

THURSDAY 26 NOVEMBER 2009

Present

Cotter, L
Howarth of Breckland, B (Chairman)
Henig, B
Jones of Whitchurch, B
Kirkwood of Kirkhope, L
Prosser, B

Memoranda submitted by TSEN, CSV and CEFET

Examination of Witnesses

Witnesses: **Ms Sandra Turner**, Executive Director, Third Sector European Network (TSEN), **Mr Frank McKay**, Advisor on behalf of TSEN, **Ms Tamara Flanagan**, Director, European and Statutory Resources, Community Service Volunteers (CSV), **Mr Alan Payne**, European Officer, European Structural Funds Voluntary Organisations Northern (ESFVON), and **Mr Laurie Moran**, Chief Executive, Co-ordinating European Funding for the East Midlands Third Sector (CEFET), examined.

Q71 Chairman: Good morning. We have about an hour so you will have to bear that in mind when you are answering your questions if we are to get through the agenda. You need to know that you share the time between you. Welcome. We are delighted that you have come to talk to us. The role of the voluntary sector, the third sector, is seen as extremely important in terms of the European Social Fund but in a particular place, and we are hoping to hear from you about that this morning. Curiously, although you have your names in front of you, we have to have you saying who you are for the record, so that we know that you are who we believe you are. Maybe we could do that before we begin.

Mr Moran: My name is Laurie Moran and I am from Co-ordinating European Funding for the East Midlands Third Sector (CEFET).

Ms Flanagan: My name is Tamara Flanagan. I am from Community Service Volunteers (CSV) and the Third Sector European Network.

Mr Payne: Alan Payne from European Structural Funds Voluntary Organisations Northern (ESFVON).

Ms Turner: Sandra Turner from Third Sector European Network.

Mr McKay: Good morning. I am Frank McKay and I am working with Third Sector European Network.

Q72 Chairman: We normally ask if anyone wants to make an introductory statement but if five of you want to make an introductory statement, that would be a bit of a problem. Is there anyone on your behalf who is going to make an introductory statement?

Ms Turner: Yes, I would like to make a very short opening statement with a very few key points. First of all, I would like to say how very grateful we all are for being able to speak to you today about a group that we tend to describe as multiple disadvantaged, and about the concerns that we have in terms of the services that have been targeted through the current ESF programme to this particular group. There are four key points that I would like to make. One is about the ability to evaluate the impact that the current ESF programme is having on the hardest to reach, and just to say that it is really quite hard to identify this impact because of the apparent lack of systems within the managing authorities for picking up the detailed data and drilling down to see where the support is going in terms of the beneficiaries. I might add that it is also very difficult to understand what the exact role of the third sector is, at least to date. The second key point I would like to make is about the continued difficulties with sourcing cash matched funding for drawing down a very important fund for the third sector, which is for technical assistance. There have been difficulties from the beginning of this

programme and this, we believe, is affecting, if not effectively disabling the third sector from, amongst other things, gathering evidence of the impact. As far as we can ascertain from what is available, we think that this programme tends to be managerially led rather than strategically, as it appears to be driven by processes set up by co-financing organisations, in particular the largest one, rather than having at the centre the needs of the groups or clients that it is meant to support. Finally, the last point is about some concerns that we have around targeting of the economically inactive or the multiple disadvantaged. Again, from the little data we have available to date, it looks, not surprisingly, as though the participation targets for the unemployed, people on unemployment benefit, have been exceeded to date. The economically inactive seem to be lagging behind at the moment and I think there are regional variations across England in terms of concentration of where these people are. There are some worries that there might be some sort of a postcode lottery approach to funding, in the sense that these people are funded through certain funding packages that are not available across England, so if you happen to be in a region where there is no funding available, you might not get support.

Q73 Chairman: Thank you. I think a number of the issues you are raising will be pursued by members this morning in terms of the questions, and although you have had sight of the questions, you know members may well ask you other questions if they wish. We know that the third sector has considerable experience in delivering ESF funding projects. In the light of that, what do you think that the objectives of the Fund should be? Let us take a broader view before we come to the direct concerns. You referred to up-skilling as an important priority. Where should the balance lie between the provision of higher level skills and lower level skills – and that, I think, relates to some of the things you said in your introduction – and between those furthest from the labour market and those who may be engaged more readily?

Ms Turner: I am going to start answering part of this question and colleagues may want to chip in. I will try to be as brief as I can. In terms of the set objectives addressing employment and skills, in terms of the funding balance, I think that is quite adequate in terms of having quite a big proportion of the funds directed at employment and a proportion of the funding going to skills, which is then split amongst basic and higher skills. What I think is a concern for us is that within that priority under employment, which according to the operational programme and the ethos of the European Social Fund, is aimed at targeting the unemployed, the economically inactive, including people who we defined with multiple disadvantage, which might have more barriers to engagement, I think it is very difficult, as I said at the beginning, from the data, or the absence of data so far, in terms of seeing a balance of provision directed at these groups. We believe that a sub priority within this main priority that is targeting mainstream unemployed groups should be allowed to make room for specific targeting of the very disadvantaged, so to give incentives to providers to actually work with these groups. Because, within the current ESF programme we do not define the characteristics of these beneficiaries, whether they have multiple disadvantage or not – all we can say really is they are unemployed or economically inactive – it really is very difficult to say that this programme is actually targeting these groups that we are concerned with. As I said, the data is coming out very slowly but it is very small. To date we are seeing that perhaps after a year of delivery, say from June 2008 to the end of August 2009, what is transpiring is that perhaps people with basic skills are being left behind at this stage, and the economically inactive are lagging behind, so we are very concerned about these kinds of trends.

Q74 Chairman: I know you want to bring one of your colleagues in but before that, I want to move on to the next question, because I think the two are totally interlinked, and that is the change in the commissioning to co-financing and what effect that has had. I know you want

to come in on the first question and that is fine, but you are indicating really that there have been changes.

Ms Turner: Yes.

Q75 Chairman: We are interested in how that has changed in the operating rules, so I may go into that more but you just sound as though you are saying there have been those changes.

Mr Moran: If I may come in on the first question, although the last programme did have a dedicated priority of combating social exclusion, which dealt with the hardest to reach and those furthest from the labour market, right up until 2007 in discussions with the Commission there was some belief that such a priority would be continued into the current programme.

Q76 Chairman: I am finding it very difficult to hear you.

Mr Moran: I am sorry. In the last programme, which finished effectively in 2008, there was a specific priority of 25 per cent dedicated to combating social exclusion, which was specifically targeted at the hardest to reach, socially excluded people and in discussions with the Commission and from our sector, with considerable encouragement, we did believe right until 2007 that such a priority would be continued in the current programme, but it was not, with the assurances of flexibility within the current existing two priorities. The priority for social exclusion was 25 per cent of all ESF in the last programme, and, working on the front line, that seemed to be a proportionate and reasonable amount and some very considerable successes, which we will probably hear about later, were achieved within the priority.

Ms Turner: On the co-financing, perhaps I will start off and Alan may want to chip in. You refer to co-financing, which was brought in around 2001, and gradually a lot of the provision was co-financed by 2005, and really, what we have seen – and this is not purely based on anecdotal evidence but also on evaluations¹ that have been brought out about the co-financing

¹ Lloyd R and Gilfillian C (2006 p11) *Third evaluation of European Social Fund co-financing in England*

– is that perhaps the benefits on the basis of which co-financing was promoted were not fully achieved. Again, because one of the effects of co-financing was to reduce the level of data available, of evidence that really should be available to third parties to say “This programme is working for instance for the homeless or is working for those returning to the labour market”, it became more and more difficult to see the detail of the impact and certainly the role that the sector was playing in achieving those aims. In this current programme, in England it was decided – and this was not something that anybody was consulted on; it was a decision taken – that the programme would be wholly co-financed, apart from a few pots, and, as I said before, technical assistance is one of them. In addition to that, there has been a move towards public procurement but procurement of, let us say, very large-scale contracts. We refer in our submission a lot to the DWP, because they have brought in a very clear way of disbursing funds through the primary contractor model, which has been in effect implemented, but also the Learning and Skills Council moved towards consortium bids, or certainly bigger contracts, and I think this was partly for efficiency reasons, in order for departments to cope with efficiency cuts perhaps, or having less personnel to deal with these projects, because in previous programmes we had hundreds, if not thousands, of small projects out there, carrying out the objectives of the ESF programme, whereas in this programme you can see a clear move from a lot of projects to very few output related contracts, but very large. I think that has caused some difficulties for the sector to get involved because these type of contracts are too risky.

Q77 Chairman: Are you saying that when these large projects were letting their smaller contracts, the idea of partnership, which the voluntary sector is used to, and the links between these top-tier organisations and all the small projects got lost somewhere in the process? Is that what you are saying?

Ms Turner: Yes, I think so. Alan, do you want to say a few words about DWP commissioning?

Mr Payne: Yes. We have a concern that it is now the commissioning strategy that drives the ESF as much as anything else, a commissioning strategy that is larger, obviously, than the ESF, because it covers mainstream programmes as well, but we have every reason to believe that it is the commissioning strategy that is very influential across the ESF. Yes, co-financing is being carried that much further under a system of primary contracting where the DWP, for example, makes on the record through its commissioning strategy that it will commission through a relatively few number of large primary contractors, and the ESF is taken up with that to some extent. As Sandra has said, in the past – and I can speak from the point of view of the North East of England, having been involved with the ESF for a number of years now – we had many dozens, if not hundreds of organisations delivering bespoke and tailored provision to meet the needs of individuals. Those smaller bespoke providers are largely out of the market now. That is because, I would say, of co-financing and because of primary contracting, because primary contractors are large-scale providers, they have a particular way of working, they are limited to the extent that they can commission beyond one tier – they can only subcontract to one tier – therefore it is very difficult for them to take into account or have intelligence of the range of provision that is out there to deliver tailored services to meet the widest possible range of needs. There is an inescapable logic of how primary contractors will behave: they operate in their own best interests really, and smaller providers do not have the economies of scale, they are difficult to work with in large numbers, so it is very much to be expected that the primary contractors will subcontract to, if you like, super-subcontractors rather than to opt for multiple contracting at the micro-level.

Chairman: I know that Baroness Jones wants to ask a particular question about this and about people going out of business.

Q78 Baroness Jones of Whitchurch: I think we all empathise with the logic of what you are saying but do you have any evidence of this? Do you have any evidence, for example, of small organisations literally going out of business? I know that is the implication of what you are saying but do you have any statistics about whether there are smaller providers who, under the previous programmes, were providing services that have now had to pack up? Going along with that, there is another aspect to this – and again, you touched on it but evidence would be helpful – proving that you are meeting the targets when you are dealing with multiple deprivation issues is much more difficult than the simple tick-box of somebody was out of a job and now they are in a job. That is a much easier thing to measure. Do you have any experience of how you can measure some of those multiple deprivation successes more effectively?

Ms Flanagan: I know you have small organisations, but I am here, obviously, from an organisation that is a national organisation but comprising very many small projects across the country. CSV used to have a project called Move On. We have had projects for many years; that is in our submission, but that is the most recent and the most relevant, which was a project working with mental health services users, refugees and asylum seekers, people with disabilities, people with learning difficulties and single parents, 1,300 people being worked with in the last project that we had. Everything closed. Everything is gone. The work that we had in St Nicolas's Hospital in Newcastle is gone, the disability project which was for physically disabled people working towards getting involved with work experience in the local council, if not full employment – you are right that these are very long trajectories, which is why an organisation like CSV would be involved alongside those folk, but when I talk also to the other agencies working – and I am talking to nationals, Alan and others will know about local small projects – interestingly, the staff are no longer there. One of my problems in talking to people to get evidence for today was to learn that Mencap, for instance,

no longer had any staff working on Europe because they do not have significant interests. The Prince's Trust has shifted to social economy work in Europe. They do not have the kind of projects they used to have for very distressed young people and young offenders and so forth. It is certainly my perception that we have not been able to get alongside, in our case, as an agency, the kind of contracts that are now being let. It is not an area of operation that we are familiar with, people who are quite close to the labour market and do not need quite so much help. I might say the only reason that people are still at CSV is because we have other kinds of European interests with the Commission and so forth, because in most organisations working in this field, the staff are just not there to be consulted. Also, on co-financing – this is really towards the last question but it is very relevant here – the other parts of the UK are not wholly co-financed. Northern Ireland, Wales and Scotland have all retained some direct funding.

Chairman: We will be hearing from the devolved authorities directly so we know they are going to talk to us about the differences there.

Q79 Baroness Jones of Whitchurch: I just want to be clear here. If you take the Mencap example, they may not be using European Social Fund money to do some of the support but they presumably still have access to other charitable money and may still be doing the work on the ground, just not under this programme. It does not necessarily mean that the whole of their activities working with people with mental health problems are being reduced.

Ms Flanagan: Logic would say to us that when our sector was receiving nearly £300 million per annum from the European Social Fund, and the cut-off from the European Social Fund in 2006 was so dramatic that the civil servants called it “the cliff edge”, it is stretching our imagination a bit to think that that £300 million has been replaced by other charitable funds, notwithstanding the economic crisis; we are talking about the impact on the sector before the economic crisis.

Chairman: That is very useful evidence, about that sort of cut that is going to the sector and what the effect has been on it. I am going to have to move on.

Q80 Lord Cotter: What you have said so far is very interesting. What other forms of contracting other than co-financing offer advantages?

Mr Payne: Before co-financing we had a system of direct bidding whereby any organisation could have access to this pan-European fund on the strength of fairly wide-ranging remits to do things, to not simply focus on job outputs but on progression to employment, etc. So there was a very wide range of organisations that were able to benefit from ESF in those circumstances and, for various reasons that we have certain reservations about, that were supposed to favour the voluntary sector and co-financing, this system was changed. The last Committee to consider these issues, the Commons Work and Pensions Committee of 2003, if I could quote from that, recommended: “We suggest that some form of direct funding be retained as a safety net for those worthwhile projects that fall between specifications. We therefore recommend that some direct funding be retained in all regions.” That was completely ignored, and we would still maintain our interest in that position, because if we had direct bidding, we would have a wider range of provision and we could make some sort of comparison as to whether co-financing, and co-financing with knobs on, which is primary contracting, is markedly different from the range of funding and the range of services that were provided under the old system. Just to come back on the question of whether there is a reality of organisations going under, I can certainly bring to mind several dozen, I would think, certainly two dozen, organisations in the North East that have gone off the map, and that does not include organisations which have looked elsewhere for funding.

Q81 Chairman: Could you send us a note of that? It is quite important to the Committee that we have evidence. If we have evidence, it makes a lot of difference to your argument. If you could let us have a note, that would be really helpful.

Mr Payne: Named organisations?

Chairman: Or any evidence like that of organisations that have no longer been able to carry out this area of work because of the changes. It goes back to the question I was asking earlier – and Lord Cotter may want to go on about the administration – about how the system has changed the delivery. That is what you are trying to get to.

Q82 Lord Cotter: Clearly, there are a lot of interesting areas coming out of this but about the bureaucratic side of things, is it more bureaucratic or do you find the bureaucracy is difficult to deal with through co-financing?

Mr Moran: If I might speak as someone who has had experience of contracts actually at the delivery end, both from direct bidding and co-financing, I think the administrative burden on the delivery bodies has roughly quadrupled in terms of the staff time needed to fill in the returns and draw down the money. That is nothing to do with actual delivery of the project. The bureaucracy has been exported from the contractors to the contractees and has been quadrupled.

Ms Flanagan: The Department's own evaluation – and I have forgotten the reference but it is in our report – of whether or not co-finance has succeeded in meeting that objective of diminishing bureaucracy found no evidence that bureaucracy had diminished.

Mr McKay: Briefly to explain the difference between co-financing, which is predominant, and direct bidding, co-financing allows an applicant organisation to tender or to bid to draw down funding in a single stream, and for that you need to look higher, where EU funding goes into a co-financing organisation that already has access to, say, government programme funding or other funding. Previously, the direct bidding system required an applicant to find

its own matched funding and then bid in to apply for European Social funding. So there are two different and completely contrasting systems there. Linked to that are the difficulties experienced by the third sector in obtaining suitable eligible matched funding for use with the direct bidding. It is simply not able to do that. The EU was always a funding source of last resort. Third sector organisations are very near the end of the chain in terms of dealing with the hard-to-reach. They do not work with the unemployed – rather the long term unemployed. As the Baroness said, it is easy to measure employment outcomes and that sort of thing but measuring the distance travelled and any progression for someone who has been a long time out of work is very difficult, unless you set out from a baseline measurement, to measure progress. The third sector organisations were adept at doing it in the previous programme and they did have specific evidence that could demonstrate the impact of the ESF on their client base. Being disabled by the change in matched funding regulations, the number and size of Third Sector organisations is diminishing under the current programme and, of course, they are no longer in receipt of EU funding, they do not have the same quality of evidence that they could present to you in terms of impact on the hardest to reach now. They have been effectively disabled by the changes in matched funding and by the co-financing regime, which favours the large organisations and working with the unemployed. It is largely output-related: they get paid for putting people into work. They are not paid a high premium for moving people along towards employment, unless they get an employment outcome. So EU co-financing is quite a drastic change from direct bidding. It has reduced the burden on the managing authorities by stationing them at arm's length from the co-financing organisation, therefore for example whereas previously the managing authority had 2,000+ organisations to administer under the direct system, they now have the 9 government offices who now in turn have eg 200 under the co-financing system. You can see that it reduces the administrative burden on the managing authorities and places the burden on the

co-financing authorities but, of course, they remove themselves from the lines of communication, therefore the information at the front line is not always passed back to the top, and it is difficult to make informed decisions unless you are accessing that quality information. Again, third sector organisations have just completed phase one of a three-year evaluation of their current technical assistance project, and they have actually commissioned a university to look at the impact of ESF on the hardest to reach, the most disadvantaged. The university, whereas it reported a lot of information, was singularly unable to assess the impact because of the lack of available quality information. TSEN have tried to access that information through the managing authority and, again, they were either precluded or prevented by the managing authority concerned or indeed, at the end of the day they were unable to access any meaningful, specific information on precisely where the ESF is going with regard to their client base, which suggests that there are no systems or control processes in place within the managing authority to gather this information to allow the managing authority to make informed decisions on the impact. Neither can TSEN argue from a position of strength based on evidence because they are no longer a big player in working with the disadvantaged.

Q83 Chairman: This is clearly about England, is it not?

Mr McKay: Yes, England only.

Chairman: It very much links into how you measure effectiveness. I am going to turn to Lord Kirkwood to follow through some of this.

Q84 Lord Kirkwood of Kirkhope: I am very interested in this and if we have time, I would like to pursue what Mr McKay has just said. Thank you for the evidence. I think it is very compelling. It does not surprise me but I think it is very compelling nevertheless. Sandra Turner, when you made your opening statement, you referred to the fact that there was

a postcode, piecemeal approach to local financing; in some areas it was available in ways that it was not in others. I wonder if you can very briefly expand on that. I do not understand it but I would like you to try and clarify that very briefly.

Ms Turner: This is something to do, again, with co-financing, where you have projects which are funded through public domestic funding, DWP employment programmes, for instance, and you have projects or contracts which are wholly funded by ESF, or you could have a mixture. It is a little bit confused. There was a discussion recently at the last monitoring committee where we could see that initial trends showed, again, as I said, unemployment targets had been exceeded, but the economically inactive are lagging behind. We were trying to understand why this is, because the economically inactive would also be at a disadvantage, particularly in an economic crisis or recession. Some of the reasons that were offered by the Department for Work and Pensions were that the funds that they used to match-fund the ESF – some of them are called the Pathways programmes – are the ones that they use to work with or to support the economically inactive, but these Pathways programmes are not available across all English regions.

Q85 Lord Kirkwood of Kirkhope: The programme is now a national programme. This is what puzzles me. If you are suggesting to me – and we might not have time to go into this but it is very important – that there is a variability in national government agencies like DWP programmes, Pathways to Work, which is a nationally rolled-out programme, it suggests to me that some areas are being discriminated against. I frankly do not understand and I would really like to understand because, if it is true – and you would not tell me it was true if it was not – it is an issue for this Committee and this inquiry.

Ms Turner: Yes.

Q86 Lord Kirkwood of Kirkhope: Maybe we could continue that. This is quite a detailed argument that we might be able to continue by correspondence.

Ms Turner: Yes. I could also touch on another similar issue. Again, all these things are coming out and, again, I am telling you what the co-financing organisations are offering the monitoring committee in terms of the trends that are appearing. I said we are concerned about people with basic skill needs not being particularly targeted and certainly the results to date are very low. Again, one of the possible reasons for this could be because, again, technical or managerial issues related to the Learning and Skills Council's rolling out first the matched funding, which is the Train to Gain, which deals with people who have level 2 or above needs rather than basic skills, the ESF will be rolled out later, so the basic skills people will be picked up later. It is a similar kind of issue.

Q87 Chairman: The issue for us really, I think, is: are you saying that the Government have a programme that is relating to increasing employment, and they have a fund for that?

Ms Turner: Yes.

Q88 Chairman: Also the European Social Fund is somehow being absorbed into that alongside the programme, and therefore the groups where the money originally went are being lost and the funding where the Government is directing it means that more funding is going, and that is the postcode lottery. Is that what you are saying? That is quite an issue.

Ms Turner: The postcode lottery is a different issue in the sense that it is one of the reasons that has been offered to us as to why the economically inactive are lagging behind. I cannot tell you more than this, I do not have any more detail, but in terms of the ESF and public funding, what we are seeing, I think, is the absorption of the ESF into domestic funding rather than the real added value.

Q89 Lord Kirkwood of Kirkhope: I want to know whether there is any evidence that national programmes are providing some funds in some areas and not in others in a way that disadvantages people, particularly the group that we are just about to go on to talk about, which is the socially excluded. I do not have time to pursue it. I am still confused about that. It is something we must clear up, in my mind at least, otherwise the report might go slightly awry. I would really like to try and move on.

Ms Flanagan: Can I just intervene and say I think it would be really important – obviously, as an organisation, we will try to access that information but it may also be helpful for your Lordships to ask the Department directly for that information, because oftentimes we learn that some information is commercial and in confidence, and that may not be quite the same---

Q90 Lord Kirkwood of Kirkhope: Can I ask a really quite simple question, to which we need short answers. Am I right in thinking that you believe – and in your evidence at paragraph 17 you say – that less than 5 per cent of the current ESF is dedicated to programmes aimed at those furthest from the labour market? That is your position. Do you have evidence to support that?

Ms Turner: I would like to start by saying that the 5 per cent originates from a calculation based on a couple of pots of funding within the ESF programme. One is community grants, which is aimed at very small community organisations that will access mainstream ESF. The other pot that we think is really speaking to the needs of the people furthest from the labour market is located in a trans-national pot of money which is organised by themes. One of them is about active inclusion and to us, the active inclusion kind of work is the kind of work that we were able to do in previous programmes. So this 5 per cent is basically saying, out of all the ESF programme, we believe there is only a very little bit of money which third sector organisations can actually access and work with.

Q91 Lord Kirkwood of Kirkhope: In so far as your evidence does not do so already, could you confirm to us whatever hard evidence you have in addition to what we have already to establish – it will not be an exact statistic because it will have to be an estimate for the reasons that we understand – that 5 per cent is the figure you believe best evidence available to you indicates.

Ms Turner: Yes.

Q92 Lord Kirkwood of Kirkhope: Can I then ask the second question which is, if I understood that you believe that 25 per cent of the previous ESF programme was devoted to this purpose in the past, is it your position that that is something you would want to return to in an ideal world, briefly?

Ms Turner: Yes, I think that is what we are saying.

Q93 Lord Kirkwood of Kirkhope: That does not surprise me. Two other very quick questions: do you really believe that you can identify clearly the kind of client group we are all interested in, which is people who suffer multiple disadvantage, addiction problems, all these things? Is there a textbook formula that categorises categories of clients within either local authority areas or travel-to-work areas that you could say are the kinds of households that we are interested in trying to help? Is there an easy definition? That is the question.

Ms Flanagan: That is the big challenge for us, insofar as ESF traditionally was used by organisations working alongside those groups to expand the ambitions of those groups. So primarily people would come to us because they had alcohol addiction problems, mental health problems, whatever, and we would say, “If you want to do something towards getting back into work, with this money we can help you do that”, and that was the real, critical difference between what is happening now, where a government instrument, which is fairly blunt in terms of reaching and supporting people with complex needs, is being applied. The

categorisation of folk is the big challenge. In our report you can see that the reporting is against very clear categories, gender, age, and ethnic minorities – those are the kind of reporting. I think there might be one for lone parents. I am not sure; lone parents is a bit complicated. So the actual reporting has been simplified to the extent that we can no longer identify those kinds of groups we used to work with, but what we know about the third sector is that the third sector was working with those kinds of groups – it still is in Northern Ireland, Wales and Scotland. That is really our position, to say that we have done it before, we have measured it, we know those are the groups, and if you have an inclusion priority, for want of another mechanism, that would take us very much down the pathway of working with those people.

Q94 Lord Kirkwood of Kirkhope: I think it is a question of: do you have a definition of the groups? I think that was a “no”.

Ms Flanagan: We do have a definition of the groups in terms of multiple disadvantages. The Department has a definition of the groups: those facing three or more barriers and the barriers being age, disability, ex offenders, drug and alcohol misuse and so forth---

Q95 Lord Kirkwood of Kirkhope: There is no doubt in my mind the kind of people you represent are best able to deal with them but the question is, there should not be an argument about who we are targeting this towards. The next question – and I hope there will be a simple answer but it is a very complicated question – is how do you measure progress to work? Is there a textbook definition for that?

Ms Turner: This is a government-sponsored paper and it is called *Guide to Measuring Soft Outcomes and Distance Travelled*.² It was developed by the Institute of Employment Studies.

² http://www.esf.gov.uk/info_for_cfo_and_projects/gender_equality_and_equal_opportunities.asp Guide to Measuring Soft Outcomes and Distance Travelled

Q96 Lord Kirkwood of Kirkhope: Does the DWP accept that?

Ms Turner: Yes, I think so.

Lord Kirkwood of Kirkhope: Can we see that, if we do not have it already?

Chairman: We have it, I think.

Q97 Lord Kirkwood of Kirkhope: Finally from me, what slightly puzzles me is that you say in paragraph 17 of the evidence: “Availability of programme monitoring data and systematic review of tenders would be needed to confirm whether the ESF programme is supporting those furthest from the labour market.” Are we not awash with data?

Ms Turner: No, that is the problem.

Ms Flanagan: Not in this programme.

Q98 Lord Kirkwood of Kirkhope: This is really the key question for me, because this is a recommendation that we could make. It is a pretty straightforward recommendation, namely that somebody somewhere should go and do this work and publish it so that we are all better informed. What I cannot understand is that there are reams of statistics everywhere. Why is that a problem? Why has that not been done? If it is to be done, who is best to do it?

Mr Moran: Can I make a comment that refers back to your last question, which is how you define the groups of people that we are looking at. The answer my colleague gave was that although you can reach a definition, actually identifying those people for programmes is a bit of a bottom-up approach. You have to work in the communities to find out the needs and the particular disadvantages in those communities, therefore it is very hard to write a large-scale tender specification saying who you should work with. That is the problem. In the last programme, both before and in the early periods of co-financing in my region, we did have data about those bottom-up approaches and how they compared. I actually have figures comparing the first two years of co-financing with the previous two years of direct bidding,

which show a precipitous falling off of small, grassroots organisations and bottom-up approaches.³ My regional monitoring committee has asked the co-financing agencies what bottom-up activity they are doing now, and the answer from the Learning and Skills Council – and this is in the proceedings of the regional monitoring committee – said community grants and nothing else⁴, and the Department for Work and Pensions says it is done through contracts and subcontracts and whether contracts are provided is commercial in confidence; in other words, they will not tell us. That is the position of the data.

Q99 Lord Kirkwood of Kirkhope: Commercial confidentiality can come into this?

Ms Turner: Yes.

Mr Moran: They say commercial in confidence. It is our understanding that all contracts and subcontracts and their values and arrangements, once granted, are in the public domain, but they would not give them to our monitoring committee.

Q100 Lord Kirkwood of Kirkhope: Do you believe it could be done and it would be important to be done as one of your priorities?

Ms Flanagan: I think it is difficult to say very clearly it could be done now, because the indicators that are in the programme are people in work who have been unemployed, people who are economically inactive and 14 to 19-year-olds not in education, employment or training. The indicators that we are interested in by and large are not in the programme. So I would feel a bit challenged if you were to say, “Can you ask a researcher to go and see how many people with disabilities living in Nottingham have been helped,” because I do not believe those indicators are very easily available.

Chairman: I am going to move on, because we are not going to get through the remainder of the questioning. It is interesting that we are going to visit some projects which actually do

³ <http://www.cefet.org.uk/documents/ExclusionworkimpactofCF.pdf>

⁴ Regional Monitoring Committee Paper 52. To be on GOEM website Feb 2010

have figures for what they are doing. So there are figures somewhere, and it is how they come together which may be what we need to pursue.

Q101 Baroness Jones of Whitchurch: I want to touch on the issue of additionality, and it leads on really from some of the earlier evidence that you were giving because, from what I heard you say, a lot of the money now is being absorbed into big, national government schemes which actually do not meet the principles of additionality. It is almost being used to fund schemes that the Government should be funding anyway. One of the great advantages of the third sector ought to be that that is exactly what to do; you do the stuff that is not standard government-funded projects. In order to make that case though, we could do with some really good examples of the extra benefits that the third sector bring. What is it that you have done in the past or that you could do in the future that would be really inspirational, a really good example of why you should get that 25 per cent of the money? Give us some evidence. Even if you cannot give us statistics, and I understand that problem, give a couple of examples where you have made that the difference.

Mr Moran: Can I start with an example of a project in the East Midlands which was under the Global Grants programme, where we ran a local social capital programme. It was matched; we had to find fund-match ourselves. It was, with the match worth about £4 million. This took a local social capital approach, being the archetype of bottom-up approaches, where you go into excluded communities and actually ask the people what they think the needs are in order to develop community activity and participation without any explicit learning or skills or employment targets. You involve the community in deciding what they need and then get a panel of the community themselves to decide which small projects, typically about £6,000 projects, are given approval. We sit above all this, doing the bureaucracy, ensuring eligibility, ensuring correctness and eligibility of the spend, probity and everything, but the decision in

the long run lies with the community, and that fosters community spirit and so on, and people who otherwise would not participate participate.

Q102 Baroness Jones of Whitchurch: What was the outcome?

Mr Moran: First of all, there was £4 million, 643 small projects were funded, involving 6,555 people directly actually engaged in running the project. The average time out of the labour market of the 6,000 people was 33 months, and although it had no employment or skills targets, the outcome was 15 per cent into employment and 21 per cent into formal learning. There is some overlap between those figures, I would imagine. The most important question for me was, we asked a random sample of 200 people if the same project had been offered by an external agency, exactly the same project, rather than being run by themselves, would they have joined this project? Sixty-four per cent said no. So this is a very disenfranchised, disenchanted group, often people who have been out of the labour market and out of economic activity on average 33 months, some of them five or six years, some of them never involved in work or economic activity at all, who would take the opportunity, working with colleagues in their own community, to answer the needs that they felt were part of their exclusion and to come together. This was the bottom of the programme I have described before, using grassroots methods to find inclusion.⁵

Ms Flanagan: Can I also say that our own report, which was produced in 2006, I think, on the direct bidding activity of the first three years of the last programme showed similarly that we worked with 160,000 people: 15 per cent, 23,000 people, went to work and 22 per cent, 35,000 people, went into formal education. This is across the country. This was direct bidding across the country, but the difference being that we were identifying seven categories of disadvantage and disability.

⁵ Data quoted from Catalyst Evaluation at <http://www.cefet.org.uk/documents/CatalystIIIEmendedfinal.pdf>

Q103 Chairman: This is an answer to the question I asked earlier. I think you are answering the question now that we really want the answer to. You have your categories, you are describing the kind of people who you are helping, and you are describing the numbers. What we need to know really is the difference between that success story you are describing and what is happening now, with the new co-financing regime. That is what we need as evidence in order to be able to show the picture.

Mr McKay: Very briefly, if I may address your particular question but also pick up on a point that you mentioned earlier in respect of an issue for Government, under direct bidding each and every applicant had to demonstrate, by producing evidence, compliance with something called ESF Added Value. That is at project level. Additionality is similar to Added Value and is applied at programme level. Now, under co-financing, the additionality is more important because most of the co-financers have government funding, therefore they, or indeed the managing authorities, will have to demonstrate that they are using EU funding in line with the EU 'Additionality' criteria and they are not simply displacing government spend, they are not simply enhancing the activities with no added value, and they are not subsidising it either with no increase in the level and nature of outputs. Previously, ESF applicants, that is, direct bidders, in compliance with ESF Added Value at project level had to set out beneficiary numbers, and set out declared spend and precisely set out for approval what they were going to do with their matched funding, which is the funding that they already had, and then show that, with the additional EU funding, they were going to do much, much more, but at the same time demonstrate that they were not just using EU funds to displace national funds that should have been used for that in the first place. It was much easier under direct bidding to produce evidence. Under co-financing, where it is drawn down in a single funding stream, the first-tier subcontractor is not required to demonstrate added value, or indeed to contribute evidence to support the additionality at programme level. So it is muddier at the moment, but

there will be a call by the EU at some point for a demonstration by Government that they are not falling into the traps of displacement or subsidy or simply enhancing government spend; that they are doing far more with EU funding than they would have done with government spend only. Under direct bidding the third sector could easily demonstrate that, because they had to produce evidence of compliance with EU Regulations when they were bidding before they got approval. They had to show more, they had to show additional beneficiaries, additional spend, and additional outputs as well. So it was easily measured and easily challenged.

Chairman: I am sorry. We are going to have to move on because we are getting a lot of information very quickly. One of the suggestions – and I am going to move on to Baroness Henig now – has been that these changes have been to meet some of the issues about the economic position.

Q104 Baroness Henig: Three questions very quickly on the economic downturn. First of all, I wondered to what extent you believe that the recent economic downturn has made the problems you have been hearing about worse. If it has made the problems worse, how do you think the European Social Fund should be able to respond in this economic climate, and how do you think the refreshed regional frameworks for the remainder of the current programme should be modified in the light of current circumstances?

Mr Payne: Just quickly, the key measure: quoting from the Department, social inclusion is targeted under the priority one. However, this still has to happen where the key measure of performance will remain job outcomes. When the demand side for jobs is weak, it is very problematic as to where your key outcomes are going to come from. I know it is very complicated but the primary contractors have it in their interests, clearly, to expedite people into work and will inevitably cream those who are nearer the labour market. It is just to be expected, I think, that in a recession, at a time of demand weakness, the model which is really

heavily supply-side, the David Freud idea that you can encourage people into work fairly vigorously, does not work as well because the jobs are not there and will lead to the focus shifting towards those who are more able to achieve those outcomes for the primary contractors.

Ms Turner: As Alan said, we think the people furthest from the labour market in an economic recession are probably going to be pushed even further back, so the response of the ESF could be very valuable, but it must be said against this that, because we are straitjacketed, in a way, by the system of these primary contracts – they are very large, very cumbersome and take a long time to be finalised – they contribute a lot to delays in spend, which in the current situation is not acceptable. Then in terms of the ways that these funds are used, if you look at one of the largest co-financiers, the LSC, for instance, it has acted more quickly but it has tended to focus on people who have just been made redundant or are about to be made redundant, who are important, but we, as the third sector, are more concerned with the hardest to reach. This is where the Department for Work and Pensions comes in and, again, it is much slower at getting those monies on the ground, which is money given by the European Commission, which has done a lot in terms of flexibility, in terms of getting this money spent quickly now, and it is very sad to see them stuck in the system because of the bureaucracy.

Q105 Baroness Prosser: Since the ESF began many years ago, the European Union has grown hugely. It is a very different place now. Your view, as I understand it, is that European Social funding should still be available to the UK, but many countries would see us as wealthy. How do you think we can argue, or how would you want to argue, that funding should continue to come to the United Kingdom when patently there are countries belonging to the European Union that have many more very difficult problems than we have?

Ms Flanagan: The fact is that most of those countries are receiving proportionately a lot more than we are at this time, and I think, working sometimes in Brussels around the whole

notion of the Spring Alliance and Social Europe, one of the concerns of the Union has been that the project has lost touch with its people, and one of the ways of putting people back in touch is to be responding more to the interests and needs of citizens than being driven wholly by a Lisbon, very pure economic strategy, and particularly with the new programme that will be coming, people are interested in looking much broader than definitions of GDP. I am sure you are all familiar with Sarkozy having commissioned the Stiglitz Report and asking the Office of National Statistics to bring forward a way of measuring wellbeing and certain other things. It is interesting because, in fact, the UK is also a leader in that field. The New Economics Foundation developed the indices for wellbeing and sustainability over three years ago but this is kind of pervading now the European Union as a new idea and people thinking this would be a good way of the Union demonstrating its additionality in relation to economic performance by looking at the social impact as well as the economic impact, which of course will always be very high, and environmental impact, which is the other leg.

Q106 Baroness Prosser: I am being the devil's advocate here, because we need to try to tease these things out. I guess if I were living in Poland, for example, - and you are right; they do receive large sums of money – I might say, “Well, why can't the UK domestic budget pay for the needs of the United Kingdom rather than Europe?” because we have tilted in the sense of having those other countries with much greater needs. There is going to be an argument from them, is there not?

Mr McKay: I think you have put your finger on the button, because it is undeniable that these needs exist with those furthest from the labour market, the most disadvantaged, but it is also a very valid criticism, a valid comment from the other Member States, all of whom want a share of the money that is there. So if EU money is not made available to meet these needs in the Member States, these needs still need to be met. So it is a Government decision and they

have to fight the battle with the EC or if there is no EC funding made available provide the funding for the Third Sector within the Member State.

Ms Flanagan: There is also a consciousness at European level that there are some shared problems, and the major one of course is the environment, but the other one is the social dimension of Europe and the fact that we should, for the sake of citizens, be working simultaneously on the social dimensions of Europe as well as the environmental. It appears to be something that all Member States have signed up to. Whether or not we have a lion's share – no, I do not think we would be expecting that, but that it should be targeted in the way we are describing today. In fact, in Germany we have a social inclusion priority, Slovenia –I believe, also has an inclusion priority.

Q107 Chairman: We are running out of time and it is important that we get this. One suggestion we have had from other witnesses, and this is why it would be useful to hear from you – is that the next stage should look across Europe not in terms of nations but in terms of needs. Would that be something you could see, that you are looking across Europe to what the social need is as against the national?

Mr Moran: It would be an easier case to make for European funds for the UK if they were seen to be thematically targeted at something that was not done by the mainstream, doing something different rather than doing more of the same. I think that argument is considerably weakened by the current practice under co-financing, much weaker than even in the last programme.

Q108 Chairman: That is helpful. We needed you to say it rather than us saying it. We have run out of time. We would have liked to ask you a question about how you see the difference between what is happening in England from your perspective as against Wales, Scotland and Northern Ireland. If you would like to write to us about that, we would find it immensely

valuable. You have given us a lot of evidence and I am immensely grateful, and the Committee is immensely grateful to you for giving us this time and allowing us to pursue you on so many issues but, unless we get the evidence from you, we cannot report it. So we have found that useful. Anything else you want to tell us that has come out of the discussion, do write to us and let us have that, and we will be pursuing the other nations, so we will get some of that from them but, clearly, it may show some contrast.

Ms Flanagan: I just want to ask you that you will ensure with the devolved administrations that you address the question of their support for the third sector, because the use of in-kind matched funding in all of the other nations, something no longer existing in England, is crucial to our position.

Chairman: Thank you very much indeed.