Department for Education

Employer Ownership Pilot round 2: process evaluation

Research report

October 2017

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GOVERNMENT SOCIAL RESEARCH

Social Science in Government

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1.0 Introduction

Ipsos MORI and the Institute for Employment Studies (IES) were commissioned in January 2014 to undertake the evaluation of Round 2 of the Employer Ownership Pilot (EOP2). This report details the results of the process evaluation. It sets out an overview and an assessment of the effectiveness of the processes employed to procure and deliver the EOP2, based on an analysis of programme documentation, monitoring information, and qualitative research with stakeholders involved in the delivery of the programme and a sample of employers, learners, and training providers associated with the projects funded through the programme.

1.1 Employer Ownership Pilot Round 2

In December 2011, *Employer Ownership of Skills: Securing a sustainable partnership for the long term,* discussed Employer Ownership of Skills as a long-term agenda and set out five principles for reform of the skills system:

- Employers should have space to own the skills agenda;
- There should be a single market for skills;
- Skill solutions should be designed by employer-led partnerships;
- Public contributions for vocational training should move to employer incentives and investments;
- Transactions should be transparent.

This document set out some proposals and outlined potential benefits of employer ownership, before introducing the Employer Ownership Pilot (EOP); a pilot initiative aimed at responding to this UKCES vision of Employer Ownership, and committing up to £250 million over the following two years (i.e. 2012-13) to test approaches. Round 1 of EOP was commissioned in 2012 (involving the commitment of circa £80m in public funds).

The EOP Round 2 Prospectus was published in during 2012. By this point the overall fund had been increased to £340 million, with around £250m over four years (i.e. up to 2016) available to prospective applicants to Round 2. The prospectus stated that EOP was open to employers wishing to invest in their current and future workforce and would support proposals that better aligned public and private investment in order to:

- Create jobs;
- Raise skills; and
- Drive enterprise and economic growth.

In Round 2, EOP (EOP R2) sought to build on learning from the earlier Round 1 of the pilot and explicitly to co-invest in more ambitious and further reaching projects. A Memorandum of Understanding was agreed setting out a shared understanding of the roles of BIS, the Department for Education, UKCES, and the Skills Funding Agency in the delivery of the pilot. The MoU summarised the aim of EOP as being to test the potential for employer ownership of the skills agenda and to raise business engagement and investment in skills and Apprenticeships. It states that the pilot was seeking to test the following hypotheses:

- Employer ownership increases the amount of training and Apprenticeships activity and improves the degree of successful outcomes from training.
- Giving employer purchasing power means they have more influence over quality, content and delivery and can shape provision to better meet their needs.
- By changing the relationship between Government and employers through a strategic investment approach, we can increase collaboration amongst employers in sectors and supply chains, and encourage new firms to engage in training.
- Transparency in the price of training leads to greater awareness among employers of the value of training and increases their ability to evaluate different options, leading to greater market efficiency.
- Direct control of public money raises overall employer satisfaction with the publicly-funded skills and training offer.

1.2 Aims and Objectives of this Report

This report aims to provide an assessment of the effectiveness of the processes employed by BIS, the Skills Funding Agency and UKCES in the procurement and monitoring of Round 2 of the Employer Ownership Pilot (i.e. a process evaluation focusing on internal processes). The original terms of reference for the study also defined a range of external process evaluation questions to explore the effectiveness of the processes employed by applicants in their delivery of EOP2 funded projects. This report does examine issues regarding delivery to the extent that the evidence available supports such analysis. However, it was originally intended that the focus on these issues would increase as part of later stages of the study, and limited evidence has been gathered from those involved in the delivery of projects and the employers and learners benefitting.

1.3 Methodology

The assembly of this report involved four key tasks:

- **Document review:** A detailed review of a wide range of documentation associated with the programme was completed. This included a review of the available documents across the processes employed in the procurement and monitoring of the programme (largely policy design, operational documentation, application forms, and the minutes associated with key meetings).

- **Consultation with policy stakeholders:** Consultations were conducted with stakeholders from each organisation (BIS, UKCES and the Skills Funding Agency) involved in the delivery of the programme at each stage of the application process. The main objective of the interviews was to explore how effectively the processes employed by BIS, UKCES and the Skills Funding Agency to deliver the EOP2 programme were working in support of the overall objectives of the pilot and identify barriers and successes in its implementation. The consultation programme covered four policy officials within BIS, four policy officials within the UKCES, two UKCES Commissioners, and two officials within the Skills Funding Agency, The programme covered individuals involved at all stages of the policy delivery process, including policy design, marketing and communications, project appraisal and selection, contracting and monitoring.
- **Case studies:** Four case studies were conducted to enable in-depth research with successful applicants. These included qualitative interviews with those involved in delivery (covering lead applicants and key partners) and collection, review and evaluation of key documentation. Owing to delays in both contracting the programme and challenges faced by applicants in progressing delivery, the case studies focused primarily on issues associated with the contracting process. In addition, these case studies only covered Phase One projects and as such, the qualitative evidence available relating to project delivery is partial, is focused on those projects involving smaller levels of grant spending, and does not incorporate evidence from the Industrial Partnership projects (the reasons for this are described below).
- **Review of monitoring information:** A review of monitoring information (scheme delivery plans, grant offer letters, audits, monitoring decks and claims forms) collected through the evaluation was undertaken to examine the effectiveness of external processes including project progress, training and learner outcomes.
- **Observation of internal processes:** The evaluation team also observed two ‘panel days’ in which Account Managers presented the progress of projects to policy officials within BIS.

This process evaluation was originally planned to form part of a longitudinal programme of research feeding into a long term process, impact and economic evaluation of EOP2. A total of project case studies were planned, covering both Phase One and Phase Two projects over a period of three years. However, funding for Employer Ownership Pilot Round 2 was withdrawn before later rounds of case study research commenced, resulting in a partial evidence base with respect to project delivery.

1.5 Process Evaluation Questions

The key questions for the process evaluation – as defined at the evaluation scoping stage – are set out in the table overleaf.

Table 1: Core Internal Process Evaluation Questions by Stakeholder Group

Process area	High Level Process Evaluation Questions	BIS	UKCES	Skills Funding Agency	Investment Panel	Lead Applicants
Marketing and communications	How effective were marketing and communications activity in raising awareness of EOP2 amongst potential applicants?					
	How far did marketing and communications activity (including the funding prospectus) make the objectives of EOP2 (and the obligations associated with being successful) clear to prospective applicants?					
	To what extent were the criteria by which applications would be judged clear to successful and unsuccessful applicants to the programme?					
	To what extent was the support provided to prospective applicants effective in raising the volume and quality of applications received?					
Application process	To what extent was the application form straightforward to complete by applicants?					
	How far did the application form lead to clear statements of project proposals and evidence of need?					
	How far did the application process lead to clear measures of the quantitative outputs proposed by project applicants?					
	How far did the application process provide a clear evidence of the likely level of employer control over EOP2 projects?					
Appraisal process	How far did the methodology applied in the appraisal process lead to a balanced assessment of the anticipated value for money associated with individual applications?					
	To what extent did the information gathered through application forms provide sufficient evidence to inform the appraisal process?					
	Was sufficient evidence provided by applicants to enable an assessment of deadweight and project implementation risk?					
	How were considerations of innovation and levels of employer ownership balanced against value for money considerations?					
	How effectively were issues relating to project implementation risk handled in the appraisal process?					
	How far was consistency in the application of appraisal judgements achieved through the appraisal process?					
	How far did the process adopted in the appraisal methodology align with the overall objectives of EOP2?					
Project selection process	How far did the appraisal process provide clear information to the Investment Panel to guide the project selection process?					
	How effective was the terms of reference for the Project Investment Panel in guiding project selection decisions?					
	How far did the project selection process lead to the selection of projects aiming to test the five key hypotheses defined in the Memorandum of Understanding?					
	How far did the project selection process lead to the selection of projects offering strong value for money? How far did the					

Process area	High Level Process Evaluation Questions	BIS	UKCES	Skills Funding Agency	Investment Panel	Lead Applicants
Contracting and due diligence	How far did post-contract negotiations lead to improvements in the value for money offered by projects?					
	How far did the due diligence process provide a comprehensive assessment of project implementation and counterparty risk (including issues relating to State Aid)?					
	To what extent did the KPIs defined in Grant Offer Letters provide a comprehensive outline of the deliverables anticipated by project applicants?					
	To what extent did the contracting process lead to sufficiently well specified arrangements for ensuring the level of employer ownership associated with projects?					
	How far did the process of negotiating Final Grant Offer Letters cause issues with project implementation?					
Monitoring	How effective were the handover arrangements between UKCES and the Skills Funding Agency?					
	How effective are the processes put in place for capturing details of project spending and outputs?					
	Are evidence requirements sufficient in validating that project outputs and deliverables have been achieved as claimed by applicants?					
	How effectively is the progress of projects monitored by account managers?					
	How effectively are any changes in project objectives or activities monitored by account managers?					
	How effective is the process for agreeing contract variations with successful applicants?					
	How effective is the monitoring process in providing an on-going assessment of project delivery risks?					
Aggregate performance management	How effective are aggregate performance management processes in monitoring the performance of EOP2 in aggregate?					
	How effectively have lessons from EOP1 fed into the design of EOP2?					

1.4 Structure of this report

The remainder of this report is structured as follows:

- **Section 2 – Process Overview:** This section summarises the processes employed to deliver the Round 2 of the Employer Ownership Pilot, providing the overall context for the evaluation.

- **Section 3 – Marketing, Application and Project Selection Processes:** This section explores the effectiveness of the processes employed to generate demand for EOP2 funding, appraise the quality of applications received, and select the project portfolio.

- **Section 4 – Contracting and Monitoring:** This section examines the effectiveness of processes employed in contracting (including due diligence arrangements) and to monitor the performance of contracts on an on-going basis.

- **Section 5 – Project Delivery:** This section provides an analysis of the effectiveness of project delivery arrangements (to the extent that it is practicable within the constraints of the evidence available).

- **Section 6 – Conclusions:** This section sets out the main conclusions from this process review.

2.0 Process Overview

This section provides a brief overview of the processes employed to deliver the Round 2of the Employer Ownership Pilot. A more detailed description is provided in Annex A.

2.1 Employer Ownership Pilot

The Employer Ownership Pilot (EOP) aims to raise business engagement and investment in skills and Apprenticeships by putting public funds directly into the control of employers. Round 2 of EOP made £250m of funding available to employers between September 2013 and September 2016 for workforce development schemes covering both subsidies for training and skills infrastructure (i.e. underpinning arrangements – such as new qualifications or brokerage mechanisms – that might act as a catalyst for improving the quality and volume of training undertaken by employers).

The pilot originated in a policy vision set out by the UK Commission for Employment and Skills (UKCES) in 2011[1]. The pilot was conceived to test innovative and collaborative approaches to delivering employer led training (including the creation of Industrial Partnerships). As specified in a Memorandum of Understanding agreed between the BIS, UKCES, the Skills Funding Agency, and the DfE, EOP2 was aimed to test the following hypotheses:

- Employer ownership increases the amount of training and Apprenticeships activity and improves the degree of successful outcomes from training.
- Giving employer purchasing power means they have more influence over quality, content and delivery and can shape provision to better meet their needs.
- By changing the relationship between Government and employers through a strategic investment approach, we can increase collaboration amongst employers in sectors and supply chains, and encourage new firms to engage in training.
- Transparency in the price of training leads to greater awareness among employers of the value of training and increases their ability to evaluate different options, leading to greater market efficiency.
- Direct control of public money raises overall employer satisfaction with the publicly-funded skills and training offer.

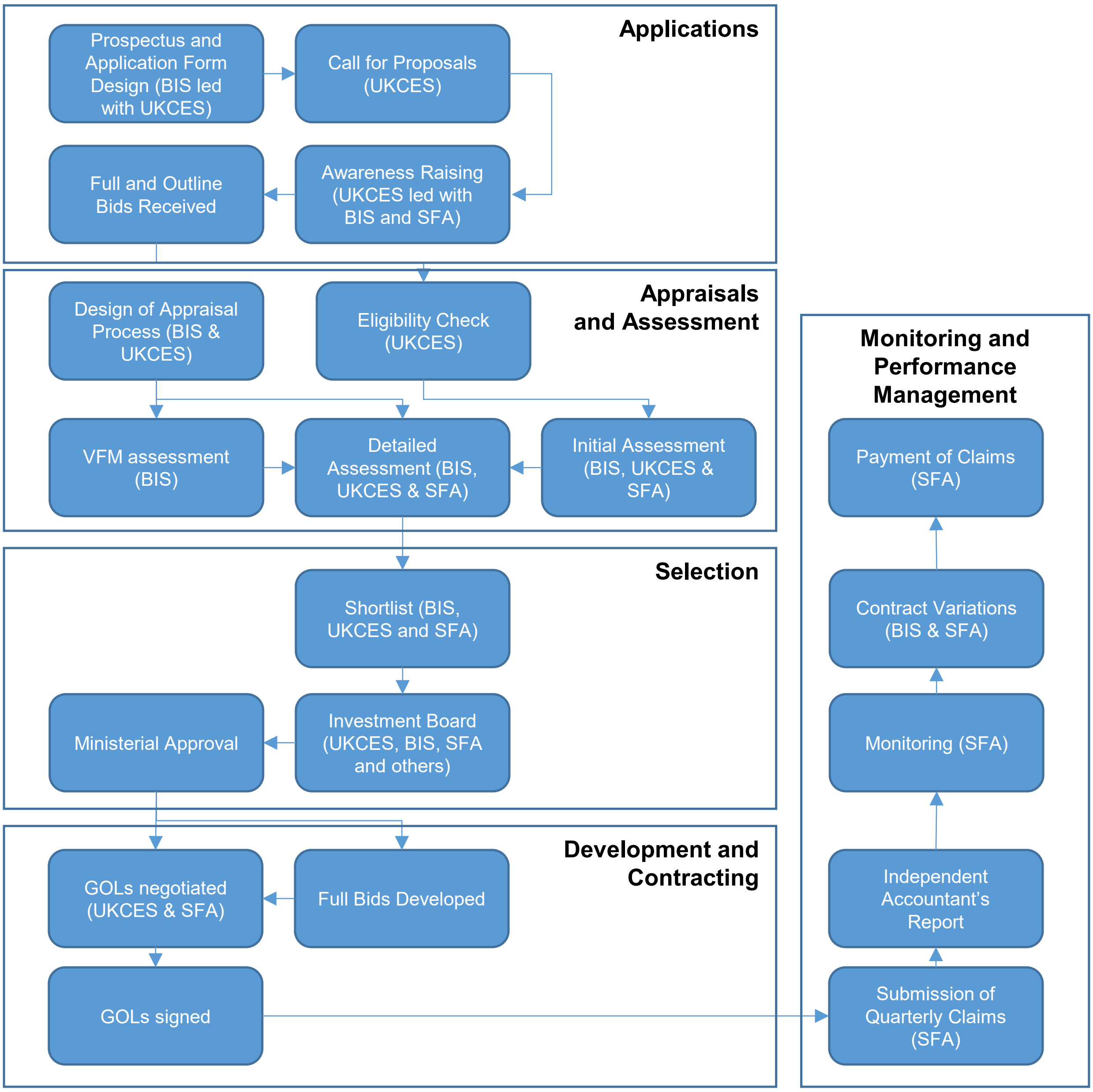
[1] Employer Ownership of Skills: Securing a Sustainable Partnership for the Long Term, UKCES, December 2011

Round 2 of the Employer Ownership Pilot followed the commissioning of an earlier set of pilot projects (EOP1) in which around £80m of public funding was committed to employer led training projects.

2.2 Process map

An overview of the processes employed in administered the EOP2 pilot is set out below in Figure1.

Figure 1: Process Map



Source: Ipsos MORI and Institute of Employment Studies, based on operational documentation supplied by the Department for Business Innovation and Skills

2.3 Process Stages

There were five key stages in the delivery process (with responsibility for overall oversight lying with the Department for Business, Innovation and Skills[2]):

- **Marketing and communications** – building awareness of the fund and inviting applicants to bid
- **Application process** – supporting bidders in the application process and receiving full and outline bids
- **Appraisal and project selection process** – an assessment of the eligibility of each application and selection of projects
- **Contracting and Due Diligence** - a due diligence check on each project selected and negotiation of grant offer letters
- **Monitoring** – the monitoring of the progress of successful projects.

The remainder of this section provides a brief outline of the processes employed at each stage and their objectives.

2.4.1 Marketing and Communications

Marketing and communications activities were delivered to promote in the programme and its vision. These activities comprised:

- **Funding prospectus:** The development and publication of a funding prospectus to communicate the aims of the programme and criteria against which applications would be judged (a process led by the Department for Business, Innovation and Skills with contributory inputs from the Department for Education and UKCES).

- **Employer Engagement:** UKCES led the delivery of a programme of employer engagement and events to promote the pilot and its vision (supported by the Department for Business, Innovation and Skills and the Skills Funding Agency), alongside briefing events, workshops and webinars that took place between December 2012 and February 2013 to help raise awareness of the pilot. Additional guidance was published in January 2013 to help employers with the bidding and

[2] EOP Round 2 Governance, Roles and Organogram Version 1.1, Department for Business, Innovation and Skills, September 2012

application process across England. The Commission also provided information to applicants to support them develop their applications.

2.4.2 Application Process

Applicants could submit either a full application for EOP2 funding or an outline application. In the former, approval of the application would lead to the allocation of EOP2 grant funding (EOP2 Phase 1). In the event of the approval of outline proposals, the applicant received 12 weeks to develop their proposals and the opportunity to submit a more detailed proposal at a later stage (EOP2 Phase 2). Applicants received support from UKCES and the Skills Funding Agency in this process as described above. A total of 315 applications for EOP2 funding were submitted during the application stage. The applications involved a request for a total of £1.5 billion in grant funding, a substantially greater amount than the £240 million made available for the pilot.

Applicants were required to submit two documents in support of their application. This comprised of a Word document describing their proposal in six criteria - impact and value for money, employer ownership, quality and rigour, innovation, feasibility, and future prospects. This was accompanied by an Excel spreadsheet of anticipated project costs, project delivery plans, and training outputs (by type of training and age of learner).

2.4.3 Appraisal process

Once applications were submitted to the Employer Ownership Pilot, they went through an appraisal and project selection process. The appraisal process consisted of three key stages: an eligibility check, an initial sift and a main assessment:

- **Eligibility check:** The eligibility check confirmed that the bid had been submitted by a lead employer and the request for funding met the minimum threshold. The eligibility check was carried out by policy officials within UKCES and the Department for Business, Innovation and Skills.

- **Initial sift:** Applications then underwent a sifting process to access eligibility for funding against a set of criteria. The initial sift focused on two main criteria – impact and value for money and employer ownership - undertaken by BIS policy officials and analysts, Commission and Skills Funding Agency staff, and external assessors. This included an automated VFM assessment using an appraisal tool developed in line with HM Treasury Green Book principles.

- **Main assessment:** Applications which passed the initial sift were subject to a main assessment focused on four additional criteria - quality and rigour, feasibility, innovative approach, and future prospects. The impact and value for money of the initial sift assessment was evaluated in greater detail using the BIS Appraisal Toolkit and took account for how projects would have been delivered without public investment. The value for money element consisted of two outputs, a monetised benefit score and a score out of 100 assessing the infrastructure investment. Again, BIS policy officials and analysts, UKCES and Skills Funding Agency staff and external assessors were involved in this process.

2.4.4 Project Selection

Applicants were shortlisted and presented to the Investment Sub-Board (comprised of UKCES Commissioners and senior policy officials within BIS, UKCES policy officials, the Skills Funding Agency and other Government Departments and Agencies with an interest in the pilot, such as the Department for Work and Pensions, the Department for Education and the National Apprenticeship Services). The Investment Sub-Board recommended proposals to an Investment Board, who made final recommendations that were presented to ministers by BIS.

2.4.5 Contracting and due diligence

Successful applicants were subjected to due diligence checks by the Skills Funding Agency. A financial health check of the lead applicant was carried out by the Agency and checks on the training providers[3]. The grant recipient was required to provide company house registration, corporate status and the UKPRN of any delivery partners.

The grant recipient underwent a financial health assessment on the risk of funding. Financial health was graded on three elements[4]: (1) solvency, (2) profitability and (3) gearing - scored out of 100 and aggregated to create a total score. The score is graded from inadequate to outstanding, and required a full set of recent company accounts and statements including profit and loss accounts, balance sheets, relevant notes, commentary and breakdowns. The financial health assessment set a recommended funding level (RFL) to assess the organisation's financial capacity to deliver.

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[3] Some organisations, such as large firms and further education colleges were exempt from the financial health check.
[4] There are no obvious qualitative criteria that an organisation must fulfil as part of the Financial Health Assessment e.g. company status, strategy etc.

In terms of contracting, applicants to EOP2 were made an offer of funding. These offers were typically less that the grant requested, and a negotiation process took place between UKCES, the Skills Funding Agency, BIS and the applicant to agree the final specification of the project, the expenditure involved, and the outputs and outcomes the project was contracted to deliver. The outcomes of these negotiations were expressed in a Final Grant Offer Letter.

2.4.6 Monitoring

Projects were monitored by an Account Manager based within the Skills Funding Agency. Monitoring involved a process of quarterly returns by which the applicant would report their progress in defraying the contracted expenditure, and their delivery of outputs (covering both those deriving from skills infrastructure activities and subsidies for training activities). Key Performance Indicators were introduced by BIS part way through the programme and included:

- Sources and uses of funding (both from the EOP and private investment)
- BIS and DfE's level of actual and predicted investment over the length of the project
- Private sector (cash) level of actual and forecasted investment over the length of the project
- Number of learner hours in apprenticeships and non-apprenticeships at different levels
- Number of Level 3 apprenticeship equivalents both actual and forecasted cumulatively over the length of the project
- Actual costs per learner (based on equivalent of a Level 3 apprenticeship)
- Metrics designed to capture the wide range of outputs and outcomes that could potentially be delivered by skills infrastructure projects.

The monitoring process also required Account Managers to liaise directly with the applicant on regular basis to explore progress (including attending project boards where appropriate). Applicants were also subject to an audit process (completed in the form of an annual accountants report). Oversight by BIS included convening 'panel days' in which Account Managers were required to report the progress of the projects they were responsible for monitoring and discuss any issues being encountered in project delivery.

3.0 Marketing, Application and Project Selection Processes

This section examines the effectiveness of the processes employed by UKCES and BIS to generate demand for EOP2 funding, and select a portfolio of projects that would provide an effective test of the hypotheses underlying the motivations for funding the pilot. These processes included marketing and communications activities designed to raise interest in the programme amongst employers and intermediary bodies, procedures for assessing the quality of project proposals, and processes employed in making final project selection decisions.

3.1 Marketing and Communications

The marketing and communications associated with EOP2 had the objective of generating sufficient number of volume of high quality proposals from which the pilot could be procured (i.e. proposals that aligned closely with the underlying objectives of the pilot). Marketing and communications activities were led by the UK Commission for Employment and Skills, and comprised the development of the funding prospectus, delivery of events, and direct support to applicants in the preparation of their project proposals.

3.1.1 Funding Prospectus

A funding prospectus for EOP2 was developed by the Department for Business, Innovation and Skills to articulate the objectives of the programme and guide applicants on the criteria for eligibility and assessment of proposals[5]. This was developed with contributory inputs from UKCES (whose role was to secure alignment with the broader employer ownership vision). The function of this document was to provide guidance the application process, the types of proposals that were sought, as well as promote the programme to prospective applicants. The prospectus included coverage of:

- **Objectives:** The prospectus stated that EOP2 was open to two types of proposal: 'proposals that will enable employers to improve the skills of their current and future workforce', and 'industrial partnerships' to take wider responsibility for skills development in a place or sector.'
- **Outcomes:** The prospectus stated the Government was aiming to secure 'an increase in training and development delivered to drive growth.'

[5] Employer Ownership Pilot: Round 2 Prospectus, HM Government and UK Commission for Employment and Skills, available at: https://www.gov.uk/government/publications/employer-ownership-of-skills-pilot (accessed September 2015)

- **Employer ownership:** The funding prospectus suggested successful proposals would demonstrate clear 'employer ownership.' This criteria was defined in the prospectus as a requirement to (1) demonstrate that employers were involved in identifying the employment and skills needs addressed and developing the proposed response, and (2) invest alongside the requested public funding. The prospectus is ambiguous regarding how far these contributions were expected to be in cash terms, though it is clear that some form of cash contribution from employers was expected.
- **Quality, rigour and feasibility:** The prospectus explicitly states requirements for applicants to provide evidence that project proposals would prove an effective means of addressing the skills needs identified. In addition, the prospectus describes expectations regarding the provision of a robust project planning management and quality assurance plans.
- **Impact and value for money:** The prospectus also makes it clear that proposals would be judged on the 'additional benefit they would bring (over and above what would have happened anyway).'
- **Innovation:** The funding prospectus states that proposals offering 'radical new models of learning and workforce development' would be favoured. Guidance was also given on examples of what may qualify under this criterion, including (1) partnerships that include local businesses, (2) models of learning in a work environment, (3) new curriculum models and qualifications, (4) new delivery models (e.g. co-location of premises), and (5) models that transform the relationship between business and providers at a local level that are truly employer led.
- **Role of intermediaries[6]:** The prospectus states a requirement for funds to be routed through intermediaries in the case of proposals requiring infrastructure funding, and was optional for other types of proposals.
- **Sector focus:** The prospectus also highlighted a preference for proposals that target the range of sectors that were targeted as part of the Coalition Government's Industrial Strategy published in 2011.
- **Balanced portfolio of investments:** Finally, the prospectus highlighted that the project selection process would be designed with a view to achieving a 'balanced portfolio of investments.'

The expression of EOP2 objectives in the prospectus appears to diverge to some degree from the hypotheses defined in the Memorandum of Understanding agreed between BIS, UKCES, the Skills Funding Agency and the Department for Education. These emphasise

[6] In this context, an intermediary would be a third party responsible for managing the grant and delivering the proposed activities on behalf of or for a group of employers.

testing how far giving employers purchasing power, direct control of public money, and transparency in the price of training has an influence over employer investment in training. These features were not included as explicit requirements of proposals to EOP2 within the prospectus, and may have supported a broader interpretation of the range of intended activities[7].

In addition, the requirement for intermediary involvement within the prospectus could be interpreted to have diluted the principle set out in the MOU of testing how far giving employers *direct* control of public money would produce the desired outcomes (in such scenarios, employer control of public money might be understood as indirect). The stakeholders consulted suggested while there was an interest that the pilot tested delivery models in which training subsidies were put directly in the control of employers, there was an expectation at the outset that intermediary involvement may be needed, particularly in managing the administrative burdens and State Aid risks associated with the execution of projects, as well as providing an independent party around which novel collaborative arrangements could form (creating potential governance challenges regarding securing the desired level of employer ownership). The prospectus itself offered limited guidance on what form these governance arrangements might look like in practice, though application guidance states a requirement for applications to demonstrate how industry will be engaged in a strategic and decision making role.

The prospectus also provided little detail on how impact and value for money would be judged through the appraisal process (and in particular, the emphasis on training outputs – such as number of apprenticeships places created - as a key driver of these estimates). There was some evidence from case studies with successful applicants that the prospectus implied a broader range of outcomes were of potential interest to EOP2 than was the case in later contract negotiations. This led one lead applicant to suggest that the value for money tools developed by BIS were not 'fit-for-purpose' in that the activities they were seeking to fund were not necessarily likely to deliver the types of training output expected (suggesting some misalignment between applicants understanding of the objectives of EOP2 and those expressed in the MoU).

In terms of innovation, the prospectus describes an interest in 'radical new models' and provides a broad set of qualifying examples (while explaining that applicants would need to demonstrate why existing training options were unsuitable, and identify the aspects that were new or innovative). The explicit requirement for 'innovation' also appears to be supplementary to the principles agreed within the Memorandum of Understanding (the

[7] For example, numerous successful applications included provision for activities designed to promote particular sectors as a potential career to individuals in school. While this type of activity might have alleviated labour supply issues faced by the sectors concerned, such activities do not have any direct connection to the types of training outcomes desired in terms of either quality or volume.

hypotheses agreed suggest that novelty arises from the design of the pilot – i.e. placing employers in direct control of public resources for vocational training).

A final point to highlight was that the prospectus did not include a requirement for a minimum level of cash contribution to the delivery of projects (as no such requirements were in place at the point at which the prospectus was developed). However, requirements for a minimum contribution of 20 percent of project costs were later introduced by BIS during the process of contract negotiations at the request of the Minister to maximise value for money and cash contributions (as opposed to in-kind). These changes were not expected by applicants.

3.1.2 Events and Direct Support to Applicants

UKCES undertook a programme of communications activity to attract interest in the programme. This took the form of a range of promotional communication to employers on contact databases (including near misses from Round 1 of EOP2) and events (including 4 regional events and 6 webinars)[8]. It has not been possible to collect evidence on the attendance of events by prospective applicants, though it is understood that around 500 firms were engaged through these activities in some form. Additionally, while UKCES offered support to applicants it has not been possible to collect the evidence needed to determine its effectiveness in improving the quality of project proposals.

3.1.3 Application Form

All applicants to EOP2 were required to submit an application form that expressed details of their proposals for delivering the programme. The application form required applicants to describe:

- A brief description of their project proposal;
- Evidence of the skills shortages or issues that project aimed to address;
- Evidence of how the proposed project would address those needs;
- Expectations of the likely impact of the project on productivity and growth;
- An explanation of why the project would not go forward without public funding (including details of alternative funding options that had been considered);
- Details of how employers had been engaged in project development, the range of organisations that would be involved, and proposed Governance arrangements;
- Systems in place for assuring the quality of training and underpinning infrastructure;

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[8] Employer Ownership Pilot: Communications Plan, UKCES, November 2012

- Innovative features of the project and how these features meet strategic needs;
- Project management and leadership arrangements, the role of employer bodies, and risk management plans;
- Proposals for ensuring the sustainability of the project;

Applicants were also required to submit spreadsheet appendices providing a breakdown of what was termed 'participation' costs (i.e. the costs of providing training and other investment in human capital) and 'skills infrastructure' (the costs of developing and maintaining supporting arrangements such as new qualifications). The spreadsheet also captured details of the anticipated volume of training outcomes from the project (broken down by age and type of qualification). This was supplemented by a delivery plan in the form of milestones to be delivered over the course of the project.

The application form was designed by BIS and UKCES to capture all information needed to make an assessment of the quality and value for money associated with project proposals. However, there were mixed views from stakeholders as to how far the application form captured sufficient information regarding the specifics of project proposals (i.e. the precise activities they were proposing to deliver with EOP2 grant funding) and how grant funding would be spent. For example, the spreadsheet appendices only captured headline measures of the costs involved, and it is highly challenging to use the information in the application form to establish how the individual organisations involved in project proposals would benefit from the subsidies provided through EOP2[9]. Additionally, application forms did not explicitly separate income generated from fees for training from direct cash contributions to project costs (and there was some evidence that some projects were classifying this income as cash contributions). As such, improvements to the application form to facilitate greater transparency over the proposed investment of public funding could have potentially been beneficial for those involved in project appraisal.

3.1.4 Applications Received

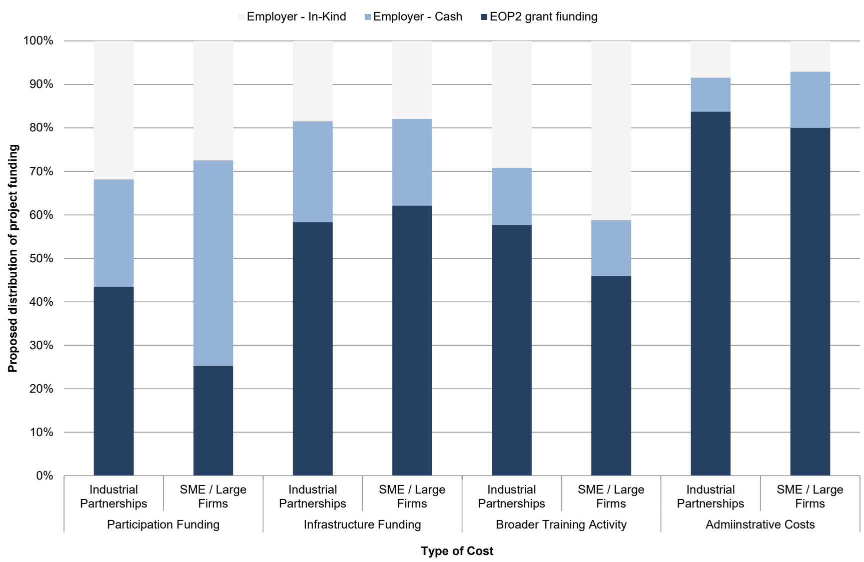
A total of 315 applications were received for funding through EOP2, involving a collective request for grant funding of £1.5bn. This suggests that marketing activity was effective in generating a large volume of bids, with the total grant ask substantially exceeding the £250m available. Of these proposals, 143 were full project proposals, and 173 were outline applications.

[9] This is in contrast to application forms used by other Government funded programmes which tend to give greater transparency on project finances. For example the 'partner finance sheets' used by Innovate UK require applicants to describe in detail how each organisation involved in the application will benefit from grant funding and how that funding will be used in the delivery of the project.

Across the 315 applications, proposed employer cash contributions totalled £371m (£0.48 per £1 of grant funding requested), while proposed in-kind contributions totalled £475m (£0.61 per £1 of grant funding). Seventy seven percent of total project costs were to be committed to participation activities (primarily in the form of fees to be paid external training providers), 11 percent to the costs of skills infrastructure development (a combination of payroll costs and other direct costs), 6 percent to broader training activity, and 5 percent to the administrative costs associated with the implementation of the project. Detailed data available for a subset of these projects appears to suggest this understates the overall administrative overhead associated with the delivery of EOP2 projects. Applicants were also permitted to include administrative overheads under participation activities and it is estimated that total management and administration costs represented around 10 percent of the costs associated with EOP2 proposals (rather than 5 percent).

Projects tended to seek relatively small contributions from EOP2 to the cost of participation activities (less than 50 percent of the costs involved). However, the contribution sought from EOP2 rose with regard to the costs of skills infrastructure funding and broader training activity, and the evidence suggested that applicants expected EOP2 to fund the majority of administrative costs associated with project delivery (as illustrated in the figure below). This is potentially illustrative of the degree of employer willingness to co-invest in different aspects EOP2 projects, with relatively high willingness to co-invest in the direct delivery of training, but lower willingness to invest resources in those aspects of delivery involving significant labour costs (i.e. skills infrastructure and project administration).

Figure 2: Distribution of Proposed Project Expenditure, EOP2 applications



Source: BIS Monitoring Information, subset of 209 full and outline project proposals

Bids were received that targeted a wide range of different sectors, with the most frequently targeted being logistics, transport or infrastructure firms (27), health or social care providers (26) and manufacturing and construction firms (25). Around 45 percent of project proposals involved an intermediary taking a co-ordinating role in collaboration between employers, 25 percent involved collaborations between employers without intermediary involvement, and 30 percent were proposals from single firms with no collaboration.

3.2 Appraisal Process

Each proposal was subject a three stage appraisal process:

- **Eligibility check:** There was an initial eligibility check (in which proposals that were clearly ineligible for funding were discarded). Twenty proposals were deemed ineligible, with 295 proposals passing through to the next stage.
- **Initial sift:** An initial sift was completed that largely consisted of an automated assessment of the value for money with project proposals. Almost 200 proposals passed this stage of the appraisal process.
- **Main assessment:** If a proposal passed the initial sift, they were then subject to a full appraisal, which involved more detailed scrutiny of value for money alongside other analyses regarding the strength of the proposal. 138 proposals passed the main assessment stage – at which point they were given further consideration by the Investment Sub-board, as described below).

At the outset, a 'balanced portfolio' approach to selecting projects was agreed. This involved consideration of the extent to which the project portfolio addressed the breadth of the Government's sectoral priorities, while securing an appropriate mix of Industrial Partnership, SME led and large employer led projects. These considerations sat alongside both judgements regarding value for money and the quality of project proposals (such as the strength of delivery plans, levels of employer ownership and innovation).

Table 2: Number of EOP2 Proposals by Stage of the Appraisal Process

Stage	Number of proposals (passing through to next stage)	Outline Proposals	Full Proposals
Applications	315	171	144
Eligibility check	295	162	133
Initial sift	199	111	88
Main assessment	138	69	69

3.2.1 Value for Money Methodology

Estimates of value for money were developed using a 'VFM toolkit' (developed by BIS) which used the costs and training outcomes associated with project proposals to estimate the likely net costs and benefits involved. The VFM toolkit placed a monetary value on those outcomes associated with training volumes (e.g. number of apprenticeships delivered), which were monetised on the basis of the expected future productivity gains associated with that training (derived from secondary literature exploring the relationship between vocational training and earnings).

The estimated costs and benefits were adjusted on the basis of the extent to which those training outcomes were thought likely to have been delivered in the absence of the project (deadweight). This assessment was automated in the initial sift, and revised on the basis of assessor judgement in the main assessment. While similar adjustments for short term displacement and multiplier effects were not made as part of the appraisal process, these omissions can be justified on the basis that such effects will likely be temporary in nature.

Estimates of the benefits of project proposals were combined with estimates of the private and public costs of delivery to produce a 'monetised benefit score' or MBS. Public and private sector costs were treated equally, in line with Green Book principles[10]. However, private costs were treated as a disbenefit rather than a cost - in contrast to the conventional computation of benefit-cost ratios. This formulation systematically favours proposals where a higher share of projects costs are met by the private sector and aligns closely with the objectives of the fund (on the presumption that higher leverage ratios are reflective of a greater degree of employer ownership).

The framework applied was largely aligned with the economic principles of the HM Treasury Green Book. Enhancements may potentially have been found by requiring appraisal officers to examine the issue of how far increased private spending on training was likely to cause offsetting distortions in other areas expected to raise productivity (such as capital spending). However, such judgements are likely to have been highly speculative and their omission is unlikely to have systematically altered the rank order of proposals.

There are some features of the appraisal model that merit further consideration:

- **Delivery risk and optimism bias:** The VFM toolkit departed from Green Book guidance in that no quantitative adjustments were made for delivery risk or optimism bias in the calculation of Monetised Benefit Scores. This would have systematically favoured those proposals with weaker or more risky delivery plans.

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[10] It is not standard practice to allow for the deadweight loss associated with taxation in project appraisal.

- **Costs of skills infrastructure spending:** The costs associated with skills and other infrastructure spending were excluded from the calculation of the Monetised Benefit Score. However, the training outcomes associated with skills infrastructure activity were included in estimates of the benefits involved. As a consequence, the assessment of VFM was biased in favour projects involving skills infrastructure spending.
- **Variability in productivity across sectors:** BIS made an explicit decision to avoid integrating differences in the relative productivity of industrial sectors into the appraisal model. This decision was made to avoid disadvantaging low productivity sectors in the appraisal process, though carried the risk of inefficiently allocating resources to sectors of the economy with little potential to drive productivity growth through human capital investment. BIS were aware of this risk, and signed off the approach on the basis that the pilot did not have the sole objective of maximising value for money but also to test a diversity of approaches.

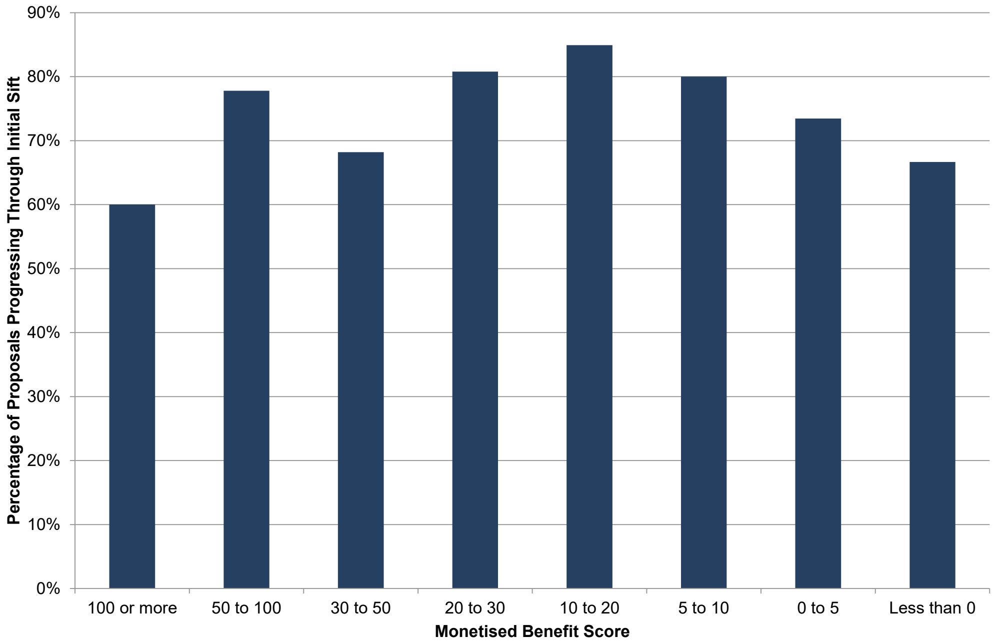
3.2.2 Initial Sift

As highlighted above, 295 project proposals were subject to an initial sift. This involved an automated assessment of value for money. Assessors (across BIS, the Skills Funding Agency, and UKCES) also graded proposals on a scale of 0 to 8 in terms of their likely impact, level of employer ownership, and level of employer involvement (with a minimum score of 4 on each of these measures required to progress to the next stage). Any applications involving features deemed to be particularly innovative were highlighted at this stage.

Analysis of the automated VFM scores suggests close to zero correlation between value for money and the probability of progression to the main assessment. Proposals with a MBS of less than 0 (implying their costs exceeded their expected benefits) had a similar probability of progression to the main assessment as those with much higher BCRs (as illustrated in the figure below).

In light of this result, it is inferred that the assessor judgements with regard to employer ownership and involvement and likely impact were more significant in defining which project progressed to the main assessment.

Figure 3: Relationship between Automated MBS and Likelihood of Progression



Source: BIS Monitoring Information

3.2.3 Main Assessment Process

The main assessment involved a more detailed assessment of the merits of individual proposals against a number of additional criteria (employer ownership, quality and rigour, innovation, feasibility and future prospects). The appraisal of applications was completed by a combination of BIS, UKCES, the Skills Funding Agency and external staff on the basis of assessor guidance developed by UKCES. Each application received an appraisal by two assessors, with consistency across appraisals assured a dummy assessment exercise completed by all assessors and a moderation process. In addition, BIS sampled assessments throughout the process to provide additional quality assurance.

The assessment guidance was developed by UKCES and aligned closely with the criteria defined in the funding prospectus and feedback from those involved in the assessment process suggested that the criteria defined by the framework were generally clear. The resources allocated to the main assessment varied, though assessors were expected to complete numerous assessments per day (and given the scale of funding involved for some proposals it may have been proportionate to allocate more resources at this stage, though larger proposals attracted more discussion at moderation meetings and later stages of the application process).

3.2.4 Quality of Applications

An analysis of the business case for intervention put forward in successful proposals has been undertaken with a view to assessing the quality of applications received:

- **Strategic case:** The strength of the strategic cases for intervention prepared by applicants was generally weak. Applicants typically referenced publicly available statistics on general skills shortages and gaps across sectors to make a case for investment in the sector of interest. However, in most cases, little evidence was provided on the causes of the skills issues identified, the extent to they were restraining productivity within the sectors concerned, and evidence that the proposed activities would explicit address this. There was typically weak evidence of demand for the proposed skills solutions (if any). As such, this quality of this information will have made it challenging for those involved in appraisal to reach effective judgements on the likely effectiveness of project proposals in delivering the outcomes of interest.
- **Economic case:** Proposals for the provision of public subsidies for developing or delivering training firms should also ideally be underpinned by an economic case demonstrating the market failures that cause sub-optimally low levels of private investment or collaborative activity. None of the applications reviewed made any form of economic case for public intervention in the project. As a result, it will not have been possible for those involved in the appraisal and project selection process to use the evidence put forward to discriminate between projects that were genuinely welfare enhancing, those where subsidies would have crowded out private investment in human capital, and those that were actually welfare reducing[11].
- **Feasibility:** All bids provided a clearly laid out plan for how they intended to use the funds, though the level of detail varied across applications. Eighteen projects provided a detailed plan with milestones for each month along with required resources. The remaining applications provided a partially developed plan or a short strategy overview for the next few years. However, there were significant gaps regarding how the project would be delivered and who would deliver it[12]. For example, less than half of the industrial partnership proposals named those that would be involved in their governance procedures (a key requirement in the application form)
- **Innovation:** A quarter of successful applicants define innovation as the collaborative nature of their bids (particularly those involving vertical rather than horizontal collaboration). Twelve bids define innovation as creating new standards, new apprenticeships, more flexible and tailored training for all employers and the creation of new infrastructure (centres of excellence and apprenticeship hubs). All

[11] Some projects may not have been taken forward in the absence of subsidies, not because they were constrained by market failure, but because the there was no economic need for training proposed.
[12] Significant weaknesses in delivery plans did receive attention in contract negotiations or the development stage, and had to be addressed before a Grant Offer Letter was issued.

these types of innovation largely involving replicating existing approaches in new contexts, rather than the transformational or 'radical' innovation described in the funding prospectus. External organisations involved in the assessment process suggested the level of innovation associated with applications was low, with no consideration of frontier approaches to training developed outside of the UK.

3.2.5 Outcome of Main Assessment

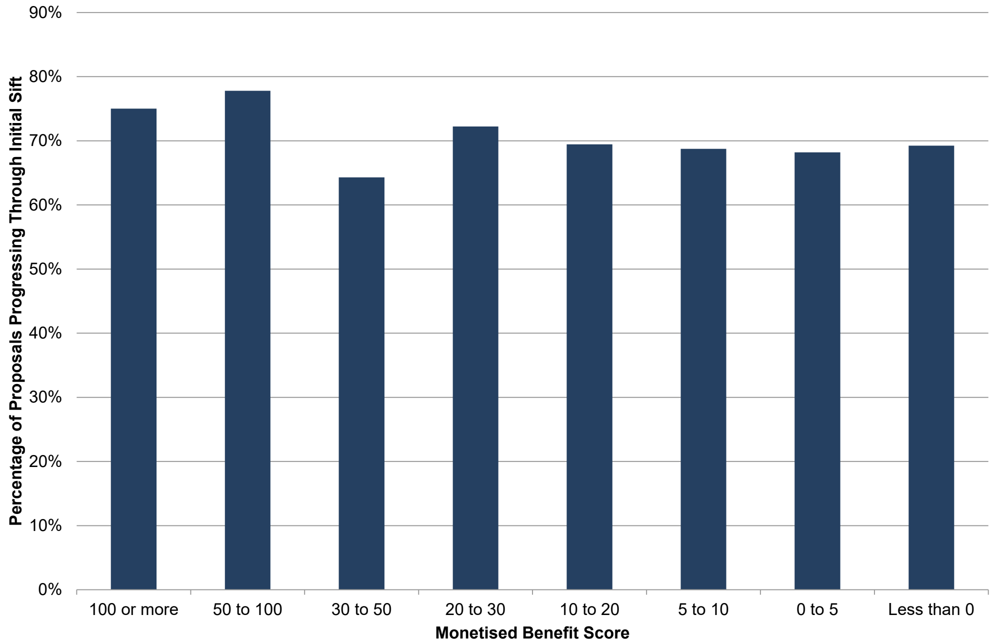
The main assessment resulted in 130 bids being shortlisted for consideration the Investment Sub-Board, and 8 put forward for further consideration. This was achieved by a short-listing panel comprising policy officials within BIS, UKCES and the Skills Funding Agency. Only projects that received a minimum score of 4 out of 8 in each area should be shortlisted, though exceptions were made for 'politically sensitive' proposals and proposals that were strong in all areas aside from one[13].

As noted above, the MBS was updated for the main assessment, including revisions to the automated deadweight scores. In 65 percent of cases, this led to no change in the MBS, though in 24 percent of cases these revisions led to a reduction in the MBS and an increase in 11 percent of cases. However, as with the initial sift, considerations of value of money appeared to have close to no influence in determining whether a proposal was shortlisted to the Investment Sub-Board (illustrated in the figure overleaf). Again, proposals where the costs exceeded the anticipated benefits were as likely to be recommended to the Sub-Board as those with substantial greater benefit to cost ratios.

In light of this, it appears that value for money considerations had very little – if any - influence over the outcome of the appraisal process (indeed, proposals unsuccessful at this stage where associated with higher MBS scores than successful proposals).

[13] EOP2 Short Listing Panel, Meeting Minutes, May 2013.

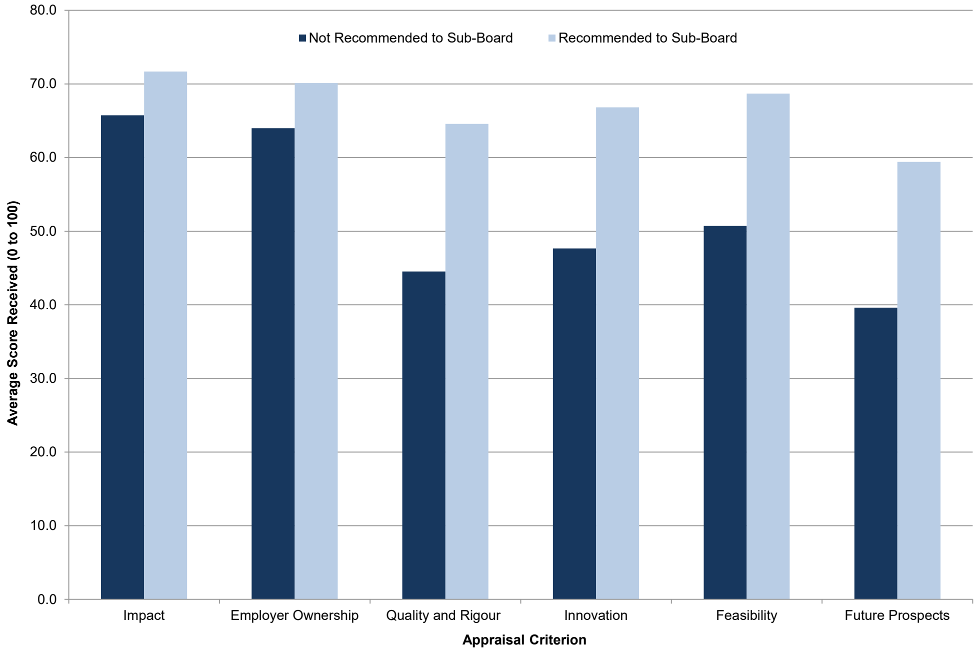
Figure 4: Relationship between Main Assessment MBS and Likelihood of Recommendation to the Investment Sub-Board



Source: BIS Monitoring Information

Analysis of the scores received by proposals against other criteria suggests that other considerations were influential in determining the progression of proposals to the Investment Sub-Board. Considerations regarding procedural aspects (including quality and feasibility), innovation, and likely forward sustainability appear to have been central to the progression of proposals to the Sub-Board. Additionally, analysis of moderation notes suggested that broader policy priorities (e.g. the Coalition Government's Industrial Strategy and local economic development agenda) were also influential.

Figure 5: Average Appraisal Scores Received at Main Assessment



Source: BIS Monitoring Information

Each proposal was given an overall score (from 0 to 100), with internal documentation specifying that a minimum quality score of 60 was required for projects to be recommended to the Investment Sub-Board. There is evidence that these thresholds were not strictly adhered to: 30 bids receiving a score of less than 60 at the main assessment stage were recommended to the Sub-Board while 5 bids which received a score of more than 60 were not. Stakeholders indicated that this may have been driven by the terms of reference for the Investment Board who were aiming to secure a ‘balanced portfolio’ of projects, requiring a proposals representing a range of sectors, regions and employer sizes, which may have overridden the appraisal criteria. Additionally, political considerations were also important: either in terms of relationships with key employers in the UK or broader policy priorities (e.g. spatial priorities). Others suggested that criteria needed to be relaxed to help ensure that public resources were defrayed over the timescales allowed.

Additionally, minutes from the Investment Sub-Board minutes suggest that the Board were ‘content that a rigorous and transparent assessment and moderation process had been carried out, and duly endorsed the assessment process of EOP2.’

3.3 Project Selection

Following appraisal, the proposals shortlisted at the main assessment stage were given consideration by the Investment Sub-Board. This group sought additional information from applicants where necessary (including inviting lead employers for interviews to test their commitment to the project), and made a set of recommendations to a full Investment

Board, and this latter group gave a final set of recommendations for BIS to present to Ministers for approval. The membership of both groups included UKCES Commissioners and senior officials within BIS, and the Skills Funding Agency. Senior officials within the Department for Work and Pensions, and the National Apprenticeship Service were also involved to varying degrees.

The groups were both guided by Terms of Reference agreed between UKCES, BIS and the board itself. The duties of the Investment Board were expressed as follows:

- To approve outline and full Employer Ownership proposals, including industrial partnerships and to make recommendations to the Skills Ministers about which propositions should receive investment, the level of investment, and the outcomes required;
- To advise Ministers on the overall effectiveness of the employer ownership pilots and forward strategy.

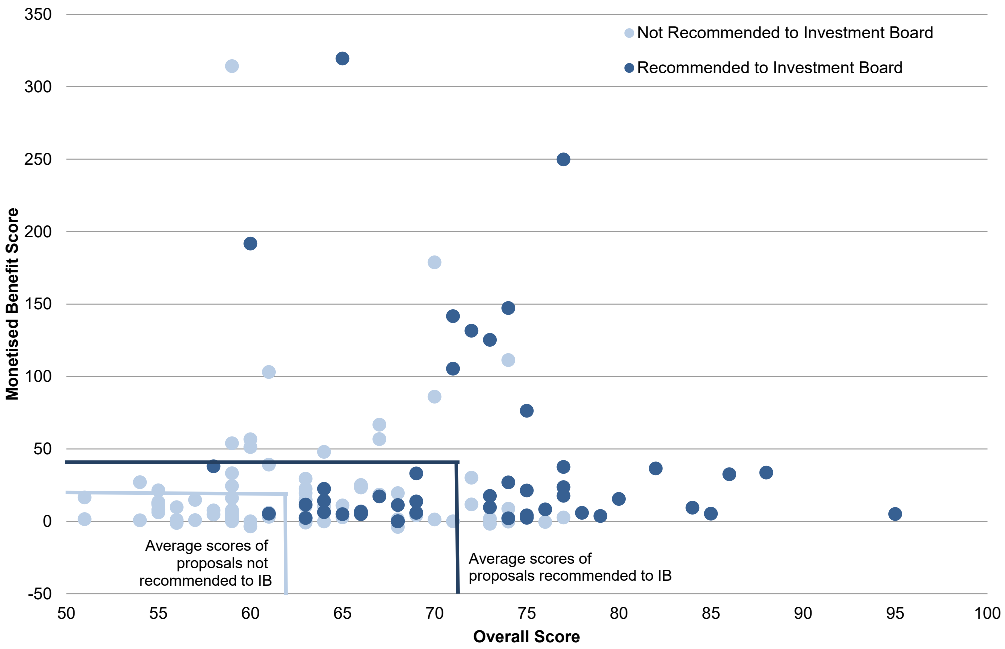
The Investment Board defined a Terms of Reference for the Investment Sub-board whose remit was expressed as 'to recommend to the Investment Board the Employer Ownership proposals, including Industrial Partnerships, that meet or do not meet the Employer Ownership criteria and advise the Board about which propositions should receive funding'. The main challenge for the Sub-Board to address issues regarding the oversubscription of funding (potentially fundable proposals emerging from the main assessment involved a total grant ask of £1.1bn against an available budget of £250m) while achieving a balanced portfolio of investments. A framework for achieving this 'balanced portfolio' was signed off by the Minister, and outlined the principle of balancing funding requests across categories of project (Industrial Partnerships, Large Employer and SME led applications), coverage of the sectors identified in the Industrial Strategy, spatial coverage, and types of training and other interventions.

Meeting minutes suggest that during the first meeting of the Sub-Board, the group defined provisional budget allocations of £130m for Industrial Partnership proposals, £110m for Large Employer led bids, and £15m for SME led bids. Additionally, a set of criteria were agreed for making recommendations to the Investment Board: bids would require a quality threshold score of 75 or above (bids below this threshold would be reviewed by exception), high MBS scores, and innovation scores of 80 or more. The package of proposals recommended would also involve coverage of key sectors and the involvement of large partners. The Investment Sub-Board recommended a total of 48 proposals – 14 proposals to create Industrial Partnerships, 8 SME led bids, and 26 large employer led bids. The Investment Sub-Board approved proposals with a collective grant ask in excess of the funding available to allow for 'further shaping and contract negotiation.'

An analysis of the scoring associated with these proposals suggests that the recommendations of the Investment Sub-Board broadly aligned with the parameters defined. The Sub-Board tended to recommend those proposals with higher MBS and overall appraisal scores. However, the Sub-Board did not make recommendations that aligned with the minimum scoring thresholds that were set: only 22 of the 48 proposals recommended by the Investment Sub-Board received an overall score of 75 or more (less than half). Equally, only 20 of the 48 proposals received an Innovation Score of at least 80.

As illustrated in the figure below, the Sub-Board recommended a number of lower scoring proposals to the Investment Board at the expense of proposals with higher scores in the appraisal process. From the perspective of optimising the project portfolio in terms of value for money and quality, enhancements may have been made. However, as highlighted above, it was also agreed at the outset that other considerations, such as achieving a balanced portfolio of projects, and testing innovation in different circumstances, would also be given weight.

Figure 6: MBS and Overall Appraisal Scores: Sub-Board Recommendations



Source: BIS Monitoring Information

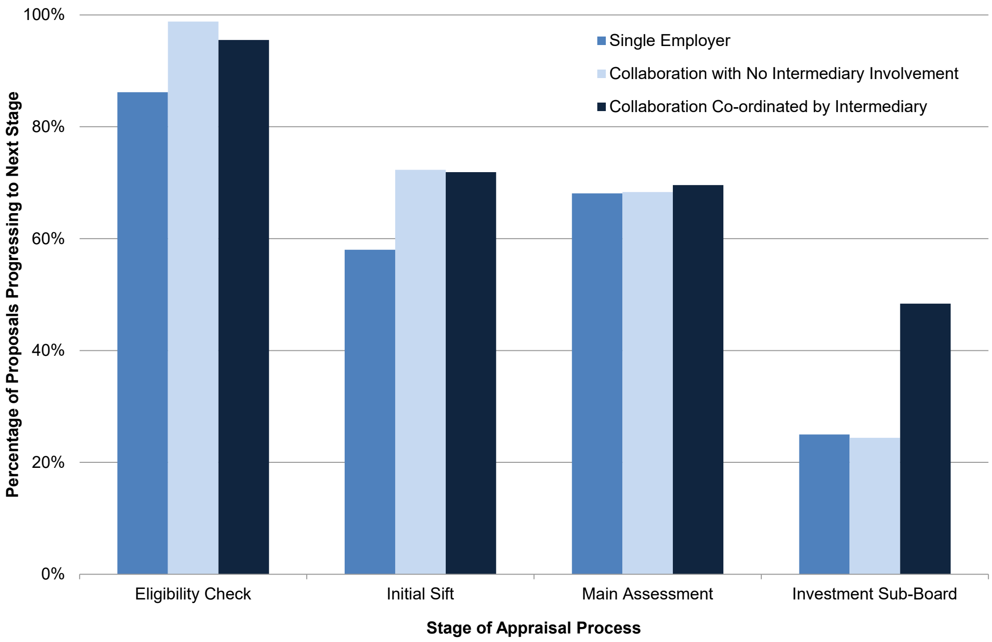
From this pool of 48 recommended proposals, the Investment Board recommended 40 projects to be presented to Ministers for consideration and approval. The considerations of the Investment Board also explored how far separate proposals could potentially be combined, as well as offering recommendations on the negotiation position to be taken by officials. Some of the stakeholders consulted did raise some concerns regarding the governance of the project selection process:

- **Independence of the Investment Board:** The Investment Board membership largely comprised UKCES Commissioners (a group of individuals in senior or leadership positions in the private sector or employee representative bodies that guide the work of UKCES). However, as UKCES policy officials were also involved in setting the policy priorities for employer ownership, this created a perception amongst stakeholders that the final project recommendations could have benefited from an independent perspective. It should also be highlighted that a number of programmes involving the allocation of grants involve an independent selection panel. For example, the Biomedical Catalyst programme (managed by the Medical Research Council and Innovate UK) largely relied on the judgement of independent experts in the allocation of resources (in the form of the Development Pathway Funding Scheme panel and the Major Awards Committee[14]). There are numerous other examples, including the Independent Advisory Panel created to support the selection of Regional Growth Fund projects, and the Independent Investment Panel created to recommend proposals for the Advanced Manufacturing Supply Chain Initiative.

- **Intermediary involvement:** Collaborations involving an intermediary were twice as likely to be recommended by the Investment Sub-Board as those without (as illustrated in the figure below). Intermediary co-ordination was a strict requirement for proposals involving infrastructure funding and would have contributed to this result. In terms of the nature of the intermediaries involved, an analysis of successful projects suggests that the majority of these intermediaries were Sector Skills Councils, though there were some examples of Local Enterprise Partnerships and Training Providers acting in this intermediary function (other types of intermediary did come forward, but were rejected by the Skills Funding Agency as a result of due diligence). State Aid issues were also significant, with the absence of an intermediary creating compliance risks for complex and large scale proposals led by employers.

[14] The membership of the DPFS and MAC panels are described here: https://www.mrc.ac.uk/funding/browse/biomedical-catalyst-developmental-pathway-funding-scheme-dpfs/

Figure 7: Selection Probabilities by Intermediary Involvement and Appraisal Stage



Source: BIS Monitoring Information

3.3 Outcome of Project Selection Process

The project selection process described above led to the approval of 40 project proposals. The selection process arguably led to a 'balanced portfolio' across the key dimensions agreed by the Investment Sub-Board:

- **Project Type:** The portfolio of recommendations included 14 Industrial Partnership proposals, 18 schemes led by large employers, and 8 schemes led by SMEs.
- **Bid Type:** Eighteen full proposals (termed EOP2 Phase 1 projects) and 22 outline proposals (termed EOP2 Phase 2 projects) were recommended.
- **Sector coverage:** The range of proposals covered a wide range of major sectors of the economy (including agriculture, construction, advanced manufacturing, and a range of service sectors), as well as a small number of cross-sector but spatially targeted proposals.

The total EOP2 grant requested across the 40 project proposals was close to £400m, requiring reductions in grant spending of £160m through contract negotiations.

3.4 Summary

- **Definition of key concepts:** The evidence gathered through this evaluation suggested that understanding of key concepts driving the principles of the Employer Ownership Pilot diverged across the partner organisations involved over time, particularly in regard to the optimal level of intermediary involvement in the delivery of projects over time.

- **Demand:** The evidence suggests that demand for EOP2 funding exceed supply, and that marketing and communications activity was effective in securing a broad pool of applications from which the pilot could be procured. Proposals covered a wide range of sectors, and included a broad combination of single employer proposals and collaborative schemes with and without the co-ordinating involvement of an intermediary. However, broader judgements regarding the effectiveness of marketing activity cannot be made as part of this study.
- **Appraisal methodology:** An appraisal model was developed combining an assessment of strategic and operational merits of project proposals, alongside a value for money assessment undertaken in line with the principles of the HM Treasury Green Book. While there were no major weaknesses with the framework, greater attention could have been given to addressing issues of delivery risk and optimism bias.
- **Quality of applications:** A review of successful applications to EOP2 generally did not provide convincing business cases for public intervention (using the HM Treasury five case model[15] as the foundation for this analysis). In particular, successful applications generally did not make a strong strategic case for investment in the skills solutions suggested, and made no economic case for intervention. This will have reduced the ability of assessors to make accurate judgements regarding value for money, particularly with respect to likely extent to which public funding would have crowded out private investment (deadweight).
- **Multi-criteria analysis:** The project appraisal process was in effect a form of multi-criteria analysis designed to balance issues of value for money, employer ownership, and project quality with the desire of securing a ‘balanced portfolio’. The project selection process arguably led to the balanced portfolio desired. However, the evidence also suggested that considerations of value of money in particular had a negligible influence over the progression of proposals through the appraisal process (though had more influence the recommendations of the selection panels). Additionally, analysis of selection decisions appeared to suggest that additional criteria were influential. A key issue was that at no point were the relative importance of - or weights to be given to - the various criteria agreed. If multi-criteria frameworks for resource allocation are to be used in future programmes, it is suggested that agreement regarding the weights to be applied is achieved at the outset to ensure transparency.

[15] As described in ‘Public Sector Business Cases Using the Five Case Model, HM Treasury’, 2013

4.0 Contracting and Monitoring

This section examines the effectiveness of contracting and monitoring arrangements employed in the EOP2 delivery process. The contracting process involved two major elements: a due diligence procedure led by the Skills Funding Agency (verifying the fitness of the providers to deliver the proposed activities), and the negotiation and agreement of a Grant Offer Letter defining the obligations of grant recipients. The Skills Funding Agency's role also extended to monitoring the on-going performance of the projects contracted, in terms of defraying expenditure and delivering the agreed outputs and milestones.

4.1 Overview of the Contracting Process

The 40 projects approved in July 2013 either entered into a process of grant negotiations (full proposals) or entered a development phase in which applicants were given 12 weeks to work up and submit a full proposal for EOP2 funding.

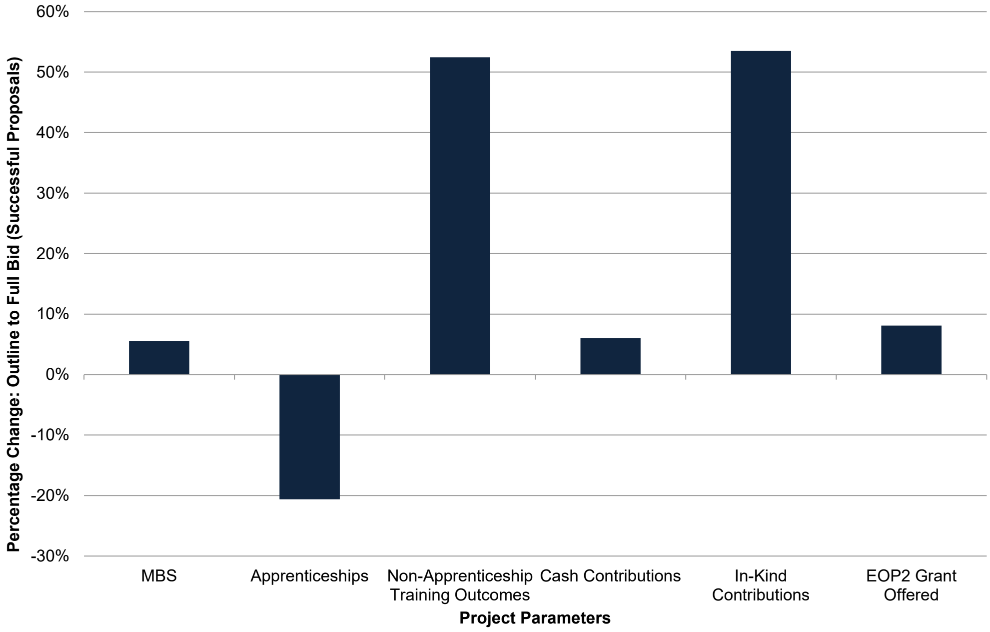
4.1.1 Outline Bids

Twenty two outline proposals were approved, after which the projects concerned entered a 12 week development phase (receiving support from UKCES and the Skills Funding Agency with the process). Only one applicant withdrew during this phase, with the process resulting in 21 full proposals for further consideration by the Investment Board. These included 10 proposals to create an Industrial Partnership and 11 SME and large employer led proposals.

Five of these proposals were rejected, with 17 offered EOP2 grant funding. Seven of these projects were taken forward by UKCES under a separate funding stream (at BIS' request), and as a result only 10 EOP2 Phase 2 projects entered grant negotiations.

Full proposals involved refinements to basic project parameters (including the level of grant ask, employer contributions, and training outcomes) as well as changes to the design of the project. The figure overleaf illustrates how these parameters changed between outline and full proposals, amongst those approved by the Investment Board. Overall, the value for money associated with these proposals improved (with the average Monetised Benefit Score rising by 5 percent). This was a result in an increase in the overall number of training outcomes offered (though there was some displacement from apprenticeship outcomes to other training results), as well as an increase in both the employer cash and in-kind contributions associated with the proposals.

Figure 8: Changes in Project Parameters between Outline and Full Proposals (Phase 2 only)



Source: BIS Monitoring Information

4.1.2 Contract Negotiations

A total of thirty projects entered the contract negotiation process that involved the development of a Grant Offer Letter specifying the terms under which the grant recipient would be funded. This included defining the levels of cash and in-kind contributions that would need to be made by employers, Key Performance Indicators (such as number of apprenticeships delivered) capturing the deliverables expected over the lifetime of the contract, and how the performance of the contract would be monitored.

The purpose of these forms of grant agreements are generally to (1) minimise the risk of moral hazard issues occurring in the execution of the contract, and (2) share financial and other risks associated between the public sector and the grant beneficiary. A number of issues were encountered in the process of negotiating contracts:

- **Requirement for cash investment:** During the negotiation of contracts for Phase One, BIS introduced a requirement that employer cash (as opposed to in-kind) contributions should total a minimum of 20 percent (and for Phase 2 projects, this requirement was increased to 20 percent against each activity). This was not explicitly stated in the funding prospectus - although an expectation of cash investment was mentioned. It was reported by stakeholders that this was unexpected by some applicants as well as other partners involved in the delivery of the programme (who had expected higher in-kind contributions to be permissible). It was reported by stakeholders that this required some applicants to reconfigure their project proposals to ensure partners were willing to co-invest cash, in some cases contributing to delays in the contracting process. Monitoring records suggest that the redesign of projects caused the withdrawal of three projects where the applicants were unable to develop a proposal that continued to meet the requirements of EOP2.

While these issues were not raised as significant by those involved in the delivery of the four projects involved in the case studies, there was a perception that requirements evolved through the contracting process contributing to repeated iterations of the Grant Offer Letter (as well as delays in the issuance of contracts).

- **Reduced funding levels:** Stakeholders suggested that one of the effects of offering applicants funding at lower levels than requested was that they sought to make cost savings in those areas that most aligned with the objectives of EOP2 (i.e. those involving the direct delivery of learning outcomes). As such, revised project proposals required further economic appraisal using the VFM toolkit to ensure that they still represented value for money and could require a redesign if they did not meet requirements (again contributing to delays in project start dates).
- **Clarity of proposals:** Feedback from stakeholders involved in contracting suggested that translating project proposals into a Grant Offer Letter was often challenging as application forms typically under-specified project delivery– and required a substantial amount of liaison with the applicant. Applicants involved in case studies also highlighted the need for the Grant Offer Letter to go through several iterations, as it incorrectly described the project proposal.
- **Template for the Grant Offer Letter:** For Phase One projects, the Grant Offer Letter were based on BIS templates for grant offer letters, though using schedules for monitoring performance and making payments based on Skills Funding Agency templates for contracting training providers. This approach involved setting a tariff or unit price for each different type of outcome or output, and was not wholly appropriate for contracting EOP2 projects that were not exclusively focused on producing these results directly. Participation funding provided direct subsidies for the delivery of apprenticeships, while skills infrastructure projects might be expected to deliver these outcomes indirectly (e.g. through the development of a new qualification). Phase One Grant Offer Letters focused largely linking payments to the outputs of these latter activities (development of the qualification itself) rather than the outcomes they were ultimately designed to produce. Additionally, it was reported by stakeholders that this form of the Grant Offer Letter was highly rigid and generated requirements for large numbers of contract variations in the event that grant recipients needed to adjust training outcomes of different types (and there were several versions of the Grant Offer Letter template in circulation). The Grant Offer Letter was simplified for Phase 2 projects (including the addition of a separate schedule of KPIs for monitoring the outcomes associated with skills infrastructure

projects). Feedback from stakeholders suggested that this substantially streamlined the negotiation and monitoring process.

- **Procurement:** One applicant involved in case study projects suggested that BIS introduced requirements for competitive procurement of training providers (a procurement requirement). In this case, the requirement was also unanticipated and extended the process of agreeing contracts (and communications in relation to procurement could have potentially been clearer in this respect).

As a result of these challenges, the contracting process was a lengthy process. On average, 325 days elapsed between applicants being notified of the Government's intention to offer funding and the signature of the final Grant Offer Letter (and took almost 18 months in some cases). There is some evidence that revisions to the contracting process streamlined this process, with an average of 280 days elapsing for Phase Two applications. Case study evidence also suggested that these delays may have contributed to delivery issues in some cases. For example, one applicant reported that the employers initially engaged to be involved in the project withdrew (and recruited apprentices independently), and had to incur further resource costs in recruiting another cohort of beneficiaries.

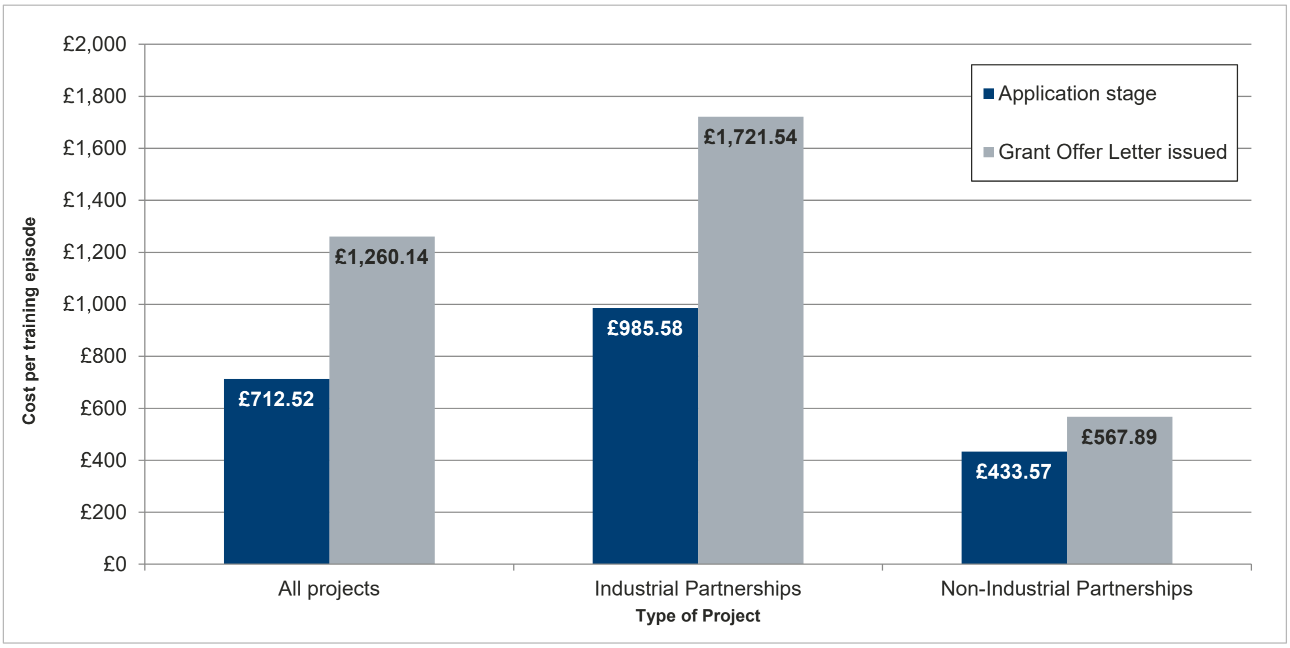
4.1.3 Outcome of the Contracting Process

Of the 30 projects entering the contract negotiation process, Grant Offer Letters were agreed with respect to 26 (with four withdrawing from the process, as noted above). An analysis was completed to examine for how far this process improved value for money (by examining the ex-ante and ex-post cost per learner across different types of proposal).

Analysis of the costs and training outputs suggests that value for money declined between the application and the contracting process. In aggregate, the contracting process led to an overall reduction in project costs and EOP2 grant funding of 53 percent and 41 percent respectively (implying that leverage ratios fell through the process contract negotiations). Additionally, the number of apprenticeship and non-apprenticeship starts fell by 71 percent and 66 percent respectively (implying an increase in the overall cost per training episode).

As illustrated in the figure below, the cost per training episode (apprenticeships and non-apprenticeships) rose by 20 percent.

Figure 9: Cost per Training episode at Application and Final Grant Offer Letter



Source: EOP2 application forms and Final Grant Offer Letters

Consultations with policy officials suggested that these changes to VFM were caused by a perception that the target volumes put forward in the original applications were unrealistic, and were negotiated downwards in order to provide more realistic profiles. This highlights the importance of making some form of quantitative adjustment for risk at the appraisal stage: projects were approved to some degree on the basis of the assumption that these projections were accurate.

4.2 Due Diligence

Applicants were also required to complete a due diligence process aiming to verify the fitness of providers to deliver the projects proposed. This involved a 'Stage One' check completed by the Skills Funding Agency which focused on the financial health (and recommended maximum funding level) of the lead applicant, and checks on the training providers to be contracted by the lead applicant (some organisations, such as large firms and further education colleges were exempted from the financial health check). For some applicants (all Industrial Partnerships and other bids where appropriate), further 'Stage Two' checks were completed by UKCES. The focus of due diligence in these cases was more flexible, but encompassed an assessment of the knowledge of the organisation, its status and ability to deliver and achieve the desired outcomes. However, this process was only completed for Phase One proposals, and it was agreed by BIS and UKCES that the as development phase would address the same issues, a second due diligence check would not add value.

Data relating to Stage One checks completed as part of EOP Round 2 Phase 1 has been provided. Of the 20 projects for which due diligence results were available, 5 were rated as a red risk, 9 were rated as an amber risk and 6 as green risk. Of those 5 rated red, 4 of the 5 had exceeded their Recommended Funding Level (RFL) and 3 had failed to name a training provider. No project was withdrawn as a consequence of the due diligence process. The contracting process appears to have absorbed a substantial amount of time, with applicants initially notified of their award in July 2013.

Evidence emerging from the case studies as well as the EOP2 panel days suggest that due diligence may have failed to highlight important issues associated with the delivery of some projects. In one case, a Sector Skills Council had encouraged an employer to act as the grant recipient and the accountable body for a project on the anticipation that the SSC would be the primary driving force of the project. The SSC subsequently faced financial difficulties and the loss of key team members, creating project delivery issues and a requirement for a new delivery partner. Additionally, one large firm exempt from full due diligence checks has faced challenges in executing their project, indicating a more detailed review of their capacity to deliver may have been beneficial.

It is likely that the due diligence process (being based on the model employed by the Skills Funding Agency to assess the fitness of training providers) was not sufficiently tailored to the needs of the EOP2 programme. The due diligence process focused largely on assessing how far the employers involved were equipped to deliver training. However, in many cases, subsidies were sought to provide workforce development activities for their own workforces (or those of their supply chains). The incentives to push forward these investments in human resources will be to recruitment and investment plans (which in turn would be linked to the financial health and growth of the business) – as well as the priorities of senior management. These aspects could have merited more detailed scrutiny at the due diligence stage. Additionally, the due diligence process did not appropriately factor in the collaborative nature of projects as well as the strength of intermediary involvement – and could have usefully been extended to all major partners involved in the proposal. Finally, the delivery of EOP2 projects generally required an additional set of governance and project management arrangements that are not typically associated with the delivery of training, and checks on these elements of the project – as well as the skills and capabilities of providers could have been beneficial.

4.3 Monitoring

The progress of projects are monitored by a Skills Funding Agency appointed account manager across a number of indicators comparing actual spend and delivery of training outputs against those detailed in the Grant Offer Letter. This is driven by a quarterly claims process in which the applicant submits a return describing their expenditure (including the expenditure of in-kind and cash resources supplied by employers), and aggregated metrics describing their achievements (in terms of training outcomes and other types of result delivered through skills infrastructure investments). Account managers are also required to complete further monitoring activities, including visiting the projects and attending key meetings (such as project board meetings).

A RAG (red-amber-green) rating is calculated by reviewing project performance against profile (the revised profile following contract negotiations) versus actual expenditure, specifically looking at the EOP grant provided, leverage ratios (i.e. private sector cost vs. public sector cost), the number of Level 3 equivalent apprenticeships and the cost per learner. As part of the monitoring report, the nominated account manager provides a brief description summarising the project and outlining its progress on governance, programme management, financial management, participation, innovation, and future prospects.

The evidence gathered through the evaluation suggests that a number of issues have been encountered in monitoring EOP2 projects:

- **Influence of Account Managers:** The payment process was initially based on the Skills Funding Agency's model for contracting training providers. Applicants were funded on the basis of profiled of expenditure, with differences in performance against target reconciled at the end of year (leading to adjustments in forward payments). This model of payments is appropriate for enduring relationships with suppliers who can be expected to supply similar services over the course of many years. However, in the case of delivering grant funded projects, this limited the ability of Account Managers to diagnose and foresee issues with under-performance as they arose and the ability to withhold payments to leverage improvements in delivery. This was particularly problematic for skills infrastructure investments where the downstream training outcomes are less certain, and the payment model led to the public sector absorbing a large share of the risk involved. This issue was corrected in EOP2 Phase 2. Grant recipients were given more flexibility to adjust their profile of delivery within reasonable margins, and were scrutinised on the basis of the cost per training outcome attained. Payments would be withheld if costs per training outcome exceeded agreed thresholds, helping to mitigate scenarios in which the public sector bore the full risk associated with skills infrastructure investments.

- **Loss of knowledge:** Observations at panel days suggested that owing to Skills Funding Agency restructuring, there had been a substantial loss of knowledge regarding the details of individual projects (with incoming staff often having little direct knowledge of specific issues regarding the projects they were responsible for).

- **Accuracy of monitoring information:** Attendance at the panel days suggested that there were substantial issues with the accuracy of monitoring information. Aggregate data was often incorrect, presenting a misleading picture of project performance (e.g. target volumes being reported as actuals). There was little validated data available (in the form of ILR returns). Again, there is no evidence to suggest that this led to poor decision making, though it does raise questions regarding the ability of Account Managers to adequately identify risks at an early stage (which may have prevented mitigating actions being undertaken). It is notable that the assessed risk profile of projects rose substantially following the panel days in which BIS scrutinised the views of Account Managers.

- **Systems issues:** There is some evidence that delivery organisations encountered difficulties with the systems put in place to monitor the delivery of EOP2. Case study evidence suggests that employers found it difficult to use the ILR portal, as a system designed for training providers, and have been unclear as to how BIS is using the data they upload. One such employer learnt to use the system through trial and error; they did not receive training early on in the process, although a few workshops were held at a later stage. Secondly, the Skills Funding Agency collected limited details of the employers receiving subsidies for training through EOP2 projects. This will make auditing individual projects challenging in the future.

4.4 Summary

- **Contracting:** The contracting process appears to have absorbed a substantial amount of time, with the number days elapsed from contracting to the signature of the Grant Offer Letter amounting to close to one year on average. Delays stemmed from a range of sources, including underspecified project proposals, renegotiation of project designs in light of lower than requested grant offers, ex-post introduction of additional leverage and contracting requirements, the complexity of the Grant Offer Letter (at least at early stages. Many of these issues could have been avoided through improving the application process and clarifying contracting principles at the outset, and Ipsos MORI suggests that insufficient use was made of the wider expertise in contracting the private sector within BIS in the design of the programme. The issues encountered are not unique to skills policy, and the Department has built long term experience through the delivery of Regional Selective Assistance in the 1980s and a wide range of successor policies.

- **Differences in VFM between application and contracting:** Analysis of the costs and training outputs suggests that value for money declined between the application and the contracting process. In aggregate, the contracting process led to an overall reduction in project costs and EOP2 grant funding of 53 percent and 41 percent respectively (implying that leverage ratios fell through the process contract negotiations). Additionally, the number of apprenticeship and non-apprenticeship starts fell by 71 percent and 66 percent respectively (implying an increase in the overall cost per training episode). This underlines the importance of making quantitative adjustments for risk at appraisal stages in line with HM Treasury Green Book guidance. It is also worth acknowledging that project activities differed in nature to those originally put forward in application forms (and approved by the Investment Board).

- **Due diligence:** It is likely that the due diligence process (being based on the model employed by the Skills Funding Agency to assess the fitness of training providers) was not sufficiently tailored to the needs of the EOP2 programme. The due diligence process focused largely on assessing how far the employers involved were equipped to deliver training. However, EOP2 projects involved commitments by employers to train their own workforces, had considerable levels of partner and intermediary involvement, and often required an additional set of governance and project management arrangements that are not typically associated with the delivery of training. Checks on these elements of the project could have been beneficial.

- **Monitoring processes:** The monitoring of EOP2 projects were based initially on a model developed by the Skills Funding Agency for scrutinising the activities of training providers. This model was not well suited for monitoring EOP2 projects, particularly as a result of the large skills infrastructure component in which training outcomes are often an indirect result of the activities funded. These issues were addressed as the programme progressed, moving to a more flexible model emphasising value for money and transferring a greater share of the financial risk to the grant applicant (though the change in approach also led to both delays and changes in project delivery mechanisms).

5.0 Project Delivery

This section provides an analysis of project delivery, drawing largely on the monitoring information made available to the evaluation team as part of this review. This includes summary information regarding the period up to the end of Quarter 2 2015 (i.e. September 2015).

5.1 Defrayment of EOP2 grant expenditure

At the end of Quarter 2 2015, EOP2 projects for which monitoring information was available had defrayed around £50m against a profiled target of around £87m. This is almost 60 percent of the target levels of spending for these projects, raising some concerns regarding the ability of these projects to defray total levels of grant expenditure. Only five projects look to be delivering expenditure in line with profiles. SME and Employer led projects appeared to be further behind targets than Industrial Partnership project with just 43 percent of the target spending having been attained.

Table 3: Defrayment of EOP2 grant expenditure

	EOP2 funding (lifetime)	Profiled Spend to Q2 2015/16	Actual Spending Q2 2015/16
All projects	183	86.8	49.2
Non Industrial Partnerships	29.4	16.3	7.0
Industrial partnerships	153.6	70.5	42.2

Source: BIS Monitoring Information

5.2 Leverage of Private Resources

The monitoring information provided also captures the performance of projects in securing private investment (leverage), although this is not broken down into in-kind and cash contributions. The evidence suggests that projects have substantial difficulties in securing private investment in the project, and by the end of Quarter 2 2015/16, just 22 percent of lifetime targets for private investment had been achieved[16]. This was partly driven by underspend, though around 50 percent of projects reached their target leverage ratio (i.e. £s of investment per £1 of EOP2 grant). There was little variation across types of project.

[16] This has been calculated by dividing the value of the actual private investment by the lifetime target value.

Table 4: Private Investment relative to Lifetime Targets

	Private Investment: Lifetime Target	Private Investment: Actual to Q2 2015	% meeting leverage ratio targets
All projects	321.2	70.1	50
Non Industrial Partnerships	57	11	56
Industrial partnerships	264.2	59.1	52

Source: BIS Monitoring Information

5.3 Delivery of Training Outcomes

As with financial performance, delivery of training outcomes against targets was mixed by the end of Q2 2015. Against lifetime targets, EOP2 projects had collectively delivered 18 percent of anticipated apprenticeship starts, 25 percent of the target for Level 3 learners, and 32 percent of the target for non-apprenticeship starts. This suggests that applicants have found it more challenging to deliver more intensive types of training outcomes (though it is difficult to assess performance against expectations as information on profiles of starts at each apprenticeship level was not available to the team).

Table 5: Delivery of Training Outcomes

Training Outcome	Lifetime Target	Actual to Q2 2015	Percentage Achieved
Apprenticeship Starts	11,241	2,066	18
Level 3 Learners	5,946	1,138	19
Non-Apprenticeship Starts	128,908	40,679	32

Source: BIS Monitoring Information

The delivery of training outputs appears to be broadly in line with actual spend. Some projects have exceeded expectations while others are underperforming, though in aggregate there was underperformance. At the end of Quarter 2, 2,621 level 3 apprenticeship starts had been achieved against a lifetime target of 5,946 (44 percent of the target). Performance was particularly weak amongst SME and employer led projects – who had secured only 15 percent of the profiled volume of outputs at this stage. Given these results, it is likely that performance was weaker for apprenticeship starts, and stronger for non-apprenticeship starts. While contracting delays may be a factor in this underperformance it can be argued that delivery of the programme has not met expectations.

Table 6: Delivery of Level 3 Starts Against Profile

	Level 3 Starts Full Project Target	Level 3 Starts Actual	Percentage Achieved
All projects	5,946	2,621	19%
Non Industrial Partnerships	1,303	22	2%
Industrial partnerships	4,643	1,116	24%

Source: BIS Monitoring Information

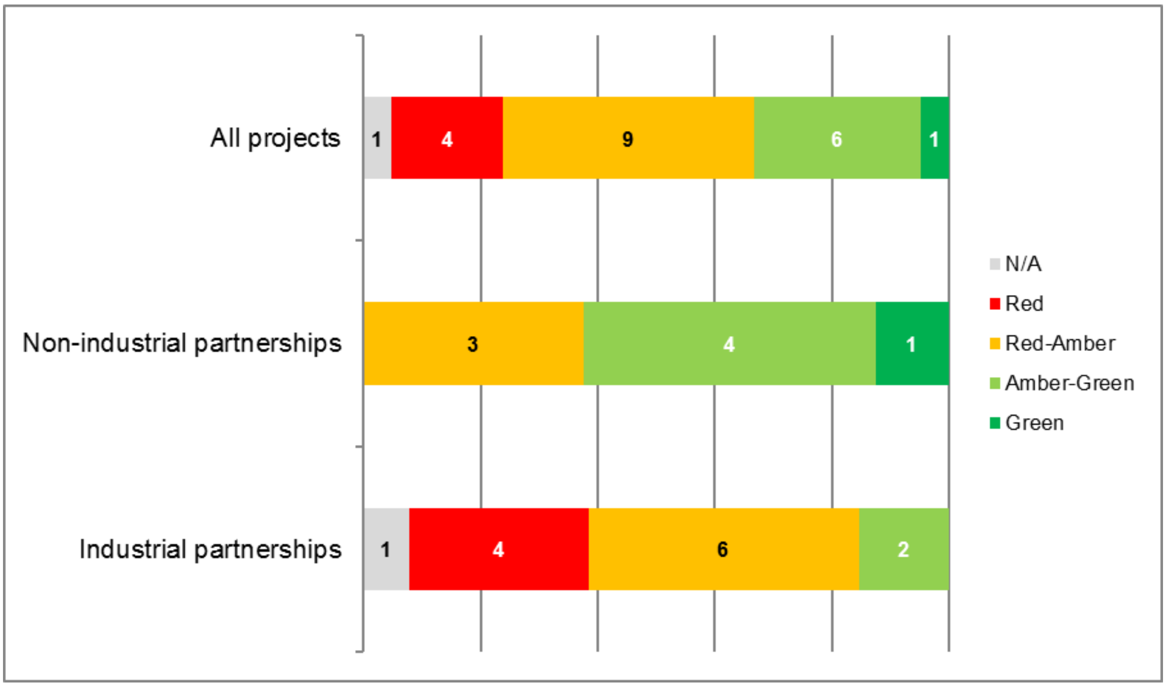
5.4 Value for Money

Monitoring information provides a measure of the Cost per Level 3 learner that was used as the main mechanism for tracking over and under-performance through the programme. This data suggests that relative to targets specified in the Grant Offer Letter, 13 projects were delivering lower unit costs than anticipated, while 7 projects were delivering in excess of this cost. In terms of EOP2 grant spending per training outcome delivered, projects were delivering at a cost per training outcome (apprenticeship and non-apprenticeship starts) of around £1,100. This is a lower unit cost than suggested by contracting, and suggests that the monitoring process implemented by BIS and the Skills Funding Agency was ultimately effective in controlling public expenditure and risk, despite the failure of the programme to deliver at the volumes expected.

5.5 Risk assessment

As described in the previous section, projects are given a 'RAG' rating based on performance in executing the project and any anticipated delivery issues moving forward. The project portfolio in the first half of 2015 comprises of an approximately equal proportion of projects viewed by Agency Account Managers to be of higher and lower risk. The chart below provides an overview of the RAG status of projects at Q2 of 2015.

Figure 10: Number of EOP2 Proposals by Stage of the Appraisal Process



Fifteen of the 21 successful projects remain in the amber range (red-amber or amber-green). Industrial partnerships tended to be given higher risk status overall with four receiving a red risk rating. Explanations given in the narrative supporting the monitoring information suggests this tends to be due to significant delays in the project, lower numbers of learner starts than anticipated and in higher cost per learners. The profile of risk appears inversely related to actual performance versus target, however, with Industrial Partnership projects tending to outperform other projects on both delivery of training outcomes and defrayment of expenditure.

Six projects have had their payment withheld due to underperformance. One project has been identified as essentially a mainstream project offering short courses with minimal learning hours. Another appears to be delivering stand-alone training, not suitable for enhancing apprenticeship training. For some of these projects, it is the lack of a clear explanation for underperformance that has led to payment being withheld.

5.6 Barriers and delays

Based on the limited range of case study evidence available and an analysis of the narrative set out in monitoring reports, project underperformance appears to be due to a range of factors:

- **Project delays:** The significant number of projects struggling to achieve their expected number of learner hours appears to be in part due to delayed start dates. The Agency noted that there were challenges in transferring money between financial years, which can cause problems if start delays occur. In some cases, long contract negotiations have led to significant delays in signing the GOL and subsequently a lack of available trainers and resources in place at the right time as well as missing key learner recruitment dates.

- **Changing priorities:** Changes in KPIs from qualitative employer ownership measures to a cost per learner calculation also meant that projects had to consider changing the mix of qualifications they had initially proposed - a large challenge for projects that often required a redesign. One large employer had to drop some training programmes and place greater emphasis on apprenticeship programmes and another shifted their focus to other types of apprenticeship levels and age groups, resulting in a higher than projected cost per learner.
- **Attracting providers:** There is also evidence that SMEs may have encountered barriers in engaging training providers. One case study applicant reported that they had an unexpectedly low level of interest in delivering training for their project possibly due to perceptions that SMEs would find it difficult to deliver apprenticeships within this new funding model.
- **Employer ownership:** While the assessment of Account Managers suggest that two Industrial Partnerships have demonstrated strong employer leadership with the intermediary body (a Sector Skills Council) acting largely in a co-ordinating function, questions have been raised about the strength of employer ownership in other cases. This includes examples where the SSC was the 'dominant force' of the partnership (however there is a lack of direct evidence of the project due to early termination of the research).

Insights into project delivery issues are ultimately limited by the nature of the case study evidence available (observations were taken at an early stage of project delivery, in some cases just following the signature of the Grant Offer Letter, and only covered Phase One projects).

5.7 Summary

- **Performance:** The overall performance of the programme in delivering both the volume of training outcomes and co-investment (both cash and in-kind) from employers was behind target to date. This is reflected in the defrayment of EOP2 grant expenditure, with an underspend of around 40 percent against profile.
- **Value for Money:** In contrast, the projects funded have delivered value for money (in terms of the public sector cost per gross training outcome) in excess of expectations. Given the poor performance of projects in delivering volume outcomes, this can arguably attributed to effective cost control through the monitoring process (despite the initial problems encountered).

6.0 Conclusions

Policy Design

- The Department for Business, Innovation and Skills, the Department for Education, the UK Commission for Employment and Skills, and the Skills Funding Agency agreed a Memorandum of Understanding about the key principles of employer ownership setting out what the pilot was aiming to test. The principles agreed in this memorandum were not consistently observed throughout the delivery of EOP. In the first instance they were not fully reflected in the prospectus and later government policy moved on and therefore actions digressed from as set out in the prospectus. For example, as the bidding process progressed lessons were learnt and additional issues identified. While the prospectus made reference to a requirement for business cash investment there was no specific reference to a 20% minimum cash requirement. This requirement was introduced several months into the process and resulted in changes and delays in agreeing the grants for some bidders. The question of the role that intermediaries should play was never fully resolved, specifically the fact that a significant proportion of the contracts were either required to have an intermediary as detailed in the prospectus or chose to. This moved away from the principle of direct employer ownership of funding. Views of partner organisations about the role played by intermediaries subsequently differed as did the expectations and interpretations of aspects of the pilot process.

Project Appraisal and Selection

- No challenges were faced in securing a high level of demand for EOP2 across a broad mix of sectors or types of collaboration, indicating that marketing and communications activities were broadly effective. The applications involved a request for a total of £1.5 billion in grant funding, a substantially greater amount than that made available for the pilot.
- Significant internal and external resources were committed to completing an appraisal of applications received (including an assessment of the value for money associated with the appraisals). Although the application form was designed to capture appropriate information, the effectiveness of these assessments was severely inhibited by the poor quality of information regarding the strategic and economic justification, design, and feasibility of the projects proposed (based on a review of successful project applications). Proposals provided weak or sometimes no evidence that employers demanded the packages of training development (which were often under-specified) and no economic case for the investment of public funds. This provided a poor basis for judgements regarding either deadweight (i.e. how far the training volumes proposed would have been taken

forward in the absence of EOP2 funding) or plausibility of projections of forward projections of training outputs. Additionally, there was close to no correlation between value for money and other metrics (e.g. leverage ratios) and the likelihood a project was successful in the project appraisal process.

- Value for money considerations played a stronger role at the Investment Sub-Board and Board convened to make recommendations to the Skills Minister. However, it was apparent that this selection process was in effect a form of multi-criteria analysis designed to balance issues of value for money, employer ownership, and project quality with the desire of securing a ‘balanced portfolio’. The project selection process was arguably effectively in delivering this mix, though of selection decisions appeared to suggest that additional criteria were influential (including political considerations that were not embodied in the criteria).

Contracting, Due Diligence and Monitoring

- The contracting process appears to have absorbed a substantial amount of time, with the number days elapsed from contracting to the signature of the Grant Offer Letter amounting to close to one year on average. Delays stemmed from a range of sources, including underspecified project proposals, renegotiation of project designs in light of lower than requested grant offers, ex-post introduction of additional leverage and contracting requirements, and the complexity of the Grant Offer Letter. Many of these issues could have been avoided through improving the application process and clarifying contracting principles at the outset, and Ipsos MORI suggests that insufficient use was made of the wider expertise in contracting the private sector within BIS in the design of the programme. The issues encountered are not unique to skills policy, and the Department has built long term experience through the delivery of Regional Selective Assistance in the 1980s and a wide range of successor policies.
- Analysis of the costs and training outputs suggests that value for money declined between the application and the contracting process. In aggregate, the contracting process led to an overall reduction in project costs and EOP2 grant funding of 53 percent and 41 percent respectively (implying that leverage ratios fell through the process contract negotiations). Additionally, the number of apprenticeship and non-apprenticeship starts fell by 71 percent and 66 percent respectively (implying an increase in the overall cost per training episode).
- It is likely that the due diligence process (being based on the model employed by the Skills Funding Agency to assess the fitness of training providers) was not sufficiently tailored to the needs of the EOP2 programme. The due diligence process focused largely on assessing how far the employers involved were equipped to deliver training. However, EOP2 projects involved commitments by

employers to train their own workforces, had considerable levels of partner and intermediary involvement, and often required an additional set of governance and project management arrangements that are not typically associated with the delivery of training. Checks on these elements of the project could have been beneficial.

- The monitoring of EOP2 projects were based initially on a model developed by the Skills Funding Agency for scrutinising the activities of training providers. This model was not well suited for monitoring EOP2 projects, particularly as a result of the large skills infrastructure component in which training outcomes are often an indirect result of the activities funded. These issues were corrected as the programme progressed, moving to a more flexible model emphasising value for money and transferring a greater share of the financial risk to the grant applicant.

Project Delivery

- The overall performance of the programme in delivering both the volume of training outcomes and co-investment from employers was behind target to date. This is reflected in the defrayment of EOP2 grant expenditure, with an underspend of 40 percent against profile across the portfolio.
- In contrast, the projects funded have delivered value for money (in terms of the public sector cost per *gross* training outcome) in excess of expectations. Given the poor performance of projects in delivering volume outcomes, this can arguably attributed to effective cost control through the monitoring process (despite the initial problems encountered). However, various incidents observed over the course of the evaluation raise questions regarding the additionality of those outcomes (i.e. how far they would have been produced in the absence of public sector spending).

Wider Points for Consideration

- The quality of EOP2 application forms provided – in the view of the study team – a weak business case for public intervention. Typically, project proposals provided little in the way of an economic case for intervention which is particularly significant in the case of policies designed to directly subsidise the private sector (given the risk of crowding out private investment). It is advised that in future competitions, applications put forward are scrutinised much more strongly on these grounds (and the HM Treasury's five case model could potentially act as a sensible guiding framework for the development of application forms). Additionally, resources allocated to the scrutiny of project proposals should be proportionate to the levels of public sector expenditure involved. In this case, some project proposals involved significant sums of public sector investment, and more detailed scrutiny and analysis of the need for and the risks associated with those projects could have been beneficial at the appraisal stage.

- The EOP2 programme was subject to a high degree of optimism regarding the level of training outcomes that could have ultimately been delivered, leading to successive downgrades in expectations regarding what was feasible (firstly through the contracting process, and secondly though project delivery). Insufficient attention was given to project delivery risk and the realism of projected results at all stages of the programme, though particularly at the appraisal process: under-specification of project proposals and the frequent absence of a clear strategic case should have fed through into greater quantitative uncertainty as to how far training results could have been achieved in practice (and explicitly modelled in line with HM Treasury Green Book principles).
- The contract negotiation process led to a reduction in VFM, but this was partly driven by the practice of over-committing grant funding (i.e. offering grant applicants a smaller grant than requested, and forcing them to scale back proposed activities). Alternative approaches involving contracting projects on the basis on which they were presented could potentially offer greater value for money (though in this case, at the expense of funding a smaller portfolio of projects).
- The attempt to fit the programme to a contracting and monitoring model developed for the purposes of engaged training providers in delivery of mainstream learning also seems to have been the origin of some difficulties. Additionally, many of the issues encountered in the execution of EOP2 could have been anticipated as they are often present in many programmes involved the allocation of subsidies to the private sector through a competition format. There is significant expertise in the delivery of these types of competitions both within BIS and its agencies (e.g. UKCES, Innovate UK and the Research Councils) that could have been drawn on to develop and deliver the programme. It is advised that closer links with the relevant Directorates are developed to transfer best practice in the event that pursues further policies involved the competitive allocation of public resources for training to the private sector.

Department for Education

Reference: DFE-RR738

ISBN: 978-1-78105-806-0

This research was commissioned under the 2010 to 2015 Conservative and Liberal Democrat coalition government. As a result the content may not reflect current Government policy. The views expressed in this report are the authors' and do not necessarily reflect those of the Department for Education.

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