

Confidential Filing

Memorandum on application for support and innovation

Research and Development

INDUSTRIAL POLICY

Pt 1: November 1984

Pt 8: January 1990

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2.1.90							
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PREM 19/3396

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● PART 8 ends:-

PROF. STEWART TO FGAB 12.3.91

PART 9 begins:-

CST TO PM. 5.4.91

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Annual Review of Government Funded Research and
Development
Cabinet Office
Published by HMSO
ISBN 0 11 430044 5

Signed J. Gray Date 4/3/2017

PREM Records Team

W0768

SIR ROBIN BUTLER

12 March 1991

ADVISORY BOARD FOR THE RESEARCH COUNCILS.

You will wish to know that there will be critical articles in the press and renewed lobbying by the scientific community following the annual meeting of ABRC held last weekend to consider priorities for the PES round.

2. Unfortunately, it is common for decisions taken at ABRC meetings to leak. On this occasion it is believed that a member of the committee has spoken directly to people affected by the proposal to shut the nuclear structures facility at Daresbury. Other aspects likely to appear are criticism of Sir Mark Richmond's approach as the new Chairman of SERC and attacks on the ABRC.

3. ABRC is of course the responsibility of the Secretary of State for Education and Science and Mr Vereker was present at the ABRC meeting. Some of the lobbying will, however, be directed towards the Prime Minister: the Astronomer Royal is particularly active and has enlisted the support of the former Prime Minister.

5. I see no alternative to my maintaining a low profile. I will listen to those, like the Astronomer Royal, who approach me directly but will make clear where the formal responsibilities lie.

6. I am sending a copy of this minute to Mr Turnbull.

WDP
PROFESSOR WILLIAM D P STEWART
Chief Scientific Adviser

rdef.4



CPU
pa

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 071-934 9000

The Rt Hon KENNETH CLARKE QC MP

Ian Dixon Esq
Cabinet Office
70 Whitehall
London
SW1A 2AS

8 March 1991

2

Dear Ian

RESPONSE TO THE HOUSE OF LORDS SELECT COMMITTEE REPORT ON R&D DEFINITIONS

Thank you for your letter of 6 March, enclosing a copy of the final version of the draft Government response. *will require if need*

The Secretary of State is content with the response and with the draft press release. He believes however that the press release could do better justice to the strong points made in the second half of the response. I understand you have agreed to take this into account in finalising the draft.

Both the documents, as they stand, require some minor drafting amendments:

Response

- i. the second sentence of paragraph 13 reads awkwardly. Perhaps: "...now receive a total amount of funding for collaborative R&D from EC, comparable to that received from the Department of Trade and Industry (DTI).";
- ii. the second sentence of paragraph 27 should of course begin with a capital letter;

DES

Press release

- iii. replace "is" by "its" in the third line of the second indent on the second page;
- iv. replace "they are... their" with "it is... its" in the penultimate line of the second page; and
- v. replace "their" by "its" in the first line of the Note for Editors.

I am copying this letter to recipients of yours.

Yours sincerely

Stephen Crowne

S T CROWNE
Private Secretary

MR POTTER
MR MORRIS

8th March 1991

cc Mrs Hogg
Mr Harris Hughes

HOUSE OF LORDS SELECT COMMITTEE ON SCIENCE & TECHNOLOGY
REPORT ON INNOVATION IN MANUFACTURING INDUSTRY

You will be aware that this report was published on 6th March. Together with criticism on the level of science funding and Labour's new policy document on industrial policy, it will provide much ammunition for Government critics. Nevertheless, there is little novel in the report. I attach a copy of its Summary of Conclusions and Recommendations.

Their Lordships are right in much of their analysis. The record of British industry in innovation is patchy, but on balance is worse than much of our competition. This is not due to weakness of the science base, which although perhaps losing ground relatively, remains excellent. We fail in transfer and development of technology into marketable products.

The report falls down in its prescription for remedial action. Industrial weakness in this, as in other, areas must represent a failure of management. Although industry, the media and academia are called upon to revise their behaviour, the thrust of the recommendations are for concerted Government action and expenditure.

1. **Marketing Campaign**

A campaign is recommended to promote perceptions of industry and an innovation culture. Similar ideas are

under discussion in DTI. Would this be money well spent?

2. **Education & Training**

This lies at the root of the problem, and current Government policies on the National Curriculum and TECs address it. The report recommends that in addition 'more than 100 per cent' of training costs should be tax allowable, and that individuals should be allowed to deduct training from personal income, for tax purposes.

3. **Takeovers**

The report accepts that 'short-termism' is a problem and comes down firmly on the protectionist side of the debate. It recommends that voting rights should only be permitted to shareholders after holding their stock for more than one year. This is an outrageous attack on property rights, and would hugely strengthen the position of incumbent managers. A massive economic distortion would follow.

4. **Fiscal Incentives**

Their Lordships recommend 150 per cent allowance of R & D and a return to flexible depreciation schedules for tax purposes. The evidence is that tax incentives for R & D are not cost effective, so unlike competitor countries the Government chose to phase them out in favour of lower tax rates.

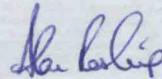
5. **Industrial Policy**

A much more interventionist role for the DTI is urged. Innovation aid should be restored to its peak 1985-6 level (an additional £222 million), areas of emerging technology needing backing should be identified, launch aid for high risk ventures extended, and an SDA for

England established. All of this is 1960s-think, with Government taking a lead not acting as catalyst.

Conclusion

Weaknesses in innovation represent industry failures not Government failures. The right role for Government is to fund the science base, assist and promote industry's efforts to apply technology, and continue the sea-change in education and training. This policy needs to be consistently and robustly stated by DTI Ministers to counter the cries for a new industrial strategy.



ALAN ROSLING

008.AR

EXTRACT FROM
HOUSE OF LORDS SELECT COMMITTEE ON SCIENCE & TECHNOLOGY

'INNOVATION IN MANUFACTURING INDUSTRY'

CHAPTER 10 SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

10.1 Industry's failure to remain competitive has grave implications for our future prosperity (para 9.1).

10.2 While productivity and profitability have improved, only a substantial increase in output can correct the huge deficit on our balance of trade (para 9.2).

10.3 Action is needed now to stop the decline of our manufacturing industry (para 9.3).

10.4 Innovation is a necessary, though not sufficient, condition for industrial success (para 9.5).

10.5 The best British manufacturing companies are among the best in the world (para 9.5).

10.6 Too many companies however are insufficiently innovative or competitive. We must create a climate in which innovation can more readily flourish (para 9.6).

10.7 We must change the national attitudes which lead to the belief that manufacturing is a second class occupation (para 9.7).

10.8 We must have a concerted campaign to promote greater esteem for manufacturing (para 9.8).

10.9 Government must lead this campaign and proclaim the central position of manufacturing to our national prosperity. DTI should be consulted on other areas of Government policy so that the likely impact on industry is fully understood and taken into account (paras 9.9, 9.10).

10.10 Industry must offer competitive remuneration, to attract talented personnel (para 9.11).

10.11 Industry must make proper use of its manpower and provide stimulating and challenging work particularly for new recruits (para 9.12).

10.12 Industry must establish closer links with schools, building on existing relationships (para 9.13).

10.13 Industrialists must cultivate a higher public profile (para 9.14).

10.14 Government should fund on a pound for pound basis those non-profit making organisations working effectively to promote school/industry links (para 9.16).

10.15 We hope the media will help in projecting a more positive image of industry (para 9.17).

10.16 The financial community should acknowledge the importance of manufacturing industry (para 9.18).

10.17 Government should continue its actions to encourage inward investment, which will enhance manufacturing capability in the short term. Such investment must be accompanied by the research, design and development inputs which go to make an innovative enterprise (paras 9.21 to 9.23).

10.18 Companies must seek out and implement the best practice in innovation. This will involve:

- (a) Attaching high priority to identifying and meeting the needs of the customer.
- (b) Cultivating a positive and enthusiastic attitude to innovation, led by the Chairman/Chief Executive and the Board.
- (c) Adopting a structure which encourages open and easy communications between company levels and between disciplines.
- (d) Learning from the activities of competitors.
- (e) Working in partnership with customers and suppliers.
- (f) Being open to innovative developments and technologies from any source (paras 9.24 to 9.32).

10.19 Companies should pursue dividend policies which facilitate increased investment in innovation from retained profits. We regret that City managers emphasise the importance of dividends even at the expense of other priorities (paras 9.33, 9.34).

10.20 We welcome the closer relations between industry and the science base which have been forged in recent years (para 9.35).

10.21 We regret that British companies are often slow to take advantage of improved technology transfer from Research Councils and HEIs and urge them to improve their responsiveness (para 9.36).

10.22 Greater interaction in policy formation between industry and academia would be advantageous. More staff of HEIs should be involved on the boards of companies (para 9.38).

10.23 Further improvements in the links between industry and academia should not be perceived by Government as an excuse for reducing support to HEIs and Research Councils. ABRC should monitor this situation (para 9.39).

10.24 The high cost of capital is a massive disadvantage faced by British industry. Wherever possible obstacles to investment should be reduced (para 9.40).

10.25 One hundred and fifty per cent of industrial expenditure on R&D should be exempt from taxation, based on the amount of real additional expenditure which a company makes over its previous year's total (para 9.41). Such allowances should only be available to companies which declare their expenditure in line with SSAP 13, which should be made a legal requirement (para 9.42).

10.26 Government should review the activities of local tax inspectors in their interpretation of the law relating to tax relief on capital spent on development (para 9.43).

10.27 Companies should be allowed to choose for themselves the rate of depreciation against tax for plant and machinery. It should be the same rate as that shown in their published accounts. This change should not be accompanied by a return to a higher rate of corporation tax (paras 9.44, 9.45).

10.28 The shortage of skilled manpower is a matter of the utmost concern. We hope that the ACOST study of this subject will be completed soon and its publication approved (paras 9.46, 9.47).

10.29 The Government must devote adequate resources to implementing the new National Curriculum, particularly through training of both existing and new teachers (para 9.48).

10.30 More than 100 per cent of company expenditure on approved training should be exempt from taxation (para 9.49).

10.31 The costs of approved courses of training paid for by an individual should be an allowable deduction from personal income for tax purposes (para 9.50).

10.32 We welcome the introduction of postgraduate courses in innovation management. Government should ensure that they are adequately funded (para 9.51).

10.33 Business schools and other HEIs providing management training should ensure that the importance of technological innovation to an industrial enterprise is fully reflected in the courses which they offer (para 9.52).

10.34 We welcome the increasingly close collaboration between some companies and HEIs to ensure the relevance of education to industry's needs (para 9.53).

10.35 Short-termism is a real problem deeply rooted in our business culture. The favouring of deal-driven activity, automatic expectations of high returns on investment and the dominance of financial professionals over scientists, technologists and engineers all contribute (paras 9.54, 9.55).

10.36 Companies must ensure that their systems of incentives do not favour emphasis on current year's results (para 9.56).

10.37 Company managers who are pension fund trustees should review the demands that they make on their fund managers (para 9.57).

10.38 Companies must all follow the example of the best in carrying on a constructive dialogue with their shareholders about their innovation plans (para 9.58).

10.39 Institutional shareholders and brokers should adopt a policy of recruiting a higher proportion of their analytical staff with scientific or technological qualifications and with experience of industry (para 9.59).

10.40 The high incidence of takeovers is damaging to manufacturing industry and warrants action, even though there are cases when merger is beneficial (paras 9.60, 9.61).

10.41 We welcome the work of the Innovation Advisory Board (para 9.62).

10.42 Voting rights should be enjoyed only by shareholders who have held their shares for at least a year. Companies legislation should be amended to that effect (para 9.63).

10.43 The threat of takeover is not necessary as a spur to efficient management of a company (para 9.64).

10.44 The influence of active, well-qualified, independent non-executive directors should be strengthened. Principal shareholders should play a more active role in the appointment of non-executives (paras 9.65, 9.66).

10.45 Government should devote a higher proportion of public funds to innovation in manufacturing industry. Failure to maintain the national R&D budget gives the wrong signals to industry about the importance of R&D and the innovation process to the national economy (paras 9.68, 9.69).

10.46 The DTI budget for industrial innovation should be restored to the levels of the mid-1980s and active industrialists should advise on its disbursement (para 9.70).

10.47 Properly targeted selective Government support for innovation can be of great value. The present level of support is below the optimum (para 9.71).

10.48 The Government should explore again the possibility of preferential interest rates for innovation in industry (para 9.72).

10.49 Government has a legitimate role in identifying and promoting generic technologies and industrial sectors of key importance for the future. ACOST should be invited to advise the Prime Minister on this and that advice should whenever possible be made public (para 9.73).

10.50 The frequency of changes in the Secretary of State for Trade and Industry should be reduced, and the Department should be strengthened by recruiting, on secondment from industry, staff with first-hand experience of managing technological innovation (para 9.74).

10.51 Government support is particularly appropriate for SMEs. We welcome the introduction of new schemes to assist them and urge that they should be adequately funded (paras 9.75, 9.76).

10.52 We welcome recent changes in the LINK scheme and hope they will encourage greater take-up of funds (para 9.77).

10.53 Launch aid should be extended to support high risk large scale product developments in sectors other than aerospace (para 9.78).

10.54 The regional technology centres should be strengthened. The activities of the Scottish and Welsh Development Agencies should be taken as a model for exploiting more effectively the technological and industrial potential of other areas of the UK (paras 9.79, 9.80).

10.55 DTI schemes should only be altered to meet changing needs or if they are shown to be ineffective. They should not be altered simply for the sake of gaining political kudos from a "new initiative" (para 9.81).

10.56 DTI schemes must be made more readily accessible and easily understood (para 9.82).

10.57 DTI should assist the process of dissemination of best practice on innovation (para 9.83).

10.58 SMART and the Enterprise Initiative should be expanded. SMART should not be subject to cash limits (para 9.84).

10.59 DTI should do more to promote vertical collaboration (that is between suppliers and customers) as a way of encouraging innovation (para 9.85).

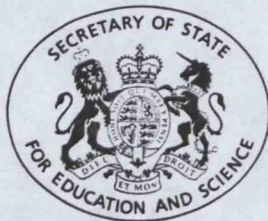
10.60 The DTI should expand its overseas technological information retrieval system (para 9.86).

10.61 Government should work to reduce the complications involved in EC programmes, and assist in making them known to and understood by British companies (paras 9.87, 9.88).

10.62 The present lack of Government commitment, support and assistance to industry are damaging to our national interest (para 9.89).

10.63 Expenditure by Government on support of industry should be regarded as an investment on behalf of us all, not a cost to be cut (para 9.90).

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TELEPHONE 071-934 9000

The Rt Hon KENNETH CLARKE QC MP

Ian Dixon Esq
Cabinet Office
70 Whitehall
London
SW1A 2AS

7 February 1991

Dear Ian

DRAFT RESPONSE TO THE HOUSE OF LORDS SELECT COMMITTEE REPORT ON R & D DEFINITIONS

Thank you for your letter of 31 January, enclosing the fifth draft of the Government response. *WILL REQUEST IF AGREED*

The Secretary of State is content with the proposed draft response, subject to the following drafting amendments:

Paragraph 7

There is an apparent contradiction between the first two sentences which could be removed by redrafting the first sentence on the following lines:

"The Government agrees with the Select Committee that subdividing the "research" category within R & D at the international level carries the risk of conveying the impression of a degree of precision which is unwarranted. There are, however..."

Paragraph 23

The second sentence is ungrammatical. We would like to see it and the following sentence re-worded as follows:

"However the Select Committee's discussion of the limitations of international statistics and of the difficulties of identification and categorisation in even

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one country - the United Kingdom - underlines the fact that caution needs to be exercised in attempting to draw conclusions from international comparisons. Factors such as relative wage levels and specific programmes such as restructuring research establishments mean that comparisons of figures and trends can be misleading."

Paragraph 27

The first sentence might be made more direct (with a small consequential amendment to the beginning of the second sentence) as follows:

"Any judgement of the optimum level of Government support for civil R&D must take account of what is achieved by researchers as well as of the amounts being spent. The Government recognises it is difficult to..."

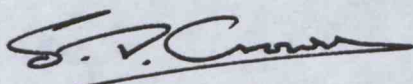
Paragraph 29

The Science Budget figures are not correct. The second and third sentences should be amended as follows:

"Provision in 1990-91 is 15% higher in real terms than in 1986-87. In the last three public expenditure settlements the Science Budget has increased from £706 million in 1988-89 to £929 million planned for 1991-92, an increase of £223 million in cash terms, or over 8% in real terms."

I am copying this letter to recipients of yours.

Yours sincerely



S T CROWNE
Private Secretary



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TPM1
copy 2
Prime Minister

Yes. We will need to support the CST strongly. S.I.

You are, I am sure, familiar with this subject.

FROM: CHIEF SECRETARY
DATE: 3 January 1991

You may like to see the minute now, but wait to see colleagues' views before commenting

PRIME MINISTER

EC R & D: REDISTRIBUTION OF EUROPE'S BASELINES

at that
In his minute of 12 November, Norman Lamont recorded that it had not been possible to agree to redistribution of EUROPE'S baselines in the 1990 Survey. He also said that he would be considering the suggestion that there should be a more thorough review of the EUROPE'S arrangements, and that he would write separately about this.

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2. I have given very careful thought to the suggestion that we should review EUROPE'S. In doing so, I have considered whether the reasons for its introduction still hold good and whether the system meets its objectives.

3. The EUROPE'S arrangements were agreed by E(A) in 1984. E(A) was concerned by the prospect of growth in non-agricultural areas of the Community budget - including, specifically, R & D. Unlike more traditional EC spending, these new areas were not covered by arrangements which brought them within the scope of public expenditure control. Given the potential consequences for UK public expenditure which would flow from growth of the Community budget, E(A) considered that there should be an extension of public expenditure controls so as to contain the public expenditure cost of new policies and to ensure as effective control as possible of spending at the Community level. Accordingly, EUROPE'S was introduced to subject new Community expenditure to a system of control which was as similar as possible to that for domestic public expenditure.

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4. Little has changed since 1984, except that the expected growth of new spending, including on R & D, has indeed materialised. Beyond that, it remains one of our priority objectives to restrain and keep effective control over UK public expenditure; and there is continuing pressure for new Community spending both now and for the foreseeable future as we enter into the political union IGC and also approach the discussions of the Community's finances after 1992. The rationale underlying EUROPE is clearly, therefore, as relevant now as it was when the arrangements were agreed.

5. The same goes for the more specific objectives of the system. These have been set out, for example, in the evidence given to the various Parliamentary Committees which have been looking at the 1990-94 Framework Programme over the last year or so. They are:

- (i). To maximise the quality and value for money of EC R & D spending by making departments directly responsible for providing briefing and advice on programmes within their areas of business;
- (ii) to ensure, as far as possible, that the EC's R&D effort complements, rather than duplicates, domestically funded R&D;
- (iii) to ensure that public expenditure resulting from EC activities is evaluated and controlled on the same basis as other public expenditure.

6. It seems to me clear that these objectives are being met. Departments are closely involved with the development of Community R&D programmes; and have every incentive, because of the financial responsibility they bear in relation to those programmes, to continue that involvement. One consequence of departments' close involvement is that the UK has been successful in securing successive Framework Programmes which involved a level of spending which we could agree, and a

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balance of spending which broadly corresponded to the UK's R&D priorities. Finally, integration of EUROPEs into the Survey provides a proper basis and context for considering the domestic implications of EC R&D. These include the appropriate limit for support by the UK taxpayer for publicly funded research; and the implications of EC spending for domestic programmes, both generally and in relation to any serious mismatches which may arise between Community and domestic priorities. Moreover, for the reasons in his letter of 26 February to Douglas Hogg, I agree with Norman Lamont that our system of public expenditure control is fully compatible with the continuity and predictability which effective R&D requires. Against this background, my conclusion is that EUROPEs is serving its purpose very well.

7. However, I have also considered whether there are any practical improvements which we might introduce. Treasury Ministers and officials have been concerned to ensure that the system operates fairly. Thus, for example, the 1990 exercise involved a number of improvements to the arrangements, resulting from the Treasury's own consideration of the system and from suggestions from departments. Treasury officials intend to keep the operation of the system under close review, and they will give full consideration to any suggestions from departments for its improvement.

8. I understand that a particular concern of some colleagues is that the conditions attaching to redistribution of EUROPEs baselines, in Richard Ryder's minute of 31 July, may indicate inflexibility in the Treasury's approach to EUROPEs. Norman Lamont explained in his letter of 12 November that Richard Ryder wrote against a background of significant pressures on public expenditure, and a substantial cost in the Survey period if redistribution went ahead in the course of the Survey. It is axiomatic that the circumstances of any particular Survey will bear on the decisions taken in that Survey, including decisions arising out of EUROPEs. But, while I cannot of course prejudge future Surveys and decisions about public spending, I can assure colleagues that my general approach to

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EUROPES will take in the flexibility of the system which Norman Lamont explained in his paper for E(ST) on 14 December 1989 and in his letter of 26 February 1990 to Douglas Hogg. And I think that the evidence is that the system does not operate rigidly. The consequence of EUROPES baselines is a minimum additional £100 million a year of publicly funded R&D in the UK, on programmes which correspond to our domestic priorities. And colleagues will know that the outcome of Survey discussions has not been that the further cost to the UK of EC R&D falls entirely on departments. That indicates what is, to my mind, the great advantage of EUROPES: that it brings the public expenditure consequences of European expenditure into the Survey in a systematic way; and, by doing so, provides the basis for a realistic discussion of how to meet that cost.

9. For the reasons which I have set out, I do not consider that a "thorough review" of EUROPES, as Douglas Hogg put it, is necessary. However, we shall be looking again at redistribution early next year. In reviewing the purpose and operation of EUROPES, I have been struck by the incompleteness of its coverage. The proposal in Richard Ryder's minute of 31 July, that coverage should be extended to JRC in full and to unsponsored expenditure, was partly intended to contribute to the cost of redistribution in the 1990 Survey. But the basis for the proposal was also to improve the coverage and coherence of the system. I am not proposing now that we should implement those extensions, or to set them as a pre-condition for redistribution of EUROPES baselines next year. But I would like to consider these extensions further. I have, therefore, asked officials to establish the implications for departments, on an agreed and without prejudice basis, in the course of their work updating the cost of redistribution.

10. I am copying this minute to members of E(A), to Douglas Hurd, Kenneth Clarke and Alexander Hesketh, and to Sir Robin Butler.

Step L Bond

DAVID MELLOR

*[Approved by the Chief Secretary
and signed in his absence]*

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c:\WPDOCS\FORIGN\EUROPES



(mem)
bcc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 November 1990

Dear Jeremy,

EC R&D: REDISTRIBUTION OF EUROPES BASELINES

The Prime Minister has noted, without comment, the Chief Secretary's minute of 12 November recording that the conditions for Treasury agreement to redistribution of EUROPES baselines in the 1990 survey have not been fulfilled.

I am copying this letter to the Private Secretaries to members of E(ST) and to Sir Robin Butler.

Your diary,

CHARLES D. POWELL

Jeremy Heywood, Esq.,
Chief Secretary's Office

CONFIDENTIAL

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FROM: CHIEF SECRETARY
DATE: 12 November 1990

②
Prime Minister

CD
12/K:

MS

PRIME MINISTER

EC R&D: REDISTRIBUTION OF EUROPE'S BASELINES

Richard Ryder wrote to you on 31 July to set out the conditions of our agreement to redistribution of EUROPE'S baselines in the 1990 Survey. I am writing to confirm that, since those conditions were not fulfilled, we could not agree to redistribution in the Survey.

2. Richard Ryder wrote against a background of significant pressures on public expenditure, and a substantial cost in the Survey period if redistribution went ahead in the course of the 1990 Survey. The conditions in his minute were designed, in part, to meet that cost. Given the views which colleagues expressed, I am afraid that I had to conclude that redistribution could not proceed now. Richard Ryder did, however, make clear that we were ready to consider redistribution further if colleagues could not reach agreement on the basis which he set out; and I am asking my officials to take work forward in good time for next year's Survey.

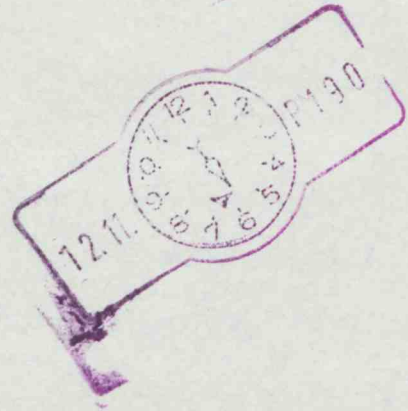
3. I am considering the suggestion from Douglas Hogg, John Gummer and John Wakeham for a more thorough review of the EUROPE'S arrangements, and I shall write to colleagues separately about this.

4. I am copying this minute to members of E(ST) and to Sir Robin Butler.

ML

NORMAN LAMONT

IND Pol: Support + Innovation
PT8



COMPTON

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ecf
PL

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

Richard Ryder Esq MP
Paymaster-General
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

6 October 1990

COB 8/10

Alfred Richard

EC R & D FRAMEWORK PROGRAMME: EUROPE'S BASELINE REDISTRIBUTION

Thank you for sending to me a copy of your minute of 31 July to the Prime Minister in which you set out 3 conditions for agreeing to redistribution of the EUROPE'S baseline for R & D. I have since seen Peter Lilley's letter to you of 16 August, John Wakeham's of 20 August, John MacGregor's of 13 September, and Douglas Hogg's letter of 17 September to the Chief Secretary. I have also seen the related correspondence at official level in which the additional information sought by Peter Lilley has been provided.

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Aug A
Aug C

Aug D - will require request

As recorded in my minute of 31 May to the Prime Minister, I fully support the second of the two options for redistribution set out in the Chief Secretary's minute of 21 May last. In terms of my Department's current attribution of responsibility for EC research, the proposals in your 31 July minute achieve the objective of a baseline redistribution which reflects the combined shapes of Framework Programmes 2 and 3. For this reason, I have already indicated to the Chief Secretary, in the first round of our bilateral discussions on this year's Survey, that I would be prepared to withdraw my bid to reinstate the EUROPE'S cut if agreement is reached on redistribution as proposed.

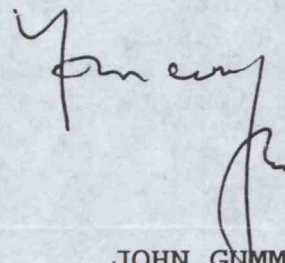
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In their letters both John Wakeham and Douglas Hogg again stress the need for a thorough evaluation of the purposes and

END POL: Support - Innovate P18

functioning of EUROPE. I strongly support the need for such an evaluation and see no reason why this should not be carried out concurrently with discussions on redistribution.

Copies of this letter go to the Prime Minister, members of E(ST) and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'John Gummer', with a stylized flourish at the end.

JOHN GUMMER

CONFIDENTIAL

ccpa



2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

My ref:

Your ref:

Richard Ryder Esq MP
Paymaster General
HM Treasury
Parliament Street
LONDON
SW1 3AG

CR 42

4 October 1990

Dear Paymaster General

EC R&D FRAMEWORK PROGRAMME; EUROPE'S BASELINE REDISTRIBUTION

Your minute of ^{11th} 31 July proposed three conditions for the redistribution of EUROPE'S baseline for R&D; your officials have now provided details of their financial implications.

While I share the view that baseline redistribution is a fair and equitable reflection of shifts in EC research policy, I have to say that I cannot accept any of your conditions.

Withdrawal of related PES bids would mean abandonment of the option to pursue UK research policies in the face of shifts in EC expenditure. This is particularly serious for our environment policy, which depends heavily on sound underpinning of UK science. Full attribution of unsponsored lines and of the JRC both raise serious questions of accountability. On unsponsored lines, you are in effect proposing multiple Departmental sponsors for EC programmes; that is a bad recipe for accountability and control of research whether domestic or international. The JRC is increasingly treated by the Commission as their own executive agency for R&D; they have removed the advisory role of representative committees on specific research programmes and it is now hard to see how my Department can exercise any influence over its activities.

In conclusion, while I would prefer the EUROPE'S baseline to be redistributed at the earliest possible moment without the complications you have introduced, I am prepared to wait a further year to get the details right if this proves necessary.

I am sending copies of this letter to the Prime Minister, members of E(ST) and Sir Robin Butler.

CEJBash

PP CHRIS PATTEN

(approved by the Secretary of State and signed in his absence)



recycled paper

IND POL : Support + Innovation Pts



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ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
071-934 9000

Richard Ryder Esq
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

13 September 1990

Dear Richard,

EC R&D FRAMEWORK PROGRAMME: EUROPES BASELINE REDISTRIBUTION

Your minute to the Prime Minister of ³¹ July proposed three conditions for the redistribution of EUROPES baselines for R&D.

Now that we have details of the financial implications for Departments of these conditions, I am willing to agree that redistribution should proceed as the you suggest. I believe that your proposals will allow the EUROPES arrangements to reflect the changed expenditure priorities under the third Framework Programme without weakening financial discipline and at no additional public expenditure cost.

I am sending copies of this letter to the Prime Minister, members of E(ST), and Sir Robin Butler.

Yours ever,

JOHN MACGREGOR

cc/c
C

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THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

Richard Ryder Esq MP
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

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20 August 1990
with EHP?

Dear Richard

Thank you for sending me a copy of your minute of 31 July to the Prime Minister about the redistribution of the EUROPEs baseline.

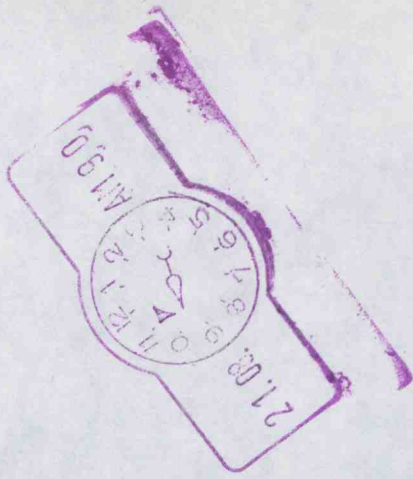
You already know of my strong view that the proposed redistribution represents a serious weakening of the financial discipline of EUROPEs. The additional conditions you have now proposed, some months after the detailed negotiations of the Framework Programme were concluded, only add to my misgivings. I must again press for a thorough Ministerial examination of the purposes and functioning of EUROPEs.

While, as you point out, the detailed implementation of your conditions (ii) and (iii) will need to be discussed further, it is clear that were I to meet the three conditions together, my Department would need to find large offsetting savings to its RD&D programmes. In my bidding letter of 4 June to *attached* Norman Lamont, I explained that my PES bids represented a very considerable reduction on the levels of expenditure that I felt would be justified on their own merits, and that I saw no way of reducing my programmes yet further. His reply of 26 July accepted the net bids I had proposed. It goes without saying that we would need to bid to cover the consequences of all your proposals in each of the three PES years and beyond. Unless this bid is acceptable your proposal would cause my Department insuperable difficulties and could not therefore be regarded as acceptable.

I am sending copies of this letter to the recipients of your minute.

John Wakeham
JS

JOHN WAKEHAM



CONFIDENTIAL

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

4 June 1990

See Norman

PUBLIC EXPENDITURE SURVEY 1990

As requested in this year's Survey guidelines I am writing to let you know the outcome of my scrutiny of this Department's programme and administrative expenditure.

As you will see my proposals amount to bids of about £38 million in 1991-92, £67 million in 1992-93 and £59 million in 1993-94. They are of course substantial. However, they do represent a very considerable reduction on the levels of expenditure that I believe would be justified on their own merits. I am fully conscious of the very real difficulties facing us in this year's Survey, as you very clearly explained in your minute of 17 April to the Prime Minister. With this in mind I have cut back the bids very substantially. This was not a matter of dropping new programmes; it was a matter of cutting back, in some cases, on some highly desirable increases in expenditure on existing programmes and, in other cases, cutting quite deeply into existing provision for those programmes. This cannot be achieved without some very real political and presentational problems, and I see no way of reducing my programmes yet further. I should also add that I may wish, before the final settlement is reached, to switch provision around between programmes within, of course, the proposed totals, in order to ensure that the political and operational difficulties associated with the cuts are minimised.

On the programme expenditure the need to bid arises from the requirements of two main programmes: the Decommissioning and Radioactive Waste Management Operations (DRAWMOPS) programme and the Home Energy Efficiency Scheme (HEES). Both can be seen as special cases. On DRAWMOPS there is very little discretion on incurring expenditure: there is not much we can do other than ensure that the work is undertaken as economically as possible and at the most appropriate time. That said, I am able to offer up some reductions in 1991-92 on the programmes put to me by the

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AEA by deferring work to later years. HEES is, this year, a major new area of Departmental expenditure, with a high profile, and there are certain public expectations on the targets that it should meet. I have considered withdrawing the scheme entirely but this would be wholly inconsistent with our policies. I have therefore cut my bid to reflect the absolute minimum of work. This low bid will mean the level of work we can maintain will be highly contentious and not in accordance with public expectations. Otherwise on programme expenditure I am able to offer up net savings.

On administrative expenditure and particularly running costs I fear I do have to make a fairly substantial bid, though I have made every effort to keep it to a minimum. On the manpower side you will be glad to know that it should still be possible to run down overall requirements from current levels when electricity privatisation is completed around the turn of this financial year. However, compared to baseline, it will be necessary to increase manpower, largely for reasons which you accepted in approving the manpower planning total for this year at Main Estimates (particularly the need to strengthen resources in the offshore safety area). With the increased manpower requirement more needs to be spent on accommodation and office services. Pay increases also account for a substantial part of the bid; for these I have however assumed rises significantly below projections by independent forecasters.

PROGRAMME EXPENDITURE: NUCLEAR

The following table summarises my bids in this area:

	£ million			Total
	1991-92	1992-93	1993-94	
DRAWMOPS	26.6	44.9	31.3	102.8
Other nuclear	0.6	0.8	2.3	3.7
Savings	(4.2)	(1.9)	(3.2)	(9.3)
Total net bids	23.0	43.8	30.4	97.2

As you will see DRAWMOPS is by far the biggest element of my overall bid. Most of the bid is for work the need for which has arisen since last year's PES round and which could not have been predicted then. The bid results from three main factors: decisions by MoD to discontinue or defer work; advancing work to meet regulatory pressures or to reduce costs overall; and the need to cover a higher proportion of the AEA's operational and overhead costs which now fall on DRAWMOPS. The bid assumes a Supplementary Estimate of about £18 million in 1990-91, which if not granted will need to be added to the 1991-92 bid. As I have



said I propose some cuts for 1991-92 by deferring some expenditure but to go beyond these would incur substantial additional expenditure in later years. Decisions to close plant carry inevitable DRAWMOPS costs and delaying expenditure further could have safety implications and would lead to higher bids in later rounds. We shall of course, continue to make every effort to ensure that the work is done efficiently and cost effectively, and my officials are in touch with yours following John Major's request last year for information about liabilities.

Remaining nuclear expenditure is below baseline overall. While there is a need for a small amount of additional expenditure on the fast reactor programme reflecting increased estimates for Continuing Annual Payments under the restructuring arrangements (these are in line with the minute I laid before Parliament in July 1989) these are cancelled out by savings that I can find from elsewhere in that programme. Extra spending on Nirex is required reflecting the AEA's contractual commitments in meeting its share of increased costs incurred by the company. The exact amounts are uncertain at present and I may need to increase the bid, particularly for 1991-92, when the company's programme becomes clearer. As for fusion expenditure we have still to take a decision on the future of JET beyond 1992. Once that has been taken, I will be better placed to assess the position for 1993-94. In the meantime, I am assuming that expenditure in that year remains as baseline. Offsetting savings identified primarily reflect the discontinuation of deficit funding for the Winfrith SGHWR in 1991-92 following the decision to include the Reactor's capacity in the NFFO for two years. Officials are discussing restructuring costs in the context of the AEA's Corporate Plan. The savings also include some reductions I have been able to find in the Nuclear Materials Management and General Nuclear Safety Research Programmes (around £0.9 million and £0.25 million pa respectively) and, in the latter two years, the Public Information programme.

The nuclear programmes are governed by our existing policies which in the case of the Fast Reactor has been subject to recent review. To go for further savings would mean changing the policies, which we arrived at by collective decision. I would be very happy to look at those policies again, but I doubt if such a review would bear fruit in time for the Autumn Statement.

OTHER PROGRAMME EXPENDITURE

As mentioned above, by far the most important area of non-nuclear expenditure for which I feel it necessary to seek extra provision is that of the Home Energy Efficiency Scheme. The extra amounts I would request are:



	1991-92	1992-93	1993-94
£ million	7.6	12.1	12.6

The bids for 1992-93 and 1993-94 are those necessary to reach targets for the scheme of 250,000 homes draughtproofed plus 50,000 lofts and tanks insulated each year. While the scheme would of course be capable of running at a lower level of draughtproofing, I believe it would seriously weaken its value in terms of both its energy and its social objectives, if we were to take that course at least for the longer term. As it is, the main criticism of the Scheme is that the resources expected to be made available are inadequate to cater for the scale of the work needed. The above mentioned targets are the minimum recommended by the Select Committee on Energy. However, to keep expenditure to the minimum I have decided to aim for a lower target in 1991-92; this will save £5 million compared with achieving the targets in full in that year.

I have reviewed the need to increase provision in other programmes in aid of our environmental objectives. In particular in the area of energy efficiency a modest increase in resources is needed at ETSU and BRECSU to help meet the targets of the Best Practice programme. As for our renewables programme, I believe that there should be some transfer of expenditure from solar and biomass R&D to technology transfer. In addition, I need to advance the work on the Mersey Barrage studies to the point where a decision could be taken by the Mersey Barrage Company on whether to proceed to actual construction. For this purpose I wish to make an additional bid of £3 million in 1991-92 and £1 million in 1992-93. There is therefore a gross bid in the renewables area over the period of £5.4 million, offset by gross savings of £2.1 million. Further, if we are to ensure that energy aspects are properly dealt with in the debate on the environment, we also need to increase our provision for work (eg studies) in this area. For all these elements I would propose gross additional resources of:

	1991-92	1992-93	1993-94
£ million	4.4	2.8	2.6

As regards coal-based R&D, I am not yet in a position to give a precise figure for the provision required in 1991-92. As you may be aware, Ahlstrom Pyropower has pulled out of the Grimethorpe Topping Cycle project. British Coal are looking for other industrial partners. In the meantime, there has been no Departmental expenditure on Grimethorpe. My bid assumes that the project does not go ahead and that there is therefore no call on the Department's funds in that respect. I shall however wish to keep the situation under review as the position on industrial participation becomes clearer. The growing environmental challenge however makes it necessary to maintain expenditure in



this general area and I would like to use any spare provision in baseline that becomes available from Grimethorpe to cover additional work on clean coal technologies. For all the PES years I am proposing that expenditure remains on baseline.

There are some modest increases on other items (principally for the coal firing scheme and reservoir simulation programme). These amount to £0.6m in each of the PES years. Further details will be sent in my officials' letter.

I have, as I have said, examined my programmes carefully to see what scope there is to find offsetting savings against these bids. Those programmes are already very closely managed, but I can offer the following:

	1991-92	1992-93	1993-94
£ million	4.3	4.4	5.9

These arise primarily from lower spending on offshore geology and enhanced oil recovery (a total of £6.1 million) and OSO R&D and publicity work (£3.0 million). In addition there is a transfer away from solar and biomass R&D, a reduction in expenditure on wind and lower than expected ERDF receipts. In last year's Survey you did of course express concern over the level of the activities of, and expenditure by, the OSO. The review of OSO's work is close to completion and I hope to report the outcome to you in time for it to be taken fully into account in this year's PES settlement. In anticipation of its outcome, however, I feel able to offer up these savings in OSO's programmes.

To summarise, my position on programme expenditure is as follows:

	1991-92	1992-93	1993-94
DRAWMOPS	26.6	44.9	31.3
HEES	7.6	12.1	12.6
Other Nuclear	(3.6)	(1.1)	(0.9)
Other non-nuclear	0.7	(1.0)	(2.4)
Total net bid	31.3	55.0	40.5

EUROPES

EC spending on R&D in excess of the Department's EUROPES baseline has resulted in reductions in the PES baseline of £2.0 million in 1991-92, £6.3 million in 1992-93 and £11.6 million over the PES years. I see no scope for finding any offsetting savings to meet these reductions and, regrettably, I must bid for sufficient



extra provision to reinstate them. I shall also need to bid for reinstatement of any further cuts resulting from decisions on the redistribution of baselines.

ELECTRICITY PRIVATISATION EXPENSES

Your officials will be fully aware of the position and we will keep them up to date. Most of this expenditure will arise in the current year. The extent to which costs will fall into 1991-92 will depend on the exact timing of the flotations and of the presentation of invoices.

RUNNING COSTS AND ADMINISTRATION

As you will be aware, the Department has had to make bids for additional running costs provision both at the Main Estimates stage and in Supplementary Estimates in the last two years. That these bids were largely accepted reflects, I think, a recognition of our very real need for further resources against the demands placed upon the Department with their very high political importance and sensitivity. The reasons for these bids have varied but they have stemmed mainly from:-

- i. much higher pay awards than had been originally expected. This is of course an area over which the Department has no real control;
- ii. higher manpower requirements than expected, particularly arising on electricity privatisation and offshore safety work;
- iii. in the light of ii. the need for more accommodation than originally envisaged.

It is clearly undesirable to keep on having to bid for more provision in Main Estimates and even more so in Supplementaries. I would like to minimise this risk in the future by adopting assumptions in this year's Survey that are more realistic.

I have been greatly concerned about the proper assumptions to make for pay awards. My officials have put forward the following assumption, based on reputable outside forecasts (primarily the London Business School) (1989 PES settlement figures in brackets):

1990-91	8.8%	(6.5%)
1991-92	9.0%	(5.5%)
1992-93	8.75%	(4.5%)
1993-94	8.0%	(-)



I think I have to accept the figure for the current year as it is based on the realistic assumption that the settlements already reached for certain groups averaging 8.5% are extended to other groups, except the Petroleum Specialist group for whom a slightly higher award on average is assumed, given the need to boost recruitment.

But the figures for the PES years assume that our policies to get inflation down will not work reasonably quickly. That may be the assumption that reputable forecasting sources are making, but it is not one that I feel I can at present endorse. I am therefore putting to you the following figures:

1991-92	7%
1992-93	6%
1993-94	5%

I do not derive these figures from any outside source but from my own belief that we, as a government will fight inflation with sufficient determination to get the pay inflation in the economy down to these levels. If, of course, we do not succeed, then I shall have to come back to you for further provision.

As for manpower I propose to assume a requirement of 10 above baseline for 1991-92, 23 above baseline for 1992-93 and 26 above baseline for 1993-94. The additional requirements arise primarily as follows:

- i. considerably higher requirements on offshore safety work, assumed to be about 25 on average for each year. Though the increases reflect new initiatives taken in the light of the Piper Alpha disaster, they do not anticipate the recommendations of the Cullen Inquiry, and I may need to seek a further strengthening of resources when the report of the Inquiry is available;
- ii. more staff to handle new initiatives on energy efficiency and additional work on the environment;
- iii. strengthening of resources in Atomic Energy Division primarily to exercise better control over the very large sums spent on nuclear R&D, with a view to establishing greater value for money in this area.

The increases under i. and ii. above follow broadly from increases in these two areas in my Main Estimates bid which you accepted. That under iii. should in due course yield benefits in terms of our programme expenditure. Despite the increases I still expect overall manpower levels to be significantly below current levels in all these years.



As for accommodation, I believe it will be possible to relinquish some of the overspill HQ accommodation we currently have in the light of the rundown of manpower in 1991-92. But we shall have to retain some such accommodation throughout the period, and our provision will need to reflect the requirement for replacement accommodation for one of the buildings we currently occupy but which we shall be required to vacate in 1991. At the same time, it would increase operational efficiency to give up the space in the other HQ overspill building. We are currently investigating options for this replacement accommodation and I may have to revise this element of my bid as the position develops over the summer. This apart, we have little effective control over the charges made for accommodation. This year's figures have been particularly affected by changes to the rating system, which have added about £0.6 million to our annual accommodation costs. We have only recently been advised of the various accommodation charges by Property Holdings (PH) and a number of uncertainties over them still remain; my officials will be discussing these charges further with PH, but I may need to revise my bid in this area once the charges have been clarified.

On the other side of the coin I believe that on any reasonable interpretation we are on course to achieve the sort of efficiency gains you will be expecting (about £4.5 million over the period), as you will see from the Department's Management Plan for Efficiency Gains, a copy of which will follow. I hope that you will agree that these savings demonstrate my concern that our expenditure is kept to a minimum in spite of the continuing pressures on the Department.

Taking all these factors into account, and bearing in mind other increases which will be explained in my officials' letter, I would hope you can agree to the following increases in my gross running costs:

	1991-92	1992-93	1993-94
£ million	4.5	6.0	7.2

I should point out that these figures give a somewhat misleading impression of the size of the bid. They include some provision to cover, under the new charging arrangements to be introduced from April 1991, the costs of legal services and litigation previously borne principally by the Treasury Solicitor's Department and the costs of recruitment services previously borne by the Civil Service Commission; the baselines have not however yet been changed to reflect the appropriate PES transfers to the Department. The position in these two areas will need to be clarified.



Taking into account running costs, other current expenditure, major power station inquiries, capital expenditure and receipts, my net administration vote bid is:

	1991-92	1992-93	1993-94
£ million	4.2	5.7	6.9

CONCLUSION

I fully recognise the need for public expenditure to be held to the minimum possible level if the Government's financial and economic strategy is to stay on course, and I had this very much in my mind in considering my position in this year's Survey. I have scrutinised all my Department's programmes against this background and have made substantial economies, some of which will be controversial. Beyond these I believe there is no real scope at all for making further savings if my Department's essential objectives are to be met, and I hope that on this understanding you will feel able to accept my proposals.

I am copying this letter to the Prime Minister.

JOHN WAKEHAM

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DEPARTMENT OF ENERGY

£M

	1991-2	1992-3	1993-4
PROGRAMME AND ADMINISTRATION & RUNNING COSTS EXPENDITURE			
BASELINE	314.642	310.680	313.290
<u>Proposed additions</u>			
Central government:			
1. DRAWMOPS	26.584	44.946	31.252
2. Other AEA programmes	2.037	5.616	11.408
3. Total AEA programmes (1+2)	28.621	50.562	42.660
of which:			
reinstatement of EUROPES baseline	1.600	5.010	9.262
4. Non-nuclear programmes (i)	13.107	16.931	18.270
of which:			
Home Energy Efficiency Survey Scheme	7.575	12.139	12.568
reinstatement of EUROPES baseline	0.400	1.252	2.316
5. Departmental administration (net) (including running costs)	4.236	5.694	6.868
6. TOTAL (3+4+5)	45.964	73.187	67.798

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	1991-2	1992-3	1993-4
<u>Proposed reductions</u>			
Central government:			
1. DRAWMOPS	-	-	-
2. Other AEA programmes	- 4.181	- 1.901	- 3.224
3. Total AEA programmes (1+2)	- 4.181	- 1.901	- 3.224

4. Non-nuclear programmes (i)	- 4.271	- 4.356	- 5.579

5. Departmental administration and running costs	-	-	-

6. TOTAL REDUCTIONS (3+4+5)	- 8.452	- 6.257	- 8.803

7. TOTAL ADDITIONS	45.964	73.187	67.798

8. TOTAL NET CHANGES PROPOSED (7-6)	37.512	66.930	58.995

(i) All expenditure on Vote 2 excluding gas privatisation and payments to the UKAEA.

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	1991-2	1992-3	1993-4
GROSS RUNNING COSTS			
(% change on previous year in brackets)			

Baseline	43.5 (3.5)	44.5 (2.3)	45.6 (2.5)
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Proposed changes	4.5	6.0	7.2
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CIVIL SERVICE MANPOWER IN GROSS RUNNING COSTS

	1990-91	1991-92	1992-93	1993-94
Present plan	1090	1054	1044	1044
Proposed changes		+10	+23	+26



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the department for Enterprise

copy
A

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

The Paymaster General
HM Treasury
Parliament Street
LONDON
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*Await the
reply*

Department of
Trade and Industry

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Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5623
Our ref JW2AVX
Your ref
Date 16 August 1990

Dear Richard

EC R&D FRAMEWORK PROGRAMME

at frab

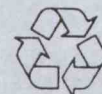
I have seen your letter to the Prime Minister setting out the conditions under which you would be prepared to agree to a redistribution of Departmental Europe's baselines.

It is difficult for me to endorse these conditions without a clear indication of the financial consequences to my Department which they entail. Hence it would be helpful if Treasury could provide appropriate documentation as soon as possible so that we can take the matter further in time for this year's Survey.

I am copying this letter to the Prime Minister, members of E(ST) and to Sir Robin Butler.

Yours ever

Peter



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To await reactions
EMO 3/7

FROM: PAYMASTER GENERAL
DATE: 31 July 1990

PRIME MINISTER

EC R&D FRAMEWORK PROGRAMME

This minute concerns the distribution of EUROPE'S baseline provision for R&D, following the adoption of the 1990-94 Framework Programme.

minutes attached
2. E(ST) on 14 December asked the Treasury to consider how a redistribution might be achieved and the options were set out in Norman Lamont's minute to you of 21 May. Colleagues have now responded to that minute and all except John Wakeham favour redistribution.

3. In the circumstances, I am prepared to accept redistribution, provided that it involves no public expenditure cost. The table in my 21 May minute indicated that under option 2 - which colleagues prefer - redistribution would add around £90 million to public expenditure over the years 1990-98. A large part of this would fall in the current Survey period and must be offset.

4. My agreement is therefore subject to the following conditions:

(i) that colleagues who benefit from redistribution withdraw their Survey bids in respect of EUROPE'S as it affects R&D;

(ii) that the cost of existing unsponsored lines is shared out as an overhead item. (My unwillingness to accept new unsponsored lines has already been made clear);

(iii) that the full cost of the Joint Research Centre (JRC) is attributed to relevant Departments. At present, some 60% of the cost falls to the exchequer; the Treasury's intention to correct this anomaly has been signalled in successive PESC(EC) papers.

Officials could discuss the implementation of (ii) and (iii), including the appropriate shares of responsibility for the JRC.

5. These conditions not only recognise the severe public expenditure constraints which we face, but also serve to improve the coverage and coherence of the EUROPE arrangement. I hope that colleague will be able to accept them. If not, I see no alternative but to defer the whole question of redistribution until next year.

6. I am copying to the recipients of Norman Lamont's previous minute.



RICHARD RYDER

(Approved by the Paymaster
and signed in his
absence)

CONFIDENTIAL



CEP

PRIME MINISTER

*Cab. Office will
prepare white
on*

EC R&D FRAMEWORK PROGRAMME

has

1. Norman Lamont's minute to you of ~~21~~ May sought views on the case for redistribution of EuroPES baselines following the adoption of the Third Framework Programme, and on two options for redistribution.

2. I believe that a further redistribution is desirable to achieve a fair and equitable relationship between Departments' responsibilities and the distribution between Departments of the centrally allocated resources. I do not believe that redistribution would weaken the financial discipline of the EuroPES arrangements. Of the two options, I think option 2 better reflects the concept of a rolling Framework Programme with reviews every few years.

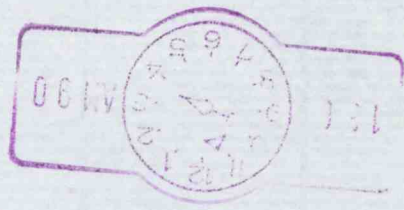
3. I am sending copies of this minute to members of E(ST) and to Sir Robin Butler.

C.P.

CECIL PARKINSON

9 July 1990

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Handwritten signature

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 July 1990

1990 ANNUAL REVIEW OF GOVERNMENT
FUNDED R & D

The Prime Minister was grateful for the opportunity to see a proof copy of the 1990 Annual Review of Government Funded R & D.

The Prime Minister is content for the Report to be published as planned.

BARRY H. POTTER

Dr. A.A. Fincham
Cabinet Office

Handwritten initials



Prime Minister

You may like to see.

BHP

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2

QC: 0593

FILE REF: ST 134/4

FROM: TONY FINCHAM

DATE: 28 JUNE 1990

MR POTTER

cc Sir John Fairclough
Mr Owen
Mr Walker

1990 ANNUAL REVIEW OF GOVERNMENT FUNDED R&D

1. It was agreed in 1988 that the Prime Minister would continue to be given an opportunity to see this document before it entered the final publishing process. A book proof of the 1990 Annual Review is attached. It is planned to publish in July and I will inform you of the date once it is confirmed.
2. As last year there will be no press conference but a factual briefing will be offered to media correspondents if they wish to be taken through the detailed figures.
3. I should be grateful to know, if at all possible within the next few days, if the Prime Minister is content for publication to proceed.

Tony Fincham

Dr A A Fincham

Yes - I will

mb

cc/o



*await further
reply
GA*

Prime Minister

EC R&D FRAMEWORK PROGRAMME

Has

Norman Lamont's minute to you of 21 May sought views on the case for a redistribution of EuroPES baselines following adoption of the third Framework Programme 1990-94 and on two options for redistribution.

I have seen John Gummer's and Nicholas Ridley's minutes to you and I support the views they have put forward for a redistribution on the basis of option 2. EuroPES baselines were redistributed on the adoption of the second Framework Programme. I believe that before the third Framework Programme is implemented a further redistribution is desirable in order that a fair and equitable relationship between departments' EuroPES responsibilities and baselines may be achieved.

I am copying this minute to Members of E(ST) and to Sir Robin Butler.

L

19 June 1990

KENNETH CLARKE

IND Pol : Support + Innovation

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PRIME MINISTER

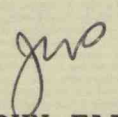
13 June 1990

EC R & D : REDISTRIBUTION OF EUROPE

The Chief Secretary wrote to you on 21 May setting out the options for redistributing the Europe baseline to reflect the 1990-94 Framework Programme agreed by the Research Council last December. A number of E(ST) colleagues have already commented.

2. I believe that there is a strong case for a redistribution to take account of the relative shifts of emphasis within the new Framework Programme, as was done when the current Programme came forward in 1986. The new Programme is consistent with the moves away from near-market activities towards basic science which we have already put in place in our domestic R & D. This has resulted in a significant additional burden for some Departments, notably DES and DOE, while others such as D/Energy have seen a relative decline in their area. It would therefore penalise unfairly those Departments which have had rather modest expenditure obligations to date arising from EC programmes if there were no adjustment of the Europe arithmetic. I fully take the Chief Secretary's point that this would need to be within the existing envelope and not involve additional resources.

3. As regards the two options put forward by the Chief Secretary, the weight of colleagues' opinion is clearly behind the second. To my mind, this would be the most equitable outcome.


SIR JOHN FAIRCLOUGH
Chief Scientific Adviser

CONFIDENTIAL



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PRIME MINISTER

EC R&D FRAMEWORK PROGRAMME

Norman Lamont's minute to you of 21 May ^{pop} invited views on two options for the redistribution of the EuroPES baseline for R&D.

The present distribution of the baseline was agreed by E(A) in 1986. It was designed to reflect Departmental responsibility for EC expenditure under the second Framework Programme: Departments received a share of the baseline directly proportionate to the EC spending then attributed to them. As Norman says, the balance of this spending has already, in line with our own priorities, shifted away from near-market research towards basic science and this process is planned to accelerate under the third Framework programme. I believe strongly that this change should be reflected in a redistribution of the EuroPES baseline.

I do not believe that redistribution will lead to a weakening of the financial discipline of the EuroPES arrangements, any more than it did in 1986. The financial commitments of every Department in respect of European programmes for which they have attribution will still exceed their EuroPES baseline. Every Department will therefore continue to have a strong incentive to maximise value for money and to minimise additional public expenditure.

Of the two options for redistribution proposed, I believe that the second more accurately reflects the nature of the multi-annual overlapping Framework programmes.

I am sending copies of this letter to members of E(ST) and to Sir Robin Butler.

JM
JM

|| June 1990

INTERNATIONAL



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the department for Enterprise

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*Await dti views
en*

PRIME MINISTER

EC R&D FRAMEWORK PROGRAMME

I have seen the Chief Secretary's ^{*Acas*} letter concerning redistribution of the EUROPES baseline.

Following the satisfactory outcome to the negotiations on the Third Framework Programme last December, during which we agreed in principle to the concept of a rolling programme, I believe that a redistribution of EUROPES baselines is both appropriate and timely. I hope that you and colleagues will agree that redistribution should take place in time for this year's Survey. It is entirely appropriate that changes in emphases of Community research and development programmes should be reflected in the attribution to individual Departments and hence their baselines shares.

I believe that redistribution should be on the basis of the total EUROPES baseline provision after 1991, in line with Departmental shares of overall EC R&D expenditure. Option 2 in the Chief Secretary's letter, which essentially aggregates Departmental expenditure shares of Frameworks II and III is entirely consistent with our agreement to the concept of a rolling overlapping Framework Programme with in-built reviews every two to three years.

I fully support the need to maintain financial discipline in both domestic and Community expenditure. The redistribution of baselines under option 2 would not, in my view, weaken the EUROPES arrangements. Instead it would demonstrate the flexibility available under the EUROPES system to which Norman Lamont has referred in earlier correspondence.



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the department for Enterprise

I am copying this minute to Members of E(ST) and to Sir Robin Butler.



N R

4 June 1990

DEPARTMENT OF TRADE AND INDUSTRY

CONSERVATION

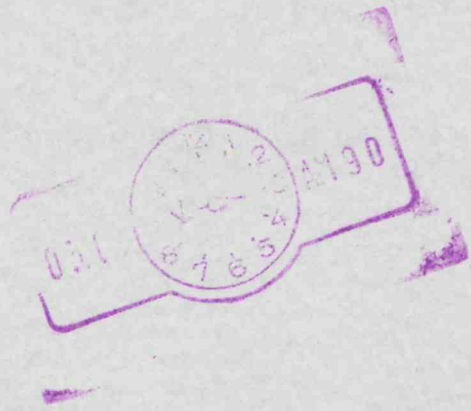


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CONSERVATION





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Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

CONFIDENTIAL

PRIME MINISTER

Direct the comms
←

EC R&D FRAMEWORK PROGRAMME

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Norman Lamont's minute to you of 21 May on this subject invited views on two options for redistribution of the EUROPES baseline to reflect the shape of the, recently agreed, third Framework Programme 1990-94 and on the case for such redistribution.

It was clearly established when the second EC R&D Framework Programme 1987-91 was in prospect, that distribution of the EUROPES baseline should reflect departments' attribution of responsibility for expenditure under that programme. This was the basis upon which the principle of redistribution was agreed at the November 1986 meeting of E(A). In the exchanges which preceded that agreement, Treasury acknowledged that such a redistribution would not affect the total overspend but would spread it more fairly. The issue, then, as now, is not, therefore, one of weakening the constraints which EUROPES places on the control of public expenditure but that of creating a fair and logical relationship between departments' responsibilities for maintaining such control and distribution between departments of the centrally allocated resources.

The approach taken by my officials in the consultations on redistribution of the EUROPES baseline to match the shape of the third Framework Programme, initiated at the 14 December 1989 meeting of E(ST), fully reflects the views which I, and most of my colleagues, expressed at that meeting. I, therefore, strongly support the case for redistribution and see no grounds for concluding that this would weaken the EUROPES arrangements as Norman seems to imply in the penultimate paragraph of his minute.

As far as the options for redistribution are concerned, the second is much more consistent with the predicted pattern of EC expenditure in this area. In particular, it takes better account, than does option one, of the overlap between Framework Programmes 2 and 3 and of the fact that many individual programmes under Framework Programme 2 started late and will be in operation at least until 1993. I consequently endorse option two on the grounds that it provides the best and fairest match between departments' attribution of responsibility and EUROPES allocation.

I am copying this letter to Norman Lamont and to other recipients of his 21 May minute.

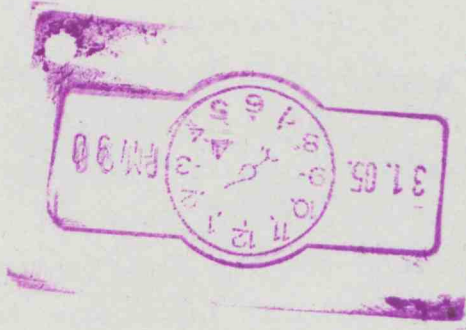
A. Sheehy

pp. J S G

(approved by the Minister
and signed in his absence)

Ministry of Agriculture, Fisheries and Food
31 May 1990

IND POL: R+D Pr 8



CONSERVATION



CONFIDENTIAL



Ecatt (2)
Tim Levin
you may like

FROM: CHIEF SECRETARY
DATE: 21 May 1990

mt
to await views of
colleagues before
commenting. *CG 22/5*

PRIME MINISTER

EC R&D FRAMEWORK PROGRAMME

minutes attached
E(ST) on 14 December established our negotiating position on the Community's R&D Framework Programme for 1990-94. The Programme has since been adopted at a level consistent with that position. E(ST) reached agreement on the basis of estimates indicating the necessary reductions which would be required in Departments' domestic programmes under the current distribution of EUROPE'S baseline provision. But the Treasury was asked to discuss with interested Departments how a redistribution of that provision might be achieved "if it were to be decided on". Officials have considered the question under the aegis of the Science and Technology Secretariat and this note summarises their conclusions.

2. The purpose of the EUROPE'S arrangements is to attribute responsibility for relevant EC spending programmes to individual Departments and thereby to maximise value for money from those programmes and contain their impact on domestic public expenditure. Under the arrangements, Departments' domestic public expenditure provision is reduced at the beginning of each annual Survey to take account of the UK's net public expenditure contribution to relevant EC spending in excess of EUROPE'S baselines. Those baselines were set in 1984 and have since been revalued consistently with domestic public expenditure. E(A) decided in November 1986 that the original baselines for R&D should be redistributed between Departments to reflect the balance of expenditure under the EC's second Framework Programme, covering the period 1987-91.

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3. The third Framework Programme, covering the period 1990-94, involves a further shift in the balance of expenditure. In line with UK priorities, there is increased emphasis on research aimed at boosting industrial competitiveness and on basic science; and less emphasis on energy-related research.

4. If a further redistribution were to be agreed in principle, it could be carried out in one of two ways:

(i) to redistribute, in line with Departments' expenditure shares under the 1990-94 Framework Programme, any EUROPEs baseline provision for R&D which remained unused after payments under the 1987-91 Programme had been taken into account;

(ii) to redistribute total EUROPEs baseline provision for R&D in line with Departments' shares of overall EC R&D spending after 1991, irrespective of whether that expenditure stemmed from commitments under the 1990-94 Framework Programme, or its predecessor.

5. Under the first option, the redistribution would have little real effect on Departments' EUROPEs liabilities until 1993, when payments from the 1987-91 Framework Programme are expected to drop below the level of EUROPEs baselines. But this option would ensure that Departments got the full benefit of the redistribution agreed in 1986.

6. The second option would, in effect, wipe the slate clean from 1991, when payments from the 1990-94 Framework Programme start to come on stream. Although baseline shares would never correspond precisely with expenditure shares under that Programme, most Departments believe that this option would better reflect the way in which EC spending is organised.

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7. The following table shows the estimated financing cost to Departments of the 1990-94 Framework Programme with the current distribution of the EUROPEs baseline; and the increase or decrease in that cost which would result from the two options discussed above. More detailed estimates are attached at Annexes A to C.

<u>Department</u>	<u>Total financing cost 1990-98, with existing baselines</u>	<u>Reduction (-) or increase (+) in total financing cost following redistribution</u>	
		<u>Option 1</u>	<u>Option 2</u>
DTI	248.9	-40.7	-39.7
DES	105.4	-45.1	-57.5
DEn	26.3	+36.1	+41.1
DOE	55.4	-10.5	-15.2
MAFF	40.9	-8.7	-12.3
DH	13.9	-1.8	-2.4
DE	8.3	-3.1	-4.2
DTP	5.1	-1.0	-0.1
HO	3.6	-1.1	-1.5

Note: gains and losses do not sum to zero for reasons of timing.

8. These figures are in gross terms. Actual costs will be smaller because Departments can take credit for public sector receipts. Annexes D to F give estimates of net costs on the basis of public sector receipts projected at broadly current levels.

9. The table shows that all Departments other than DEn would gain from a redistribution under either option. DEn's financing cost would rise by between 37% and 56%. The pattern is the same when public sector receipts are taken into account.

10. Not surprisingly, discussions at official level have indicated pragmatic support for redistribution from all Departments with the exception of DEn; and John MacGregor, in particular, has pressed the point in correspondence. On the other hand, John Wakeham has argued that redistribution would run counter to the principles of financial discipline and responsibility which the EUROPEs arrangements are intended to

CONFIDENTIAL

impart. Departments with an interest in a growth area of EC spending would be financially compensated at the expense of Departments with responsibility for EC programmes which were growing more slowly, or not at all.

11. My concern is to avoid any outcome which would either add to pressure on public expenditure, or weaken the EUROPES arrangements. In this latter sense, I have considerable sympathy with John Wakeham's argument. But I would want to consider the views of all interested colleagues before coming to a firm conclusion.

12. I am copying this minute to members of E(ST), other colleagues who attended the meeting of E(ST) on 14 December, and to Sir Robin Butler.

CEvans

NORMAN LAMONT

*approved by the Chief Secretary
and signed in his absence*

ESTIMATED REDUCTIONS: CURRENT BASELINES

£million

DEPARTMENT	EC Budget Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		20.6	28.1	27.2	72.9	63.5	36.2	0.4	-	-
DES		10.1	10.1	10.1	20.2	21.5	15.6	10.9	5.5	1.4
DEn ⁽¹⁾		2.0	6.3	17.8	-	0.2	-	-	-	-
DOE ⁽¹⁾		7.4	7.4	7.4	12.8	13.1	5.8	1.5	-	-
MAFF		4.9	4.9	4.9	9.6	12.6	3.7	0.3	-	-
DH		1.6	1.6	2.2	3.6	3.7	1.2	-	-	-
DE		0.7	0.7	0.7	2.0	2.0	1.4	0.7	0.1	-
DTp		0.3	0.9	1.0	1.3	1.5	0.1	-	-	-
HO		0.2	0.2	0.2	1.1	0.9	0.8	0.2	-	-
JRC ⁽²⁾		8.0	8.0	8.0	6.2	5.9	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

ESTIMATED REDUCTIONS: REDISTRIBUTION OPTION 1[†]

ANNEX B

£million

DEPARTMENT	EC Budget	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Year									
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		20.6	28.1	27.2	60.7	53.7	17.9	-	-	-
DES		10.1	10.1	10.1	12.6	12.9	4.5	-	-	-
DEn ⁽¹⁾		2.0	6.3	17.8	15.3	16.6	4.4	-	-	-
DOE ⁽¹⁾		7.4	7.4	7.4	10.1	10.0	2.6	-	-	-
MAFF		4.9	4.9	4.9	7.1	9.8	0.6	-	-	-
DH		1.6	1.6	2.2	2.9	2.9	0.9	-	-	-
DE		0.7	0.7	0.7	1.4	1.3	0.4	-	-	-
DTp		0.3	0.9	1.0	0.9	0.7	0.3	-	-	-
HO		0.2	0.2	0.2	0.9	0.7	0.3	-	-	-
JRC ⁽²⁾		8.0	8.0	8.0	14.2	13.7	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

[†] Up to and including 1992, baselines as now (FP2 expenditure is greater than baseline).

Thereafter, baseline not required to cover FP2 expenditure is redistributed in line with

shares of FP3.

ESTIMATED REDUCTIONS: REDISTRIBUTION OPTION 2[†]

ANNEX C

fmillion

DEPARTMENT	EC Budget Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		15.7	23.2	22.3	65.2	55.6	27.2	-	-	-
DES		4.6	4.6	4.6	12.0	13.1	6.9	2.1	-	-
DEn ⁽¹⁾		2.0	6.3	28.0	14.6	16.5	-	-	-	-
DOE ⁽¹⁾		5.8	5.8	5.8	10.0	10.2	2.6	-	-	-
MAFF		3.6	3.6	3.6	7.0	9.9	0.9	-	-	-
DH		1.3	1.3	1.9	3.1	3.2	0.7	-	-	-
DEm		0.3	0.3	0.3	1.3	1.3	0.6	-	-	-
DTp		0.6	0.9	0.9	1.2	1.4	-	-	-	-
HO		0.05	0.05	0.05	0.8	0.7	0.5	-	-	-
JRC ⁽²⁾		9.5	11.1	13.8	11.7	11.5	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

[†] Redistribution of existing annual total baseline for 1991 in line with share of total expenditure (Framework Programmes 2+3) from 1991 onwards. Subsequent years uprated by 2½ per cent.

ESTIMATED REDUCTIONS: CURRENT BASELINES WITH PUBLIC SECTOR RECEIPTS

ANNEX D

fmillion

DEPARTMENT	EC Budget	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Year									
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		20.1	27.6	26.7	72.4	63.0	35.7	0.4	-	-
DES		7.7	7.7	7.7	17.9	19.2	13.3	8.6	4.3	1.1
DEn ⁽¹⁾		2.0	6.3	11.6	-	-	-	-	-	-
DOE ⁽¹⁾		5.3	5.3	5.3	10.7	11.0	3.7	1.1	-	-
MAFF		0.7	0.7	0.7	5.5	8.5	1.1	-	-	-
DH		1.6	1.6	2.2	3.6	3.7	1.2	-	-	-
DE		0.7	0.7	0.7	2.0	2.0	1.4	0.7	0.1	-
DTp		-	0.6	0.6	1.0	1.2	0.1	-	-	-
HO		0.2	0.2	0.2	1.1	0.9	0.8	0.2	-	-
JRC ⁽²⁾		8.0	8.0	8.0	6.2	5.9	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

ESTIMATED REDUCTIONS: REDISTRIBUTION OPTION 1[†] WITH PUBLIC SECTOR RECEIPTS

ANNEX E

£million

DEPARTMENT	EC Budget	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Year									
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		20.1	27.6	26.7	60.2	53.2	17.4			
DES		7.7	7.7	7.7	10.3	10.6	3.5			
DEn ⁽¹⁾		2.0	6.3	11.6	9.0	10.3	2.3	-	-	-
DOE ⁽¹⁾		5.3	5.3	5.3	8.0	7.9	1.9	-	-	-
MAFF		0.7	0.7	0.7	3.0	5.7	0.6	-	-	-
DH		1.6	1.6	2.2	2.9	2.9	0.9	-	-	-
DE		0.7	0.7	0.7	1.4	1.3	0.4	-	-	-
DTp		-	0.6	0.6	0.6	0.4	0.3	-	-	-
HO		0.2	0.2	0.2	0.9	0.7	0.3	-	-	-
JRC ⁽²⁾		8.0	8.0	8.0	14.2	13.7	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

[†] Up to and including 1992, baselines as now (FP2 expenditure is greater than baseline).
Thereafter, baseline not required to cover FP2 expenditure is redistributed in line with shares of FP3.

ESTIMATED REDUCTIONS: REDISTRIBUTION OPTION 2[†] WITH PUBLIC SECTOR RECEIPTS

ANNEX F

fmillion

DEPARTMENT	EC Budget	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Year									
	PES Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
DTI ⁽¹⁾		15.2	22.7	21.8	64.7	55.1	26.7	-	-	-
DES		2.2	2.2	2.2	9.7	10.8	4.6	1.1	-	-
DEn ⁽¹⁾		2.0	6.3	21.7	8.4	10.3	-	-	-	-
DOE ⁽¹⁾		3.7	3.7	3.7	7.9	8.1	1.7	-	-	-
MAFF		-	-	-	2.9	5.8	0.9	-	-	-
DH		1.3	1.3	1.9	3.1	3.2	0.7	-	-	-
DE		0.3	0.3	0.3	1.3	1.3	0.6	-	-	-
DTp		-	0.6	0.6	0.9	1.1	-	-	-	-
HO		0.05	0.05	0.05	0.8	0.7	0.5	-	-	-
JRC ⁽²⁾		9.5	11.1	13.8	11.7	11.5	-	-	-	-

(1) Including shares of JRC overspending.

(2) Excluding attributed shares of overspending.

[†] Redistribution of existing annual total baseline for 1991 in line with share of total expenditure (Framework Programmes 2+3) from 1991 onwards. Subsequent years updated by 2½ per cent.



late M

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR JOHN FAIRCLOUGH

CABINET OFFICE

GOVERNMENT RESPONSE TO ACOST REPORT ON EC R&D
FRAMEWORK PROGRAMME

The Prime Minister has seen the proposed Government response and was content with it. She has signed the letter to Lord Tombs. I would be grateful if you could arrange for this to be delivered to him, together with a copy of the Government's response.

ANDREW TURNBULL

26 April 1990



10 DOWNING STREET
LONDON SW1A 2AA

File MM
cc
J. Fairclough
ACOST { *J. Reynolds*
P.L. Thomas

THE PRIME MINISTER

26 April 1990

Dear Lord Tombs,

I understand that the EC R&D Framework Programme for 1990-94 was finally adopted on 23 April. This is, therefore, the appropriate moment to thank you for the helpful and constructive report, which ACOST produced last Autumn, on the implementation of the 1987-91 EC Framework Programme and on the Commission's proposals for the Third Framework Programme. The report was timely and provided us with valuable advice during the negotiations on The Third Framework Programme which culminated in agreement at the Research Council of Ministers on 15 December.

I believe the agreement represents a satisfactory outcome for the UK and the right basis for continuing effective collaboration on R&D in the European Community. It will be important to ensure that the individual research programmes, which will now be brought forward also reflect our objectives and priorities and establish the appropriate management procedures.

I now have pleasure in enclosing the Government's detailed response to the ACOST report, which is being circulated to all ACOST members.

Yours sincerely

The Lord Tombs of Brailes

Nagawshah

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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0391

RESTRICTED

Our Ref: Qe 0149

File No: 140/2

Mr S Webb
PS/SoS
MoD

26 April 1990

Dear Mr Webb,

HOUSE OF LORDS SELECT COMMITTEE ON SCIENCE AND TECHNOLOGY:
REPORT ON DEFINITIONS OF R&D

The Cabinet Office is coordinating the Government response to the House of Lords Select Committee Report on Definitions of R&D (HL Paper 44) which was published on Tuesday 24 April 1990. The form of the response has not yet been decided.

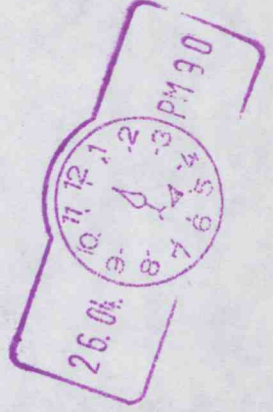
When collecting evidence, the Committee sent questionnaires to a number of Departments (and other bodies). I shall be requesting initial contributions to the Government's response directly from those officials who collated their Departments' answers to the questionnaires. The E(ST) network, supplemented as necessary, will be used for Ministerial agreement on the final version.

The convention is for Government to respond to a Select Committee Report within 2 months. This timetable may be difficult to meet given the policy and resource implications of the issues raised in the Report. However I am asking for initial contributions by the end of May.

I am copying this letter to PS/E(ST) Ministers, PS/Ministers at the Home, Northern Ireland, Scottish and Welsh Offices, the Overseas Development Administration and the Departments of Employment and Social Security and to Nicholas Davidson.

yours sincerely

Ian Dixon
S&T Secretariat
R. 313A



① Spain
② T. H. P. E.



Prime Minister
A letter to Lord Tombs
is attached. One point
of interest is that the Government
response (page 8 of Flag A) has
rejected ACOST's criticism of the
attribution (non-additionality rules
of EUROPE5 (x) on page 5 and n on
page 8 of Flag B).

cc/cu

W0448

PRIME MINISTER

23 April 1990

AT 24(3)

GOVERNMENT RESPONSE TO ACOST REPORT ON EC R & D FRAMEWORK PROGRAMME.

Last autumn ACOST produced a constructive report on the implementation of the 1987-91 EC Framework Programme on R & D and on the Commission's proposals for a Third Framework Programme (1990-94). The report was timely in helping to inform the UK's position during the difficult negotiations on the Third Framework Programme which resulted, as you know, in a satisfactory outcome for the UK.

2. Final adoption of the Third Framework Programme was held up by the European Parliament's attempts to secure substantive changes, particularly on funding, to the Council common position agreed last December. The Council resolutely rejected all these amendments and the Framework Programme was eventually adopted on 23 April.

3. It would therefore be appropriate to submit the Government's detailed response to the ACOST report. I enclose a copy of our response with a draft covering letter from you to Lord Tombs.

JOHN W FAIRCLOUGH
Chief Scientific Adviser

A

GOVERNMENT RESPONSE TO ACOST REPORT ON EC FRAMEWORK PROGRAMME

The Government welcomes the ACOST report and agrees with a large number of the views expressed and the recommendations. The timing of the report was helpful since it was delivered almost at the beginning of the review of the 1987-91 Second Framework Programme, which led to the proposals for a Third Framework Programme for the years 1990-94. The latter was finally adopted on 23 April.

Government's response to Section 2 of ACOST Report: Review of 1987-91 Framework Programme

The Government endorses the generally favourable view of the second Framework Programme adopted by ACOST. It is important that the UK research community, both industrial and academic, should recognise the role of collaborative European R&D in opening opportunities in the European market. The EC's Framework Programmes have contributed to this awareness and the Government recognises that UK industry and academia have obtained at least a proportional share of the resources available.

The call by ACOST (para 12) for UK universities to be linked with a UK industrial partner as well as other partners required by the EC's rules of transnationality, is particularly welcomed. The DTI's LINK programme has an important role in this.

The Government takes note of the ACOST conclusion that the Commission's management of those parts of the Framework Programme examined in detail (especially ESPRIT, RACE and BRITE) was generally competent. This contrasts with a less satisfactory management performance in a number of other important areas. For example, insufficient account was taken by the Commission of the recommendations in the Mid Term Review of the 1987-91 Framework Programme in their proposal for the 1990-94 Programme; some

programme management committees are not provided with the necessary information in sufficient time to reach good decisions; and relationships between the two major Directorates General responsible for implementing R&D within the Commission continue to be unsatisfactory. The Commission has instituted a consultants' study to advise on its own management, particularly the relationship between DG XII and DG XIII. The results are anticipated later this year and the Government awaits the outcome of the Commission's management review with considerable interest.

The Government welcomes ACOST's summary (para 12) of the excellent level of participation in the ESPRIT, RACE and BRITE Programmes by UK organisations. The Government is aware of the need, highlighted by ACOST, to attract even more UK participants, in particular from industry as well as the science base, to projects of all sizes. This is being met through DTI's industry-targeted seminars and other promotional activities on the Framework Programme.

The Government welcomes ACOST's analysis (para 13) of the UK's exploitation potential for Framework R & D relative to other member states, which shows the scale and nature of UK participation to be strong.

The Government endorses ACOST's perception (para 14) that the 'cultural' shift towards greater confidence in European R & D collaboration has provided valuable preparation for UK industry's participation in the Single market.

The Government endorses ACOST's summary (para 19) of the potential benefits and critical factors for success of participation in the EC Framework Programmes, which are, as ACOST note, equally applicable to domestic UK collaboration.

The Government takes note of ACOST's view (para 21) of the effect of the UK criterion of additionality for EUREKA and domestic project funding. The Government believes there is a need for such a guideline in order to ensure maximum value for money from domestic public expenditure on R&D. The need to ensure that Framework activities are considered in terms of added value is reflected in the selection criteria of the Council Decision.

ACOST notes (para 24) that mechanisms to ensure awareness and exploitation of research results are still awaited. The VALUE programme Valorisation and Utilisation for Europe is underway and addresses this need. VALUE focuses on results from EC R & D programmes which are not considered exploitable in the short term, and provides mechanisms to promote their exploitation in the longer term. The Third Framework Programme also helps to meet ACOST's concern (para 49) about dissemination of results by stipulating that dissemination should form an integral part of individual specific programmes.

As regards ACOST's view of the Health programme (para 26) the Government believes that it is appropriate to the Quality of Life line. It is not clear that there is any particular problem over the balance of UK/EC activity, nor is it apparent why the lack of specific Treaty of Rome coverage of health should create any such problem. Furthermore, the Government is not aware of evidence for the assertion that "quality of work in concerted action areas has been questionable", and believes that concerted action is an effective method of collaboration in research. As for the proposal previously known as the predictive medicine programme (now known as the human genome analysis programme), the Government understands that the latest draft does offer significant benefits: indeed collaboration is essential for the UK, in order to compete with the USA.

In the environment area (para 27) the Government considers that much closer working relationships between DGXI (Environment) and DGXII would be desirable to focus the research programme more clearly on the support of EC environmental activities and that the EC programme should complement and build on the expertise already in place in Europe.

The Government shares ACOST's view (para 28) that the uncertainties surrounding fusion research are still very great. Work on fusion, both in the UK and elsewhere is still at the stage of establishing whether it has a place in the spectrum of economic energy sources for the next century. At present, the Community fusion programme is being evaluated by a senior external panel of experts. The Government attaches key importance to this review and to an analysis of the results of JET before any commitment is made to proceed to the engineering design of a 'next step' fusion device. Any 'next step' device would be bigger and much more expensive than JET both financially and in terms of skilled manpower. The means of collaboration and choice of partners will need to take these factors into account.

In the non-nuclear energy field (para 29) the Government notes that multi-national collaboration is now growing rapidly; in 1989 virtually all projects selected involved participants from two or more member states. The need for demonstration projects outside the Framework Programme to take place in more than one member state in order to carry conviction has been picked up in the proposals for the THERMIE programme.

The Government concurs with the ACOST view (para 30) that the SCIENCE programme has made a valuable contribution to EC scientific collaboration and welcomes the strengthening of the programme in Framework III. The programme does cover, in a small way, economic science as well. As for the tenure of bursaries (para 50), the SCIENCE programme has always limited Research

bursaries to 2 years, as did the Stimulation programme before it. However both also provide for Research grants which vary from short stays to secondments of up to 3 years.

Government's Response to Section 3 of ACOST Report. Comments on the 1987-91 Framework Programme

The Government agrees with ACOST's comments (para 37i) that the Mid Term Review by a panel of experts did not meet fully the requirements of Article 4 of the 1987-91 Framework Programme. It has been decided that in 1992, the mid-term review of the 1990-94 programme will also include a review of the 1987-91 programme, which will by then be largely completed. For this reason the Government does not consider that it would be productive to press the Commission to complete a formal mid-term review at this stage. The Government will aim to ensure that the 1992 review is given more time than the 1989 review and is conducted and examined well before further proposals are received.

ACOST considers (paras 39-40) EC R&D programmes should have clear objectives which are considerably more than rhetorical appeals to European ideas. The dangers of subsidy programmes and a catch-up philosophy are pointed out. The Government supports these views. In the specific programmes under the 87-91 Framework Programme the Government has sought, with some success, to have testable R&D objectives included in the technical description of each programme. The UK was instrumental in ensuring that the technical annex of the new Framework Programme contains specific objectives by programme. We will continue this process in the next round of specific programmes.

The Government shares ACOST's view (para 41) that there should be closer coordination between activities within the Framework Programme and in particular stronger links with EUREKA, which is complementary to, and downstream of it. The Government believes

that links between EUREKA programmes and the Framework Programme have improved recently but that there is room for further development. The European Commission now appears to be more receptive to the concept of a complementary role for which the UK has argued for some time. The EC programme DRIVE (IT related to vehicle transport) is developed in close conjunction with the EUREKA PROMETHEUS programme, and Community involvement in the JESSI programme will be in areas complementary to, and upstream of, EUREKA - JESSI activities.

We are not so convinced that a dangerous gap exists between the SCIENCE programme and other more applied programmes (para 41). The SCIENCE programme is intended for more fundamental science and therefore it is right for proposals to be reasonably unconstrained in their coverage. The onus probably rests with the Commission officials responsible for the SCIENCE programme to draw the attention of other programme managers to results which might be carried forward in more downstream programmes. In the same way, the EC's precompetitive programmes should aim to spin off their own results into Eureka projects when they are close to commercial exploitation.

The Government notes ACOST's view (para 42) that the case for support to demonstration projects should be re-examined. There is provision for such projects under the Framework Programme in clearly defined areas. However, whilst the Government recognises that demonstration projects may be appropriate in certain specific instances eg definition of common functional specifications, it has reservations about the number and state of such projects, given the risk that they may stray into the near-market implementation phase.

The Government shares ACOST's concern about the size of the programme for R&D in the agricultural sector (para 43). We shall aim, in the course of negotiation of the specific

programme, to ensure that the Community supports long-term R&D which is not primarily aimed at increased yields and does not displace work which should properly be undertaken by the agriculture industry. The general agricultural heading in the Framework also covers Food, Fisheries and Forestry Research and we will be endeavouring to ensure that a greater proportion of EC funding than hitherto is devoted to Food Research in particular that concerned with achieving agreed standards for measuring Food Safety.

The Government considers that ACOST's analysis of the problem of oversubscriptions is incomplete. Further factors are the sometimes poor definition of research areas in relation to the funding available (this has led to a large volume of dispersed proposals which have no chance of success) and multiple applications by research organisations. Therefore the problems of over-subscription may be overstated. Since the present policy leads to a great deal of wasted time as well as disappointment, the Government will continue to press for future programmes to be more carefully defined and targeted, taking account of the resources which the Council of Ministers has made available.

The Government agrees with ACOST's views that the Review Board's proposal for a two-tier selection process with a low cost outline as the first stage as a way of reducing costs particularly, for SMEs and academic institutions, merits close attention. One should not ignore the risk, however, that such a procedure might have the disadvantage of leading to a proliferation in the number of proposals being submitted (and possibly of a generally lower quality than at present), thus adding to the burden of administering the project selection process.

The Government agrees with ACOST (para 47) that cohesion, an agreed Community objective should be subordinate in the area of

S&T to the criteria of contributing to Europe's competitiveness, scientific and technological excellence and that the principle of subsidiarity should continue to be applied.

The Government does not share ACOST's view (para 48ii and Executive Summary para XV) on the arrangements whereby responsibility for particular aspects of EC R&D activity is attributed to individual Departments. The system of attribution is necessary in order to ensure that the public expenditure consequences of EC spending are controlled in accordance with the same principles as apply to public expenditure as a whole. The key principle is that Departments are required to justify in the course of the annual Public Expenditure Survey all bids for expenditure in excess of planned levels.

ACOST wishes (para 53) to see the definition of 'precompetitive' work extended to encompass high risk ventures in technological development as well as more basic research. As we've indicated in relation to co-ordination of FP activities with other collaborative programmes this should be addressed by developing the complementary relationship between EC R&D and EUREKA. EUREKA is the purpose-built vehicle for market-led commercially-orientated projects which allow participants to share the risks of high innovative development work. The Framework Programme should continue to concentrate on longer term, strategic objectives.

The Government agrees with the views of ACOST (para 54) on the Joint Research Centre. It is anticipated that the progress towards a greater degree of contracted research will be continued when the next multiannual programme for the JRC is examined in 1991. In some areas of the JRC's work (eg. environment) closer integration with the relevant EC shared-cost and concerted action research programmes is desirable so as to improve the relevance and effectiveness of JRC work to EC needs.

Government's Response to Section 4 of ACOST Report: Proposed 1990-94 Framework Programme

On the 1990-94 Framework programme the Government supported the shift towards a smaller number of main lines and fewer specific programmes: a large number of small programmes was not an efficient basis for Community research. However, member states will need to have a clear view of the level of Community expenditure in each area of R & D activity as the Commission brings forward proposals for the specific programmes. Flexibility has to be balanced by a clear financial structure. Overall, the Government supports the breakdown of the Framework Programme into 6 main lines and 15 specific programmes.

The Government agrees with ACOST (para 65), that the Commission's proposals for the third Framework Programme were imprecise and poorly justified. In the course of the autumn of 1989 the UK played a key role in clarifying and sharpening the text, especially the technical description of the programme objectives and contents. The text now explicitly states that the Framework Programme will concentrate on precompetitive research and will not support product development.

Similarly, the UK Government ensured that the emphasis of the new Framework Programme should continue to be on strategic precompetitive research and development (para 65(d)). The UK supports the central theme of research towards the development of standards and common functional specifications, and that product development should be specifically excluded. As individual programme proposals emerge from the Commission the UK will continue to emphasise the precompetitive nature of the R&D; research in support of standards; the need for the Framework to complement not duplicate existing national and international activities; and the important role of EUREKA in carrying forward research under the Framework towards commercial exploitation.

In deciding the funding level for the 1990-94 Framework Programme, the UK Government and the Governments of other member states took careful account of the case made for additional R&D as well as the financial perspective under the Inter Institutional Agreement (IIA) p to 1992. The figure agreed for this period (2.5 becu) was close to the ceiling available. For the years 1993-94 a total of 3.2 becu was agreed. This will need to be confirmed once the review of the current IIA has been completed.

The Government considers that proper coordination between expenditure on R&D at the Community and national levels is necessary to ensure that R&D objectives are best met. It also recognises that national and Community expenditure are drawing from the same source of national tax revenue. The Government is currently considering whether any adjustments are needed to the present procedures.

April 1990



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270

QC: 0457, File Ref: ST 140/3

Dr P J Bunyan
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London SW1A 2HH

23 April 1990

Dear Dr Bunyan

ANNUAL REVIEW OF R&D - OUTPUT INDICATORS

At the E(ST)(O) meeting on ^{attached} 3 April it was agreed that the Cabinet Office would discuss bilaterally with Departments the use of output indicators in the Annual Review.

I would be grateful if you and other recipients of this letter would indicate who will be the Departmental contacts for these discussions on indicators. The Cabinet Office has commissioned the Science Policy Support Group to prepare a report recommending appropriate indicators for publication in the 1991 Annual Review, and I will circulate a copy of this report when it is completed at the end of this month. You may feel it worthwhile for us to delay having these discussions until after receipt of this report.

Representatives from a number of Departments already participate in the meetings of the UK Indicators Network Group at which there have already been some general discussions on output indicators. Other Departments would be welcome to send representatives to these meetings and should contact the Secretary, Peter Healey, at the Science Policy Support Group (22 Henrietta Street, London, WC2E 8NA; Tel: 836 6515).

I am copying this to the other E(ST)(O) members.

Yours sincerely

Dr P F C Gilbert

Dr. R. F. Coleman
Chief Engineer and Scientist

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Our ref

Your ref

Date 31 January 1990

MSBm

RC16

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Dear Ray

"PUBLIC GOOD" RESEARCH AND DEVELOPMENT BY DEPARTMENTS

Thank you for sending me a copy of the Cabinet Office report on Government research for policy and statutory purposes attached to your letter of 12 January to John Vereker.

I welcome the recommendation that the distinction between Primary Purpose 2 (support for policy formation and implementation) and Primary Purpose 5 (support for statutory duties) should be dropped from the Annual Review. As your report says the distinction between these two Primary Purposes is unlikely to be useful and, in addition, it can be very difficult for our Research Establishments to distinguish between them in providing statistics. For similar reasons, I do not consider it desirable to introduce the new classifications proposed in your report ie distinguishing "work related to direct HMG provision of a good or service", from "work to support public sector activities aimed at modifying market behaviour in the public good". For example, in our case, the National Measurement System activities do not appear to fit readily into either of these new categories. I believe "modifying market behaviour" may prove a difficult concept for those who have to complete the statistical forms for the Annual Review.

I am copying my letter as yours.

Yours sincerely

R du Coleman

RON COLEMAN

JKDABD



cc Duty Clerk PM's Office
Mr G W Monger Cabinet Office
Dr C Bradley Cabinet Office
Mr I Wilson HM Treasury
Mrs A F Case HM Treasury
Mr N Bayne FCO
Professor Bell MOD
Mr Osmotherley Dept of Transport
Dr D J Fisk Dept of Environment
Dr D Evans Dept of Employment
Mr J Vereker Dept of Education & Science
Mr J Moriarty Home Office
Miss D McCann Scottish Office
Mr N Nicod Training Agency
Mr L L Ginn Welsh Office
Mr J D Hammer HSE
Dr T Courtney NIO





10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

3 January 1990

J. Fairclough, CO

File MJ.
cc DTI
DES
DH
DoE
MOD
MAFF
Ch. Sec, HMT
DEMP

Dear Sir Francis,

You wrote to me on 17 July enclosing a copy of the report to ACOST on the Barriers to Growth in Smaller Firms.

✓ I now attach the Government's formal response, for publication with the ACOST report as I suggested in my letter to you of 2 October.

Improving the performance of smaller companies is a matter which is being addressed by a wide range of Government policies. I am grateful to ACOST for the work they have carried out on barriers to growth and, as the attached response indicates, we will be taking account of ACOST'S recommendations in reviewing and developing our policies in this field.

Yours sincerely

Raymond Barber

Sir Francis Tombs

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THE GOVERNMENT RESPONSE TO THE ACOST REPORT : THE ENTERPRISE
CHALLENGE : OVERCOMING BARRIERS TO GROWTH IN SMALL FIRMS

1. Introduction

1.1 The Government welcomes the attention which ACOST has directed to the constraints which can inhibit the growth of Small and Medium sized Enterprises (SMEs). SMEs have a crucial role to play in bringing about a dynamic and competitive economy. They have a significant role in innovation, and are a major source of new competition and new employment opportunities. Although large firms account for the bulk of output and employment the vast majority of enterprises are SMEs. While most SMEs are likely to remain small the minority which do grow rapidly have a particularly important role to play; amongst other things they have the potential to become the new large firms of tomorrow.

1.2 As the Council acknowledges, the Government has sought to improve the environment in which SMEs operate through a complementary range of fiscal, financial and advisory measures. These measures are designed to encourage smaller businessmen and their backers to take maximum advantage of the opportunities of the market place. Within this strategy the importance of growth businesses is well recognised.

1.3 Action designed to deal with the difficulties faced by growing companies needs to recognise that many of the problems of growth are the unavoidable challenges of the market, management and technology. Management in successful, growing SMEs must be ready to face this challenge and take its own decisions. Government action, where appropriate, will need to work "with the grain" of market forces and not to substitute Government judgement for that of the market.

1.4 There are a number of existing policy measures already operating which are designed to help small firms to prosper and which are aimed directly at companies with potential for

growth. Several practical self-help schemes have been set up by Government to assist UK management improve performance. The Enterprise Initiative for example, launched in 1988 includes a major programme to encourage smaller firms to use expert outside advice to improve business strategy. Others, like the Teaching Company Scheme and Business Growth Training will help the UK business community acquire and develop improved managerial skills. These schemes will reinforce the employer-led initiatives in this area such as the Management Charter Initiative. The new Training and Enterprise Councils will seek to help the establishment and growth of small businesses through training and promoting enterprise.

1.5 Initial evidence about the effect of the Enterprise Initiative scheme is encouraging. 10,000 consultancy projects have now been completed and a further 16,000 have been commissioned. An independent evaluation study of the effectiveness of the scheme, on a sample of early projects, (published in June 1989) suggests that applicant firms are acquiring an improved understanding of business management coupled with greater expressed willingness to seek expert advice at market prices. Firms also indicated that they expected the implementation of their consultancy projects to produce substantial benefits in terms of net value added.

1.6 Detailed responses to the individual recommendations contained in the report are given below, in the order they appear in the ACOST Summary of Recommendations (Chapter 9).

2. Corporate Venturing

We recommend that DTI investigate ways in which corporate venturing activity may be stimulated in the UK both directly and through linkages with the institutional venture capital industry.

2.1 The Government recognises that corporate venturing (where an established company takes a minority interest in a small,

new company) has been an important source of external equity capital for high tech start-up companies in the United States, and that some British companies have instituted successful corporate venturing programmes. The Government believes that it would probably be advantageous if this form of finance were more widely developed in the UK. The Government therefore welcomes the establishment of a Corporate Venturing Register - an initiative first undertaken by the National Economic Development Office and now transferred to the private sector. A number of private sector financial institutions are also promoting corporate venturing deals between established and new companies. But for each party, the decision between corporate venturing and the alternatives must be a commercial one, taking account of the unique circumstances of each particular case.

2.2 The Government will monitor developments in this field.

We recommend that consideration be given to refocusing the BES in order to direct funds to companies which fall below the threshold for venture capital funds, and to exclude low risk property related investment

2.3 The Government notes the Council's recommendation and shares the Council's view that the BES should not be available to companies which can raise the finance they need through the venture capital industry. For this reason the Government introduced the £500,000 annual investment limit for BES companies in 1988. The Government does not believe, however, that a lower limit, as suggested by the Council, would be appropriate. In general, companies seeking to raise amounts between £200,000 and £500,000 from the venture capital industry may still face difficulty.

2.4 Substantial numbers of investments are made through the scheme in smaller sums. Investment through the scheme in companies raising less than £500,000 has remained broadly constant up to 1988-89 at around £50 million per annum. In

1987-88, the most recent year for which a breakdown is available, 85 per cent of companies using the scheme raised sums of £250,000 or less. Investments through Approved Investment funds in 1987-88 amounted to under 10 per cent of total BES investment.

2.5 The Government believes that in the short term the scheme has a wider role to play as a means of helping to revive the market in private rented housing. The scheme was therefore extended in 1988 to include companies specialising in letting residential property. This extension will, however, cease after the end of 1993. For companies other than private renting companies strict property rules apply so that low risk companies do not qualify for the scheme. A substantial part of the investment in assured tenancy companies is likely to have come from investors new to the scheme, who would not otherwise have invested in BES.

2.6 The Government believes that the scheme continues to provide an important encouragement for private investment in small companies. The scheme is kept under close review.

We recommend further that existing company and investor protection legislation be examined to see how the development of local capital markets may be encouraged.

2.7 The Government recognises that the cost of complying with the prospectus requirements of the Companies Act 1985 can be a considerable burden on smaller firms trying to raise funds by issuing securities. This is a problem that is being looked at in connection with the implementation of Part V of the Financial Services Act, which will replace the Companies Act requirements in due course.

2.8 The successful development of local markets in unlisted company securities would rely heavily on their ability to provide access to local sources of finance additional to those available through existing channels. If sufficient interest

exists in establishing a local market, those concerned should develop their proposals and submit them to the Securities and Investments Board. However, experience in the past with the Over The Counter market suggests that the trading of securities of this type poses particular problems for the protection of investors.

3. Competitive Schemes and Research

We recommend that DTI initiates two competitive schemes to stimulate business experimentation in the Smaller Firm.

3.1 The first of the proposed schemes (Genesis) is aimed at enhancing the creativity of smaller firms by enabling them to compete for R&D contracts to meet the mission needs of government agencies. The Government is fully aware of the desirability of encouraging small firms to advance their technology. As the Council recognises, the Ministry of Defence (MOD) already runs one scheme - the Small Firms Research Initiative (SFRI) - of a similar nature and the DTI has an enlarged SMART now running. Expenditure on the MOD scheme exceeds £1M p.a. whilst expenditure on a 3 year cycle of SMART could reach £29M. In a similar vein the Department of the Environment (DOE) supports collaborative pre-competitive research with the construction industry Research Associations (whose membership mainly comprise smaller companies), the DOE contributing around 50% of the costs amounting to some £2m p.a. Additionally the DOE has planned to provide £10m over 5 years for its Environmental Protection Technology Scheme which is expected to have a good representation of smaller firms in the final tally of participants.

3.2 Nevertheless, in meeting their research mission Government Departments must secure value for money. A formal set-aside arrangement in favour of SMEs is unlikely to lead to best value for money. However the DTI will consider the need for any further initiatives taking into account the

progress of the MOD's SFRI and the implications of the move to put Government Research Establishments on an Agency basis. Also SMART is due to be reviewed next year. The review will determine if changes to the size and scope of the scheme are desirable, and whether such non-mission orientated research (as in the US National Institute of Health and the National Science Foundation arrangements) achieves the leverage required.

3.3 As far as the details of the Council's analyses are concerned the MOD considers that paragraph 4.13, makes an unfair comparison of the proportion of the MOD procurement expenditure going directly to small firms, with small firms' share of national net output, since the figures are calculated on entirely different bases. The MOD figures are for the gross value of Headquarters contracts placed directly with small firms, and do not take account of the amount of work reaching small firms acting as sub-contractors to larger main defence contractors, or through MOD local purchases. The figures for the percentage of national net output produced by small firms must, presumably, be based on all the work actually carried out by them. However, a useful comparison might be made with the United States, where, despite affirmative action and set-aside policies, the proportion of defence procurement expenditure going directly to small firms (5%) is $2\frac{1}{2}$ times less than that in the UK.

3.4 In paragraph 4.15, the money spent on the Small Firms Research Initiative (SFRI) is compared with the total expenditure on defence research and development (R&D), and this again is misleading. The SFRI is set in the context of the MOD's research programme, the cost of which is, as stated, in the region of £400m. The largest element by far of the MOD's total spending on research and development (which is about £2.35 bn), is devoted to the development of specific defence equipment, an area which is not addressed by the SFRI. The paragraph implies that expenditure under the SFRI and the MOD's research spending with small firms are identical; this

is incorrect, for small firms undertake work in other areas of the research programme.

3.5 Also the Council's figure of £60m p.a. which the Council estimates as the funding for this recommendation is misleading and comparison of like with like would produce a UK figure of about £12m.

3.6 The second of the proposed schemes - the "Accelerator" programme - is designed to help smaller firms make "transitions" in R&D and marketing which require risky and large investments. The Council identify four such transitions but admit that there may be others of equal importance. The Government considers that a competitive scheme as outlined by the Council is not a suitable vehicle for promoting self-help in industry. A competition would imply that the applicants with the best ideas and business plans would receive the awards. However, such firms may often be those which could obtain commercial finance - and hence not those which most need Government support. Moreover, as the individual case appraisals would be much more complex than for SMART, the administrative burden of considering a relatively large number of cases in step with one another could be considerable.

3.7 The Government accepts that transitions may pose difficulties for some SMEs, but believes it must look first into whether there are any lessons to be learned from existing mechanisms which deal wholly, or in part, with some of these problems.

3.8 The Government will also consider whether there are any lessons to be learned from cases in which schemes of regional assistance - Regional Selective Assistance and Regional Enterprise Grant - have assisted smaller companies faced with transitional difficulties, although there is of course, no question of such schemes being extended to the country as a whole. The above analyses should lead to consideration of alternative positive courses of action by the DTI, or in

conjunction with other Departments, to assist SMEs.

In appropriate circumstances we recommend that smaller firms should be allocated funds to conduct research complementary with the programmes under investigation in IRCs

3.9 IRCs are premier centres of excellence. The Government would welcome SMEs both using the IRCs to conduct research or seconding staff to work at an appropriate centre thereby gaining the benefit of equipment, resources and science contacts which will be second to none. Where appropriate, grants of up to 50% of the cost of such collaborative research activities can be made available through Government approved programmes and/or projects. In particular, the Government is concerned that SMEs should participate as fully as possible in the LINK initiative and hence with research projects that may be undertaken by IRCs and other front rank research centres. To that end, methods of involving many more small/very small companies in individual projects are currently being studied and discussed with industry. In many industries and technologies however, Research & Technology Organisations will remain the main source of R&D expertise for SMEs.

4. IPR

We recommend that awareness of the business role of intellectual property among small firms be promoted through a new Enterprise Initiative Programme

4.1 In June 1989 the then Secretary of State for Trade and Industry introduced improvements to the Consultancy Initiatives, one of which partly meets the Council's suggestion for help with technology audits. The Scheme now provides for short 5 day consultancy projects as an introduction to the longer projects (up to 15 days) normally available. The terms of reference for a standard 5 day consultancy in manufacturing now provide for an assessment of the current level of technology in the firm including

recommendations on improvements of technology to meet business goals. Also, under a design consultancy, a firm can obtain an assessment of its products and technology, and advice on improvements including recommendations on intellectual property and technology licensing.

4.2 The Patent Office are strongly in favour of increased emphasis on Intellectual Property Rights (IPR) and are currently considering how best to increase their efforts in this field. The Government has therefore made a start towards meeting the objectives of this recommendation but will need to evaluate the recent changes to the Enterprise Initiative before proceeding further.

We recommend that DTI take the steps necessary to promote awareness of the market in patent litigation insurance among smaller firms and patent agents.

4.3 The Government understands and sympathises with the thinking behind this recommendation. Insurance protection in this particular field is not extensive in the UK and the report rightly stresses the lack of understanding between commercial organisations and patent agents on the one hand and the insurance companies on the other. A better informed market may make greater use of patent litigation insurance and the DTI is prepared to consider how this might be brought about. It has to be pointed out however that examination of this particular problem is not new and the ultimate test of commercial attractiveness and viability will govern the Department's thinking and activities.

5. Training

We recommend that the Teaching Company Schemes continues to expand in the future

5.1 The White Paper "DTI - the Department for Enterprise" announced the expansion of the Teaching Company Scheme, and

this expansion is continuing.

We recommend that a series of Regional Competitions be established to identify, develop and diffuse best practice methods for delivering training in strategic management skills to the smaller firm.

5.2 The Government welcomes the Council's reference to the importance of training for small companies. The Employment Department: Training Agency (EDTA) introduced a new programme, Business Growth Training, in April this year. The programme will help employers and small firms to improve their business performance through training and development.

5.3 The Council recommends a series of regional competitions to promote best practice in training for small firms. The EDTA agrees that there is a need to develop and diffuse best practice methods for delivering training to the smaller firms. An important feature of Business Growth Training is the dissemination of successful projects to encourage other firms to improve their training. In addition, the EDTA's prestigious National Training Awards reward those businesses that demonstrate the competitive advantage they have gained through exceptionally effective investment in training. Promotion of the exemplars is achieved through both national and local advertising, and through the national and regional awards ceremonies.

5.4 Training and Enterprise Councils will be responsible for the development and delivery of training and other support for small businesses relevant to local needs. In this they will have flexibility and some may want to sponsor local competitions on the lines proposed.

5.5 The Council recommends that the employer-led Management Charter Initiative (MCI) should pay close attention to the needs of smaller firms in formulating its network proposals. The National Forum for Management Education & Development,

which is responsible for the MCI, recognises it needs to take account of the requirements of smaller firms and is encouraging them to join its networks of employers. The EDTA intends, in co-operation with MCI, to publish a series of best practice case studies relating to small firms.

GAC

DTI.

fr. now ~~send off to~~ send off the
letter to Tombs together with the General
response. Copy to all those who received
Neil Rumble's letter to be perusing
the draft.

RRC 6 3/1

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KK 3/1

Indra: RFD

PRIME MINISTER

You agreed last summer that the Government's formal response to the ACOST report on overcoming barriers to growth in small firms should be published along with the report itself.

The Government's response has now been agreed between Departments, in the terms attached to the letter below for you to send to Sir Francis Tombs. This includes some specific criticism (paras. 3.3-3.5) of ACOST's calculations about MOD procurement expenditure going to small firms.

Content to sign the attached letter to Sir Francis Tombs?

Recg.

Paul Gray
2 January 1990

*Y
es
mf*

c: ACOST (MJ)

PART 7 ends:-

DTI to PQ 28.12.89

PART 8 begins:-

PQ to PM 2.1.90

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19

