



Shouting into the Void? The introduction of the UK Shared Prosperity Fund and its impact on third-sector organisations delivering employment support in England

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Introduction

The UK's exit from the European Union on January 31, 2020 meant that the European Social Fund (ESF), a component of European Structural and Investment Funds (ESIF), would cease by the end of 2023. ESF played a crucial role in supporting third-sector organisations (TSOs) providing employability and skills support for the hardest-to-reach individuals furthest from the labour market. During the last round of funding, the scheme supported over 7 million participants on programmes across England, more than 700,000 of whom found work, with over 260,000 gaining basic skills and over 650,000 acquiring qualifications at Level 2 or above (Taylor et al., 2023: 237).

The UK Conservative Government signalled that alternative funding would be made available, free of the 'bureaucracy' associated with ESF.¹ A £220m Community Renewal Fund was launched for 2021/22, devolved through local authorities, to prepare for a new UK Shared Prosperity Fund (UKSPF) that would replace ESIF. It was claimed that UKSPF would be more flexible than European funding, allied to a

¹ <https://www.gov.uk/government/news/communities-across-uk-handed-control-of-26-billion-levelling-up-funding> and <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/848/84803.htm>

clear commitment that it would ‘ramp-up’ to at least match current receipts from EU structural funds.²

UKSPF runs from April 2022 to March 31, 2025, with £2.6bn of funding devolved through Combined Authorities and ‘lower-tier’ local authorities to use across three investment pillars – ‘Communities and Place’, ‘Supporting Local Businesses’, and ‘People and Skills’. Funding was allocated on a per-capita basis and an area’s level of deprivation and need, with councils having discretion over how to allocate resources between the three investment priorities. The ‘People and Skills’ element was supposed to replace the loss of ESF for organisations delivering employment and skills support. However, the transition to UKSPF was beset with a number of problems. It quickly became apparent that the £2.6b funding available would not make up for the loss of ESIF, which had provided, on average, around £2bn per year between 2014-2020.³ Funding was, therefore, not only significantly reduced but would depend on how each combined authority/local authority chose to allocate resources and commission employability support.

Another problem was that funding for ‘People and Skills’ priorities was not due to commence until April 2024/5, leaving a funding gap which could have severe consequences for TSOs were ESF to disappear with no other funding in place. The Employment Related Services Association (ERSA), whose members include private, public and third-sector providers of employment support, and the National Council of Voluntary Organisations (NCVO), which represents the voluntary and community sector, formed a joint working group to raise awareness of an imminent funding ‘cliff edge’ and the danger of many third-sector providers closing down or retrenching their provision.⁴ The government responded a few weeks prior to the 2023 Spring Budget, announcing that it would bring forward the start date for people and skills funding to April 2023. By this time, however, many local authorities had already made their

² <https://www.conservatives.com/our-plan> and <https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020#investing-in-a-recovery-for-all-regions-of-the-uk-1>

³ <https://www.ncvo.org.uk/news-and-insights/news-index/levelling-up-through-the-uk-shared-prosperity-fund-what-needs-to-happen-next/>

⁴ <https://www.ncvo.org.uk/news-and-insights/news-index/levelling-up-through-the-uk-shared-prosperity-fund-what-needs-to-happen-next/>

funding allocations, with reports of third-sector providers having to cut jobs or shut down altogether.⁵

There were also questions around how local authority commissioning of UKSPF would work in practice, given that this is a new area for many local authorities and austerity policies pursued by UK governments since 2010 meant councils in England experienced a 28.6% reduction in their real-terms spending power between 2010/11 and 2017/18.⁶ Local government and civil society (including TSOs in the employability space) have also been expected to deal with the fall-out from the pandemic and the recent cost-of-living crisis (Cook et al., 2023). The predicted levels of unemployment feared as a result of Covid may not have materialised, but levels of economic inactivity have increased markedly, with a record 2.8 million people currently inactive due to ill-health.⁷ Against this backdrop, research was undertaken by a team of academics at De Montfort University in order to gain a clearer understanding of the scale of the pressures that TSOs involved in delivering employability support are facing with the transition to UKSPF, and how they are responding to these challenges.

The third-sector and employability support

From the 1980s, the ‘third sector’, which generally refers to community-based, voluntary and not-for-profit organisations, has played an increasing role in public policy (Alcock, 2016), including government-funded programmes aimed at moving the long-term unemployed into work. Many TSOs also provide employability support outside of mainstream government-funded programmes (Damm, 2012, Lindsay et al., 2018; Payne and Butler, 2022). TSOs are often seen as having distinctive advantages in working with people who are furthest from the labour market and who experience multiple barriers to work, and as being highly effective in engaging those who do not interact with mainstream Department for Work and Pensions (DWP)/Jobcentre-Plus. Their approach typically emphasises the benefits of voluntary user participation and personalised, ‘wrap-around’ support with the help of dedicated key workers who

⁵ <https://www.civilsociety.co.uk/news/employment-services-charities-plan-redundancies-as-eu-funding-ends.html>

⁶ <https://www.nao.org.uk/press-releases/financial-sustainability-of-local-authorities-2018/>

⁷ <https://www.resolutionfoundation.org/press-releases/britain-has-a-bigger-but-sicker-workforce-than-previously-thought/>

support users on a one-to-one basis. The aim is to build relationships and address individuals' barriers to work at a pace which suits users and helps them find work that they want to do and that fits with their life circumstances. This approach is often contrasted with the highly transactional DWP/Jobcentre-Plus 'work-first' model, where claimants are subject to 'benefit conditionality' and have to demonstrate active job search aimed at rapid entry into any job or risk losing their benefits, a process monitored by work coaches with high client caseloads and limited time to offer support (Jordan, 2018; Wright et al., 2020).

Limitations of space prevent a full account of the evolution of welfare-to-work policy in the UK. Government-funded programmes aimed at the long-term unemployed, for example the Work Programme (WP, 2011-17) and the Work and Health Programme (W&HP, 2018-), have used a payment-by-results (PBR) funding model involving prime/lead contractors supported by a supply-chain of sub-contractors (Lane et al., 2013). Funding has been allocated according to hard outcomes of getting participants into paid employment, with an increasing emphasis on them staying in work for at least 6 months. Very few large third-sector organisations have managed to become prime contractors, and their involvement is usually as sub-contractors within the supply chain.

The literature highlights a range of problems that TSOs confront in entering such contractual relationships. These include potential clashes between their mission-driven ethos and a PBR funding model that incentivises moving people into work quickly (Edgell et al, 2016). There have been concerns that the latter incentivises 'creaming' (focusing support on participants who are easiest to move into work) and 'parking' (neglecting those with more complex barriers) (Carter and Whitworth, 2015; Greer et al., 2018). There are also questions around the role played by large private-sector 'primes' in dominating the market and using TSOs as 'bid candy' to win contracts but then not making sufficient referrals to render the contract financially viable for them, and whether the commissioning process may be squeezing out smaller TSOs and leading to service homogenisation (Shutes and Taylor, 2014; Edgell et al., 2016). Research suggests that while convergence pressures in the WP were strong, some TSO sub-contractors have found ways of resisting them, limiting homogenisation and maintaining distinctive ways of working with clients (Rees et al., 2024).

As Damm (2012: 17) notes, the third-sector's involvement in government-funded welfare-to-work programmes is 'only a small slice of the wider third sector and one about which comparatively little is known'. Many TSOs, whether out of choice or having failed to win government-funded contracts, deliver employability support with alternative sources of funding such as the National Lottery and, until recently, ESF. Here, user participation is voluntary, although non-contracted TSOs may be approached by 'primes' and the DWP Jobcentre-Plus to support clients referred to them, without receiving financial support.

Evaluations of such programmes suggest positive results from programmes such as the *Building Better Opportunities* (BBO) Programme. BBO provided joint funds of £605m from ESF and The National Lottery Community Fund to support people with multiple barriers to move into work, education and training, or job search. A recent end-of-programme evaluation (Ecorys, 2023) found that, between 2016 and 2023, it had engaged with over 180,000 people. Of these around half were 'economically inactive', with a similar proportion having a disability or mental health condition, and over 80% came from disadvantaged groups. Out of 111,639 programme participants who formally recorded a result, 34% moved into employment or self-employment, 31% into education and training, and 16% into active job search. Based on responses to a follow-up survey, the evaluation also found that 71% of users reported increased confidence, 64% reported improved well-being, and 43% reported gaining new skills. The scheme also promoted local partnership working with over 1700 organisations involved in over 130 partnerships. However, many organisations noted challenges involved in dealing with the 'burden of administrative, reporting and evidence requirements associated with ESF' (Ecorys, 2023: 10; see also Crisp et al, 2010, for a similar critique of ESF).

At the same time, a number of think tanks have recently called for a radical shake-up of the public employment system. A report for Demos (Phillips, 2022) calls for a new 'Universal Work System' that integrates employment support, skills and careers advice services, based on local commissioning and delivery. Improving outcomes is seen to require stronger relationships between citizens and their one-to-one Jobcentre-Plus work coach, and between users themselves to build social capital and wellbeing, drawing on arguments advanced by Hilary Cottam in *Radical Help* (Cottam, 2018). A report by IPPR (Wilkes et al., 2023) argues that the DWP 'work-first'

conditionality approach, administered through Jobcentre-Plus, wastes time and resources by forcing clients to apply for unsuitable and often poor-quality work, and is failing both job seekers and employers in the process. It also calls for a new universal public employment service, which includes Jobcentre-Plus work coaches offering tailored advice and support that takes account of individuals' personal aspirations and evolving labour market needs. Whether there is any appetite among policymakers for such reforms, given that they conflict with the dominant mantra of 'work-first conditionality', remains to be seen. What is perhaps most striking, however, is that such reforms are built around a model of support that has long been practiced by many third-sector providers in the employability space.

It is important to note, however, that TSOs delivering employability support are hugely varied in terms of their size, the role they play in relation to the mainstream public employment system, their interests, and the extent to which they are likely to be impacted by the transition to UKSPF. Smaller TSOs, for example, are likely to have less diverse sources of funding and may struggle to secure government-funded contracts on programmes like the Work and Health Programme and Restart.

Research methods and aims

The data were gathered between February 2024 and April 2024. Perspectives on the changes in funding were obtained via semi structured interviews conducted by the research team. A total of fourteen interviews were undertaken using a purposive sampling approach. This involves identifying and selecting individuals or groups of individuals that are especially knowledgeable about, or experienced with, a phenomenon of interest (Palinkas et al., 2015). Accordingly, ten interviews were undertaken with senior personnel employed by TSOs specialising in employability support. These comprised TSOs of various sizes, drawn from various geographical locations. The largest employed several hundred workers and the smallest just 18. There is a potential sampling bias in that those who chose to engage in the research may be more inclined to hold a negative view on the impact of funding changes. The data, however, included participants of organisations that have experienced a variety of outcomes.

In addition, four interviews were conducted with representatives of various 'stakeholder' groups. These included consortiums and associations of individual TSOs, along with national bodies representing the employment support sector and third sector organisations. This latter tranche of discussions was invaluable in mapping whether the perceptions of the individual TSOs was characteristic of the broader sector. Interviews varied in length from 60-90 minutes. An interview guide was used flexibly to cover key topics of interest. All interviews were audio-recorded and transcribed verbatim, and a qualitative thematic analysis adopted to organise the data. This involved reading interview transcripts in detail to gain familiarity with the content and noting recurrent themes. In accordance with research ethics protocols, interviews were based on informed consent and voluntary participation. Consistent with academic guidelines, the researchers secured prior ethical approval from De-Montfort University's research ethics committee.

The **research aims** were as follows:

- To explore the implications of the shift away from ESF to UKSPF for TSOs specialising in the field of employability support.
 - To consider issues relating to both the size of funding and the commissioning process.
- To identify how the current funding regime might be improved.
- To develop a set of policy recommendations based on the findings.

Research findings

The research findings identified a number of key issues with the transition to UKSPF. This section considers the impact of reduced funding, funding delays and problems with local authority commissioning, before considering the impact on the organisations of those interviewed. It then moves on to consider interviewees' views of possible 'ways forward', and the challenges involved in influencing policy change.

Reduced funding and funding delays

A central concern voiced by many interviewees is that the level of funding for employment support through UKSPF marks a significant reduction compared with European funding that was previously available. As one put it, '*We all acknowledge*

that there's not the money in the system there used to be' (TSO6). For smaller providers in particular who were heavily reliant on ESF – what one called their '*lifeblood*' – the amount of funding available was now a '*big challenge*' (TSO9). Some larger charities, however, have also been significantly impacted. TSO6, a relatively large charity in the North East, stated that the funding they had managed to secure through UKSPF was around '*half of what we would get from an average year of European funding.*' They cited the example of County Durham, which received a UKSPF allocation of around £33.6m (including funding for 'Multiply') compared with 'around 80 million' under ESF.

In addition to the reduced level of funding, interviewees highlighted the rushed way in which UKSPF was introduced and the impact of the '*long delay*' in providing funding for 'People and Skills' priorities.

... it was all done very last minute and there was very little detailed information... it's just ridiculous to expect people to take things on board that quickly....it was a bit of a bungled project from central government...ended up being very rushed... (TSO2)

TSO6 explained how in the Tees Valley there was a 6-month funding gap when no funding was available for employability support and '*the phone just kept ringing as people needed support*' only to have to be turned away. Some explicitly blamed the Department for Levelling Up, Housing and Communities (DLUHC), responsible for implementing UKSPF, insisting lead authorities had received '*rubbish guidance... in terms of how they should commission*' which had added to the delays (TSO6).

These delays meant that many TSOs had been unable to retain the knowledge and expertise of valuable key workers who either had to be let go as funding for their post came to end or had been driven to seek alternative employment due to the uncertainty. TSO1, a large provider that had coped reasonably well, noted that many smaller TSOs had very limited reserves to absorb such delays:

... the voluntary and community sector, it's always been hand to mouth... you don't expect to have some massive stockpile of cash to sit on ... so when you get a hit, their reserves disappear very, very quickly... you lose some really good staff very quickly... (TSO1)

Another TSO remarked:

So obviously you've got the loss of continuity, the loss of expertise, you've got programmes that have to start at short notice and you lose a lot of time through recruitment. (TSO4)

TSO6 had previously employed 40 staff on an ESF/Lottery-funded BBO project. Most had been made redundant, as was the case with their 11 partner organisations involved in the project.

Many interviewees were deeply concerned that Government had not learnt from these past mistakes. They pointed to the lack of clarity as to what will happen when the current tranche of UKSPF ends in March 2025, with another looming funding gap on the horizon:

What's going happen from the 1st of April 2025 because ... we've seen nothing. (TSO4)

there's going to be another potential cliff edge ... what is the plan post-2025? (TSO6)

None of us know if there's any UKSPF after next year and actually not having that certainty will make charities make decisions now about whether they retain staff for the long-term, develop, invest etc (TSO1)

Problems with local Authority commissioning of employment support

There were many concerns expressed around local authorities' role in commissioning UKSPF in terms of the failure to release funds, lack of consistency and transparency, duplication of services and the highly fragmented funding landscape. Although there was some empathy for local authorities who had been expected to commission provision at short notice with little guidance from Government, there was also considerable frustration at how many local authorities had subsequently gone about using UKSPF funds. Some local authorities had consulted and engaged with the third-sector but, for others, their engagement was 'non-existent' (Stakeholder1). One TSO (TSO8) recalled that while a combined authority had asked affected parties to put in

letters if they deemed themselves to be 'at risk' with the end of ESF, such correspondence did not attract any sort of response.

Another common complaint was that some cash-strapped councils have used UKSPF to support their own in-house employability support teams rather than focusing on the best way to support users.

Some of them have just top-sliced UKSPF and kept their teams doing it. (TSO6)

What we've found is that ... the smaller local authorities with less experience of this, less capacity... cash strapped ...they're more likely to try and deliver this in-house rather than commission charities to do the work. (TSO7)

There was one council...withdrew their whole UKSPF, they didn't make an award. And when we asked for feedback ... they just declined ... we wondered where UKSPF funding ended up. There was no transparency... (TSO4)

Many interviewees argued that council-run provision was not always effective or appropriate for users and 'had not changed with the times' (TSO2), for example failure to recognise that many of the economically inactive do not engage with services housed in high-street offices without significant outreach work.

Concerns were also expressed about many smaller local authorities in particular lacking the capacity or expertise to commission effectively according to user needs, in what many described as a 'postcode lottery'. Even where local authorities had sought to commission provision from external providers, there was considerable variation in terms of their procurement methods. In many cases, the hoped-for reduction in bureaucracy associated with ESF had not materialised. Some councils were said to be 'pulling off the ESF forms they always use, taking the logo off and still asking us to submit the same paperwork' (TSO1); 'they've just copied what was there before' (TSO7). Others were introducing equally onerous compliance requirements of their own, often accompanied with a payments-by-results model. One TSO was 'very worried' about the soundings their combined authority was making:

They were talking about having to demonstrate the eligibility of participants to receive the project, having to track all the spending through to bank statements and all those kinds of things that anyone who's done ESF projects will recognise and will have the scars of having to do that. (TSO2)

One commented, *'some of them are terrible, it's just like doing ESF again ... whoever thought we'd say bring back ESF'* (TSO6), while another noted that commissioning by some smaller local authorities had been *'catastrophic'* (TSO4).

There was a recognition that years of austerity had taken their toll, with some local authorities *'just recycling what they've done in the past to try and keep the plates spinning'*, without always fully understanding what is involved in commissioning employment support and *'standing back and thinking what's the actual need now'* (TSO3). Stakeholder1 noted that, *'after a decade of austerity... it's natural that some councils will hold onto some of the money themselves, if not all of it... and because of funding lost they don't have the staff or capacity in place [to commission].'*

Interviewees bemoaned the short-term nature of local authority commissioned contracts, which were typically no longer than 12 months and, in practice, by the time the contract was up and running, often less. TSO8 had formerly been heavily reliant on ESF. They had been offered £60,000 to deliver a 12-month contract to support 75 people, complaining *'the numbers were much higher and the funding much lower'*. As a consequence, some TSOs had opted not to make any bids for UKSPF as it is *'hard to recruit someone for a 12-month contract because there's no longevity'* (TSO4). TSO1 had opted not to apply for *'70% of UKSPF'* tenders that came out as it was simply not worth it:

They are not financially viable for us to run because they're just letting one year worth of funding for me to go out, recruit staff for one year, make them redundant. Actually, why would I do that? I'm not going to hit any of your targets, because it's going to be a struggle for the first three months. Actually, getting it up and running we will just get into a nice full delivery and then I've got wind it all down. (TSO1)

Many interviewees were frustrated at policymakers' lack of appreciation of how difficult it is to recruit knowledgeable staff and scale-up capacity quickly to deliver short-term funded projects:

... the assumption they seem to make [is] that we sit there with just lots of staff raring to go and we're just going to keep paying their salaries or you've got an army of volunteers that will step up on Monday morning and that's just not the reality. (TSO1)

...if you've had good people who've left your organisation ... you can't just get those same people again ...if you get other people, there's always a time lag when you can't sustain the same quality, the same effectiveness of your services (TSO2)

Short-term funding not only created problems in terms of staff recruitment and retention. More broadly, the funding terrain was also seen as inimical to the long-term, one-to-one support vulnerable users with complex needs required:

It was so unsuitable that, even though we desperately need funding, we didn't apply. ... it was felt we would be doing beneficiaries [users] a huge disservice to set up a project just to close it back down 12 months later...we'd be picking people up and dropping them...(Stakeholder3)

12-month funding doesn't resolve a situation, it just ticks a box. To get genuine change with the most needy takes years. (TSO9)

Responsibility was seen to reside with central government for its lack of planning around funding decisions and the failure to put in place longer-term funding, with local authority commissioning delays adding to the problem.

Many interviewees also commented on the fragmented funding landscape and the need to make multiple bids to different local authorities, for relatively small sums of funding, which they saw as time consuming, inefficient, counter-productive and a perpetual drain on resources. A manager of a smaller TSO commented wearily, '*you can never stop writing bids because by the time you're half way through the program, you're looking for something else to secure the staff*' (TSO8). This had taken a heavy personal toll:

I do my day job at work and I do the bid writing evenings and weekends and it's impacted on me personally and on my family life... One example is we've got a bid that's due before the Easter break and I finished it at five to twelve last night. And you go to bed, you can't sleep. (TSO8)

Organisations operating at a national or regional scale were seen as disadvantaged insofar as they were now having to deal with multiple local authority commissioners. Whereas under ESF they could bid for a contract worth several millions commissioned across a 'LEP [local enterprise partnership] area,' they were

now faced with UKSPF tenders for contracts of as little as £100,000 or even less in some cases. As one noted:

A common misconception is that, let's say for example a £1m contract is 10 times more complicated than £100,000. It's not. It might be twice as complicated. So, the smaller contracts have disproportionately more amount of work per £, if that makes sense... We look at the level of effort that's required and quite often we would walk away. (TSO4)

Others noted that the time taken up with submitting multiple bids was diverting resources from the front-line and working with users, and that small projects were unlikely to make a significant impact:

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

Now for a tiny little community centre that's [small contracts] great and they will make some impact, but we're not going to see the impact of some of the sub-regional projects that we've seen historically with ESF and BBO. (TSO6)

TSO1 noted that *'the costs it takes them [local authorities] to commission it and run it and then work with everybody to do it, there's actually no money left ...to deliver the service.'* TSO3 had been forced to stop working with small local charities in their supply chain because *'the work that we have for them isn't sufficient for that unit to be viable for them'*, given the small size of UKSPF contracts.

These problems were compounded by having to deal with different local authorities with different approaches to commissioning:

it's been very inconsistent... I thank my lucky stars it isn't actually my role to be speaking to two different funders who have an entirely different [approach]... some just want to get this [money] out quickly as possible and then, on the flip side, you've got people taking a very long time, very stringent on requirements and also having totally different time scales... (TSO7)

TSO2 had experience of the way that UKSPF had been handled by three local authorities in the region of England where it operated. They had given up trying to work with two of them; one had made no funding allocation for employment and skills,

while the other had used it to fund their own in-house employability services. They attributed such approaches to:

...which individuals [in the respective local authority] have got the power to make decisions...the pressures on the council's budget and...how well established those relationships between the voluntary sector organisations and the key individuals within the councils are. (TSO2)

Unsurprisingly, many interviewees struggled to understand why there was so little scrutiny of local authority commissioning around UKSPF, when TSOs themselves were subject to considerable compliance requirements when receiving funding. Some commented that it would be interesting to see a full audit of UKSPF commissioning 'to see nationally what each local authority did in terms of their UKSPF allocations... and whether it was deemed value for money and transparent' (TSO4). Others, however, were sceptical whether any such audit would 'ever see the light of day outside of Whitehall' (Stakeholder2)

A further problem highlighted concerned the way in which UKSPF had been allocated to different local authorities according to levels of deprivation. Although there were good arguments for doing so in principle, one unintended consequence was to leave relatively wealthy areas of the country with no funding allocation to address 'pockets of deprivation'.

... there is no UKSPF along the whole corridor from London to Brighton as far as I know because no single local authority had enough funding to make it viable. (TSO4)

The same interviewee argued that the ESF's sub-regional approach to commissioning across 'a LEP (Local Enterprise Partnership) area' circumvented some of these problems by having a funding allocation large enough for places like Surrey and Sussex to address local pockets of deprivation. Another referred to 'smaller geographic boundaries not making any sense in terms of how young people travel, how young people work' (TSO7), with confusion over who is responsible for funding provision when a young person lives in one local authority area but travels to learn or work in another area. Again, commissioning across larger geographical area was seen to offset some of these problems.

Impact of funding changes on TSO employability services

The impact that the transition to UKSPF has had on TSOs and their users depends on the extent to which they were dependent upon ESF funding, the geographical area in which they operate, and the size of their organisation. Consider, for example, large TSOs, with more diverse funding streams and specialist business development teams tasked with writing funding bids. While these are impacted in terms of the bureaucracy, fragmentation and inconsistency associated with local authority commissioning, they are not threatened with closure as may be the case for a smaller, local provider that was heavily reliant on ESF. Those within the latter grouping, interviewed as part of this project, are 'survivors' and many had been forced to reduce their service provision to offset the impact of funding losses.

One small local provider (TSO9) said that whereas under ESF they supported around 350-400 users on average a year, they were now supporting around half this number. This was not because demand for their service had reduced. Indeed, it was widely noted across all the interviews that demand from users was either at the same level or, in most cases, had increased markedly following the pandemic and cost-of-living crisis. As TSO9 noted, *'the reality is that 12 to 18 months ago, all these people were being supported, they're just not being supported now.'* One year ago, the same TSO had been operating with 10 members of staff, but were now down to just two. Despite this, they were still receiving referrals from the DWP only to have to turn people away or signpost them to other organisations:

We're now saying to DWP we're at capacity, we can't take anymore ... we'll say 'we're perhaps not the right people to be helping you, we're sorry, we have to signpost on.' (TSO9)

Stakeholder3 noted that, in the same region, the DWP were still referring claimants to employability charities without providing any financial support as if it was a 'free' service and *'they're doing us a favour helping us to reach our client number'* or *'maybe they think we're just staffed with volunteers.'*

TSO1, a large provider, had been forced to make staff redundant after ESF/National Lottery contracts and an ESF-funded project working with young people 'not in employment, education or training' had both ended.

We've just made all those staff redundant... you've lost expertise and that was because we had a massive gap between those coming to an end and we had to wait until this year before we can have any skills and employment funding... no charity can just carry staff for a year, and that was the biggest disaster of all of this. (TSO1)

They estimated that the transition to UKSPF meant they were supporting 'around 60,000' fewer clients annually than was previously the case, people with 'multiple barriers to employment... due to health, disability, mental health etc' (TSO1).

TSO2, a large charity in the region in which it operated, had previously employed a team of 15 staff working on Big Lottery/ESF-funded projects, ten of whom were key workers. Of these key workers, four had been redeployed to UKSPF-funded contracts, but the rest had left the organisation due to the end of ESF funding. They were now supporting around 20% fewer users as a result. Another large charity, TSO4, had made 'dozens of staff redundant in the last three or four months due to the end of ESF and the lack of equivalent-sized UKSPF'. They also estimated they were supporting 20% fewer users as a result of the changes in funding. Others were thinking they would need to make job cuts unless there was greater certainty over future funding around UKSPF:

...like a lot of organisations our risk register has a lot of reds on it... there are very few things that have the certainty you can peg to at the moment. (TSO3)

Only TSO5 had weathered the funding changes unscathed, having made the decision some years ago to focus on government-funded contracts, having had 'some European funding early on'.

Views on the overall state of third-sector employability support, given the current funding environment, ranged from 'gloomy' to 'crisis'.

The level of expertise in the sector is going ... some organisations are just closing down...it's definitely a crisis. (Stakeholder1)

Since I started working in the sector 20 years ago, it's always been a bit feast and famine [with more or less funding available] ... the last five years have been the worst I've seen it... it's hard, it's very disheartening... there's this massive lack of understanding that it costs money to deliver these services... a lot of the conversations I'm having with people at senior level, they're really at the end of their tether. (Stakeholder3)

Larger TSOs for whom *'it's not been an absolute kind of crisis'* because they had been able to access other funding streams, acknowledged this was often not the case for smaller charities *'who quite often deliver services that bigger charities and certainly statutory organisations can't'* (TSO2). Some TSOs noted how it could take several years to build back the capacity to capitalise on the potential of TSOs to help tackle problems of rising levels of economic inactivity, while others thought the sector was reaching a *'tipping point'* from which it could prove very difficult to rebuild capacity.

I'm worried we're going to hit this tipping point where we're going to go over the edge, where we can no longer create the infrastructure to deliver the services... some organisations have already gone... I feel like I'm shouting into the void...(Stakeholder3)

Some interviewees made the point that charities were not just providing support with employability, they were also supporting users with a host of other issues such as debt advice, housing advice, mental health and even setting up food banks and warm spaces for people at the rough end of the cost-of-living crisis. As one (TSO8) succinctly observed, *'we're the sector that props everything else up.'* Another noted, *'they've filled the gaps for a lot of government support that's not been there... that's going unnoticed as well'* (Stakeholder1). Another remarked:

We get a lot of people...who are very ill... and we're picking them up, literally...we're taking them to hospital in the car... we're not just signposting, we're not signing a form... we are physically, instantly doing something to help a person straightaway... we're getting to the point where we're going to have to start turning them away... and that's a position nobody wants to be in... (Stakeholder3)

More generally, interviewees argued that by providing the personalised, wrap-around support needed to help people into sustainable employment or by simply

improving their well-being irrespective of whether they found a job, there was a potential saving for the public purse in terms of expenditure on welfare and health that was poorly accounted for by Government and the Treasury's 'Green Book'. This is not to say that all charities are effective or efficient in the services they provide, a point widely acknowledged by interviewees, but many are and need sustainable, longer-term funding if they are to continue to do so.

Ways Forward

Most interviews recognised that there was a role for local authorities in supporting more joined-up approaches to employment and skills support at local level by linking this to broader economic development and employers' demand for skills. However, for this to work, there needed to be significant investment in local authorities' capacity to commission effectively and greater consideration of what is the most appropriate geographical scale for commissioning employment support:

[Government] need to figure out what level they want to devolve to (Stakeholder1)

We need to invest in the capability and capacity of local authorities, but also be really conscious of what level you devolve things down to. The biggest mistake ... with UKSPF is they did it down to the lowest tier of local authorities ... commissioning bin collections is not the same as commissioning an employment programme, and there is a totally different skill set. (TSO1)

TSO1 argued there needed to be much more support from 'central [government departments] commissioning teams' in building such capacity and expertise, and favoured a 'staged approach' in which local authorities were involved in commissioning without being the main commissioning body until such expertise was developed. Rolling out local commissioning at speed was problematic, and they pointed to potential problems in store if this was not considered as part of plans to devolve the Work and Health Programme.⁸ Some TSOs, like TSO1 and TSO3, were seeking to

⁸ The £100m W&H programme, which supports people with disabilities in England and Wales, will cease in Autumn 2024. <https://www.theguardian.com/society/2024/apr/21/help-disabled-people-england-wales-jobs-axed-benefits-crackdown>

work with local authorities to build their capacity to commission, although they conceded that in some areas there were not many TSOs with the scale and capacity to do so.

As well as building local authorities' commissioning capacity, more thought needed to be given to commissioning over larger geographical areas. In this sense, the plans to move commissioning of the Work and Health Programme across 46 contract areas, which encouraged local authorities to work together, was considered by some as a better approach to the fragmentation associated with UKSPF. TSO1 argued that clustering local authorities together in order to commission UKSPF across a geographical area at least as large what used to be covered by 'a LEP' was one way forward. However, they conceded that in some places '*local political differences*' between local authorities could present a stumbling block. They even went so far as to suggest that central government should '*acknowledge our local government system does not work*' and '*create forty large unitary-type authorities or combined authorities*'. They cited the example of the West Midlands, where the combined authority had been developed, despite historically fractured relations between some councils.

Notwithstanding the deep concerns expressed about local authority commissioning in general, some pointed to examples of good practice that could be built upon. Several interviews noted that commissioning around employment and skills support was generally better in some of the more established Combined Authorities, like Greater London, Manchester and the West Midlands.

In some local authorities it will work really well, particularly the larger combined authorities... Manchester, London, West Midlands, but it's the areas that aren't covered by combined authorities that concerns me. (Stakeholder1)

TSO3 described Greater Manchester as '*evidence-led*' and '*very good at partnership working*', where there was confidence in the transparency of the commissioning process. TSO1 noted that the Greater London Authority was '*generally more responsive and better at managing provision*', while another described them as '*absolutely fantastic*' (TSO4).

By the same token, however, it is important to add that not all combined authorities are seen in such a positive light. One argued that Liverpool City-Region was '*less evidence-led*' and '*very traditional*' in their approach, with '*funding favourites*'

often winning contracts that could lead to a *'lack of innovation'*. Some smaller local TSOs noted that in the West Midlands, *'there is a big difference between [different councils] and how they operate and work with third sector and that is code for difficulties'* (Stakeholder3), with some having *'no interest in talking to the third sector'* (TSO9). Councils had simply *'used that money [UKSPF] to fill gaps in their funding for roles they've created in order to keep that money in house, so very little is actually getting through then to the third sector'* (Stakeholder3). TSO8 was so frustrated at councils' duplication of service provision and unwillingness to fund her own organisation, which had a proven track-record of effectiveness, they had asked one council representative at a recent stakeholder event if the council would start brewing beer next! Developing this point, they noted: *'I don't think there's a big enough understanding that councils are using a lot of their funding to develop services that already exist.'*

Interviewees acknowledged the context of austerity, and argued that building local authorities' capacity to commission could not, on its own, compensate for inadequate funding from central government to meet the level of need from users seeking employability support.

... in fairness, I think if the pot was big enough...part of the problem is because there's been a reduction [in funding] (TS04)

In a time of tightened resources, however, the need to commission effectively and efficiently assumes even greater importance. Building local authority capacity and capability around commissioning would also require significant additional resources. There was general agreement that a national framework of procurement rules was needed to create greater consistency and ensure funding is allocated to the most effective provision in meeting user needs, while also allowing sufficient flexibility for locally-tailored commissioning. Particular emphasis was placed on the need for longer-term funding of at least three years, and preferably longer, to allow TSOs to plan, retain staff, and stabilise the sector.

Several larger TSOs argued that it was important to have a 'blended approach' to commissioning employment and skills provision with a mix of nationally-commissioned programmes that can deliver at 'volume', alongside local specialist provision delivered by 'mission-led' grassroots organisations for users with complex

needs who are furthest from the labour market. As one put it, if this could be linked to local employer demand for skills, *'that's where you start to hit the sweet spot... you can't devolve it all or do it all nationally because neither work for everybody'* (TSO1). Some argued that the UK was approaching this position prior to 'Brexit' with a mix of DWP-commissioned programmes and EFS/Lottery provision that provided relatively long-term funding, notwithstanding the bureaucracy involved in ESF reporting requirements.

Influencing Government

Interviewees were also asked about whether the UK government recognised and appreciated the role that TSOs play in supporting those furthest from the labour market into work, and how effective organisations like ERSA and NCVO were in getting this message across to government. NCVO, which campaigns on behalf of voluntary and community organisations across a wide range of issues, has limited staffing capacity to engage with employability and gather data on the funding challenges from its members. However, it has worked with ERSA to raise awareness of funding gaps and delays in commissioning. Most interviews were obtained with help of ERSA and were very complimentary of the role that ERSA plays in advocating on behalf of employability providers. TSO1, for example, saw ERSA as having made *'some massive inroads into having a voice at multiple levels, be that ministers, secretaries of state and all the way through to officers in key [government] departments.'* Another commented:

...they've got the ear of some influential politicians...[they] do a great job of banging the drum for employability in general and the third sector. (TSO6)

ERSA runs a third-sector provider forum, but this is currently on an ad-hoc basis. Asked whether there was a need for a body that specifically represents third-sector employability providers, such as exists in Scotland with the Third Sector Employability Forum, a minority thought, as one said, that this *'would make a difference... in terms of our representation and positioning'* (Stakeholder3). Most, however, thought it was helpful to have an organisation that represented private, public and third sector providers in the employability space and were content with current arrangements. TSO3 argued that ERSA does *'a great job'* but felt their position *'could*

be strengthened by having almost a statutory framework around that to ensure a more structured dialogue with Government on key issues.

The difficulties of getting different providers in the employability space to speak with *'one voice'* was widely acknowledged, however, the general view being that ERSA was *'fairly representative'* in bringing different viewpoints together. Although the research did not focus explicitly on relationships between *'primes'* and third-sector providers, it is clear that many of the issues identified in the wider literature have not gone away. As one small local provider noted:

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

TSO1 noted *'there are sharks [large primes] out there who don't mind which smaller fish they gobble up'* and which tended to *'skim off their management fee before it's paid to charities in their supply chain.'* TSO3 noted that private-sector primes demanded such a high margin, with *'management fees of 25-30%'* on *'money that should be flowing down to you'* and that was *'where the relationship really breaks down with the third sector.'* They added that there are *'quite a few third sector organisations who are running that sort of contract at a loss and that's just not sustainable.'* Both TSO1 and TSO3 argued third-sector primes were willing to reinvest in services and build capacity across their sub-contractors, especially where they had their own experience of being *'poorly treated'* in the past by private-sector primes: *'we've kind of been abused and we wouldn't wish to abuse anybody else... we do our best to support smaller providers in our supply chain'* (TSO3).

Several interviewees questioned whether Government was genuinely prepared to listen to challenges faced by third-sector providers and if it fully appreciated the role that they play in supporting vulnerable groups into work. As several noted, despite organisations like ERSA and NCVO highlighting the problem of the looming funding gap with the end of ESF, Government had not acted until it was too late, with the sector losing thousands of jobs as a result. For those providers at the sharp end of the *'crisis'*, there was a feeling of *'shouting into the void'* (Stakeholder3).

Recommendations

Based on the research findings, the following recommendations are put forward:

For Government

- Undertake a public audit of how local authorities have commissioned employment support through UKSPF to ensure (a) lessons are learnt and (b) examples of best practice are identified where lead authorities have played an effective part in the UKSPF process. This should also consider whether there are differences between combined authorities and lower-tier authorities.
- Consideration should be given then to how the capacity of local authorities to commission employment support might be developed. While commissioning by central government is not without its problems, there may be expertise in central commissioning teams that can be shared. A 'staged approach' could be considered in which local authorities are involved in commissioning without being the commissioning body until such capacity exists. Ensuring that commissioning is done in partnership with third-sector organisations and that there is transparency in the process is vitally important, building on any examples of good practice.
- Put in place a national framework of clear rules and guidelines in terms of how local authorities are expected to commission employment support services and maximise the transparency of the commissioning process and funding outcomes. Where local authorities use funding to support their own in-house services, it should be incumbent upon them to explain why this is most effective in meeting user needs and that there is no alternative third-sector provision with an established record of effective delivery available.
- Better policing of social value clauses/community benefits in successfully tendered bids is needed to ensure TSOs are not used as 'bid candy' by large primes. There is a need for greater appreciation that evaluating social value does not stop once the contract is awarded and is followed through to its end.
- More thought needs to be given to the level at which it is sensible to devolve to – in other words, what constitutes a viable geographical area for commissioning employment support. Clustering local authorities together in order to

commission UKSPF across a geographical area *at least* as large as that which used to be covered by a Local Enterprise Partnership may help to build capacity and tackle some of the problems around gaps in provision.

- Providing clarity on what will replace UKSPF from April 2025 is a matter of urgency.
- In addition to providing an adequate level of funding, there is a need for longer-term funding of at least three years, and preferably longer, to allow TSOs to plan, retain staff, and stabilise the sector. This is important if we want to avoid the collapse of many organisations that have a key contribution to make in terms of helping to address rising levels of economic inactivity in the UK.
- In terms of getting the right balance between nationally-commissioned and locally-commissioned programmes, a blended approach which combines national programmes for those users closer to the labour with locally-commissioned programmes delivered by local, grassroots organisations that are trusted in their communities, would seem to be the way forward. Voluntary user participation is key. The Government should also look at how ‘the market’ is functioning in England, and the role currently played by large prime contractors.
- The allocation of UKSPF funding based on the current ‘needs based index’ is problematic because this gives rise to funding deserts in more prosperous areas where there is ostensibly less need for intervention. A more subtle funding formula needs to be developed to prevent under-investment and gaps in relation to local pockets of deprivation.

For organisations speaking on behalf of third-sector employment support providers:

- TSOs involved in employability support in England currently lack a dedicated forum that speaks on their behalf. There is no single channel to which the government can go to hear the views of TSOs on employability policy and practice and to collaborate on issues such as the commissioning of services. While there is broad agreement that ERSA has done a good job in representing third sector providers, alongside those of other private and public-sector providers, gaining consensus across a broad range of providers with different

interests, remains a challenge. Does England, therefore, need something akin to a dedicated 'Third-Sector Employability Forum', such as exists in Scotland? Might such a forum exist within ERSA as opposed to a separate body? Might current ad-hoc arrangements be formalised?

- Demonstrating to Government the impact that third-sector providers have in addressing challenges around long-term unemployment and economic inactivity remains vitally important. Greater attention needs to be given to evidencing how the support third-sector providers offer to those furthest from the labour market can deliver savings for the public purse. This means accounting for intermediary 'soft' outcomes, such as self-confidence, self-efficacy and improvements in mental health, as steps to employment, education or training. It also means accounting for the knock-on effects on services like health when funding for third-sector employment support is reduced and fewer users are supported.

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