



The impact of changes in funding on third-sector organisations providing employment and skills support

Contacts

Professor Jonathan Payne: jpayne@dmu.ac.uk

Dr Peter Butler: PAButler@dmu.ac.uk

Dr Jonathan Rose: jonathan.rose@dmu.ac.uk

Background

Many third-sector organisations providing employment and skills support in the UK were involved in programmes funded wholly, or in part, by the European Social Fund (ESF). Following Britain's exit from the European Union, ESF was phased out from the end of 2023, with some programmes losing ESF funding earlier than this. ESF was part of European Structural and Investment Funds (ESIF) which provided, on average, £2b a year between 2014-20. ESIF has been replaced with the UK Shared Prosperity Fund (UKSPF), which runs from April 2022 to March 2025 and provides a total of £2.6bn in funding. UKSPF is devolved through local and combined authorities who have responsibility for commissioning across three broad investment priorities/pillars – Communities and Place; Local Business; and People and Skills.

The People and Skills component was intended to replace the loss of funding from ESF for those organisations delivering employment and skills support as well as reduce the bureaucracy associated with ESF. However, there were concerns that funding allocations to people and skills priorities would not commence until April 2024/5, thereby placing in jeopardy many organisations and their programmes. The Employment Related Services Association (ERSA), along with the National Council

for Voluntary Organisations (NCVO) formed a joint working group to campaign and raise awareness of the impact this could have on the sector. The government responded by bringing forward the start date for people and skills funding allocations to April 2023. However, by this time many local authorities had already made their funding allocations, with some third-sector programmes having to cut jobs or close down altogether (<https://feweeek.co.uk/flex-on-ukspf-skills-funding-welcome-but-timing-questioned/>). Concerns have also been raised about how funding will be allocated across the three investment pillars which remains at the discretion of cash-strapped local authorities, who also have the option of expanding their own employment support services.

Researchers at De Montfort University partnered with ERSA to explore the impact of these funding changes on third-sector organisations providing employment and skills support. The resultant survey offers insights from organisations which collectively support hundreds of thousands of individuals a year to build their self-confidence, acquire education or training, start job search, and progress into employment. The survey builds on an earlier a pilot study carried out in the Black Country, supported by Black Country Futures.

Survey method

The survey was distributed and promoted by ERSA, which is a voluntary membership organisation that advocates on behalf of public, private and third-sector employability providers in the UK. The survey explicitly sought responses from those working in third-sector organisations which consider employability and skills support to be a significant part of their remit. The survey was open from the 19th of February to the 11th of March 2024. The survey collected 64 responses, with 29 respondents also providing a free-text comment in response to the question: *'Is there any other statement you would like to make about the services you provide or how to support your clients/users given recent changes to the funding environment?'* The survey is currently being supplemented with qualitative interviews with third-sector employment and skills providers, but this data is not reported here.

Respondents and their organisations

While we were interested in the views of all those who work for third-sector employability providers, the sample recruited significantly from those in chief executive and senior manager roles. Almost a third of the sample were chief executives of their organisations (31%), and slightly over a third were senior managers (38%). The remaining respondents were largely at managerial (but not senior management) level. Slightly under one in 10 (7.8%) were frontline workers. Over half (56%) of respondents said that their organisation was mainly focused on employment and skills support, while the remaining 44% considered it a significant part of their remit. Of those respondents who stated employment and skills support is the main purpose of their organisation, 58% reported that their organisation is exclusively, or almost exclusively, focused on this area. Unsurprisingly, given that the survey was promoted by ERSA, most respondents' organisations were ERSA members (56%). A third of organisations were members of NCVO, and one in ten were members of the British Association for Supported Employment (BASE). In addition, around 10% of organisations were members of 'other' groups.

The average-sized third sector employability provider in our sample had around 600 staff. However, this masks significant variation in the size of organisations surveyed. The smallest organisation employed just two staff, while the largest employed around 10,000. The organisations generally utilised paid staff to deliver their work, with just one organisation primarily using part-time volunteers. Organisations had a clear preference for using full-time, paid employees. Three quarters (73%) of organisations surveyed reported these made up most of the people who worked in their organisation, while a quarter (25%) said most of their employees worked part-time.

Users who are being supported

All but one respondent said that at least half of their organisations' clients/users have complex needs or are disadvantaged, and 4 in 10 said that all of their clients/users have complex needs. There is evidence that the level of demand from users for their

services has increased since the pandemic and during the cost-of-living crisis. About one third (31%) reported a significant increase over the previous 12 months, 31% reported a moderate increase, and 28% reported that the level of service demand had stayed more or less the same. Fewer than 1 in 10 said the number of people seeking support from their organisation had decreased.

Most respondents report that their organisations take a 'holistic' approach to supporting users. More than 90% said that they work with their users to identify barriers to employment before beginning job searches, 90% said they work at their users own pace to support their choices, and 87% said they aim to support their users into work which is sustainable given their life circumstances. This holistic approach is particularly important, given that almost all respondents surveyed (over 95%) said that they feel 'mainstream' employment and skills support models are not suitable for meeting the needs of their service users.

The respondents underline how effective third-sector organisations are in supporting service users who are often at a significant distance from the labour market. Almost 10% of respondents said their organisations had supported more than 75% of their users into employment during the lifetime of their organisation, 20% said they had supported between 50-75% into employment, 30% said they had supported 25-49% into employment, while 24% said their organisations had supported less than 25% of people into employment, with the remainder not knowing. Collectively, these organisations had supported over 100,000 people with employment and skills support over the last 12 months. Again, this figure masks significant variation. Seven organisations had each supported over 10,000 people (the highest category in the survey), while 10 organisations had supported 100 or fewer (the lowest category).

The funding environment

Respondents were asked whether their organisation had ever received funding from a variety of specified sources. By far the most common source of funding was the now-removed ESF, with 85% of respondents saying their organisation had received funding from it. This was closely followed by the Big Lottery, which had funded 77% of respondents' organisations. Just over 63% of respondents said their organisation had

received funding from the UK Shared Prosperity Fund (UKSPF), the fund which is currently serving as a replacement for ESF.

It is difficult to say precisely to what extent respondents' organisations were dependent on ESF as their main source of funding, which is likely to vary from organisation to organisation. However, with the end of the ESF, three-quarters (74%) of respondents said their organisation had experienced a reduction in funding which had not been made up by other sources of funding. Of those respondents whose organisations had experienced a loss of funding, a majority (59%) said that the loss was 'very significant', and a further 34% said it was 'quite significant'. There is also widespread pessimism among survey respondents that the UKSPF and/or other sources of funding would be able to make up for the loss of European funding. 30% of respondents were 'very pessimistic' and 38% 'quite pessimistic' that these sources of funding would make up for the loss. No respondent was very optimistic that this would happen, and less than 10% were quite optimistic.

When asked about the impact on their organisation of the transition away from the ESF, most respondents expected negative consequences. Three-quarters of respondents reported that it would lead to a reduction in the number of services offered and fewer users being supported. Reduced funding for the services provided by these organisations lowers the likelihood of those in long-term unemployment with complex needs entering paid work. Almost all respondents also strongly agreed (68%) or agreed (27%) that reducing funding available for employment support organisations like theirs would ultimately increase cost to the taxpayer as service user needs go unmet and fewer of the 'economically inactive' enter employment.

Most respondents also said that the new funding context would lead to staff redundancies (57%), and almost half thought it would lead to reducing staff hours. Around 4 in 10 organisations have already had to lay off staff in the last year because of financial pressures. Among those which have not laid off staff, 42% expect to do so over the next two years because of funding shortfalls. It almost goes without saying that these are organisations that are still in operation and have not closed down as result of changes in the funding environment. The latter group would not have been picked up in the survey. Yet almost 15% of respondents said that their organisation was under threat of closure within the next 12 months, with most attributing this to lack

of funding or lack of stable long-term funding. Indeed, as noted below, it was relatively common across the qualitative responses to see people complain about the short term and contingent nature of funding which made future planning more difficult. Along with reduced funding, this may also have implications for retaining the expertise of vital key support workers who provide users with one-to-one support, and may weaken the capacity of the sector to respond to policy challenges of helping more of the 'economically inactive' into work. There was relatively less agreement about positives arising from the loss of ESF. Only a third of respondents (38%) said that the ending of the ESF would lead to reduced funding bureaucracy, while 16% said that it would allow greater local flexibility.

The responses to the free-text question contribute further insights into the impact of funding changes on third-sector employability providers. Some of these concerns relate to local authority commissioning of UKSPF. Two larger third-sector providers delivering programmes across the UK raised concerns about the resource implications involved in having to submit multiple bids to different local authorities, stating:

There has been no consideration of increased resource required to be able to either get onto a LA framework and/or then bid with each individual local authority for funding when commissioning was previously done centrally. This now has to be done with every local or combined authority in England, Scotland and Wales.

We deliver support across England and Scotland and the devolved nature of a lot of funding means we can be delivering on circa 40 locally funded contracts at any given time. Is this an efficient way to procure services of pan-UK third sector organisations?

Another issue raised was the uncertainty surrounding what will happen when UKSPF comes to an end in 2025, coupled with the need for multi-annual funding to provide the stability for organisations to plan and retain experienced staff who provide users with one-to-one support:

March 2025 is rapidly becoming the new 'cliff edge'; we managed to avoid mass redundancy in March 23 but we need to have new funding streams to avoid this in '25.

We need both an extension to current SPF, then reform of UKSPF alongside long-term assurance.

Multi-year [funding] remains a priority for most if not all third sector organisations to increase their chance of sustainability year to year.

ESF funding was generally for 2-3 years and UKSPF appears to be just 1 year (at least it has been for us) which restricts us planning and moving forward.

Shorter-term funding cycles can also make it harder to provide the long-term support that individuals furthest removed from the need to progress:

Changes to ESF to UKSPF funding have significantly reduced the length of time we can support people...furthest from the job-market. Having longer to support people produces better outcomes for them and society. Positive outcomes are better mental health with reduced need for NHS and social care support. People contributing to society through unpaid work or part-time/full time paid work. Working with people for a prolonged period of times enables us to guide them through the whole journey from ill-health and instability to wellness and contribution to society. This process can take years.

We work with people who have mental ill health and require 1:1 support... Short term funding is very unhelpful and creates uncertainty for both clients and staff.

Issues were also raised about some cash-strapped local authorities not releasing funds to commission specialist third-sector provision:

Local Govt and devolution has resulted in havoc on quality provision by taking and keeping all government investment and not deploying Third sector at scale. That combined with Prime Contractors and DWP/ JCP contracting and resource allocation and service design results in poor results, VFM [value for money] and a complete ignoring of equalities issues e.g women, Black and

racial minorities and disabled people - all homogenised and conveyor belt interventions.

Concerns were also raised about the market dominance of large private-sector contractors crowding-out the third-sector, not least DWP-funded contracts which are still seen as too bureaucratic:

We have tried to secure contracts through the DWP DPS because this is increasingly hard to fund (we have previously been funded through National Lottery, and other trust funders - 16 years). However, we have been unsuccessful in every attempt to secure local DWP funding. We think it is because big national/multinational organisations bid for these contracts at a loss. This is frustrating because we know they cannot reach the women we are [supporting].

Loss of ESF funding is a disaster for third sector organisations.... third sector organisations are exploited by national private sector contractors who cream off profits from third sector work and offer little in return. Payment by results contracts which we successfully deliver as sub-contractors are risky as you can lose money as well as make money. Private sector contractors should not take so much money from the outputs delivered by third sector organisations. They are exploitative and the government is quite happy to let them be so. ESF contracts were notorious for unnecessary bureaucracy. An employment advisor would spend over 50% of their time dealing with bureaucracy and paperwork which left only a small amount of time to actually work with unemployed people! Other contracts DWP etc also still have excessive paperwork requirements. The future for third sector organisations delivering employment and skills looks very bleak.

We are a specialist organisation providing support to disabled people and those with long term health conditions. Current commissioning approaches are favouring large private sector companies with a 'one size fits all' approach which are forcing us out of the employment and training market. Once those organisations have secured a contract, they frequently approach us for help

and support with clients with complex needs that they can't or won't support themselves, often with no financial reward.

Further research is needed to understand how commissioning undertaken by local authorities is taking place, the role played by private contractors, and whether this has reduced levels of bureaucracy.

Others questioned whether large-scale private sector providers and statutory programmes could win the 'trust' of vulnerable disadvantaged groups and emphasised the need to adequately fund and resource grassroots, community-based organisations:

Trust is vital, large-scale corporates or statutory sector delivering programmes from town centres is fine, but those with most inequalities engage reluctantly, small scale hyper local and consistent presence of a charity has a place for some people, but they can't run on fresh air and unrealistic unit costs, lacking the analysis to really understand what it costs to build that trust.

Small and medium-sized TSO providing specialised support for particular groups of users are also adversely affected by a 'volatile funding environment' which can lead to reduced support for their users and end up costing more to support them:

As a small Charity, there are fewer opportunities for growth and expansion due to the volatile funding landscapes not recognising the specialisms of Charities such as ours. This ultimately leads to pressures on other services not equipped or specialised enough to support these customers and in the long run far more expensive than if they'd engaged the specialist in the first place.

Recognition and voice issues

Despite the expertise that exists within the organisations surveyed, and their efficacy in supporting people into work, many feel unappreciated or neglected by central government. A significant majority of respondents either strongly disagreed (35%) or disagreed (33%) that the contribution of voluntary/third sector organisations to delivering employment and skills support for the long-term unemployed or

economically inactive is recognised and valued by the national government. This is also reflected in some of comments to the free-text question:

Our organisation as well as other VCSE organisations, spend a lot less, to achieve improbable outcomes, with all those that society seems to have turned their backs on, if they cannot fit one box. Yet, we do this with the least possible recognition and resources!

Loss of ESF funding is a disaster for third sector organisations. The government does not value the contribution of third sector organisations in helping disadvantaged people into employment.

In this context, it is perhaps also unsurprising that most respondents either strongly agreed (44%) or agreed (32%) that third sector organisations need an advocacy organisation that exclusively speaks on their behalf to the government. The picture is somewhat better when it comes to local authorities consulting with third-sector employability providers about strategies for investment in employment and skills support in their area, with just over half of respondents (53%) reporting that their organisation had been consulted. Whether, or to what extent, this equates with meaningful voice and influence in local commissioning, however, remains unclear.