

CONSULTATION ON A DRAFT NATIONAL STRATEGIC REFERENCE FRAMEWORK FOR UK STRUCTURAL FUNDS PROGRAMMES 2007-2013

GOVERNMENT RESPONSE TO CONSULTATION

Introduction

The current cycle of EU Structural Funds programmes will come to an end in 2006 and the EU Member States, along with the EU institutions, have completed negotiations on the Regulations that will govern operation of the Funds for the 2007-2013 budgetary cycle.

The new Structural Funds Regulations for 2007-2013 include measures to improve the strategic focus of EU regional policy, including the requirement for Member States to draw up National Strategic Reference Frameworks, setting out their main priorities for future Structural Funds Programmes.

On 28 February 2006 the Government launched a consultation on a draft National Strategic Reference Framework for the UK. The consultation document sought views on three main issues: the draft National Framework; the Government's proposals for distributing its Structural Funds allocations under the Competitiveness Objective; and administrative arrangements for delivering the Funds in the UK during the next budgetary cycle.

This document provides a summary of stakeholders' responses to each of the questions put in the consultation. It also sets out the position of the Government, the Scottish Executive, the Welsh Assembly Government and the Northern Ireland Administration on these issues in the light of stakeholders' views.

The Department for Trade and Industry (DTI) has developed the response to consultation in close collaboration with other Government Departments, in particular the Department for Communities and Local Government (DCLG), the Department for Work and pensions (DWP), the Department for Education and Skills (DfES), the Department for the Environment, Food and Rural Affairs (DEFRA) and HM Treasury (HMT). It has also developed the response in close consultation with the Scottish Executive, the Welsh Assembly Government and the Northern Ireland, which are responsible for regional development and the delivery of the Structural Funds on their territories.

Consultation responses

There were 314 written responses from a range of local, regional and national organisations and others as set out below:

Respondent types

Local Authorities and Regional Assemblies	39%
Sub-Regional umbrella organisations	25%
National organisations, Professional bodies, Trades Unions, Industrial Organisations	11%
Education & skills organisations, including Higher Education, Further Education, Third sector	8%
Other Third Sector/ Voluntary	8%
Political parties, MPs, MEPs, other parliamentarians	4%
Regional Development Agencies	2%
Devolved Administrations and their Agencies	1%
Businesses	1%
TOTAL	100%

Respondents by Geographical area

UK organisations	10%
MPs and MEPs	3%
England	56%
Scotland	13%
Northern Ireland	7%
Wales	11%
TOTAL	100%

Gibraltar

There were no responses concerning Gibraltar to any of the questions.

Question 1: Do respondents agree with the assessment in the draft National Strategic Reference Framework of the economic strengths and weaknesses of the UK's nations and regions?

Approximately 70% of respondents commented on the economic analysis in the draft National Framework. Of these, approximately 71% commented on the economic analysis for England and the UK as a whole, approximately 17% commented on the analysis for Scotland, approximately 18% commented on the analysis for Wales, and approximately 7% commented on the analysis for Northern Ireland.

UK's Strengths and Weaknesses

A large majority of respondents were broadly satisfied with the economic analysis for the UK as a whole. However, a significant number made suggestions for development and expansion of the section. Many sought more detail on disparities both between and within regions. They frequently gave examples from their own region that demonstrated underperformance. These included the Regional Development Agencies, the collective response for London and the North West Regional Assembly.

Around 9% of those who commented on this question discussed the analysis of higher-level skills. A significant number, including a collective response from the UK's Higher Education Sector, argued that the National Framework was overly optimistic regarding higher-level skills. Universities for the North East and Liverpool John Moores University pointed out regional disparities in higher-level skills.

The National Council for Voluntary Organisations, CEFET and the Regional Forum for Voluntary and Community Organisations argued that the analysis should include sections on social inclusion. The North West Regional Assembly and the National Council for Voluntary Organisations suggested that the analysis should contain more information on social deprivation.

Some stakeholders, including the Cornwall Sustainable Energy Partnership and the Environment Agency, argued that the assessment should cover the risks of climate change to the UK economy.

England's Strengths and Weaknesses

A number of stakeholders, such as the Association of Greater Manchester Authorities, the Merseyside Policy Unit and the West Midlands Regional Assembly, sought a greater emphasis on the growth potential of city regions.

Both North Warwickshire Borough Council and Shropshire Partnership stated that the National Framework had not mentioned the opportunities for rural areas to contribute to the Lisbon agenda. The former also pointed to the importance of market towns.

The Environment Agency and the European Regional Policy Group believed that the assessments in England and Wales were not aligned with the delivery of the Government's Sustainable Development Strategy. A significant number of stakeholders, including Cornwall and the Isles of Scilly Economic Forum and the Federation of Groundwork Trusts, asked for the sections on the environment in both the UK and England chapters to highlight regional disparities and to make explicit the wider role of the environment as a catalyst for economic prosperity.

The Equal Opportunities Commission highlighted the gap between the economic contributions of men and women. They argued that women were less able to fulfil their economic potential and suggested that the chapter should include information on differences in working hours and patterns of employment for men and women.

Scotland's Strengths and Weaknesses

The majority of the respondents who commented on Scotland agreed with the analysis of Scotland's strengths and weaknesses, though many made additional suggestions for

development of the section. Around 22% of the respondents pointed to considerable local and regional variations in economic performance in Scotland.

East Ayrshire Council and North Ayrshire Council stated that Scotland's Gross Domestic Product (GDP) growth has lagged behind that of the UK as a whole from 1996 to 2004, and that this should qualify statements about Scotland's strong recent rate of economic growth.

Around 18% of respondents, including Highlands and Islands Enterprise, Argyll & Bute Council, UHI Millennium Institute and Comhairle nan Eilean Siar, drew attention to the specificities of Highlands and Islands economy, in particular its remoteness and low population density, dependence on relatively low wage industries, migration of school leavers and its infrastructure weaknesses.

Several respondents, such as the South of Scotland Programme Monitoring Committee and the South of Scotland Alliance, suggested that the chapter should refer to the structural weaknesses and poor social conditions in some rural areas. By contrast Comhairle nan Eilean Siar supported the document's emphasis on rurality.

Aberdeen City and Shire Economic Forum and the City of Edinburgh Council sought more detail on challenges facing Scottish cities and city regions, and greater recognition of the contribution of Scotland's metropolitan areas to the economy.

Several respondents, including West Lothian Council and North Lanarkshire District Council sought recognition of the challenges created by decline of the manufacturing sector and transformation to a high-skilled knowledge-based economy. This challenge was particularly intense in former coal-mining areas.

Equal Opportunities Scotland argued that the section should include a greater emphasis on the importance of gender equality.

Wales' Strengths and Weaknesses

Approximately 45% of the respondents who commented on Wales agreed with the analysis of Wales' strengths and weaknesses. The remaining respondents were broadly supportive of the analysis, but made additional suggestions.

The Higher Education Funding Council for Wales and the Royal Institute of Chartered Surveyors, Wales, emphasised that the Higher Education sector was important for the success of Wales' future in the knowledge based economy.

Chwarae Teg argued that the assessment should include gender-disaggregated information on training and qualifications. It also suggested that the section should highlight the difficulties faced by the disabled, women, older people and people from ethnic communities in gaining qualifications and accessing the labour market.

Pembrokeshire County Council and Ceredigion Economic Regeneration Partnership Management Board argued that the assessment underplayed the potential contribution of rural parts of Wales in improving economic performance. However Cardiff Council argued that the analysis should contain more information on the role of cities and city regions in creating sustainable communities and providing economic opportunities.

Neath Port Talbot CBC suggested that manufacturing should be identified as a weakness, given its vulnerability, and as a strength, because of its importance as a vehicle for fostering research, technology and innovation. The Higher Education Funding Council also pointed out the value of research and development in Wales. Some stakeholders called for more detailed analysis of Wales's transport infrastructure. Several respondents, including Fforwm (For Colleges in Wales) and Chwarae Teg, sought a greater emphasis on the importance of entrepreneurship.

Anglesey County Council suggested that the analysis did not fully address the threats facing the Welsh economy and Anglesey's serious economic challenges.

The Countryside Council for Wales and Pembrokeshire Local Action Network for Enterprise and Development sought more detailed information on the quality of the natural environment and the opportunities it afforded.

Northern Ireland's Strengths and Weaknesses

Approximately two-thirds of the respondents who commented on Northern Ireland replied specifically to this question. While most broadly agreed with the analysis, many made suggestions focussing on Northern Ireland's particular circumstances and the fact that the region is moving out of transitional Objective 1 status.

Several respondents from Northern Ireland argued for greater emphasis on sub-regional disparities. Some noted that Northern Ireland faces stiff competition from the Republic of Ireland. The Western Economic Strategy Team argued that the assessment should take account of the East-West split in Northern Ireland. Belfast City Council pointed out that although Belfast could be judged the most prosperous area on the basis of GDP per capita, this is a product of high levels of public investment, and the city still contains some of the most deprived areas in the UK.

Many of these respondents pointed out that Northern Ireland still suffers major infrastructural deficiencies, with its poor road network compounding the difficulties caused by its peripheral location.

Some respondents drew attention to the high proportion of people in Northern Ireland who have no qualifications and the high proportion of people on incapacity benefit compared to other UK regions. Some respondents referred to the potential impact of the growing number of migrant workers on the local labour market.

The Communities in Transition Programme regretted that there was only one reference to the suspension of devolution and sought an analysis of its impact. Among others, CBI Northern Ireland and Disability Action believed there was insufficient recognition of the legacy of conflict.

Disability Action believed that mention should be made of the higher number of people receiving incapacity benefit in Northern Ireland. Mencap suggested that disability should feature as a criterion in the assessment of Northern Ireland's needs.

The Royal Society for the Protection of Birds proposed that more environmental factors should be taken into account.

Government Response on Question 1

The Government agrees that the first chapter of the National Framework should include more detail on the UK's economic strengths and weaknesses. We have significantly expanded this section, including comparisons with the UK's international competitors.

The Government accepts that the economic analysis in the National Framework does not provide detailed information on sub-regional disparities. We have not included detailed information on sub-regional disparities because the Framework is a national, high-level strategic document. The individual Structural Funds Operational Programmes will provide much greater detail on sub-regional disparities.

The Government has noted stakeholders' arguments for a greater emphasis on the growth potential of city regions. The England Chapter of the National Framework will make clear the importance of city regions for driving economic development.

In recognition of stakeholders' comments, the Government has also included analysis of social exclusion in the strengths and weaknesses section of the English chapter.

In response to stakeholders' comments on equality, the Government has added information on differences in working hours and patterns of employment for men and women in the England Chapter of the National Framework. The England European Social Fund (ESF) Programme will provide more detailed information on this issue.

The Government agrees that there is a need for greater emphasis on climate change in the National Framework. It has redrafted the overview of the UK's strengths and weaknesses and the England Chapter to highlight the challenge of climate change; the likely impact of climate change on the UK, and the role that business can have in rising to the challenge through uptake of technology and through more efficient use of resources has also been highlighted.

The Government have also amended the text on the environmental sustainability cross-cutting theme to reflect that all Programmes should be supportive of the objectives of the UK Climate Change Programme, which rests on the premise that economic growth and competitiveness and carbon reduction must go hand in hand.

The Government agrees with stakeholders on the important contribution that rural areas can have in meeting Lisbon targets. We have expanded the section on rural areas in the England Chapter of the National Framework to emphasise the potential role of rural businesses in helping deliver the Lisbon agenda.

Scottish Executive Response on Question 1

The Scottish Executive agrees with stakeholders that there is scope to provide a small amount of additional information in the analysis of the Scottish economy on local and regional variations. It has revised the Scottish chapter to reflect better regional variations and the challenges facing urban areas, the Highlands & Islands and other rural areas. However, the purpose of the National Framework is to provide a high-level overview. More detailed information will be included in the individual Operational Programmes.

In response to stakeholders' comments, the Executive has also made changes to the treatment of GDP growth and unemployment in the section on Scotland's economic strengths, weaknesses and potential.

Welsh Assembly Government Response on Question 1

The Welsh Assembly Government has noted stakeholders' comments on the analysis of the Welsh economy in the National Framework, in particular on the scope to include greater detail in some areas. Additional detail has been provided in some areas, in particular evidence from the Beecham review in support of ESF Priority Three.

Given that the National Framework is intended to provide a high-level analysis, the Welsh Assembly Government has made limited further changes. However, it has noted the useful suggestions made and included these in the more detailed analysis in the consultation document for the West Wales and the Valleys Convergence Programme. It will also include a more detailed analysis in the consultation document for the East Wales Competitiveness Programme, to be launched later in 2006, where comments will be taken into account.

Response for Northern Ireland on Question 1

The Government is pleased that most respondents have broadly agreed with the analysis of disparities and notes the particular issues that have been raised. The Government accepts that some areas and groups within Northern Ireland do face particular challenges and will aim to target its policies to address such needs.

Since the publication of the draft National Framework, Northern Ireland has adopted its first ever Sustainable Development Strategy which recognises that economic and social development are inextricably linked to a healthy environment and sustainable communities. The Northern Ireland chapter of the National Framework has been revised accordingly.

Question 2: Do respondents agree with the proposed priorities for future Convergence and Competitiveness Programmes in England, Scotland, Wales, Northern Ireland and Gibraltar?

Approximately 85% of respondents commented on the proposed priorities for future Convergence and Competitiveness Programmes. Of these, approximately 65% commented on the proposed priorities for England, approximately 15% on Scotland, approximately 15% on Wales, and approximately 7% on Northern Ireland.

Priorities in England

30% of respondents expressly supported the proposed priorities for future Programmes in England. Stakeholders made a range of general comments regarding the priorities as well as more specific comments regarding the different Programmes.

Approximately 11% of respondents stressed the need for the European Regional Development Fund (ERDF) to support hard infrastructure and physical regeneration,

including brownfield sites. These included the Alliance for Regional Aid and the Labour Backbench Group on Regeneration, with English Heritage (Yorkshire Regions) stating that the priorities demonstrated too narrow a focus on business and people at the cost of infrastructure.

Approximately 4% of respondents, including British Telecom and the Yorkshire and Humber regional response argued for a greater focus on encouraging use of information and communication technologies.

Approximately 14% of respondents commented on the treatment of the environment in the proposed ERDF priorities. For example, the South West Objective 2 Programme Environmental Theme Partnership argued that the ERDF Programmes should include the environment in each of the priorities. The Yorkshire Region of English Heritage argued in favour of a specific priority relating to sustainable urban and rural development. Others, such as the Environment Agency, argued that the priorities did not sufficiently address climate change and resource efficiency.

A number of respondents also argued that Cornwall's ERDF Convergence Programme should have a strong focus on the environment. The Environment Agency also argued for a greater focus on developing a low carbon and low waste economy.

A small number of respondents also argued for a greater focus on the environment in the proposed ESF priorities. For example, the South West Objective 2 Programme Environmental Theme Partnership argued that the ESF priorities should include overt references to developing environmental skills.

Approximately 10% of stakeholders argued for a cross-cutting theme on social inclusion. For example, the European Structural Funds Voluntary Organisations Northern (ESFVON) emphasised that social regeneration was integral to economic regeneration.

The Equal Opportunities Commission argued for the promotion of gender equality to be embedded into the ERDF priorities to ensure that women are enabled to use their skills, ability and productive potential to the full.

Some 6% of respondents, including the joint response from the Regional Development Agencies (RDAs) and the Association of Greater Manchester Authorities, argued for regions to have more flexibility to set their own priorities.

A large number of respondents called for the inclusion of higher-level skills in the priorities for future ESF Programmes. For example the Higher Education Regional Development Association (South West) argued that lower level skills would not increase productivity, enterprise or competitiveness.

However other stakeholders, such as the Learning and Skills Council, supported the focus on basic skills and qualifications up to level 3, arguing that there were greater opportunities to gain alternative funding for level 4 and 5 skills.

Priorities in Scotland

Respondents expressed a wide range of views regarding the priorities for the Highlands and Islands phasing-out Convergence Programme. Highlands and Islands

Enterprise and the Highlands Council sought a more limited list of priorities to ensure that reduced EU funding was concentrated on areas with the greatest leverage.

Moray Council called for the ERDF Convergence Programme to promote economic sustainability through reinforcing the quality of the region's key economic sectors, such as tourism. It also argued for the inclusion of the development of natural and cultural heritage and support for social enterprise in the ERDF priorities.

Certain respondents argued that the priority for promoting community regeneration within the ERDF Competitiveness Programme should include a better balance between urban and rural areas. For example, COSLA stated that deprivation was not concentrated in rural areas in the same way as urban areas.

A number of respondents suggested that the "Environmental sustainability and rural development" priority within the ERDF Competitiveness Programme was confused in its focus. They argued that this should not be an exclusively rural priority.

A number of stakeholders, such as City of Edinburgh Council and the South of Scotland Programme Monitoring Committee, argued that the priorities for future ESF Competitiveness spending should include a focus on supporting migrants.

Certain stakeholders questioned the need for a separate priority on "Investing in lifelong learning support environment" in the proposed priorities for the ESF Competitiveness Programme. They argued that this should be incorporated within the two other ESF priorities.

Around 20% of respondents on Scotland sought a greater focus on physical regeneration in the priorities for future ERDF spending.

Several respondents sought a reference to the Green Jobs strategy.

A number of respondents, including Midlothian Council, the East and West of Scotland European Consortia and the City of Edinburgh Council, emphasised the importance of flexibility for regions to develop Programmes that reflect local needs.

Priorities in Wales

Over 30% of respondents on Wales broadly welcomed the proposed priorities for future Programmes in Wales.

A number of respondents, including the Enterprise, Innovation and Networks Committee of the National Assembly for Wales, the Coalfields Community Campaign (Welsh region) and the Welsh Local Government Association, argued for a greater focus on basic infrastructure and regeneration in the ERDF Convergence Programme.

The Royal Institution of Chartered Surveyors and Gwynedd Council also argued that transport should be a focus of spending. The Environment Agency called for the inclusion of support for infrastructure linked to biodiversity and the protection and enhancement of the natural environment in the Competitiveness ERDF Priority 2.

Respondents expressed a range of views on the focus on skills in the ESF Convergence Programme. Some respondents sought a strong focus on investment in basic skills. Others argued for a greater focus on developing higher-level skills.

NIACE Dysgu Cymru argued that demographic change and its implications for workforce development needed more consideration.

A small number of stakeholders argued that Building Sustainable Communities should be a fourth priority for the ERDF Competitiveness Programme.

The Environment Agency called for the priorities for the ERDF Convergence Programme to include strategic investment in renewable energy production and in low carbon technology, to reduce energy and water use and waste.

A small number of respondents, including Wales Tourism Alliance, stressed the role of tourism in increasing Wales' competitiveness. Bridgend Borough Economic Partnership wanted tourism to be identified more explicitly as eligible for funding.

Priorities in Northern Ireland

More than half of respondents on Northern Ireland replied specifically to this question. A large majority broadly supported the strategy and proposed priorities for future Programmes. Several respondents emphasised the need to ensure that EU funds were genuinely additional and targeted to secure maximum added value.

A small number of respondents strongly disagreed with the overall strategic approach on the grounds that it ignored the wider social and environmental aspects of the Lisbon and Gothenburg agendas and focused too narrowly on competitiveness, with insufficient emphasis on sustainability.

All respondents agreed on the importance of expanding the private sector in Northern Ireland and reducing the level of economic inactivity. Nevertheless, most respondents pointed to the continuing need to upgrade essential infrastructure as a precondition for economic growth and accessibility for all.

Respondents highlighted the need to coordinate all sources of funding to ensure an equitable approach across Northern Ireland and an appropriate balance between urban and rural areas. In this regard also, a small number of respondents pointed to the potential synergies and mutual benefits to be gained from co-operation with the Republic of Ireland in areas such as energy, tourism, research and development (R&D), health and infrastructure.

Some local authorities argued that a proportion of funds should be allocated to major projects, such as the Lagan Navigation corridor, the Titanic Quarter and tourism projects such as the Giant's Causeway centre, to enhance their impact and visibility.

A number of respondents sought a greater emphasis on providing education and training to promote entrepreneurship. The Communities in Transition Programme sought a broader definition of poverty. Disability Action sought references to actions aimed at lifting people out of poverty and addressing the barriers experienced by the most disadvantaged in the labour market.

Three respondents argued for a stronger focus on information and communication technologies. For example, the Cedar Foundation emphasised the importance of the ESF in promoting use of information and communication technologies.

Government response on Question 2

ERDF Priorities in England

The Government welcomes the general support for the proposed priorities for ERDF Competitiveness Programmes. The Government therefore does not propose to change the four priorities set out in the draft National Framework.

The Government agrees that regions should have the flexibility to set their own priorities, but within the context of the National Framework priorities, as well as supporting the UK's Lisbon National Reform Programme. It has emphasised the principle of regional flexibility in the National Framework

The Government notes stakeholders' arguments in favour of investment in infrastructure. However given the reduced funding available and the new emphasis in the Structural Funds Regulations on innovation and enterprise, the Government does not believe it is possible to direct significant funds to costly investments in hard infrastructure, such as transport, though it may be possible to support some small scale actions. Programmes will be able to support physical regeneration activity, where this is identified as a priority.

The Government agrees with stakeholders with regard to the importance of supporting ICT. This is fully in line with both the ERDF regulations and the English ERDF Competitiveness priorities. Individual regions will need to determine the level of concentration of investment in these technologies in their Operational Programmes.

Some respondents suggested that all ERDF Programmes should cover the environment in each priority axis. The Government has included a sustainable consumption priority with a particular emphasis on environmental sustainability. It has also amended the text of the innovation and knowledge transfer priority to cover the scope for encouraging the use of renewable energy and promoting greater energy and resource efficiency. The Government will also establish environmental sustainability as a cross-cutting theme for all Programmes.

The Government does not consider it necessary to introduce specific priorities for urban and rural areas. Individual Programmes will have the flexibility to target urban and rural areas in line with their Programme strategy. The Government will retain a priority of building sustainable communities. This emphasises that Programmes may need to address both urban and rural development.

The Government has noted stakeholders' arguments for embedding the promotion of equality in all ERDF priorities. The Government will establish equal opportunities as a cross cutting theme for all Programmes across the UK.

ESF Priorities in England

The Government welcomes the general support from stakeholders for the proposed priorities for ESF spending in England. It has retained these priorities in the final National Framework.

The Government has noted stakeholders' arguments for a stronger focus on social inclusion. Social inclusion will be fundamental to the England ESF Programme. It

will promote social inclusion by helping workless people to enter sustainable employment, and by developing the skills of people with no or low qualifications.

The Government has considered the responses on higher-level skills. The Government's Skills Strategy recognises that higher-level skills are essential for a world-class economy with high levels of productivity. However, in view of the substantial reductions in EU receipts for the UK in 2007-2013, we believe that it is essential to focus ESF funding on those people most in need of help to enter, and make progress in, the labour market. Therefore the priority for ESF skills funding should be individuals without basic skills or without a first full level 2 qualification.

The Government agrees that there should be limited scope for the ESF to support higher-level skills, in order to support the strategy for tackling low skills. It has modified the National Strategy to allow for the ESF to support higher level skills in a small number of areas including: training trainers to deliver basic skills to ESF target groups; preparing people from disadvantaged groups to enter higher education; and providing technical, leadership, management and enterprise skills in small businesses.

Regions will also have flexibility to support level 3 skills training in certain occupations and sectors where the Regional Skills Partnerships identify a need for this.

Because of its Convergence status, Cornwall will be able to support a wider range of activities including some higher-level skills activity.

Scottish Executive Response to Question 2

The Scottish Executive has modified the "Promoting economic sustainability" priority of its ERDF Convergence Programme and the "Supporting innovation and entrepreneurship" priority of its ERDF Competitiveness Programme to set out more explicitly the priority sectors and areas for support.

It has modified the "Promoting community regeneration" priority for its ERDF Competitiveness Programme to focus on regeneration issues facing urban areas. This is in recognition of the specific deprivation challenges in Scottish urban areas.

The Executive has also modified the "Environmental sustainability and rural development" priority for its ERDF Competitiveness Programme to focus on the specific economic challenges facing rural areas. Environmental sustainability issues will be a cross-cutting theme for all the priorities rather than limited to a single part of the Programme.

In response to stakeholders, the Executive has included migrants as a target group in both its Convergence and Competitiveness ESF Programmes.

Some respondents suggested that the lifelong learning priority of the two ESF Programmes be removed. However, the Executive feels strongly that this priority should be retained. The priority underpins the capacity of projects in the other two priorities to achieve the Programmes' goals. It also reflects the success of the Lifelong Learning Priority in the current Objective 3 Programme, as shown in the mid-term evaluation and the mid-term evaluation update of the Programme.

Certain respondents argued for a greater focus on physical regeneration and infrastructure. Given the new EU requirements to focus funds on supporting the Lisbon Agenda, it will be very difficult to provide significant support for projects of this nature. However, the Executive has envisaged small-scale physical regeneration and infrastructure spending under the “Promoting community regeneration” priority of the ERDF Competitiveness Programme. It would also be possible to fund larger-scale infrastructure projects under the “Developing environmental sustainability” priority of the Highlands and Islands’ ERDF Convergence Programme.

The Executive has added references to the Scottish Green Jobs strategy.

Welsh Assembly Government Response on Question 2

The Welsh Assembly Government has noted stakeholders’ comments on the focus of the priorities for future Programmes in Wales, in particular regarding infrastructure, the environment, sustainable communities, tourism and skills.

Some stakeholders argued for a greater focus on infrastructure in the ERDF Convergence Programme for West Wales and the Valleys. The Welsh Assembly Government is proposing to allocate resources in the ERDF Convergence Programme for infrastructure as part of a balanced Programme. This will include, in particular, targeted transport investments and the promotion of selected energy, waste and environmental infrastructures in response to the challenges of climate change. For the ERDF Competitiveness Programme the scope for significant spend on infrastructures will be very limited. The Assembly Government proposes that the main focus of the Programmes is on building the right conditions for growth and promoting the knowledge-based economy to provide a lasting legacy for Wales.

Stakeholders argued for a strong focus on environmental sustainability, including promoting biodiversity and renewable energy. The Welsh Assembly Government has proposed a strong focus in support of environmental sustainability to both address environmental risks and challenges and to promote the opportunities provided by the environment for growth agenda. This will include activities such as developing clean and renewable energy, encouraging environmental sustainability and managing and mitigating environmental risk within the ERDF Convergence Programme. The government will be proposing that environment for growth also forms part of the ERDF Competitiveness Programme. Environmental Sustainability will be maintained as a cross-cutting theme across all priorities, building on the groundbreaking work in the current Structural Funds Programmes.

A small number of stakeholders argued that building sustainable communities should be a fourth priority in the ERDF Competitiveness Programme. The Welsh Assembly Government will aim to simplify Programme structure and to provide maximum flexibility by proposing two main priorities for the ERDF and the ESF Programmes in East Wales. However, the Government recognises the importance of providing the right balance between focussing on need and on opportunity in East Wales, and plans to propose that there is scope within the ERDF Priority Two for funding integrated approaches to regeneration in communities most affected by economic inactivity and deprivation.

Some stakeholders called for a greater focus on tourism. The Welsh Assembly Government recognises tourism as important to the Welsh economy, particularly in

rural parts of West Wales and the Valleys. There are significant opportunities for tourism businesses to access support under the first priority of the ERDF Convergence Programme, as well as under the Environment for Growth theme of Priority Two, which will focus on maximising the opportunities for the environment to support sustainable growth. .

Stakeholders expressed differing views on whether Convergence funding should be focused on higher or basic skills. Given the importance of focusing limited funding on those most in need, the Welsh Assembly Government will retain both aspects of this Priority: helping the disadvantaged to gain basic skills in order to move into work and, at the same time, promoting higher level skills to enable individuals to progress in work and to provide enterprises with the right conditions for knowledge driven growth.

The Welsh Assembly Government is producing separate consultation documents for its Convergence and Competitiveness Programmes. The final Convergence and Competitiveness Operational Programmes will establish the priorities for future spending in greater detail.

Response for Northern Ireland on Question 2

The Government is pleased that stakeholders were in agreement on the broad strategy and spending priorities for future Programmes in Northern Ireland. It is also pleased that respondents acknowledged the need for EU funds to be closely aligned with domestic policies and concentrated on areas where they will have most impact.

The Government has revised the Northern Ireland Chapter to take account of the new Sustainable Development Strategy for Northern Ireland and to view the objective of economic and social development in the context of long-term sustainable growth and the creation of sustainable communities.

The Government has also revised the Northern Ireland Chapter to note the importance of strategic co-ordination of all sources of funding and a balanced development across all of Northern Ireland.

Question 3: Do respondents agree that the proposed priorities include a sufficient focus on the Lisbon agenda?

Approximately 65% of respondents commented on whether the proposed priorities include a sufficient focus on the Lisbon agenda. Of these, approximately 65% commented on this point with regard to England, whilst approximately 20% of responses related to Scotland, approximately 15% to Wales, and approximately 7% to Northern Ireland.

Respondents from across the UK sought additional information regarding how the new EU targets for spending in support of Lisbon would be applied in practice. A small number of respondents argued that the targets should be applied at the national level and that their regions should not be required to meet them.

A significant number of respondents, accounting for approximately 45% of those who responded on the issue for England, broadly agreed that the proposed priorities for England included a sufficient focus on the Lisbon agenda.

A small number of respondents argued that the proposed priorities for England should include a greater emphasis on supporting growth areas in order to maximise the economic impact of the funds. However, other respondents argued that a focus on Lisbon should not lead to a reduction in support for disadvantaged areas.

A number of respondents, such as East Sussex County Council, Mansfield District Council and the Humber Economic Partnership, argued that the focus on Lisbon should not limit flexibility for regions to determine priorities that reflect local needs.

Certain stakeholders sought a greater emphasis on support for ICT as a means of contributing to Lisbon. Others sought a greater emphasis on knowledge transfer.

A number of environmental stakeholders sought a greater focus on the Gothenburg agenda for sustainable development. The Environment Agency, the Federation of Groundwork Trusts and others argued that the National Framework should require Programmes to support the UK's Sustainable Development Strategy.

A small number of stakeholders, including Nottinghamshire County Council and UK Eurocities, also argued that a focus on Lisbon should not prevent regions from using the ERDF to make investments in infrastructure.

A large number of respondents argued that the proposed ESF priorities for England should include a focus on higher-level skills, in order to support the Lisbon objectives of developing a highly-skilled, knowledge-based society.

The majority of Scottish stakeholders supported the focus on Lisbon in Scottish Programmes. Highlands and Islands Enterprise and others emphasised the importance of exploiting the region's R&D capacity. Some stakeholders argued that the focus on Lisbon should be accompanied by a stronger emphasis on the Gothenburg Agenda.

A small number of Scottish stakeholders emphasised the importance of supporting higher-level skills through the ESF. The Equal Opportunities Commission Scotland argued for a greater focus on reducing the gender-pay gap.

The majority of Welsh stakeholders were also broadly supportive of the proposed focus on Lisbon for Welsh Programmes. A small number emphasised the importance of flexibility for regions to develop Programmes that reflect local needs. Some expressed concern that the focus on Lisbon might be too restrictive, making it difficult to fund regeneration activities. Some sought a greater focus on environmental activities. A small number of stakeholders argued for a greater focus on higher-level skills in ESF Programmes in order to support the Lisbon agenda.

A large proportion of stakeholders from Northern Ireland broadly agreed with the proposed focus on Lisbon for Northern Ireland's Programmes. Most local authorities and the business sector warmly endorsed the focus on Lisbon and highlighted the need to create the circumstances to encourage private sector growth.

However some stakeholders, including nearly all those from the voluntary and community sector, argued that the emphasis on Lisbon should be balanced with more attention to promoting sustainable development, creating sustainable communities and protecting and enhancing the environment. A number of respondents urged that the Lisbon spending targets should be viewed flexibly in Northern Ireland.

Government Response on Question 3

The Government has modified the National Framework to provide a section on how the UK will meet the new EU targets for spending in support of the Lisbon Agenda. The Government will ensure that each Convergence Programme in the UK targets 60% of expenditure on Lisbon activities, and that each Competitiveness Programme in the UK targets 75% of expenditure on Lisbon activities.

The Government has noted respondents' views regarding supporting growth opportunities and supporting deprived communities. As explained in the revised National Framework, the Government believes that the English regions should have flexibility to determine the focus on different areas within their ERDF Programmes. This should reflect the socio-economic analysis of the region, the Regional Economic Strategy, and the objectives of the Programme. If a Programme decides to target funds on growth opportunities, it should demonstrate how this benefits the region as a whole and the impact on reducing disparities at the sub regional as well as regional levels. The emphasis on the Lisbon agenda, however, does not exclude actions to help deprived areas, wither under the building sustainable communities priority, or by focusing actions under other priorities in ways which help deprived areas.

The Government has also noted respondents' arguments for a greater focus on the Gothenburg Agenda and the UK's Sustainable Development Strategy. As explained above, the Government has modified the National Framework to require all UK Programmes to respect the UK's Sustainable Development Strategy. It has also strengthened the focus on sustainability for the English ERDF Programmes.

The Government understands stakeholders' arguments regarding the need to develop higher-level skills in support of Lisbon. However, as explained above, it believes that it must focus reduced EU funds in England on helping the most disadvantaged to enter and make progress in the labour market. Nevertheless, it has introduced some scope for the ESF in England to support higher-level skills.

Scottish Executive Response on Question 3

The Scottish Executive has noted stakeholders' comments on the importance of exploiting the Highlands & Islands' research capacity. It has modified the priorities for the ERDF Convergence Programme to reflect this.

Some partners drew attention to the importance of the Gothenburg Agenda informing the Programme. Environmental sustainability will remain a central horizontal theme applying across the Programmes as a whole. All projects will be required to demonstrate how they will contribute to environmental sustainability goals. This approach will be set out in more detail in the Scottish consultation on the draft Operational Programmes.

Some partners drew attention to the importance of using the ESF to improve higher-level skills and reduce the gender pay gap. The Executive has revised the text of the Scotland Chapter to acknowledge these objectives more explicitly.

Welsh Assembly Government Response on Question 3

The Welsh Assembly Government has noted stakeholders' broad support for the proposed focus on Lisbon for Welsh Programmes. It recognises stakeholders' concerns that the new focus on Lisbon should not lead to a reduction in support for community economic development. It has included a priority on 'Building Sustainable Communities' for the ERDF Convergence Programme and sees regeneration as particularly important within West Wales and the Valleys. This priority will support integrated approaches and will address physical regeneration as well as broader community economic development.

Response for Northern Ireland on Question 3

The Government has revised the text of the Northern Ireland Chapter to reflect more clearly the interrelationship between the promotion of a dynamic private sector led economy with the creation of sustainable communities and the protection and enhancement of the environment.

Question 4: Do respondents agree with the proposals in the National Strategic Reference Framework for ensuring consistency between Structural Funds Programmes and other EU policies and funding streams, in particular spending under the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF)?

Approximately 55% of respondents commented on the proposals in the National Framework for ensuring consistency between Structural Funds and other EU policies and funding streams. Of these, approximately 66% commented on the proposals for England, approximately 20% on Scotland, approximately 18% on Wales, and approximately 5% on Northern Ireland.

A large number of respondents broadly agreed with the proposals for ensuring coordination with the EAFRD and the EFF within England. Many of these respondents emphasised the importance of maintaining flexibility at the regional level. For example, the RDAs supported the principle of regional flexibility to determine the appropriate demarcation between the funds, arguing that this could only really take place when draft Operational Programmes are available.

A number of respondents, including the RDAs, Wigan Borough Council and the Land Management Steering Group emphasised the need to develop appropriate regional administrative mechanisms to ensure demarcation and avoid duplication.

A smaller number of respondents, including One NorthEast, Devon County Council and East Midlands Environmental Link, argued that the National Framework should establish more detailed guidance on coordination with the EAFRD and the EFF.

A small number of respondents suggested that the National Framework should provide guidance on coordination with the Competitiveness and Innovation Programme and the Framework 7 Programme for research and development.

Scottish stakeholders also broadly supported the proposals for coordinating with different EU funding streams in Scotland. Some Scottish stakeholders emphasised the importance of developing administrative arrangements for coordination. A small number sought information on alignment with the Framework 7 Programme.

A significant number of Welsh stakeholders supported the proposals for ensuring consistency in Wales. However, a large number also sought more detailed information and clearer guidance on the demarcation between Structural Funds and the EAFRD.

Stakeholders from Northern Ireland were broadly supportive of the proposals, emphasising the need for a coordinated strategic approach to all EU and national spending programmes. The LEADER network and some Local Authorities proposed a role for local bodies in the implementation of the future Programmes.

Government Response on Question 4

Along with many stakeholders, the Government believes that the detailed demarcation criteria for ERDF and EAFRD spending in England should be determined at the regional level. The economic geography and balance between rural and urban areas are so different, that it will be impossible to set detailed national criteria which could meet all regional circumstances. The Government will provide further guidance to Programmes on establishing demarcation criteria and coordination mechanisms.

In response to stakeholders, the Government has provided further information in the final National Framework on the coordination between Structural Funds and both the Competitiveness and Innovation Programme and the Framework 7 Programme.

Scottish Executive Response on Question 4

The Scottish Executive recognises the importance of ensuring complementarity between the Scottish Rural Development Plan, the Scottish Strategy for the EFF, Structural Funds spending in Scotland and other key EU funding sources. It will set out detailed proposals to ensure complementarity in the consultation on the Scottish Operational Programmes.

Welsh Assembly Government Response on Question 4

The Welsh Assembly Government recognises the need for clearer signposting of the complementarity and demarcation between Structural Funds and the EAFRD in Wales. The government has amended the text of the Wales Chapter of the National Framework to include further information in this area.

Response for Northern Ireland on Question 4

The Government has revised the Northern Ireland Chapter to reflect more clearly the need to ensure consistency and co-ordination and avoid duplication in future EU and national programmes.

Question 5: Do respondents agree with the proposed architecture for future Programmes?

Approximately 68% of respondents commented on the proposed architecture for future Programmes. Of these, approximately 67% commented on the proposed architecture for England, approximately 18% on Scotland, approximately 15% on Wales, and approximately 6% on Northern Ireland.

England

All respondents appeared to support the Government's proposals for regional ERDF Competitiveness Programmes. Approximately a third of respondents agreed with a national ESF Competitiveness Programme and approximately a third disagreed with the proposal, expressing a preference for regional ESF Programmes.

The organisations with the closest interest in delivering the ESF, including employment and training bodies, the TUC, the voluntary sector, the higher education sector and the Sector Skills Councils, generally supported a national ESF Programme. However, some of these organisations called for regional flexibility for the ESF to enable it to respond to local and regional needs.

Those respondents who raised concerns regarding the proposal for a national ESF Programme emphasised the difficulties of ensuring regional ownership of a national Programme and coordinating with regional ERDF Programmes.

Some respondents feared that a national ESF Programme would make it more difficult to support disadvantaged groups in the community. One North East expressed concern that a national ESF Programme would fail to involve Regional Skills Partnerships.

Yorkshire Forward, the Yorkshire and Humber regional response and South Yorkshire Partnership strongly supported the delivery of the South Yorkshire's phasing-in ERDF Competitiveness funding within a single regional ERDF Competitiveness Programme for Yorkshire and the Humber. However, they emphasised the importance of establishing mechanisms for taking account of the phasing-in area's specific needs.

The Merseyside Policy Unit and Liverpool City Council emphasised that the Merseyside sub-region should maintain local design, decision making and management of its ring-fenced ERDF Competitiveness funding, even if this was to be delivered through a single regional ERDF Competitiveness Programme for the North West. They also sought local management of Merseyside's phasing-in ESF Competitiveness funding. The Merseyside Network for Europe argued that Merseyside's phasing-in Competitiveness funding should be delivered through a separate sub-regional Operating Programme.

Most respondents agreed with the Government's proposals for delivery of Convergence funding in Cornwall. However, they emphasised that the region should play a key role in identifying appropriate ESF priorities. The Cornwall Sustainable Energy Partnership argued for a separate ESF Programme for Cornwall.

Scotland

A large majority of stakeholders agreed with the proposed architecture for Scottish Programmes. However some argued for a Programme architecture at a lower geographical level, such as separate Programmes for the West of Scotland, South of Scotland and East of Scotland. Others emphasised the need for robust sub-regional decision-making and monitoring processes for the new Competitiveness Programmes.

Wales

All respondents agreed with the Welsh Assembly Government's proposals to establish an ERDF Convergence Programme for West Wales and the Valleys, an ERDF Competitiveness Programme for East Wales, and a single Convergence and Competitiveness ESF Programme for the whole of Wales. The Coalfields Community Campaign, Welsh region, sought explicit confirmation that the Wales ESF Programme would ring-fence amounts for the Convergence and Competitiveness regions.

Northern Ireland

All the respondents who commented on this question agreed with the proposals to establish one ERDF Competitiveness and Employment Programme and one ESF Competitiveness and Employment Programme for Northern Ireland.

Government response on Question 5

ERDF Programme architecture

The Government welcomes the general support for the architecture of regional ERDF Programmes and will therefore proceed on that basis. The Government has also decided, following consultation, that the phasing-in areas of Merseyside and South Yorkshire should be covered within the regional Programmes for the North West and Yorkshire and Humberside, with ring fenced allocations. Sub-regional partners in Merseyside and South Yorkshire are being engaged in the development of the regional Programmes, to ensure that the needs of the sub regions are adequately reflected in both the design and implementation of the regional Programmes.

ESF Programme architecture

The Government welcomes the support from many ESF stakeholders for its proposal for an England ESF Programme. It agrees with those stakeholders who argued that there should be flexibility within an England ESF Programme to respond to regional and local needs. There will therefore be a strong regional dimension to the national ESF Programme.

The Government believes that the national ESF Programme architecture will provide a framework to focus ESF funds on tackling worklessness and low skills in all regions of England. This is consistent with the requirement in EU regulations for ESF to support the Lisbon National Reform Programme and address the EU Employment Recommendations to the UK. In recent years, these Recommendations have

emphasised the importance of improving the employment prospects and skills of disadvantaged groups.

A national Programme will also align ESF with the required domestic 'match' funding from domestic employment and training budgets. It will provide a consistent set of rules and eligibility criteria for providers across England, and simplify the administration of ESF.

In response to stakeholders' comments, the Government will ensure that there is considerable scope for ESF activities to address distinctive regional and local employment and skills needs within the national ESF Programme.

The Government will give Regional Skills Partnerships (RSPs) the leading role in developing regional ESF strategies. RSPs bring together the key agencies in each region responsible for planning and delivery of employment and skills provision including Regional Development Agencies, Jobcentre Plus, the Learning and Skills Council, Small Business Service and the Skills for Business Network. RSPs are therefore well placed to develop regional ESF strategies to reflect regional employment and skills needs, and to address the wider Regional Economic Strategies. RSP boards will approve the regional ESF strategies and will be consulted on the development of the national ESF Programme.

As proposed by the Government in the draft Framework, Cornwall and the Isles of Scilly will have its own Convergence ESF employment and skills priorities within the England ESF Programme. Convergence funding for Cornwall and the Isles of Scilly will be ring-fenced within these priorities.

The phasing-in funding for Merseyside and South Yorkshire will be ring-fenced within the Competitiveness priorities of the England ESF Programme. The Government is keen to engage partners in Merseyside and South Yorkshire in the development of the ESF Programme to ensure that the needs of these sub-regions are adequately reflected in both the design and implementation of the ESF Programme, and to build on the knowledge and experience of ESF within the 2000-2006 Objective 1 Programmes.

Response from the Scottish Executive on Question 5

The Scottish Executive notes stakeholders' general support for its proposed architecture for future Programmes. It has also noted the arguments of some stakeholders for a larger number of smaller Competitiveness Programmes.

However, it believes that a single ERDF Competitiveness Programme for the Lowlands would allow greater flexibility and reduce administration costs. It would also allow the Programme to support projects of region-wide significance and scope. (In the current period, such projects have often had to apply to several Programmes as their scope has cut across several Programme boundaries.) This is a view recently endorsed in the report by the European & External Relations Committee of the Scottish Parliament on future Structural Funds programming in Scotland.

At the same time, the Executive recognises the need to address spatial diversity within the Highlands and Islands Competitiveness region. The proposed ERDF Programme will have priorities that clearly address special issues, including urban deprivation and

urban community regeneration. It will also include priorities that address the distinctive challenges facing rural areas. The Executive has revised the Scotland Chapter text to make this spatial distinction more clear.

Response from the Welsh Assembly Government on Question 5

In the consultation draft of the NSRF the Welsh Assembly Government proposed to establish separate ERDF Convergence and Competitiveness Programmes for West Wales and the Valleys and East Wales, and a single All Wales Human Resources Programme covering West Wales and the Valleys and East Wales.

The Welsh Assembly Government has decided to modify the strategy sections of the Welsh Chapter of the National Framework to establish four future Programmes. It now proposes to establish separate ERDF and ESF Convergence Programmes for West Wales and the Valleys, and separate ERDF and ESF Competitiveness Programmes for East Wales. This is, in part, responding to stakeholder questions about resource allocations. Separate Programmes will make very clear what resources are available for each Programme and it will not be possible to transfer funds between Programmes.

In order to ensure early approval of the Convergence Programmes, the Welsh Assembly Government is proposing a separate ESF Programme for West Wales and the Valleys which it is intending to formally submit to the Commission in November, following the close of the consultation in October.

Response for Northern Ireland on Question 5

The Government welcomes stakeholders' support for the proposed architecture for Programmes in Northern Ireland.

Question 6: Do respondents agree that the UK's Competitiveness allocation should be divided equally between the ERDF and the ESF at the UK level?

Approximately 60% of respondents commented on the division of funding between the ERDF and the ESF. Of these respondents, approximately 40% supported the Government's proposal to divide the funds equally between the ERDF and the ESF at the UK level, while approximately 30% disagreed with the proposed equal split.

More stakeholders responded principally with reference to the ERDF than to the ESF. Many of the responses from ESF stakeholders were from representative bodies such as the Trade Union Congress, or were based on wide-consultation among ESF providers such as the response from the London Voluntary Sector Training Consortium.

A majority of stakeholders, accounting for approximately 55% of those who commented on this issue, emphasised the need to determine an appropriate split of funding for each region.

Some of these stakeholders simply emphasised the need for the division of funding for each region to reflect regional and local needs. Others maintained that the Government should not impose any division of funding at the UK level. Instead, they argued that each region should receive a single allocation of Competitiveness funding and decide itself the appropriate split between the two funds.

Many regional stakeholders (approximately 30% of those who responded to this question) sought a greater proportion of funding for the ERDF. Some respondents suggested that 60% to 70% of the funds should be allocated to the ERDF. In many cases, respondents did not provide detailed arguments in favour of greater ERDF funding. Some argued that the most pressing priority for their regions was to develop the conditions for business development. Others argued for greater ERDF resources on the basis that the UK has already met its Lisbon employment targets.

By contrast, ESF stakeholders emphasised the importance of significant ESF funding for their regions, and several argued for a greater share for ESF than ERDF at UK level. These included the Prince's Trust, the Cornwall Objective 1 Learning and Skills Taskforce, the Learning and Skills Councils and Crisis.

Finally, a majority of stakeholders from South Yorkshire and Merseyside argued for a greater proportion of the ring-fenced phasing-in Competitiveness funding for their regions to be allocated to the ERDF. For example, the South Yorkshire Objective 1 Partnership pointed out that the ERDF accounts for two thirds of South Yorkshire's current Objective 1 Programme. It argued for 60% of South Yorkshire's future phasing-in Competitiveness funding to be allocated to the ERDF in order to reflect emerging priorities and ensure continuity with the current period.

Government response on Question 6

In line with the view of the majority of respondents who commented on the proposed division, the Government has decided to divide the €5.3 billion¹ of mainstream Competitiveness funding equally between the ERDF and the ESF at the UK level. This is not substantially different to the split of funding between the ERDF and the ESF for Objectives 2 and 3 in 2000-2006.

It is possible to make arguments in favour of increased funding for either of the two funds. However, there is no conclusive evidence to suggest that one fund has been more successful than the other in the 2000-2006 period. On the contrary, the two funds are very much complementary, with the ERDF helping to create business opportunities, and the ESF helping to provide a skilled, flexible workforce, ready to respond to them.

Although the Government has decided to split the funding equally at the UK level, this does not mean that each region will receive equal proportions of ERDF and ESF funding. The Government has used different methodologies for allocating ERDF and ESF funding to each region, which reflect the different objectives of each fund. This means that each region will receive differing proportions of ERDF and ESF funding, reflecting its precise economic needs.

¹ All allocations are given in 2004 prices.

Whilst the Government has decided to split the UK's mainstream Competitiveness funding equally between the ERDF and the ESF, it has decided to take a different approach for the €80 million of phasing-in funding for South Yorkshire and Merseyside.

As stakeholders have argued, transitional Objective 1 areas have in the past received a greater proportion of ERDF funding. In 2000-2006, the ERDF accounted for more than two-thirds of South Yorkshire and Merseyside's Objective 1 funding, reflecting the need to provide for the establishment and development of businesses in these regions.

The Government has therefore decided to allocate 60% of the funds for South Yorkshire and Merseyside to the ERDF and 40% to the ESF. This will reflect these regions' particular needs and facilitate the transition away from higher levels of ERDF funding in the current period.

The Government and the Devolved Administrations have also decided to take a different approach regarding the split of funding for the three UK Convergence Programmes. In 2000-2006, the ERDF accounted for approximately 70% of total Convergence funding in the UK, reflecting again the need to provide for the establishment and development of businesses in these regions.

The Government has therefore proposed to allocate 70% of the Convergence funding for Cornwall and the Isles of Scilly to the ERDF and 30% to the ESF. The Welsh Assembly Government has proposed to allocate 60% of the Convergence funding for West Wales and the Valleys to the ERDF and 40% to the ESF. Finally, the Scottish Executive has proposed to allocate 66.6% of the phasing-out Convergence funding for the Highlands and Islands to the ERDF and 33.3% to the ESF.

Question 7: What are respondents' views on how best to allocate ERDF Competitiveness funding across the UK's regions?

Approximately 60% of respondents commented on the methodology for allocating the UK's ERDF Competitiveness funding. They expressed a wide range of views regarding the principles for allocating the funding.

A large number of respondents emphasised that funding should be focused on the regions with the greatest economic need. For example, the Institute for Public Policy Research argued that funds should be focused on the north of England.

A smaller number of respondents emphasised the need for funding in richer regions, in order to tackle pockets of serious deprivation. Some stakeholders, such as Luton Borough Council and Cambridgeshire County Council, argued that the funds should be allocated to the regions on the basis of opportunity as well as need.

Some respondents argued that a large proportion of the funds should be allocated to cities in the UK's poorer regions. For example, the Institute for Public Policy Research argued that funds should be focused on city regions given their key role in driving economic performance. The Humber Economic Partnership also argued that future funding should be concentrated on city regions in the north of England.

However, other stakeholders argued against a strong focus on cities. The Alliance for Regional Aid, for example, opposed any attempt to focus the majority of funds on major regional cities. Thanet District Council argued that funds should be focused on smaller urban areas as well as larger cities. The South of Scotland Alliance argued that the methodology for allocating the funds should reflect the needs of rural areas.

Some stakeholders, such as the Tees Valley Joint Strategy Unit and Hull City Council, argued that funds should be focused on the Northern Way.

A number of respondents voiced direct support for a methodology based on the regional economic performance Public Service Agreement (PSA) target for England. These included the Regional Development Agencies, the East of England Regional Partnership Group, Cumbria Partners, representatives of the Yorkshire and Humber region, Easington District Council, the Derby and Derbyshire Economic Partnership, Blackburn and Darwen Borough Council and the University of Liverpool. For example, the Regional Development Agencies argued that an allocation methodology based on the PSA target would ensure that funds were focused on the Lisbon agenda.

A large number of other respondents also supported a methodology based on productivity indicators similar to the PSA indicators. In total, approximately 40% of those who responded on this issue expressed support for indicators of productivity such as levels of entrepreneurship, innovation, skills, Gross Value Added (GVA) or GDP. For example, the Alliance for Regional Aid argued that funds should be allocated, amongst other things, by reference to employment, VAT registrations, skills, research and development and GDP. Stakeholders in Northern Ireland cited the region's low productivity rate as one of the possible criteria to be used in allocating the funds.

A small number of respondents supported using the methodology agreed at the European Council of December 2005 for allocating Competitiveness funds between the Member States.

However, in many cases, these respondents argued that the methodology should be modified to include different allocation criteria. For example, ESFVON argued that the formula should include indicators for social enterprise and deprivation. The Local Government Association proposed the inclusion of indicators for innovation and business creation. The Wales Council for Voluntary Action sought the inclusion of indicators for access to services, levels of entrepreneurship and household income.

Other respondents specifically opposed using the December Council methodology on the basis that it failed to take account of certain measures of economic or social need.

In addition, stakeholders argued for the inclusion of a wide range of alternative indicators. These included indicators of accessibility, affordability of housing, household income, benefit dependency, population density, numbers of jobs in manufacturing, population growth, and peripherality. However, there was no clear consensus in favour of any of these criteria.

A small number of environmental organisations, such as the Royal Society for the Protection of Birds, argued that the allocation methodology should contain an indicator of environmental degradation.

Around a dozen respondents supported the use of a safety net and ceiling to limit changes in each region's proportion of funding. No stakeholders expressed opposition to the use of a safety net and ceiling.

Stakeholders from Durham and Tees Valleys and Lincolnshire argued for special treatment on the basis that they had narrowly failed to qualify for higher levels of phasing-out Convergence funding. They argued that the Government should make a specific allocation to their regions before allocating its remaining Competitiveness funding between the other regions. Stakeholders from Cumbria, Scotland and Northern Ireland also presented arguments for greater funding for their regions.

In addition, a small number of stakeholders commented on the allocation of funds within regions. The Alliance for Regional Aid argued that there should be clear requirements for Programmes to allocate funds to the areas of greatest need. Southampton City Council argued that the final National Framework should give guidance on how urban funding should be targeted on cities and city regions.

Government response on Question 7

As explained in the consultation document, the Government's aim has been to develop an objective methodology for allocating ERDF Competitiveness funding, which supports domestic priorities for regional development, including commitments to increase the trend rate of growth of every region, to address disparities between the nations and regions, and to reduce the persistent gap in growth rates in England.

The Government agrees with stakeholders that ERDF Competitiveness funds should be concentrated on the regions with the greatest economic need. However, it also agrees with stakeholders on the need for continued funding in richer regions in order to tackle pockets of serious deprivation.

The ERDF allocation methodology

The Government has developed a single formula for determining ERDF Competitiveness allocations for all of the UK's regions. This will ensure that all regions are treated on an equal basis, and receive allocations that reflect their economic weaknesses in comparison with other UK regions.

Under the Government's approach, each region will receive an allocation of ERDF competitiveness funding which reflects its score according to a basket of weighted indicators of economic need. The regions with the highest scores according to the basket of indicators will receive the lowest allocations. The regions with the lowest scores will receive the highest allocations. The Government has decided to use statistical data at the NUTS II² or sub-regional level for determining the allocations. This is the most accurate data available, and captures intra-regional disparities.

² The NUTS (Nomenclature des Unités Territoriales) system is a method of classifying geographic areas used across the EU.

The indicators and weightings

The Government has decided to allocate the ERDF Competitiveness funds by reference to population and indicators for measuring progress towards regional economic performance. These have been agreed with reference to other relevant Government objectives, such as the PSA objective, shared by DTI, HMT and DCLG, to make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions.

The Government's approach to meeting these objectives is to focus resources on strengthening the five drivers of productivity: competition, innovation, investment, enterprise and skills. It measures progress through a number of mechanisms including monitoring a range of indicators for each of the drivers at the regional level.

The Government has therefore decided to allocate the funds by reference to indicators for population, business spending on R&D (a PSA indicator for innovation), numbers of business start-ups (a PSA indicator for enterprise), the proportion of the population with level 2 qualifications or above (a PSA indicator for skills), and GVA per workforce job (as a measure of productivity). The Government has not included indicators for competition and investment, since reliable statistical data is unavailable at the sub-regional level required for these allocations.

The Government has decided to apply a 10% weighting to population, 20% weightings to the indicators for innovation, enterprise and skills, and a 30% weighting to GVA per worker. It is important to include a population indicator to account explicitly for the number of people in each region. However, the Government has given a lower weighting to this indicator since it does not reflect economic need. Conversely, the Government has given a higher weighting to GVA per worker on the basis that it provides the most direct reflection of economic need. The Government has given an equal weighting to the indicators for innovation and enterprise on the basis that they are of comparable importance for regional economic development. There is a case for giving a higher weighting to skills, given the evidence that skills play a particularly important role in determining regional economic performance. However, the Government has given skills the same weighting as for investment and enterprise since it is also included in the proposed methodology for ESF allocations.

The Government believes that this approach will ensure that ERDF allocations are based on robust evidence regarding the drivers of regional productivity and objective information regarding each region's economic needs. It will also ensure that the allocation of funding is consistent with the domestic approach to regional development across the UK.

This approach is broadly in line with many of the views expressed in the consultation. Although stakeholders expressed a wide range of views on the allocations, a large number emphasised the need to allocate the funds using objective measures of economic need such as GDP, GVA and levels of entrepreneurship, innovation and skills.

Application of a cap and safety net

In keeping with the comments of some stakeholders, the Government has applied a 20% cap and safety net to each region's allocation. This means that no region will

receive an increase or reduction in its proportion of funding of more than 20% in comparison with its proportion of mainstream Objective 2 ERDF receipts in 2000-2006.

In the case of Northern Ireland, which currently receives transitional Objective 1 funding, the Government has applied the safety net to its hypothetical Objective 2 ERDF receipts for 2000-2006. This is the amount that it would have received if it had been eligible for Objective 2 in the 2000-2006 period. If the Government had applied the safety net to Northern Ireland's actual transitional Objective 1 funding, it would effectively be paying transitional funding twice over

The operation of the 20% cap and safety net will in practice result in no region receiving a proportionate increase of more than 20% or suffering a proportionate loss of more than approximately 7%. (This is because, under the Government's approach, we have first applied the 20% cap to the regions that have gained an increase in share of more than 20%, bringing them down to the 20% ceiling, set a safety net at the level required to balance this cap. In practice, this means that the losing regions suffer a proportionate loss of less than 7%.) This will provide a high level of protection for regions that face a reduction in their proportion of funding as a result of the new methodology.

Because of the 50% cut in overall funding for the UK, all the UK's Competitiveness regions will face a major drop in funding in comparison with 2000-2006. The advantage of a cap and safety net is that they protect regions from particularly heavy reductions in their proportion of funding. A safety net ensures that no region faces a much steeper cliff-edge than others, thereby facilitating the transition from higher levels of funding in the 2000-2006 period.

Outcome for the UK's nations and regions

The Government's methodology will ensure that funds are targeted on the poorest performing regions in keeping with the Government's agenda for regional policy. However, it will also ensure that richer regions also receive some funding in order to tackle pockets of deprivation.

Within England, the methodology ensures that the poorest northern regions continue to receive a very high proportion of ERDF funding. The three northern English regions will receive on average €6³ per head of population. In total, the methodology will allocate 86% of England's ERDF funds to the six underperforming English regions under the regional economic performance PSA objective.

The formula will also allocate a high proportion of funding to Scotland. Scotland will receive 12.5% of the funds for just 8.7% of the eligible population. It will receive €71 per capita in comparison with €43 for England. Wales will receive almost the same proportion of funding as in the current period. Northern Ireland will receive the highest levels of funding per capita of all the regions.

³ All allocations are in 2004 prices. These allocations will be up-rated in due course to current prices for each year of the 2007-2013 programming period.

The allocations for each of the ERDF Competitiveness Programmes are set out in a separately published Annex to the National Framework. The European Commission must agree the allocations under Article 28 of the new Structural Funds General Regulation.

Treatment of Gibraltar

It was not possible to apply the allocation methodology directly for Gibraltar, because of a lack of accurate statistical data for the economic indicators. The Government has therefore determined the allocation for Gibraltar by reference to its population. This is the same approach as for the 2000-2006 period. The Government has also applied the same safety net to Gibraltar's allocation as for the UK's regions.

Alternative approaches

The Government considered a wide range of alternative approaches to allocating the UK's ERDF Competitiveness funding. For example, the Government considered the possibility of applying the criteria agreed at the European Council of December 2005 for distributing Competitiveness funds between the Member States. Under this methodology, the funds were distributed by reference to five criteria: levels of population, unemployment, employment below the 70% Lisbon target, numbers of employed people with low educational levels and population density, with an adjustment of up to 5% to take account of GDP levels.

The Government also considered proposals from the European Commission in January 2006 for allocating the UK's Competitiveness funding. Whilst recognising that it was for the Member States to make proposals for allocations of Competitiveness funding, the Commission suggested that the funds should be distributed by reference to just three indicators: population, unemployment and population density, with an adjustment to take account of GDP levels.

However, the Government concluded that both approaches would fail to focus funds closely on domestic priorities for regional development. Both methodologies would fail to take account of key drivers of regional productivity such as innovation and entrepreneurship. They would also place a strong emphasis on levels of employment in a region, despite the fact that the ESF, rather than the ERDF, provides support for people to enter employment.

The Government also considered the arguments in favour of including a wide range of additional indicators in the methodology, such as numbers of jobs in manufacturing, affordability of housing, levels of household income, measures of accessibility and population density.

It is possible to make arguments for and against the inclusion of many of these indicators. For a number of reasons, however, the Government decided not to include these indicators in the methodology. In some cases, they would duplicate other indicators in the methodology. In others, they would fail to provide an objective measure of economic need or to reflect the actual priorities for ERDF funding. In certain cases, there were technical reasons for rejecting the indicator, such as a lack of reliable data. The Government's chosen approach puts a clear focus on the main drivers of regional economic performance and avoids excessive complexity in the methodology.

The Government also considered the possibility of including an indicator for ethnicity. However, it decided that the best means of ensuring support for ethnic minorities was to establish requirements in the National Framework regarding the treatment of ethnic minority groups. The Framework makes a firm commitment to use the Structural Funds to support ethnic minorities. The document establishes equality as a cross-cutting theme for all Programmes. In particular, it requires all Programmes to take account of the needs of ethnic minorities when determining priorities and in the development of individual projects. They should take account of the difficulties that certain ethnic minorities face in accessing the labour market and the low levels of employment, skills and entrepreneurship suffered by certain ethnic minority groups.

Arguments for special funding

The Government has also noted the arguments of some stakeholders for additional funding for their regions or sub-regions. However, the Government has decided not to top-slice additional funding for any particular regions or sub-regions.

The Government's allocation methodology provides an accurate measure of each region's level of need. If the Government were to accord special treatment to certain regions or sub regions, this would undermine the objectiveness and transparency of its approach to the allocations. It would be very difficult to justify special treatment to a small number of regions or sub regions while refusing special treatment to others that are also suffering severe economic difficulties.

As explained above, the Government has used NUTS II or sub regional economic data to determine the allocations. This is the most accurate economic data, which captures economic disparities at the sub-regional level. This means that the Government's formula and the allocations for each region reflect the needs of individual sub-regions.

The Government has also noted the arguments of some stakeholders that funds should be focused on particular areas within each region, such as particular sub-regions, cities, urban areas, rural areas or poorer areas.

However, the Government has decided not to impose requirements for funds to be ring-fenced for particular sub-regions or types of area. In line with its decentralised approach to regional development, the Government believes that regions should have the flexibility to decide how best to target their funds, according to local needs.

Question 8: What are respondents' views on how best to allocate ESF Competitiveness funding across the UK's ESF Programmes?

Approximately 50% of respondents commented on the methodology for allocating the UK's ESF Competitiveness funding.

Respondents emphasised the need to develop an objective allocation methodology that reflected the policy objectives for the fund. Some respondents emphasised that funding should be focused on the regions with the greatest economic need. Other respondents emphasised the need to take account of intra-regional disparities and pockets of deprivation in richer areas.

There was broad support for an allocation methodology based on levels of worklessness and skills as proposed in the consultation document. In total, approximately 45% of stakeholders who responded on the issue expressed general support for this approach. For example, Scottish Enterprise supported indicators of worklessness, the proportion of the workforce with no formal qualifications or low qualifications, and the proportion of young people not in work, training or education.

Approximately fifteen stakeholders supported the inclusion of an indicator for higher-level skills, as well as an indicator for lower level skills, in the allocation formula. In addition, stakeholders argued for the inclusion of a large number of alternative indicators, including, for example, measures of innovation, enterprise, prosperity, population density, peripherality, incapacity and disability benefits, the index of multiple deprivation, and numbers of jobs in manufacturing. However, there was no clear consensus in favour of any of these criteria.

There were mixed views regarding the extent to which population levels should determine the final outcome. A large number of respondents agreed on the need for the methodology to take account of levels of population. A smaller number suggested that population should not play an important role in determining allocations.

As for the ERDF, stakeholders from Durham and Tees Valleys and Lincolnshire, including the Tees Valley Joint Strategy Unit, and the Lincolnshire Assembly, argued for special treatment on the basis that they had narrowly failed to qualify for higher levels of phasing-out Convergence funding. Stakeholders from Cumbria, Northern Ireland and other areas also argued for their regions to gain special treatment.

A small number of stakeholders also commented on the approach to allocating the funds within regions. For example, Thanet District Council emphasised the need to ensure that funding is targeted to the most disadvantaged areas within the region.

Government response on Question 8

As explained in the consultation document, the Government's aim has been to develop an objective methodology for allocating ESF Competitiveness funding, which supports its domestic priorities for increasing employment and developing the skills of the workforce. In particular, the Government wants the methodology to take account of the need to help workless people into jobs and to improve the skills of people with no or low qualifications.

The ESF allocation methodology

The Government has developed a single formula for determining ESF Competitiveness allocations for all of the UK's regions. This will ensure that all regions are treated on an equal basis, and receive allocations that reflect their labour market weaknesses in comparison with other UK regions.

Under the Government's approach, each region will receive an allocation of ESF competitiveness funding based on employment and qualifications data. Regions with the greatest needs will receive the most funding. The Government has decided to use statistical data at the NUTS II or sub-regional level for determining the allocations. This is the most accurate data available, and captures intra-regional disparities.

The indicators and weightings

The Government has decided to allocate the ESF Competitiveness funds by reference to indicators based on the numbers of workless people and the numbers of people with no qualifications and low qualifications (below level 2). The methodology allocates funds according to the number of workless and no/low qualified people above a threshold.

The threshold is the number of workless and no/low qualified people in the best performing NUTS II sub-region. As the worklessness and qualifications indicators use numbers of people rather than rates, the Government has decided not to include a population indicator.

The Government has decided to apply a 50% weighting to worklessness, 25% to no qualifications and 25% to low qualifications. These weightings reflect the twin priorities of ESF to improve both employment opportunities and skills.

This approach recognises that all regions and sub regions have populations of workless people and those with no or low qualifications, and that all regions should receive funding to help these individuals enter and progress in the labour market. By using numbers of workless people and those with no and low qualifications, the methodology accounts for both the size and the severity of the need of each region.

The Government believes that this approach will ensure that ESF allocations are based on robust evidence regarding the employment and skills needs of each region. It will also ensure that the allocation of funding is consistent with domestic employment and skills strategies.

Application of a cap and safety net

In keeping with stakeholders' comments, the Government has applied a 20% cap and safety net to each region's allocation. This means that no region will receive an increase or reduction in its proportion of funding of more than 20% in comparison with its proportion of Objective 3 ESF receipts in 2000-2006.

The operation of the 20% cap and safety net will in practice result in no region receiving a proportionate increase of more than 20% or suffering a proportionate loss of more than approximately 16%. (This is because, under the Government's approach, we have first applied the 20% cap to the regions that have gained an increase in share of more than 20%, bringing them down to the 20% ceiling, set a safety net at the level required to balance this cap. In practice, this means that the losing regions suffer a proportionate loss of less than 16%.) This will provide a high level of protection for regions that face a reduction in their proportion of funding as a result of the new methodology.

Because of the 50% cut in overall funding for the UK, all the UK's Competitiveness regions will face a major drop in funding in comparison with 2000-2006. The advantage of a cap and safety net is that they protect regions from particularly heavy reductions in their proportion of funding. A safety net would ensure that no region faces a much steeper cliff-edge than others, thereby facilitating the transition from higher levels of funding in the 2000-2006 period.

Outcome for the UK's nations and regions

The Government's methodology will ensure that all regions receive some funding, but that regions with the severest problems receive the highest levels of funding per head. We believe that this outcome supports the Government's aim of full employment in every region. It will direct resources to individuals who need support in order to achieve the Government's employment and skills goals.

The allocations for each of the UK's ESF Competitiveness Programmes are set out in Annex I of the National Framework. The Commission will adopt a decision containing the allocations to the ESF Competitiveness Programmes, under Article 28 of the new Structural Funds General Regulation. This decision will not include the indicative ESF Competitiveness allocations to English regions within the England ESF Programme.

Treatment of Gibraltar

As for the ERDF, it was not possible to apply the allocation methodology directly for Gibraltar, because of a lack of accurate statistical data for the economic indicators. The Government has therefore determined the allocation for Gibraltar by reference to its population. This is the same approach as for the 2000-2006 period. The Government has also applied the same safety net to Gibraltar's allocation as for the UK's regions.

Alternative approaches

The Government considered a range of alternative indicators, but there was no clear consensus in favour of any of these. Many of the alternative indicators duplicated, or overlapped, with the worklessness and qualifications indicators. For example, people on incapacity benefits are included in the numbers of workless people. Other indicators such as higher-level skills were not consistent the main thrust of the ESF priorities.

The Government also considered the possibility of including an indicator for ethnicity. However, as for the ERDF, it decided that the best means of ensuring support for ethnic minorities was to establish requirements in the National Framework regarding the treatment of ethnic minority groups. Ethnic minorities will be an important target group within all ESF Programmes. As explained above, the Framework makes a firm commitment to use the Structural Funds to support ethnic minorities, requiring all Programmes to take account of the needs of ethnic minorities when determining priorities and in the development of individual projects. Furthermore, the worklessness indicator will also capture workless ethnic minority people.

Arguments for special funding

As for the ERDF, the Government has also noted the arguments of some stakeholders for additional funding for their regions or sub-regions. However, the Government has decided not to top-slice additional funding for any particular regions or sub-regions.

The Government's allocation methodology provides an accurate measure of each region's level of need. If the Government were to accord special treatment to certain regions or sub regions, this would undermine the objectiveness and transparency of its approach to the allocations. It would be very difficult to justify special treatment to a small number of regions or sub regions while refusing special treatment to others that are also suffering severe economic difficulties.

As explained above, the Government has used NUTS II or sub regional economic data to determine the allocations. This is the most accurate economic data, which captures economic disparities at the sub-regional level. This means that, as for the ERDF, the Government's formula and the allocations for each region reflect the needs of individual sub-regions.

The Government has also noted the arguments of some stakeholders that funds should be focused on particular areas within each region, such as particular sub-regions, cities, urban areas, rural areas or poorer areas.

However, the Government has decided not to impose requirements for funds to be ring-fenced for particular sub-regions or types of area. In line with its decentralised approach to regional development, the Government believes that regions should have the flexibility to decide how best to target their funds, according to local needs.

Question 9: Do respondents have views on how to improve coordination between Structural Funds and domestic spending within England, Scotland, Wales and Northern Ireland?

Approximately 40% of respondents commented on how to improve coordination between Structural Funds and domestic spending. A significant number, representing approximately 55% of these respondents, welcomed the Government's desire to improve coordination.

Only a small number of respondents voiced general opposition to alignment between Structural Funds and domestic spending. For example, Cornwall County Council argued that close alignment of the ESF with national priorities would reduce the effectiveness of local action.

While many stakeholders welcomed greater alignment, some emphasised the need for flexibility to support innovative projects. For example, the National Assembly for Wales's Enterprise, Innovation and Networks Committee emphasised that greater coordination should not lead to top down imposition of projects.

A small number of stakeholders emphasised the need to respect the principle of additionality in the Structural Funds Regulations, which stipulates that Structural Funds expenditure should not be used as a substitute for national spending.

A significant number of stakeholders emphasised the importance of effective partnerships to ensure coordination between Structural Funds and domestic spending.

Many stakeholders argued that the best way of coordinating Structural Funds and domestic spending was to maintain consistency between Structural Funds Programmes and domestic strategies for regional development. For example, a large number of respondents emphasised the need to ensure consistency between Structural Funds Programmes and the Regional Economic Strategies.

The Regional Development Agencies argued that setting the funds within the framework of the Regional Economic Strategies would form a bridge between, on the one hand, Lisbon, the Community Guidelines and the National Framework and, on the other hand, regional evidence, challenges and priorities.

Others also emphasised the need to maintain consistency between Structural Funds and sub-regional economic strategies such as the Sub-Regional Investment Plans. For example, the South Yorkshire Partnership argued that the Sub-Regional Investment plans provided a vehicle for coordinating Structural Funds and domestic funding.

A small number of stakeholders emphasised the need to ensure coordination at the pan-regional level. Others emphasised the need to coordinate between ERDF and ESF Programmes for each region.

Stakeholders in Northern Ireland endorsed the proposals in the Northern Ireland chapter to align domestic spending priorities and EU Programme expenditure and ensure good co-ordination between other domestic policies and EU funding streams.

Government response on Question 9

ERDF in England

The Government welcomes stakeholders' support for alignment of EU funds with domestic spending. It can confirm its intention to align ERDF and domestic funds at the regional level. In particular the National Framework makes clear that the Regional Economic Strategy (RES) should set the framework, at regional level, for the Programmes. Programmes should contribute towards achieving the RES as well as delivering the National Framework priorities and meeting the Lisbon targets.

The Government has noted stakeholders' concern that alignment with domestic spending should not lead to a lack of flexibility. The Government does not consider that alignment will limit activities or hinder innovative approaches. Alignment will help streamline regional investment decisions, and any viable investment will be possible, so long as it fits the agreed regional priorities. There is nothing to prevent innovative actions being supported and the Government encourages this approach.

The Government supports greater co-ordination between Structural Funds and domestic funding, whether at regional, sub regional or at the pan regional level. It is the responsibility of regional partners, working together, to ensure this.

ESF in England

The Government is committed to ensuring that ESF adds value to its domestic employment and skills spending, within the framework of the European Employment

Strategy. ESF spending will be aligned with domestic spending at both national and regional levels. The national ESF Programme will provide the framework for ESF to support the national employment and skills strategies. Within the national Programme, Regional Skills Partnerships will develop regional ESF strategies, which will show how ESF will contribute to Regional Economic Strategies and complement ERDF funding. Regions will be expected to establish joint ERDF/ESF committees to promote complementarity between the national ESF and regional ERDF Programmes.

Welsh Assembly Government Response on Question 9

The Welsh Assembly Government proposes to ensure co-ordination between Structural Funds and domestic funding in Wales mainly through strategic frameworks. The strategic frameworks will be fully developed plans to achieve a particular strategic purpose by means of a number of strategically linked interventions. The frameworks will be closely aligned to the priorities and themes in the Operational Programmes and will promote more coherent and joined up approaches to project activity, increasing overall impact and minimising duplication. They will be developed and implemented in partnership with Welsh stakeholders.

The Welsh Assembly Government also intends to ensure a stronger focus on sub-regional collaboration. The Wales Spatial Plan will facilitate more effective targeting of resources to areas of need and opportunity. Furthermore, the Welsh Assembly Government is also consulting on the proposal for a single PMC for the four domestic Programmes in order to maximise coherence and complementarity between the ERDF and the ESF.

Response for Northern Ireland on Question 9

Most respondents agreed that a close alignment of and good co-ordination between Structural Funds and domestic expenditure is necessary. The text of the Northern Ireland chapter has been revised to illustrate more clearly how this will be achieved. This includes reference to Northern Ireland Ministers determining all public expenditure priorities in Northern Ireland, including available EU resources, in an annual budget process. This entails a formal public consultation with social partners and ensures that resources from domestic and EU funding streams are used in a co-ordinated and complementary manner.

The Northern Ireland Chapter seeks to demonstrate that the strategic aims of Structural Funds expenditure will be targeted through a concentration of resources on activities that are most directly related to the realisation of Northern Ireland's Economic Vision and other key policy strategies aimed at securing sustainable competitiveness and employment improvements. The section on the 'Strategy for Regional Economic Growth in Northern Ireland' has been expanded and revised – now including references to Northern Ireland Sustainable Development Strategy and Rural Development Policy – to show more clearly how EU funds will closely align and will be co-ordinated with domestic spending. Finally, a clear statement that EU Structural Funds will be in addition to national spending is now included.

Question 10: Do respondents agree with the Government's proposals to align ERDF spending with domestic programmes in England? What are respondents' views on how best to achieve this?

Approximately 45% of respondents commented on the Government's proposals to align the ERDF with domestic spending in England. A significant number, accounting for approximately half of those who responded on this issue, offered broad support for the Government's approach. Only a small number expressed general disagreement.

Stakeholders expressed a wide range of views on the Government's proposals to align some Structural Funds spending with the RDAs' Single Programme Budget (the "single pot") and for RDAs to take a greater role in delivering this funding.

A significant number agreed that it would be beneficial to align funding streams and for the RDAs to take a greater role in delivering the funds. For example, the Engineering Employers Federation (Yorkshire and Humber) argued that the RDAs would be able to deliver a more strategic approach and streamline procedures. A number of stakeholders also noted the benefits of establishing common processes and management arrangements for Structural Funds and domestic spending.

Some stakeholders questioned the proposals for the RDAs to deliver a proportion of the funds. The Alliance for Regional Aid recognised the potential advantages of aligning the ERDF with domestic spending. However, it expressed concerns that the Regional Assemblies' scrutiny of the RDAs' economic strategies had not been effective and that some RDAs had not been sufficiently transparent. It argued that the Government should develop a detailed delivery framework to allow for alignment while maintaining additionality, transparency and accountability.

Other respondents, such as Rotherham Borough Council, the Tees Valley Joint Strategy Unit, and English Heritage also emphasised the need for the RDAs to maintain transparent processes for delivering the funds and for the Government to establish clear rules for involving local partnerships and devolved decision-making.

There were differing views on the impact of the proposals for voluntary organisations. Age Concern argued that the Government's proposals would simplify access to funds for voluntary organisations. However, Shropshire Partnership expressed concern that alignment of funding would make it difficult to access funding.

A small number of respondents suggested that the RDAs would have a conflict of interest if they took a more prominent role in delivering the funds. This is because they would be responsible for both making and assessing applications for funding.

Respondents expressed a range of views on the RDAs' administrative capacity to deliver Programmes. A small number questioned whether the RDAs had the necessary expertise to deliver the Programmes. A significant number emphasised that the RDAs would need to receive adequate resources if they were given responsibility for delivering the funds. Some stakeholders argued that the Government Offices should continue to deliver the ERDF on the basis that they have the necessary expertise.

While many broadly supported proposals for the RDAs to deliver a proportion of the funds, some respondents questioned whether the RDAs were the appropriate body to deliver all ERDF funding such as community development. A large number of

respondents argued for some funding to be aligned with spending under the Local Area Agreements. These included the significant number of local authorities who responded to the consultation. Some respondents sought greater acknowledgement of options to devolve funds to sub-regional or city-regional levels.

Government response on Question 10

The Government welcomes support for the principle of achieving alignment between ERDF Programmes and domestic Programmes. This will ensure better strategic fit and co-ordination of investments, the opportunity to streamline processes, and opportunities to secure significant efficiencies. The Government can confirm that in England, main alignment will be with the Regional Development Agencies' (RDAs') Single Programme. Therefore the Government has decided that responsibility for delivery of the ERDF should rest with the RDAs, working with the regional partnerships.

The Government considers that the best way to achieve this will be to designate RDAs to undertake Managing Authority tasks, although the formal Managing Authority role will remain with Government. The precise tasks to be designated will be discussed with RDAs.

The structure in London will take account of the different institutional arrangements there, in particular the role of the Mayor.

RDAs will fulfil this role within the context of strong and transparent governance arrangements to ensure an inclusive regional partnership. A robust accountability and financial management framework already exists for RDAs and the Government will work with RDAs to build on and adapt this to ensure that the management framework for RDAs takes account of their new responsibilities. The Government will also work with RDAs to put in place a robust financial control framework, in line with the requirements of the Structural Fund Regulations.

The Government will work with RDAs on transition plans, to ensure that RDAs have the appropriate administrative capacity and expertise to deliver the ERDF Programmes within England.

Alignment of ERDF with the Single Programme does not necessarily mean a formal co-financing approach. RDA Single Programme funds are likely to be the main source of match funding, but will not be the only source. As in the 2000-2006 programming period, match funding from other sources such as Local Authorities, higher education and the third sector will be expected and encouraged.

Programmes should support city-regional development plans where this is appropriate and within the context of the broader regional strategy. Where appropriate ERDF can be channelled to align with single programme funds made available to Local Area Agreements to support local economic development and enterprise. Again such investments should be prioritised and in line with Programme priorities.

Programmes will also be expected to build relationships with existing regional partnerships, such as Regional Skills Partnerships, strategic regional partnership, sub

regional economic partnerships and local strategic partnerships. These partnerships should play a key role in identifying priorities for the Programmes.

Question 11: Do respondents agree that ESF delivery arrangements should bring together ESF and domestic employment and skills funding in England to allow organisations to access a single funding stream?

Approximately 40% of respondents commented on the proposals to bring together ESF and domestic employment and skills funding in England, in order to allow organisations to access a single funding stream.

Many respondents recognised value in the proposals, although some expressed concerns regarding implementation of the new arrangements. The majority were supportive of a single funding stream. Some questioned how the Government could demonstrate additionality if it adopted a single funding stream approach.

A large proportion of respondents commented specifically on the proposed arrangements for co-financing. There were divergent views regarding whether the co-financing arrangements had been successful in the current funding period.

There was a range of views regarding whether the proposed co-financing arrangements would reduce bureaucracy. A significant number of respondents believed that the arrangements would bring benefits provided that non-governmental organisations could still access the ESF and sufficient flexibility was retained. Others questioned whether this approach would genuinely simplify administrative arrangements

A significant proportion of respondents, including Chester City Council and the North West Universities Association, were concerned that organisations promoting higher-level skills could be prevented from accessing funding by the co-financing proposals. Others, such as Durham County Council, believed that the Learning and Skills Councils and Jobcentre Plus would tend to exclude the voluntary sector.

Some respondents suggested that a percentage of the ESF funds should be reserved so that non-governmental organisations could bid for the funds or in order to fund innovative pilot Programmes. Others believed that the Government should maintain the EQUAL model and the use of global grants.

Several respondents commented that partnerships needed to be strengthened to make the arrangements work. For instance Action Halifax emphasised the importance of strengthening the links between the RDAs and the Learning and Skills Councils. Some respondents suggested that Jobcentre Plus and the Learning and Skills Councils needed to demonstrate more regional accountability. A number of respondents emphasised the need to ensure alignment with the Regional Economic Strategies.

Government response on Question 11

The Government welcomes the support from many stakeholders for bringing together ESF and domestic funding so that organisations can access a single funding stream. The Government will build on and develop the Co-financing system which it

introduced in 2000-2006. In doing so, it will take account of the three evaluations of Co-financing which have found significant benefits for ESF providers and participants.

Co-financing has increased the strategic coherence between ESF and European and national employment strategies, which is a requirement of EU regulations. It has also made it simpler to access ESF, by removing the requirement on applicants to supply their own match funding. Under Co-financing, ESF remains additional to domestic funding. Co-financing plans must indicate the activities that ESF will fund against the corresponding activities and outcomes funded through domestic match funding.

The Government expects that the vast majority of ESF funding in England will be delivered through Co-financing in 2007-2013, including higher-level skills provision. In 2000-2006, the LSC has used ESF to add value to higher-level skills activity within the LSC's remit, such as Employer Training Pilots at level 3 and above, and management skills at level 4.

However, the Government recognises that in a very limited number of cases it may not be possible to deliver provision through Co-financing. This is most likely to be the case in the Convergence and phasing-in regions. Co-financing Organisations may not have a remit for some of the Convergence ESF activities that will be available in Cornwall and the Isles of Scilly. Merseyside and South Yorkshire will be able to complete eligible ESF activities from their 2000-2006 Objective 1 Programmes, some of which cannot be delivered through Co-financing. The England ESF Programme will provide a mechanism to support activities that cannot be delivered through Co-financing in these areas, on an exceptional basis, in a way that meets EU regulatory requirements and does not increase administrative burdens and costs.

The Government expects voluntary and community organisations to continue to be key providers of ESF under Co-financing. They have a particularly important role in reaching people who are at a disadvantage in, or excluded from, the labour market. Significant numbers of voluntary and community organisations are already participating under Co-financing in 2000-2006. They account for about 30% of ESF Co-financing providers.

The EU has decided that there will not be an Equal Community Initiative in 2007-2013. However, the Government believes there should be some scope to support innovative and transnational activity within the England ESF Programme building on good practice from Equal. The funding available for these activities will be far smaller than under the Equal Community Initiative. The Government will set out its proposals in the draft England ESF Programme.

The Government agrees that regional partnerships should be strengthened. In 2007-2013, ESF will seek to work with existing regional partnership structures rather than create new ones. Regional Skills Partnerships will have a leading role in developing regional ESF strategies, which will show how ESF will contribute to the wider Regional Economic Strategies. The regional ESF strategies will inform ESF Co-financing Plans, and ESF Co-financing Organisations will report on how they are contributing to the regional ESF strategy.

Question 12. Do respondents agree that greater use of single-stream funding mechanisms would be beneficial in Scotland?

Approximately 18% of respondents commented on this question. Several respondents welcomed the proposals. However, a significant number questioned the benefits of single-stream funding. Some sought more information on the advantages of the proposed arrangements. Others, like West of Scotland Colleges' Partnership, considered that current arrangements only required adjustment. A small number were firmly opposed to the proposed approach.

A large proportion of respondents reiterated the importance of retaining the partnership and flexibility to respond to local needs. A large proportion sought more detail on how partnership and local responsiveness could be successfully retained. Several respondents suggested that the Scottish Community Planning mechanism should have a role in achieving this.

A large number of respondents were unclear as to how additionality could be assured and demonstrated under the proposed arrangements. The other major areas of concern identified were the practicality of introducing a new system, the need to retain innovation and creativity, and the need to retain accountability and independence.

There was general enthusiasm for ensuring that good practice in existing arrangements was preserved, shared, and applied where possible in new arrangements.

Scottish Executive Response on Question 12

The Scottish Executive has noted stakeholders' comments on its proposals to make limited use of single-stream funding for delivering part of future Programmes. The Executive's proposals will be set out in more detail as part of the forthcoming consultation of the Operational Programmes, but the text in the National Strategic Reference Framework has been revised to make the principles of delivery more clear.

The Executive remains committed to retaining the challenge-fund approach for much of the future Programmes. It also believes that the use of single-stream funding would deliver more effective outcomes in a limited number of areas. The approach could reduce costs for partners managing projects by reducing the application and implementation associated with dealing with separate domestic and EU funding streams. Additionality would be critical in this approach. Beneficiary organisations would need to specify the additional value that EU funding would have to their existing activities.

Such an approach would add value to Scottish policy in areas such as social inclusion, community regeneration and business development. For social inclusion and community regeneration, there is scope to deliver some funding via the Community Planning Partnerships, as these will already be the chief vehicles for delivering domestic funding in support of social inclusion and regeneration. The approach would allow local partnerships to determine how Structural Funds can best contribute to community regeneration. A single-stream funding approach would also assist the Enterprise Networks in delivering a small number of major region-wide projects.

To ensure that continuity with the existing system, the Scottish Executive and the designated successors to the current Programme Management Executives will retain

responsibility for financial control and monitoring for all projects. The selection of the successors to the Programme Management Executives is currently subject to a tendering exercise.

Question 13: Do respondents agree with the Welsh Assembly Government's proposals to ensure greater alignment with domestic strategies for regional development in Wales and a stronger emphasis on larger, more strategic projects?

Approximately 18% of respondents commented on this question. Most welcomed proposals for greater alignment with domestic priorities. Some felt that alignment should include full coordination with local strategies.

Many respondents welcomed the principle of a concentration on more strategic projects. However, several respondents, including Pembrokeshire County Council, disagreed with the emphasis on larger projects, stating that smaller projects could be strategic and more appropriate. Several respondents preferred a mix of large and small projects. A small number of respondents were firmly opposed to the proposals.

While other respondents approved of more large projects, some sought assurance that larger projects would be managed appropriately and transparently.

Many respondents emphasised the importance of collaborative working, and stated that existing local partnership structures should continue to have a role in delivering the Programmes. Some suggested that better communication and coordination would be needed between national governance bodies and local delivery agencies. Some, like Ceredigion Economic Regeneration Partnership considered that the Framework should clarify the links between regional strategy and local priorities.

Respondents stressed the importance of learning from good practice. Isle of Anglesey County Council cited the long term regional approach to regeneration in North West Wales as an example.

Response from the Welsh Assembly Government on Question 13

The Welsh Assembly Government welcomes stakeholders' support for greater alignment between Structural Funds and domestic priorities. It has also noted the concerns of some stakeholders that the new approach should not undermine flexibility and partnership working.

As explained above, the Welsh Assembly Government intends to develop strategic frameworks to co-ordinated project activity. These frameworks will ensure efficient delivery against Programme and priority objectives and prevent duplication of effort. It has amended the National Framework to set out the principles of this approach.

Public, private or voluntary sector organisations with the necessary capacity will be responsible for coordinating the frameworks. The frameworks will be planning instruments, not financial instruments and will provide an important context for appraisal of projects by the Welsh European Funding Office.

There will continue to be some scope for individual project bidding, where potential projects cannot be aligned with a developed strategic framework. There is also the possibility of commissioning specific projects. The strategic focus of a project and its contribution to achieving Programme objectives will be more important than its size. The Welsh Assembly Government recognises that smaller projects can be strategic and there will continue to be scope for these in the new Programmes.

The Welsh Assembly Government is determined to maintain collaborative working with partners in the next round of Programmes. It is already working closely with partners in all sectors through the Post 2006 External Stakeholders Group and the five work streams set up to inform the development of the new Programmes.

The Welsh Assembly Government recognises the important role provided by local partnerships in the delivery of the current Programmes but also recognises the need to strengthen capacity at a sub-regional level. The Wales Spatial Plan will provide the framework for ensuring the new Programmes are delivered effectively in collaboration with local government, businesses and other partners.

One of the Welsh Assembly Government's main objectives is to build on lessons and best practice from the current Programmes in the design of the new Programmes. This has formed part of the consultation document for the Convergence Programme.

Further detail on the more strategic approach to implementation is contained in the Convergence consultation documents. Additional information has also been made available on the Welsh European Funding Office website (www.wefo.wales.gov.uk).

Question 14: Do respondents have views on how to align domestic and Structural Funds expenditure and how to concentrate funding in Northern Ireland?

Approximately 13% of respondents to the consultation commented on this question. Most respondents supported the alignment of domestic and Structural Funds expenditure to ensure a co-ordinated approach. However, some called for flexibility particularly regarding the ERDF to allow for regional disparities within Northern Ireland to be taken into account.

The Local Government sector suggested that the future delivery of Structural Funds would provide an opportunity for Government to utilise the new Local Government arrangements and the new Community Planning Powers, which will come into force in 2009. They believed that the implementation of the new economic development and sustainable development powers by the new councils in their regions would help to ensure a more integrated approach to regional economic development.

Other respondents, in particular the voluntary sector, referred to the need to minimise bureaucracy related to EU Programmes and to make it easier to apply for funding. This voluntary sector also voiced concerns regarding the higher level of match funding expected from project operators.

A smaller number of respondents called for more streamlining among Government Departments and the need to learn from best practice elsewhere.

Response for Northern Ireland on Question 14

The Government welcomes respondents' support for close alignment of Structural Funds and domestic expenditure. It is determined to ensure that the administration and delivery structures for EU expenditure are effective, and it will aim to simplify delivery structures where possible. It will also ensure that Local Government plays a role in the delivery of future Programmes.

Department of Trade and Industry

23 October 2006