points it would cover and provided a detailed account of the actions through which they would be met. The best of the plans reviewed in the initial evaluation identified:

- overall aims.
- target groups.
- barriers to be addressed.
- activities supported.
- demonstration of need.
- expected results.
- added value.

In the current study several plans have provided this kind of matrix.

In summary, the present study has found that there are more better-quality plans in the second cohort. Among the remainder, the weaknesses are essentially the same as previously identified.

3.2.3 Findings from the Consultations

The Government Office Perspective

The consultations with the Government Offices explored to what extent their RDPs provided a sound basis for contracting with CFOs.

Only one third of GO consultees were satisfied that their RDP drew clear lines between its Policy Fields and Measures in terms of the types of activity delivered, and only two GOs felt there was enough clarity about the types of beneficiary to be targeted within given Measures. Some noted that their RDP was 'ambiguous' in this respect; others were actively dismissive of the document.

It was suggested by two GO respondents that a lack of clarity in the national Objective 3 Operational Programme led to the same weakness in the RDPs. A small majority (5 out of 9 GOs) were satisfied, nevertheless, that their RDP was sufficiently detailed to enable distinctions to be drawn between actions supported by CFOs (or by direct applicants) within any Measure.

In some regions the GO has produced a separate matrix of Measures and beneficiaries. It was reported that, for operational purposes, partners referred to this in place of the RDP itself.

The consultations with the GOs also explored views on the strategic quality of the Plans produced by CFOs.

Five of the nine GOs were satisfied that their CFOs had allocated resources in a fashion that reflected regional strategic priorities as broadly defined by a combination of the RDP, Regional Economic Strategy (RES) and Framework for Regional Skills Action (FRESA). Most pointed out that such alignment was taken into account when appraising CFOs' plans, and one mentioned that CFOs were required to report on this as part of their quarterly management returns. However, respondents in two GOs expressed particular concerns about this issue, and felt that they had neither the resources nor the remit to ensure that CFOs were indeed procuring activity that was well aligned with regional priorities.

In one region, the GO noted that the quality of the LSCs' co-financing plans had improved since the first round; there was less of a 'parrot recital' of the LSC remit. The respondent felt that CFOs appeared to have taken on board the lessons and critique of the first round, and their proposals were more consultation based and had highlighted added value.

A majority of GO consultees (7 of 9) expressed the view that that, in some CFOs within their region, the balance of activity being delivered by CFOs was substantially influenced by CFOs' own organisational priorities / agenda. Two GOs expressed particular disappointment with JC+ in this respect; another two singled out LSCs for mild criticism. However, one GO consultee felt that it was only natural to expect these organisations to be driven by their own remit to a certain extent, and that it was caused not so much by their lack of commitment to the Programme as by issues relating to match funding.

The CFO Perspective

From the responses obtained, the extent to which RDPs have exerted influence on the development of co-financing plans appears to be a function of the quality of the RDP. When preparing their co-financing plan, only a minority of the new CFOs were confident of the clarity of their RDP:

- 5 of 12 felt that their RDP was sufficiently clear in terms of its identification of regional skills priorities.
- only 4 felt it was sufficiently clear in terms of its identification of target beneficiaries.

Existing CFOs were asked whether the most recent revision of their RDP had had any effect on their Plan. In general, the revisions to the plans were considered to have had little effect. Four of the six commented on continuing weaknesses in the extent to which the RDP priorities were picking up regional needs. Only one interviewee reported that the revision of the RDP had been 'helpful' in that part-qualifications had now become eligible for support.

Some CFOs, notably LSCs and RDAs, also commented on the appropriateness of the balance of resources by Policy Field and / or the extent to which the targets in the RDP were meaningful. Several had doubts that the balance of resources was appropriate noting, in particular, the focus on unemployment was much reduced or

had not been significant in their region at the start of the Programme. However, the potential for problems from mismatched resources was perceived to be ameliorated by the extensive overlaps of activities and beneficiary groups across the Policy Fields and Measures. Several CFOs considered that the Programme targets were fairly general in nature and were quite conservative. One LSC noted that it expected to meet its targets out of the match funded activity alone.

New CFOs were asked how they decided upon the priorities for action under their Plan. Most identified a complex of influences. For the LSCs and JC+ it was reported that there was national guidance on the fit of the OP with the remits of these organisations, but at regional level, variations in the RDP, the socio-economic situation and existing budgets have all affected the balance. The focus of more narrowly based plans (mainly local authorities and economic development agencies) tend to reflect discrete internal priorities, such as a local social inclusion strategy or desire to extend training for entrepreneurs.

While existing patterns of activity and remits have undoubtedly influenced the content of co-financing plans, it was apparent that most, if not all, CFOs were not merely buying more mainstream activity but were looking to use ESF to develop new provision and tackle marginal issues.

In some CFOs it appears that certain priorities have been included in their plan as a result of negotiation at regional level, particularly to secure coverage of the research Measures and Policy Field 5.

New CFOs were asked how they saw their Plan as contributing to the labour market priorities identified in the RDP, RES and FRESA. Few were able to provide more than a blanket response, but comments included:

- 'the RDP and the FRESA have been used to inform planning processes, but the FRESA has probably been more influential; RDP is regarded as out of date and not sufficiently specific to inform planning at Measure level; our Measure level plan is more up to date than the RDP in identifying current issues in the labour market' (JC+);
- 'RDP has to be referred to like the bible when preparing a Plan, but it's too vague to be of relevance to our particular client group' (local authority);
- 'by the nature of its role, JC+ contributes to these strategies – by helping unemployed people move into work, etc; JC+ have national priorities, but there is also scope to address local issues through pilot and pathfinder projects' (JC+).

Discussions with existing CFOs explored how revisions of their Plans had taken the RES and FRESA into account. For most, the RES was not a significant driver and some CFOs commented on the poor quality of the RES. In most regions, the FRESA is seen as more up-to-date and relevant than either the RES or the RDP. Indeed, some suggested that, following the introduction of co-financing, the RDP should be redrafted around the FRESA and one suggested that the RDP should be redrafted around the various CFO remits.

The National Action Plans for Employment (NAPE) and Social Inclusion (NAPSI) were found to have negligible direct influence on the development of co-financing plans. Most representatives from new and existing CFOs displayed little more than general awareness that these documents existed. One interviewee remarked that "the NAPE is too high level and bland to be of value at regional level, and in any case

it is already reflected in the Objective 3 RDP". CFOs interviewees noted that they were working in the context of regional skills plans and regional inclusion plans that may, or may not, have taken these national policy documents into account.

Once the study was under way, the evaluators were made aware of concerns expressed by voluntary sector representatives on the Steering Group that CFOs' prospectuses may not be reflecting the full range of Measures, activities and target beneficiaries as described in their Co-Financing Plans.

All the new and existing CFOs in the sample were asked whether their prospectuses fully reflected their Plans in this respect. Not all interviewees gave a clear response to the question, but the majority of those who did confirmed that their Prospectus fully reflected all the elements of their Plan (a view supported by the majority of GOs.)

The most common response was that the co-financing plan is relatively broad based, but that the prospectus tended to be more specific and, in some cases, was re-structured around CFO priorities. The combination of tender specifications was generally intended to be consistent with the targets in the co-financing plan, but these were also informed by knowledge of what needs are already being met in the marketplace and what gaps existed.

In some regions it was noted that Measure Level Bids were only being prepared following contracting, as allowed under the Consolidated Guidance. This was primarily intended to avoid significant changes, but was also felt to help ensure that there was consistency between targeted and procured activity.

While it was not possible to undertake a detailed examination of CFO plans and prospectuses in the present exercise, such research has recently been carried out as part of a specific study in London. In London it was found that in a minority of cases, the prospectuses did not explicitly identify which Objective 3 Measures to which tender specifications were related, although the CFOs concerned were clear in their intentions. In addition, some instances were identified where CFOs had not received bids to provide for some targets in their initial bidding round and had invited more specific bids in a subsequent bidding round in order to fill gaps. No evidence was identified of a systematic attempt by CFOs to divert resources from their intended purposes.

3.3 The Mechanical Model of Co-financing

3.3.1 General

Most regions are attempting to manage the Objective 3 Programme through a management approach that assumes that co-financing will operate in a fairly mechanical fashion. This management concept of co-financing assumes:

- the Regional Development Plan sets out priorities and quantified targets that are a realistic reflection of regional needs and opportunities.
- that co-financing plans amount to contracts under which CFOs will procure, as a minimum, an agreed portion of the RDP targets.
- that CFOs will procure in line with their co-financing plan targets and that successful delivery of projects by providers will, in aggregate, lead to the RDP targets being met.

The research carried out reveals a number of weaknesses in these assumptions.

3.3.2 Rationality of the RDPs

Objective 3 is a national Programme implemented at regional level. Regional implementation is guided by a Plan prepared by the regional partnerships that is intended to articulate the set Policy Fields of the England Operational Programme in the regional context. The Objective 3 RDPs are intended to analyse the regional labour markets and, thereby, to identify justified priorities for intervention. However, in directing resources and setting targets, the regional partners are constrained by both the financial allocations and the performance targets in the England Operational Programme to which individual regional Plans have to contribute a share. Accordingly, the scope to vary the weighting of the different Policy Fields and Measures at regional level is limited.

Review of the Objective 3 RDPs shows that most develop an analysis at regional level. Most tend to identify priorities at that level without taking account of the focus or scale of actions taking place in parallel, either through mainstream government schemes or other fringe regimes. Consultation with LSCs has indicated that, notwithstanding their being allocated a significant share of regional Objective 3 resources, ESF accounts for only a fraction of their budgets, less than 5% in some cases.

This combination of factors results in the RDPs tending to have grand strategic designs, but only a fraction of the resources necessary to carry these through. They tend not to consider what niche role Objective 3 should play at regional level given:

- firstly, the overall pattern of needs and opportunities identified in the labour market analysis.
- secondly, the extent to which needs and opportunities are already being addressed through mainstream actions, in particular.

As noted above, RDPs are developed around a resource allocation and, for the most part, a given share of the England Operational Programme targets that is not clearly based on the distinctive needs and opportunities at regional level. Indeed, the proportion of resources by Policy Field differs only to a limited extent between regions notwithstanding quite dramatic differences in labour market conditions, most notably between those prevailing in London and the South East and those in the North East of England.

The foregoing are structural weaknesses affecting RDPs. However, both the desk-based research and the consultations raise more general questions about their basic quality, most notably concerning the quality of the analysis and the relevance (or at least the current validity) of the priorities identified.

3.3.3 CFOs as Strategic Procurers

One of the key objectives of co-financing is to enhance the strategic quality and relevance of procurement by engaging organisations with a strategic perspective of demand and supply in the labour market, as CFO intermediaries. There is an inherent tension between this aim and the mechanical management approach that:

- on one hand expects CFOs to procure strategically.
- on the other saddles them with a set of priorities and targets that are of questionable relevance.

3.3.4 Options for Progress

It should be technically possible for the RDPs to provide a valid basis to form a moderately tight corseting on co-financing procurement. However, this would require an extensive upgrading of most RDPs through a further revision that emphasises:

- better quality analysis and derivation of priorities.
- the niche role of the Objective 3 Programme given the scale and focus of mainstream activity.
- the development of quantified targets that are relevant to regional needs and opportunities.

It is understood that there is little appetite for such a detailed review, either at regional or central levels. However, even if carried through, progress is still likely to be compromised by:

- the absence of clear differentiation of actions and target groups across the Policy Fields and Measures of the OP.
- rigidity in the regional financial allocations, where no significant reform is expected.
- tensions between rational targets developed from the bottom up and those allocated to the region from the OP.

An alternative approach would be a more modest revision of RDPs coupled with a different concept of the relationship between co-financing plans and the RDP. This approach recognises the limitations of the RDP as a rational basis for tightly corseting CFOs and seeks to empower CFOs to operate strategically.

Under this approach revision to RDPs should emphasise:

- clarifying the role for Objective 3 in the regional labour market taking account of both identified needs and opportunities at regional level and the scale and focus of parallel actions.
- clear identification of target groups and their relative scale.

The role for Objective 3 could legitimately include extension of mainstream activity that is undersupplied, tackling identified gaps in provision or, more probably, a combination of both.

RDPs updated along these lines would provide an indicative framework for the development of co-financing plans, while relying on CFOs to bring forward detailed proposals that:

- are predominantly focused on the target groups identified in the revised RDP.
- are demonstrated as being relevant to the local or regional market.

Under this arrangement, the relationship between Programme targets and co-financing plans is a secondary consideration.

However, the evaluators perceive a need for loosening of the RDP corset to be balanced by more specific and better justified co-financing plans. These should set out in quantified terms what groups the CFO proposes to target and what types of provision it intends to procure. This should not be relegated to the Measure level bids

once the co-financing plan is approved. Following approval, management by the GO and the Regional Committee should primarily focus on whether the co-financing plan is being delivered as agreed and less upon whether a notional contribution to more questionable RDP targets is being achieved.

KEY POINTS

- The sample of co-financing plans examined contained a larger proportion of good quality plans than were encountered in the initial evaluation.
- Where weaknesses were identified, the deficiencies were essentially as before - weak connection between analysis and proposed actions; weak linkage to RDPs (although the quality of RDPs was in some cases an issue).
- The remit of CFOs continues to drive, or at least to filter, their approach to implementing their plan. It is evident, however, that the majority of CFOs are endeavouring to use ESF for much more than increasing the volume of mainstream activity.
- Other sources of strategic guidance, notably the FRESAs, were perceived as more relevant than the RDPs in some regions.
- The National Action Plans for Employment and Social Inclusion had a low profile among consultees; similar regional strategic documents, primarily related to the NAPE, were perceived to have more relevance for planning purposes.
- The present study did not extend to a detailed examination of potential drift between co-financing plans and the prospectuses through which they were implemented. Within the study that was possible, no evidence was uncovered of ESF being used for other than their intended purposes.
- The strategic quality of co-financing is constrained by a combination of structural factors relating to the OP and weaknesses in the strategic lead provided by the RDPs in some regions. It is considered unlikely that the fundamental issues relating to the OP can be resolved easily. The best prospects for progress lie in working in a pragmatic fashion within the existing framework.

4 CFO STATUS, PLAN DEVELOPMENT AND CO-ORDINATION

4.1 General

Closely related to the strategic quality of the co-financing plans and their successful implementation are the processes through which:

- organisations bid to become CFOs and prepared their co-financing plans.
- the activities of different CFOs are co-ordinated.

An area of particular interest is the extent to which the improved guidance to CFOs and the experience of those that were involved earlier has been of benefit in extending co-financing.

4.2 Bidding for CFO Status

4.2.1 The Government Office Perspective

Government Office interviewees were asked to contrast recent experience on establishing CFOs with the initial stages of co-financing.

Government Office representatives generally felt that the process of approving 'second-round' CFOs had gone smoothly, although in practice few distinguished between a formal 'first' and 'second' round: most regard the notional 'second round' simply as the arrival of JC+. Of the seven GOs that responded to the question, all reported that a separate application for CFO status had been required in addition to a co-financing plan. The majority were satisfied with the guidance they were given for assessing bids for CFO status: seven of nine reported that the criteria approved by the ESF Unit were sufficiently robust, and two-thirds felt that they were comprehensive in their coverage of material issues.

The majority of GO representatives felt that the process of approving second round bids for status had gone more smoothly than for the original CFOs. This was put down to:

- a greater awareness of co-financing across the board.
- the experience gained in approving the initial CFO bids for status – and the sharing of that experience.
- improved guidance from ESFD.
- CFOs having a better understanding of the need to negotiate their plans in line with the resources available for distribution among several CFOs.

In most cases the length of time taken to approve second round CFO status applications was the same or less than for the initial round, varying between one and six months (according to the five GO representatives who could recall). However, one GO consultee expressed the view that the first round of approvals had been too rushed, resulting in insufficient rigour being applied to the appraisal process. As a result they had taken longer over their second round approvals.

Those interviewed did not highlight any serious problems during the second round approval process from the GOs' perspective, although several highlighted organisational capacity issues for the LSCs, which were perceived to be suffering the effects of staff turnover, and JC+ where co-financing was introducing new responsibilities within an organisation that was restructuring and downsizing.

Two GO consultees gave positive feedback on the bids received from JC+ - describing them in one region, for example, as 'very on the ball'. Indeed, the overall view about JC+ from most of the Government Offices confirmed that, at least in terms of the rigour of their systems and procedures, JC+ have made a good impression.

In terms of coverage of the Programme, most GOs had anticipated the arrival of JC+, which did not seem to cause insurmountable problems in any region. As expected, coverage of Policy Fields 1 and 2 – which had been undertaken to some extent by the LSCs in the initial round – was agreed to be largely the 'natural territory' of JC+ in all regions. Therefore, the two sectors were required to reach an accommodation about how coverage would be allocated once JC+ became a CFO.

The overall impression from discussions with GOs across the country is that the process negotiating Programme coverage was largely an amicable one. Three of the nine GOs claimed to have taken the lead in co-ordinating the negotiation process.

4.2.2 The CFO Perspective

Few interviewees were able to remember the precise period over which they applied to become a CFO, or the time it took to prepare and negotiate its co-financing plan. However, most commented that the preparation of the Plan was taking place at the same time as their application for CFO status.

Half of the new CFOs interviewed said that they found the process of applying for CFO status to be straightforward; the other half had encountered difficulties. In the case of the two local authorities, both of which reported difficulties, the main problem appeared to take the form of:

- Government Office seeming resistant in principle to their becoming a CFO, and giving very little support, and/or
- internal organisational resistance – lack of interest amongst senior colleagues in seeking CFO status for the organisation.

In the case of one JC+ office, difficulties stemmed from being made to 'jump through unexpected hoops': in particular, the GO had not been satisfied with their equal opportunities policy, which had to be revised.

Of those new CFOs that found the process straightforward, the reasons (cited by two different JC+ offices) included:

- help and advice from national office.
- help and advice from other CFOs in the region.

4.3 Developing and Negotiating the Co-financing Plan

4.3.1 The Government Office Perspective

In five regions, the GO relied exclusively on the guidance provided by ESFD when assessing co-financing plans. Three reported that, in addition, they had used internal expertise. One GO had employed independent consultants, who had developed their own approach having regard to the guidance, for part of the exercise.

GOs varied in their response when asked how they determined the value for money represented by the Measure Level Bids. Four GOs said they carried out a crude cost-per-beneficiary analysis, which they compared with previous experience of the direct bidding system; this then gave the GO a basis for negotiating with its CFOs. (It is not clear to what extent the result was acted upon, though one GO noted that certain CFOs showed a remarkable ability to increase the number of target beneficiaries when challenged about the value for money represented in their Plan). Two GOs felt that they did not have the expertise to make an effective judgement about value for money, but were confident about their CFOs' ability to do so.

4.3.2 The CFO Perspective

Half of the new CFOs found the guidance on preparing their co-financing plan to be sufficiently clear and comprehensive. It was felt that the Consolidated Guidance had now clarified most issues, following a period during which all the stakeholders had been 'feeling their way' around areas of uncertainty.

The majority of existing CFOs confirmed that they were aware of the consolidated guidance and had found it of benefit to them; however, there was no indication that they had been required to make significant changes to their existing procedures as a result of it.

In addition to being informed by the Consolidated Guidance, all 12 of the new CFOs in the sample said that they had either talked to existing CFOs or looked at others' co-financing plans when they were preparing their own. It was clear that the experience gained by the first round CFOs was valuable to the newcomers. Two respondents (from a local authority and a JC+) said that consulting other CFOs was of more value than trying to obtain advice and guidance from their Government Office, citing staff turnover or lack of expertise in GO as a weakness. The majority of new CFOs referred to existing LSCs' co-financing plans for a 'steer', which they found very or moderately useful. In addition, the existence of networks of regional partners provided a useful forum in which to share and gain experience.

When preparing their Plans, 8 of the 12 new CFOs in the sample said that they had consulted with regional partners; the same proportion said that they had consulted with locally based or equal opportunities groups in developing provision. However, it is not clear to what extent feedback had an impact on the content of the Plans. Providers tended to feel that 'briefing' was a more accurate description of the process than 'consultation'.

Of the total of 18 CFOs sampled, 14 said that they had worked with other CFOs in developing or refining their Plan. In most regions it would appear that:

- good regional partnerships meant that all CFOs liaised reasonably effectively.

- in particular, the two ‘big players’ (the LSC and JC+) worked closely with GOs to identify potential overlaps.
- some regions resourced a co-ordinator to help ensure that overall coverage was as rational as possible.

Existing CFOs were asked whether they had made any changes to their Plan over the past year. There were several instances of Measure coverage being re-negotiated to take into account the emergence of JC+ as a CFO. Interviewees also mentioned that any significant changes were more likely to be made from 2004 onwards.

New CFOs were asked how they weighted resources across the Measures (existing CFOs were not asked). In general, it would appear that:

- the majority of funding remaining available under the RDP was shared between LSC and JC+, whose ‘natural territory’ then dictated the weighting between these CFOs across the Policy Fields.
- organisational priorities determined the subsequent allocation across Measures.
- decisions were also made according to the type and availability of match funding for each Measure.

In some cases the process was more ad-hoc, according to the type of proposals received. Some local authorities considered that they had been given ‘the crumbs from the table’ after the bigger players had received their allocation, and simply had to weight their own allocation as best they could.

Five new CFOs identified difficulties during the preparation of their Plan. Problems that were cited included:

- hoped to go to other local authority CFOs for guidance, but didn’t know who they were (LA);
- GO didn’t have enough expertise to give sufficient guidance due to staff turnover (LA);
- lack of organisational guidance at national level (JC+);
- Regional Monitoring Committee didn’t spend enough time looking at plan, nor did they give sufficient feedback (JC+).

Few of the new CFOs had specific recommendations to make about how the process of preparing co-financing plans could be improved. Those responding highlighted the following as potentially helpful:

- more support from GO, and more knowledgeable GO personnel.
- more time for consultation.
- more time for plan preparation in general.

4.4 Co-financing Coverage of Programmes

4.4.1 General

As in the initial evaluation, the current study has examined the extent to which co-financing has been extended throughout Programmes:

- which Policy Fields and Measures are partially or wholly covered by CFOs.
- the type of CFOs involved in different areas of Programmes.
- the consistency of Measure coverage by CFOs of the same type.
- the processes used to manage coverage of the Programmes.

4.4.2 Findings from Desk Research

The Second Evaluation has found that there is some consistency in the Measures being covered by the main 'newcomer' to co-financing, JC+: all those in our sample cover all of Policy Field 1 and the majority also cover at least part of Policy Field 2. Several cover one other Measure from Policy Field 4 or 5, but clearly their main remit falls more naturally within 'Active labour market policies' and 'Equal opportunities/social inclusion'.

The majority of LSCs, however, tend to encompass a broader sweep across the Policy Fields. Most of those in our sample for Objective 3 encompass at least parts, if not all, of Policy Fields 1 and 2; all cover Policy Field 3 in its entirety; most also cover parts, if not all, of Policy Fields 4 and 5.

The Business Link and the RDA in our sample had both elected to cover only one Measure (4.3 and 4.2 respectively), but both described in fairly reasonable terms why they had decided to do so, and their choice was consistent with their organisational remit.

Most (though not all) of the co-financing organisations whose plans have been reviewed as part of the current study indicate how they have consulted with other CFOs to ensure the avoidance of duplication in activity. Some are more convincing than others in this respect. In one region, for example, JC+ and the LSC had formed an agreement whereby one would cover activities for the other's clients under Measure 2.1, with the other reciprocating under Measure 2.2. Other CFOs provided only very weak evidence that they were in any kind of discussion with their counterparts in other sectors ("*we do not believe* that our remit overlaps with other CFOs in relation to this Measure...", "*we have attempted* to agree with other CFOs...", etc). However, the face to face interviews subsequently provided reassurance that there had in fact been a significant amount of liaison between CFOs.

Insofar as targets are concerned, in reading the co-financing plans it was not always clear how CFOs had set their anticipated beneficiary targets. In some cases they appeared ambitious.

Several co-financing plans have allocated very specific amounts of funding, by Measure, to individual geographical districts or sub-regions without describing how such allocations were derived.

4.4.3 Findings From Consultations

Our interviews with GOs and CFOs sought to establish how well the Programme was being covered within the regions and sub-regions, and how the partners were dealing with any gaps or overlaps in coverage by the various CFOs.

The majority of GOs identified both gaps and overlaps in the coverage provided by their CFOs:

- gaps were most commonly identified in relation to the Higher Education remit or in relation to the research Measures and were being addressed through the retention of scope for direct bidding. Gaps could also occur at sub-regional level as a result of differences in LSC plans, for example.
- overlaps were addressed by encouraging CFOs to reach an agreement with each other over the activities to be delivered by each.

One GO described a much more leveraged approach to Measure level plans and to requests from CFOs to move underspends between bidding rounds. It was noted that most CFOs want to seek provision in the “easy Measures” or to move underspends from difficult measures to easier Measures. One Government Office described a negotiated approach to this, either agreeing to move some underspend or offering “you can have more here....if you take more there”. In this region CFOs had asked to be excused from Measures 2.3, 5.1 and 5.2, but this had not been permitted by the GO/Regional Committee, which had required CFOs to undertake special bidding rounds for these ‘difficult’ Measures.

The prevailing view among GOs is that they would prefer to distribute as much ESF as possible via co-financing. However, both GOs and other respondents usually expressed the view that direct bidding would continue to be available as an alternative where CFOs did not cover specific priorities.

Accordingly, it is likely that direct applications will continue to be needed because:

- most regions have identified gaps in the coverage of co-financing plans.
- some providers want to deliver across sub-regional boundaries.
- some provision is required at a regional level: research activities are usually cited, but also business support and enterprise activities (all with the consequent opportunity for Higher Education involvement).

The gaps at sub-regional level were identified as significant issue in some regions more than others. One GO cited one area where there is £3m for PF1 but the local authority could not be persuaded to apply for CFO status and the LSC has not offered a plan that includes PF1. The GO argued strongly that their experience in another area, where the two local authorities are CFOs, showed that a much better outcome could be achieved there than in areas which rely primarily on the LSC and a JC+ contribution managed from the regional office.

The overall impression from discussions with GOs across the country is that the process of negotiating Programme coverage was largely an amicable one. However, in at least three regions there appears to be a certain amount of irritation on the part of some CFOs that they were left to ‘haggle’ with other CFOs themselves, rather than being given clear direction by the GO. This was a particular issue in regions where CFOs other than LSCs and JC+ operate and / or where there is a lack of consistency in the coverage provided by LSCs within a region.

While three of the nine GOs claimed to have taken the lead in co-ordinating the negotiation process, only one CFO said that their GO had actively given direction. The views expressed by CFOs on this issue included:

- 'GO should have been more directive in managing the relationship between CFOs; allowing "market solutions" to arise has wasted and continues to waste time' (JC+).
- 'GO didn't have enough capacity because of high staff turnover, so there was a distinct lack of direction from them' (LA).
- 'GO took the lead after some confusion between JC+ and the LSC; JC+ was unable or unwilling to say how much resource they wanted so eventually the GO intervened to move the process along' (LSC).
- 'CFOs were more or less left to get on with it – not so much co-ordination, more of a bunfight' (LA).

However, despite this criticism, the general feedback from CFOs - even when they were frustrated that GO had not taken a firmer lead - was that they were fairly satisfied with the allocation of resources and Measure coverage they eventually received. Furthermore, in most regions GOs and CFOs commented that relationships between the sectoral partners were strong and effective, and many had mechanisms (such as regional co-financing forums, or a co-ordinator) to ensure that effective Programme coverage was achieved.

New CFOs were asked whether they would support the view that co-financing would lead to a more strategic approach to resource allocation. While no interviewee was able to provide concrete examples of this, there was a consensus that under direct bidding, where bids are scored mechanistically, there was always the possibility that several similar projects might be funded in the same locality simply because they had been well written and scored sufficient points. The view expressed was that this cannot happen under co-financing (or at least the potential for it is significantly reduced). Co-financing is perceived as being more likely to eliminate duplication, and that in this respect there is indeed more of a strategic approach to resource allocation.

KEY POINTS

- The process of bidding for CFO status has been sustained after the Initial evaluation, which recommended that CFO status should be deemed given for the types of organisation identified by ESFU as having potential to become CFOs.
- The process of bidding for CFO status in the past year has proceeded more smoothly due to a combination of improved guidance and new applicants being able to build on the experience of the pathfinders.
- The assimilation of JC+ into co-financing has been eased by its considerable experience of and capacity in contract management. However, implementation both by LSCs and JC+ CFOs has been affected by staff turnover and, in the case of JC+, significant organisational restructuring. Several GOs and numerous providers have highlighted difficulties arising from this.
- The process of preparing and negotiating co-financing plans has proceeded more smoothly due to a combination of improved guidance and new CFOs being able to see examples of agreed plans.
- The GOs have also built upon earlier experience and have been able to focus more effort on areas known to be a source of difficulty.
- Questions were raised both by GO and CFO consultees about the capacity within the GOs to manage co-financing, some GO representatives had doubts

about their remit in this regard; the initial evaluation recommended that additional senior staff resources should be made available to facilitate effective monitoring of CFOs.

- The designation of a larger number and variety of CFOs has brought with it the need for a negotiated approach to allocating activity / target groups. Views differ on whether there is a real overlap of remit between JC+ and the LSCs.
- There are good examples of co-operation between CFOs but this has not always produced a clear division of responsibility.
- Not all of the GOs have been pro-active in trying to achieve a coherent allocation of activity / targets under the RDP, which was highlighted as good practice in the initial evaluation. CFOs would generally have welcomed a stronger lead.
- Developing a clear differentiation between the activities of CFOs is a key issue in managing the expectations of providers and the relevance of bids, particularly in those regions where there is a more complex mix of CFOs. Mechanisms such as the clearing house operated in one region and the joint prospectus in another should help to achieve this.

5 PARTICIPATION, ACCESSIBILITY AND TRANSPARENCY

5.1 General

Two of the central hypotheses surrounding co-financing have been that the move away from direct bidding:

- should not weaken accessibility to ESF activities for disadvantaged groups and individuals.
- should not result in a loss of transparency in the award of funding.

This Chapter therefore examines:

- the extent to which CFOs have consulted on their co-financing proposals.
- the pattern of provider participation under co-financing, including access by new providers.
- publicity arrangements for invitations to tender.
- access to information and advice on bidding.
- the transparency of the appraisal process.
- the provision of feedback to providers and the opportunity to appeal.
- the extent to which CFO quality standards have represented a barrier to participation.

5.2 Partnership and Consultation in Plan Development

5.2.1 Purpose of Partnership and Consultation

Consultation is encouraged as part of the co-financing plan development process, both between CFOs, with prospective providers and with representative bodies where a Measure level bid is aimed at a particular group.

Consultation between CFOs is encouraged to promote a coherent offer to the market in terms of different CFOs' involvement across the Policy Fields and Measures. It also has potential to reduce duplication.

Consultation with providers and representative groups is encouraged to be two-way, firstly, to make such groups aware of the CFOs proposals and, secondly, to provide the CFO with feedback and an opportunity to refine their proposals.

This section outlines the various research findings in relation to consultation.

5.2.2 Findings from the Desk Research

At the time of the first evaluation there was evidence that locally based and special interest organisations had been consulted by CFOs. However, in general this seemed to have taken place after the co-financing plan had been produced; only one CFO reported that equal opportunity / excluded groups were involved in developing the Plan.

Analysis of a sample of co-financing plans for this Second Evaluation suggests that CFOs are generally now more systematic in consulting with locally based and other interest groups during the preparation of their co-financing plans, and not just as an afterthought once the plans have been finalised. Many co-financing plans contain

details of the organisations that were involved in the consultation process, and some also noted the proportion of feedback obtained from each sector during the preparation of the plans. (One LSC plan, for example, makes clear that the Voluntary Sector accounted for over one third of all organisations who were consulted during plan preparation and almost 30% of those who submitted responses before the plan was finalised). However, with a few exceptions, the plans do not mention the nature of the feedback received from the voluntary – or indeed any other – sector, nor do they describe how feedback from the consultation process was reflected in the final Plans.

In their plans, many co-financing organisations stated their intention to continue the consultation process throughout the duration of the plan. Few, however, described how they proposed to do this.

One potential example of good practice came from JC+ in one region, which proposed to take feedback from partners and providers on an on-going basis and described in some detail the mechanisms by which it would do so. The plan describes how dialogue will take place involving:

- local partners/providers with JC+ personnel at district level.
- Provider Network Groups in each district.
- monthly Regional Sounding Boards.

All of these are intended to facilitate the exchange and cascading of information and opinions and to provide an opportunity for organisations to influence and inform planning and delivery. The proposals emphasise the identification of, and actions to address, aspects of the co-financing process that are not 'provider friendly'.

5.2.3 Findings From the Consultations

The CFO Perspective

New (though not existing) CFOs were asked whether they had carried out any consultation with locally based and/or Equal Opportunities groups when developing their Plan; 8 out of 12 reported that they had done so.

When asked to expand upon how they had done this, responses included:

- “would call it briefing rather than consultation; proposals were presented to a wide range of organisations at draft plan stage; invited feedback, but received very little, and it had no impact on CF Plan” (JC+).
- “held public meetings in each JC+ district, which were well attended and included many representatives of CVS; have also consulted separately with local and regional CVS groups” (JC+).
- “certainly reached a lot of locally based and EO groups as a result of consultation in partnership with the LSCs” (RDA).

Provider Perspectives

The involvement of providers in consultations was explored through the face-to-face interviews, but was not covered in the telephone survey.

Just under half of providers interviewed, 7 of 17, reported that they had been consulted by their CFO. Most providers felt that they were 'briefed' rather than 'consulted' by the CFOs regarding the kind of activities they were intending to fund.

Views differed on the value of consultation. One interviewee expressed scepticism about whether feedback from local groups was taken into consideration by CFOs. However, another provider specialising in provision for disabled people reported that it had been asked to advise on the specification of the prospectus in this area.

5.2.4 Conclusion

There is little doubt that CFOs have made significant efforts to meet with a broad range of local stakeholders when drawing up their co-financing Plans. The extent to which this amounted to consultation or CFOs were open to amending their plans appears more open to question. Many providers, and indeed several CFOs themselves, have described the process as one of 'briefing' rather than a real exchange of ideas.

Nevertheless, on the whole there is evidence of CFOs developing closer ties within the local training community through these consultation exercises.

5.3 Provider Participation and Continuing Interest in Co-Financing

5.3.1 Findings From the Consultations

The GO perspective

More than half (5 of 9) of the GOs felt that, under co-financing, opportunity was being provided for a wide range of providers to participate in ESF. In one region, for example, it was reported that, under direct bidding, the GO normally received around 400 bids; under the first round of co-financing around 1,700 expressions of interest were received leading to around 1,400 bids, of which only 93 were direct applications submitted to the GO. This GO was highly confident that ESF is clearly reaching further as a result of co-financing, and that a greater variety of providers is now coming through.

Another GO representative commented that "CFOs are making good efforts to advertise their bidding rounds; most CFOs are providing a lot of support for bidders to develop ideas and understand application processes; observation of appraisal work confirms that CFOs are taking a very careful and rigorous approach."

In a further region it was noted that "co-financing has allowed private sector providers to enter the field, now that the profit motive is no longer 'taboo'. There is no evidence that the Voluntary Sector is being disadvantaged in any way; their 'take' is at least the same as it was under direct bidding, maybe higher."

The CFO Perspective

New CFOs were asked about their processes and procedures for ensuring open and fair access by providers. Responses highlighted:

- the opportunity to bid being widely publicised plus objective evaluation and sampling as a quality check (LSC).

- briefing events being carried out followed by a surgery for interested providers (JC+).
- suspension of the approved provider route (JC+).
- expressions of interest being invited, to identify potentially competing organisations that were thereafter encouraged to work together in a consortium instead (LA).

Amongst existing providers, comments included:

- the LSC and JC+ are confident that new providers are being brought into the Programme and that dead-wood providers are being squeezed out, or are having to change.
- the prospectus is published and widely promoted through regional networks.

In every region it was reported that providers who are entirely new to ESF have been brought into the Programme as a result of co-financing. Many of these were reported to be private sector training providers, that are encouraged to participate in ESF now that payment of ESF can be made against contract costs rather than actual expenditure. Several private sector providers mentioned this themselves, as did a number of GOs, CFOs and providers from other sectors.

The majority of existing CFOs (5 of 6) said that the level of interest from providers in contracting with them had been greater than expected. In some cases the volume of applications received had been problematic. Many were said to be speculative and, as a result, some CFOs proposed to be more specific in drafting future prospectuses.

5.3.2 Findings from the Telephone Survey of Providers

Provider Participation in Co-financing

One of the benefits of the telephone survey is the picture provided of what organisations are taking part in co-financing, in terms of sectoral representation, new provision, etc. The survey was designed anticipating that there were five relevant classes of provider interviewee; in the event, the status of providers captured in the sample was as follows:

- | | |
|--|-----|
| • CFO contractors with prior ESF experience | 212 |
| • CFO contractors with no prior ESF experience | 114 |
| • providers awaiting the outcome of bids to CFOs | 22 |
| • providers wholly unsuccessful in bidding to CFOs | 44 |
| • providers who have not bid under co-financing | 108 |

In itself this typology has proved useful, and the findings suggest that co-financing has attracted a considerable proportion of providers that are new to ESF. However, it is important to stress that a broad range of experience is represented among the 326 providers interviewed that had at least one contract with a CFO. Some previously had a more intensive involvement in ESF, while others had no prior experience. As a group, contractors should not be interpreted as having "gained" out of co-financing.

Table 5.1, below, shows the breakdown of respondent types by sector.

	A	B	C	D	E	Total
Higher Education	11	4	5	3	4	27
Further Education	43	7	4	1	9	64
Voluntary Sector	83	45	21	10	63	222
Local Authority	24	14	4	2	12	56
Private Sector	28	26	7	2	10	73
Connexions	4	0	0	0	1	5
Business Link	2	1	0	0	0	3
Other	17	17	3	4	9	50
Total	212	114	44	22	108	500
A = CFO contractors with prior ESF experience B = CFO contractors with no prior ESF experience C = providers wholly unsuccessful in bidding to CFOs D = providers awaiting the outcome of bids to CFOs E = providers who have not bid under co-financing						

Reflecting their weighting in the population from which the sample was drawn, the largest group is voluntary sector followed by the private sector. It may be seen that more than a third of providers that have become contracted to CFOs are new to ESF.

An indication of the extent to which co-financing has drawn in new provision may also be seen in the representation of providers that had not previously been on CFOs' lists of approved providers. It may be seen that in the region of 60% of successful bidders that were new to ESF had not previously been on their CFO's list of approved providers.

	Included on CFO's List of Approved Providers Prior to Bidding			Total
	Yes	No	Not Known	
<i>CFO contractors with prior ESF experience</i>				
Higher Education	6	5	0	11
Further Education	36	2	5	43
Voluntary Sector	39	31	13	83
Local Authority	14	7	3	24
Private Sector	18	9	1	28
Connexions	2	1	1	4
Business Link	2	0	0	2
Other	9	7	1	17
Sub-total	126	62	24	212
<i>CFO contractors with no prior ESF experience</i>				
Higher Education	1	3	0	4
Further Education	6	1	0	7
Voluntary Sector	7	33	5	45
Local Authority	7	5	2	14
Private Sector	14	9	3	26
Connexions	0	0	0	0
Business Link	1	0	0	1
Other	5	9	3	17
Sub-total	41	60	13	114
Total	167	122	37	326

Overall, of those whose prior status was known, some 167 (58%) of successful applicants were already on their CFO's list of approved providers and 122 (42%) would appear to be contracting with the CFO for the first time.

The voluntary sector accounts for by far the largest group of successful providers in the sample that had not previously been on their CFO's approved list. This holds true both for voluntary organisations with prior ESF experience and those with none. At the same time, the proportion of voluntary sector providers yet to bid under co-financing is relatively high. The reasons for this are explored below.

The Perspective of Non-bidders and Unsuccessful Applicants

Of the 108 organisations not delivering provision for a CFO and who did not bid for funds, 61 were aware of the opportunity to bid to a CFO but chose not to do so. (The remaining 47 were not aware of the opportunity to bid, and took no further part in the survey). These 61 organisations were asked what they perceived as obstacles to bidding to CFOs (multiple response was permitted):

- | | |
|---|-----|
| • (No reason) | 41% |
| • The effort required in preparing a bid | 36% |
| • Lack of confidence that the bidding process is a real competition | 28% |
| • Insufficient knowledge about the appraisal process | 25% |
| • Lack of confidence that the bidding process will be fair | 18% |
| • The need to meet quality standards | 8% |

Respondents in this cohort were invited to expand upon their reasons for not bidding. Responses included:

- a perspective that CFOs do not want to contract with small organisations.
- have previously scored well under direct bidding, and prefer that route where possible.
- insufficient knowledge/understanding of the process.
- criteria are too prescriptive.
- CFO agenda does not match own aims/priorities.
- short and/or inconvenient timescales.
- currently too busy with existing projects; no capacity to take on more work.

Several respondents said that they had no particular reason for not applying, and that they would consider applying to a CFO when the appropriate time came.

Overall, there appears to be no single significant barrier preventing organisations from bidding to CFOs. Indeed, 25 of the 61 organisations who chose not to bid (41%) said that they were 'very likely' to bid to a CFO in the future, and a further 17 (28%) said that they were 'fairly likely' to do so. Only 11 organisations said that they were unlikely to bid to a CFO in future, and the remaining 8 organisations (13%) said they were unsure.

Among the voluntary sector organisations that had not yet bid, the most common reasons given were that they were busy and/or additional funding was not needed. However, 6 out of 34 voluntary sector organisations that were aware of the opportunity but had not bid reported that there was some tension between their area of work and the criteria or specifications issued by CFOs. A further three voluntary sector organisations highlighted issues relating to complexity of the tendering process and / or its short timescale.

Out of 44 unsuccessful applicants, a majority thought they would probably make another attempt to bid to a CFO: 17 reported that they were 'very' likely, and 9 'fairly' likely to do so. Of those who did not think they would bid again, 4 said they were 'fairly' unlikely and 5 were 'very' unlikely to do so. The remaining 9 had not yet decided whether to make another attempt.

In terms of sectoral spread amongst unsuccessful applicants, 1 of 4 local authorities, 6 of 21 voluntary organisations and 2 of 7 private sector providers were very or fairly unlikely to bid again; all respondents from the FE, HE and Other sectors, however, felt inclined to try again.

Reasons for Participating in Co-financing

Of the 114 organisations that were delivering provision for a CFO but had not previously been involved in ESF, 60% said that the availability of match funding had a 'significant' effect on their decision to apply; a further 17% said that this had had 'some' effect. At least three quarters of interviewees in each sector except 'Other' said that the availability of match funding had had 'some' or a 'significant' effect on their motivation, with local authorities and FE being the most likely to be influenced by this.

New providers were asked to expand upon what had attracted them to co-financing. Responses included:

- the availability of match funding [by far the most commonly cited reason].
- opportunity to get involved in new/enhanced areas of activity.
- simpler financial procedures and better cashflow.
- application and monitoring procedures easier for smaller organisations to cope with.
- aims of CFO matched provider's own aims.

5.3.3 Conclusion

The pattern of providers in the different classes captured within the telephone interviews is interesting, as this was not closely controlled in the survey (although it was influenced to some degree with the survey population comprising a combination of past direct bidders and contractors). It suggests that:

- co-financing has attracted a very significant number of providers that are new to ESF.
- while there is a very large carry over into co-financing of providers that were active in ESF prior to the introduction of co-financing, there is still a significant number of former ESF providers that are yet to bid under co-financing.
- there are relatively few recently active ESF providers that have bid under co-financing and been wholly unsuccessful.

The survey responses clearly show that the availability of ESF and match funding in a single stream has been the most significant factor in encouraging new providers to apply to CFOs.

There would appear to be no single significant barrier preventing organisations from applying to CFOs, and the majority of applicants – whether successful or not – are likely to apply again. Among those that have not yet bid to a CFO, approximately 70% are likely to do so in the future.

5.4 Promotion of Opportunity to Bid

5.4.1 The CFO Perspective

CFOs were asked how they promoted the opportunity for providers to bid for funding. Most CFOs used several of the following methods (indeed, some used all of the following methods):

- adverts in local press.
- CFO, GO and other web pages.
- written or electronic mailshot.
- articles in Voluntary Sector magazines/journals.
- briefing events.

Several CFOs reported that they shared databases with other CFOs, and/or those of other organisations (such as the Citizens Advice Bureau), in order to reach the maximum audience when they issued mailshots.

Promoting the opportunity to bid was one area to which existing CFOs had put a lot of thought; in several instances, this was the area in which they were most likely to have made changes since the previous year. Several interviewees recognised that they could make improvements; changes that were foreseen included:

- will now promote opportunity to bid jointly with other CFOs (LSC).
- next time will carry out consultation again, and will convene user panels to identify gaps in provision (CC).

5.4.2 The Provider Perspective

Organisations that took part in the telephone survey were asked how they became aware of the opportunity to bid. 40% of experienced ESF providers and 28% of those new to ESF reported that they had received a direct mailing from a CFO. CFO websites were a significant, but less commonly used channel, while very few cited press as the source of information. However, the responses suggest that formal and informal networks played a very important role in disseminating information about the opportunity to bid: 'word of mouth' was most commonly cited, both by experienced ESF providers (43%) and by new applicants (47%).

Amongst the unsuccessful bidders, 'website' was cited almost as often as 'word of mouth' and 'letter from CFO' when respondents were asked how they became aware of the opportunity to bid to a CFO. This may suggest that this group was less well connected to CFOs and to other providers than those whose bids were successful.

5.4.3 Conclusion

The evidence gathered through the research on the scale of bids received and the range of providers actually engaged suggests that the opportunity to bid was widely promoted, and that there has clearly been opportunity for organisations new to ESF to become involved in its delivery.

5.5 Access to Information and Advice on Bidding

5.5.1 The Provider Perspective

The main research in this area has been through the telephone survey of providers. Respondents were asked about the information and help they received during the preparation of their bid, and whether they were satisfied with it. The range of responses is shown in Table 5.3.

There was a high degree, but not universal awareness, of CFO prospectuses among all types of applicant. Among those contracted to CFOs and those awaiting the resolution of bids there was both a high level of awareness of CFOs' guidance to bidders and satisfaction with or neutrality in relation to it. The vast majority of unsuccessful bidders were also aware of the guidance, but 39% expressed dissatisfaction with the information they received.

The findings among the successful bidders and those awaiting the outcomes of bids, in relation to satisfaction with the help provided by CFOs in the tendering stage was very similar to those relating to the provision of information. A slightly larger proportion of new ESF providers (10%) reported that they felt that they should have had more help. Again, the findings among unsuccessful bidders are strikingly at variance with the other groups, with almost half expressing dissatisfaction with the help received.

	Experienced providers	New providers	Non-bidders	Awaiting outcome	Unsuccessful bidders
Aware of seeing prospectus	75%	66%	n/a	82%	82%
Aware of receiving written guidance	83%	83%	n/a	86%	84%
Satisfied with / neutral on information received	77%	84%	n/a	86%	59%
Dissatisfied with information received	11%	6%	n/a	9%	39%
Satisfied with / neutral on help received	73%	78%	n/a	77%	46%
Dissatisfied with help received	9%	10%	n/a	9%	48%

In terms of the response by sector, a high proportion of respondents from all sectors reported satisfaction or neutrality with the *information* that they received to prepare their bids. In three sectors, however, between 11 and 20% of successful bidders expressed active dissatisfaction: the Higher Education, Further Education and Voluntary Sectors.

There was a greater range in the proportions of responses by sector concerning the *help* received to prepare bids: as many as 18% of local authority and 15% of private

sector respondents that were successful bidders reported dissatisfaction with the help in preparing bids provided by CFOs. Interestingly, in the voluntary / community sector, which might have been expected to have had a higher dependency on help, a relatively low incidence of active dissatisfaction was found.

Additional comments received from face-to-face interviews with unsuccessful applicants highlighted some dissatisfaction with the information and help they received. Typical responses included:

- CFO personnel had insufficient knowledge and understanding of the sectors applying for funding (particularly the Voluntary Sector), and much of the information provided was perceived to be ambiguous or irrelevant.
- documentation should have been clearer, particularly with regard to target groups and outcomes.
- no help was available at all.

The consultations with CFOs also asked about the assistance given to new or less well resourced providers to prepare bids. The responses obtained tended to highlight promotion and briefing either by the CFO or through local networks. However, it was also noted both by LSC and JC+ consultees that competitive tendering rules preclude the provision of help to individual tenderers.

5.5.2 Conclusion

In general terms, a very high proportion of providers in the sample expressed satisfaction or neutrality in relation to the information and help provided by CFOs during the tendering process.

However, respondents tended to be more satisfied with the information they received from CFOs than with the help provided. This may reflect a reduction in the level of 'mentored' bidding under co-financing, particularly as CFOs are moving towards more strict competitive tendering methods.

5.6 Transparency of the Appraisal Process

5.6.1 General

The traditional arrangements for awarding ESF have involved applications being made directly to the Government Office, with Secretariat staff undertaking eligibility checks, initial appraisal and the application being determined thereafter by a partnership decision making body.

Under co-financing there is no specific obligation upon CFOs to involve other parties in the contracting process. Nevertheless, the initial evaluation found that a significant proportion of CFOs did employ an inclusive approach to project appraisal and the evaluators recommended that, as a minimum, Regional Committees should be afforded observer status so that the basis of decisions was understood and seen to be above board.

This section sets out the research findings in relation to the issues of transparency and fairness.

5.6.2 Findings from Desk Research

The initial evaluation found that many co-financing plans did not provide a sufficiently detailed exposition of their processes for allocating funds. They were brief on how they would promote the opportunity to bid, how applications would be appraised and who would be involved in decision making, how detailed the feedback would be, and what kind of appeals process (if any) would be available.

On the basis of the sample plans reviewed, CFOs are now providing a much better description of their processes for allocating funds. They tend to set out much more clearly how and where they will advertise calls for proposals, their timetables for bidding, how applications will be sifted and appraised, whether feedback will be given and appeals allowed, etc. However, there is still much variation between the way in which appraisals and decisions are taken.

Some co-financing plans provided detail on the appraisal process but only one included the actual selection and scoring criteria; the others stated that these were to be included in the application pack and/or prospectus.

Co-financing plans displayed considerable variation in terms of whether appraisals and decisions would be undertaken solely by CFO personnel or with external input; LSCs tended to restrict the process to their own staff or Council members - although one LSC stated that 'in order to facilitate capacity building, the LSC's current and potential providers will also be invited to sit on the appraisal panel'. Many CFOs mentioned that an 'independent observer' would be invited to take part in the appraisal process, but omitted to mention how they planned to recruit such an observer or from what type of organisation.

In many cases, detail about selection and appraisal which may appear to be lacking in a CFO's Plan is included in their Prospectus instead.

5.6.3 Findings from Consultations

The GO Perspective

Government Office representatives were asked what role, if any, had been afforded to the Regional Committee (or PMC) and/or the GO itself in CFOs' selection processes.

In all regions, there appeared to be at least notional representation by the GO or Regional Committee, but to a varying extent. In several instances it was clear that although such representation had been agreed, and indeed was desirable, pressures on staff time meant that actual attendance at appraisal panels did not always take place.

One interviewee said, "RMC members know they have the right to observe the process, but no one has yet taken up the opportunity. When CFOs have been short of bodies the GO has helped them out with selection; GO involvement has been encouraged, but this has been ad hoc so far."

In another region, the GO representative clearly implied that they had met with some resistance on the part of CFOs to opening their appraisal panels to external representation: "We have insisted on observer status on all CFO selection groups; we have had more of a fight with the LSCs on this than with JobCentre Plus."

The CFO Perspective

A number of questions were asked of CFOs in order to explore the openness and transparency of their contracting and appraisal procedures.

Three quarters of new CFOs (the question was not specifically posed to existing CFOs) reported that their selection process included people from external organisations as well as their own staff:

- one quarter said that representatives from locally based or equal opportunities groups were involved
- 7 of 12 said that GO was represented on the selection panel.
- one third reported that members of the Regional Committee were involved.
- 2 CFOs (an LSC and JC+) specifically said that neither a GO nor an Regional Committee representative was invited to take part in their selection process; however, in other regions it was apparent that lack of time/resource was preventing the GO from taking up the opportunity to participate.

One third of new CFOs reported that applicants had the right to see the records of the decision process. Two thirds said they operated an appeals procedure; however, one of these noted that in fact it really amounted to a standard complaints procedure that would apply to all of its activities and not just to co-financing. We infer that this is probably the case for many CFOs. One CFO currently operating an appeals procedure said that this would be phased out as they moved closer towards a system of fully competitive tendering. (Existing CFOs were not specifically asked these questions; however, wider discussions revealed little to suggest that there were any differences between new and existing CFOs on these issues).

Within our limited sample of existing CFOs, some steps had been taken to improve transparency since the initial bidding round, including broadening the representation in appraisal. In one region, work was proceeding to develop a joint prospectus with common criteria and co-ordinated tendering to present a more coherent offering to providers.

The Provider Perspective

Some 13 of 17 providers interviewed face-to-face reported they were aware in advance of the criteria against which their bid would be appraised; 8 of 17 said they knew who had been involved in the appraisal process.

While most providers feel that they are now better able to understand how funds are allocated, a minority continue to believe that the closer the process gets towards fully competitive tendering, the more likely CFOs are simply to appoint their preferred provider without the obligation to justify their choice. This view was expressed by several providers in different regions. In one region, one provider believed that the CFO had already identified in advance the consortium of providers it wanted to contract with, and that selection was a 'fait accompli'; in another region, an experienced ESF provider said that one look at their CFO prospectus was enough to indicate who the successful applicants would be.

A more broadly based perspective is available from the telephone survey, providers were asked for their perceptions of the transparency and fairness of the appraisal process.

Some 72% of all providers said that they were aware of the process through which their bid would be assessed, and 78% were aware of the criteria that would be used to assess their bid. Amongst the 114 'new' providers, the Voluntary Sector reported the lowest incidence of awareness of the process through which their bid would be assessed (56%, compared to at least 70% in all other sectors). However, awareness of the criteria that would be used to assess bids was very equally distributed across the sectors.

TABLE 5.4: ASSESSMENT AND APPRAISAL OF BIDS					
	Experienced providers	New providers	Non-bidders	Awaiting outcome	Unsuccessful bidders
Aware of assessment process	76%	65%	n/a	82%	61%
Aware of assessment criteria	78%	77%	n/a	73%	80%
Satisfied with / neutral on fairness of bidding process	71%	78%	n/a	73%	39%
Dissatisfied with fairness of bidding process	20%	9%	n/a	9%	50%

When asked about their views on the fairness of the bidding process, over 70% of contracted providers and those awaiting the outcome of their bids reported that they were satisfied or neutral with regard to the fairness of the process. A greater incidence of new providers than experienced providers came under this category (78% and 71% respectively).

The findings among unsuccessful bidders differed starkly: only 39% of respondents in this group declared themselves satisfied or neutral, but it is notable that fewer of this group were aware of the assessment process. When asked to expand upon why they perceived the bidding process to be unfair, comments included:

- “We have received no feedback”.
- “The CFO had already decided who was going to get the majority of the funding”.
- “No transparency in relation to how the bid was judged; in the past we received a lot of information... but this time no one knew who made the decisions”.
- “The co-financing system is not transparent enough in comparison to direct bidding; there is far too much ambiguity”.
- “Despite the prospectus promising feedback with some hints on how the unsuccessful projects could be improved, [they only sent out] a pass/fail letter without an opportunity for consultation”.

The face-to-face interviews with 9 unsuccessful bidders revealed similar dissatisfaction with the level of transparency involved in co-financing. Only 4 said that they were satisfied with the fairness and transparency of the bidding and appraisal process. When asked to expand on this, it was clear that in many cases the perceived lack of transparency was in fact bound up with lack (or absence) of feedback. One interviewee summed this up: “no interaction, no discussion - unlike with the GO”.

5.6.4 Conclusion

The description of the bidding and appraisal processes in co-financing plans has improved considerably from those reviewed in the initial evaluation. Selection criteria are mainly set out in CFO prospectuses rather than in the co-financing plan.

There is a very high level of awareness among providers of both the process through which bids would be appraised and the criteria that would be employed.

More than 70% of providers were satisfied or not dissatisfied with the fairness of the selection process. Unsuccessful bidders were notably less satisfied. The greatest source of dissatisfaction with the process appears to be the provision of feedback.

5.7 The Provision of Feedback and Opportunity to Appeal

5.7.1 Findings from Desk Research

In accordance with the consolidated guidance, all the co-financing plans said that they would provide feedback to all applicants. Most (though not all) said that written feedback would be given to unsuccessful applicants to help them identify which aspects of their bid would need to be strengthened next time. One LSC mentioned that as part of the feedback process it would encourage providers to work together to produce more integrated proposals, especially where they were addressing common themes and proposing similar interventions.

Most plans mentioned that some form of appeals process would be available. In some instances this was described in great detail and did not specify any restrictions on the grounds for appeal; in other cases it was clear that appeals would only be countenanced if there was strong evidence of bias or if the decision was one that no reasonable person would make.

5.7.2 Findings from Consultations

The CFO Perspective

Existing CFOs were asked whether they had made any changes since last year to the type or scale of feedback they provided to successful and unsuccessful applicants. One CFO advised that they had tried to provide more feedback than in the previous bidding round, but otherwise no major changes appeared to have been introduced.

New CFOs were asked what feedback they provided to applicants. Most commonly, feedback to successful applicants took the form of a standard letter, which was followed up in more detail during the post-tender negotiation period. It was reported that unsuccessful applicants generally also received a standard letter advising them of the opportunity to request more detailed feedback if required.

One CFO said that “unsuccessful applicants are invited to come in for face to face feedback; this offer was taken up by a lot of organisations, who appreciated it, understood the reasons for rejection, and were grateful for the feedback”. In general, CFOs appeared to be placing the onus on applicants to actively seek feedback, rather than pro-actively issuing it immediately. However, one CFO was developing a new process whereby detailed notes about each bid would in future be taken during

each appraisal session, so that feedback could be automatically issued with each offer or rejection letter.

As far as appeals procedures are concerned, there was a tendency amongst CFOs to feel that a formal procedure is contrary to the principle of open and competitive tendering; as a result, they operate a complaints procedure.

Provider Perspectives

Table 5.5 shows the responses from the telephone survey of providers in relation to feedback.

	Experienced providers	New providers	Non-bidders	Awaiting outcome	Unsuccessful bidders
Aware of receiving feedback	69%	61%	n/a	n/a	68%
Satisfied with / neutral on with feedback	73%	86%	n/a	n/a	45%
Dissatisfied with feedback	19%	8%	n/a	n/a	52%

Overall, 66% of all contracted providers (new and experienced) said that they had received feedback, or were provided with an opportunity to obtain feedback. Of these, satisfaction with the quality of feedback received was rated as follows:

- Very satisfied 28%
- Fairly satisfied 35%
- Neither satisfied nor dissatisfied 15%
- Fairly dissatisfied 11%
- Very dissatisfied 4%
- Don't know 6%

The responses to this question were also analysed by sector. Of the 'new' providers, the local authority sector reported the lowest levels of feedback or being provided with an opportunity to obtain feedback, followed by the private sector (50% and 54% respectively). However, of those who did receive feedback, over 70% of respondents in each sector except "Other" said that they were 'fairly' or 'very' satisfied with the quality of feedback they received.

Amongst the experienced ESF providers, the Voluntary Sector was least aware of receiving feedback or having an opportunity to obtain it (64%). However, amongst those organisations that were aware of feedback, the Voluntary Sector expressed the highest level of satisfaction: 64% were 'fairly' or 'very' satisfied with the quality of feedback they received. Higher Education institutions were least likely to be satisfied (44%), followed by local authorities (47%) and the FE sector (52%).

Regionally, within the same cohort, providers in the North East reported the lowest level of feedback received (56%); whereas those in the South West reported the highest levels (83%).

Amongst the successful applicants who said that they were dissatisfied with the fairness of the process, the most commonly cited reasons included:

- lack of feedback means lack of transparency.
- unable to prepare bid in the limited timescale available.
- the CFO already knows who it wants to support; decisions are made before bids are submitted.
- simply not clear how decisions are made.
- hard for new organisations to be considered.
- process seems geared towards larger providers.

Only 3 of the 17 providers that were interviewed reported that the opportunity to appeal against an unfavourable decision would have been available to them. Most did not know whether an appeals system existed, but said that they would not have used it anyway. One successful bidder commented that, “under the tender system there is no point in appealing anyway, the word appeal has no meaning; you can write a letter of complaint and have a good moan, but there’s no procedure for appeals.” A similar response was obtained from one of the 9 unsuccessful bidders who were interviewed face-to-face.

Three of the unsuccessful applicants that had bid to JC+ were particularly critical where feedback and communication were concerned. One of these organisations was a long-standing deliverer of New Deal provision for the JC+ office in question, and had previously had experienced good communication with them.

5.7.3 Conclusion

The importance of feedback as in relation to the legitimacy of the co-financing process has emerged as a highly important issue for providers; where feedback has been absent, it has been the cause of significant dissatisfaction amongst organisations whose bids to CFOs were not successful.

Although the Consolidated Guidance makes it clear that an appeals procedure should not be mandatory in the context of co-financing, since it has the potential to undermine the competitive nature of the process, many CFOs clearly feel under some obligation to offer an appeals or complaints procedure.

5.8 The Competitive Nature of Tendering

5.8.1 The CFO Perspective

New CFOs were asked in what sense the bidding process was competitive (existing CFOs were not specifically asked this question). Responses varied, as follows:

- "bids are judged on quality, value for money, additionality" (JC+).
- "EOIs are invited first, followed by a genuinely competitive process" (LA).
- "open and competitive tendering with specific requirements, and then appraised for value for money" (LSC).
- “the scoring system forms only one part of the process; it simply helps when having to make a decision between two identical bids”. (JC+)
- “followed best practice as per OCT” (BL).
- “process was fully open: made strenuous attempts to ensure that bidding round was well publicised (lists of contacts/providers are not shared between CFOs in SW); provider briefings were organised; the whole process was

carefully explained; appraisal criteria were published; bidders were allowed a four week window during which to ask questions or seek help; all Q&A was sent to all people who declared an interest in bidding". (JC+).

- "no two bids have been the same" [so there has been no basis for comparison] (LA).

CFOs have taken quite different approaches to their tendering processes. Some have produced quite broad and perhaps fairly brief prospectuses, giving providers as much freedom as possible to come up with proposals - which suits what some have called a "mentored" approach to bidding. However, this has had the downside of attracting proposals that are speculative, have fallen outside of their remit or the rules of their funding and have subsequently been rejected. Others have taken a very detailed and specific approach issuing a series of separate tender specifications for each Measure, which facilitates more meaningful comparison of bids.

Existing CFOs, having benefited from longer experience, are now tending towards a more formal competitive tendering process. Several mentioned that they are providing less advice in response to individual queries (so-called 'mentored bidding') in case it prejudices the competitive nature of the process; however, they are putting effort into general workshops and seminars in the run-up to a bidding round.

5.8.2 Provider Perspectives

Although the term competitive tendering appears to be being used with more consistency than at the time of the initial evaluation, there is still a lack of clarity about the concept amongst providers. Out of 17 providers interviewed face-to-face, 12 said they were aware that the bidding process was competitive. When asked to expand on what they meant by this, most mentioned the fact that 'the number of bids outstripped the funding available'. There seemed to be some uncertainty about what is meant by competitive tendering; one provider said that 'the process is less competitive than under direct bidding, because with co-financing it's more of a tender process'. This was not the only instance in which open tendering was equated with a lack of competition.

5.8.3 Conclusion

Since the initial evaluation, there has been a move towards a greater degree of formality in the competitive tendering process. Both LSCs and JC+ CFOs have near standardised processes for the submission of bids. Nevertheless, there is still considerable diversity in the criteria used and the degree of specificity within prospectuses.

It is not clear that the process described by one Local Authority whereby they invited expressions of interest and then tried to promote consortia bids from those whose proposals overlapped is compatible with competitive tendering.

Among providers, there appears to be a diversity of views on what constitutes competitive tendering and how this will be reflected in the selection process.

5.9 Quality Standards as a Barrier to Participation

5.9.1 Findings from Consultations

The GO Perspective

GOs were asked whether they were satisfied with their CFOs' capacity and commitment to improve the standards of providers. Three GO representatives specifically mentioned (and others implied) a very upbeat assessment of this issue. The following was a typical response:

"CFOs manage their providers far more closely and effectively than GO ever did, or could do. GO never had the capacity to check everyone's quality standards, whereas CFOs are much closer to the ground and have much better local knowledge. We are confident that this is not an area of concern."

In another GO region, the interviewee noted that "CFO monitoring visits have shown there to be a lot of enthusiasm and commitment to the process of supplier improvement. The CFOs are already doing much more in this respect than the GO has ever managed. Their contract teams get moving quickly and are more proactive."

The CFO Perspective

CFOs were asked about how they helped new providers meet quality standards. There was no indication that the existence of approved provider registers was an obstacle to new providers becoming involved. Indeed, one LSC commented that it had dispensed with its approved provider register as this could have been a barrier to contracting with innovative, small voluntary organisations. They had therefore developed instead a 'minimum standard' (largely relating to health & safety) for all providers, and were producing a joint development plan with each non-approved provider to help them work towards further quality standards.

The common response among JC+ CFOs was that they would give providers 6-12 months' support and advice in meeting appropriate standards; one JC+ branch took this further by 'risk-banding' their providers - high, medium and low - to help with support and development. Two of the local authority CFOs conceded that the issue of quality standards was a relative weakness which they were planning to address over time, but that in the meantime providers received support in any areas where they needed help (use of spreadsheets, implementation of administrative systems, etc).

Provider Perspectives

Eight of the 16 providers who took part in face-to-face interviews reported that they were already on their CFO's list of accredited providers when they bid for funding. The remaining 8 were equally divided between those that were not, and those who did not know or could not remember. Only two providers felt that the CFO's quality standards were more demanding than they were used to; the majority felt that they were of a level they would expect.

These interviews did not find evidence to suggest that quality standards have presented a significant obstacle to organisations bidding to CFOs; FE and HE establishments, in particular, are already well geared up in terms of policies for equal

opportunities policies, health and safety, financial management, etc. As for smaller organisations, particularly in the Voluntary Sector, CFO requirements appear to have largely been more of an inconvenience than a barrier. One Voluntary Sector interviewee commented, “We had to jump through lots of hoops, and provide proof of various niggly things that were clearly stated in our policies; we haven’t had to make any changes, but it’s been a nuisance to have to constantly feed information and examples to JobCentre Plus; it would have been easier if they had come to visit us to check things for themselves, rather than asking for a different piece of paper from us every week”.

The telephone survey also included several questions about quality standards. The following paragraphs outline some of the key findings.

	Experienced providers	New providers	Non-bidders	Awaiting outcome	Unsuccessful bidders
Already on list of approved providers	59%	36%	n/a	55%	48%
Of those not on list, % able to meet quality standards immediately	71%	82%	n/a	78%	38%

Of those providers with previous ESF experience, 59% were already on their CFO’s list of approved providers, compared to 36% of new providers. Of the ‘new’ providers, voluntary/community organisations were by far the least likely to already be on a list of approved providers: only 16% reported this, compared with 25% of HE institutions, 50% of local authorities, 54% of private sector providers, and 87% of FE. However, of the 60 new organisations that were *not* already approved providers, 49 said that they were able to meet the CFO’s quality standards at the time they applied, and 79% of Voluntary Sector providers could claim this.

Also among the 212 providers with previous ESF experience, voluntary organisations were the least likely already to be approved providers. However, at 47%, the proportion was higher than for Voluntary Sector providers with no ESF experience. The FE sector was the most likely (84%) to be on a list of approved providers, followed by the private sector and local authorities, at 64% and 58% respectively. Again, the majority of those who were not already approved said that they were able to meet the CFO’s quality standards at the time they applied: 73% of Voluntary Sector respondents reported this, second only to HE (80%). Local authorities were the least likely (57%) to report that they could meet the quality standards immediately.

It will be also have been noted from section 5.3.2 that the need to meet quality standards was the least commonly cited reason why non-bidders chose not to bid to a CFO.

5.9.2 Conclusion

CFOs clearly expect their providers to improve their standards during the course of a contract (where appropriate), but appear willing to fund organisations that do not necessarily meet their quality standards immediately.

The evidence from both the face-to-face and telephone surveys of providers strongly suggest that CFOs' quality standards have not presented a significant barrier to participation.

KEY POINTS

- The large scale provider survey shows that co-financing has resulted in the engagement of a very significant number of providers that are new to ESF and also a strong indication that many are new providers to their CFOs.
- The voluntary sector accounts for by far the largest group of successful providers in the sample that had not previously been on their CFO's approved list. This holds true both for voluntary organisations with prior ESF experience and those with none.
- The availability of ESF and match-funding in a single stream is the most prominent factor attracting new providers.
- The evidence suggests that neither CFOs' quality standards, nor their existing relationships with providers have presented a significant barrier to participation by new providers. CFOs clearly expect their providers to improve their standards during the course of a contract (where appropriate), but appear willing to fund organisations that do not necessarily meet their quality standards immediately.
- There are relatively few organisations in the recently active ESF provider population that have bid under co-financing and been wholly unsuccessful.
- Among former ESF providers that are yet to bid under co-financing, approximately 70% are likely to do so in the future.
- The vast majority of applicants – whether successful or not – are likely to apply again.
- While CFOs have made significant efforts to meet with a broad range of local stakeholders when drawing up their co-financing Plans, in the main, this appears to take the form of briefing rather than an exchange of ideas that could lead to the plan being revised.
- While CFOs' formal promotion played an important role in making providers aware of the opportunity to bid, this was amplified significantly through formal and informal networking.
- There is a very high level of awareness among providers of both the process through which bids would be appraised and the criteria that would be employed.
- A very high proportion of providers surveyed are satisfied with or neutral towards the information provided by CFOs on bidding, and towards the transparency and the fairness of the selection process.
- The greatest source of dissatisfaction among unsuccessful bidders and others that were less satisfied appears to be the provision of feedback and, to a lesser extent the limited active help provided in the pre-tendering stage.
- Since the initial evaluation, there has been a move towards a greater degree of formality in the competitive tendering process; only in one (Local Authority) case did the evaluation identify practice that may not be compatible with competitive tendering.

6 ADDED VALUE

6.1 The Concept of Added Value

The concept of added value as regards the Structural Funds is quite broad in scope.

Added value may encompass the traditional perspective of additionality - that is the impact on projects and programmes arising from Structural Fund support. Additionality has several dimensions:

- it may be absolute, where activity takes place that would not have gone ahead in the absence of EU support.
- it may be scale related, where a larger volume of the same activity is procured as a result of EU support.
- it may be qualitative, where projects take place in a different form (usually enhanced) as a result of EU support.
- it may be temporal, where activity takes place and benefits are realised earlier than would be the case in the absence of EU support.

Added value may also take place on a policy level:

- from a UK perspective, the Government is enthusiastic about Structural Funds adding value to national priorities.
- from an EU perspective, the Commission is interested in seeing the Funds operating in innovative ways and being used in a manner that extends the EU agenda; in the period from 1994, for example, ESF was used to lever progress in areas such as community economic development which were novel at the time.

The research in this area has tried to establish the existence and character of added value accruing to ESF under co-financing.

6.2 Findings From Consultations

6.2.1 The CFO Perspective

New CFOs (a combination of JC+, LSCs, and enterprise agencies) were asked directly to comment upon the ways in which ESF was adding value to their provision. The majority cited three or four ways in which value was being added to their provision. Out of the 12 interviews conducted, the responses obtained were as follows:

- increasing the volume of mainstream activity (scale additionality) 1.
- extending the range of provision supported (scale additionality) 8.
- extending the range of beneficiaries supported (qualitative additionality) 9.
- supporting areas that are not well supported by domestic funding (qualitative additionality) 5.
- supporting more innovative and/or risk activity (qualitative additionality) 7.

When pressed to expand on the ways that ESF was adding value, a range of plausible examples were quoted including:

- support for new providers reaching new beneficiaries, for example through creative arts projects, etc, which would not normally have been supported (LA).
- 'ESF is being used to offer additional support (for example pre- and post-New Deal) for the most difficult clients; it also enables JC+ to support small, innovative projects that it would not have been possible to fund previously (for example for the visually impaired, or leasing mopeds to help people without transport to attend interviews or go to work).'
- 'ESF is being used to fill the gaps in provision; we're looking for innovative projects, and also at specific geographic areas requiring attention. Very few projects are simply enhancing New Deal; most are stand-alone, innovative projects. They're aiming at the hardest to reach groups rather than standard New Deal-type beneficiaries – supporting 'different' kinds of projects, such as those using music and the arts to deliver basic skills.'

The responses from existing CFOs (mainly LSCs, but also some local authorities) were slightly different. Of the 6 interviews conducted, the responses obtained were as follows:

- increasing the volume of mainstream activity (scale additionality) 5.
- extending the range of provision supported (scale additionality) 4.
- extending the range of beneficiaries supported (qualitative additionality) 2.
- supporting areas that are not well supported by domestic funding (qualitative additionality) 3.
- supporting more innovative and/or risk activity (qualitative additionality) 3.

Again, when asked to expand further, examples cited included:

- supplementing domestic resources targeted on hard-to-reach groups in regeneration areas, including for innovative provision.
- development of new entry-level provision.
- increased quality of adult provision, for example, more modern apprenticeships as opposed to mainstream training.
- extending lifelong learning support to mainstream beneficiaries in addition to excluded groups.

Clearly CFOs perceive that ESF is adding considerable value to their provision, both in terms of volume and in a qualitative manner. Some LSCs claim to have used ESF to shift the balance of clients involved in mainstream provision of different intensity.

The extent to which CFOs are now engaging with a broader range of providers tends to support the argument that the impact of ESF co-financing is not wholly volumetric.

6.2.2 The Government Office Perspective

With regard to policy added value, consultees at the GOs were asked about the effect of co-financing on the degree of linkage between ESF and mainstream domestic programmes. Almost all were of the view that the matching of national provision was greater, notably in relation to New Deal since JC+ became involved in co-financing, but also in relation to Modern Apprenticeships.

There were a broader range of views on the form of added value which co-financing was producing. Some GO consultees suspected that it was primarily scale additionality, but conceded that it was perhaps too early to be sure. Others perceived qualitative additionality, for example, in the enhancement of Modern Apprenticeships and also the increased engagement of JC+ and the LSCs with the Voluntary Sector as evidenced by the balance of awards.

6.2.3 Consultations with Strategic Bodies

In consultations with representatives of JC+ and LSCNO it was emphasised that ESF is funding additional activity to reach the hardest-to-reach groups. Examples were cited by LSCNO of additional activity being added to the pre-vocational stage or aftercare that they would otherwise not get involved with and which their mainstream funding could not be used for.

6.2.4 The Provider Perspective

Issues with a bearing on added value were to some extent explored with providers.

Providers were asked whether the project that was the subject of the interview was entirely new, or a continuation of an existing project. In the majority of cases (15 out of 17) the project was entirely new.

Providers were also asked to describe any links that existed between their project and:

- mainstream government provision.
- local or community strategies.

Only one provider was quite clear that their project was linked to a national programme – in this case New Deal; in other cases, the project in question was not linked to such provision but providers were involved with other co-financed projects that were; several respondents seemed unsure.

In terms of linkage to local or community strategies, providers from all sectors were generally unable to identify links with specific strategies.

Some providers did question the extent to which the focus of CFOs (particularly JC+) on "hard outcomes" militated against qualitative additionality in the form of innovative provision.

KEY POINTS

- Co-financing is supporting a combination of scale additionality and qualitative additionality, but the relative balance of these effects is unclear from the research, as is the appropriateness of the balance.
- The LSCNO position remains that ESF is substantially being used for non-mainstream activities and it is argued that this is evident from the non-mainstream match-funding that is being used.
- Elsewhere, consultees are more equivocal that co-financing has extended, or at least made more visible, the integration of ESF with mainstream government provision.

7 OTHER IMPACTS OF CO-FINANCING

7.1 General

The impact of co-financing on beneficiaries, as far as can be determined at this point, was covered in Chapter 2. In this Chapter we examine the evidence on other “impacts” of co-financing, notably those relating to:

- staffing, investment and provision in provider organisations.
- provision for hard-to-help groups.
- matching of provision with the needs of beneficiaries.
- innovation in provision.
- capacity building.
- relationships within the local training market.

7.2 Organisational Impact of Co-financing

7.2.1 General

The telephone survey of providers sought to establish whether co-financing is having any impact on the scale of training and HR provision being delivered by providers. Respondents were asked about changes in their operations in the previous 18 months in terms of any:

- increase or reduction in the number of staff employed to deliver training or other HR activity.
- increase or decrease in the level of investment in training capacity or facilities.

Respondents were then asked to identify the extent to which these changes could be attributed to the introduction of co-financing.

Those interviewed were then asked to look ahead and consider whether they anticipated any changes in the scale of their provision over the next 18 months, again reflecting on whether changes might be attributed to co-financing.

The findings are summarised below.

7.2.2 Changes in Staffing Levels

Analysis by Provider Group

Of 334 respondents reporting changes in employment levels, 294 reported an increase and 40 a decrease in employment. Of the 294 reporting an increase, 187 (64%) attributed some of this increase to the introduction of ESF co-financing. Of the 40 reporting a decrease in employment in the past 18 months, 18 (45%) attributed some of this decrease to the introduction of ESF co-financing. However, only 12 (2% of all respondents) attributed a reduction in employment wholly or substantially to co-financing.

In absolute terms, experienced ESF providers that had contracted with CFOs accounted for most of the organisations attributing an increase in employment and attributing some of it to co-financing. However, in proportional terms, the greatest incidence of positive impact was reported among providers new to ESF. Even non-

bidders and unsuccessful bidders suggested that co-financing has been perceived as an opportunity and a small number attributed increases in employment to co-financing, although they have not yet become contracted to CFOs.

In absolute terms, experienced ESF providers that are under contract to CFOs were the largest provider group reporting a decrease in employment and attributing this, to some extent, to the introduction of co-financing. Presumably these organisations are receiving less ESF than before. However, in proportional terms, the largest group attributing some or all of a reduction in employment to co-financing were the unsuccessful bidders, where 9% did so. It is interesting to note that a larger number of unsuccessful bidders reported an increase in employment and attributed some of this to co-financing, than attributed a reduction in employment.

Analysis by Sector

In all sectors, between half and three-quarters of respondents reported having increased employment in the past 18 months. Across the sectors between 28% and 54% of respondents both reported an increase in employment and attributed this, at least in part, to the introduction of ESF co-financing. This was most pronounced among Further Education and private sector respondents, with the voluntary and community sector in the middle of the range.

Across the sectors, between 4% and 12% of respondents reported a decrease in employment in the 18 months prior to the survey. Between 0% and 9% of respondents, by sector, attributed at least part of this reduction to the introduction of ESF co-financing. The reported negative impact was most pronounced among the Higher and Further Education sectors. Certainly, Higher Education falls within the remit of few CFOs, but it is notable that more HEIs surveyed attributed an increase in employment to co-financing than attributed a decrease.

TABLE 7.1: IMPACT OF CO-FINANCING ON EMPLOYMENT LEVELS BY SECTOR				
	Providers that increased number of staff in last 18 months		Providers that increased staff and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	14	56%	7	28%
Further Education	43	75%	31	54%
Voluntary/Community	131	70%	81	43%
Local Authority	27	54%	17	34%
Private	46	70%	33	50%
Other	33	65%	18	35%
	Providers that cut back on number of staff in last 18 months		Providers that cut back on staff and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	3	12%	2	8%
Further Education	7	12%	5	9%
Voluntary/Community	19	10%	8	4%
Local Authority	3	6%	1	2%
Private	6	9%	2	3%
Other	2	4%	0	0%

Analysis at a higher level of resolution shows that 5% of Further Education and 4% of Voluntary Sector respondents consider that ESF co-financing was wholly or substantially responsible for a reduction in employment within their organisation.

Analysis by Region

At regional level between 31% and 65% of respondents attributed at least part of an increase in investment to co-financing. This was most pronounced in the West Midlands and East of England and least pronounced in London and the North West.

By region, between 4% and 14% of respondents reported a reduction in employment in the previous 18 months. Between 0% and 6% attributed this, at least in part, to the introduction of co-financing, with the greatest incidence of this reported in the North West, in Yorkshire and Humberside, and in London.

7.2.3 Changes in Investment Levels

Analysis by Provider Group

Of 327 respondents reporting changes in investment levels, 293 reported an increase and 34 a decrease in investment. Of the 293 reporting an increase, 182 (62%) attributed some of this increase to the introduction of ESF co-financing. Of the 34 reporting a decrease in investment in the past 18 months, 16 (47%) attributed some of this decrease to the introduction of ESF co-financing. However, of these, only 11 (2% of all respondents) consider that ESF co-financing is substantially or wholly responsible for a reduction of investment in their organisations.

The pattern seen for employment trends is largely repeated. The attribution of increased investment was most pronounced among experienced and new ESF providers that have contracted with CFOs. However, there was still some attribution among non-bidders and unsuccessful bidders.

In absolute terms, the incidence of reduced investment attributed in part to co-financing was found to be most pronounced among experienced providers that have become contracted to CFOs. In proportional terms, attribution of reduced investment to co-financing was greatest among unsuccessful bidders. The overall numbers and proportions are small, however.

Analysis by Sector

By sector, between 55% and 75% of respondents reported an increase in investment in the 18 months before the survey. In all sectors, more than half of the respondents reporting an increase in investment in each group attributed some of this to the introduction of ESF co-financing.

Across the sectors, between 4% and 10% of respondents reported a reduction in investment. A total of 16 respondents, between 0% and 5% by sector attributed this reduced investment, at least in part, to the introduction of ESF co-financing. This reporting was fairly evenly distributed across most sectors. However, when pressed further, only 11 reported that the reduction in investment was wholly or substantially the result of ESF co-financing (4% of Voluntary Sector and 3% of private sector respondents).

TABLE 7.2: IMPACT OF CO-FINANCING ON INVESTMENT LEVELS BY SECTOR				
	Providers that increased investment in last 18 months		Providers that increased investment and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	16	64%	8	32%
Further Education	43	75%	31	54%
Voluntary/Community	133	71%	82	44%
Local Authority	32	64%	21	42%
Private	41	62%	26	39%
Other	28	55%	14	27%
	Providers that cut back on investment in last 18 months		Providers that cut back on investment and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	2	8%	1	4%
Further Education	4	7%	3	5%
Voluntary/Community	17	9%	9	5%
Local Authority	5	10%	1	2%
Private	4	6%	2	3%
Other	2	4%	0	0%

Analysis by Region

Between 33% and 55% of respondents by region attributed increased investment, at least in part, to the introduction of ESF co-financing. This was greatest in the West Midlands and least in the South West and London.

By region, between 3% and 15% of all respondents reported a reduction in investment in the previous 18 months, with between 0% and 7% by region attributing this, at least in part, to the introduction of co-financing.

7.2.4 Changes in Future Provision

Of 293 respondents anticipating a change in the level of provision in the next 18 months, 258 forecast an increase and 35 a decrease. Of the 258 forecasting an increase, 174 (67%) attributed some of this expected increase in provision to the introduction of ESF co-financing. Of the 35 forecasting a decrease in provision over the coming 18 months, 20 (57%) attributed some of this decrease to the introduction of ESF co-financing.

The incidence of forecast increases in provision attributed to co-financing was notably less pronounced among providers that had not bid under co-financing so far and those whose bids had been unsuccessful. The distribution of forecast reduction in provision that was attributed, in some part, to co-financing was fairly evenly distributed across the different classes of provider (a range of 4% to 7%).

Analysis by Sector

Across the sectors, between 44% and 75% of providers forecast an increase in provision in the coming 18 months, this being most pronounced in the Further Education and private sectors and least pronounced in the Higher Education and Local Authority sectors. Between 28% and 54% of all respondents in each sector expected an increase in provision that was attributable, at least in part, to ESF co-financing.

	Providers expecting to increase provision in next 18 months		Providers expecting to increase provision in next 18 months and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	11	44%	7	28%
Further Education	43	75%	31	54%
Voluntary/Community	109	58%	77	41%
Local Authority	22	44%	29	44%
Private	45	68%	14	28%
Other	28	55%	16	31%
	Providers expecting to reduce provision in next 18 months		Providers expecting to reduce provision in next 18 months and attribute this to co-financing	
Sector	Number	% of Sector Respondents	Number	% of Sector Respondents
Higher Education	2	8%	1	4%
Further Education	3	5%	1	2%
Voluntary/Community	15	8%	10	5%
Local Authority	7	14%	5	8%
Private	4	6%	2	4%
Other	4	8%	1	2%

By sector, between 6% and 14% of respondents expected to reduce provision in the coming 18 months. Approximately half of those expecting to do so, in each sector, attributed this reduction, at least in part, to ESF co-financing.

Analysis by Region

The proportion of providers attributing a forecast increase in provision to co-financing was fairly dispersed by region, with the range extending from 31% (London) to 50% (East of England).

The attribution of forecast reductions in provision to co-financing was found to vary considerably by region, from 0% in the East Midlands and West Midlands and 9% of respondents in the North West. However, it should be noted this range is to some extent the product of very small numbers in each cell.

7.3 Impact on Provision For Hard-to-Reach Groups

7.3.1 Analysis by Class of Provider

A total of 353 responses were obtained from the 500 providers surveyed. Overall, 60% of all those who responded felt that provision has generally improved since the introduction of co-financing, while 82% considered that the position was at least as good as before.

However, within this, the range of responses varies quite considerably between different classes of provider. Notably, while almost half of new providers perceived a significant improvement, not a single unsuccessful applicant reported this.

Providers who were new to ESF were generally more inclined to take a positive view about the impact of co-financing on provision for hard to reach groups, possibly because many are involved in serving such groups. Some 86% of new providers perceived an improvement in provision, compared to only 30% of non-bidders and unsuccessful applicants. Amongst unsuccessful bidders, the reported view that co-financing had had a negative impact on provision for hard-to-reach groups was significantly more pronounced: 48% of this group felt that provision had deteriorated slightly or significantly, whereas only 5% of new providers perceived this to be the case.

7.3.2 Analysis by Sector

Across the sectors, there is some consistency in terms of those reporting a favourable impression: between half and two thirds of respondents in all sectors reported that provision for hard-to-reach groups had improved following the introduction of co-financing. However, the proportion of respondents reporting a deterioration in provision varied more markedly between the sectors.

Sector	Number of providers expressing view that quality and availability of provision for hard-to-reach groups has:					
	improved		remained the same		deteriorated	
	Number	%	Number	%	Number	%
Higher Education	10	56%	4	22%	4	22%
Further Education	29	56%	16	31%	7	13%
Voluntary/Community	87	60%	22	15%	37	25%
Local Authority	26	58%	11	24%	8	18%
Private	33	66%	14	28%	3	6%
Other	24	59%	10	24%	7	17%
Total	209	59%	77	22%	67	19%

Overall, respondents from the Private sector gave the most positive response to this question. Respondents from this group most commonly (66%) reported that provision had improved, and least commonly reported (6%) that it had deteriorated.

The views expressed by Voluntary Sector organisations were slightly more polarised than those obtained from other sectors. Respondents from this sector reported a high level of agreement that provision had improved (60%), but also the strongest

negative response; exactly one quarter of those who responded felt that provision for hard-to-reach groups had deteriorated following the introduction of co-financing. Table 7.5, below, gives a breakdown of voluntary sector responses by type.

Type	Number of providers expressing view that quality and availability of provision for hard-to-reach groups has:					
	improved		remained the same		deteriorated	
	Number	%	Number	%	Number	%
Prior ESF experience	40	57%	12	17%	18	26%
No prior ESF experience	35	90%	0	0%	4	10%
Unsuccessful bidders	3	23%	2	15%	8	62%
Awaiting outcome	3	43%	3	43%	1	14%
Non-bidders	6	35%	5	29%	6	35%
Total	87	60%	22	15%	37	25%

As can be seen, among successful voluntary sector bidders, a majority considered that co-financing has led to better provision for hard-to-reach groups. This view was most widely held amongst those with no prior ESF experience, with 90% of these respondents expressing a positive view. By contrast, less than one quarter of unsuccessful bidders shared this perception; the majority of respondents in this category felt that co-financing had led to a deterioration in provision. Views amongst the non-bidders were evenly spread, with no consensus about the impact of co-financing.

7.3.3 Analysis by Region

Although the response by sector was fairly consistent in terms of those reporting a favourable impression, regional analysis reveals a quite strong variation from the average in a small number of regions. A much smaller than average number of respondents in London (38%) reported that co-financing had had a positive impact on provision for hard-to-reach groups. London respondents also formed the largest proportion of those who felt that provision had actually deteriorated. It is not immediately clear why perceptions in the capital are more negative on this issue than in other parts of the country.

There is a very stark contrast between London, where only 38% of respondents saw an improvement and 36% felt provision had deteriorated, and the West Midlands, where 73% felt that provision had improved and only 4% perceived a deterioration. Other regions reporting a more favourable view (i.e. the highest reporting of 'improvement' combined with the lowest reporting of 'deterioration') were the South West, the East of England and South East.

7.4 Impact on the Matching of Provision with Needs of Beneficiaries

7.4.1 Analysis by Class of Provider

Overall, more than half (54%) of the 372 respondents agreed that the introduction of co-financing had led to provision that was better matched overall to the needs of most beneficiaries while just less than a third (29%) did not agree.

Providers that were new to ESF were the most likely to have a positive view in this respect: over half of them 'strongly' agreed that provision was better matched, with a further 28% agreeing 'slightly'. By contrast, only 6% of unsuccessful applicants 'strongly' agreed, and only a further 16% agreed 'slightly'. Just as new providers reported a positive impression about provision for hard to reach groups under co-financing, they also have a favourable impression of the ability of co-financing to match provision to beneficiary needs.

7.4.2 Analysis by Sector

The lowest incidence of agreement (32%) that provision was now better matched to beneficiary needs was recorded by the Higher Education sector. Responses from HE ranged very evenly across the spectrum, with approximately one third agreeing, one third disagreeing, and the remaining third having no particular view on whether co-financing was resulting in better matched provision. There does not yet appear to be a consensus from this sector about whether co-financing is succeeding in matching beneficiary needs.

In all other sectors, however, the balance of responses was skewed towards a more favourable perception of the contribution of co-financing; between 51% and 61% of respondents agreed that co-financing was leading to a better match of provision with beneficiary needs.

TABLE 7.6: IMPACT OF CO-FINANCING ON RELEVANCE OF PROVISION BY SECTOR						
	Providers that consider that the introduction of Co-financing has led to provision that is better matched overall to the needs of most beneficiaries					
	agree		neither agree nor disagree		disagree	
Sector	Number	%	Number	%	Number	%
Higher Education	7	32%	7	32%	8	36%
Further Education	26	51%	12	24%	13	25%
Voluntary/Community	80	52%	26	17%	47	31%
Local Authority	26	58%	5	11%	14	31%
Private	34	61%	8	14%	14	25%
Other	25	56%	10	22%	10	22%
Total	198	53%	68	18%	106	28%

The highest incidence of agreement with the proposition that the introduction of co-financing had led to provision that was better matched to beneficiary needs (61%) was found among Private sector respondents.

7.4.3 Analysis by Region

Across the regions, between 45% and 62% of respondents agreed that co-financing has led to provision that is better matched overall to the needs of most beneficiaries. Respondents from the West Midlands gave the most positive assessment overall: not only did the largest proportion of respondents agree (62%), and there a mere 4% actively disagreed that provision was now better matched.

London respondents, which had presented a relatively less favourable view of the impact of co-financing on provision for hard-to-reach groups, were also below

average in expressing the view that provision was now better matched to beneficiary needs. However, although London still produces the lowest positive response rate, its disparity with other regions on this issue is less marked.

7.5 Impact on Innovation

7.5.1 Findings from Desk Research

CFOs have the option of holding back 5% of their ESF across each of the Measures and activities for innovative provision. In its co-financing plan, one of the JC+ CFOs indicated that it intended to do this but, in general, this option does not appear have been widely exercised.

The present study did not specifically set out to review CFO prospectuses and the tender specifications within them, although some were received and examined. It was apparent that specifications were often quite prescriptive in terms of:

- the target group.
- the type of provision.
- the expected outcomes.

However, the specifications tended not to be specific concerning the mode of delivery which is where innovation would be expected to be encountered.

7.5.2 Findings from Consultations

The Strategic Level Perspective

Government Office consultees acknowledged that they did not have a clear view at this stage of the extent to which co-financing was, or was not, encouraging innovation. Only one of the 9 GOs felt that co-financing was encouraging innovation. Most of the remaining 8 were unsure and some expressed concern that innovation may be stifled.

The LSCNO representative did not agree that innovation was stifled by co-financing. Rather they argued that innovation was not necessary in all instances, more mainstream provision, for example, but that it was perfectly possible to allow latitude regarding the method of delivery providing the targets were identified and the outcomes represented value for money, having regard for their context.

The CFO Perspective

When asked about the ways in which ESF was adding value to their provision, 10 of the 18 CFOs said that it was doing so by (amongst other things) 'supporting more innovative and/or risk activity'. The examples provided were in most cases plausible:

- projects that make use of arts and music to access hard-to-reach groups.
- projects that address the needs of the visually impaired.
- projects involving innovative personal transport solutions to enable beneficiaries to attend interview or travel to work.
- projects that pilot ideas for groups not benefiting from mainstream provision.
- projects that seek to address the needs of ex-offenders and the homeless.

When new CFOs (question did not apply to existing CFOs) were asked how their processes encouraged innovation amongst their new and established providers:

- several simply stated that innovation was hard to define or recognise.
- some noted that their prospectuses has explicitly invited innovative bids.
- some were alive to the tension between highly prescriptive tender specifications and facilitating innovation.
- only one conceded they had did not have a clear view of how innovation could be encouraged.

Among those that provided concrete answers, the common view was that there was a fine line between specifying precisely what you want to deliver, and stifling creativity, though the two are not necessarily mutually exclusive. One local authority CFO reported that it was currently seeing a significant amount of innovation, but feared that this could be lost when their Plan became more focused: 'tight specifications might lead to greater competitiveness but reduce the potential for creativity'. One JC+ respondent said that their prospectus had been designed to be very specific about target groups but not about the methods and activities used to reach those groups.

The Provider Perspective

Providers were not explicitly questioned concerning innovation. However, a number volunteered views:

- that the closer CFOs move towards fully competitive tendering, the more creativity becomes stifled: the more rigid their tender specification, the less freedom providers have to develop innovative approaches.
- a small number of longstanding ESF providers (in both the voluntary and private sectors) questioned the ability of CFOs to know best what target groups to aim for and how to reach them. They argued that providers themselves, at the 'grass roots', were far better placed to determine local needs and design ways of targeting them - and that co-financing is limiting their scope for doing this. There is insufficient evidence to determine whether such concerns are well founded. However, there are implications for how CFOs integrate the knowledge and experience of locally based and special interests when developing their plans and prospectuses.

7.6 Impact on Capacity Building

7.6.1 General

ESF has traditionally supported some non-HRD activities, including:

- support for third sector organisations to participate in bidding for ESF (normally supported through Technical Assistance provisions).
- support for smaller organisations to develop their capacity to animate, deliver and manage projects.
- development of systems, etc.

As will become apparent from the findings from consultations, perspectives vary on what has historically been captured within the scope of capacity building or, indeed, should be supported in the future. The present research has examined the extent to which capacity building actions have continued to be supported under co-financing,

either through specific provision or as part of the co-financing process. It has not been possible within this study to examine whether all forms of capacity building have been sustained at previous levels.

7.6.2 Findings from Consultations

The Government Office Perspective

Consultees in the GOs were asked to comment on the extent to which their CFOs' plans were supporting capacity building and networking activities. The responses were mixed. In one region, the GO required all second round CFO Plans to include actions for improving Voluntary Sector capacity. In another, it was noted that the Regional Committee had taken the view that capacity building should not need to be sustained at previous levels.

From the GO consultations, it would appear that all regions are supporting capacity building to some degree under Policy Field 2 and, in some regions, in other parts of the Programme. It was noted that the scope of capacity building actions was controversial and that CFOs differed in what they were prepared to support. One GO, for example, noted the reluctance of JC+ to fund 'soft' outcomes such as capacity building activities.

Nevertheless, GO consultees were generally confident that co-financing will raise the standards of ESF providers through the combination of support for systems development and active contract management. This was seen as giving CFOs a much closer relationship with providers than GOs ever had under direct bidding. CFOs were seen as having the resources and the remit to drive up the quality of local provision.

The CFO Perspective

CFOs were asked whether their co-financing plan included scope for projects that focused solely on capacity building / networking / support structures for locally based providers.

Some 6 out of 15 CFOs responding reported that they were specifically supporting capacity building projects. This was all of the LSCs interviewed plus a Local Authority. The widespread involvement of LSCs in capacity building was confirmed in consultation with LSCNO which reported that 7-8% of ESF resources going to capacity building projects, primarily on training for trainers in the Voluntary Sector.

Some CFOs whose Plans did not specifically support capacity building were running small, niche plans covering only one or two Measures in Policy Fields 3 and 4 and, accordingly, were less likely to be involved in capacity building. However, among JC+ CFOs, reasons given included:

- that it was not easy to identify appropriate match funding for this kind of activity.
- that the LSCs had already absorbed the available funding for capacity building.

CFOs were generally supportive of the concept of capacity building where it was clearly related to improving the performance of their plans or the Programme in general. They favoured support for the development of innovative new capacity where there were clearly gaps. However, they did not favour the use of capacity

building to expand Voluntary Sector provision as an end in itself or to subsidise the running costs of the Voluntary Sector itself.

A total of 8 out of 12 CFOs responding expressed the view that the introduction of co-financing had led to more scope for capacity building for locally based providers in their region while a further 3 considered that this was unchanged. Only one considered that there was less scope for capacity building, although had no hard evidence for this.

One LSC consultee remarked that the nature of capacity building has changed. They perceived that where carried out through projects, it is now more targeted and relevant. Other CFO consultees pointed to capacity building and networking that was integral to the co-financing process:

- briefing and consultation events.
- support provided to prospective applicants.
- support provided to help new providers meet quality standards.

The Provider Perspective

Providers were asked, taking account of all sources of support for capacity building and networking, whether they considered that the introduction of co-financing has resulted in a significant change of level of effort at local level.

Among the 17 providers interviewed face-to-face, 2 perceived there to have been a significant increase in the extent of effort at local level since the introduction of co-financing; 6 felt that it had increased slightly; 4 felt the amount of activity had not changed, and 1 felt it had reduced slightly. When asked to justify their response, providers tended to be positive rather than negative in their views. The following comments represent the range of views encountered:

- 'a certain amount of energy has been freed up as a result of not having to waste time hunting for match funding, which now goes into activities such as networking'.
- 'a lot of incidental capacity building is going on, simply because there have been so many consultation events as a result of co-financing'.
- 'there will inevitably be more networking / capacity building going on because CFOs are locally based, whereas GOs are regional and more remote'.
- 'capacity building is still being supported by Technical Assistance, and the extent of it has been unaffected by co-financing'.

A more broadly-based picture is available from the telephone survey of providers. Responses were obtained from 366 of the 500 providers surveyed. In aggregate, 88% of respondents considered that the overall level of capacity building was at least at pre-co-financing levels and 63% considered that there had actually been an improvement. New providers contracted to CFOs were most positive in this respect, perhaps reflecting the support received from CFOs in refining their systems. Unsuccessful bidders and non-bidders were notably less positive, although the potential reasons for this are not clear.

Table 7.7 analyses the responses received by sector.

TABLE 7.7: IMPACT OF CO-FINANCING ON CAPACITY BUILDING BY SECTOR						
	Providers expressing view that, following the introduction of co-financing, capacity building effort at local level has:					
	improved		remained the same		deteriorated	
Sector	Number	%	Number	%	Number	%
Higher Education	13	68%	5	26%	1	5%
Further Education	30	57%	15	28%	8	15%
Voluntary/Community	92	59%	42	27%	21	14%
Local Authority	24	57%	13	31%	5	12%
Private	41	73%	10	18%	5	9%
Other	29	71%	8	20%	4	10%
Total	229	63%	93	25%	44	12%

The findings by sector are quite closely distributed around the mean. Across all sectors, between 57% and 71% of respondents consider that capacity building effort has improved since the introduction of co-financing. With regard to respondents expressing a view that capacity building had deteriorated, only the result for the Higher Education sector is more than 3 percentage points from the average.

A considerable level of consistency was found when the findings were analysed by region. Only in the North East does the percentage of respondents reporting a deterioration in capacity building effort stand out, but even so remains the perspective of a small minority.

7.7 Impact on Local Training Market

7.7.1 Analysis by Class of Provider

A total of 418 responses was obtained from 500 providers surveyed. Almost half of those responding report no change, with only new providers contracting with CFOs being significantly below the average in this regard. Almost two-fifths of those responding consider that there is greater collaboration among providers following the introduction of co-financing. There is a lower than average incidence of this finding both among non-bidders and unsuccessful bidders.

Perhaps surprisingly, given the movement towards more formal competitive tendering procedures, only 13% of those responding consider that relationships with other providers have become more competitive. This view is held particularly widely (but still a minority view) among unsuccessful bidders.

7.7.2 Analysis by Sector

Table 7.8 shows responses analysed by sector.

Most providers in all sectors see no change in relationships with other providers at local level since the introduction of co-financing. This is most pronounced among Higher Education sector providers.

By sector, the range of responses perceiving the market to have become more collaborative ranged from 33% (Higher Education) to 47% (Local Authorities), with the remainder closely packed around the average of 39%.

TABLE 7.8: IMPACT ON LOCAL TRAINING MARKET BY SECTOR						
	Providers expressing view that, following the introduction of co-financing, relationships with other providers at local level have:					
	become more competitive		become more collaborative		remained the same	
Sector	Number	%	Number	%	Number	%
Higher Education	1	4%	8	33%	15	63%
Further Education	7	12%	22	39%	28	49%
Voluntary/Community	34	19%	65	36%	80	45%
Local Authority	5	11%	22	47%	20	43%
Private	3	5%	26	41%	35	55%
Other	6	13%	18	38%	23	49%
Total	56	13%	161	39%	201	48%

The Voluntary Sector stands out slightly in perceiving relationships as having become more competitive, but respondents expressing this view are still a small minority among those surveyed from the sector.

7.7.3 Analysis by Region

Analysis by region results in few outliers being identified. In the West Midlands, there is a greater than average incidence of views that relationships between providers have not changed and a very small incidence of view that the market has become more competitive.

Views in Yorkshire and Humberside and also in the East of England are more polarised than the average, but in different ways. In Yorkshire and Humberside more respondents consider that relationships have changed since co-financing, but there is both an above average number reporting that relationships are more competitive and that there is greater collaboration. In the East of England, more than half of respondents report that there is more co-operation and only a small number report that relationships are more competitive.

KEY POINTS
<ul style="list-style-type: none"> • Out of 500 providers surveyed, 294 (65%) reported an increase in employment and 40 (9%) reported a decrease in employment in the preceding 18 months. • Some 41% of all providers surveyed partly attributed an increase in employment in their organisation to the introduction of ESF co-financing, but only 22% considered that these changes were wholly or substantially due to co-financing. • Some 4% of organisations surveyed partly attribute a decrease in employment in their organisation to the introduction of co-financing, but only 2% considered that co-financing was wholly or substantially responsible. • A very similar pattern of changes in investment and its attribution to co-financing was also found. • Looking ahead, almost 40% of providers surveyed perceive that co-financing will enable them to expand provision in the next 18 months, while only 4% expect that their provision will contract as a result. • Given that the scale of ESF is unchanged, these findings suggest that co-financing has resulted in ESF become more highly dispersed than before. This

is consistent with the findings, reported elsewhere, that co-financing has drawn in a large number of new providers.

- Analysis of these findings by sector suggest that co-financing has provided less opportunity for the Higher Education sector and has been associated with some instances of reduced employment, investment and forecast levels of provision in the Further Education sector, and to a lesser extent in the Voluntary Sector. However, at the same time, a larger number of both Further Education and Voluntary Sector providers reported increases in employment and investment and attributed this to co-financing. Again, this suggests that co-financing has played a re-distributive role.
- There are some regional variations in the trends in employment and investment by providers and also in forecast changes in provision. However, no consistent patterns emerge across the three dimensions and no regions consistently appear as outliers.
- A key principle of co-financing was that it should not lead to reduced access for disadvantaged groups. The provider survey findings suggest that this aim has been achieved for the most part. Some 60% expressed the view that access for hard-to-reach groups has improved; 60% whereas only 18% consider that it has deteriorated. The Voluntary Sector is slightly more polarised on this issue than other sectors, recording relatively large positive and negative responses. Two regions, London and the West Midlands stand out, with the former returning a relatively less positive report and the West Midlands being exceedingly positive.
- The strategic procurement of provision should, in theory, lead to better matching of provision to beneficiaries needs. Just over half of those interviewed agreed that this was in fact happening, although less than 30% actively disagreed with the proposition. Apart from Higher Education, where views were more evenly divided, the variations in response by sector were minor. Again, London and the West Midlands were outliers (being relatively less and more positive).
- The impact of co-financing upon innovation is not clear. Perspectives differ, although the research suggests that there may be more innovation than GO and provider consultees are aware of. Analysis of what CFOs are actually buying, particularly from new providers, is required to support firm conclusions.
- The scope and appropriate balance of capacity building actions is a matter of controversy, and was not researched as part of the present study. However, the research found that, under co-financing, overall spending on capacity building projects (primarily by the LSCs) accounts for significant resources. In addition, the co-financing process involves considerable capacity building through its support for provider development.
- The prevailing view among those surveyed is that capacity building effort at local level has improved since the introduction of co-financing. Almost two-thirds of those responding held this view, while almost 90% considered that it had become no worse. It is not clear from the responses that the generally positive view reflects a more strategic use of capacity building resources under co-financing; the strong positive response from new providers suggests that the support provided to them by CFOs may be one dimension. Similarly, it is not possible to conclude from the research findings that there has been no change in the balance of capacity building actions.
- The responses obtained from Voluntary Sector providers, traditionally the main beneficiaries of capacity building actions, were not notably different from the average. There are no outstanding variations in the pattern of responses by region.
- Just over half of those expressing a view perceive that co-financing has had some impact on relationships between providers. In spite of the move towards

more formal competitive tendering *processes*, three out of four perceiving any change consider that *relationships* between providers have become more collaborative. Only one in eight of those who responded consider that relationships between providers have become more competitive following the introduction of co-financing. This view is most pronounced among unsuccessful bidders and, to a much more limited extent, among Voluntary Sector providers. Regional differences are mainly marginal.

8 ADMINISTRATION OF CO-FINANCING

8.1 General

The initial evaluation concluded that co-financing had not, contrary to intention, led to any reduction in administrative costs. One of the aims of this second evaluation is to re-visit this issue. The issue of administrative costs was therefore discussed with interviewees at all levels; GOs and CFOs were asked about their own capacity and costs, and providers were asked to comment upon whether co-financing has led to a change in:

- the effort required in preparing bids.
- the effort required in preparing claims.
- the effort required in providing monitoring information.
- the regularity of cash flow.

8.2 Findings From Desk Research

8.2.1 Capacity

In the first evaluation CFOs were not clear about their requirement for additional capacity; in general they anticipated a need for extra staff but were unable to quantify this. Some of the plans in the current study do describe existing capacity and plans for additional recruitment, but others remain somewhat vague.

It is understood that JC+ has been undergoing a large-scale corporate structure review, which has clearly had an impact on staffing plans at organisational level. At least one JC+ CFO was unable to forecast accurately the number or grading of staff it would need to implement co-financing.

8.2.2 Management and Administration Costs

None of the Plans from the CFO sample in the second evaluation makes reference to how co-financing will result in a reduction of administration costs.

In the previous evaluation the LSCs were generally forecasting administration costs of between 3.5% and 7%, though many made reference to preparing a more detailed analysis and estimates once co-financing was fully under way. In the current study many CFOs suggest that their costs will be considerably higher than the notional 5% allowance (up to 11% in one case), although in the majority of these cases they do not intend to claim more than 5% from the GO. Two requested a slightly increased allowance in the first year of operation, until 'steady state' is achieved. Some comments were received on the difficulty in remaining within the 5% ceiling due to higher labour costs in London and the South East.

Of the sample reviewed for the current study, while some CFOs have clearly spent considerable time setting out a clear breakdown of their administrative and management costs and then working out what proportion of total funding this represents, several others have simply calculated 5% of their total funding and then intend to claim staff costs against this notional allowance.

There were variations in terms of what CFOs recorded under administration costs. However, none seemed to take into account the administrative costs borne by providers nor the costs borne by GOs in supervising the delegated administration.

The initial evaluation recommended that CFOs' administrative costs should be made explicit in their co-financing plan, and that sufficient detail be provided to facilitate monitoring of these costs.

Several co-financing plans mentioned that CFOs were exploring the possibility of obtaining Technical Assistance, but were waiting for further information or advice at regional or sectoral level.

8.2.3 Provider Funding

Almost all of the Plans sampled in the current study plan to distribute funding to their providers according to a pre-agreed profile, which may involve a certain amount of 'up-front' funding providing this is agreed in advance. None of the CFOs sampled in the current study proposes necessarily to pass on the 30% advance from ESFD as a matter of routine. However, many CFOs offer a certain amount of flexibility in the way that funding is passed on, so that organisations that need it will receive start-up funding when their project commences.

In several cases, particularly with JC+, funding was to be awarded against "outputs" such as starts, on-programme and job outcomes, rather than reimbursing actual costs.

8.2.4 Management of the Plan

All JC+ co-financing plans describe the same processes for managing co-financing, based on the use of existing structures. Providers will be monitored by District Programme Quality Management Teams and Financial and Monitoring Teams; there will be monthly reviews of performance, plus formal assessments (actual visits to ESF providers) every 4 months.

JC+ North East provides an excellent outline of their processes for administering bids and managing projects, which potentially represents an example of good practice. The Plan sets out clearly and concisely the monitoring and evaluation process that will be administered by district and regional teams, and how this will lead to the effective management of the Plan.

The LSC Plans also set out, in varying levels of detail and clarity, the processes for managing their providers' activity.

Subsequent face-to face interviews with CFOs and providers provided considerable reassurance that good systems were in place for monitoring individual contracts. However, at the time of interview, it was less clear that CFOs had a good overall view of their Plans' progress. Where LSCs are concerned, this should be rectified shortly with the introduction of a new ESF management information system.

8.3 Findings From Face-to-face Consultations

8.3.1 CFO Capacity

Government Office representatives were asked about their view on the capacity of their CFOs. Fewer than half of the GOs (4 of 9) were entirely satisfied that the CFOs had adequate capacity to manage their delegated areas of the Programme. Where concerns were expressed, they related particularly to the LSCs. Several GO consultees expressed concern at the impact of downsizing and staff turnover,

including the loss of key individuals with ESF expertise, on the capacity of the sector to manage co-financing. In one region, an LSC was reported as having performed so poorly as a CFO that the GO was seriously concerned for its future status. By contrast, it was widely felt that JC+, while still being fairly new to co-financing, had fairly rigorous procedures and sufficient capacity to manage their elements of the Programme.

A greater proportion – two thirds – of GO representatives were satisfied with their CFOs' capacity and arrangements for managing the tender process, although similar concerns were expressed about the LSCs. Particular concern was highlighted over the LSCs' inability to identify match beneficiaries and to submit full claims. This had made it impossible for GOs to gauge how well the Programme is spending to date. It was reported that a technical solution was in the process of being implemented although it was unclear how long that this would take to clear the backlog of claims.

Providers did not generally share the concerns about CFO capacity found among GO personnel. Most providers, while noting that CFOs had clearly experienced a steep learning curve at the start of the programme, commented favourably on the knowledge and approachability of staff within CFOs. They have welcomed the opportunity to establish closer relationships with key individuals, which was impossible when an 'impersonal' GO was administering the funding.

Providers noted that the number of weeks elapsing between the closure of the bidding round and their receiving a contract could be considerable (in one case, it took a whole year for the contract to arrive). Some 9 of 13 providers analysed said that the process took longer than they expected, but experienced ESF providers were quite sanguine, being used to contractual delay. In most cases this delay did not have an adverse effect on the provider organisation, but one interviewee – whose project was a continuation of a previous one - claimed to have been on the verge of making staff redundant. Several providers took the risk of relying upon verbal confirmation received from their CFO, and proceeded with recruiting staff and beneficiaries without having a contract in place.

8.3.2 Administrative Burden and Costs

The CFO Perspective

Nine of the 12 new CFOs reported that the number of full time equivalent staff involved in ESF administration since the start of the Programme had increased; this was put down wholly to the introduction of co-financing. Among the existing CFOs, there had been few recent changes in staff. One interviewee noted that, in their organisation there was no co-financing team and that co-financing was a limited responsibility dispersed across a large number of staff. The scale of staff implications could only be tracked through analysis of their timesheets.

Exactly half of the 18 CFOs were confident that they were managing to carry out all of their responsibilities as a CFO within the limits of their administrative budget allocation. The remainder appeared to be able to absorb cost over-run within their general overheads, and did not feel that the budgetary situation was having an adverse effect upon their providers.

One CFO noted recent clarification that the 5% management costs limit applied to total eligible costs and not simply the ESF component. Under the model of co-financing operated by the LSCs and JC+, the implementation cost of the match

funding is a sunk cost. It is only the ESF which is buying additional activity. Accordingly, 5% of total eligible cost could amount to 11% of ESF.

The Provider Perspective

Providers clearly welcome the fact that under co-financing they no longer need to find their own match funding. In terms of the application process, the majority of interviewees felt that this was simpler under co-financing: 'a bit less bureaucratic', 'not as time-consuming and repetitive', 'less painful', were amongst the comments forthcoming. Two providers, however – in different parts of the country – said that the application process could not even be compared with direct bidding because they were now submitting 'fully commercial tenders for fully commercial contracts', and the information and format required were entirely distinct from normal ESF bidding processes.

Several providers noted that as a result of co-financing they no longer had to face the burden of audit, and were clearly grateful for this.

Not all of the providers interviewed were able to identify clearly how much time (full time equivalents, or person-weeks) was devoted to the administration of ESF projects. However, the majority (10 out of 17) of providers did not feel that co-financing would enable them to reduce the staff time spent on the administration of ESF projects. Issues highlighted in support of this view included:

- the greater 'bureaucracy' surrounding beneficiary-related data collection than under the direct bidding system.
- the more regular and thorough project monitoring expected by CFOs.
- the more frequent site visits than previously.

While these demands required greater administrative effort, they have been welcomed by some (though by no means all) providers. These more rigorous procedures have made some providers 'take monitoring more seriously', as well as leading to the establishment of a closer relationship with their funder.

Overall, only one provider believed that bidding through CFOs, as compared to direct bidding, would result in reduced administrative effort for their organisation.

At the time of the first evaluation, the prevailing view amongst providers was that the application process was simpler under co-financing but the need to satisfy ESF reporting meant that monitoring requirements were unchanged beyond the benefits of not having to report to more than one match funder. The majority view emerging from this second evaluation is that project monitoring is in fact more demanding than under the direct bidding system, but that it *may* produce benefits overall – including for providers.

Providers were asked whether bidding through CFOs would enable them to use less senior staff for the administration of ESF supported projects. Some 9 out of 17 felt was that this was not happening, and the remainder did not know; comments included:

- co-financing is still quite new and requires significant management input from providers, partly because CFO staff themselves are still on a learning curve.
- additional input by senior staff is required to double-check the increased amount of paperwork required every month.

Providers were also asked whether administrative effort would have changed as a result of factors other than co-financing; three identified other factors:

- all funders, not just CFOs, are becoming much more output-oriented; capturing all these outputs has increased the administrative burden on providers.
- additional HR staff have to be taken on to develop the organisational policies, such as equal opportunities, health and safety, etc, which are now required by funders, many of whom do not accept bids from organisations that do not have these policies in place.
- changes to the inspection framework have brought additional burdens; new inspection rules (whereby ALI and Ofsted may conduct project visits to small ESF providers) have led to more senior input.

8.4 Findings From The Telephone Survey of Providers

8.4.1 General

The telephone survey of providers explored whether co-financing was regarded more favourably than direct bidding in terms of the administrative effort required from providers, and on whether the distribution of funds had become more effective.

Providers that are presently contracted to CFOs are best placed to provide an informed opinion. Nevertheless, the perceptions of non-bidders and unsuccessful bidders are potentially important in highlighting perceived barriers to participation in co-financing and are explored in the full analysis of the telephone survey.

co-financing in comparison to direct bidding	"more"	"about the same"	"less"
effort required in bid preparation	18%	41%	33%
effort required in monitoring / reporting	43%	32%	15%
effort required in preparing claims for payment	31%	32%	22%
favourable in terms of regularity of payment	37%	35%	12%
favourable in terms of provision of advance payment	21%	32%	17%

The percentages exclude non-responses and "don't know" responses which varied significantly by question.

8.4.2 Administrative Effort Required

The prevailing view among successful bidders is that the effort required in tendering is less than or equal to that required in direct bidding to a Government Office. However, just short of a majority believe that the monitoring and reporting requirements are more onerous, notwithstanding the lower audit burden which transfers to the CFO. This is consistent with the findings in face-to-face interviews.

Regionally, a large proportion of providers in the South West (58%) reported that bid preparation under co-financing required less effort than before, while those in the East Midlands were by far the least likely (15%) to agree.

Table 8.2 summarises the above responses by sector, showing the percentage of respondents by sector who reported that co-financing was either more favourable, or at least as favourable as, direct bidding.

	CF same or more favourable re. bid preparation	CF same or more favourable re. monitoring	CF same or more favourable re. preparing claims
HE	55%	36%	36%
FE	74%	44%	47%
Voluntary	76%	52%	63%
Local authority	71%	33%	42%
Private	79%	50%	57%
Other	74%	48%	52%

It may be seen that the pattern across most of these groups of providers is reasonably similar. Apart from Higher Education, which is generally less positive, between 71% and 79% of successful bidders by sector consider that the effort required in bid preparation is the same or more favourable under co-financing.

Less than half of the successful bidders with prior ESF experience in the Higher Education, Further Education, Local Authority and Other sectors consider that the monitoring requirements under co-financing are more favourable than for direct bidding.

Perhaps surprisingly, the Voluntary Sector that is involved in co-financing records the most positive findings with regard to effort required in monitoring and in the preparation of claims.

8.4.3 Payment Terms

CFO providers were also asked how the two regimes compared in terms of the regularity of payment. A large majority consider that the regularity of payment is as good as or more favourable than the regularity of payments from GOs. Some 37% felt that co-financing is more favourable than direct contracting, while 12% felt that the previous system was more favourable; 35% saw no real difference, and 16% did not know.

When asked about the provision of advance payments, the largest proportion of respondents (32%) said that they perceived no difference between the two systems; 21% thought that co-financing offered more favourable terms in this respect, compared to 17% who thought that direct contracting was more favourable. The remaining 30% did not know.

KEY POINTS

- The initial learning curve faced by LSC and JC+ personnel was compounded by downsizing and staff turnover and had an adverse impact on their capacity to manage co-financing in the early stages. There are indications that this is now easing, although some GOs remain concerned.
- Problems in identifying matching beneficiaries from LSCs mainstream activities have had a serious effect, constraining claims and making it impossible to establish actual financial and physical progress.
- The majority of CFOs report that they are able to work within the 5% management cost limit or that they are able to absorb overruns. However, under the model of co-financing operated by the LSCs and JC+, it is only the ESF which is buying additional activity. Accordingly, 5% of total eligible cost could amount to 11% of ESF. The more formal tendering process used by some CFOs are very different from preparing a direct ESF application; some examples have been found of this being bureaucratic and unfriendly, which may have been exacerbated by pressure from a large volume of tenders.
- The benefits of simplified applications procedures and from reporting to only one funding body are perceived to have been eroded to some degree by increased monitoring demands, but *may* be helping to raise provider standards.
- A substantial minority of CFO providers in the sample report that advance payment terms under co-financing are less favourable. However, a majority consider that the claims process requires no more effort and that payments are at least as regular as under direct bidding.
- From the research that has been possible in this area it is not clear that progress is being made towards the objective of reduced administrative costs and demands overall.

9 INCORPORATION OF THE CROSS-CUTTING THEMES

9.1 General

At the time of the initial evaluation, CFOs were exhibiting a rather reactive approach to the implementation of the cross-cutting themes. Many of them appeared to be expecting providers to give details of how they would approach the issue of equal opportunities, sustainable development and the information society, and failed to take the lead where this was concerned. There did not appear to be a consensus on what constituted sustainable development, and very few examples of how ICT might be incorporated into different aspects of provision.

9.2 Findings From Desk Research

Analysis of the sample of co-financing plans found that the representation of the horizontal objectives within them had improved since the initial evaluation. However, many of the plans tend to use variations on a common (presumably national, centralised) text in relation to equal opportunities, sustainable development and the use of ICTs, rather than this having been developed in line with an appreciation of these issues at local or regional level.

One LSC plan provides an example a good approach to addressing EO:

- it is quite pro-active in its approach, mentioning rural disadvantage in particular (but not exclusively).
- it notes that provision has been made in most Measure level plans for travel costs so that rural communities can benefit.
- it provides examples of the kind of equal opportunities approach that providers will be expected to take rather than relying on providers to take the lead.

The co-financing plan provided by the RDA in the sample includes a strategy for mainstreaming equal opportunities. It sets out very clearly the relevance of this strategy in the context of the single Measure they have selected to support. Likewise, it provides a useful guidance on how sustainable development and ICT approaches can be implemented.

The treatment of the cross-cutting themes in most of the plans reviewed tends to be restricted to a description of the CFO's own organisational approach to these issues plus a note that all providers would be expected to have similar policies in place. In these plans, there is little evidence of a systematic mainstreaming approach.

9.3 Findings From Consultations

All CFOs were asked a series of questions about the cross-cutting themes starting with what steps they had taken to promote the mainstreaming of the themes through their Co-financing Plan.

Few respondents outlined a strategic approach, but had a clearer perspective on what was being done on an operational level. Eight of the 18 CFOs interviewed reported that equal opportunities and, in some cases, the other cross-cutting themes were among the criteria against which bids were scored. In other cases, equal

opportunities was taken into account in qualitative terms. It was also argued that equal opportunities operates differently under co-financing than in direct bidding:

- under direct bidding, project holders are encouraged to take account of equal opportunities target groups in the context of general projects.
- under co-financing, equal opportunities targets are specified as part of the tendering process.

In some instances equal opportunities was being used as a gateway criterion. If bids did not adequately reflect the target groups identified in the tender specification, they would not be supported. Others, however, conceded that the cross-cutting themes, equal opportunities excepted, were not given a high priority in appraising bids.

A number of interviewees noted that the concept and policy of equal opportunities is already firmly embedded and driven by domestic policy agendas and perceived little added value in its further highlighting in the form of a cross-cutting theme in ESF funded activity. A majority highlighted how written guidance was available for providers or how equal opportunities issues were covered as a matter of routine in post-tender negotiations. A small number noted that they had experts within their organisations, on black and ethnic minority participation, for example. Accordingly, only 1 of 18 CFOs claimed that their actions so far represented an increased emphasis on equal opportunities, sustainable development and ICTs than they would have incorporated if the cross-cutting themes had not been formalised.

Most respondents were not in a position to confirm that contractors were implementing the cross-cutting themes in a meaningful way. Those that were able to comment were reasonably confident that providers could cope with applying equal opportunities but some felt that they may struggle with sustainable development and ICT. Several others felt that it was simply too early to tell.

CFOs were asked whether they received satisfactory support to help them implement the cross-cutting themes in their co-financing plan; only one indicated that this had *not* happened. Of the remainder who responded, three said that they had received that; the others indicated that they had not *sought* particular support because they felt they already understood the issues – but implied that guidance would have been forthcoming if required.

Most respondents were reasonably confident in their understanding of the ways in which ICT can be incorporated in the delivery of ESF provision and the ways in which providers can give beneficiaries access to these technologies. Some expressed the view that ICTs are now so pervasive that the ICT as a cross-cutting theme is redundant. However some respondents also argued that finding ways to effectively employ ICT in dealing with the hardest social exclusion cases is not easy and in many cases of questionable value.

Sustainable development was commonly viewed as the trickiest of the three cross-cutting themes to implement and assess in the context of human resource interventions. Sustainable development was singled out by the majority of CFOs who said contractors were experiencing more difficulty with one of the themes. One described sustainable development as 'a puzzle', another said that 'it leaves everyone cold and is difficult to pin down'.

CFOs were asked about the overall impact on their plans of having taken measures to promote the cross-cutting themes:

- only 2 CFOs reported that implementation had been straightforward and had added value.
- 10 said that implementation had been straightforward but had *not* added any value.
- a further 2 said that implementation had created difficulties but had added moderate value.

KEY POINTS

- While the representation of the cross-cutting themes on paper has improved, the majority of interviewees in CFOs concede that only equal opportunities is being pursued with any vigour.
- Most, but not all CFOs, outlined a combination of passive (e.g. provision of written guidance) and active approaches (e.g. use of scoring criteria and post-tender negotiations) to integrating equal opportunities.
- Equal opportunities was reported to be already firmly embedded within CFO policy and culture. Accordingly, consultees in these organisations are sceptical of the value added through its formalisation as a cross-cutting theme.
- Sustainability is regarded as the most difficult of the cross-cutting themes to 'pin down' and to implement in the context of human resource interventions.
- The Information and Communications Technology theme is widely considered to have been rendered redundant by the extent to which ICTs have already been mainstreamed in delivery and management of delivery.
- It is difficult to identify these perspectives as being a specific feature of co-financing; the Mid-term evaluations of Structural Fund Programmes have widely raised questions about the added value and the proportionality of the cross-cutting themes.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 Conclusions

Financial and Physical Progress

The first release of interim management data provides only a partial picture of financial progress that is distorted by overweighting of and underclaiming within the LSC component. The LSCs difficulties in identifying matching beneficiaries is not a significant threat to the Objective 3 Programme in the short-term, but will become so (and an increasing burden on the LSCs) if not resolved promptly.

In the judgement of the evaluators, the combination of financial progress reported through the interim management data and the finding from consultations with CFOs give grounds for cautious optimism.

Without corresponding forecast data it is difficult to evaluate the interim management data covering physical progress. The pattern of beneficiary recruitment suggests that, in aggregate, a substantial contribution towards Programme targets for gender, ethnic minority and disabled participation is being made through co-financing. There is some indication, however, that in the North East and the North West, some consideration of the adequacy of the present level of equal opportunities targeting would appear to be justified.

Strategic Quality of Co-financing

Even following revision, the quality of RDPs was found to be variable:

- some of the problems are rooted in the OP where the scope of the Policy Fields and Measures are not effectively differentiated.
- some problems, such as the appropriateness of the balance of resources and the relevance of targets stem from technical difficulties in attempting to regionalise a national programme.
- others problems are regional in origin and can include a failure to define the role of Objective 3 within the overall pattern of HR effort and a failure to clearly identify priorities, sometimes intentionally in order to preserve flexibility.

In drafting their RDPs, some regions have made considerable efforts to overcome these problems, but in others it is not clear that the RDP provides an effective framework to drive co-financing in a detailed fashion.

On the assumption that a fundamental revision of the OP and the basis for resource allocation is unlikely with the Programme having only three years to run, reform needs to focus on helping regional programmes to work around these constraints. The evaluators perceive the best chance to improve the quality and smoothness of implementation is a modest revision of the RDPs coupled with some evolution in the relationship between the RDPs and co-financing plans.

The present arrangement where Measure level bids are in some cases only completed following procurement raises questions about its strategic quality. While administratively convenient, this approach effectively rationalises what has been procured.

CFO Status, Plan Development and Co-ordination

The processes of bidding for CFO status, and preparing and negotiating co-financing plans have become significantly easier as a result of a combination of improved guidance and new applicants being able to build on the experience of the pathfinders, including being able to see examples of agreed plans.

However, implementation of co-financing has been adversely affected by capacity issues:

- CFOs have been subject to significant discontinuity in the personnel responsible for co-financing. Both LSCs and JC+ CFOs has been affected by staff turnover and, in the case of JC+, significant organisational restructuring. Several GOs and numerous providers have highlighted operational difficulties arising from this; and
- concerns were raised both by GO and CFO consultees about the capacity within the GOs to manage co-financing; some GO representatives had doubts about their remit in this regard. the initial evaluation recommended that additional senior staff resources should be made available to facilitate effective monitoring of CFOs. As co-financing is now being implemented intensively in all regions, the staffing in GOs now needs to reflect the evolution in management tasks implied by co-financing.

Co-ordination of CFOs' coverage of Programmes and clear differentiation of their activities can play a significant role in improving the coherence of the co-financing offer to the market, particularly in those regions where there is a more complex mix of CFOs. The Government Office is best placed to facilitate negotiations between CFOs and CFOs would generally welcome such a lead.

There appears limited scope for the development of common systems across different CFOs in any region, but a high level of consistency in application materials, criteria, timing of bidding rounds and monitoring practices ought to be possible among the LSCs in each region. The introduction of LSC regional co-ordinators in some regions is welcomed.

Mechanisms such as the clearing house operated in one region and the joint prospectus in another should help CFOs to manage the expectations of providers and increase the relevance of bids.

Participation, Accessibility and Transparency

The survey of providers demonstrates conclusively that CFOs are contracting with very significant numbers of Voluntary Sector and organisations new to ESF. This suggests that the opportunity to tender has been widely promoted and that sufficiently interested prospective bidders have been able to access tender documentation. Accordingly, it is difficult to sustain, as a general proposition, the view that co-financing is systematically disadvantaging the Voluntary Sector and / or small organisations.

CFO quality standards do not appear to be a major hurdle to participation. Only a third of new providers were already on approved supplier lists. Of the rest, some 86% were able to meet quality standards immediately - including a high proportion of Voluntary Sector providers.

There is evidence that the provider market is adjusting to the co-financing regime:

- the vast majority of applicants, – whether successful or not – are likely to apply again.
- there are relatively few organisations in the recently active ESF provider population that have bid under co-financing and been wholly unsuccessful.
- among former ESF providers that are yet to bid under co-financing, approximately 70% are likely to do so in the future.

While CFOs have made significant efforts to meet with a broad range of local stakeholders when drawing up their co-financing Plans, in the main, this appears to take the form of briefing rather than an exchange of ideas that could lead to the plan being revised.

As a result of a combination of CFO's own promotion and provider networking, there is now a high level of awareness among providers concerning:

- the opportunity to bid.
- the process through which bids would be appraised.
- the criteria that would be employed.

A very large proportion of providers surveyed are satisfied with or neutral towards the information provided by CFOs on bidding, and towards the transparency and the fairness of the selection process. The main source of dissatisfaction among unsuccessful bidders and others that were less satisfied appears to be the provision of feedback.

While it is acknowledged that the provision of quality feedback can be time consuming, particularly for those CFOs that have received large numbers of bids, the evaluation has identified instances where the feedback has been cursory and not consistent with client focus. This is a critical issue in extending the legitimacy of co-financing in the eyes of providers.

A further factor reducing satisfaction with co-financing is the level of help provided by CFOs in the pre-tender stage. This appears to have reduced in the past year as part of the move towards greater formality in the competitive tendering process.

The more questionable tendering practices identified in the initial evaluation appear to have been all but eradicated. Only in one case did the evaluation identify practice that may not be compatible with competitive tendering.

Added Value

On the basis of the research that has been possible here, it is evident that co-financing is both extending mainstream Government provision (scale additionality) and adding value to it (qualitative additionality) but the balance of these effects is unclear, as is the appropriateness of the balance. The extent of the different forms of additionality could potentially be researched through analysis of a sample of tender specifications, but this has not been possible within the scope of the current study.

Other Impacts of Co-financing

The survey of providers reveals a significant incidence of organisational impacts reported by providers:

- 22% attribute increased employment and 2% a decrease, wholly or substantially to co-financing.
- 16% attribute increased investment and 2% a decrease wholly or substantially to co-financing.
- looking forward, 18% forecast increased provision and 4% a decrease, attributed wholly or substantially to co-financing.

Given that the scale of ESF is unchanged, these findings suggest that co-financing has resulted in ESF becoming more highly dispersed than before. This is consistent with the findings, reported elsewhere, that co-financing has drawn in a large number of new providers.

Analysis of the findings by sector provides some insight into the redistribution. The findings suggest:

- co-financing has provided less opportunity for the Higher Education sector, consistent with the sector not coming within the remit of the main CFOs.
- co-financing has been associated with some restructuring of the FE sector's involvement in ESF, anecdotal evidence points to more targeted and less mainstream use.
- co-financing has benefited smaller and more specialised Voluntary Sector providers while larger, more general organisations have not all sustained previous levels of ESF take; this is consistent with anecdotal evidence.

The findings do not support a contention that there has been a reduction in access for disadvantaged groups in aggregate, although there will inevitably have been winners and losers among the organisations serving such groups. There are some notable regional variations in the findings. Two regions, London and the West Midlands, stand out, with the former returning a relatively less positive report and the West Midlands being exceedingly positive.

The findings are less clear on whether the strategic procurement of provision is leading to better matching of provision to beneficiaries needs. A large scale beneficiary study would be required to provide a definitive answer. However, a majority of the providers surveyed believe this to be the case.

The impact of co-financing upon innovation is not clear. Perspectives differ, although the research suggests that there may be more innovation than GO and provider consultees are aware of. Analysis of what CFOs are actually buying, particularly from new providers, is required to support firm conclusions.

Across the regions there is clearly debate about the need for and the appropriate use of capacity building resources:

- what capacity building is.
- who it is to benefit.
- how it relates to the Programme
- whether it should be concentrated in limited areas of the Programme or across all Measures.

- how much resource should be made available.

Nevertheless, LSCs are clearly devoting significant resources to capacity building projects in addition to the support given to provider development by most CFOs through the co-financing process.

The prevailing view among providers surveyed is that overall capacity building effort at local level has improved since the introduction of co-financing, although it is not possible to conclude that there has been no change in the balance of such actions. Almost two thirds of those responding held this view while almost 90% considered that it had become no worse. The responses obtained from Voluntary Sector providers, traditionally the main beneficiaries of capacity building actions, were not notably different from the average. There are no outstanding variations in the pattern of responses by region.

Just over half of those expressing a view perceive that co-financing has had some impact on relationships between providers. In spite of the move towards more formal competitive tendering processes, three out of four perceiving any change consider that relationships between providers have become more collaborative. Only one in eight of those who responded consider that relationships between providers have become more competitive following the introduction of co-financing. This view is most pronounced among unsuccessful bidders and, to a much more limited extent, among Voluntary Sector providers. Regional differences are mainly marginal.

Administration of Co-financing

The initial learning curve faced by LSC and JC+ personnel was compounded by downsizing and staff turnover and had an adverse impact on their capacity to manage co-financing in the early stages. There are indications that this is now easing, although some GOs remain concerned.

The majority of CFOs report that they are able to work within the management cost limit, of 5% of total eligible cost. Under the model of co-financing operated by the LSCs and JC+, the implementation cost of the match funding is a sunk cost. It is only the ESF which is buying additional activity. Accordingly, 5% of total eligible cost could amount to 11% of ESF. The evaluators have some concern about the potential effect on programme impact if this figure were to become "the going rate". Allied to notional percentages for capacity building, etc, there is a threat of considerable attrition of the share of resources that actually goes to work with beneficiaries. Quality is not costless, but there is a need to maintain an appropriate balance.

While it is acknowledged that co-financing does bring some administrative savings through simplified applications procedures and from reporting to only one funding body, these benefits are perceived to have been eroded to some degree by increased monitoring and other demands, although these *may* be helping to raise provider standards.

The more formal tendering process used by some CFOs are very different from preparing a direct ESF application; some examples have been found of this being bureaucratic and unfriendly, which may have been exacerbated by pressure from a large volume of tenders.

A substantial minority of CFO providers in the sample report that advance payment terms under co-financing are less favourable. However, a majority consider that the

claims process requires no more effort and that payments are at least as regular as under direct bidding.

When the levels of activity at GO, CFO and Provider level are taken into account, it is not clear from the research in this area that progress is being made towards the objective of reduced administrative costs and demands overall.

Incorporation of the Cross-cutting Themes

Most, but not all CFOs, are integrating equal opportunities through a combination of active and passive measures, variously covering some of:

- identifying equal opportunities target groups in tender specifications.
- taking account of equal opportunities in the appraisal process.
- placing obligations on providers to operate in line with the CFO's equal opportunities policy.
- encouraging providers to enhance the equal opportunities performance of their provision.

There is probably scope for reinforcing these approaches at the margin, notably by encouraging providers to tailor provision to enhance accessibility to specific target groups.

It is not clear that the present level of integration of equal opportunities has been influenced significantly by its formalisation as a cross-cutting theme.

The relevance of the ICT and sustainability themes is widely questioned and appear to be implemented in an essentially superficial manner.

There is a great deal of consistency between these findings and those in the Mid-term evaluations of Structural Fund Programmes that have widely raised questions about their added value and proportionality. They do not appear to be distinctive to co-financing.

10.2 Recommendations

In view of the medium term threat to the Objective 3 Programme represented by the LSC's present difficulties in identifying match beneficiaries, we recommend that the scope for reducing these risks be explored alongside present efforts to tag beneficiaries: is it possible to earmark more of the LSC's development funding for these purposes, for example?

We recommend that under co-financing, the role of RDPs should be to provide a strategic lead and framework for the development of co-financing plans. For RDPs to provide a justifiable basis for tightly corseting to co-financing plans would require a level of rationality that is simply not present in most and that may not be attainable given the constraints from the OP, the national targets and regional resource allocations.

We recommend that revision to the RDPs should make explicit:

- what role Objective 3 will play at regional level, taking account of the scale and focus of parallel actions, particularly mainstream provision.
- what groups Objective 3 will target, and the relative scale of these groups.

We recommend that the present arrangement whereby Measure level bids are only completed following bidding rounds is only sustained providing that co-financing plans present a clear and quantified outline of what groups the CFO proposes to target and the forms of provision it proposes to procure.

It is recommended that for the next round of co-financing plans, the GO in each region should actively facilitate negotiations over the Measure coverage and allocation of resources.

It is recommended that the GOs and Regional Committees should encourage actions that help to clarify what CFOs are offering to the provider market. This may encompass a greater consistency in the systems used by LSCs at regional level or more effective signposting of what the various CFOs want to procure.

It is recommended that the interim management data on physical progress should be complemented with information covering forecasts (to profile if possible) to aid the interpretation of these data.

As in the initial evaluation, it is recommended that sufficient senior staff resources should be made available at Programme Secretariat level to allow effective co-ordination co-financing activity, monitoring and other tasks distinctive to the co-financing regime.

It is recommended that in monitoring visits, GO personnel should examine indicators of capacity at CFO level: is there continuity of staff? Are there significant delays in contracts? Are providers running projects without having received contracts? How long are payments taking? It is suggested that this might be supplemented with an e-mail based provider survey to obtain feedback on CFO performance and to provide the GO with the opportunity to manage capacity issues.

We recommend that minimum standards for feedback should be set. We suggest that as part of appraisal procedures a summary assessment of bids is generated (using a semantic scale rather than scores) and that this is provided to all bidders with their acceptance / rejection letter. We recommend that unsuccessful applicants be afforded the opportunity to discuss the strengths and weaknesses of their bid

In order to compensate for the embargo on discussing projects with providers in the pre-tender period, we recommend that CFOs should run general guidance workshops in advance of a bidding round, supporting this through capacity building if necessary.

The tendering practices of LSCs and JC+ CFOs appear to be largely regularised. It is recommended that GOs with other types of CFO should verify that their tendering processes are fully competitive and / or that elements within them do not undermine competitive tendering.

We recommend that specific and independent research is carried out in two related areas:

- the rationale and strategy for capacity building. We recommend that this should go beyond the Voluntary Sector perspective of capacity building and take account of the broader evolution of provision.
- a strategy for reducing the Voluntary Sector's exposure to ESF related risk. While the evaluation does not find the sector to have been disadvantaged at

the aggregate level by co-financing, the prospect of much reduced level of ESF after 2006 does represent a more tangible threat.

As in the initial evaluation, it is recommended that the administrative costs at CFO level need to be made explicit and should identify dead-weight and sunk costs. In monitoring visits, GO personnel should ensure that there is adequate evidence of additional costs to justify the level of administration costs being claimed.

Regional Committees and GOs should encourage additional effort to integrate the cross-cutting themes in a meaningful manner. As part of monitoring visits GOs should verify the extent to which passive and active measures are being taken to integrate equal opportunities in particular.

It is recommended that as part of the co-financing process, in addition to complying with CFOs requirements on equal opportunities, providers should receive further encouragement to tailor their provision to enhance accessibility by specific groups.

It is recommended that Regional Committees and GOs should examine the scope for promoting the information society and sustainable development through HRD actions in their area and, where appropriate, should encourage CFOs to apply the findings.