

Prime Minister

To agree Mr Tebbit's guidelines for industrial support; and to note the brochure a bit repackaged services.

AT 15/3

MR TURNBULL

15 March 1985

(I am not enamoured with the idea of support for everything. There is a lot we

REVIEW OF SUPPORT FOR INDUSTRIAL R&D

should remain for doing because the money is ill-spent and

The DTI's current PES provisions for industrial support remain roughly constant in cash terms at £400 million over the period to 1987/8. Norman Tebbit's proposal is to spend more of this money on collaborative research, management skills and technologies and less on specific project support (except for smaller companies). Nevertheless, the amount spent on specific projects only reduces from 75% to 55% of the total, although within this the changes are more dramatic: eg the general support for innovation facility (the basic slush fund) should halve in real terms by 1987/8.

I think the title gives the wrong impression.

I also like the ideas at the end of this note.

All discretionary financial support to industry is suspect. Little money tends to go to projects that would not otherwise have been undertaken, and many of the large projects are ill-founded. The reduction in aid for specific projects is therefore welcome although greater cutbacks could be made.

Limiting grants to a maximum of 25% of costs excluding general overheads is sensible. However the money must still be spent on the right projects and the project goals met. The redirection of resources towards 'technical education' helps achieve this - but could more be done?

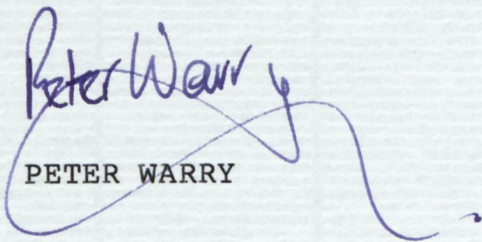
For instance, there could be a mandatory requirement for the manager of any putative grant aided project in a pilot technological area - eg FMS - to attend a relevant course (at say Warwick or Cranfield). If he failed the in-course assessment then clearly the grant money would be ill-spent and his firm should not get it. This would encourage

technical education and make the grant aid decision rightly dependent upon the skill of the project manager rather than his accountant.

But should not Government ask for more back in return? We need desperately to educate our children about business but teachers are ill qualified to do this. The TVEI scheme gets industrial managers to help in schools. Grant aid firms should be obliged to support this, perhaps at the rate of *eg the Switch* 100 hours of community service for each million pounds of grant!

We recommend the Prime Minister:

1. welcomes the new approach;
2. asks that the amount spent on specific projects should be as low as possible and that mechanisms be introduced to ensure it is spent effectively;
3. asks if it would not be possible for at least the larger grant takers to contribute something back to the community in return.


PETER WARRY

010

14-3

CG/NO



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CONFIDENTIAL

PRIME MINISTER

REVIEW OF SUPPORT FOR INDUSTRIAL R&D

On 12 November 1984, Geoffrey Pattie announced a review, to be completed within five months, of my Department's general industrial support for R&D. A moratorium on certain existing support schemes was introduced at the same time because of substantial continuing demand. A fundamental review, which also forms part of a wider review by the Treasury and my Department of our assistance to industry, has now been completed. I am writing to let you know the conclusions and how I propose to announce them.

2 I have decided to shift the balance of my Department's support away from individual R&D projects and towards measures directed at bringing sufficient, high-quality, management skills and technologies to bear across industry. This should particularly benefit small and medium companies. I also propose to devote additional resources to collaborative research, such as that currently within the Alvey programme and our biotechnology initiative. I am convinced these are the areas where the case for Government involvement is strongest because the benefits are so widespread.



3 To support this within an overall reduction in the amount of assistance for industrial R&D, I shall substantially reduce support for general R&D projects in individual companies. Industry, and particularly the larger companies, are now much better placed to bear the risks of these projects. Special arrangements will continue to apply to small firms in view of the contribution they can make to the economy. I shall also be reducing assistance towards civil aircraft and aeroengine R&D which means asking Rolls Royce and British Aerospace to shoulder more of the cost.

4 I shall be announcing these changes, and the lifting of the moratorium, with effect from 1 April, when I speak in the Budget debate on 25 March. I shall also take that opportunity to announce the new arrangements for repackaging of DTI assistance schemes. The full details of these changes will be made public on 27 March, also to take effect from 1 April.

5 The start of repackaging will involve two things. There will be a completely new brochure, entitled "Support for Business", which brings together all DTI support measures under just four main headings:

- Support of Business and Technical Advisory Service;

attached



- Support for Innovation;
- Support for Investment;
- Support for Exports.

The brochure has been designed to show clearly, but briefly, what each measure is for, what form it takes and who may apply for it.

6 The second element is a new central contact point in my Department to handle all enquiries about the support measures and put enquirers quickly in touch with the right people to discuss their particular needs. These two new features will improve the service we offer to industry and commerce and are particularly aimed at being more helpful for small firms.

7 I am copying this letter to Nigel Lawson, to Nicholas Edwards, George Younger and to Sir Robert Armstrong.


N T

14 March 1985

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NOV 84

Moratorium on
Applications

15 MAR 1985



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what each country is for, what form it takes and who may
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The main items.

I am copying this letter to Nigel Lawson, to Nicholas
Howard, George Young and to Sir Robert Armstrong.

If there is any
Department of Trade and Industry



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

15 April 1985

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

Thank you for your letter of 19 March recording the Prime Minister's agreement to my Secretary of State's proposed shift of emphasis in support for industrial R&D away from projects in individual companies. I can confirm that the shift will be considerable. Support for individual company projects will be reduced by approximately 50% over the period 1984/85 to 1987/88. I will let you have a note on the precise split as soon as the details are clear.

2 The wider review being conducted by the Treasury and this Department of our assistance to industry is looking into the question of asking firms for more back in return for receipt of grant aid. Measures being considered include shared cost contracts as well as those mentioned in your letter.

3 I am copying this letter to Rachel Lomax (HM Treasury), Colin Jones (Welsh Office), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

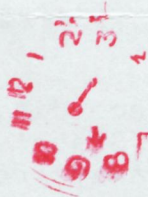
Ind Pol: Support + Innovation; 11/84

DEPARTMENT OF TRADE AND INDUSTRIES
110 VICTORIA STREET
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TELEPHONE: (416) 925-1000
FACSIMILE: (416) 925-1001



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16 APR 1985



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10 DOWNING STREET

19 March 1985

From the Private Secretary

The Prime Minister has now seen your Secretary of State's minute of 14 March about the Review of Support for Industrial Research and Development. She is content with the general approach which the minute proposes and agrees therefore that the announcement envisaged by your Secretary of State should be made as proposed. She hopes, however, that the shift away from support for specific projects will be a considerable one and with this in mind would like the opportunity to comment on the detailed split which she assumes will be finalised as part of the general review of industrial support currently being undertaken.

OK // In addition the Prime Minister wonders whether the Government ought not to ask for more back from industry in return for taxpayers money. In this context she would be grateful if your Secretary of State might consider whether, in return for receipt of grant aid, it would be possible for at least the medium and larger sized firms to contribute some service to the community, for example, in support of the TVEI scheme or other help with technical education.

I am sending copies of this letter to Rachel Lomax (HM Treasury), Colin Jones (Welsh Office), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Timothy Flesher

Callum McCarthy, Esq.,
Department of Trade and Industry.

DG2AFF
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SUPPORT

FOR

BUSINESS

ADVICE

INNOVATION

INVESTMENT

EXPORTS

INTRODUCTION

The Department of Trade and Industry (DTI) offers industry and commerce direct support through a variety of measures. It has now brought all of these together under four headings:

Support for Business and Technical Advisory Services

Support for Innovation

Support for National and Regional Investment

Support for Exports

These four headings still cover all the existing measures of support. They represent a new, simplified means of

presentation which brings all of the measures together and is intended to help firms identify which may best suit their needs.

This booklet presents briefly the essential details of the measures under each heading: what the support is for, what form it takes and who may apply.

At the back of this booklet is the telephone number of a new DTI Support for Business Information Service in London, and the numbers of similar services in the regions for firms preferring to deal with a local contact.

If you are interested in applying for any of the support schemes described, the staff on these numbers will be pleased to direct you to the right person so that you can discuss your requirements in detail.

BUSINESS AND TECHNICAL ADVISORY SERVICES

The DTI offers a wide range of support to enable firms to obtain expert advice on business problems and opportunities.

Some of this support is aimed particularly at the needs of small firms but there is also some support available to all firms, related especially to the exploitation of certain new technologies.

The procedures for all types of advisory support have been made as speedy and simple as possible.

1 Advice for Small Firms

The DTI offers an advice service covering all aspects of business. The service is free and strictly confidential. It is available either by phone (Freefone Enterprise) or by personal visit to any Small Firms Centre.

Counselling by experienced businessmen is also available in appropriate cases. Up to three free sessions may be provided; any additional counselling costs £30 a session.

All small and medium size firms and those thinking of setting up in business are eligible.

2 Products and Process Consultancy

Support is available in the form of 75% of the costs of up to 15 man-days consultancy to help firms improve the quality and design of their products, their manufacturing organization or techniques; also to resolve technical problems.

All firms employing up to 500 people may apply.

3 Grants for New Technology Feasibility Studies

75% grants are available towards the costs of feasibility studies by consultants into the exploitation of Biotechnology, Microelectronics applications, Advanced Manufacturing Technology (ie. CAD/CAM, robotics, flexible manufacturing systems, computer aided production management) for batch manufacturing, and the use of Integrated Circuits.

The upper limit of support is £2,500 per study.

All manufacturing firms may apply. In the case of some studies involving the application of microelectronics, firms in the service sector may also apply.

To find out more, phone any of the numbers listed on page 8.

SUPPORT FOR INNOVATION

The DTI offers selective financial support for research and development projects leading to new products and processes. Selective support is also available for longer term applied research projects.

For R&D projects involving products and processes to be considered for support, firms must be able to demonstrate that:

- The project is innovative and represents a significant advance for the UK industry or sector concerned
- If the project is successful, defined and realistic market opportunities exist on a scale to ensure commercial success in its exploitation
- The technical and managerial capability and commitment exist to carry the project through and exploit the results successfully
- Public sector funding is necessary for the project to go ahead in the form or timescale proposed

For longer term applied research projects to be considered for support, applicants must be able to demonstrate that the project is aimed specifically at improving industrial performance or at providing the

technology from which a new product or process might be developed.

Support will normally be in the form of a grant.

For projects involving products or processes undertaken by a single firm, the maximum rate is 25%.

For collaborative research projects involving more than two partners, and whose results will be shared or made more freely available, the maximum rate is normally 50%. In exceptional cases, a higher rate might be available for applied research projects which offer considerable national benefit.

In exceptional cases where there is a clear need to establish wider market credibility, support may also be available for projects aimed at demonstrating newly developed products and processes.

For any kind of project to be considered for support, its costs should not normally be more than £5 million or less than £100,000, although projects costing less than £100,000 will be considered from small firms.

All firms and research organizations may apply.

To find out more, phone any of the numbers listed on page 8.

SUPPORT FOR NATIONAL AND REGIONAL INVESTMENT

The DTI offers financial support for investment both nationwide and in the Assisted Areas with the aim of improving significantly industrial competitiveness and encouraging the growth of employment and investment.

With the exception of Regional Development Grants, this support is made available on a selective basis taking into account the merits of the project, and is only offered where it can be clearly demonstrated that the support is necessary for a project to go ahead.

Because of this, support cannot be provided where a start has been made in implementing the project before the DTI makes an offer of support. So firms should contact the DTI at an early stage before commencing any project for which they wish to seek such support.

National Investment Support

1 Grants for Major Projects

Negotiated grants are available for selected major projects of an exceptional nature involving new investment of at least £500,000.

All firms may apply.

2 Small Firms Finance

DTI guarantees are available in 1985 to cover 70% of approved bank loans (up to £75,000) for business use. A premium is charged for the guarantee.

Such guarantees are available to those setting up in business and to small firms in most business sectors on the condition that, in the judgement of the lending bank, they are potentially viable but cannot raise ordinary commercial finance.

3 Grants for New Technology Implementation Studies and Demonstrator Projects

Grants are available to meet half the cost of studies into the implementation of advanced manufacturing technology or to assess opportunities and commercial risks in biotechnology projects.

In exceptional cases, grants of up to 20% may also be available towards the investment costs of highly innovative projects which may be used to demonstrate the implementation of biotechnology or of advanced manufacturing technology in batch manufacturing. Firms with projects they think may meet this requirement are advised to consult the DTI at an early stage.

All manufacturing firms may apply.

4 Grants for New Technology Investment Projects

Grants of up to 20% are available for selected capital investment projects involving the production or design of advanced microelectronic, fibre ►

optic and opto-electronic components and related activities. 20% grants (up to a maximum of £40,000) are also available for the acquisition of CAD systems for the design of integrated circuits.

All manufacturing firms or those closely associated with manufacturing may apply.

5 Grants for Quality Assurance Projects

Grants of up to 25% are available to assist small firms with the costs of implementing consultants' recommendations to improve their quality assurance procedures to comply with the relevant British Standard.

The upper limit of support is £25,000.

All firms employing up to 500 people may apply.

Regional Investment Support

6 Regional Selective Assistance

Negotiated grants are available on a selective basis for industrial and commercial projects in the Assisted Areas which bring regional and national benefit and create or safeguard employment. These grants are based on capital costs and job creation, and may also be available towards training costs.

All firms in the Assisted Areas may apply.

7 Regional Development Grants

Manufacturing and some service projects which create or increase

capacity in the Development Areas may qualify automatically for grant support.

The grant will be the greater of 15% of the eligible costs of the project (subject in the case of some projects to a grant per job limit on each job created) or a fixed sum of £3,000 for each job created.

All firms in the Development Areas may apply.

8 Regional Loans from the European Community

In some cases the European Community and some of its agencies offer loans at favourable interest rates. These loans are backed by the UK government's exchange risk guarantee scheme.

All firms in the Assisted Areas and coal and steel closure areas may apply.

9 Regional Grants from the European Community

A range of grants is also available from the European Regional Development Fund of the European Community.

Firms employing up to 200 people and those setting up in business, in steel, shipbuilding and textile closure areas may apply.

To find out more, phone any of the numbers listed on page 8.

SUPPORT FOR EXPORTS

The DTI's programme of export support is directed by the British Overseas Trade Board (BOTB), whose members are mainly businessmen with practical knowledge of exporting. Close liaison is maintained with the extensive network of Foreign and Commonwealth Office commercial staff overseas.

1 Market Advice

The DTI can provide expert help in researching markets and identifying opportunities overseas:

- Free advice and information on individual export markets including opportunities under world aid programmes
- Free access to market information from the Statistics and Market Intelligence Library and the Product Data Store

- Grants of up to 50% towards export market research

This support is available to all firms.

2 Help with Getting into the Market

The DTI provides firms tackling export markets with a range of services comprising grants and/or the professional help of Embassies overseas:

- Help with finding a suitable local export representative (£125 fee, refundable under certain circumstances)
- Status reports on foreign companies (£23 per report)
- Investigation of local market prospects (£175 fee, refundable under certain circumstances)
- Grants towards air fares for groups undertaking trade missions overseas
- Identification of export opportunities (the Export Intelligence Service, £0.40 per notice) ▶

- Assistance for exhibitors at overseas trade fairs (grants of up to 60% towards stand costs plus travel grants for fairs outside Western Europe)

- Help towards promotional seminars overseas (a contribution towards costs plus travel grants for seminars outside Western Europe)

- Grants towards the cost of bringing overseas businessmen and journalists to the UK on trade missions

- Negotiable grants to stores overseas to help with store promotions of UK exports

- 50% loans (up to £300,000) to help firms set up an overseas operation (the Market Entry Guarantee Scheme)

All firms may apply.

3 Specialist Advice and Help

The DTI offers various kinds of support to firms to help them to cope with the detailed requirements of overseas markets:

- Free advice and information on tariffs and regulations in overseas markets

- Assistance with understanding the technical requirements and product approval procedures which exist in overseas markets (Technical Help to Exporters)

- Assistance with export paperwork (provided by SITPRO)

All firms may apply.

4 Grants for Major Overseas Projects

Negotiable grants are available to assist firms with projects in which the UK involvement is worth £50 million or more.

All firms may apply.

To find out more, phone any of the numbers listed on page 8.

FURTHER INFORMATION

To be directed to a source of expert advice on any of the measures described in this booklet, phone the Support for Business Information Service on:

01 215 4021

or any of the following regional numbers:

North East

Newcastle upon Tyne **0632 324 722**

North West

Manchester **061 236 2171**

Yorkshire and Humberside

Leeds **0532 443 171**

East Midlands

Nottingham **0602 506 181**

West Midlands

Birmingham **021 632 4111**

South East

London **01 730 9678**

South West

Bristol **0272 272 666**

Scotland

Glasgow **041 248 2855**

Wales

Cardiff **0222 825 111**

Northern Ireland

Belfast **0232 233 233**

18 March 1985

DRAFT PRIVATE SECRETARY NOTE

SUPPORT FOR INDUSTRIAL R&D

The Prime Minister has seen your Secretary of State's note of 15 March and, whilst content with the general approach, is concerned whether the shift away from support for specific projects is sufficiently substantial. She would like to comment on the actual split to be adopted, which will presumably be finalised as part of the general review of industrial support currently being undertaken.

The Prime Minister wonders whether, in return for receipt of grant aid, it would be possible for at least the medium and larger sized firms to have to contribute ^{some funds to} ~~a certain number of~~ ~~hours to~~ the community - for example in support of the TVEI scheme. (A possible tariff could be 100 hours of community service for each £1 million of grant aid.)

or other help with technical education.

PETER WARRY

PRIME MINISTER

REVIEW OF SUPPORT FOR INDUSTRIAL R & D

I am sorry I have to put these papers back to you, but can I be sure that you agree to the announcement proposed by Mr. Tebbit for next week. He has to make a statement of some kind, given the expiry of the moratorium, and the Policy Unit and the Treasury are satisfied that what he proposes is a move in the right direction. If you agree, I will then minute DTI to the effect (along the lines of the attached) that both in the wider review of aid to industry and in the conduct of existing policy, you would like to move away from the concept of "support" etc. In addition, I will ask them to consider the ideas set out in the final paragraph of Peter Warry's minute.

DF

Yes - see amendments
not

18 March 1985

B/12 with DTI submission

MR TURNBULL

7 March 1985

REVIEW OF SUPPORT FOR INDUSTRIAL R&D

Current PES provisions show DTI industrial support remaining roughly constant in cash terms at £400 million over the period to 1987/8. Norman Tebbit wants to reduce the concentration on specific projects from 80% to 70% of this total. Within this the changes are more dramatic: the general support for innovation facility (the basic slush fund) should halve in real terms by 1987/8; projects will have to be truly innovative to qualify. Small firms will continue to be supported and non-project 'technical education' will increase slightly in real terms.

All discretionary financial support to industry is suspect. Little money tends to go to projects that would not otherwise have been undertaken, and many of the large projects are ill-founded. The reduction in aid for specific projects is therefore welcome although greater cutbacks could be made on aircraft and aero-engine support.

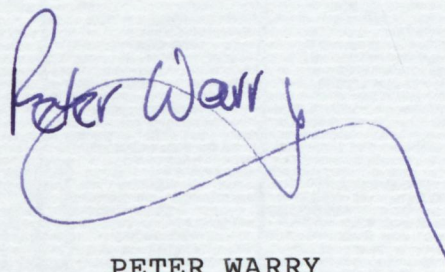
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For instance, there could be a mandatory requirement for the manager of any putative grant aided project in a pilot technological area - eg FMS - to attend a relevant course (at say Warwick or Cranfield). If he failed the in-course assessment then clearly the grant money would be ill-spent and his firm should not get it. This would encourage

technical education and make the grant aid decision rightly dependent upon the skill of the project manager rather than his accountant.

But should not Government ask for more back in return? We need desperately to educate our children about business but teachers are ill qualified to do this. The TVEI scheme gets industrial managers to help in schools. Grant aid firms should be obliged to support this, perhaps at the rate of 100 hours of community service for each million pounds of grant!

We support the general intention of the DTI's review but feel the redirection could have been sharper. The suggestions above could introduce more give and take into industrial support whilst helping to achieve some of our wider aims.

A handwritten signature in blue ink that reads "Peter Warry". The signature is stylized with a large, sweeping flourish at the end.

PETER WARRY



10 DOWNING STREET

Mr Turnbull

This is in response to NT's note to NL.
The Prime Minister was not on the
official copy list. I understand
that NT plans to write directly
to her on this subject by early
next week and you may therefore
prefer to hold this until then

Peter Warr

cc:Chancellor

FST
MST
EST

Sir P Middleton

Mr Bailey
Mr Monck
Mr Burgner
Mr BattishillMr Gilmore
Mr Kitcatt

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

Mr Lovell
Mr Scholar
Ms Conn
Mr Shaw
Mr White

27 February 1985

Mr Lord
Mr Cropper

Norman

CF
WPK

REVIEW OF SUPPORT FOR INDUSTRIAL R & D

You wrote to Nigel Lawson on 18 February about this review. He is content with your intention to announce the revisions to policy at the time of the Budget Debate.

I agree that the shift of emphasis you propose should in principle lead to a more cost-effective deployment of resources. But it will be essential, as I am sure you recognise, to be clear about the objectives and evaluation arrangements for any new initiatives. Officials will no doubt be discussing these in due course.

The shift of emphasis you propose seems to me more consistent with the thrust of Government policy. Where Government financial assistance continues to be provided to the private sector, the bias should be to benefit industry widely rather than primarily specific projects and individual firms. In short the decision to proceed with a particular line of R & D should so far as possible depend on the commercial judgment of the individual companies rather than the availability of discretionary Government handouts. The switch you propose should therefore improve the quality of the nation's R & D spend, even if there is some marginal reduction in the total. Moreover, as you say, the encouragement of best practice would benefit particularly the small and medium companies. It follows that while I accept that the improved financial position of the company sector makes it easier to introduce the policy change, I do not regard this as the major justification; and would prefer to avoid any risk of implying that the change should be reversed if profitability were to fall. You might perhaps like to consider changing the flavour of your statement to reflect this.

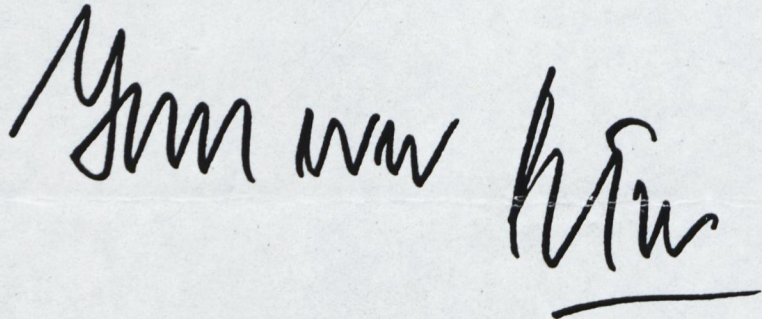
More generally, you may recall that I proposed a review of your industrial support policies (excluding regional development policy, export credit and nationalised industries)

last summer. The studies leading to the Sunningdale Conference, and the conference itself, covered much of the ground, for the kind of review I had in mind and of course, have provided the basis for your proposed announcement. I understand that issues still outstanding for completion of the review are being examined by our officials and that they aim to submit a report to us towards the end of June in time for it to be taken into account, along with other relevant material, in the 1985 Survey. I note what you say about delegation and the report will cover this.

I understand that our officials have agreed that this examination should also cover the instruments used for giving support to industry. Your proposed statement would not preclude this, nor I am glad to note, does it commit the Government to a particular level of industrial support expenditure. I note however that within your existing PES provisions for Science and Technology you intend to reduce the amount of assistance going to civil aircraft and aero-engine R & D.

I will not offer further comments on your draft statement at this stage. My officials are discussing with yours some substantive points on the draft, and colleagues may well have views. Perhaps we could come back to this nearer the time.

I am copying this letter to Keith Joseph, Peter Walker, Michael Heseltine, George Younger, Nicholas Edwards, Patrick Jenkin, Norman Fowler, Michael Jopling, David Young, Sir Robert Armstrong and Sir Robin Nicholson.

A handwritten signature in black ink, appearing to read 'Yours man Peter Rees', with a horizontal line underneath the name 'Peter Rees'.

PETER REES