

Government Response to Public Consultation on the Draft Rules and Procedures for the Union Modernisation Fund

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Executive Summary

This document sets out the final rules and procedures of the Union Modernisation Fund, as determined by the Government in the light of consultation. In summary, they are:

RULES:

Eligible projects

1. The Fund will support only modernisation projects. These are defined as: “Projects which, reflecting the changing nature of the UK labour market and the changing needs, aspirations and behaviour of both workers and employers, contribute to, or explore the potential for, a transformation in the organisational effectiveness or efficiency of a union or unions in relation to: its members or prospective members; its employees; its structure or internal operations; or, its ability to work in partnership with employers.”
2. Projects must contribute to the applicant’s modernisation strategy, which must detail how the union(s) intends to build constructive relationships with employers in line with progressive workplace practices.
3. Priority themes for the first bid round are:
 - i. Improving the understanding of modern business practices by full time officers and lay representatives, to better enable unions to work constructively with employers as partners to improve business performance. In particular, projects will be welcomed which equip full time officers and lay representatives for their roles in the implementation of the Information and Consultation of Employees regulations;
 - ii. Improving two-way communication between unions and their members, leading to a potential for greater participation of members in the union;
 - iii. Improving the ability of unions to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership;
 - iv. Applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations;
 - v. Assessing the challenges and opportunities of union restructuring and union mergers; and
 - vi. Developing the professional competence of union officers.Bids on other themes will be accepted, but will not receive priority.
4. The following activities are excluded from Fund support:
 - direct recruitment activity in respect of particular employers;
 - activity which directly supports a union’s ability to engage in collective bargaining, trade disputes or to represent individuals in disputes with particular employers; or
 - expenditure on political objects, as defined in section 72 of the Trade Union and Labour Relations (Consolidation) Act 1992.

The first two exclusions do not apply if the particular employer in question gives consent to the project.

5. Projects will normally be expected to last no more than two years.
6. Project activity taking place outside Great Britain will not normally be supported.

Eligible applicants

7. Independent trade unions and federations of trade unions operating solely or mainly in Great Britain.
8. Collaborative bids by two or more eligible applicants will be welcomed.
9. All bids must be signed off at the level of General Secretary or equivalent.
10. There is no limit on the number of bids a union can make per bid round.
11. Applicants will be assessed for their financial viability.

Eligible costs

12. All reasonable costs directly incurred on the project are eligible for support. Capital investment will only be supported where it can be shown that such expenditure will contribute towards transformational change.
13. Grants will normally be for £200,000 or less. In exceptional circumstances bids up to £500,000 will be considered.
14. Bidders must provide 50% of total project costs as matched funding: this contribution can be made in cash or in kind or a mixture thereof.
15. Unions may lever-in contributions from external partners, but matched funding contributions from other central Government or EU grant schemes will not be accepted.

Selection criteria (see also Annex E for full statement of criteria)

16. All bids will be assessed for their transformational impact and strategic fit.
17. Bids which address one or more of the key themes will receive priority.
18. All bids must demonstrate additionality*, sustainability, value for money and a capacity for their results to be disseminated for the benefit of others within the trade union movement.
19. Selection will also be based on how well-conceived applications are. All bids must have a clear rationale and objectives, and must contain a risk assessment.
20. Priority will be given to bids which are realistically costed and propose realistic deliverables and timetables. Bids will also be assessed for the effectiveness of proposed project management arrangements and the division of roles and responsibilities for key participants.
21. Quality of bid, as assessed against these criteria, will be the overriding consideration.

Requirements on successful bidders

22. A grant offer letter will set out the terms on which money will be provided for the project, and circumstances in which monies may be withheld or reclaimed.
23. All projects must agree with the Department of Trade and Industry (DTI) a monitoring and evaluation strategy, including a commitment to produce a final project report. The costs of monitoring and evaluation are eligible for support.
24. Successful applicants will be obliged to co-operate with the monitoring and research activities of DTI officials and external fund evaluators.
25. All successful projects must supply an independent accountant's report at the end of the project verifying the appropriate use of grant monies.

PROCEDURES:

Application and assessment process

26. There will be annual bid rounds. The assessment process will be administered by DTI officials at least until the Fund is firmly embedded.
27. Applications will be made on a standard form. This must be accompanied by a description of the union's modernisation strategy and the last two years' accounts of each applicant.
28. An independent Supervisory Board will consider all bids and recommend to Ministers those projects it considers should be supported. The Minister will consider all bids received in the light of the Supervisory Board's recommendations and decide on successful bids.
29. Bid assessment will take into account the extent of union resources and expertise for preparing bids.

* Additionality is the requirement that projects supported by the Fund should be additional to the day-to-day work of the applicant union. Applicants must demonstrate that without Fund support the project would: not go ahead at all, not go ahead on the same timescale; not go ahead on the scale proposed; or be of a significantly different nature.

30. The Supervisory Board will consist of seven members, selected through open competition, with a range of relevant experience, including a Chair with experience of working in a trade union.
31. All bids will receive written feedback from Fund officials.

Support and advice for applicants

32. DTI officials will provide advice to prospective bidders, including informal impartial feedback on project ideas and bids in draft.

Disbursement of funds

33. Unions will be reimbursed for project expenditure at intervals agreed with DTI officials. 15% of total project costs will be withheld until completion of the project.

Chapter One: Introduction

Background

1.1 In February 2004, the Government announced its intention to establish the Union Modernisation Fund to give money to trade unions in order to assist them to modernise. Legislative authority for the Fund is provided by section 116A of the Trade Union and Labour Relations (Consolidation) Act 1992, as inserted by the Employment Relations Act 2004. The Fund will be £5 - £10 million in total over a number of years, starting in the 2005-2006 financial year. It will support innovative projects to help speed unions' adaptation to changing labour market conditions. By funding a variety of projects, which will be formally evaluated, and by publicising the results more widely among unions, the Union Modernisation Fund will help unions to test innovative ways of working and will provide a demonstration effect to the broader trade union movement, enabling unions to realise more fully their potential to improve the world of work for workers and employers alike.

1.2 In line with commitments made during the passage of the Employment Relations Act 2004, the Government has consulted extensively with trade unions, employers, academics and organisations with employment relations expertise on the detailed implementation of the Fund. Two rounds of informal consultation were held over summer and autumn 2004. A formal consultation document setting out draft rules and procedures for the Fund was published on 9 December 2004. This document summarises views received during formal consultation and sets out the Government's response to the points raised.

Consultation activities

1.3 Around 250 copies of the consultation document were sent to interested parties. In addition the document was posted on the Department of Trade and Industry (DTI) website. Officials also conducted a number of meetings with interested parties during the consultation period. The Government is grateful to all those organisations which participated. In particular, the Government thanks the Trades Union Congress (TUC) and the Scottish Trades Union Congress (STUC) for facilitating helpful discussions with their affiliated unions.

Responses to consultation

1.4 The deadline for responses to be received by the DTI was 3 March 2005. A total of 42 responses were received. 31 of these were from trade unions and trade union organisations, 5 from employer associations, 1 from an individual employer, 2 from academics and 1 from a consultant. Other respondents included the Advisory, Conciliation and Arbitration Service (Acas) and the Equal Opportunities Commission (EOC). Of the 31 trade union respondents, 11 were small unions who submitted a single response but asked that they should be considered as individual respondents.

1.5 A summary of responses is set out in the table below:

Category	Number of responses
Individual employers	1
Employer organisations	5
Trade union organisations	31
Academic researchers	2
Other	3
Total	42

1.6 A list of those respondents who were willing to have their names and responses disclosed can be found at Annex G of this document. The Government would like to thank all respondents for their thoughtful and considered views.

1.7 Requests to view responses, except for those made in confidence, may be made in writing to: Nana Abadji, Employment Relations Directorate, Department of Trade and Industry, Bay 3124, 1 Victoria Street, London SW1H 0ET.

1.8 Further copies of this document can be ordered from the DTI website at: www.dti.gov.uk/publications, or from the DTI publications order line on 0845 015 0010. Welsh language copies of the Executive Summary will also be available, on request, from the publications order line. Further information on the Union Modernisation Fund, as well as the electronic version of this document and the executive summary, can be accessed from the DTI Employment Relations website at: www.dti.gov.uk/er/union_mod_fund.htm.

Overview of consultations

1.9 In general, unions strongly welcomed the UMF initiative and expressed satisfaction with the Government's general approach. Despite expressing some reservations about the principle of a Union Modernisation Fund, employer organisations were also largely supportive of the Government's general approach to the Fund, commenting constructively on the detail of the proposals. The broad thrust of the Government's proposals for the scope, governance and criteria of the Fund was accepted by the overwhelming majority of respondents.

Understanding this document

1.10 In this document the Union Modernisation Fund is generally referred to as the "Fund". The consultation document, "Union Modernisation Fund: Consultation on the draft Rules and Procedures", published on 9 December 2004 is referred to as "the consultation document."

1.11 This report follows the order of the December consultation document. It gives an account of the views expressed in relation to each of the proposals made by the Government for the operation of the rules and procedures of the Fund. Not every respondent is cited in each case, not least because some submissions repeated views already expressed by others. The total number of respondents on each issue is given before the main points are summarised. A list of the questions on which stakeholders were particularly asked to comment can be found at Annex A of this document.

1.12 Following the description of the views expressed by consultees, the Government's response to these views is presented. The Government's final recommendations in relation to each proposal are set out in bold lettering at the end of each section. Together, these recommendations constitute the Government's final position on the rules and procedures according to which the Fund will operate.

1.13 In general, the final conclusions of the review confirm the initial findings of the consultation document. With a few exceptions, the Government proposes to proceed with the proposed rules and procedures presented in the consultation document. The Government has also, where appropriate, developed the discussion

of certain matters within the consultation document in order to provide stakeholders with a more detailed understanding of how these recommendations will operate.

Regulatory Impact Assessment (RIA)

1.14 The Final RIA for the Fund can be found at Annex B of this document. This document is also separately available on the DTI website at:
www.dti.gov.uk/er/union_mod_fund.htm.

Next Steps

1.15 The Government intends to launch the Fund and issue a first call for bids in the summer. Unions will then have several weeks to submit their applications to the Fund. Close of applications is expected in the autumn and it is intended that applicants will be notified whether they have been successful before the end of the year. The Government also intends to run workshops on the application process for prospective applicants prior to launch of the Fund. Trade unions should expect to receive details of these workshops in the coming weeks.

Chapter Two: Scope of the Fund

What activities will be supported by the Fund?

2.1 In the consultation document, the Government proposed that bids to the Fund must meet the following definition of a modernisation project:

“The Fund will support those projects which, reflecting the changing nature of the UK labour market and the changing needs, aspirations and behaviour of both workers and employers, contribute to, or explore the potential for, a transformation in the organisational effectiveness or efficiency of a union or unions in relation to:

- *its members;*
- *its staff;*
- *its structure or internal operations; or*
- *its ability to work in partnership with employers.”*

2.2 The Government also proposed that, in order to demonstrate how their proposed projects accord with the strategic priorities of the union, applicants to the Fund will be asked to supply a description of their organisation’s modernisation strategy alongside their application. This modernisation strategy should show how the union in question intends to build constructive relationships with employers in line with progressive workplace practices. 25 respondents expressed a view on this issue.

2.3 The overwhelming majority of respondents welcomed the Government’s proposed definition of a modernisation project. In particular, several respondents welcomed the breadth of the proposed definition and felt that it covered those initiatives which were most likely to deliver operational improvements in trade unions’ work.

2.4 A number of respondents commented in more detail. The Trade Union Congress (TUC), the National Union of Rail, Maritime and Transport Workers (RMT) and the Transport and General Workers Union (T&G) stressed that the term “modernisation” should not be interpreted in a restrictive way. Rather, they felt that it should be neutrally understood and be seen to be broadly synonymous with

“development”. The GMB felt that the definition proposed by the Government was likely to be subject to conflicting interpretations. They also proposed that the term “staff” should be replaced with the more precise term “employees”.

2.5 Two respondents felt that the Government’s proposed definition of modernisation should be expanded. The trade union members of the Trade Union Sustainable Development Advisory Committee (TUSDAC) proposed that the principles of sustainable development should be reflected in the definition of eligible projects. The Equal Opportunities Commission (EOC) argued that modernisation necessarily entails opening up the movement to under-represented groups, and therefore called for the proposed definition of modernisation to refer to “its members, or prospective members.” The EOC further commented that responding to diversity should be a fundamental principle to be included in the definition of modernisation projects.

2.6 The GMB objected on a number of grounds to the proposed requirement on applicants to supply a modernisation strategy detailing how they intend to engage constructively with employers in line with progressive workplace practices. They argued that there is no corresponding duty on employers to recognise such an interest and that unions can and should only work with those employers who are equally responsible as social agents. They also called attention to the fact that many unions might be reluctant to place in the public arena their strategic priorities, arguing that these “may be confidential and not for publication in anything other than the broadest sense”. Finally, the GMB argued that “progressive workplace practices” would require further definition, but expressed pessimism about the possibility of achieving agreement on this issue, arguing that there is “no non-political view of good workplace practice”.

2.7 The Chartered Institute of Personnel Development (CIPD) commented that the selection criteria do not strictly require unions to show that their proposals will contribute directly towards constructive relationships with employers or progressive workplace practices. They considered that this was an ambiguity in the rules of the scheme which should be resolved.

2.8 The Government has deliberately sought to provide a general definition of what constitutes modernisation for the purposes of the Fund in order to allow the broadest scope for innovative and creative bid ideas. The definition of modernisation is intended to define the scope of activity eligible for Fund support, rather than to provide an exhaustive list of what modernisation is likely to mean for individual unions. For this reason, the Government does not propose to adopt any of the suggestions to highlight a particular issue or topic within the definition.

2.9 Whilst recognising that modernisation may indeed mean different things to different people, the Government believes that there is a significant degree of consensus, both among trade unions and more widely, that particular developments in the economic, technological, social and employment relations fields pose key strategic challenges which are shared by trade unions, and indeed more widely by employers and Government. A number of these developments are reflected in the proposed themes for the Fund, which are addressed in greater detail in paragraphs 2.13 – 2.24. How individual unions choose to address these developments in the strategic modernisation objectives they set for their organisations is a matter for each union to decide in dialogue with its members. However, in using taxpayers' money to support union modernisation, the Government is seeking to enhance unions' capacity to contribute to the development of high performance workplaces, as well as to deliver the wider benefits which may be associated with a trade union presence in the workplace. The Government therefore believes it is appropriate that unions should set their application in the context of their modernisation strategy, setting out how they propose to contribute to the promotion of constructive employment relations in Great Britain. The modernisation strategy supplied with a union's application need not be described in every detail. Bid assessors will simply be looking to see a statement of the union's modernisation priorities and its broad strategy for addressing these, in order to reassure themselves that the particular project for which Fund support is sought accords with these priorities. The notes to assist unions with the completion of the application form will provide further guidance on this point.

2.10 The Government does not consider that the absence of a requirement for unions to demonstrate that their project proposals will directly build constructive relationships with employers constitutes an ambiguity in the Fund's design. As stated above, the Government considers that, for the purposes of the Union Modernisation

Fund, trade union modernisation strategies should include a consideration of how to engage constructively with employers. However, it is recognised that this will not be a necessary element of all individual initiatives which contribute to that broader strategy. For example, projects to encourage a greater involvement of disabled workers in the work of the union, or those which focus on improving the efficiency of internal managements systems. That said, the Government strongly supports and encourages greater partnership between employers and unions. Indeed, Strategic Partnership funding exists to support efforts by employers and worker representatives to work together for their mutual benefit. Trade unions have had a significant involvement in this work and that of a precursor fund, the Partnership at Work Fund.

2.11 The Government agrees with the drafting suggestion put forward by the GMB about the use of the word “staff” in the definition. It also notes the concerns expressed by the GMB that unions may not wish to publicise the detail of their modernisation strategies. The Government will not make publicly available the detail of any applications made to the Fund or the strategy documents which accompany them, subject to legal obligations. Applications will normally be seen only by Fund officials, the appointed independent evaluator, members of the Supervisory Board and Ministers. In certain cases, expert technical advice on particular aspects of bids may be sought but the identity of the applicant union will not be disclosed to the expert concerned unless consent is given.

2.12 In light of the comments received, the Government intends broadly to confirm its proposed definition of modernisation projects and the associated requirement for unions to supply a description of their modernisation strategy alongside their application form. However, following suggestions made in response to consultation, the Government proposes to amend the definition of modernisation as follows:

“The Fund will support those projects which, reflecting the changing nature of the UK labour market and the changing needs, aspirations and behaviour of both workers and employers, contribute to, or explore the potential for, a transformation in the organisational effectiveness or efficiency of a union or unions in relation to:

- *its members, or prospective members;*

- ***its employees;***
- ***its structure or internal operations; or***
- ***its ability to work in partnership with employers.”***

Themes

2.13 In the consultation document, the Government proposed six priority themes for the first bid round:

- i. *Improving the understanding of modern business practices by full time officers and lay representatives, to better enable unions to work constructively with employers as partners to improve business performance. In particular, projects will be welcomed which equip full time officers and lay representatives for their roles in the implementation of the Information and Consultation of Employees Regulations;*
- ii. *Improving two-way communication between unions and their members, leading to a potential for greater participation of members in the union;*
- iii. *Improving the ability of unions to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership;*
- iv. *Applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations;*
- v. *Assessing the challenges and opportunities of union restructuring and union mergers; and*
- vi. *Developing the professional competence of union officers.*

2.14 In the consultation document the Government proposed to review these themes in future years, in light of the experience of the first round and emerging priorities. The Government also proposed that, whilst bids which addressed one or more of these themes should receive priority, bids assessors should be free to consider bids on other subjects. 27 respondents expressed a view on this issue.

2.15 Respondents largely welcomed the proposed themes for the first bid round. A number of respondents highlighted one or more of the six proposed themes as the most important. For example, both Acas and the Engineering Employers’ Federation (EEF) stressed the importance of the theme of improving full time officers’ and lay representatives understanding of modern business practices, with particular regard to their new role under the Information and Consultation of Employees Regulations.

Others emphasised responding to the increased diversity of the labour market and union membership. The Institute of Directors (IoD) felt that improving two-way communication between unions and their members, leading to a potential for greater participation of members in the union would be the most sensible use of Fund monies. Professor Roger Undy of Oxford University welcomed the theme relating to union mergers and restructuring, as, in his view, mergers have proven transforming potential in respect of union structure and operations.

2.16 The TUC and a number of trade unions expressed the view that the priority themes should not become a restrictive list. The TUC stated that it should be made clear that other projects will be considered on their merits and stand an equal chance of success. The CBI stated that the proposed themes are sufficient and should not be expanded. Several other respondents, however, argued for the themes to be expanded or clarified in some way. The Union of Construction, Allied Trades & Technicians (UCATT) sought clarification that theme vi: “developing the professional competence of union officers”, could also apply to lay representatives. USDAW sought clarification of theme iii: “improving the ability of unions to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership”. They pointed out that this was the only context in which the development and supply of new union services is explicitly encouraged within the Fund and sought clarification of whether theme iii was intended to be restricted to services geared to the needs of particular under-represented groups or whether “diversity” in this context might be interpreted more broadly as referring to the range of interests across the labour market and union membership more generally.

2.17 The trade union members of TUSDAC proposed that the theme iv, “Applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations” should be extended to allow for bids involving environmentally sustainable initiatives in the fields of energy efficiency, energy saving and more efficient use of natural resources.

2.18 Professor Undy felt the priority themes should be extended to specifically include post-merger integration strategies as well as cost-benefit analyses of particular merger propositions. Amicus also commented on the themes relating to mergers, arguing that the Fund should not be used to promote undecided mergers as

this could be destabilising, but only to contribute to the integration process once mergers have been determined.

2.19 The Government welcomes the general consensus in favour of the proposed priority themes for the first bid round. In particular, the Government is pleased by the strong welcome for theme of improving lay representatives' understanding of modern business practices, and the particular emphasis on projects to equip lay representatives for their new role in the implementation of the Information and Consultation of Employees Regulations. The successful implementation of the new Information and Consultation Regulations, building upon the landmark framework agreed by the TUC and CBI, is a key priority for the Government in its third term. Skilled and knowledgeable lay representatives will, in many cases, be key to the provision of effective employee voice at work and ensuring that employees are informed and involved about the future development of their undertaking. Assisting unions to prepare lay representatives for this challenging and important new role is therefore rightly one of the key priorities of the Fund.

2.20 The Government notes the concerns of the TUC and some individual unions that the priority themes should not become a restrictive list. The Government has already stated in the consultation document that these themes are not exclusive and bids on other subjects will be considered. However, such bids will not have an equal chance of success. The proposed themes are priority themes, designed to ensure that limited Fund monies are concentrated on those areas which have been identified as of greatest strategic importance to the union movement and to the economy more widely. Bids which address these themes will normally take precedence over bids on other subjects. However, where a union submits an outstanding proposal in another subject area which scores very highly against a significant number of other selection criteria, the Supervisory Board will be able to recommend that this bid should receive Fund support. The selection criteria are set out at Annex E of this document.

2.21 With regard to the points raised by USDAW, the Government recognises that the development of generic new services may well be something some unions will wish to explore. However, there has not been a general call for its inclusion within the themes. The Government therefore confirms that theme iii relates specifically to

the development of services which address the needs of groups currently under-represented within trade union membership.

2.22 With regard to the discussion of theme v, relating to mergers and restructuring, the Government wishes to make clear that this theme applies to assessments of the potential advantages or disadvantages of union merger, which may indeed inform union decisions whether to enter into a merger or to remain independent. However, it may also be possible for unions to apply for support for post-merger integration strategies under theme iv: “*applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations*”, in so far as such proposals meet the Fund’s criteria, in particular the requirement for additionality. The Government understands the concerns raised by Amicus in relation to pre-decision assessments. However, the Government does not consider it likely that a union would make a bid to the Fund for such a project without having first assured itself that to do so was not likely to prejudice its relations with other unions. Moreover, the Government concurs with the view expressed by Professor Undy that supporting a rigorous assessment of the potential implications of merger or independence is likely to “*optimise the opportunities which such potentially transforming decisions offer*”.

2.23 The Government has carefully considered the various suggestions for expanding the priority themes. Whilst all the suggestions made touch on important matters, consultation showed that the themes as proposed reflect those issues of greatest priority to the majority of respondents. The Government does not therefore propose to expand the proposed themes. However, the Government considers that a number of the concerns identified by respondents are likely in any case to fall within the scope of the priority themes as currently described. For example, measures to encourage the efficient use of energy by trade union organisations would certainly fall within scope of theme iv. Of course, some of the suggestions made do fall outside the scope of the proposed themes. However, as stated above, unions are not precluded from submitting bids on other subjects.

2.24 Following careful consideration of all the views received, the Government therefore confirms the six priority themes for the first bid round as set out in paragraph 2.13 above. The Government further confirms its intention

to review the themes in the light of the experience of the first bid round and emerging priorities.

Excluded activities

2.25 In the consultation document, the Government invited comments on activities which are excluded from Fund support. The Government identified three broad areas of excluded activity: direct recruitment activity in respect of particular employers; activities designed to directly support a union's ability to engage in collective bargaining, trade disputes or to represent individuals in disputes with particular employers; and the expenditure of fund monies on political objects.

a) Direct recruitment

2.26 In the consultation document the Government clarified that the Fund will not be used to support the day-to-day recruitment activity of unions. The Government acknowledged the concerns expressed by many unions that initiatives designed to make a union more efficient or effective should not be excluded if they might be thought to indirectly result in new members joining the union. The Government therefore proposed the following definition of direct recruitment:

“The Fund will not be used to support any project or activity for the direct purpose of recruiting into union membership workers employed by a particular employer or employers. In particular, this means that the Fund will not be used to support recruitment drives by unions to advance their case to be recognised by a particular employer or employers for collective bargaining purposes. However, this limitation does not apply where the particular employer gives his express consent to the project or activity.”

17 respondents expressed a view on this issue.

2.27 The overwhelming majority of respondents supported the proposed definition. Union organisations, including the TUC, reiterated the need for the distinction, acknowledged by this definition, between projects focused on direct recruitment and transformational projects that could result in some indirect recruitment. USDAW sought to add that this exclusion should not apply to projects designed to develop and manage generic organising models and new ways of working. Community expressed the view, echoed by the RMT, that should improved efficiency and effectiveness have

the result of making unions more attractive to prospective members, it should be recognised that this could be beneficial, as employers will wish to deal with unions which are representative of their workforce.

2.28 Most employer organisations which responded on this matter expressed support for the Government's approach. The Newspaper Society, however, felt that all recruitment-related activity, whether in relation to a specific employer or more generally, should be excluded.

2.29 In the light of general support for its proposals from both employers and unions, the Government confirms the definition of excluded direct recruitment activity in respect of particular employers, as set out at paragraph 2.26 above. This definition will allow, in certain circumstances, for projects of the kind described by USDAW. However, the Government is aware that there may be a fine line between projects which purport to address a union's approach to organising in general and those which are likely to impact significantly on a particular employer or employers. The Supervisory Board will have specific regard to such matters when assessing whether the activity proposed is eligible for support and will reach a judgement about individual applications on a case-by-case basis.

b) Relationships between unions and individual employers

2.30 In the consultation document the Government proposed that the Fund should not be used to support unions in collective bargaining or trade disputes with particular employers. The Government proposed the following definition of excluded activity which impinges on a union's relationship with a particular employer:

“The Fund will not be used to support any project or activity for the purpose of directly supporting the union's ability to undertake collective bargaining with a particular employer; to pursue a trade dispute with a particular employer; or to represent individual workers employed by a particular employer in a dispute between that employer and the individual worker. This limitation does not apply where the employer concerned gives his express consent to the project or activity.”

17 respondents expressed a view on this issue.

2.31 Unions on the whole supported this exclusion. The GMB, however, considered it imbalanced that the discretionary allowance for a project which directly supported a union's ability to undertake collective bargaining with a particular employer rested with the employer, arguing that achieving the employer's consent may be a legitimate objective of such a project. The Association of Teachers and Lecturers (ATL) added that where unions gain the consent of employers for a project relating to collective bargaining, the general lessons learned from this partnership approach should be disseminated to other unions. The Transport Salaried Staffs' Association (TSSA) argued that it should be made clear that the Supervisory Board would have discretion to judge whether individual bids meet this definition on a case by case basis.

2.32 Employer organisations which responded were generally supportive of the Government's proposals in this area. The Newspaper Society, however, argued for the exclusion of any project relating to a union's collective bargaining functions.

2.33 The British system of employment relations is, for the most part, a voluntarist one, in which collective bargaining arrangements are a matter for agreement between individual employers and trade unions. It would not be appropriate for the Government to interfere in individual union-employer relationships. Therefore, whilst the Government strongly supports the view expressed by the GMB that achieving the agreement of employers to work together to improve their collective bargaining arrangements is a legitimate goal of union activity, it does not consider it appropriate to use taxpayers' money in support of such projects where prior employer consent has not been achieved.

2.34 In view of widespread support for the definition set out at paragraph 2.30 above, the Government confirms its proposals in this area. The Government also wishes to make clear that the Supervisory Board will have discretion to judge on a case-by-case basis whether a given project is likely to impact on a union's ability to undertake collective bargaining or to engage in individual or collective disputes with a particular employer.

c) Political Objects

2.35 In the consultation document the Government highlighted that the legislative basis for the Union Modernisation Fund makes clear that the Fund cannot be used to support the political activities of unions. Section 116A(4) of the Trade Union and Labour Relations (Consolidation) Act 1992 (as inserted by Section 55 of the Employment Relations Act 2004) prevents money from the Union Modernisation Fund being paid into the political fund of a union. In conjunction with the rules set out in Chapter VI of the Trade Union and Labour Relations (Consolidation) Act 1992, particularly the exclusion of the transfer of money from a union's general fund to its political fund, these rules preclude the expenditure of UMF monies on political objects. The consultation document proposed that the definition of political objects contained in Section 72 of the 1992 Act would be used for the purposes of the Fund. 15 respondents expressed a view on this issue.

2.36 All respondents endorsed the Government's proposals in this area.

2.37 In view of unanimous support, the Government confirms its proposals for the prohibition of expenditure of Fund monies on political objects.

General criteria for bids

2.38 In the consultation document, the Government invited comments and suggestions on proposed general criteria against which all bids should be assessed in order to ensure the proper use of public monies. Four general criteria were proposed: additionality, sustainability, value for money and dissemination.

2.39 Generally, respondents stated that they understood the need for the proposed general criteria for bids. One union found the general criteria to be "sound and robust justifications for utilising taxpayers money", a sentiment reflected by many respondents.

a) Additionality

2.40 In the consultation document the Government proposed that the Fund would not be used to support the day-to-day work of unions. Fund-supported projects must therefore demonstrate additionality. In other words, applications must demonstrate that without Fund support, the project would:

- not go ahead at all;
- not go ahead on the same timescale;
- not go ahead on the scale proposed; or
- be of a significantly different nature.

15 respondents expressed a view on this issue.

2.41 11 respondents expressed support for the proposed criterion. However, four unions - TSSA, Amicus, GMB and Unison - expressed some concern about the statement that, in general, additionality is likely to be compromised if work on the project has already started.

2.42 The TSSA and Amicus argued that once a union has embarked on a project, the expected complexity, scale or scope originally envisaged may be surpassed and the original project objectives expanded. In such cases, they argued, a union should be able to submit a bid for the new project. The GMB and Unison both highlighted the fact that many unions will wish to build upon initiatives, research and planning which is already underway, and would be unlikely to bid for projects which had not already been the subject of detailed consideration and assessment.

2.43 The financial assistance provided by the Fund is for the support of innovative activity which unions would be otherwise prevented from undertaking. The Fund cannot therefore support projects which a union has already commenced from its own resources. However, as noted by the TSSA and Amicus, projects which are already underway may demonstrate additionality if support from the Union Modernisation Fund would enable the nature of that project to be significantly enhanced, perhaps by allowing project benefits to be realised within a much shorter timescale or by allowing the project to take place on a much wider scope.

2.44 The additionality of a project is not affected if work relating to that project, for example, research, planning or the road-testing of ideas, has already taken place, unless a union is seeking reimbursement of the costs of this work. A union may certainly seek financial support for new activity which builds upon this earlier work as long as it can be shown that Fund support for this new activity is needed.

Additionality does not, therefore, require that only entirely new areas of activity can be supported.

2.45 In the light of widespread support for its proposal, the Government confirms its intention to require that all bids to the Fund must demonstrate additionality. The Government also proposes to provide guidance to bidding unions and the Supervisory Board on the application of this criterion, particularly in relation to bid ideas which build upon initiatives already undertaken by unions, or which represent an expansion of an existing programme of work.

b) Sustainability

2.46 In the consultation document the Government proposed that all bids should demonstrate how the activity or benefits of the project concerned would be sustained after the period of Fund assistance. 14 respondents expressed a view on this issue.

2.47 13 respondents expressed support for this criterion. USDAW queried whether the sustainability criterion ruled out Fund support for pilot projects as “risk taking or pilot projects may by their very nature be unsustainable or not sustained as a consequence of the project evaluation process”. The trade union members of TUSDAC felt that this criterion should be amended to “sustainable development”, with the criterion expanded to include the promotion of sustainable consumption and use of energy and natural resources.

2.48 The Government notes concerns expressed about the application of the sustainability criterion to pilot projects or feasibility studies. Such projects may afford unions valuable opportunities to evaluate the impact and feasibility of as yet untested approaches and to learn important lessons for their successful implementation on a wider scale. Unions wishing to bid for such projects may address the sustainability criterion by demonstrating that consideration has been given to how and when project results would be more widely rolled out and a commitment to do so, assuming the project were successful. The Government acknowledges that unions may be likely to require further external financial assistance in order to apply the results of a pilot or feasibility study more widely.

2.49 The Government announced on 7 March 2005 the launch of *Securing the Future*, the Government's Sustainable Development Strategy. In that strategy, the Government made a commitment to work to encourage the application of sustainable development principles at all levels; in international forums and within Government, but also in businesses, the public sector, voluntary and community organisations, and communities and families. The Government encourages trade unions to consider the environmental impacts of their proposed and existing activities, both those for which Fund support is sought, and those of a more day-to-day nature. That said, the Government is committed to the avoidance of unnecessary complexity in the Fund's design. The four general criteria proposed are those generally agreed by consultees to be minimum requirements for the accountable allocation of public funds. In light of this, the Government does not consider it appropriate to amend the sustainability criterion in this way.

2.50 In view of general support for its proposal, the Government confirms its intention to require that all bids to the Fund must demonstrate sustainability. The Government proposes to provide guidance on the application of this criterion, particularly with respect to pilot projects.

c) Value for money

2.51 In the consultation document the Government proposed that all bids to the Fund should demonstrate value for money. The draft rules therefore proposed to require justification of all project expenditure and made clear that the Fund should provide the minimum support necessary for the project to go ahead as proposed. 13 respondents expressed a view on this issue.

2.52 All respondents found the requirement for projects to demonstrate value for taxpayers' money acceptable. Amicus reiterated the point made in the consultation document that value for money would not necessarily mean that projects must be done as cheaply as possible, but that cost should be assessed against other considerations such as quality and the timeliness of project outputs. Amicus was of the view that quality should be the highest priority in all cases.

2.53 In view of unanimous support, the Government confirms its intention to require that all bids to the Fund must demonstrate value for money. It is clear

that any assessment of value for money must take into account the quality of the project in question. However, it should be clear that an assessment of the value for money offered by a given project will always involve establishing an appropriate balance between the competing considerations of cost, quality and time.

d) Dissemination

2.54 In the consultation document the Government proposed that all projects must be capable of providing a demonstration effect for others within the applicant union and trade unions more generally. 13 respondents expressed a view on this issue.

2.55 All those who responded supported the proposal. USDAW argued that this criterion was critical in order to maximise the benefits of the Fund for the wider union movement. The GMB reiterated the view expressed in the consultation document that not all projects will be relevant for all unions and emphasised that a “one size fits all” approach should not be taken in applying this criterion.

2.56 In the light of unanimous support, the Government confirms its intention to require that all projects must be capable of providing a demonstration effect for others in the union.

2.57 The EOC proposed the addition of a further general criterion of inclusivity.

2.58 The issues of diversity and equality are of significant strategic importance to trade unions, many of which have done a great deal of work to improve the position of traditionally excluded groups within their ranks. Unions are also key partners in a number of important Government initiatives on diversity and equality, most recently the Women and Work Commission to examine the gender pay gap and other issues affecting women’s employment. A number of unions have highlighted, both in informal consultation and in response to this written consultation, their desire that the Fund should help to support further initiatives to improve their ability to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership.

2.59 For this reason, the Government has included diversity as one of the priority themes of the Fund in its first year. However, as noted in paragraph 2.49 above, the Government wishes to avoid unnecessary complexity in the design of the Fund. Therefore, whilst unions are strongly urged to consider the impacts of their proposed projects on traditionally excluded groups, the Government does not propose to make inclusivity an additional general criterion.

Who is eligible to apply to the Union Modernisation Fund?

2.60 In the consultation document the Government proposed a number of eligibility criteria for Fund applicants. Applicants must be either a trade union holding a valid certificate of independence from the Certification Officer, or a trade union federation operating in Great Britain. Joint applications by two or more eligible applicants would be accepted. The consultation document further proposed that all applications to the Fund must be signed off at the level of General Secretary or equivalent of each applicant union or federation. 26 respondents expressed a view on this issue.

2.61 Consultees on the whole supported these proposals. In particular, all respondents who commented agreed with the requirement for top-level sign off for applications to the Fund. The 11 unions which submitted a joint response argued that eligibility to apply for Fund support should be extended to all listed unions, regardless of whether they hold a certificate of independence. Further, they enquired whether a bid which is led by an independent union in collaboration with partners which are not independent would be eligible to apply for support from the Fund. Consultant John Reid of John Reid & Associates requested clarification on whether bidding unions would have to be affiliated with the TUC in order to be eligible for support. Dr Gregor Gall of the University of Stirling felt that academics and consultants working within the union movement should also be able to lead applications. The Involvement and Participation Association (IPA) argued that bids led by eligible unions, which include the participation of a broader representation of the social partners should also be eligible to apply for Fund support.

2.62 UCATT agreed with the proposed criteria but requested clarification on the position of projects where project activity will take place in Great Britain but the project involves an element of partnership with international organisations based

outside of the UK. Amicus pointed out that in order to function most effectively in a modern society, unions need to recognise the international dimension of the world of work. Whilst they accepted the Government's proposals in this area, they expressed the hope that projects to improve unions' understanding of global developments in employment practices would be welcome. The GMB agreed with all the proposed eligibility criteria, but requested clarification on the decision making process in cases where two unions, who do not have an agreed common approach due to structural, sectoral or organisational difficulties, apply to the Fund for similar projects.

2.63 The Government recognises that some workers choose to join non-independent unions. However, the Government does not believe that it would be an appropriate use of the Fund's scarce resource for non-independent trade unions to receive support. Such unions have, by definition, very close working relations with one or more employers and can draw on their financial or material support for their organisational development. Also, the statutory base for the Fund limits its use to independent unions or to federations of unions, though in this latter case the federations do not need certificates of independence. The Government therefore confirms that all union applicants to the Fund (except union federations) must be in possession of a valid certificate of independence from the Certification Officer.

2.64 Trade unions need not be affiliated to the TUC in order to qualify for support. The TUC undertakes an extremely important role and is highly valued by the Government as a significant partner in delivering a broad range of key policy initiatives. However, the decision to join the TUC or any other federation is a matter for individual unions to decide in the light of the rules and interests of each organisation. It would not be appropriate for the Fund to exclude independent unions whose members had chosen to remain outside of the TUC.

2.65 Only collaborations between two or more unions and/or federations are eligible for fund support as joint bids. In a joint bid of this kind, the Government intends to require that one partner be identified as the lead partner, responsible for liaison with the DTI. However, each of the partners involved would be jointly liable for the delivery and financial management of the project.

2.66 The Government recognises the valuable contribution which may be made by third parties such as employers, academics, or indeed foreign trade unions, through the provision of advice, resources or expertise. Bids, therefore, which are led by eligible applicant unions or federations and which involve an element of partnership with such third party organisations are welcomed. In such cases, however, responsibility for managing the relationship with these partners, whether contractual or more informal, will rest with the union or unions leading the bid. Only those unions may directly receive Fund monies. Liability for the delivery and management of the project, including those elements undertaken by partners, will rest entirely with the trade unions and/or federations leading the bid.

2.67 The Government welcomes the points raised by Amicus. Just as businesses must address the challenges of increasing global competition and labour market mobility, so unions, if they are to effectively represent the needs of workers, will wish to consider the impact of global economic developments on their work and the applicability of practices developed in other countries in the British setting.

2.68 The overriding criterion for choosing successful projects will be the quality of bids, as assessed against the selection criteria. It is possible, therefore, that two or more similar projects, may receive Fund support. However, it is imperative that the Fund should deliver value for money. Therefore, where unions have submitted projects involving similar approaches to the same issues, the unions in question may be asked to consider whether efficiencies might be achieved by their working in partnership or sharing experience through the life of their respective projects.

2.69 In light of responses received, the Government intends to take forward the eligibility criteria for bid applicants as proposed in the consultation document.

What can be funded?

2.70 The Government's proposed eligible project costs were set out in detail in Annex 2 of the consultation document. 13 respondents expressed a view on this issue.

2.71 The majority of unions supported the Government's proposed list of eligible costs. The TUC, T & G and RMT proposed that an element of discretion and

flexibility should be maintained over the interpretation of eligible costs, particularly in order to allow for inflation. The ATL sought clarification of whether the costs of recruiting staff to work on projects could be included in a bid. The GMB expressed unhappiness with the Government's proposal that where permanent union staff were transferred to work on the project, the costs of hiring temporary cover for the work those individuals would have otherwise done should not be eligible for support.

2.72 Employer organisations which responded endorsed the Government's proposals.

2.73 The list of eligible costs proposed by the Government (set out at Annex C of this document) is not intended to be exhaustive, but to provide guidance to prospective bidders. The Supervisory Board will have discretion to assess the costs of each individual bid on a case-by-case basis. The fundamental criterion for eligibility is that only reasonable costs directly incurred on the project will be supported. It is for this reason that the Government does not propose to support the costs of temporary cover for the union's day-to-day work. Unions may seek Fund support for recruitment and salary costs of individuals working on projects, or they may wish to include these costs as part of their matched funding contribution. To also claim for the costs of hiring temporary staff for other work would amount to "double-counting".

2.74 In view of general support for its proposals, the Government confirms that the Fund may support up to 50% of reasonable costs directly incurred on a project. In every case, whether a proposed cost is eligible for the purposes of the Fund will be a matter for the Supervisory Board to determine. DTI officials will be able to advise any unions unsure of whether a given cost is likely to be eligible for support.

Duration of projects

2.75 In the consultation document the Government proposed to normally support projects of up to 2 years in duration. It was also proposed that the Supervisory Board should have discretion to recommend to Ministers that the Fund support a project of longer duration where there are good proven reasons for this. 20 respondents expressed a view on this issue.

2.76 Several respondents argued that certain projects with the potential to yield substantial benefits would be likely to take more than two years to complete. The TUC, Community, USDAW and Amicus all therefore welcomed the proposal to allow the Supervisory Board discretion to recommend that a longer project be supported where there are strong reasons to do so. Others, however, argued for no limit at all, or for a longer limit. The National Association of Schoolmasters Union of Women Teachers (NASUWT) argued that, even with Supervisory Board discretion, a two year limit would discourage unions from developing ambitious project ideas which were likely to deliver significant benefits. Two unions asked whether unions would be able to reapply to the Fund for a project where work was not completed within two years.

2.77 Employers' organisations which responded supported the Government's proposals.

2.78 The Government recognises that significant programmes of organisational change may take many years. However, as noted in the consultation document, the Union Modernisation Fund is limited in scale and is intended to support and act as a catalyst for such programmes, not to fund them in their entirety. Therefore the Government believes that it is reasonable to expect the Fund-supported element of projects to be completed within two years. However, where there are good proven reasons for recommending the support of a longer bid, the Supervisory Board will have discretion to do so. Bids to the Fund which intend to rely upon a re-application to the Fund in order to support ongoing project work lasting beyond the timeframe set out in the bid are likely (subject to the comments made in paragraph 2.48 above in relation to pilot projects and feasibility studies) to fail to meet the requirement for sustainability.

Project Size

2.79 The Government sought comments on the proposal that the Fund should provide up to 50% of eligible project costs, normally a contribution of £200,000 or less. Stakeholders were particularly invited to comment on the proposal that in exceptional circumstances, where strong evidence is supplied in support of a larger claim, a grant of up to £500,000 may be awarded, based on the recommendations of

the Supervisory Board and at the discretion of Ministers. Larger bids will be subject to rigorous scrutiny of the evidence for the project's additionality and to ensure that day-to-day activity will not be funded. 17 respondents expressed a view on this issue.

2.80 A majority of respondents expressed support for the general ceiling of £200,000. Unison and NASUWT, in contrast, argued that this ceiling should be lifted, with the latter favouring a system whereby the amount awarded to a particular project should be decided according to criteria which reflect the likely impact in terms of the number of union members affected. However, John Reid & Associates felt that this limit was too high.

2.81 Most respondents highlighted their support for the Supervisory Board's discretion to recommend funding of up to £500,000, although two respondents, the IoD and the Association of Licensed Aircraft Engineers (ALAE), felt that there should be a single limit of £200,000. The TUC and T&G felt that the reference to higher amounts being awarded only "in exceptional circumstances" should be removed, putting the award of a higher amount entirely at the Board's discretion. A number of unions, however, urged caution in awarding more than £200,000 as the support of many such projects would be likely to considerably reduce the overall number of bids supported. A number of additional criteria for the award of bids of £200,000-£500,000 were proposed, including that they should perform very strongly against the criterion for dissemination, that they should normally be collaborative projects, and that any element of an award which represents capital investment for the exclusive use of a single union should not be disproportionate. UCATT requested that further guidance be made available on the criteria for awarding up to £500,000.

2.82 Having considered all the evidence put before it, the Government has concluded that the bid maxima as set out in paragraph 2.78 above should not be amended. The Government does not believe that the Fund should be used to support projects in excess of £500,000. As noted by a number of respondents, the Fund is limited in size. In order to ensure a distribution of funds it is appropriate to impose a maximum grant size. For the same reasons the Government does not intend to remove the words "in exceptional circumstances". Bids for more than £200,000 will be required to perform particularly strongly against the assessment criteria and will be rigorously

scrutinised for evidence of additionality. The Government does not propose to create additional criteria for the award of grants over £200,000 – they will merely be expected to demonstrate particularly strong performance against the basic criteria against which all bids are assessed.

Chapter Three: Matched Funding

Should there be a requirement for match funding?

3.1 The Government proposed in the consultation document that the Fund should provide up to 50% of the eligible costs of individual projects, with the remaining 50% of costs being met by the applicant from their own resources. However, in recognition of the fact that there may be occasions on which a union might struggle to meet the 50% requirement in respect of an extremely valuable project, the Government proposed that in exceptional circumstances, based on the recommendations of the Supervisory Board and at the discretion of Ministers, contributions of less than 50% may be accepted. 28 respondents expressed a view on this issue.

3.2 Only one respondent, the GMB, argued that the requirement for matched funding should be removed altogether. All other respondents supported the Government's proposal, although a number wished to vary the proportion of total costs required as matched funding, in particular for smaller unions. The 11 small unions which responded jointly and NASUWT proposed the contribution be lowered to 25%. The former felt that this 25% requirement should apply where the total amount bid for was less than £10,000 for a single union or £30,000 for collaborative bids, and the membership of each of the unions in question was less than 3000. Others proposed that a union's contribution should depend on its size and resources, with a sliding scale whereby larger, more affluent unions should contribute a greater proportion. The T&G, however, argued that the same rules should apply to all, with no bias on the basis of union size, pointing out that more union members are likely to benefit from projects undertaken by larger unions.

3.3 In view of the possible difficulties faced by some unions in finding matched funding for worthwhile projects, the TUC and a number of other unions supported the proposal that the Supervisory Board should have discretion to require a smaller amount in exceptional circumstances. The TUC further proposed that this be kept under review to ensure that a diverse range of unions are able to win bids and that decisions do not have the effect of unfairly penalising smaller unions.

3.4 Employer organisations which commented generally supported the Government's proposals in this area. The Newspaper Society stated that a minimum 50% contribution should be required in all cases.

3.5 The Government welcomes the general support among respondents for a matched funding requirement. The Government recognises the concerns expressed by smaller unions that they should not be disadvantaged by these proposals. However, the Government considers that to adopt a sliding scale or lower percentage on the basis of union size would be unfairly discriminatory. Not all larger unions are necessarily relatively affluent in comparison to smaller organisations; nor are all smaller unions relatively under-resourced. Moreover, smaller unions' projects are likely to be less expensive than those of larger unions, albeit the latter may benefit from some economies of scale.

3.6 The Government therefore intends to confirm its proposals to require 50% matched funding, with discretion for the Supervisory Board to vary this proposal in exceptional circumstances. That said, the Government accepts that there is a need to ensure that there is no unfair bias in the system and therefore accepts the recommendation of the TUC that the operation of the Fund should be kept under review. In particular, there will be an evaluation of the first bidding round which will consider, among other things, the spread of unions applying for and receiving funds and applicants' experience of the bidding process.

What counts as matched funding?

3.7 The Government proposed in the consultation document to allow applicants to provide all or part of their 50% matched funding contribution in cash or in kind. 10 respondents expressed a view on this issue.

3.8 All those who commented agreed with the Government's proposal that matched funding could be provided through cash or in-kind contributions.

3.9 In view of the general consensus in favour of the Government's proposal, the Government confirms its intention to allow successful applicants

to provide all or part of their 50% matched funding contribution either in cash or in kind.

Sources of match funding

3.10 In the consultation document the Government proposed that funding levered in from third parties would be accepted as part of a union's match funding contribution. For example:

- Public funding from local authorities or other public sector employers where this is an ad hoc contribution in support of the specific project in question, rather than a contribution under an existing grant scheme;
- Voluntary sector funding from non-profit making organisations, for example charities; or
- Private funding from business or others.

3.11 The Government proposed that funding from EU or central Government grant schemes (such as the Union Learning Fund or the Union Capital Fund) should not be used as matched funding. However, the Government proposed that where unions wish to embark on broad cross-cutting programmes of activity which tie in with the aims of a number of funding initiatives, they should be able to seek support from other central Government funds for one element of, or project within, that programme (assuming it is in line with the criteria of those funds), and to seek support from the Union Modernisation Fund for different elements of the same broad programme of work. 4 respondents specifically commented on this issue.

3.12 Community and NASUWT supported the Government's proposal to allow applicant unions to lever in contributions from third parties, stressing the value which can be gained through collaboration with other organisations. NASUWT further proposed that where there is a partnership project, funds obtained by third party partners from other central Government schemes should count as match funding. The IoD disagreed with this Government proposal, stating that unions should match any Fund grant with money they have raised themselves. The GMB stated that leveraging-in was inappropriate in this context, arguing that local authorities or charities were unlikely to see any value in supporting a union-wide transformation.

3.13 When the Union Modernisation Fund was announced in Parliament, Ministers gave a commitment that it would not duplicate other sources of state funding. For this reason, monies from other EU and central Government schemes will not be accepted as part of an applicant's matched funding contribution. This will apply equally to a union's own contribution and to any funds levered-in from third parties. Where a bid is received on a subject which would be more appropriately directed to another source of Government funding, bid assessors will assist and advise the union or unions in question in redirecting their bid to the most appropriate source of support.

3.14 Whilst the Union Modernisation Fund will not duplicate existing funds, it will complement and support the objectives of other Government schemes, in particular, the Union Learning and Union Capital Funds. In recent years, trade unions have developed a powerful role in promoting training in the workplace. Through the network of over 8000 trained Union Learning Representatives they have been able to encourage and support many people back into learning, who would not otherwise have had the confidence, information or networks to do so. Unions are further developing their training role, in particular through active involvement in Sector Skills Councils and the development of Sector Skills Agreements. The Government warmly welcomes these developments in the union role and the contribution of the TUC to the development of proposals for a new Union Academy to support unions' efforts across the piece to raise demand for training in the workplace. As announced in the Budget 2005, the Government will invest £1.5 million in 2006-07 and £3 million in 2007-08 to support its development.

3.15 Therefore, as noted above, the Union Modernisation Fund will support projects which form part of a broader cross-cutting programme activity, other aspects of which may be eligible for support from other funds. In addition, the DTI has worked, and will continue to work closely with the Department for Education and Skills to learn from and to share experience with these funds.

3.16 Having considered all the evidence put before it during the consultation, the Government remains of the view that there may be significant value in the sharing of skills, experience and perspectives that may

be derived from collaborative ventures for mutual benefit. Indeed many trade unions have already engaged in innovative collaborations with a range of organisations in a number of fields, such as training and diversity. The Government therefore confirms that funding levered in from third parties will be accepted as part of a union's match funding contribution. Where a union intends to use levered-in resource, its Fund bid will need to indicate the source of the additional funding and the commitment of the third party to the bid.

Chapter Four: Making a Bid

Who will administer the Fund?

4.1 The Government proposed in the consultation document that the Fund should be administered by DTI officials. 12 respondents expressed a view on this issue.

4.2 All union organisations which responded supported the Government's proposal. The trade union members of TUSDAC further proposed that there may be a role for the involvement of the Department for the Environment, Food and Rural Affairs (DEFRA), as appropriate, in the assessment of bids that address environmentally sustainable objectives. The TUC stated that it would be helpful if there were a clear expectation that TUC advice would be sought on bids, arguing that it would be well-placed to advise both unions in framing their bids, and the Board and the DTI on relevant background issues, such as size and resources of unions, which may need to be taken into account.

4.3 Employer organisations generally supported the Government's proposal that the Fund should be administered by DTI officials. However, the Newspaper Society recommended that the administration of the Fund should be outsourced and that the costs of this should be borne by the Fund itself.

4.4 In the light of responses to consultation, the Government remains of the view that, at least until the Fund is firmly bedded down, the bid assessment process should be administered by DTI officials, and that successful projects will have an individual project co-ordinator from the DTI, responsible for liaison with unions through the life of their projects. However, the Government considers that there may be benefits in contracting out aspects of the financial administration of the Fund to professional accountants in future. Therefore, the Government proposes to reserve the ability to contract out certain specific accountancy functions should it be demonstrated that to do so would be the most efficient use of resources and expertise.

4.5 The Government does not believe it would be appropriate at this stage to give any other organisation a role in the assessment of bids. Moreover, this would be likely to increase the complexity of the assessment process. However, the Government considers it proper that Government Departments should work in a collaborative manner to achieve the Fund's objectives. Individual departments will have specific expertise which may be of value in considering technical aspects of particular bids, as indeed will other organisations, such as the TUC.

4.6 **The Government therefore intends to consult other organisations on the technical detail of bids on an informal basis, as appropriate. To preserve the anonymity of the bidding union, care will be taken to ensure that the applicant unions are not identifiable by other organisations, unless the unions in question have given their consent for their bid to be seen by others. Experts consulted in this way will not be asked to judge whether the bid in question meets any of the Fund's selection criteria or to give an opinion on whether the bid should be recommended for support. They will merely advise the Supervisory Board on technical details and relevant background information. It will be for the Board to consider all the evidence provided and make recommendations to Ministers accordingly.**

How frequently can bids be made?

4.7 In the consultation document the Government proposed that the fund should be administered on an annual basis. 12 respondents expressed a view on this issue.

4.8 Half of all respondents expressed support for this proposal. Most union organisations, however, sought more frequent or rolling bid rounds, on the grounds that annual rounds would mean that unions which just fell short of the standard in any given bid round would have to wait 12 months in order to resubmit an improved bid. USDAW therefore proposed a review date within each funding year for the Supervisory Board to reconsider bids submitted in the previous round which had been identified as having the potential to gain Fund support but required some remedial work. This should apply where the project in question would be substantially disadvantaged were it to be delayed for a further year.

4.9 Having carefully considered all the views expressed in consultation, the Government remains of the opinion that there is value in conducting a single competitive assessment whereby the quality of proposed projects can be comparatively and fairly assessed. This will provide greater clarity to unions bidding for funds and promote the development of a recognised standard for the quality of projects. Moreover, the Government has a responsibility to balance the administrative costs of the Fund against other priorities. A rolling or more frequent process would require a greater commitment of time from members of the Supervisory Board and would add to the administrative complexity and cost of the scheme.

4.10 However, the Government understands union concerns that their modernisation programmes should not be delayed for a year where their bids fall short of the selection criteria in an annual round. The Government has therefore proposed that DTI officials should provide advice and support to unions on preparing applications, including examining applications in draft in order to allow unions the opportunity to amend and improve their bids before the close of applications (see paragraphs 4.13 – 4.16 below). Moreover, the Government confirms that the Supervisory Board will be able to recommend that good bids which fall slightly short of the criteria should be supported, conditional on these aspects of those bids being amended.

Preparing a bid

4.11 In the consultation document the Government sought views on the proposal that DTI officials should act as consultants to support and advise prospective bidders about their bid ideas and applications. 19 respondents expressed a view on this issue.

4.12 14 respondents supported the Government's proposal. In particular, all trade union organisations which commented welcomed the proposal. Community welcomed the opportunity for increased contact between civil servants and unions, arguing that this would lead to an improved understanding by civil servants of the nature of trade union organisations and of employment relations. RMT, UCATT and the TUC further sought clarification of the scope and extent of this proposed

support. Additionally, the TUC offered to relay to its affiliates any general points which emerge through this process which it would be beneficial for all unions to be made aware of. Acas stated that it stands ready to help unions to make the most of the opportunity of the fund in every way it can.

4.13 The IoD argued that in light of headcount reductions in the DTI as part of the 2004 Spending Review, it was difficult to believe that advising applicant unions was the best use of civil servants' time. Professor Roger Undy, the IPA, and John Reid & Associates queried whether DTI officials have sufficient understanding of trade unions to undertake this role, arguing that, if this were not the case, there might be grounds for bringing in advisers more familiar with trade unions.

4.14 **The Government strongly welcomes the proposals of both Acas and the TUC to provide advice and support to trade unions in addition to that offered by the DTI, and will work closely with these organisations in order to support them in this activity.**

4.15 **The Government notes the comments of Professor Undy, the IPA and John Reid & Associates. However, in view of overwhelming trade union support for this proposal, the Government confirms its intention that DTI officials should provide guidance and support to bidding unions. The Union Modernisation Fund is identified as a key priority in the DTI's Business Plan. The Government therefore considers it appropriate to dedicate resources to the support of prospective bidders in order to maximise the Fund's potential to deliver transformational benefits for the whole union movement. That said, resources for this work are not unlimited. The Government therefore agrees that it should be clear to all bidders how much support they can expect, what support can be given and when.**

4.16 It is not the Government's intention that officials should advise unions on their options for strategic modernisation, or the development of their project ideas. Officials will undertake a narrower role, advising on whether specific bid ideas, as described by applicant unions, are likely to be within the scope of the Fund. They will also advise bidders on the detail of the application process and good practice to

be followed when making bids and presenting them for consideration on the application form. All unions will have an equal opportunity to access this support.

4.17 It is important to note that officials' role will be merely advisory. They will not intercede with the Supervisory Board on behalf of any bid, nor will they engage in the actual work of researching, developing or writing bids. The advice of DTI officials should not be taken as any guarantee of success. The Supervisory Board will assess applications to the Fund; the comments and advice provided by DTI officials to individual applicants will not in any way prejudge the outcome of their deliberations. Full details of available support will be provided in the Fund application pack.

Submitting a bid

4.18 In the consultation document the Government proposed that all bids should be submitted on a standardised application form, accompanied by detailed guidance on its completion. This would ensure that bids address each of the selection criteria systematically and that unions are given the clearest possible steer on the evidence that will be needed by assessors in order to reach an informed judgement about each bid. 15 respondents expressed a view on this issue.

4.19 All those who commented supported the Government's proposal. A number of respondents commented that this would help ensure transparency and consistency in the assessment of bids. Several respondents highlighted the need for the form to be as simple, clear and accessible as possible, and welcomed the Government's commitment to informally consult the TUC and other trade unions bodies on the form in draft. Two respondents expressed concern that the form should not limit unions' opportunity to explain the detail of their bids.

4.20 In view of widespread support, the Government confirms its intention to produce a single standardised application form. The Government recognises the importance of ensuring that the form is accessible and clear, and to this end will consult the TUC and other union bodies on the form in draft. The Government intends that the form should be comprehensive and should allow applicant unions adequate opportunity for detailed explanation.

Bid Documentation

4.21 The Government sought views on the proposal that all bid documentation be provided only online in PDF or Word format, which could be downloaded and printed by those who prefer to work with hard copy documents. It was proposed that applications would be accepted by email or in hard copy. All documents would be produced in line with Government best practice standards on accessibility. 13 consultees responded on this issue.

4.22 Seven respondents expressed support for all the Government's proposals in this area. The remaining six respondents, while generally supportive of the proposed format of bid documentation, expressed concerns that some organisations might have limited access to the internet and would therefore be disadvantaged were documentation only available online.

4.23 The Government is committed to ensuring that, as far as possible, the Fund is equally accessible to all potential bidders. In the light of comments received, therefore, the Government intends to make available printed application packs in addition to providing this material online.

Chapter Five: Assessment of Bids

How will bids be assessed?

5.1 In the consultation document the Government proposed that after the closing date for bid applications, officials would conduct a preliminary assessment of all bids received based on a standardised scorecard. All bids would then be considered by an independent Supervisory Board which would examine each bid and accompanying advice from officials. The Supervisory Board would then make recommendations to Ministers about the projects which they believe should receive Union Modernisation Fund support in that bid round. The Government proposed that Ministers would consider the Board's recommendations and reach a decision on successful bids. 16 respondents expressed a view on this issue.

5.2 The overwhelming majority of those who commented endorsed the proposed bid assessment process. A number of union organisations added that it would be helpful if the scorecard were made available to prospective bidders in order to assist with bid preparation.

5.3 In the light of widespread support, the Government intends to adopt the bid assessment process as set out in the consultation document. The Government agrees that it will be helpful to make the scorecard available to prospective bidders and therefore intends to include the scorecard criteria in the application pack.

Supervisory Board – Terms of Reference

5.4 The Government sought views on the following draft terms of reference for the Supervisory Board:

- i. The Board will advise Ministers on the projects which they consider should be supported by the Fund in each bid round in the light of their assessment against the selection criteria.*
- ii. At the request of Ministers, the Board will advise Ministers on matters relating to the performance or operation of the Fund, including its future development.*

- iii. The final authority for approving bids rests with Ministers.*
- iv. Where Ministers do not follow the recommendations of the Board in full, they must give to the Board their reasons.*
- v. The Board will be advised and supported by DTI officials. Subject to this, the Board is responsible for determining its own procedures, including protocol in cases of possible conflicts of interest.*

16 respondents expressed a view on this matter.

5.5 The overwhelming majority of respondents expressed support for the proposed terms of reference. A small number of respondents suggested additional terms, mostly concerned with the proposal that Ministers should give the Board reasons where they do not follow the recommendations of the Board in full. TSSA proposed that the Board should have a right of appeal in such cases. USDAW argued that Ministers should supply their reasons to the affected unions as well as to the Board, while the CIPD felt that these reasons should be made public. NASUWT proposed that, were a bid rejected by Ministers, the union concerned should have the opportunity to seek reappraisal of its bid if it felt that the criteria had been misapplied. USDAW further suggested that where the Board declines to advise the Minister to support a bid they must give to the applicant full written reasons for their application.

5.6 The Government considers that the terms of reference for the Supervisory Board should support the greatest possible transparency and consistency in the assessment of bids. However, in any assessment system there will always remain an element of judgement. The members of the Supervisory Board will be selected for the expertise and experience which they bring to the consideration of modernisation projects. The Government considers that to introduce a formal system of appeal or to reveal to applicant unions the detail of the Board's deliberations and its discussions with Ministers risks undermining their role as independent assessors and advisers.

This model for assessing bids has been applied in a number of other financial assistance schemes and has generally proved unproblematic. The Government therefore does not propose to amend the terms of reference as set out above.

Size and Composition of the Supervisory Board

5.7 The Government proposed that the Supervisory Board should have seven members comprising:

- One chair with experience of working in the trade union movement;
- At least one member with experience of Scottish or Welsh trade unionism;
- At least one member with experience of working in a small trade union;
- At least one member with experience of working in a large trade union;
- Two “independent” members - perhaps academics, or consultants with experience of organisational change management issues, or individuals with experience of employment relations matters; and
- One employer member.

5.8 In the consultation document the Government proposed the following overarching criteria which all Board members are expected to meet:

- They must be available to give a minimum of 3-4 working days a year to the Board’s work;
- They must have experience of working with or in trade unions and an understanding of how they work;
- They must be able to take a dispassionate view (in particular if they have or have had associations with a particular union or unions through their work);
- They must have an understanding of the broader context of union modernisation – labour market and management issues; and
- They must be team players who can work well with others and take a corporate view.

In addition to this, it was proposed that the Chair should demonstrate the personal qualities required to steer meetings effectively and the ability to intervene to produce agreement should the Board be divided. 21 respondents expressed a view.

5.9 Respondents were fairly evenly divided on this issue. Seven unions endorsed the proposed size and composition of the Board. The TUC, however, proposed a larger Board of 12 members, with the additional seats being allocated to trade unionists. It argued that this would allow for broader representation of the diversity of interests within the trade union movement - a view echoed by five unions. A larger Board, it was argued, would facilitate quorate decision-making in cases of absence and conflicts of interest.

5.10 A number of respondents wished to amend the proposed composition of the Board. One union argued that there should be specific representation for the public sector and women. The EOC felt that there should be provision for at least one member with experience of diversity issues. Community felt that the provision for at least one member with experience of Scottish or Welsh trade unionism was misplaced as this would involve a choice with only one nation represented. The T&G, Unison and GMB questioned the need for an employer representative. A number of unions felt that the employer representative should demonstrate sympathy with and an understanding of trade unionism. The RMT felt that the reference to “experience of Scottish or Welsh trade unionism” should be changed to explicitly refer to experience of working for a trade union.

5.11 Employer organisations largely welcomed the inclusion of an employer representative. The CBI, EEF and CIPD all argued, however, that there should be at least two employer representatives. The EEF and the IoD both expressed the view that the chair should not be a trade unionist as in their view this could lead to potential for conflicts of interest to arise.

5.12 Having carefully considered all the views put before it, the Government remains unpersuaded of the need for a larger Board. The Government considers that a larger Board would entail greater administrative complexity and considers that any conflicts of interest or absences should be manageable in a seven-member Board. The Government proposes that availability and commitment will be key selection criteria for Board membership. The composition proposed by the Government recognises that, as a minimum, the Board should be able to draw upon a range of experience with respect to the size and geography of British trade unionism. To seek to represent on the Board the full diversity of interests within the

movement is, in the Government's view, neither practical nor appropriate. Members of the Board will be appointed in an individual capacity on the basis of their experience and expertise, and not as representatives of a particular trade union constituency. In particular, the member or members with experience of Scottish or Welsh trade unionism are not intended to represent one or other nation, but simply to bring a regional/national perspective to the Board's deliberations. To make each Board member representative of a particular group of trade unions or interest within the trade union movement would, in the Government's view, lead to a greater potential for conflicts of interest and be likely to undermine the Board's independence. In order to underline the fact that trade union members of the Board are not intended to represent one or other particular constituency, the Government proposes to include in the selection criteria for Board membership a requirement for candidates to demonstrate proven ability to represent cross-union interests.

5.13 The Government does not consider it inappropriate that the Chair of the Board should be a trade unionist. The role of Chair is, of course, an extremely important one. He or she will need to demonstrate impartiality and will have primary responsibility for ensuring the propriety of Board decisions. The Government sees no reason why an individual with experience of working in a trade union should not capably and dispassionately perform this role, regardless of any associations he or she may have had with particular trade unions. Indeed, the Government takes the view that it would be odd to appoint to this role an individual who did not have the detailed understanding of the operation of trade unions which can only be gained through direct experience of working within the trade union movement.

5.14 In light of the remarks above, the Government confirms the size and composition of the Supervisory Board as set out in the consultation document. The Government agrees, however, that it should be made clear that members with trade union experience should have worked for a union or unions and that the employer member must have significant experience of working with trade unions, and has therefore amended the selection criteria for Board membership accordingly.

5.15 The Government intends to begin the recruitment process for the chair and members of the Board on 26 May 2005. This process will be conducted in accordance with the Commissioner for Public Appointments' Code of Practice for Ministerial Appointments to Public Bodies, with the oversight of an independent assessor from the Office of the Commissioner for Public Appointments. The Government is committed to making public appointments on merit, using fair selection procedures that recognise non-traditional career patterns. It is also committed to improving diversity on the boards of public bodies. Applications from women, people of minority ethnic background and disabled people are strongly welcomed. The selection criteria for the roles of Chair and Members are set out at Annex D. Further information about the appointment process and details of how to obtain an application pack are available at: www.dti.gov.uk/er/union_mod_fund.htm.

Chapter Six: Selection Criteria

What will be the criteria for selecting successful bids?

6.1 The Government proposed that the selection criteria for the Fund should be of two broad types. The first would assess the extent to which a given project falls within the scope of the Fund. The second set of criteria would assess the quality of the project, that is, whether it is well-conceived and whether suitable arrangements have been made for its effective management and delivery. Each of the key selection criteria would be separately addressed in the application form, with guidance to bidding unions about how to complete each section.

6.2 The Government proposed that the criteria for assessing the quality of project design and management should include consideration of the clarity of proposed project objectives, milestones, outputs, and performance measures, and of the quality of the accompanying risk assessment. The Government further proposed that bid assessors should have regard to whether a bid has been realistically costed, whether suitable project management arrangements are in place, and whether the timetable and resource planning for the achievement of the project's objectives is realistic. The Government sought views on all of the criteria and, in particular, the relative weight which should be given to each. 18 respondents commented on this issue.

6.3 In general, respondents were supportive of the Government's proposals in this area. The GMB, however, whilst supportive of the inclusion of sound project management, argued that the definition of modernisation, the requirement for projects to show a strategic fit, the demonstration of a commitment to engagement with employers and the promotion of progressive workplace practices, were all contested concepts and should be matters only for the members of individual unions to decide. It argued that as long as projects meet the four general criteria of additionality, sustainability, value for money and dissemination they should be eligible for funding.

6.4 Some consultees proposed additional criteria. The CIPD argued that the promotion of partnership between employers and unions should be given greater emphasis, adding that this would provide a positive background to the Government's

message that employers should use the new regulations on employee information and consultation as a vehicle for culture change. They argued, therefore, that preference should be given to projects which have been developed in consultation with employers and/or are intended to support partnership working. The EOC proposed that the selection criteria should include “gateway” questions on gender equality and other aspects of diversity and that inclusivity be added to the four general criteria. The trade union members of TUSDAC reiterated their proposal that the promotion of the sustainable consumption and use of energy and natural resources be added to the general criteria.

6.5 A number commented on the detailed application of particular criteria. USDAW expressed concern that the wording of paragraph 7.2 of the consultation document, which discussed the need for applications to set out a clear rationale for the project, might imply that the Fund is about redressing failing performance rather than striving for enhanced performance. They argued that building best practice and progressive performance should be emphasised. USDAW also commented that the transformational impact of a project should be assessed against a union’s current position, as opposed to a comparison with another union or unions, noting that transformational impact across the union movement would be considered under the dissemination criterion. USDAW further expressed the view that transformational impact should be an eligibility criterion, and not a criterion for selecting between eligible projects.

6.6 The Government welcomes the general support expressed for the selection criteria proposed in the consultation document. The Government fully accepts that the strategic direction of any union is ultimately a matter to be decided by its members, in accordance with the democratic processes of the union in question. However, as noted in paragraph 2.9, the Government considers that where public funds are deployed in support of the development of any organisation, be it an employer, trade union or charity, it is legitimate for the Government to direct those funds towards initiatives which support and complement the objectives of public policy in this area. Moreover, the Government considers, as generally evidenced by the results of consultation on the rules and procedures of the Fund, that there exists, within the trade union movement and beyond, a broad consensus of opinion around the nature of the strategic challenges facing British trade unionism. The

Government accepts that these challenges affect unions to varying degrees and that there may be a diversity of responses to them. Indeed, the Union Modernisation Fund seeks to enhance this diversity by supporting and stimulating innovative and creative approaches.

6.7 The Government agrees with USDAW that the Fund should promote the development and sharing of best practice and progressive performance. The Government further agrees that the transformational impact of a project will be measured against the position of the applicant union or unions alone. It is natural that unions should be at different stages on different paths to modernisation. The application of this criterion will involve an assessment of how far the union's project idea will take it towards the achievement of its strategic modernisation objectives. The Government does not believe, however, that the ability to contribute to, or explore the potential for, a transformational change in the organisational efficiency or effectiveness of the union should be an eligibility, rather than a selection criterion. The Fund aims to encourage unions to be ambitious and to pursue projects which will genuinely impact upon their strategic objectives as well as adding value to the broader movement. It is important, therefore, that the projects which realistically seek to deliver the greatest transformational change, should receive preference, subject, of course, to their performance against the other essential criteria.

6.8 The Government agrees with the CIPD that a very important use of the Fund will be to assist trade unions to take a lead in the promotion of new information and consultation arrangements and to equip themselves for the new role these entail. The Government strongly urges trade unions to consider how the Fund may help them to meet this particular challenge. A reference to partnership working is therefore contained within the definition of modernisation which all bids will need to meet. Given its prominence in the overall aim of the Fund, the Government does not believe it would be appropriate to make partnership with employers a separate selection criterion. Also, such a requirement is likely to be impractical in relation to a number of the priority themes, particularly where projects may apply to the entirety of a union's membership, potentially involving thousands of individual employers.

6.9 The Government notes the proposals of the EOC and the trade union members of TUSDAC for additional criteria. The Government recognises the vital

importance of both sustainable development and the promotion of inclusivity and equality. However, as with partnership with employers, the Government does not believe that these are criteria which can be sensibly applied to the full range of projects under the priority themes. To do so would be likely to restrict unions' ability to pursue a number of beneficial projects. That said, the Government strongly encourages unions to consider both inclusivity and sustainable development in the preparation of bids.

6.10 In view of the arguments set out above, the Government confirms its intention that bids be assessed against the selection criteria as described in the consultation document. In the interests of clarity, the eligibility criteria and selection criteria are set out at Annex E of this document. The eligibility criteria represent minimum conditions which must be met by bids in order to be considered for support. The selection criteria will facilitate the comparative assessment of bids, and applications will be rated according to the degree to which each of these is satisfactorily addressed by the proposed project.

6.11 Several respondents commented on the weighting which should be given to the criteria. The TUC noted the need for flexibility, but felt that the selection criteria should be given broadly equal weight. UCATT argued that transformational impact, fit with the union's modernisation strategy and sustainability should be key. The TSSA felt that transformational impact was the most important criterion. The IoD felt that additionality and value for money should take precedence. The ATL wished to see transformational impact and dissemination emphasised, a view echoed by John Reid & Associates.

6.12 Having carefully considered the views expressed regarding the relative weighting of the selection criteria, the Government believes that, in general, the selection criteria should be given roughly equal weight. As noted by the TUC, the Supervisory Board will retain a degree of flexibility in their application. For example, where an application does not address one or more of the priority themes, it will remain open to the Supervisory Board to recommend to Ministers that the bid be approved where it performs very highly on a significant number of other criteria.

Distribution of Funds

6.13 In the consultation document the Government proposed that in all cases the quality of the bid, as measured against the selection criteria, would be the overriding factor in the recommendations of the Supervisory Board. Bid assessors would also take into account the extent of union resources and expertise for preparing bids. The Government further proposed that, when faced with a choice between two bids of equal quality which cannot both be funded from the available resource, the Board may recommend to Ministers that the Fund give preference to bids from unions which would not otherwise receive support from the Fund in that bid round. 17 respondents expressed a view on this issue.

6.14 Several respondents welcomed the intention to take into account the extent of union resources and expertise for preparing a bid. The IPA commented that the Department of Trade and Industry Partnership Fund panel had developed the critical capacity to give due weight to bids which may not have been written by an experienced bid writer and to see behind those which were well written but lacked substance. A majority of respondents agreed that the quality of the bid should be the overriding factor in all cases. The GMB, however, expressed the view that preference should be given to projects likely to impact upon the greatest number of trade union members. The Newspaper Society commented that preference should be given to those unions most in need of support, and that funding should not be used to increase further the organisational capacity of well-established unions.

6.15 Nine respondents supported the idea that when choosing between bids of equal quality, the Supervisory Board should recommend for support bids from unions which would not otherwise receive support in that bid round. Respondents made a number of suggestions of additional factors which the Board should take into account, including the proportion of total fund monies received by a union over all bidding rounds, the wider applicability or transferability of a project, and that the Board should seek to fund the broadest possible range of projects. UCATT further suggested that when choosing between bids of equal quality, preference should be given to bids from sectors facing particular problems in achieving modernisation, such as a highly dispersed membership, a large incidence of atypical work patterns, a high turnover of work engagements and poor access to information technology.

USDAW argued that where a union's bid is rejected in this way because another of its applications has been accepted for support, it should have the ability to choose which of its proposed projects it would prefer to undertake. ASLEF stated that the ability to submit multiple bids would disadvantage smaller unions which could dedicate less resource to the preparation of bids.

6.16 Having carefully considered all consultees' views, the Government remains of the view that quality of bid, as measured against each of the selection criteria, should be the overriding factor in the choice of supported projects. The Government does not believe it to be consistent with the aims of the Union Modernisation Fund to reward bids on the basis of union size or some assessment of "need", rather than consideration of the quality of the bid idea and the proposals for its execution. For this reason, a union will not be allowed to request that a lower quality bid be supported in place of one preferred by the Supervisory Board and Ministers.

6.17 The Government notes respondents' proposed mechanisms for deciding between bids of equal quality. The situation where two bids of equal quality are competing for limited funds is likely to be relatively rare. In view of this, the Government considers that the addition of further considerations would introduce unnecessary complexity into the decision-making process and therefore confirms its proposal that whether a union would already be in receipt of Fund monies in that round should be the basis for the Supervisory Board's recommendation.

6.18 The Government further confirms that consideration will be given to the resources and expertise available to a union for the preparation of applications to the Fund. The Government notes the concerns voiced by ASLEF. However, in view of the support available to unions, the consideration that will be given to union resources in assessing bids and the general acceptance among other respondents of the possibility of multiple bids by a single union, the Government does not propose to limit the number of bids which can be made by a single union.

Chapter Seven: Once a Bid is Approved or Rejected

What feedback will be given to bidding unions?

7.1 In the consultation document the Government proposed that all bidders, whether successful or unsuccessful, would be provided with written feedback on their application by Fund officials, on the basis of their performance against the scorecard. The Government further proposed to publish a description of all successful bids. 15 respondents expressed a view on this issue.

7.2 All respondents endorsed the Government's proposals in this area. The TUC, T&G and NASUWT further proposed that there should be opportunities for further discussion and explanation.

7.3 In view of unanimous support for this proposal, the Government confirms its intention to provide written feedback to all bidders on the basis of their performance against the scorecard criteria. This should help unions to improve their applications for subsequent rounds. It is not the DTI's intention to provide a second tier of oral feedback to applicants as this would stretch limited Departmental resources at a time when the priority is to ensure that approved projects begin on schedule.

Grant offer letters

7.4 In the draft rules and procedures it was proposed that when a union is notified that its bid has been approved, it will be asked to sign a grant offer letter setting out the terms on which the Government is willing to provide funds to the union to undertake the project in question. This letter would include:

- i. The maximum amount of grant which is offered;
- ii. Reference to the legal basis for the Secretary of State to issue Fund monies (Section 116A of the Trade Union and Labour Relations (Consolidation) Act 1992);
- iii. The date from which project costs may be incurred;
- iv. The frequency with which financial claims should be made to the department and what documentation should be supplied in support of each claim;

- v. The requirements for an independent accountants report;
- vi. The requirement for unions to refund any overpayment;
- vii. The No Obligation to Pay Date;
- viii. How changes affecting the project will be handled; and
- ix. The arrangements for monitoring and evaluation of the project.

How will Fund monies be disbursed to unions?

7.5 The Government proposed that the Fund should periodically reimburse unions for costs incurred and defrayed on the project, according to an agreed timetable. Financial claims would be provided on a pro forma and accompanied by a progress report. The consultation document made clear that up-front payments would not normally be made unless there are very strong proven reasons for this. In such cases, the Department would reserve the right to place additional requirements on the union or unions in question. The Government further proposed to withhold at least 15% of any grant until completion of the project. The Government stressed that unions should contact Fund officials as early as possible if they believe there are likely to be significant changes in the timing or amount of forecast expenditure. 12 respondents commented on the disbursement of Funds.

7.6 8 respondents endorsed these proposals in their entirety. Three unions, however, wished to see greater flexibility for funds to be provided up front, rather than reimbursed. The GMB stated that, if payment must be retrospective, then payment intervals should be monthly or bi-monthly. The RMT recommended that the processes for submission and payment of financial claims should not become unduly bureaucratic or time consuming.

7.7 In view of general support among consultees, the Government intends to confirm its proposals in this area. As noted in the consultation document, in any grant scheme, the Government has a responsibility to guard against any potential for the misuse of public funds. For this reason it is not appropriate to further extend the flexibility to make up-front payments. The Government intends to make the financial administration of the Fund as simple as possible for unions, within the confines of the accounting rules which must apply to all schemes. To this end, unions will be supplied with standard pro-formas for the submission of claims. These will be available in the application pack so

that bidders will have sufficient forewarning of their obligations should their application be recommended for support. DTI officials will also seek to allow flexibility, within reason, about the timings of claims and payments.

What will be the arrangements for verifying claims?

7.8 The consultation document proposed that unions should submit an independent accountant's report verifying union expenditure alongside the final financial claim. For very large grants it may be appropriate to require an additional report to accompany one or more interim financial claims. Similarly, where there is significant change within a project, such as termination of the withdrawal of a partner, it was proposed that the Secretary of State should have discretion to require the production of an independent accountant's report. It was proposed that the costs of this report would not be met from within project costs. 12 respondents commented on this issue.

7.9 Most respondents welcomed these proposals. A number expressed the view that independent verification was essential and accorded with unions' experience of other funds. The GMB, whilst supportive of the general principle of these proposals, stated that ad hoc reports at the request of the Department would not have been costed within the project plan and their costs should therefore be met by Government. Where the project was at fault, then the recovery of such costs could be dealt with within the contractual terms of the grant.

7.10 Additional ad hoc independent accountants' reports will only be sought in extremely limited circumstances: where, in effect, a project breaks down or significant changes occur, particularly where these changes have not been agreed with the Department. These circumstances will be set out in the grant offer letter at the outset of the project. The costs of such reports are unlikely to be prohibitive. The Government considers, therefore, that it is reasonable to expect project owners to meet the costs of such reports. In view of general support for its proposals, the Government intends to confirm the arrangements for independent verification of project expenditure as set out in the consultation document. Standard terms of engagement for independent accountants involved in the verification of public sector grant claims, recently

agreed by Government and the Institute of Chartered Accountants in England and Wales, will apply to any independent accountant engaged by a union to verify its grant claims. Independent accountants should be aware of these terms of engagement through their professional bodies. Nonetheless, the Government intends to make available in the application pack template letters of engagement and independent accountants' reports so that both unions and their accountants are aware of their obligations.

How will changes affecting projects be dealt with?

7.11 In the consultation document the Government proposed that in a number of rare circumstances in which the Government should reserve the right to withhold or reclaim payments. The circumstances proposed were:

- i. Where collaboration between participants in joint projects has broken down;
- ii. Where progress is so poor that there is no reasonable prospect of the project being completed by the project end date, unless there has been an agreement to extend this;
- iii. If there has been a substantial change to the nature, scale or participants in a project for which consent has not been sought; or
- iv. If there is evidence that Fund monies have not been used for the purpose of the project.

13 respondents expressed a view on this issue.

7.12 All respondents expressed general agreement with the Government's proposals. The TUC and the RMT felt that exceptions may be needed for circumstances beyond the control of a union. USDAW noted that the use of the term "reserves the right" gives scope for the exercise of reasonable discretion, and argued for this to apply following the withdrawal of a partner in a joint project where the remaining collaborators could demonstrate that it was still feasible to complete the project, or where collaborators had acted in good faith and were not culpable in the project's breakdown.

7.13 The withholding or reclaiming of funds under the circumstances listed above will be at the discretion of Government. Where there is clear evidence that such circumstances were beyond the control of a union or that a union is not culpable the Government is highly unlikely to pursue this course of action. However, such judgments may be extremely difficult to make. Ultimately, all unions engaged in a joint bid are liable and bound by the terms of the grant offer letter – it may not be possible in every case to distinguish who is responsible for a project’s failure.

7.14 In light of the views set out above, the Government confirms its proposals regarding the right to withhold or reclaim funds. In addition, the Government wishes to make clear that this right will apply where expenditure has not been properly incurred and defrayed, or where a required independent accountant’s report has not been provided.

Chapter Eight: Monitoring and Evaluation

Monitoring and Evaluating Projects

8.1 The Government proposed that the costs of monitoring and evaluating projects would be included within eligible project costs. The monitoring and evaluation strategy of each project, including what performance measures are to be provided at what milestones in the project, would be agreed by individual unions and the DTI following a recommendation that a bid be accepted, and would form part of the terms of the grant offer letter. It was proposed that all projects should provide a final project report containing an evaluation of the project against its objectives. It was further proposed that the monitoring and evaluation strategy for each project might last in some cases beyond the period of Fund support. 15 respondents commented on this matter.

8.2 In general, respondents were supportive of the Government's proposals. A number of union organisations echoed the remarks in the consultation document that the monitoring and evaluation arrangements should not become unduly burdensome. The TUC and USDAW both expressed the view that the final project report should be required to contain an evaluation, not just of performance against project objectives, but also of lessons learned, best practice identified and other softer outcomes which would be useful to other unions considering similar courses of action. The EOC additionally felt that an assessment of the gender impact of individual projects should be a requirement. The CBI expressed broad support, but felt that evaluation and tracking of the impact of individual projects should continue in the long-term. The Newspaper Society expressed dissatisfaction with the proposed arrangements, arguing that a formal, independently administered monitoring system should be implemented and sanctions imposed on organisations which failed to comply.

8.3 The Government recognises that monitoring and evaluation, whilst critical to the good design of projects, and to accountability and dissemination, should not become disproportionately burdensome or costly. In light of this, the Government does not consider that it would be appropriate to introduce a system such as that proposed by the Newspaper Society. Further, the Government is of the view that the conduct of the

evaluation exercise by unions themselves is important in order to encourage an open learning culture in which experience, both good and bad, is honestly assessed and used to positive effect. The Government agrees that the final report should contain a broader assessment of project outcomes. Successful applicants will therefore be required to maintain continuous documentation of their project activities and outcomes. The Government may require evaluation activities to continue beyond the period of Fund support. Significant long-term impacts, however, will be considered in the evaluation of the Fund as a whole. Guidance to applicant unions on the requirements of their monitoring and evaluation strategy will be provided in the application pack. This guidance is also set out for information at Annex F of this document.

Monitoring and Evaluating the Fund as a Whole

8.4 The Government proposed that DTI officials would conduct regular monitoring of projects, including checking of financial claims and regular contact with projects, including visits. Successful bidders would be required to accede to all reasonable requests. The Government emphasised that officials would be on hand to help unions to work through difficulties with their project if these should arise and that unions would be encouraged to liaise closely with officials and advise them early of any potential difficulties.

8.5 The Government further sought views on the proposal to conduct a formal evaluation of the Fund as a whole, probably through a commissioned study of a sample of projects by an academic or other external researcher. All successful applicants would therefore be required under the terms of the grant to cooperate with such activities. 17 respondents commented on these proposals.

8.6 Respondents expressed overwhelming support for the Government's evaluation plans. The TUC expressed the view that further evaluation activities would assist to disseminate best practice and to champion successes around the movement and more widely. The TUC indicated its willingness to work in partnership with Government to organize such activities.

8.7 In light of general support for these proposals, the Government intends to commission a phased independent evaluation of the Fund. Phase One will

evaluate the operational effectiveness of the first bidding round, including bidders' experience of the process and an analysis of the population of applicants and successful bids. This evaluation should inform judgments about the costs and benefits of the bidding process in time for any adjustments to be made in time for the second bidding round. Phase Two of the evaluation will assess the success of individual projects and the impact of the Fund overall. Plainly, such effects may take several years to become fully apparent, and so this Phase of the evaluation may run over a corresponding period with interim reports produced as necessary during that time. This evaluation will be undertaken by an independent researcher and will be published. All successful unions will be obliged under grant offer terms to co-operate with this evaluation activity.

8.8 The Government strongly welcomes the assistance and support of the TUC for training and dissemination activities and agrees that these are likely to be effective means of spreading lessons learned and best practice more widely. The Government therefore intends to work closely with the TUC in developing and implementing a broader dissemination strategy for the Fund.

Annex A: Summary of Consultation Questions

QUESTION 1: The Government welcomes views on the proposed definition of modernisation projects.

QUESTION 2: The Government would welcome views on the proposed priority themes for the first bid round.

QUESTION 3: The Government invites comments on the proposed definitions of excluded activities.

QUESTION 4: The Government invites comments on the proposed general criteria a) to d) for all bids, including any additional suggestions stakeholders may have.

QUESTION 5: The Government would welcome views on who should be eligible to apply to the Fund.

QUESTION 6: Comments are invited on the proposed eligible costs for Fund support.

QUESTION 7: The Government welcomes views on the proposal that the Fund should normally support projects of up to 2 years in duration.

QUESTION 8: Comments are invited on the proposal that the Fund should provide up to 50% of eligible project costs, normally a contribution of £200,000 or less. Stakeholders are particularly invited to comment on the suggestion that where strong evidence is provided the Fund should provide up to £500,000.

QUESTION 9: Views are welcomed on the Government's proposals regarding matched funding.

QUESTION 10: The Government welcomes views on the proposal that the Union Modernisation Fund should be administered by DTI officials on an annual basis.

QUESTION 11: Views are welcomed on the proposal that DTI officials should act as consultants to support prospective bidders and advise them about particular bids.

QUESTION 12: Are you content with the proposal that all bids should be submitted on a single standardised application form?

QUESTION 13: Are you content with the proposed format of bid documentation? In particular, the Government welcomes views on the proposal that Fund documentation should only be available online.

QUESTION 14: The Government welcomes views on the proposed bid assessment process.

QUESTION 15: Views are welcomed on the draft terms of reference for the Supervisory Board.

QUESTION 16: Are you content with the proposed size and composition of the Supervisory Board, and the overarching criteria for Board membership?

QUESTION 17: Views are welcomed on the proposed selection criteria. Stakeholders are particularly invited to give views on the relative weight which should be given to each.

QUESTION 18: Comments are invited on the proposals for the distribution of funds, in particular where bid assessors must choose between bids of equal quality.

QUESTION 19: The Government invites views on the proposal to provide written feedback on all bids.

QUESTION 20: Views are welcomed on the proposed arrangements for the disbursement of funds.

QUESTION 21: The Government invites comments on the proposed arrangements for independently verifying claims.

QUESTION 22: The Government would welcome your comments on the proposed arrangements for the withholding or reclaiming of funds where there are significant changes to projects without prior consent.

QUESTION 23: Comments are invited on the proposed arrangements for monitoring and evaluation of projects.

QUESTION 24: Views are welcomed on the requirement that successful unions should co-operate with Government officials and researchers in the monitoring and evaluation of the Fund as a whole.

Annex B: Regulatory Impact Assessment

Purpose and intended effect of measure

Objective

A Union Modernisation Fund (UMF) is to be established. The purpose of the fund is to help trade unions to modernise their operations so that they can better adapt to changing labour market conditions and contribute to high performance workplaces.

The Fund will support a range of innovative projects in areas such as:

- Improving the understanding of modern business practices by full time officers and lay representatives, to better enable unions to work constructively with employers as partners to improve business performance. In particular, projects will be welcomed which equip full time officers and lay representatives for their roles in the implementation of the Information and Consultation of Employees Regulations;
- Improving two-way communication between unions and their members, leading to a potential for greater participation of members in the union;
- Improving the ability of unions to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership;
- Applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations;
- Assessing the challenges and opportunities of union restructuring and union mergers; and
- Developing the professional competence of union officers.

It is proposed that, in general, the Fund will support up to 50% of eligible project costs, up to a maximum of £200,000. However, where strong evidence is provided in support of a larger bid, the Supervisory Board will have discretion to recommend that a larger grant of up to £500,000 be awarded. Larger bids will be subject to rigorous scrutiny of the evidence for the project's additionality and to ensure that day-to-day activity will not be funded. There will be no limit on the number of bids which a union may make to the Fund and no limit on the number of bids submitted by a single union which can be supported in a given bid round.

Risk assessment and rationale

The world of work has changed in recent decades through the development and spread of new ICT technologies, increasingly flexible working patterns and growth of female participation in the labour market. Faced with increased competition, employers need a better trained and a more motivated workforce. To this end, the best employers now use a wider range of managerial initiatives to engage their workers. Unions need to understand these changes and work with employers to maximise the potential benefits of new ways of working.

Unions are taking initiatives to modernise themselves. However, the pace of change is relatively slow. Competition among unions for members has the effect of suppressing membership subscriptions – levels in Britain are among the lowest anywhere in the OECD, and significantly limit the ability of unions to raise funds to re-organise and update themselves. Moreover, most unions are small organisations. Most employ fewer than 20 people, and only a handful employ more than 250 people. Like many small businesses, unions have a limited capacity to invest for the longer term and to take financial risks associated with innovation.

Despite union mergers, there remain a very large number of unions in this country – over 200. In addition, observers generally consider union structures to be inefficient and sub-optimal. Arguably, this situation represents a market failure, justifying a policy intervention to support improvement to internal management systems, restructuring and, where desirable, mergers.

A union presence in the workplace is associated with more progressive workplace policies towards training, health and safety and diversity. By supporting a forward-looking agenda for unions, the Union Modernisation Fund should therefore enable unions to realise more fully their potential to improve the world of work for all concerned.

Policy objectives for the design of the scheme

- i. A strategic approach needs to be taken to ensure that Fund monies achieve the greatest possible transformational impact;
- ii. The Fund must demonstrate good value for money;
- iii. The Fund must be as simple and as efficient as possible to run;
- iv. The Fund must be managed from start to finish so as to ensure transparency and accountability in the use of public funds;
- v. The Fund must have the flexibility to adapt in the light of experience and changing circumstances;
- vi. Fund guidelines and other documentation must be clear and easily accessible to prospective bidders; and
- vii. The Fund must be effectively monitored and evaluated.

Options

1. *Do nothing. Leave financing of the organisational development of trade unions to their own resources.*

Pros: Spending on the UMF can be freed for other Government priorities.

Cons: Unions continue to struggle to resource necessary organisational development. Their capacity to effectively provide employee voice and contribute to the development of progressive employment practices will be restricted. The potential benefits associated with trade union presence in the workplace for union members, non-members and employers alike will therefore not be fully realised. In particular, unions' contribution to the successful roll-out of new structures for informing and consulting workers under the Information and Consultation of Employees Regulations is likely to be more limited without UMF support.

2. *Regulatory options to modernise unions.*

Pros: Spending on the UMF can be freed for other Government priorities.

Cons: It is not practical or appropriate to stimulate spending on union modernisation through legislation. The scale of union modernisation efforts has generally been restricted due to a lack of funds rather than a lack of desire on the part of unions. Unions are democratic membership-driven organisations, and so it would be inappropriate for the Government to dictate the direction of their organisational

development through legislation. Such an approach could cut across UK commitments on freedom of association.

3. *Modest fund to stimulate modernisation of unions.*

Pros: Injecting a modest amount of money to assist unions to modernise by supporting innovative projects, formally evaluating them, and disseminating the results more widely throughout the union movement, will provide a demonstration of ways in which unions can transform themselves. This should provide benefits to the broader economy as unions are enabled to more fully realise their potential to improve the world of work for both workers and employers.

Cons: Intervention could distort the "market" for trade union membership. There is a risk that if the additionality of Fund-supported projects is compromised, displacement of union funds to activities excluded from Fund support might occur. There is a need to build in exclusions on supported activity to ensure that relations between trade unions and particular employers are not directly affected by the Fund.

Conclusion: Option 3 is recommended.

Options for design of the Union Modernisation Fund

A1) Contract out the administration of bidding rounds

Pros: Minimises Civil Service time spent on administrative work.

Cons: Employment relations is a sensitive policy area. Trade union organisations, structures and working practices differ quite significantly from those of business or NGOs. The Government considers that there is value, at least during the period of embedding the Fund, in keeping the administration of bidding rounds close to those with a detailed understanding of the policy issues involved.

Contracting out the Fund would also reduce the money available for the support of substantive project activity.

A2) DTI administers the fund

Pros: In addition to the arguments against contracting out the administration of the fund (see above), informal discussions with stakeholders have revealed a general consensus that the fund should be administered in house.

Cons: Civil service time spent on administration cannot be spent on other activities.

Conclusion: This option (A2) is recommended over option A1.

B1) Rolling applications and non-competitive process

Pros: No peak of activity in civil service workload. The timetable for union bids could be more closely driven by project need. This option could lend itself to a more streamlined selection process.

Cons: The Government considers that there is value in conducting a competitive assessment whereby the quality of proposed projects can be comparatively and fairly assessed. A competitive process provides greater clarity to unions bidding for funds and it promotes the development of a recognised standard for the quality of projects. A rolling process would require a greater commitment of time from members of the Supervisory Board and would add to the administrative complexity and cost of the scheme.

B2) Annual bid rounds and competitive process

Pros: The positive aspects of this option represent the drawbacks that have been highlighted in option B1.

Cons: The drawbacks of option B2 are equivalent to the positive elements of option B1.

Conclusion: Option B2 is recommended over option B1.

C1) No strict requirement for matched funding

Pros: Not being required to make a matched funding contribution to their projects would be likely to increase some unions' ability to undertake innovative modernisation initiatives.

Cons: The Government considers that it is proper that unions should show a financial commitment to their projects. The Fund is designed to assist and to catalyse union modernisation, not to directly subsidise it. Matched funding is a general requirement in most Government grant schemes.

C2) General requirement for 50 per cent matched funding, to be provided in cash or in kind

Pros: The advantages of matched funding represent the disadvantages of not imposing a strict requirement for matched funding (see option C1 above).

Cons: The positive aspects of option C2 represent the drawbacks of option C1.

Conclusion: Option C2 is recommended over C1.

D1) Make expenditure on capital investment ineligible for support

Pros: Capital investment tends to be expensive. Making capital investment ineligible for support, as in some other Government grant schemes, would be likely to increase the number of projects that could be supported.

Cons: Improving communications with an increasingly mobile membership and increasing the scope for them to participate in union democracy is an important challenge facing modern unions. Developments in ICT technology have significant transformational potential in this regard. The Government therefore considers that to restrict the uses of the Fund to exclude investment in the hardware necessary to support such technologies would significantly reduce the transformational impact of the Fund. Whilst capital investment is excluded from funding in some business-facing Government support schemes, businesses are able to exploit investment in capital equipment for profit. Trade unions are generally unable to offset the costs of such investment against future income.

D2) Support capital investment where it is shown that it will contribute to a transformational project.

Pros: The advantages of option D2 are outlined in the drawbacks of option D1.

Cons: Similarly the disadvantages of option D2 are equivalent to the positive elements of option D1.

Conclusion: Option D2 is recommended over D1.

E1) Bids assessed solely by civil servants (i.e. no Supervisory Board)

Pros: Reduces the administrative complexity of the Fund and the need to conduct recruitment for Board membership.

Cons: An independent Supervisory Board will provide expertise on the trade union movement and the strategic challenges it faces, including a detailed understanding of the internal operations of unions and the broader employment relations context. The use of a Supervisory Board, following the model successfully applied in the Partnership at Work Fund, will ensure the objective and expert analysis of bids.

E2) Bids assessed by a independent Supervisory Board

Pros: The positive aspects of option E2 are represented by the disadvantages of option E1.

Cons: The drawbacks of this option are equivalent to the advantages of option E1.

Conclusion: Option E2 is recommended over option E1.

Costs and benefits

Business sectors affected

The degree to which a business sector will be affected is largely dependent on the extent of trade union density (that is the proportion of employees that are members of a union) in that sector.

Trade union density is highest in the public sector (including sectors such as health, education and public administration) with a figure of 59.1 per cent compared to 18.2 per cent in the private sector as a whole. Within the private sector, the transport and communication sector has the highest density at 42.3 per cent, followed by mining and quarrying, manufacturing and financial intermediation with densities of 28.0 per cent, 26.2 per cent and 25.9 per cent, respectively.

Impact on employers and individuals

The direct impact of the fund on employers (including those in both the private and voluntary sectors) is expected to be minimal.

The fund is not intended to be used to support or subsidise recruitment campaigns or collective bargaining with particular employers and so we do not expect it to have any material impact on union/employer wage bargaining. We therefore do not expect any significant impact on wages or employment levels.

Whilst it would not be the place of Government to intervene to increase levels of union membership, it is in the interests of public policy to ensure that unions operate efficiently and provide a good service, relevant to the modern labour market, to those people who decide to belong. Efficient and responsive unions provide a coherent “voice” for their members, which should lead to improved workplace dialogue, better dispute prevention and, to the extent unions are key stakeholders in public policy-making, a more informed debate about public policy.

By improving workplace dialogue, the UMF may also bring broader benefits for the economy (for both employers and non-union members as well as union members) in terms of improved workplace performance and the extending and deepening of progressive workplace practices associated with a union presence.

According to WERS 1998¹ workplaces that have a recognised union and eight or more high commitment management practices have:

- i) Above average financial performance;
- ii) Above average labour productivity; and
- iii) Lower levels of voluntary resignations and lower levels of dismissals than other workplaces.

While such benefits are welcome, we are aware that Union Modernisation Fund is a modest programme. Therefore it is unlikely that statistically significant quantifiable benefits will directly result from Fund expenditure. In the long term, however, it is hoped that the demonstration effect provided by Fund-supported projects to others in the trade union movement and the stimulus for further modernisation initiatives which the Fund will generate, will result in significant benefits of this kind.

Impact on the Exchequer

The gross cost to the Exchequer as a result of establishing the UMF will be between £5-10 million. This cost will be spread across three to four years beginning in the 2005-06 financial year.

¹ Workplace Employee Relations Survey (WERS) 1998

Unintended consequences

For those unions that receive funds for modernising activities, it is possible that there could be some displacement whereby income that would have been earmarked for “modernising activities” such as essential updating of the unions’ infrastructure could be diverted to other day-to-day uses such as basic training for lay representatives. However, additionality is one of key criteria of the scheme and the intention is a requirement for matched funding. We therefore consider that any displacement would be modest and do not expect the Fund to have any significant impact on the employment relations climate.

Implementation risks

Risk: Fund monies are not spent on agreed purposes or there is inadequate monitoring and verification of expenditure.

DTI will address this risk up front by providing as much information and clarity as to the legitimate uses of the Fund as possible. Checks and sanctions built-in to Fund rules will ensure effective monitoring, and the DTI will have the ability to reclaim funds where there is evidence of misuse. On the basis of past experience, the Government does not believe that the risk of funds being misused is at all significant. The Partnership at Work Fund (a grant award scheme designed to improve employer-employee relationships, workplace productivity and job satisfaction) has been in operation for 6 years and to date there have been no cases of misuse.

Risk: Individual projects fail to meet objectives.

DTI will seek to address this risk at the earliest opportunity by encouraging sound project planning and project management. DTI will raise awareness prior to the launch of the Fund and will provide support on preparing applications and ongoing project support. Effective project management will be one of the selection criteria.

The Fund will finance the monitoring and evaluation of individual projects to ensure that these are built-in to project design at the outset. DTI will focus on building constructive relationships with project managers in order to identify and address problems early. The TUC and STUC and other federations will be encouraged to provide appropriate support for their affiliates.

Equity and fairness

The distributional impacts of the Fund are difficult to assess in advance, as these will depend on the nature of bids submitted by unions and which of these are selected for support.

It is reasonable to assume that distributional impacts will largely reflect the sectors and firms where trade union density² (that is the proportion of employees that are members of a union) is strongest.

Larger workplaces with 50 employees or more have a greater density (38.9 per cent), so larger workplaces are more likely to notice any difference in union performance than smaller workplaces. Also, density is lowest amongst 16-24 year olds (at 10.6 per cent), so organisations that tend to employ young workers are least likely to notice any change in union performance as a result of the setting up of the Fund.

To the extent that a majority of unions have their head offices in London, there is the possibility that funds may be disproportionately spent in the capital. However, a significant proportion of projects are likely to have a national, regional or local focus. Union members are spread throughout the country, with the highest concentrations in Wales and the North East of England³.

The Fund could be used to focus on the needs of particular groups of trade union members and potential members, for example, for the development of new services

² Data on trade union density is for the UK and is from LFS Autumn 2003.

³ Data on trade union density is for the UK and is from LFS Autumn 2003.

which meet the needs of disabled, ethnic minority, young, female or part-time workers. Such impacts are likely to be strongly beneficial and seek to redress existing imbalances in service provision to such groups by unions, relative to their participation in the labour market as a whole.

Small Firms' Impact Test

Trade union density is relatively low in workplaces with fewer than 50 employees, and around half that of larger firms at 19.2 per cent. Less than one third of all employees who work in a small firm work in a place where there is one or more trade union members. Given the lower levels of unionisation in small firms we expect the UMF would have less impact than in larger firms and workplaces. No responses to consultation were received from small firms or their representative organisations.

Competition issues

As there is unlikely to be any material impact on employers' costs and benefits, we do not expect any impact on competition issues.

Consultation

In line with commitments made in the House of Commons when the establishment of the Union Modernisation Fund was announced in February 2004, the Government has consulted extensively on the design of the Fund. Two rounds of informal consultations with trade unions, employers, academics and organisations with employment relations expertise were conducted over the summer and autumn of 2004, alongside evidence-gathering on the operation of a number of other Government financial assistance schemes.

A formal public consultation document was published on 9 December 2004. Consultation closed on 3 March 2005. A total of 42 responses were received. In

addition, the Government held a number of consultation meetings with trade unions, trade union federations and employer associations to seek their views on the proposed rules and procedures for the Fund. The Government will continue to consult key stakeholders on aspects of the detailed implementation of the Fund, for example, to ensure the accessibility and clarity of the application form for bidders.

In general, unions strongly welcomed the UMF initiative and expressed satisfaction with the Government's general approach. Despite expressing some reservations about the principle of a Union Modernisation Fund, employer organisations were also largely supportive of the Government's general approach to the Fund, commenting constructively on the detail of the proposals. The broad thrust of the Government's proposals for the scope, governance and criteria of the Fund was accepted by the overwhelming majority of respondents on both sides of industry. As a result of consultation the Government has made minor amendments to the proposed rules and procedures of the scheme and has provided more detailed explanation of the operation of particular aspects.

Compliance and enforcement

The Government intends to provide a programme of awareness raising activities in the lead up to the launch of the Fund, in order to ensure unions have a clear understanding of eligibility criteria and the obligations which will be placed on successful bidders. Guidance on the Fund's criteria and the completion of the application form will be provided to all bidders in the application pack. Applicants will also be able to access advice from DTI officials. Applicants will have several weeks to prepare their bids.

All bids in scope will be assessed by an independent Supervisory Board which will make recommendations to the Secretary of State regarding those bids which they consider ought to receive Fund support in each round. All bids will also be assessed for financial viability of the union and ability to manage requested funds.

All successful bidders will be obliged to sign a grant offer letter setting out terms on which money is provided and circumstances in which funds may be reclaimed. Grant

offer terms are those applied to all DTI financial assistance schemes on the basis of Government accounting rules. Additional sanctions are available to the Secretary of State in case of misuse of funds through expenditure on political objects.

Monitoring and review

There will be regular (usually quarterly) monitoring of progress and expenditure for all supported projects. All projects will be required to allow site visits by DTI officials. Failure to comply with monitoring activity may result in sanctions including withholding or reclaiming of funds.

The Government intends to conduct a phased evaluation of the Fund. Phase One will evaluate the operational effectiveness of the first bidding round. This will be completed in time to feed into the design of the next bidding round. Phase Two will evaluate the success of supported projects and impact of Fund monies. This evaluation will be undertaken by an independent researcher and will be published. All successful unions will be obliged under grant offer terms to co-operate with this evaluation activity.

Summary and recommendation

The aim of the UMF is to help trade unions to modernise their operations, thus supporting their contribution to the development of high performance workplaces. Several policy options were considered and a non-regulatory approach is recommended which would best achieve the above aims.

The direct impact on employers and industrial relations are expected to be minimal. However, if the Fund results in more unions being better at serving the interests of their members, then employers and workers alike may find that unions' capacity to provide effective employee voice and to work in partnership with employers is enhanced. This could help promote improvements in workplace performance. The gross cost to the Exchequer as a result of establishing the UMF will be between £5-10 million. This cost will be spread across three to four years beginning in the 2005-06 financial year.

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Annex C: Eligible costs

The Government proposes that the following costs be eligible project costs for the purposes of a Union Modernisation Fund grant or a union's matched funding contribution:

- **Personnel Costs** – the direct cost of union personnel involved for the time they spend on project work. Allocation of personnel should be appropriate to the work undertaken (i.e. unions should not charge the General Secretary's rate for administrative work);
- **Overheads** – for example provision of accommodation, telephone costs, employer NI, pensions and healthcare contributions where these are not included in personnel costs. A reasonable proportion of actual costs may be provided, but notional costs such as the opportunity cost of using a building which might otherwise have been rented will not be eligible;
- **Materials consumed** – those used on the project or purchased from third parties and not included in overheads, for example, construction materials, stationery, etc.;
- **Capital equipment and tooling bought or constructed solely or mainly for the project** – insofar as this capital investment will contribute to a transformation in the union's organisational effectiveness or efficiency;
- **Capital equipment and tooling, value of existing items expended in support of the project** – bid assessors will consider claims against existing equipment, provided these costs are not included in overheads. The basis of calculation of the charge for use on the equipment on the project should be explained;
- **Sub-contracts and consultancy fees** – where any work essential to the project could not be undertaken by existing resources within the union. For example, it may not be cost effective for some unions to develop certain skills within their own resources, which may not be needed after the life of the project;
- **Training costs** – development and delivery of training related to project and time spent by union employees on training that is specifically required for the project;
- **Preparation of technical reports or manuals** – for example where a user's guide may be necessary to accompany new ICT-based system;

- **Feasibility studies** – exploratory projects which examine the potential for a larger, more substantial project;
- **Project management** – those costs not included under personnel and overheads, for example, hire of conference or meeting space and promotional/publicity material for in-house and external promotion of project. Includes costs associated with monitoring and evaluating during lifetime of the project and production of the end of project report. Also included here may be additional project management costs of the lead partner in co-ordinating a joint union project;
- **Travel and subsistence** – only reasonable costs that are justified and will be incurred exclusively for progressing the project;
- **VAT** – as trade unions cannot offset or reclaim input VAT costs on goods or services purchased for a project, these costs will be eligible for funding. If, exceptionally, any of the input VATs are recoverable, then they will not be eligible for grant purposes; and
- **Other external or direct costs** – items that do not fit under the other headings. Explanation would be required of the need for these items and approval would be at the discretion of the Board and Ministers.

Exclusions from eligible costs would include:

- **Interest charges;**
- **Entertaining costs;**
- **Hire purchase interest and associated service charges;**
- **Time spent by employees working on the project on training or development activities not associated with the project;**
- **Employment of temporary staff to cover work normally done by employees who are working on the project;**
- **Inflation and contingency** – the DTI will not accept notional amounts expressed as a percentage of project costs;
- **Independent accountant's fees** – unions will be asked to provide an independent accountant's report to certify claims. The cost of this cannot be included in project costs for bidding purposes; and
- **Charges for personnel time provided on a voluntary basis** – in particular, where lay representative time is provided as part of facility time granted by

employers, to meet such costs would constitute a duplication of employer subsidy to the union.

It should be noted that grant is payable on the basis of actual costs incurred and defrayed. The Government proposes that in all cases it will be for the Minister, on the advice of the Supervisory Board and officials to decide whether a given cost is eligible for support.

Annex D: Selection criteria for chair and members of the Supervisory Board

As Chair of the Board you must be able to demonstrate:

Essential skills and experience:

Leadership skills

- Experience of working in cross-union forums and/or acting as a representative of a range of trade union interests.
- The ability to take a dispassionate view and to act in the best interests of the Fund as a whole.
- The ability effectively to represent the Fund to the outside world e.g. to trade unions, employers and academics at presentations, meetings and receptions.

Team working skills

- The ability to lead discussions and to intervene to reach agreement where this is not forthcoming.
- The ability to work effectively with DTI Ministers and officials and to understand the operating environment of central government.

Knowledge of trade union modernisation issues and the broader employment relations context

- Demonstrated commitment to the objectives and principles of the UMF.
- Understanding of the strategic challenges facing the union movement and the range of trade union responses to these.
- A keen interest in, and familiarity with, employment relations and the labour market and the key factors influencing their development.
- A strong track record of working at senior levels within the trade union movement, and an understanding of its history and development, its diversity and its practices.

Analytical skills and judgment

- The ability to think strategically about the future of trade unions;
- Sound judgment in reaching conclusions about which bids should be recommended to Ministers for support, in line with the Fund's criteria.

Desirable skills and experience:

- Experience of project managing or overseeing a union organisational change and development programme
- Experience of overseeing budgets and an understanding of the principles of sound financial management.
- Understanding of information and communication technologies and their contribution to the internal management and operational outputs of trade unions and similar organisations.

Candidates must also be able to demonstrate commitment and availability to fulfil all the requirements of the role. There are likely to be one or two meetings per year, for which candidates must be willing and able to travel to London. Where candidates are in full-time employment, selectors will wish to see evidence that candidates have the support of their employers for their application.

As a member of the Board you must be able to demonstrate:

Essential skills and experience:

Team working skills

- The ability to work as a team player and to act in the best interests of the Fund as a whole. All applicants should demonstrate experience of working cooperatively with other organisations, and applicants from a trade union background should in particular demonstrate experience of acting on behalf of a range of trade union interests in representative forums and similar bodies.
- The ability to work effectively with DTI Ministers and officials and to understand the operating environment of central government.

Knowledge of trade union modernisation issues and the broader employment relations context

- Demonstrated commitment to the objectives and principles of the UMF.
- Understanding of strategic challenges facing the union movement and the range of trade union responses to these.
- A keen interest in, and familiarity with, employment relations and the labour market, and the key factors influencing their development.

Experience of working in or with trade unions

- A strong track record of working in or with a trade union at a senior level. In particular, you must have experience of at least one of the following:
 - Working in Scottish or Welsh trade unions or in the Scottish or Welsh divisions of trade unions operating across Great Britain;
 - Working in a small trade union;
 - Working in a large trade union;
 - Expertise in employment relations matters or in the management of organisational change;
 - Representing an employer with positive working relations with a union or unions.

Analytical skills and judgment

- The ability to think strategically and analyse complex issues.
- Sound judgment in reaching conclusions about which bids should be recommended to Ministers for support in line with the Fund's criteria.

Desirable skills and experience:

- Experience of project management or overseeing an organisational change and development programme
- Experience of overseeing budgets and an understanding of the principles of sound financial management.
- Understanding of information and communication technologies and their contribution to the internal management and operational outputs of trade unions and similar organisations.

Candidates must also be able to demonstrate commitment and availability to fulfil all the requirements of the role. There are likely to be one or two meetings per year, for which candidates must be willing and able to travel to London. Where candidates are in full-time employment, selectors will wish to see evidence that candidates have the support of their employers for their application.

Annex E: Eligibility and Selection Criteria

Eligibility Criteria

The eligibility criteria represent the minimum conditions which must be met by bids in order to be considered for Fund support. Generally, a failure to meet one or more of these criteria will result in a bid's rejection. However, as detailed in the main body of this document, there are areas where the Supervisory Board retains discretion to judge, on a case-by-case basis, that a given project is nonetheless worthy of support.

Project Scope and Strategic Fit

The proposed project meets the definition of a modernisation project (see paragraph 2.12), and accords with the union's modernisation strategy.

Excluded Activities

The proposed project does not cover activities which are excluded from Fund support:

- direct recruitment activity in respect of particular employers;
- activities designed to enhance a union's ability to engage in collective bargaining, trade disputes or to represent individuals in disputes with particular employers.
- the expenditure of Fund monies on political objects.

The first two exclusions do not apply where the employer concerned gives his or her express consent to the proposed project or activity.

Applicant Status

All project applicants:

- are a trade union in possession of a valid certificate of independence from the Certification Officer; or
- a federation of trade unions; and
- operate solely or mainly in Great Britain

Top Level Sign-off

The application to the Fund has been signed off at the level of General Secretary or equivalent of each applicant.

Project Size

A grant of £200,000 or less is sought. (In exceptional circumstances, where strong evidence is supplied in support of a larger claim, the Supervisory Board may recommend to the Minister that the Fund support projects of up to £500,000.)

Project Duration

The proposed project seeks Fund support for up to 2 years. (The Supervisory Board will retain discretion to recommend to the Minister, where there are good reasons for this, that the Fund should support projects of a longer duration.)

Project Location

Proposed project activity will mainly take place in Great Britain.

Eligible costs

Costs for which Fund assistance is sought are reasonable, and only those directly incurred on the project. Proposed capital investment must have a transformational effect.

Matched Funding

The applicant will provide at least 50% of eligible project costs, in cash or in kind. This may include Funds levered in from third parties, excluding funding from other EU or central Government grant schemes. (In exceptional circumstances, based on the recommendations of the Supervisory Board and at the discretion of Ministers, contributions of less than 50% may be accepted.)

Financial Viability

All applicant organisations will be subject to a financial viability test. For this purpose, applications to the Fund must be accompanied by the applicant's last 2 years accounts.

Selection Criteria

All eligible bid proposals will be assessed, and competitively compared, according to the degree to which they meet the selection criteria for the Fund. In all cases the

quality of a bid, as measured against the selection criteria, will be the overriding factor in the recommendations of the Supervisory Board.

Transformational Change

The proposed project demonstrates the potential for transformational change, with regard to the definition of modernisation.

Priority Themes

The bid addresses one or more of the following priority themes:

- i. Improving the understanding of modern business practices by full time officers and lay representatives, to better enable unions to work constructively with employers as partners to improve business performance. In particular, projects will be welcomed which equip full time officers and lay representatives for their roles in the implementation of the Information and Consultation of Employees Regulations;
- ii. Improving two-way communication between unions and their members, leading to a potential for greater participation of members in the union;
- iii. Improving the ability of unions to respond to the increasing diversity of the labour market, and to supply services geared to the needs of a diverse membership;
- iv. Applying modern management methods to the running of unions as efficient, outward-looking and flexible organisations;
- v. Assessing the challenges and opportunities of union restructuring and union mergers; and
- vi. Developing the professional competence of union officers.

Bids on other subjects will be considered. However, bids that address one or more of these themes will receive priority.

Additionality

Without Fund support, the project would:

- not go ahead at all;
- not go ahead on the same timescale;
- not go ahead on the scale proposed; or
- be of a significantly different nature.

Sustainability

Proposed project benefits will be sustained and developed after the period of Fund assistance.

Dissemination

The proposed project is capable of providing a demonstration effect for others within the union movement.

Value for Money

The proposed project offers value for money.

Project Design

The application:

- provides a clear rationale for the project linked to the union's modernisation strategy;
- has clear and realistic objectives linked to appropriate performance measures;
- clearly identifies key milestones and outputs;
- provides an appropriate assessment of the potential risks of the proposal.

In addition, the application must outline an effective monitoring and evaluation strategy. Projects which are successfully assessed against the selection criteria listed here must agree a final monitoring and evaluation strategy with the DTI before a grant offer will be formally made. See Annex F for further details.

Project Management

The application demonstrates that:

- the project has been realistically costed;
- suitable project management and governance arrangements will be in place;
- the timetable and resource planning for the achievement of the project's objectives is realistic; and
- roles and responsibilities of key participants are clear.

Annex F: Monitoring and Evaluation

Applicants are required to outline how they intend to monitor the progress and success of their proposed project, in the form of a monitoring and evaluation strategy which should include an explanation of:

- what the success measures of the proposed project, against its objectives will be;
- details of performance indicators, both ‘soft’ and ‘hard’, to be provided to the DTI at appropriate milestones;
- the methodology which will be adopted in assessing the success of the project against its objectives. For example, will qualitative (e.g. face-to-face interviews, focus groups, case studies, documentary analysis, etc.), quantitative (e.g. statistical analysis, surveys, etc.), or a mixture of both be used;
- the appropriate systems which will be used to collect robust and pertinent management information; and
- a commitment to continuous documentation of the project.

The final monitoring and evaluation report should include details of:

- an assessment of the impact made, in contrast to the position prior to commencement of the project;
- assessment of the success of the project against its aims and objectives;
- lessons learnt; and
- best practice identified.

The cost and effort associated with a project’s monitoring and evaluation strategy should not be disproportionate relative to the main project activity. The final strategy for successful projects will be agreed in discussion with the DTI.

Annex G: Organisations and individuals that responded to consultation

The following respondents to consultation were willing for their details to be disclosed:

Advisory, Conciliation and Arbitration Service (Acas)

Amicus

Associated Society of Locomotive Engineers (ASLEF)

Association of Licensed Aircraft Engineers (ALAE)

Association of Teachers and Lecturers (ATL)

Chartered Institute for Personnel and Development (CIPD)

Communication Workers Union (CWU)

Community

Confederation of British Industry (CBI)

Engineering Employers Federation (EEF)

GMB

Impact Commercial Development Ltd

Institute of Directors (IoD)

Involvement and Participation Association (IPA)

John Reid & Associates

The Network Partnership responded on behalf of:

Britannia Staff Union

Cheshire Building Society Staff Association

Derbyshire Group Staff Union

Dunfermline Building Society Staff Association

Leeds & Holbeck Building Society Staff Association

Leek United Building Society Staff Association

Portman Group Staff Association

Scarborough Building Society Staff Association

Skipton Independent Staff Association

Yorkshire Independent Staff Association

Staff Union West Bromwich Building Society.

National Association of Schoolmasters Union of Women Teachers (NASUWT)

National Union of Rail Maritime and Transport Workers (RMT)
Newspaper Society
Professor Gregory Gall, University of Stirling
Professor Roger Undy, University of Oxford
The trade union members of the Trade Union Sustainable Development Advisory
Committee (TUSDAC)
Trades Union Congress (TUC)
Transport and General Workers' Union (T&G)
Transport Salaried Staffs' Association (TSSA)
Union of Construction, Allied Trades & Technicians (UCATT)
Unison
Union of Shop, Distributive and Allied Workers (USDAW)

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