House of Commons

Work and Pensions Committee

Government Response to the Committee's Sixth Report into the European Social Fund

First Special Report of

Session 2003–04

Ordered by The House of Commons to be printed on 14 January 2004

HC 228
Published on 20 January 2004
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Work and Pensions Committee

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First Special Report

1. The Work and Pensions Committee agreed its Sixth Report of Session 2002-2003 on 22 October 2003. The Report was published on 5 November 2003 as House of Commons Paper No. 680.

2. We have now received in the form of a letter from the Secretary of State for Work and Pensions, the Government's Response to the Report, which is printed as an Appendix to this Special Report.

Appendix

The Government welcomes the Select Committee's report on the European Social Fund (ESF). It is pleased that the Committee endorses the Government's approach of using ESF to add value to its employment and training programmes. ESF in the UK is part of a system of active labour market policies that, together with steady economic growth, has contributed to helping 1.5 million more people into work since 1997. In particular, ESF is helping people at a disadvantage in the labour market to improve their employability and skills.

The Government has devolved responsibility for the implementation of ESF in Scotland and Wales to the Scottish Executive and Welsh Assembly Government. In England, it has delegated much of the administration of ESF to regional Government Offices. This decentralisation has allowed decision making on priorities and funding to reflect national and regional needs, within the framework of the Government's employment strategy for the UK. The Department for Work and Pensions (DWP) retains responsibility for overall UK policy on ESF, in co-operation with the devolved administrations, and is the managing authority for the England Objective 3 and Great Britain EQUAL programmes.

The Committee's recommendations are mainly concerned with DWP's management of the England Objective 3 programme, although some of the evidence and analysis in the report refers to arrangements in Scotland and Wales, and to regional Objective 1 and 2 programmes in England. The Scottish Executive has contributed to the responses to recommendations 9, 10, 11 and 15, which draw on evidence from Scotland.

ESF systems in the UK are designed to help organisations apply for and manage ESF funds as easily as possible, while complying with EU regulations and protecting public money. The Government welcomes the Committee's support for the steps it has taken to improve the accessibility of funds, including through the new system of ESF Co-financing, which has been gradually introduced in England since the end of 2001.

Co-financing is intended to ensure that funds are strategically targeted. It enables the Learning and Skills Council (LSC), Jobcentre Plus and other Co-financing Organisations (CFOs) to bring together ESF and domestic funds. CFOs award funding to providers in a single stream, so that providers no longer have to apply and account for ESF and domestic funds separately. The findings of the second evaluation of Co-financing show that it is helping substantial numbers of new voluntary, community and other small organisations to access ESF[1]. Co-financing is the system through which the large majority of ESF funds will be distributed in England for the remainder of the current programme period, until the end of 2006. The Government will continue to monitor and evaluate the implementation of Co-financing, to ensure that it achieves its objectives.

In addition to ESF administration, the other main issue raised in the Committee's report is the future of the Structural Funds after 2006. The Government's consultation paper 'A Modern Regional Policy for the United Kingdom' (March 2003) , and the Secretary of State for Trade and Industry's statements to Parliament on 17 September and 11 December 2003, set out the Government's approach to the reform of the Structural Funds. The Government believes that its reform objectives, together with its guarantee of increased domestic spending so that UK nations and regions do not lose from its proposals, represent a sustainable response to the challenge of European Union enlargement. While it is not possible to say what arrangements will exist after 2006, the 11 December statement indicates that employment and skills activities, such as those supported by ESF, would be an important part of future arrangements, especially assistance to help people at a disadvantage in the labour market.

RECOMMENDATIONS AND CONCLUSIONS

1. We believe the Government should quantify the potential administrative savings for service providers that can be generated by co-financing and identify ways in which these savings can be realised. (Paragraph 56)

One of the main reasons why the Government introduced Co-financing in England was to reduce administrative burdens and costs for providers. Co-financing removes the requirement on applicants to supply their own 'match funding' before they can access ESF. The second evaluation of Co-financing found that the majority of providers thought that the application process was simpler under Co-financing than previously. However, the two evaluations of Co-financing to date have not sought to quantify potential savings for service providers. The Government intends to undertake a further evaluation of Co-financing as part of the evaluation strategy of the England Objective 3 programme in 2004-06. This will seek to assess the potential administrative savings for service providers and identify further ways in which these savings can be realised.

2. We further recommend that the DWP compares the implementation of ESF in areas where there are a few Co-Financing Organisations with those areas, such as London, where a larger number of CFOs operate and, in consultation with the ODPM, describe how it proposes to improve the co-ordination between CFOs to the benefit of applicants. (Paragraph 57)

[1] The interim findings of this evaluation, which was undertaken by Fraser Associates, were submitted to the Select Committee in October 2003. The final report will be published by DWP in early 2004. The first evaluation of Co-financing was published in July 2002.

DWP is already working with Government Offices to ensure that good practice in co-ordination between CFOs is identified, disseminated and adopted across England.2 The second evaluation of Co-financing examined co-ordination between CFOs in all regions of England. It found that, in most regions, good regional partnerships meant that all CFOs liaised reasonably effectively and that, in particular, the two largest players - the LSC and Jobcentre Plus - worked closely with Government Offices to identify potential overlaps.

Government Offices will continue to work closely with CFOs to strengthen co-ordination and ensure a 'joined-up' approach for applicants in all regions. Examples of initiatives to strengthen co-ordination include:

- In the South East region, the eight CFOs (six local LSCs, Jobcentre Plus and the South East England Development Agency) have worked together to develop a common prospectus, application form and timetable for bidders. They have also held joint consultation events for providers to ensure that respective responsibilities, interests and requirements are clear.

- In London, the five local LSCs will hold a joint pan-London application round in 2004, to meet strategic needs that cannot be achieved within the scope of local LSC Co-financing plans. Also in London, CFOs will be asked to stagger tendering rounds in 2004, to help providers likely to seek funding from more than one CFO.

- In the East Midlands, the CFOs, which include Lincolnshire County Council as well as five local LSCs and Jobcentre Plus, negotiate between themselves, on a county basis, the division of activity in the Regional Development Plan, and hold joint consultation and launch events. There are regular meetings between the CFOs, and bi-monthly meetings with the Regional Committee and Government Office.

- In the North East, the four local LSCs, Jobcentre Plus and Government Office held a joint bidding round in September and October 2003.

3. We recommend that steps should be taken by the Government to make the EU rules on additionality, and specifically that match-funding need not be additional, more widely understood. (Paragraph 64)

The Government welcomes the Committee's finding that Co-financing is consistent with EU rules on additionality. It accepts that some organisations do not appear to understand these rules and will seek to make them more widely understood through guidance to applicants and publicity materials.

Public expenditure, including Government programme money, has always been a major source of match funding for ESF projects in the UK. The new system of ESF co-financing in England has not altered the <u>nature</u> of match funding, but has simplified the <u>process</u> of accessing both ESF and match funding. Instead of making separate applications for ESF and match funding, applicants make a single application to a CFO which brings together ESF and match funding. CFO plans must indicate the activities that ESF will fund against

[2] Although Government Offices are part of ODPM, they work to a number of Government departments, including DWP for ESF purposes. ODPM and DWP co-chair regular meetings of Government Office European Directors at which issues about the implementation of the Structural Funds are addressed.

the corresponding activities and outcomes funded through match funding. These arrangements have been agreed with the European Commission. Therefore, under Co-financing, ESF funding continues to be additional to domestic public expenditure.

4. We recommend that the DWP investigates the possibility of providing a fast track procedure for relatively small grant applications, such as those under £50,000. We also recommend that the DWP ensures that suitable transitional funding is in place before the end of the current programming period as protection against delays in granting programme and project approval at the start of the next programming period. (Paragraph 68)

The Government shares the Committee's concern that the process between application and decision should be as short as possible. Since 2000, the Government has sought to simplify the England Objective 3 application process, within the constraints imposed by EU regulations and the need to ensure proper consideration of funding applications. It has introduced two major changes. First, Co-financing has made the application process simpler for most applicants. Second, Global Grants programmes have been introduced to enable small non-governmental organisations to access ESF with the minimum of bureaucracy. The Global Grants programmes are run by intermediary bodies which are responsible for awarding ESF grants of up to £10,000 through a streamlined application procedure. It usually takes no more than one or two months to award grants, and in some cases two to three weeks.

The Government believes that these changes are significant steps to simplify application processes, while ensuring the necessary checks and balances are in place to protect public funds. Creating a fast track procedure for grant applications below £50,000 is unlikely to meet European Commission requirements that CFO application procedures comply with open and competitive tendering rules. These rules require that all applications are treated similarly to ensure that selection arrangements are applied consistently to all bidders. It would also make it difficult to comply with Commission requirements that detailed information is collected for programme management, monitoring and evaluation. The Government does not believe there is any scope for introducing a fast track procedure in addition to the Co-financing and Global Grants reforms.

The Government will take decisions on whether to make available transitional funding at the start of the next programming period, in the light of negotiations and decisions at EU level on post-2006 arrangements. The European Commission has stated its intention to seek to secure agreement to regulations governing the post-2006 period in 2005, so that preparations can be made in good time for successor arrangements to be in place from 1 January 2007.

Subject to guidance from the European Commission, it is likely that some ESF activities funded by the 2000-06 programmes will be able to continue for a short period beyond 31 December 2006. DWP will produce guidance for ESF applicants on the date by which activities funded under the current programmes must be completed.

5. We recommend that the Government considers changes in the way in which project approval is considered. We would like to see service providers, possibly in the form of

advisory groups, included more in drawing up the plans and specifications if a conflict of interest can be avoided. (Paragraph 75)

The Government believes that the existing structures of advisory and partnership groups, which are involved in the development of Co-financing plans and specifications, enable partners, including service providers, to influence the overall shape of co-financed activity. CFOs are required to consult partners and other interested organisations on their plans. Although the first evaluation of Co-financing found some weaknesses in consultation processes, the second evaluation found that CFOs are generally now more systematic in consulting with local and other interest groups.

It would not be possible to engage service providers more directly in the project approval process, without risking conflicts of interest and compromising EU rules that processes for awarding funds must be open, competitive and transparent.

6. We suggest that some direct funding be retained as a safety net for those worthwhile projects that fall between specifications. We therefore recommend that some direct funding be retained in all regions and re-introduced in London. (Paragraph 76)

Most ESF Objective 3 funds in England will be distributed through Co-financing for the remainder of the 2000-06 programme period. The eight regions that currently distribute some funds through the alternative system of direct bidding, intend to retain some direct funding to cater for ESF projects that cannot be supported through Co-financing arrangements.

In London, the CFOs cover a wider range of activity than in other regions, as they include the Association of London Government and Business Link for London. The Government Office for London remains confident that this variety of CFOs in London is sufficiently broad to cater for the range of provision and suppliers needed to deliver its priorities for Objective 3 in the London Regional Development Plan (RDP).

An independent appraisal of most of the current Co-financing plans, which were approved in 2002, confirmed that there was comprehensive coverage of priorities identified for support in the London RDP. A further independent evaluation of the extent to which targets in Co-financing plans and the RDP were being met by CFOs was undertaken in summer 2003. This concluded that, on the evidence available, priorities identified in the RDP were being met. There was also evidence which confirmed that the level of funding awarded by CFOs to voluntary and community sector organisations - at over 40% - was largely the same as that awarded under alternative bidding by the Government Office; and that a significant number of organisations awarded funds had not previously bid to the Government Office, thereby introducing new voluntary sector providers to ESF.

Early in 2004, the Government Office for London will discuss with partners on its Regional Committee proposals for updated Co-financing plans. In view of the positive conclusions and recommendations of the 2003 evaluation, it does not propose to recommend re-introducing direct funding. However it will continue to monitor progress carefully. Should any gaps in provision arise subsequently that cannot be met by CFOs, it will recommend to the Regional Committee that direct funding be re-introduced to enable these gaps to be filled.

7. It is our belief that a detailed statistical analysis of the awarding of grants is needed. We recommend that, in replying to this report, the DWP investigates the concerns expressed by some members of the Community and Voluntary sector that funding under co-financing is being channelled through mainstream programmes at the expense of the C&V sector organisations. We have already recommended that the Government undertakes a comparative study into direct bidding and co-financing. We suggest that that study also investigates whether there are any marked differences under the two systems with respect to the types of projects supported and rejected. (Paragraph 77)

The Government is committed to delivering ESF in partnership with a range of interests including voluntary and community organisations. Voluntary and community organisations have an important role to play in delivering ESF to help people who are excluded from the labour market and who may not otherwise be reached by mainstream programmes. As part of the ESF evaluation strategy, the Government will undertake a statistical analysis of the awarding of grants and will examine whether there are any marked differences between Co-financing and direct bidding in terms of the type of projects supported and rejected. The focus of this study will be on ensuring that ESF is continuing to reach those in greatest need in the labour market.

The Government is pleased that the evidence currently available shows that voluntary and community organisations are benefiting from Co-financing. The second evaluation of Co-financing concludes that:

> 'The survey of providers demonstrates conclusively that CFOs are contracting with very significant numbers of voluntary sector and [other] organisations new to ESF. This suggests that the opportunity to tender has been widely promoted and that sufficiently interested prospective bidders have been able to access tender documentation. Accordingly it is difficult to sustain as a general proposition that co-financing is systematically disadvantaging the voluntary sector and/or small organisations.'[3]

The evaluation found that 60% of voluntary and community providers surveyed thought that the quality and availability of provision for hard-to-reach groups had improved under Co-financing, while only 25% thought that it had deteriorated. This compares with 59% of all providers who thought that it had improved, and 19% deteriorated.

Data on providers contracted by CFOs also show that voluntary and community organisations are continuing to play a substantial role in the delivery of ESF. In June 2003, 31.5% of providers contracted with CFOs were voluntary and community organisations.[4] Furthermore, voluntary and community organisations made up half of the providers in the measures that help socially excluded groups (the same proportion as under direct bidding earlier in the programme), and 30% of providers in the measure that promotes access to lifelong learning. This indicates that voluntary and community organisations are not only

[3] Fraser Associates, Second Evaluation of ESF Co-financing in England, Draft Final Report, November 2002.

[4] Administrative data from Government Offices.

maintaining a very strong presence in the social inclusion measures, but also increasing their participation in other measures.

8. We recommend that the Government guarantees that bids which include support for childcare are not disadvantaged compared with bids that do not budget for such costs. (Paragraph 80)

The Government will strengthen ESF plans and guidance to make clear that all ESF projects are encouraged to provide childcare for participants who need it, and that bids that include childcare will not be at a disadvantage compared with those that do not, subject to the costs of the childcare providing value for money. The need to secure value for money means that the Government cannot give any absolute guarantee.

The Government recognises that childcare is one of the most commonly reported barriers to work among non-working parents, especially lone parents. ESF programmes in the UK have been designed to reflect the important role of childcare in helping parents back to work. They support specific projects to tackle barriers to labour market participation faced by people with childcare and other caring responsibilities. In addition, all projects are encouraged to provide for the care of participants' children and other dependants, where this would otherwise be a barrier to participation. Childcare costs, such as the provision of crèches, are eligible expenditure. This applies to the newer approach of Co-financing ESF with domestic funding, as well as to the alternative process of bidding directly to Government Offices.

9. The accuracy of those making claims needs to be tightened up. In view of the high error rate we recommend that the design of the claim form also needs to be drastically improved and streamlined and that the process for settling claims be speeded up, including making greater use of claiming over the internet. (Paragraph 84)

In England, interim claim forms were revised in 2003 to capture additional management and financial information. These changes were introduced to enable Government Offices to monitor project progress more closely, enabling potential difficulties to be identified at an earlier stage. The revised claim form is easier to complete, has led to projects providing more accurate information, and has reduced error rates. Work is now being undertaken to make the claim form interactive, which will help to improve accuracy further.

In Scotland, a business process review of ESF administration has resulted in the development of new IT systems, and the introduction, in 2003, of web-based application and claim forms. The new claim forms have reduced the amount of information required, improved the accuracy of information submitted, and allowed prompt payment against valid claims.

The experience of the different nations will be reviewed at the annual UK operational meeting for ESF programme authorities, which the Government intends to introduce in response to recommendations 10 and 15.

10. In order to reduce the risk of wide regional variations, we consider that the DWP should press the European Commission for greater clarification on how intense the monitoring regime should be. (Paragraph 85)

There are regular meetings between the European Commission and Member States on technical issues related to the management of the Structural Funds, including the monitoring regime for claims for payments. The European Commission also audits Member States' systems to ensure they meet the requirements of EU regulations. Arrangements in the UK satisfy EU requirements.

There are some differences between the countries of the UK because of the different approaches adopted by their respective political authorities within the UK's devolved arrangements. For example, the Co-financing system in England, which uses open and competitive tendering to award funds, requires a different monitoring regime than the direct bidding system which continues to operate in Scotland and Wales. The Government intends to introduce an annual operational meeting between the ESF programme authorities in the four nations of the UK to discuss their administrative procedures and management issues, with a view to establishing transferable useful practice.

There are consistent monitoring standards across the English regions for both Co-financing and direct bidding. Consistency is assured through annual prescribed monitoring visits carried out by either DWP or Government Offices.

11. We request that an assessment be undertaken into the total administrative costs (both direct and indirect) that organisations face when dealing with ESF. We recommend that the DWP undertakes a value for money study into the use of technical assistance in the delivery of ESF. (Paragraph 89)

The Government will ensure that the evaluation strategy for the second half of the Objective 3 programme in England includes an assessment of the total administrative costs (both direct and indirect) that organisations face when dealing with ESF. This will be co-ordinated with the further evaluation of co-financing mentioned in responses to other recommendations. The evaluation strategy will also address value for money issues relating to the use of technical assistance in the delivery of ESF.

As part of their regular review of the Programme Management Executive (PME) model in Scotland, the Scottish authorities have commissioned a value for money study of the five PMEs. The study will assess the costs of the different PMEs, while taking account of their differing operational environments, and compare with a series of benchmark comparators drawn from other nations.

12. We recommend that the Government ensures that all newly approved projects are assessed for their risk and are subject to a monitoring regime that is proportionate to that risk. (Paragraph 90)

The Government agrees with the Committee. At the moment, as a matter of course, new providers are assessed as being at risk because of their lack of experience in dealing with ESF. This means that they are more likely to be monitored. In addition, risk assessment techniques are used by all Government Offices to select projects for audit visits, although these do vary in standard. The risk criteria include the size of the project, the nature and type of provider, and the provider's track record. To ensure consistency and build on good practice, guidance on risk selection was issued to Government Offices in December 2003.

The Government believes that visits should not only involve inspections, but should also help providers to deliver projects efficiently and in line with EU regulations.

13. We recommend that a fast track service for processing claims be more widely available and that the authorities make clear that, subject to certain conditions, an emergency cash advance could be made available. (Paragraph 91)

The Government believes that the right balance needs to be struck between minimising the administrative burden on providers and protecting public funds. At present, all directly funded projects receive an advance of up to 30% of the ESF funding agreed for the first year of their contract, to cover their start-up costs. Co-financed projects are initially paid on an agreed profile, and this should also cover their start-up costs. CFOs are required to ensure that providers are funded so that there are no adverse cash flow implications. The DWP issued guidance in May 2003 which reiterated the requirement for CFOs to provide advance funding where appropriate.

Once running, directly funded projects are paid on their actual costs incurred. Co-financed projects are paid on their performance, in particular the delivery of agreed services and outputs. Any further emergency advances, beyond the advance funding, would indicate either that the project is underperforming and therefore not successful, or that the provider has financial management weaknesses. It would be inappropriate to provide a further cash advance of public funds in these circumstances.

14. We recommend that Objective 3 funding should continue to be widely available. (Paragraph 97)

The Government will continue to make Objective 3 funding widely available in all parts of Great Britain (except the Objective 1 areas of Cornwall and the Isles of Scilly, Merseyside, South Yorkshire, West Wales and the Valleys, and the Highlands and Islands) until the end of 2006. Arrangements after 2006 will depend on new regulations agreed at EU level for the next financial period.

15. We recommend that the DWP provides a comparative analysis of any variation in monitoring standards across the UK and reassures us that monitoring of service providers is proportionate to their assessed risk and broadly comparable across the UK and the EU. (Paragraph 101)

The Government will undertake an analysis of monitoring activity across the UK. Standards for monitoring and financial control activity are governed by EU regulations, although additional monitoring activity may be required in order to protect public funds. This would be particularly the case in areas of potential risk or on new initiatives.

In England, monitoring and financial control activity is controlled centrally by DWP. Standards are set and guidance is issued to Government Offices, including guidance on how to select visits to service providers. Standard monitoring and audit working papers are also provided. Feedback from audit visits is provided by Government Offices on a quarterly basis. Monitoring and financial control arrangements in Government Offices are also reviewed regularly by Government auditors. The reviews indicate very little variation between Government Offices.

Scotland, Wales and Northern Ireland control their own monitoring and audit activity. The Welsh Assembly Government has adopted much of the guidance issued by DWP, while the Scottish Executive and Northern Ireland have developed approaches which are appropriate to their respective administrative arrangements. There are regular UK network meetings for ESF auditors, which are attended by the Scottish Executive and Welsh Assembly Government, to discuss standards and share good practice. The annual operational meeting between UK ESF programme authorities, which is proposed in the response to recommendation 10, would also consider monitoring standards.

16. We recommend that the Government considers ways in which it can provide more support to potential applicants, before and after formal applications are made. We believe that all rejected applicants should be provided with reasonably full written feedback that identifies clearly the areas in which the tender could be improved. We urge the Government to review the use of the standard pro formas used by Jobcentre Plus when informing applicants that they have been unsuccessful. (Paragraph 103)

The Government is committed to administering ESF funds through open, transparent and consistent procedures, so that public money is used to support projects that offer better quality and more effective services for unemployed and disadvantaged people.

CFOs must adhere to European Commission rules regarding open and competitive tendering when selecting applications for approval. Providing specific help and advice to applicants on completing application tender documents would not comply with open and competitive tendering. However there are a number of positive ways in which CFOs can and do support potential applicants with more generic assistance. These include holding widely advertised open days and consultation events for service providers to improve understanding of respective responsibilities, interests and requirements. The Government will encourage CFOs to provide such generic support where it does not conflict with open and competitive selection.

Jobcentre Plus has reviewed the format of its feedback to unsuccessful applicants. It has confirmed that written feedback is provided either as a matter of course or by request in all regions. Feedback takes the form of an individual written response, which is tailored to the specific bid that has not been successful. The response provides details of areas where the bid was good, but also tries to help the provider by explaining where the bid failed and what the provider should do to improve its chances of success in the future. Where necessary, a follow up face-to-face meeting can be provided for further discussions.

17. We request that the Government explains the reasons for the omission of the social inclusion agenda from the Government's consultation paper. We also recommend that the Government assures us that work on the labour market and countering social exclusion, which is funded by the ESF, will not be lost under the Government's proposals for the post-2006 regime and that proper transitional funding will be in place in good time. (Paragraph 115)

The Government set out its high level goals for Structural Fund reform in its consultation document, ‘A Modern Regional Policy for the United Kingdom’. In that paper, the Government made clear that its proposed ‘EU Framework for Devolved Regional Policy’ would be based on the Lisbon agenda, including the objectives of ‘creating more and better jobs and combating social exclusion'.[5] The Lisbon priorities are fully consistent with the Government's aims of building both economic prosperity and social justice.

The consultation document did not comment in detail on individual Structural Funds or the policies that they support. Further information on particular policy agendas is given in the Secretary of State for Trade and Industry's statement to Parliament on 11 December 2003 and the accompanying paper which was deposited in the Library of the House. This statement and paper also provide further details of the EU Framework approach and the Government's financial guarantee that the nations and regions will not lose out from its proposals to reform the Structural Funds.

Although it is not possible to say now exactly what the domestic institutional arrangements will be after 2006, nor to say exactly how increased domestic funding would be distributed or focused, the statement and paper set out the direction of the Government's thinking. In particular, the EU Framework would reflect the Government's priorities to promote employment opportunities for all and raise participation and attainment in learning.

The EU Framework approach provides the opportunity to build on the strengths of current Structural Fund programmes, including partnership working. In England, the Framework would extend two of the key principles of the ESF Co-financing system: greater strategic coherence with national and regional employment and skills priorities; and reduced bureaucracy for service providers. This will help to ensure assistance for socially excluded groups that currently benefit from ESF-funded employment and training activities.

As indicated in the response to Recommendation 4, the Government will take decisions on transitional funding in the light of the outcome of negotiations at EU level on arrangements after 2006, including whatever transitional funding is available from EU resources. These negotiations are at an early stage. The European Commission is expected to publish its proposals in its Third Cohesion Report in early 2004 and to table draft regulations a few months later.

[5] HMT/DTI/ODPM, 'A Modern Regional Policy for the United Kingdom' (March 2003), page 27

Reports from the Work and Pensions Committee since 2002

Session 2003–04

First Report	The Committee's Work in 2003	HC 227
First Special Report	The European Social Fund: Government Response to the Sixth Report of the Work and Pensions Committee (Session 2002-03)	HC 228

Session 2002–03

First Report	Social Security Advisory Committee	HC 296 [including HC 1253–i of session 2001–02]
Second Report	The Committee's Work in 2002	HC 297
Third Report	The Future of UK Pensions	HC 92 [including HC 1302–i of Session 2001–02]
Fourth Report	Employment for All: Interim Report	HC 401
Fifth Report	Childcare for Working Parents	HC 564
First Special Report	Childcare for Working Parents: Government Response to the Fifth Report of the Work and Pensions Committee (Session 2002-03)	HC 1184
Sixth Report	European Social Fund	HC 680