



ADVISORY COUNCIL FOR APPLIED RESEARCH AND DEVELOPMENT

70 Whitehall, London SW1A 2AS Telephone: 01-233

The Prime Minister
10 Downing Street
London S W 1

2 July 1985

Dear Prime Minister

Financing Innovation in the UK

Robert Malpas and other ACARD members have been considering whether the financial institutions and industry in this country are working effectively to turn scientific and technological ideas into commercially profitable products, processes and services. This work followed from your Lancaster House seminar, when there was controversy as to whether there was plenty of money chasing too few ideas or plenty of ideas and insufficient money to develop them.

I am alarmed by the situation reported to ACARD, and am therefore writing to inform you that private sector investment in innovation does not seem to be increasing as profitability improves. It is apparent that UK companies are avoiding high risk investments, such as developing new products resulting from R & D programmes and introducing new manufacturing methods based on technological advances. Investment in these activities is not increasing in most sectors of UK industry, despite the fact that innovative products and services are vital to ensure competitiveness in the longer term and adoption of best practice can give current products a competitive edge.

The Government has done much to improve the overall economic climate, anticipating that, as a result, industry would gain confidence and hence finance developments for the future out of increasing profits. This is not happening, even though companies are aware of the market opportunities offered by new technology and of overseas competitors exploiting technology effectively in novel products. Instead, UK companies seem to be building up cash reserves at the expense of investment for the future.

We have not been able to identify any single cause for this, but the problem is not confined to companies of a particular size, nor to those in particular sectors, nor in specific regions of the country: it is widespread.

For medium and large-sized companies, attitudes in board rooms and in City institutions, and amongst City commentators, contribute to the aversion to risk. For smaller companies, steps such as the establishment of the Unlisted Securities Market, the growth of the venture capital movement, and the wider holdings of company equity, are certainly helping to encourage technology-based start-up ventures; but there are still too few such ventures and their progress is hindered by the absence of a dynamic, coherent, European market.

I am pressing ACARD industrialists to come up with real solutions to these problems: our companies must become as innovative as their competitors abroad. To my mind, this is the most important issue facing Government, since our wealth creating sector seems set for further relative decline internationally. Until we have correctly identified the inhibiting factors, and found solutions to them, Government must not assume that setting an economic climate which encourages companies to make a profit, is sufficient to ensure national prosperity in the long term. The climate needed is also one which gives greater confidence to UK companies to invest in production and service operations in Britain itself.

Yours sincerely
Henry Chilver

Sir Henry Chilver
Chairman

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MR ADDISON - No. 10

2 July 1985

FINANCING INNOVATION IN THE UK.

1. The Prime Minister will be receiving, in the next day or so, a letter from Sir Henry Chilver, Chairman of the Advisory Council for Applied Research and Development (ACARD) about the financial climate for innovation in the UK. You will wish to consider how to handle this.
2. Issues addressed in the letter are related closely to the subjects for discussion at the E(A) meeting scheduled for 10 July. You may like to consider therefore circulating the letter to members of the enlarged E(A) as background for the discussion at that meeting. I would wish to take into account the outcome of the meeting in advising the Prime Minister on her reply to the Chairman of ACARD.
3. I am copying this minute to Richard Hatfield.

MBW

SIR ROBIN NICHOLSON
Chief Scientific Adviser