cc BG and return.

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

21 July 1987

SPACE AND IT'92

1 I have seen your Private Secretary's letter of 21 July.

2 I attach an annex setting out in more detail the purpose of the proposed expenditure on IT'92. David Young and I see this as a worthwhile programme of collaborative research and user-led applications of IT that will improve the competitiveness of UK industry in the next decade and beyond. It is a more modest programme than Alvey. It is important for our future competitiveness that we continue to provide limited support for high risk R & D where the benefits will extend far wider than those companies directly involved.

3 It is obviously important that we attract a much higher proportion of funding from private industry. We are accordingly

proposing arrangements whereby industry will in practice pay up to 70% of the total costs of the new programme including the academic element. This compares with approximately 40% of the total costs of the current Alvey programme. Detailed figures are set out in a further annex.

4 As I explained in my minute yesterday, I believe there would be significant practical and presentational advantage in announcing IT'92 at the same time as the decision on space. We have achieved some helpful coverage today following our response to the House of Lords' report on Civil R & D. It would be unfortunate if we were to detract from this by what will be seen as a largely negative statement on space. The confirmation of agreement on the EC Framework Programme will certainly help. But this needs to be combined with a positive response on a domestic programme which is not only long outstanding but which will be an essential counterpart to that in Europe. I therefore hope you are content for me to proceed with a statement tomorrow along the lines I previously proposed.

5 I am copying this minute to Members to E(A), E(ST) and to Sir Robert Armstrong and John Fairclough.

KENNETH CLARKE

ANNEX A

IT'92 PROGRAMME: CONTENT

The IT'92 Programme will provide support for:

(a) the novel use of IT applications with the primary objective of increasing the international competitiveness of British industry; and

(b) collaborative (industry/academic) research particularly into enabling IT technologies such as Intelligent Knowledge Based Systems and software engineering, and in support of activities under the applications programme.

Alvey was almost exclusively a collaborative IT research programme. The shift towards applications under IT'92 reflects the need to translate developments in leading edge technologies achieved under Alvey, which are still distant from the market, in to user-led applications. At the same time, however, there is a continuing need for a certain level of research to ensure a flow of new technologies and to provide the firm domestic base which British companies need to benefit fully from collaboration in Europe. This is particularly important with the advent of ESPRIT II. In principle UK firms will be able to qualify for support of up to £200m over the next 5 years but they must be able to demonstrate they are at or near the forefront of the relevant technologies.

We cannot yet be precise about the content of the programme since it will be for its Director (we intend recruiting a respected industrialist) to make detailed recommendations to Ministers in consultation with an advisory board of industrialists (including users) and academics. Whatever sub-programmes are agreed will be cleared with the Treasury in the usual way for schemes of industrial support; this will include rationale, objectives, assessment procedures, monitoring and evaluation arrangements.

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ANNEX B

IT'92 PROGRAMME: FUNDING

Finance for the IT'92 Programme will come from DTI and the SERC. The respective allocations are as follows (in £M):

	87/88	88/89	89/90	90/91	91/92	92/93
DTI	(4)*	10	14	14	14	14
SERC	0	0†	3†	7	11	11

* the DTI allocation was agreed within the Department's baseline at the beginning of this year. It is unlikely that the full £4m will be spent in 1987/88;

† subject to further discussion by SERC and may be increased to £10m in total over the two years.

The balance of the £55m SERC expenditure will fall in to later years.

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2 All the SERC's present commitment is for research although they will be considering how they might also support some applications work. The DTI expenditure will support some research but concentrate largely on applications. In the early years however research is likely to take a larger proportion since applications projects will take some time to put forward.

3 The split of DTI expenditure is likely to be of the order (£M):

	88/89	89/90	90/91	91/92	92/93
Research	7	7	4	2	2
Applications	3	7	10	12	12

Thus, including the SERC contribution, the total split would be

	88/89	89/90	90/91	91/92	92/93
Research	7	10	11	13	13
Applications	3	7	10	12	12

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Industrial Contribution

4 The exact industrial contribution to IT'92 will depend on the level of grant agreed for each project. The grant of 50% (for research) and 25% (negotiable, for applications) relate to eligible costs which will be defined more strictly than under the Alvey Programme.

5 Assuming grants of 50% for research and an average 20% for applications projects, the contributions to IT'92 will be of the order:

		88/89	89/90	90/91	91/92	92/93	Total
Research	HMG	7	10	11	13	13	54
	Industry	10	14	15	18	18	75
Applic	HMG	3	7	10	12	12	44
	Industry	15	37	52	63	63	230

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6 Under these assumptions, industry would pay in the region of up to 70% of the cost of the programme. The funding regime under Alvey has been 50% of actual costs to industry and 100% to academics (from SERC). The industrial contribution in Alvey is thus expected to be around 42% of the whole programme.

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