

THURSDAY 14 JANUARY 2010

Present

Howarth of Breckland, B. (Chairman)
Inglewood, L.
Jones of Whitchurch, B.
Kirkwood of Kirkhope, L.

Memorandum submitted by Employment, Social Affairs and Equal Opportunities DG

Examination of Witnesses

Witnesses: **Mr Robert Verrue**, Director General, **Mrs Lenia Samuel**, Deputy Director General, **Mr Thomas Bender**, Acting Director of the Directorate ESF, Monitoring of National Policies 1, Co-ordination, **Mr Georges Kintzele**, Head of Unit B2, ESF, Monitoring of Corresponding National Policies II for the United Kingdom, Ireland and Latvia, **Ms Renate Schopf**, Unit B2, Desk Officer, and **Ms Ines Hartwig**, Evaluation officer in the Employment, Social Affairs and Equal Opportunities Directorate-General, European Commission, examined.

Chairman: Welcome to the Sub-Committee of the EU Select Committee that looks at social policy and consumer affairs. Thank you very much for sparing the time to talk to us about our present inquiry on the ESF. I will begin by asking my colleagues who are on the Sub-Committee to introduce themselves.

Lord Kirkwood of Kirkhope: I am Archie Kirkwood. I am a Liberal Democrat, a former Member of Parliament. I have been in the House of Lords since 2005 and on the Sub-Committee for the past year.

Lord Inglewood: Richard Inglewood. I am a Conservative member of the House of Lords. I am a hereditary peer and have been there since 1989.

Lord Kirkwood of Kirkhope: He is the real thing!

Lord Inglewood: I was also in the European Parliament for ten years and was a junior minister briefly at the end of the John Major Government.

Chairman: I am Baroness Howarth. I am a crossbencher, which means I am not politically aligned, which is wonderful; I can say what I want, when I want and how I want it. My background is in social care and social policy.

Baroness Jones of Whitchurch: I am Maggie Jones. I came into the House of Lords in 2006 and am a relatively new member of the Sub-Committee. I am a Labour peer.

Q194 Chairman: I have been on the Sub-Committee for a long time, which is the other thing.

Mrs Samuel: Thank you very much. It is a great privilege and pleasure for us to be sitting at the same table with you to discuss these interesting questions about the ESF. I will start in the way that you did and start with my right-hand side. This is Thomas Bender. Maybe, Thomas, you can say a few things about yourself.

Mr Bender: Good morning. I am Thomas Bender, Head of Unit for ESF Co-ordination and Acting Director for ESF Co-ordination and in charge of a couple of Member States in DG Employment.

Ms Schopf: My name is Renate Schopf. I am one of the desk officers of the UK team at DG Employment.

Ms Hartwig: I am Ines Hartwig. I am a member of the Unit on Evaluation and Impact Assessment.

Mr Kintzele: Good morning. I am Georges Kintzele. I am Head of Unit of the Geographical Unit dealing with the UK. We have the responsibility for ESF monitoring (national and regional Operational Programmes), national employment policy assessment and national social inclusion and social protection policy assessment.

Mrs Samuel: I am Lenia Samuel. I am the Deputy Director General in DG Employment responsible for ESF. I joined the Commission in 2005 when my country - Cyprus - became a member of the EU.

Q195 Chairman: We all hope it gets even further.

Mrs Samuel: Yes, let us hope so.

Q196 Chairman: I have to say to you that as far as our Committee and process are concerned, this is on the record which means we will have a record that we will send to you for checking. We would be grateful if you could turn it around as quickly as possible because we have a process that it has to get back into our parliamentary system. What we would like to do is when Mr Verrue arrives, and I gather he is arriving at about ten past but leaving at eleven, to take the questions where we would like his perspective. If we are not there, could I ask your indulgence to do that so we can get his perspective before he has to leave at eleven o'clock because we may not reach those otherwise and it would be helpful. We do let you have a draft version of the questions but we may follow up on other areas because we have got quite into this inquiry now but still have a lot of questions left. It would be helpful if we could take a general question to begin with. I think I was surprised when I remembered that ESF has been included in the Treaties since 1957. You forget that it goes back as far as that. We wondered how, and why, it still has a role in helping Member States to do "more", do "different" and do "better" as you say in your submission. Do you think that applies right across the European Union?

Mrs Samuel: You are right that ESF is as old as the Treaty itself. It has a double treaty foundation, in fact, in Articles 162 and 175. Article 162 of the Treaty gives the ESF the task of improving employment opportunities for workers in the internal market. If you read Article 175 you will see that it does not define the ESF as a cohesion fund. Its structural

purpose is linked to the policies that the fund services and these apply across the EU. Of course, social, economic and political contexts do not remain constant, there is always change, and this has been demonstrated very clearly by the financial crisis that hit Europe which was the worst in many decades. Policies need to be adapted to secure the future competitiveness of our industries and economies, and the adaptability and employability of the workers. They must demonstrate that they contribute to social cohesion, to tackling unemployment and fostering social inclusion, while securing well-performing labour markets. This requires a rethink of our education systems and our labour markets, enhancing mobility and boosting Europe's dynamism to unleash its innovative and creative potential. As you know, the ESF is the main EU financial instrument for employment and skills and, therefore, it continues - this is the answer to your question - to play a role in helping Member States to address the challenges of the time, to do "more", as you say, to do "different" and "better". In all Member States the ESF is used to test new approaches, to roll out new policies or to close financing gaps. Through planning, evaluating, or the partnership principle, which is also very important, the ESF helps Member States to better implement policies. Mr Verrue has arrived.

Q197 Chairman: We knew you were going to be a little late, so I hope you do not mind that we started. We are hoping to change the programme a little bit because I understand you have to leave early, is that right?

Mr Verrue: That is right.

Chairman: Our plan is to take some of the questions that we would like to have your view on at an earlier point in the agenda. Would it be helpful if we introduced ourselves to you? I am Baroness Howarth. I am the Chairman of the Sub-Committee of the EU Select Committee in the House of Lords in the UK Parliament that looks at social policy and consumer affairs.

Our Sub-Committee at the moment is looking at the role of the ESF. I will ask my colleagues who are Sub-Committee members to introduce themselves.

Lord Kirkwood of Kirkhope: I am Archie Kirkwood. I am a Liberal Democrat, former Member of Parliament in the House of Commons. I joined the House of Lords in 2005.

Lord Inglewood: Richard Inglewood, I am a Conservative. I was in the European Parliament for ten years and I was a junior minister in the John Major Government.

Chairman: I sit on the crossbenches.

Baroness Jones of Whitchurch: I am Maggie Jones and I am a Labour peer. I joined the House of Lords in 2006.

Q198 Chairman: We have our Clerk with us, our Policy Analyst and our shorthand writer. We were just talking about the role of the ESF.

Mrs Samuel: It does have a role to play. I think I had completed what I had to say on the first question. I do not know whether my colleagues want to add anything. For us, the ESF has proved its value over the years. Its history is one of success and we see that it has a great future as well.

Q199 Chairman: On what basis do you say that it does “more”, does “different” and does “better”? What is the evaluative basis for saying that?

Mr Bender: We look at the data we get from the Member States, from the managing authorities, that they report to us on an annual basis, currently even electronically. On the basis of that we see, for example, that definitely in convergence regions the pure number of participants has doubled or even tripled. For example, the number of beneficiaries in Ireland, or Northern Ireland at the time, in youth programmes has substantially increased due to the support of the ESF. We can provide some very basic figures on the numbers of people. Ten million people a year in Europe across all 27 Member States. We have figures that we reach

out to more than 50 per cent of women amongst these ten million and to about 50 per cent of people who are unemployed or economically inactive. We have figures that show about two million people a year move into a job after having received ESF support. That does not mean, of course, that it creates two million jobs a year because that is not the first role of a labour market instrument, but it is an effect, of course an intended effect, of our interventions. It is a bit more difficult to say where we do “better” and where we do “different”. We would argue that we do “better” because with the Structural Funds we have introduced the rules coming along with the ESF, the specific guiding principles. For example, a programming approach which provides stability for the Member States benefiting from the fund over a period of five to seven years, a planning stability which is helpful for both the Member States but also the beneficiaries, the project promoters. We have also introduced in many Member States, in particular the new Member States, what we call a culture of evaluation. We try to encourage Member States to move towards evidence-based policy making and policy implementation. We have tight rules on evaluation, *ex-ante* ongoing evaluation and *ex-post* evaluations. We are doing “different” things because as we tried to align the European Social Fund to our key objectives in the employment field we induced policy change in the Member States. I will give you one example. When we created on the basis of the Treaty of Amsterdam 1998 the employment chapter and introduced the European Employment Strategy, one of the key focuses of this policy was to intervene at a very early stage in a preventative manner in order to avoid unemployed people moving into long-term unemployment. For my home country - Germany - this was something relatively new because in their active labour market interventions they had tried to focus on long-term unemployed and socially excluded people. Of course, this was useful to a certain extent but it did not break the cycle of people becoming unemployed and moving into longer-term unemployment and the increased cost of getting them back into the labour market. With the Social Fund interventions from 2000-2006 we

introduced an important policy change which was taken up *inter alia* in the agenda 2010 of the then Social Democratic Green Government under Chancellor Schröder, which still continues under the current Government. This is what we mean when we say we do “different”, because we induce policy change and better implementation of policies through the ESF.

Q200 Chairman: That is really helpful, thank you. Does anyone else want to say anything about that particular area?

Mr Kintzele: I would like to make a comment from the UK perspective in England in terms of the process. Part of your question was how far is it linked to economic reality. What the Department for Work and Pensions is doing in England is that it has launched a major review of the regional frameworks, so each English region has had a chance to have a debate in the regional committee and make a proposal and that exercise will be consolidated in a new regional framework. That is part of the Structural Fund method. The other part, which is of course a joint venture with the UK and with England, is that at the same time we have made an external assessment about the regional frameworks, the strengths and weaknesses, and how we can transform the link with programme implementation and accelerate projects’ implementation on the ground. The result of this exercise is almost available, two regions are slightly late, but let us say the DWP will have the final results in two months’ time. That will illustrate the reality in the regions and if there is a need to change slightly or more the content of the programme. That exercise will be finally submitted to the so-called “Monitoring Committee” that is chaired by DWP where we attend as a partner. This is a strong democratic exercise that is used in England and in the UK overall by the devolved administrations, but it is a significant change in the culture of how you do business in European policies in some regions (outside the UK) or other Member States.

Q201 Chairman: There is some feeling in parts of the UK that that policy, in fact, has disenfranchised some of the smaller local groups and that local delivers even better. Do you have a view on that?

Mr Kintzele: We have a view in the sense that the report that has been presented by some of the groups we consider is not yet sufficiently evidence-based. In terms of the architecture we have agreed politically, mainly with England, that we will work with mainstream programmes, mainstream organisations, and so-called co-financing bodies. Why is it so important? It is so important because we have a 50 per cent intervention rate and we want to have the visibility of the other 50 per cent, so real money. The experience in the past was that what was done by small organisations was quite interesting and innovative in substance, but they had tremendous problems having real match funding and afterwards they had tremendous audit problems. The downside was quite a critical view of the financial implementation of the programme, i.e. criticism from the public on reliability in financial terms. We completely changed the system. In fact, DWP proposed a complete change with a focus on the programme and, with co-financing organisations, clarity on the co-financing. The question is how far are the small organisations part of it in terms of sub-contracting and, until now, there has not been enough evidence in quantitative terms coming from the information system. However, there is an agreement with DWP that this will be looked at and detailed information will be provided. In fact, by the end of this month we will have our “Annual Examination Meeting” when some more information will be provided on sub-contracting and we will discuss the launch of a specific study to assess the role of small organisations within the new system. The new system is quite a systemic change from the previous one. You cannot just compare the two, even if the name is the same, because the whole implementation is different.

Q202 Lord Inglewood: Am I right that what you are telling us is that the great advantage of the co-financing system as we have now got it is that you consider this genuinely indicates that the rules on additionality are being met, while under the previous system you suspect the reality was that ESF was substituting for money that was there already and being used for something else?

Mr Kintzele: No. The analysis is that the previous system was based on a project promoter basis. The evaluation on substance was quite good, i.e. there was innovation. There was no issue about additionality and value-added because they were quite precise projects. The major problem was on the demonstration of the match funding and then it led to audit problems. In fact, the critics would say, “Look, it’s very nice to have X hundred projects which are bringing thematic value-added but, come on, you don’t demonstrate that in fact there is a real 50 per cent co-financing, a real match funding and you also agree that there are audit problems so, in fact, your programme delivery is not really acceptable”. Then, of course, not only at the national level but at EU level you have a critical element of the Court of Auditors saying, “Look, if among X hundred projects you have problems with audit, small or large, how can you say that this is a well performing programme?” This evaluation was shared not only by the Government in DWP, but also by the main partners represented in the Monitoring Committee. When there was a consultation process before proposing the new programme, there was a vast majority in favour of the systemic change. There is still one group which is not happy and is critical. We have had Monitoring Committee debates and have agreed to improve the evidence base, but at this stage, according to the information we have, there is no evidence to say that their effective participation is lower. There is no evidence on that.

Q203 Lord Kirkwood of Kirkhope: That surprises me.

Mr Kintzele: The fact is that they are not prime contractors and that is the main difference. It does not mean that they do not have a huge part in implementation. This is the critical point in evidence-based terms. As soon as we have that information it will be freely available, of course, because all the Monitoring Committee papers are available and in parallel. We will do a thematic assessment of the role of the Third Sector.

Q204 Lord Inglewood: Does the fact that they are sub-contractors make them less innovative? Is there any evidence on that either way?

Mr Kintzele: No. In the systematic change that the Government proposed, and we supported in the English programme, we have quite a large number of ambitious targets, so the contracts have to deliver the targets. As you know, from the Commission's side we are monitoring that the targets which have been proposed and planned are going to be delivered, even in this current situation where, as you know, the links to the labour market are difficult. What is important for us is that in terms of implementation the contracts provide the outputs. As Thomas said, we have figures for inactive people, for women, et cetera. We have quite a tight monitoring system like you have with your national programme. We monitor on an annual basis through an "Annual Implementation Report". If a contractor gives sub-contracting to the Third Sector it means that they have full confidence that the Third Sector will be able to deliver the targets and outputs but, of course, the delivery has to be in conformity with the programme. That is essential. It is in that context that we have to appreciate the roles of the prime contractors and sub-contractors.

Chairman: I am sure Lord Kirkwood will want to come back on additionality because Lord Inglewood has managed to ask the additionality question. We now want to take a question on the economic downturn so we have got an opportunity to hear what the Commission has to say.

Q205 Lord Inglewood: Clearly the economic landscape is rather different now than it was at the time the current programme of ESF spending was established. You have said in the evidence you gave us that you would willingly respond innovatively and flexibly. First of all, have you been asked by any Member States to dramatically change what ESF is doing? Secondly, we have heard in the UK that there has been criticism, and it may be the fault more of the public procurement rules and state aids than anything else, that it takes up to a year or even longer for the money to come through and if there is a crisis that seems to be too long. Have you any thoughts about that?

Mr Verrue: Maybe I could make a few comments on the economic situation from the perspective of the current performance and enhanced intervention by the ESF. This may be one way of my apologising for being late because this was what we were discussing. On Thursday morning we always have a discussion in which we are debriefed on what the Commission has discussed on Wednesday. Yesterday was the first of many of a series of seminars of the Commission on the growth and unemployment outlook. Clearly the crisis has produced a fall in potential output expansion which cannot be handled unless there is a substantial increase in the effectiveness and volume of labour market policies among Member States. That does not mean that all EU Member States must follow the same policies in the field of labour market intervention because the objective reality differs a lot between Member States. Certainly there should be some form of co-ordination: who does well, which instruments are best performing and so on. That will be part of the discussion. My impression is that that will be a high ranking part of the discussion, particularly as regards the discussion on the so-called EU 2020, which is just another name for the Lisbon Strategy revised and adapted to go beyond the words, which were slogans, to look at the reality. The EU 2020 will require much more pro-active labour market policies from our Member States. We believe that there is room - more than room - for additional labour market policy

intervention from Brussels, but on a co-ordinated basis, not in a harmonised way. Co-ordinated means differentiated between the various Member States. This means that from an EU perspective there is a need today for the intervention of instruments, of which ESF is one, in the field of labour market policy. We believe that a hands-off approach for the next couple of years would certainly not be a recommended course of action and not something that could be expected to produce positive results on the question of output expansion, which is what we are now dealing with as I said at the beginning of my intervention. In other words, for a few years we are going to be confronted with discussions about growth which has fallen by a percentage which econometricians dispute, but the phenomenon is clearly there although its magnitude is perhaps a matter of discussion. This phenomenon requires a policy reaction, which is going to be part of this EU 2020 debate which will be in the Brussels chemistry perhaps until the end of the Spanish Presidency. In this context we see a significant role for the ESF. Perhaps I should stop here and react if there are any questions.

Q206 Lord Inglewood: I want to come back on something you said. If you are having labour market interventions they can take a number of forms: you can either loosen the labour market or you can have increased public investment. It depends on the policy stance of those in charge as to which direction you are going to go and that has a bearing in turn on the ESF. You very interestingly said that you see a big role for the ESF in this future chapter.

Mr Verrue: Yes.

Q207 Lord Inglewood: Since I do not think there is going to be much more money it would follow, would it not, that some of the things the ESF is doing now might cease to occur. If that is the case, what would you suggest they might be? Am I getting too detailed?

Mr Verrue: I am not able to offer an answer.

Q208 Chairman: Could I ask a broader follow-up question? One of the points you made was about more intervention from Brussels, that was the phrase you used, in terms of pursuing co-ordination. That is a tension with national governments having different interventions depending on their political position at any point in time and the way that stronger co-ordination can happen from a broader central point. How do you see that happening?

Mr Verrue: As you know, we are just about to enter into a new discussion on financial perspectives. It is a discussion on resources for Brussels' policies and spending resources. It would seem difficult to put the answer in a different perspective. It would seem difficult to me, at least. Given what is now clear economic evidence of the consequences of the crisis, particularly on the labour markets, and the need for a substantial improvement in the productivity performance of EU economies, it would be difficult for me to imagine that government policies in Member States and in Brussels, when they meet together, would remain passive or spending would remain of the same order of magnitude as today on matters related to labour markets because, as I said a minute ago, we have entered a period with this crisis which will surely take quite a number of years to reverse. That situation does require a policy reaction in which public intervention in labour markets ought to be increased, for example spending on training. That is a typical example. At least in percentage terms, proportions, or whatever the terminology might be, I would be surprised if the next revision of the financial perspectives did not contain a change in the intervention of relative instruments. It seems to me that the ESF as it is today or in a modified manner should be a normal candidate for being mobilised more by Member States. That would require enhanced funding or additional intervention. I am not saying that the intervention should be just the same, quite the opposite, because the current crisis which we are dealing with is something rather new, fortunately. That is a matter of which form of intervention and a question of

whether more intervention should be expected and would be justified. I think the answer is yes as long as we do not have a more encouraging real growth performance and that will certainly take two or three years at least.

Mrs Samuel: I wanted to reply to the question about whether we needed to change Operational Programmes. I think that was your question. I would like to say that we told all the Member States from the beginning that if they wanted to make changes we for our part would introduce a fast-track procedure to make sure these changes were adopted very quickly. Of course, the requests for changes have to come from the monitoring committees of the operational programmes, it is not us who initiates the process. Indeed, several Member States - Austria, Germany, Hungary, Ireland, Latvia, the Netherlands and the UK - have asked for changes to their programmes. So far we have modified 12 Operational Programmes. This is a relatively low number if you consider that for the current period we have 117 Operational Programmes. Most Member States judged that their Operational Programmes had the required built-in flexibility which would allow them to do things for the crisis without changes. The changes that were made were in order to focus on anti-crisis measures. For example, there was a transfer of resources to support employability of the unemployed, there was a reorientation of priorities towards the unemployed because their finances might have been somewhere else but because people were losing their jobs they reoriented their priorities. In Poland, for example, they changed the selection criteria in order to ensure that the ESF projects were accessible to sectors most hit by the crisis. On the whole, we can say that all the Member States made enhanced efforts in order to combat the crisis with the support of the ESF. Indeed, the ESF became very visible during the crisis and it has shown that it is an instrument that can cope with serious changes in the labour market. This is something on which we will build for the future of the ESF. I can tell you that for the UK there was a high level of commitments to projects, overall 47 per cent, and, Georges, you can correct me if I

am saying anything that is not quite right, and we have seen an increased number of participants in the projects.

Q209 Lord Inglewood: Do you approach it from the perspective that if the Member State comes and proposes a change, you start by wishing to agree with them?

Mrs Samuel: Yes, of course we want to help Member States. This is always our aim. We are partners with the Member States and we try to help. We do not try to be difficult. That was why we did everything possible to move quickly. Georges can say more because he had to deal with the change of the Welsh programme and that was done in a month, which I think was record time.

Mr Kintzele: To come to this culture of partnership and debate, you know that in principle the Managing Authority of the Department, whether in Wales, England, Northern Ireland or Scotland, usually present an external evaluation about the situation plus a proposal to the Monitoring Committee and in some cases there are hectic debates. So you already have an aggregated opinion of the region or, in the case of England, of England plus the Monitoring Committee, and then the proposal is fine-tuned. We are part of it because we attend the Monitoring Committee discussions and we do our own employment analysis so we know broadly and globally what is the state of play. Then there is the formal proposal which has to be justified, of course, and usually it is pretty straightforward because of the labour market situation. If you compare 2007 when we were mainly focusing on adaptability, training and qualifications of workers, then suddenly there was the “big bang” of the crisis and we had a problem and had to deal with and support the unemployed plus the inactive, so there was a big change. We have received major modification requests from Wales, which have been adopted very quickly. We have a decision on Scotland pending which will be adopted hopefully in two weeks. As I said, for England the process was different because of the willingness to have the regions involved in the partnership and an aggregated proposal. We do not know yet

whether there will be a proposal but certainly there will be a revision of the regional framework for England. Northern Ireland are happy with their programme and believe there is enough flexibility. That was how the business was done in the UK, plus what was said by Thomas beforehand that because of the financial crisis we have increased the intervention rate.

Chairman: I am very aware of the time at the moment and there are some things we would like to come back to on this. Before we lose Mr Verrue I would like to move on to the medium and long-term because we would value your view on that. I am sorry to cut you off but we will come back to this. I will ask Lady Jones if she will go on to this medium and long-term issue.

Q210 Baroness Jones of Whitchurch: In the context of going forward to 2020, is there an effective evaluation of the effectiveness of the Lisbon Strategy taking place? In other words, are you learning from the past before you go forward? Is there an acceptance that there have been some failings in the Lisbon Strategy, perhaps trying to look both ways, be all things to all men? On the one hand you have the idea that you want individual innovation, localised innovation and, on the other hand, a plan for convergence. There are lots of contradictions in it. Are you learning the lessons from that before you go forward?

Mr Verrue: I hope so. As you know, on that occasion this concept or slogan of 2020 was invented and we have undertaken to organise a broad consultation which ends tomorrow with a document which briefly summarises the performance of the Lisbon Strategy and identifies a number of issues which we think, given the new economic environment created by the crisis and subsequent years of the crisis, should be conceived and implemented. To some extent this is a form of critical evaluation of the Lisbon Strategy. If you ask me whether there is a professional evidence-based quantitative econometric evaluation of the Lisbon Strategy, I would have to say I have not seen one yet but there is a good deal of critical thinking, as you

can see from what I am saying, of the Lisbon Strategy which is a bit unfair. The Lisbon Strategy was constructed for nice weather and, of course, it has been confronted with a crisis which was not provoked - I hope - by the Strategy itself. Clearly the Lisbon Strategy is not a combination of means and instruments that would be particularly well suited to policy reaction to the crisis. Of course, we have already undertaken measures, and the EU broadly speaking has done it and the role of the UK was particularly important in this respect. By creating the G20 it indirectly provoked increasing co-ordination of EU policy in the field of economic affairs, not financial affairs. In other words, there has been an immediate Keynesian-type policy reaction of significant magnitude and appropriate co-ordination of instruments. We are now entering into a second stage with the aim of having a more successful effect than the Lisbon Strategy. At the same time, it will inevitably, at least partly, come back to some of the questions that the Lisbon Strategy was trying to handle but it could not for various reasons. Basically we can group these into two categories. One is how best we can enhance, reinforce, accelerate, the productivity of our economies and, two, how can the governance of these policy choices be improved. Frankly, the Lisbon Strategy was not particularly effective on governance and some even said that was fortunately so because they were critical of the Strategy itself. There was a governance problem. The Open Method of Co-ordination does not seem to have been particularly adapted for this kind of situation, namely the kinds of issues which the Strategy was meant to address. In terms of the content of the Lisbon Strategy, at least judging with the comfortable benefit of hindsight, it is not particularly suited to the current environment.

Chairman: It seems to me that the Lisbon Strategy was aspirational and visionary, certainly in its language and tone. There is nothing wrong with having vision and aspiration, but in terms of implementation and evaluation and measurement it seemed bound to fail based on the kind of structure that was set down. Would you say that the Strategy had, in fact,

succeeded in a large number of ways, but that the measurements and objectives were unrealistic? In the long-term, how do you see those objectives being more precisely constructed so that we can see whether the change is really happening and what the governance might be that actually has the leverage on those changes?

Q211 Baroness Jones of Whitchurch: Shall I add my question because it may supplement what my Lord Chairman has said? If you are learning lessons, and things will be different in the future, if you applied that, for example, to the green agenda, how do you stop the new aspirations for a low carbon green future becoming just another aspiration? How do you make sure that on the ground things actually are given priority and it operates in a different way?

Mr Verrue: This is a good example where we are at the beginning here. The greening and whitening of our economies are both inevitable and, indeed, a good opportunity to increase the volume of employment. The problem is how does that work. I can take one simple example. We tried about a year ago in my previous job with my previous Commissioner to launch the idea of a partly EU-based CO₂ taxation. We failed miserably and yet we tried hard. Perhaps we would have been successful if we had tried less hard, I do not know. I would just say that this would have been part of an attempt to green our economies and we will have to make another attempt. I do hope that will be part of the reflection on another strategy - 2020 - which we hope will be more effective than the Lisbon Strategy has been.

Baroness Jones of Whitchurch: How do you stop it being just fine words in a document and then individual countries going their own way as they always have done? That is what I do not understand. What are the levers for delivering this?

Q212 Chairman: What is the governance that you would want to see?

Mr Verrue: There is now, partly at least, certainly among smaller Member States and new Member States - larger, older Member States are sometimes less easy to convince - and maybe the crisis has produced that, so at least it has one positive effect if that is the case, a recognition that an accumulation of uncoordinated national policy reactions would not be the most effective way of responding to this new environment created by a number of factors: the crisis, in other words the level of unemployment; the need to undertake and implement quickly measures that would provoke a greening of our economies; and also implementing measures that would respond to the ageing of our societies which will increase spending on health but also the demand for distant services which are not properly handled at the moment. We are convinced that if those phenomena were left with an uncoordinated policy response that would be a second best attitude on the part of our Member States. We remain confronted by the need to be convincing on this. It is easy to convince Latvia or Greece today to undertake a number of measures - effectively or not is another question - but less easy to convince the German Government to undertake a number of recommended measures. Again, we have the impression that realising strategies like the Lisbon Strategy is not in the short-term an efficient manner of handling the economic situation and at the same time any other form of policy reaction, if it wants to be at least more than marginally effective, would need to be the result of a very high degree of co-ordination between Member States. This was not particularly characteristic of the Lisbon Strategy. There was ongoing review of what Member States were doing but that was not based on econometric evidence of whether it was effective or not. It was a review exercise. The policy aspects of that review exercise were brought to a political level, but that was it.

Q213 Lord Kirkwood of Kirkhope: If one of the criticisms of the Lisbon Agenda was that it was too aspirational there was also the Wim Kok report in 2004. Basically I have a strong recollection that he made the point, which made sense to me to a certain extent, that because

everything was a priority under the Lisbon Agenda nothing got done. The circumstances have obviously changed since 2004, and you have made that point very powerfully, but have you learned lessons from the work that was done in distinguished political colleague Wim Kok's report in 2004?

Mr Verrue: This point was raised in our meeting earlier this morning. I do not know enough about the UK situation, but, generally speaking, the willingness of governments to consider arbitrage, choices to be made between various priorities, has not been particularly impressive in the last two or three years. In the EU 2020 exercise there will be an attempt by us on the Commission side, and certainly at political level, to convince Member States that the kind of economic and social situations in which we are now, and given also the public finance situation, will require painful choices to be made otherwise we might well be conducting in parallel a set of 27 policies. An interesting idea in this context is provided by the consequences of the lowering of the potential growth rate in the European Union, which is being estimated because we do not have the latest statistics so it is something which is disputed between professional economists, but there is some hard evidence that this is the case. If this is the case, I hope we will draw the attention of our political authorities in the Commission and partners, with members of national Governments, to the consequences. If we want to cope with a potential lower output expansion rate we need to increase substantially investment in capital per head. Whether this is done with public financial resources or private financial resources is irrelevant in this respect because the private sector is as indebted as the public sector in all our Member States, so there is no difference. If we want to be serious about implementing policies which should, if they are effective, end up with higher capital, higher productivity and, therefore, a higher rate of potential output, we need to make some hard domestic policy choices, and at the EU level that is the same.

Chairman: That leads on to your second question. I realise you are going to have to go at any moment but can we just ask you this question about the distribution of the funding.

Q214 Baroness Jones of Whitchurch: This is a fairly simple question. As you probably know, the UK have said that they do not think that the ESF should be paid to the richer nations in future, that there should be more priority to those that are really in need, and I just wondered what your response was to that?

Mr Verrue: Lenia will better respond to that.

Q215 Chairman: If you are going to answer that question, Mrs Samuel, can I just say is there anything else you would want to say to us before you have to leave, Mr Verrue?

Mr Verrue: Yes. This is probably something that has been said already but I would like to emphasise it. Of course we believe that the ESF is not a perfect instrument and should remain for years and years, but we believe that the EU as a group of countries is in a situation where financial intervention for labour market measures, broadly speaking, is and will continue to be quite high. If we look at the limited range of EU instruments for intervening effectively, hopefully, in such a situation, the only one is the ESF. The Structural and Regional Policy Funds, for example, are extremely relevant but for interventions which have little to do with the kinds of problems we are left with as a result of the crisis. Do we need investment in heavy infrastructure as a matter of public policy priority now? I am not sure. Do we need a continuation, and even possibly an increase, of intervention in labour markets? My answer is yes. That does not mean that ESF should be picked up just like that with no adjustment and no feedback.

Q216 Lord Inglewood: Do you see intervention in the labour market as essentially a financial state driven, public sector driven introduction of money, or do you think in parallel,

complimentary to that, there are certain ways the labour market is organised that might be, shall I say, loosened up?

Mr Verrue: Modern employment policy addressing the situation which has been left over from the crisis is clearly required. We produced an analysis on this which was sent to the European Council last June, which we believe continues to be quite relevant. This explains, according to us, what kinds of measures of intervention in the labour market should be envisaged irrespective of, or in addition to, or in substitution of, ESF intervention. For example, are you familiar with the *Kurzarbeit* in Germany?

Ms Samuel: Short-time working hours.

Q217 Lord Inglewood: No, I am not.

Mr Verrue: That would be a typical example of a recommended intervention to a number of Member States which would not necessarily involve ESF intervention. It could be implemented with ESF resources because it requires public resources, but *Kurzarbeit* at EU level would not be geared mainly to ESF intervention. It would not be an exclusive instrument and unless it was richer certainly it would not be more than an instrument for intervention of modest proportions, if I can put it in that way.

Q218 Chairman: I know you have got to leave us. Is this the point where we should release you and say thank you very much?

Mr Verrue: Thank you very much for your interest.

Q219 Chairman: I am sorry that we cannot keep you, but I gather we have to release you to go to something else equally important, let us put it like that. Thank you very much. Mrs Samuel, I know you have been trying to say something.

Mrs Samuel: No, that is fine.

Mr Bender: There is also the issue of leverage which you were asking about and that is linked to what Mr Verrue just said when he spoke about the need to increase and improve the co-ordination and possibly, in addition to that, the aspects of peer review and mutual learning, which to a certain extent have helped, but a real lever in making policies change in the Member States is a financial instrument and this is what we have tried to do with the ESF in the past and hope to be able do in the future as well. I gave you an example where I do believe that we influenced German policy making from 1999 onwards. I could give you other examples, for example, where in Ireland we changed the mindset and the policy when it came to childcare provision. This was a burning issue at the end of the 1990s and was a difficult issue for a mainly Catholic society which saw that mothers should be at home and not at work. We were able to change the mindset of the politicians, of the social partners and of the people in Ireland and provided massive support not only to increase the provision of childcare facilities partly through the ERDF but also the quality of childcare through ESF, through training of childcare workers, and employment subsidies as start-ups for community-based childcare facilities. This policy change was largely facilitated through a financial instrument that came from Europe pursuing the same objectives as the policies. This is the important linkage. Lenia can say much more about that. This is the key issue why we believe that funding across Europe is necessary even in richer, more affluent Member States because we can bring along European values and objectives to the regions and countries which would normally not need additional EU money. This is the philosophy, the mantra, in which we believe and which we want to pursue.

Chairman: It might take generations to change that behavioural cultural issue that funding has helped. That is really helpful.

Q220 Lord Inglewood: Subsidiarity plays a part here. How do you define, for want of a better way of putting it, what is a legitimate European policy? I suspect that some people in Ireland would have thought that your proposals were anathema.

Mr Bender: We have an employment chapter in EU 2020 and this chapter has not been changed with the Lisbon Treaty. The employment chapter and the ESF, social policy chapter, have not been changed. This is a reply to those who want to merge or abolish funds. During the Convention work nobody questioned the social policy chapter. On the contrary, the provisions in the beginning of the Treaty have been reinforced but the chapter on the ESF and social policy has remained unchanged. This is a continued commitment on which we have to deliver as the European Union. In the employment chapter we are called upon to co-ordinate employment policies and work with the Member States according to agreed objectives and targets. We are doing that in conjunction with them. The Commission is not imposing policies or funding priorities; the Commission is doing that on the basis of employment recommendations in conjunction with the Council and at the end of the day the Member States agree on the recommendations delivered to each of them individually.

Q221 Lord Inglewood: The argument is that it is the Member States through the Council that are driving your agenda.

Mr Bender: We are driving it.

Q222 Lord Inglewood: Yes, but through the framework of the social chapter. That is the political case.

Mr Bender: Yes.

Mrs Samuel: We have the common objectives to start with and those are agreed objectives. Everybody agrees to them and then has to try to reach them.

Lord Inglewood: Indeed, I do not disagree, but sometimes you meet people away from Brussels, shall I say, who feel that they are having imposed on them policies and ways of doing things which they would rather are not there.

Q223 Chairman: Can I just ask one other question because it does finish off this bit about the financing? If some of the richer Member States did come out of the funding - they are described as “richer” but in the present crisis it is difficult to know who is richer and poorer if you look at our deficit, if you know what I mean, it is whether you are in debt and rich or not - would that change the sharing of experience, which I think is of value, across the whole of the programme and the learning that people have from each other in those sorts of different communities?

Mr Bender: That would definitely change the learning, but not in favour of the so-called “richer” Member States because they could also benefit from the experience of the poorer ones. It would also disrupt policy learning which we have mainly from the more experienced and affluent Member States towards the poorer and newer Member States because we would continue a policy debate that has tended to remain quite sterile sometimes if it is not underpinned by some real action. If you disentangle the policy debate from a debate about the use of public intervention this could have a negative effect on the catching-up process, which we still believe in. Regardless of what people may think about the ESF it is clear, and we said this in our evidence, funding or allocation decisions have to factor in GDP per capita to a certain extent as of now but, as we have also said, social policy and employment policy considerations are not a question of rich or poor countries. You are here in the third richest region in Europe after London and Hamburg with an unemployment rate of more than 20 per cent. It is obvious that social exclusion is not an issue of rich or poor on a regional or country basis and we need to continue to tackle that, in my view, as an expression of EU solidarity and to avoid an EU debate which is a high level political debate which only takes place in the

Council and maybe in the capitals but which does not reach the people. We believe that reaching ten million people a year with the ESF is something that is very visible and tangible to everybody in the EU countries.

Lord Inglewood: Do you believe that the beneficiaries of your involvement, the ten million, realise that the European Union is behind it?

Chairman: We think probably not.

Q224 Lord Inglewood: That was why I asked because that was what we thought.

Mr Bender: I talked about that to Irish colleagues and said that if people remembered all the interventions we have given to them they would not have voted “no”, but that is a cynical remark. We are working hard on making it very visible to the individual beneficiaries. We are working in very close co-operation with the Member State authorities to achieve that and I think we have made progress. It is difficult because we do not have these nice little plates that are normally on bridges or buildings or Greek temples, for example, saying “Restored with the support of the European Regional Development Fund”. It is difficult to put such stickers on people, so you need to have other means to make them aware that they have received support from the Union.

Q225 Chairman: We will come back to you now, Mrs Samuel.

Mrs Samuel: No, it is fine. Thomas has been in the ESF much longer than me.

Q226 Chairman: I could see there were things you wanted to say.

Mrs Samuel: Your questions were specific, but I think Thomas has answered why we think the ESF should be available in all Member States. He gave you very good reasons, which I hope are convincing. What I could add is that we need to identify allocation criteria which ensure a critical mass for all the Member States but also safeguard that a substantial amount

of money will go to the poorer countries. We are not saying that the poorer countries should receive less, they should receive more, but we think the ESF has a role to play in all the Member States, and we say that because we see it. This is not theory; it is based on our experience. We have seen this more clearly with the crisis where unemployment spread suddenly in all the Member States and we see social exclusion. Of course we put the emphasis on employment but there will be people who will be further from the labour market, even in dynamic cities like London, so we have to do something there. We cannot leave it like that. At the European level we have a duty to do something.

Q227 Lord Inglewood: How far from this meeting room in distance is the nearest Social Fund spending?

Mr Bender: Three hundred metres. The Flemish Public Employment Service, the VDAB, is located on Rue de la Loi opposite the Charlemagne building.

Q228 Baroness Jones of Whitchurch: Going back to the richer nation issues, and obviously the UK Government so far is saying they do not think they should receive the money in the future, surely there is an argument that if they are sufficiently rich, and I take my Lord Chairman's point on how do you define that, they could fund all of these things out of their domestic budget. Why should the EU come in and provide a redistributive focus for the funding? We are not saying that support should not happen in the UK, that the training and support for the long-term unemployed should not happen, but you could just say why send it up to Europe just to have it sent back down again, they could just organise it from their domestic budget.

Mrs Samuel: As I say, it is an expression of Europe's solidarity, which Thomas mentioned before, because all the countries are together and they get something out of it. Thomas may have a better argument.

Mr Bender: Not really. It goes back to the first question we discussed about the added value that we have tried to discuss with the Member States. It is not a construct that we have, the “more”, “better” and “different”. We have discussed this with the Member States in continuation of that. The “more” is something that is about redistribution to a very large extent, and that is the cohesion aspect. The “better” and “different” are something which are beyond cohesion, beyond redistribution. We believe that we have done some different things. I have worked on Ireland together with Georges and we have funded largely the Equality Authority in Ireland, which is a difficult issue in a country that is very male dominated and where men tend to dominate decision-making, for example. The Equality Authority at the time was supported through the ESF in order to collect data, to provide evidence on inequalities in Irish society and the economy and to provide training and awareness raising both in the public and private sectors. That has changed things. The gender mainstreaming agenda has been a crucial part of the ESF for about ten years. We did things differently and different things and that helped. That has helped in richer countries as well. We believe that should continue. The agendas may change and we may speak a lot more about the green economy in the future or, in fact, the white labour market which will be extremely important in the light of demographic ageing. We have to see what we can induce in terms of employment creation in this field, but also in terms of up-skilling of people because a lot of these jobs in this sector are low-skilled, low quality, which is bad for both those who work in the sector but also the clients of the carers. This is an issue where we have to induce massive change in Europe on the basis of mutual learning and best practice, but also with some financial support.

Chairman: I know Lord Kirkwood wants to ask about additionality.

Q229 Lord Kirkwood of Kirkhope: I have a couple of quick questions but can I just pursue that thought? You make a very powerful case about best practice being shared and

adopted and promoting things that would not otherwise happen, but it is at a huge cost in terms of the bureaucracy. Some of the evidence we have received, particularly from small-scale operations, is that what they see are layers - you may say this is all a national problem and maybe that is the answer - so the good work you are achieving does not count for nothing, it is redistributive, but there are opportunity costs for some of these small operators, particularly at the earlier stage of the programme where they have spent countless hours making applications and then could not get the match funding, these are very large. People were tearing their hair and getting very frustrated about some of the audit costs and the bureaucracy. Could you say something very briefly about that because it is a theme that has come up in the evidence that has been presented to us before.

Mrs Samuel: I will make a general introduction, but Thomas is the expert on this. It is a complex procedure. Everybody says that, we hear it from the stakeholders and we see it ourselves and that is why in the next period we will try to put more emphasis on results and get away from procedures. We have already done a great deal because we were forced by the crisis to make sure that money gets to the beneficiaries quickly and is used in a more efficient way. We have done a lot during this period and we will do more in the next period. Thomas can show you what we have done and where we are going. We have the Member States with us helping us because we are in constant dialogue with them. In fact, I chair the European Social Fund Committee which was set up under the Treaty and there we bring the Member States together and ask them to help us in framing our proposals for the future. One of the things we will discuss with them is how to improve our delivery mechanisms. Thomas will have a leading part in this debate.

Mr Bender: Yes, unfortunately! It would be too easy to say it is all the Member States. We have evidence from some who say they add 50 per cent to the bureaucracy, so the bureaucracy is shared 50/50 between Europe and the national level. Colleagues from Poland and Finland,

for example, have told us this. It is a shared burden. We would be lying if we said that we are not bureaucratic; of course we are.

Lord Kirkwood of Kirkhope: I hope our report will put a little bit of constructive pressure on the United Kingdom Government. If you have got any ideas about how you could strip out some of the national costs at the moment that you see might be a part of the problem, these would be ideas that would be very important for us in formulating the recommendations for our report, and we might have a mutual interest in that. If there are any tangible ways by which you think we can change the operational dimension of the programme throughout the United Kingdom, not just in England, to try and save some of the costs then I think we would be willing to consider those as a recommendation in our report.

Chairman: We are over time but are you all right to stay just a little while longer because clearly we are getting great value out of this and it would really help.

Q230 Lord Inglewood: We do not want to hold you up giving money out to other people!

Mrs Samuel: We did all the payments before Christmas. Thomas had to work until 30 December to do that.

Mr Bender: There are two things I would say. One is that we also have to be aware that whenever we want to have reasonable reporting, and I introduced a couple of key headline figures, we have to ask beneficiaries to report on individual people to support it, otherwise if we just gave a blank cheque that would not work. It definitely would not work in Whitehall and the House of Lords, but it also does not work in the European Parliament. There is a trade-off between spending the money properly, getting added-value for the money and reporting on what we achieve. This will always require what is seen as bureaucracy from a project.

Q231 Lord Kirkwood of Kirkhope: I understand that.

Mr Bender: In the UK we believe that the DWP have taken some very positive steps in order to facilitate the funding. They are at the forefront of making use of the simplifications that we introduced in the regulation in terms of standards for unit costs, say, where you do not account for each individual invoice in order to get it reimbursed from Brussels but you settle a standard cost for specific training, a specific intervention, and get it reimbursed once you demonstrate this activity has taken place. Also, the accounting for indirect costs on a flat rate basis is something we have introduced in this programming period which has been taken up by London and Sheffield in a very open way. Georges may have more idea of what further simplification would bring.

Lord Kirkwood of Kirkhope: After the meeting if there are some ideas that you have that we can pursue in that direction I think that would be very helpful.

Chairman: Let us just clear up this one point that we have heard about. We heard that it took 14 months for money to reach the frontline services once the windfall, if you like, arrived in the UK. We still cannot identify, and I wondered if you had a view, where the blockage was or if it was true that it took 14 months. Certainly the people we have seen were not terribly critical about it, which I found surprising. I think if I had been on the ground I would have been much more critical.

Lord Kirkwood of Kirkhope: They seemed to accept it as a natural thing.

Lord Inglewood: Everything was delayed, was it not, so they said that because you know it is going to be X weeks later everything is X weeks later, so it is fine.

Lord Kirkwood of Kirkhope: It is a culture of delay.

Q232 Chairman: In terms of the urgency to get these things moving in terms of the priorities in the programming, do you have a view about that?

Mr Kintzele: We have looked at it. The current situation is that the internal procedure, which is linked to public procurement goals, takes that timescale.

Q233 Lord Inglewood: Is that your internal procedure or the UK Government?

Mr Kintzele: No, the UK Government. The DWP.

Q234 Chairman: Does it take that long elsewhere?

Ms Schopf: These were specific problems.

Mr Kintzele: We were discussing that and the Government is committed to look at it and to streamline the procedure. We know perfectly well that there is this issue of accountability in respect of procedures. We know that the UK, in terms of implementation, has made systemic changes and we welcome them. I always hear the complaints of small organisations, but there is no doubt that this programme is far better than the previous one because we have a clear view about the match funding and the outputs. We do not have this permanent issue about match funding at promoter level, small organisation level and then audit trail. If there is no audit trail, I am sorry for the small organisation. It was not acceptable in the past and certainly since the Court of Auditors' report and the European Parliament have taken a clear view about Structural Funds, it is not going to happen. In my personal view we may come to the conclusion that some small organisations cannot go for an ESF project because either they or the project is too small. That may be a consequence. We cannot draw a line and say that there are audit requirements, public procurement requirements, efficient management requirements, except for a range of organisations. That is not possible. We have to reflect at what point there is a line to be drawn.

Q235 Chairman: One of the things that we have found, and we have visited some projects, is that there are some groups which are much more likely to be able to attract into their doors the more hard to reach groups – alcohol or drug dependents, or ex-convicts for example - so in terms of their qualitative outcome they may be able to do better on the personal response but may need help in terms of the auditing type issues that you are describing. How do we get

the balance whereby we get, if you like, the bureaucratic systems right, and no-one is doubting that - I have run a lot of projects where you have got to have the right information come back to show that your money is properly spent - but with the value of some people only being prepared to go into the back door of a little project down the street with people who do not look too smart because they trust them and feel that they understand what they are doing? How do we get that balance?

Mr Kintzele: It is a fair question in the current situation, but you will remember that the programme was negotiated in 2006, adopted in 2007, and the focus of the programme was a different one. We have to keep this in mind and we have to prioritise. Quite clearly we had a labour market requirement and a skills agenda, which were different, and a lot of pressure was put on the skills agenda for the working population. Within the new programme there was less attention and focus on the most vulnerable groups or on the social inclusion aspects, i.e. the delivery was consistent with a focused programme. Now it is true that we are in a new situation and there are more demands from vulnerable groups and for different types of labour market interventions. We have agreed fundamentally in dialogue with the Member State, i.e. the Department (DWP), and the various stakeholders, that the time has come now to assess what has been done and potentially review the programme in terms of the labour market development. That is an agreement. I would like to go into this in some detail in order that we are clear about the process. First of all we want to be sure that the message which is conveyed by some organisations is a message which is conveyed by one, two, three or all the English regions because we do not know that yet. We have the regional partnerships. This is why this process is so important. We have to balance the various needs and challenges and requests and demands at regional level and see what demands come in in the final regional framework for each of the regions and what is the aggregated, consolidated exercise done by the Department (DWP). This is almost finalised. January is the deadline. Total performance

in 2009 is known now. As I said, we are going to look at the question of the small organisations and the sub-contracting. That is part of the remit. Then we come to the crucial issue, which is do we need another focus of the programme in line with the new situation, i.e. to target it more to the difficult groups and social inclusion, which may require, as you have done in the UK, an area based approach, a community based approach? It is difficult for the mega co-financing organisations. From our perspective, the organisation of the dialogue and the policy debate is clear and we have agreed with the Department (DWP) that this will be further debated in March in the Monitoring Committee.

Q236 Lord Kirkwood of Kirkhope: That is the English monitoring committee?

Mr Kintzele: I am speaking about the English one. There are other issues elsewhere but I will come to those later. The English programme is quite crucial because it is the single largest in financial terms of the UK ESF programmes. We have agreed that my Director will come in March in order to listen to the debate and the various views of the stakeholders, of the regions, of the departments and the social partners. Then, we will look forward to what has to be changed, whether in implementation or even in terms of priority and operational focus, and there will be a decision. As Lenia was saying, if at one stage a decision is made that we have a goal to introduce another priority to change a focus of the programme with a justification, we have taken a commitment to a fast-track procedure that in six weeks it is adopted by the Commission. As I said, in terms of the partnership approach in England we still have to get the views of the totality of the main stakeholders. For Wales it is different because of the size of the programme and how it was constructed. There we have far less critical views about the elements of the programme. It is also a fact that if you compare the Welsh financial volume in terms of the population and the challenges, it is more important than the English programme. Then we have the question of the Scottish programme. You have received the Scottish comments and evidence to your inquiry and, there, the reality is

that since 2006 there has been an important difference of view about the audit requirements and audit system in Scotland. That has to be acknowledged. The 2007 Court of Auditors' report was devastating and it was followed by DG Employment audit missions, an enormous number of audits, and the result, which is subject to a hearing and colleagues of the UK Permanent Representation know well, we have had a formal hearing and the result, is that there is still an important difference of view about the quality of the audit system. This has a negative impact on the small promoters and on those working in the voluntary sector in Scotland because when you do audits, if there is a large share of promoters from the voluntary sector in the implementation of the ESF, then there is a large number of those promoters which are audited. The bottom line, and I want to stress this, is that at the end of the process, they are partly the victims in the sense that there is audit fatigue at the level of small promoters and, since 2006, negative news coming from the Commission. That is understandable from their perspective. From a public finance point of view, after three years and a multitude of audit reports that are available, we consider in the Commission (DG EMPL) that there are still some major deficiencies in the ESF audit system in Scotland. The result of the hearing will be known, nothing is hidden because there was a formal letter sent to the UK Permanent Representation before the hearing, so we can send it to you, but we have an issue and I want to stress that.

Q237 Chairman: That is interesting about Scotland, we have not seen them yet.

Mr Kintzele: I think everybody understands the complaints of the promoters and the voluntary sector, but from the Commission's perspective, and I am sure from the European Parliament and the Court of Auditors, there is an issue. This issue could not be closed after three years. The result of the hearing, and we have the formal minutes and we wait for the Scottish Parliament, is there will be a financial correction. The only question is how much. This is an indication that there is a limit and we all need to balance the various arguments, but

from the Commission's side we are going to ask for a financial correction and we are going to ask the Scottish authorities to improve the management and auditing of the new ESF programmes (2007-2013). This is a "*conditio sine qua non*".

Q238 Chairman: The issue in all that is when you are going through due process, which is very important, and in the present economic climate where there are more groups unemployed so you have got higher level skills unemployment, if I can put it like that, whether the really hard to reach groups fall even further below the line while we are trying to re-skill and should the European Social Fund be directed to higher skilling groups. We have heard of schemes where graduates who cannot get jobs have been helped to get jobs, and that seems to me to be a very positive programme, but in doing that do you lose any other parts of the programme and in terms of social inclusion and cohesion does that have an implication for the policies?

Mr Kintzele: Yes.

Q239 Lord Inglewood: When we went to visit a scheme in the East End of London, which was an admirable scheme, what it was delivering was people who were more suitable for employment in a world that had nothing to do with the Lisbon Agenda at all, people from office cleaning and building sites. Are the Lisbon Agenda and all these high-flying aspirations a complete irrelevance in terms of much of what the Social Fund does?

Mr Bender: I think we made it clear when we discussed the so-called "earmarked" categories at the time when we negotiated the new programming period that social inclusion is not something that is completely independent from labour market issues. We believe that, roughly speaking, there are two groups. There is a group of people which needs focused intervention support in order to get them into the labour market relatively easily and quickly, but there are others that have a long distance to travel and they are equally relevant for Lisbon because it is about increasing the employment rates in Europe. It depends on the national

situations and the amounts of funding we have available whether we can afford to tackle more agendas or only specific agendas. As Georges pointed out, for the England programme there was an agreement to tackle two important priorities which were the adaptability and employability agenda from a specific perspective based on policy analysis that we have done together with England. Maybe we should not look so much at the inclusion agenda as we have done in the past, including capacity building. You have been in the business many years and you know that in 1994-99 we had a specific priority for ESF Objective 3 to improve the capacity of small organisations, community institutions and organisations to increase the capacity in order to take up Community funding. That was very successful. That was trying to address the problem you have raised, namely to reach out to those people through groups and organisations which have the trust of the community, on the one hand, and, on the other hand, to beef them up in terms of reporting and auditing and financial controls so that they can actually draw down public funds generally, national or EU.

Q240 Chairman: That was very successful.

Mr Bender: That was very successful as we saw in 2000-06, but there was a political choice for the new programming period. You have been asking where is the borderline and how far can we go to look at short-term issues in order to reach out to the most vulnerable, as we said in June 2009, to address the skills agenda, try to keep people in employment through measures like short-term working arrangements and at the same time skill them up in order to make them ready for the recovery, and the other funding priorities we have. Our programmes are not infinite. A serious discussion that we should have in 2010 and maybe early 2011 with the Member States is to look at the overall spending priorities they have established in a completely different world. As Mr Verrue said, and looking at the American experience with the recovery, we may have to look at issues like investment in hard infrastructure or some sort of business support which we co-fund and ask whether this is a good investment when we

need to recover from a crisis, upskill the people, tackle social exclusion and try to bring people in to keep them in touch with the labour market in the short and medium-term. If we do not address the issue of the overall amounts of funding we have available then we will have to make negative choices. In some countries we see that already. Latvia, for example, will have to make a negative choice because the situation is so bad over there that they have to disregard specific important target groups, important areas of intervention in human capital, in the education field, but maybe we can engage in a discussion with them in order to address where public expenditure should take place now. When you look at the discussions in the Ecofin Council, in the Economic Policy Committee, you will see that there is a widespread movement that investment in active labour market policies, in the people, is necessary now and we need to make the funds available from the ESF and other public resources. That is a borderline which is very difficult to establish and that is a very difficult political debate that I think we will need to have.

Q241 Lord Kirkwood of Kirkhope: Evaluating the distance travelled for the hardest to help, you are measuring outcomes, that is the headcount, it is hard output, but can we get better in the future programmes - I know it is not easy - some form of evaluation of distance travelled towards labour employability just to reinforce the point that you have just made?

Mr Bender: We have experience.

Mr Kintzele: Especially in the UK we have evaluation and have had tremendous experience. That is a joint message coming from the policy directorate and the geographical part of DG EMPL. As you say, it is absolutely possible to re-evaluate if there is a need to make a decision. I would say we would welcome such policy debates and decisions being taken in various parts of the UK, the devolved administration under the English programme, in 2010. We have the policy elements. In terms of techniques we have the ESF evaluation in the UK and we know the evaluation of some of your national programmes which are community

based or delivered through the employment service, et cetera. I do not believe this will be an issue. We have a specific issue which has been identified in Scotland where small promoters will need support and that is also an important message. Small promoters need specific support to cope with all the operational and financial requirements.

Q242 Chairman: We should learn from the previous interventions.

Mr Kintzele: Yes.

Q243 Chairman: I am really sorry but if I am going to let you go I would like to get to this last question and get as brief but sharp an answer as we can about how well-aligned is the ESF and ERDF funding. We have heard evidence that sometimes there are difficulties about the alignments and we wondered what your view was of the suggestions that regions or areas should be allocated a mono-fund of European investment to be used for all types of activities currently supported by the various funds. We only ask this because it is a suggestion we have heard.

Mr Bender: Can I answer with a question? In the UK or in England do you have a single municipality which has just one budget line or are there not political choices made when it comes to the allocation of funds for specific policy areas? That is the same as we are doing at the EU level. We do not believe that you can enforce policy co-ordination through the co-ordination of limited financial instruments coming from Europe. What you need to have is policy co-ordination at local, regional and national levels, and EU level. President Barroso, as you know, has asked us to overcome the silos in which the Directorate Generals are working, and we are working hard on that, but we will not overcome the silos in which we are working by lumping together all EU funds into one single department and then continuing as we have been. What we have to do is start with the dog and not with the tail and have policy co-

ordination and then see who is the master, is it the tail or the head of the dog. I think the head of the dog should be the master. That is my personal response.

Q244 Chairman: What does that mean for the relationship between these two funds?

Mrs Samuel: Better co-ordination.

Mr Bender: The relationship is there. The co-ordination happens at EU level in the Commission and it happens at national and regional levels to a large extent also. When you look at it from a promoter's perspective or from the perspective of a relatively small organisation that has to deliver various funds, for them there should be simplification. That is the easy answer to a very complicated political question rather than a financial or implementation question.

Q245 Chairman: Certainly our colleagues in Cornwall were very positive about the ESF and the other funding but felt that there could have been more co-ordination. I have to say the criticism was very tiny compared to the value of what they felt in terms of their programme. My colleagues would like to ask more, and I would like them to, but I realise that you have gone well over the time you were able to give to us. We are immensely grateful. If you think there are things you have not been able to tell us, please do let us have a note in writing. This is an important inquiry for us. My colleagues and I have found this immensely helpful. Added to the other things we have heard so far I have found it extremely contextual and enlightening, and for that I am grateful. I may take a different view from one of my colleagues about what the Lisbon Treaty can do in terms of cohesion and inclusion, but that is just a comment.

Mrs Samuel: We want to thank you. It is interesting for us as well and the questions you have posed to us are questions that make us reflect even deeper and strengthen our arguments.

Thank you very much for this meeting. It was very nice to meet you and we wish you a pleasant stay in Brussels.

Chairman: Thank you very much indeed.