15 Department of Trade and Industry

The Government is committed to maintaining scientific excellence and encouraging innovation and entrepreneurship, in order to generate higher levels of sustainable productivity growth and prosperity in a modern economy. As a result of this Review spending on trade and industry (including all science spending) will be £800 million a year higher in 2005-06 than in 2002-03, representing an average 2.8 per cent a year real growth. Over the same period, Department of Trade and Industry (DTI) spending will grow by 3 per cent a year. This will deliver:

- **a substantial increase in the Science Budget, which will rise by an average 10 per cent per year in real terms from 2002-03 to 2005-06,** to improve the sustainability of the science research effort; to increase the volume of research universities are able to undertake; and to take forward the key recommendations of Sir Gareth Roberts' review of the supply of scientists and engineers;
- **increased commercialisation** of science research and **funding to stimulate innovation** across business and industry;
- **further support for enterprise and the regions,** including electronic delivery of government services to business, **increased funding and powers for the Regional Development Agencies** and **more resources for the Phoenix Fund** to help start-ups and small firms to grow in disadvantaged communities; and
- **extra resources to empower consumers** and enable the Competition Commission and the Office of Fair Trading to develop as world-class competition authorities.

15.1 The Department of Trade and Industry's (DTI) overarching aim is to deliver prosperity for all by driving up productivity and competitiveness through world class science and innovation, successful enterprise and business, and fair, competitive markets. To achieve this, the DTI focuses on key drivers of productivity growth: science and innovation, enterprise and competition; while the Department for Education and Skills (DfES) is responsible for improving performance on a further key driver, skills. The extra funding provided in this Spending Review reflects the importance the Government attaches to this agenda, matched by ambitious Public Service Agreement (PSA) targets focusing on raising productivity by improving the UK's performance on each of these key drivers.

15.2 DTI has an ambitious PSA target, shared with HM Treasury, to demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. DTI has targets for the key drivers for the period to 2005-06, set out in Box 15.1. DTI's Public Service Agreement also includes targets to secure competitive energy markets; to boost energy efficiency and related innovation to contribute towards the sustainable use of resources; to reduce barriers to international trade; and to maintain the UK as the prime location in the European Union for foreign direct investment.

15.3 DTI is investing in improving its evidence base to guide strategy, policy making and programme management, identifying how Government can contribute most effectively to productivity growth through the key drivers. DTI will continue to take forward the Government's 'less but better' strategy for reforming state aids internationally, as set out in the White Paper *Realising Europe's Potential* (Cm 5318).

Box 15.1: Key PSA targets

- **Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. *Joint target with HM Treasury.***
- **Improve the relative international performance of the UK's science and engineering base, the exploitation of the science base, and the overall innovation performance of the UK economy.**
- **Place empowered consumers at the heart of an effective competition regime, bringing UK levels of competition, consumer empowerment and protection up to the level of the best by 2006, measuring the effectiveness of the regime by peer review and other evidence, to ensure a fair deal for consumers and business, working in collaboration with the relevant regulatory agencies.**
- **Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities.**
- **Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. *Joint target with the Office of the Deputy Prime Minister and HM Treasury.***

INVESTING IN SCIENCE, INNOVATION, ENTERPRISE AND COMPETITION

Investing in scientific excellence

15.4 In advanced economies such as the UK, sustainable productivity growth and rising prosperity are increasingly driven by the economy's ability to create and exploit new forms of knowledge. The 2000 Spending Review provided a 7 per cent per year real terms increase in the Science Budget. The 2002 Spending Review builds on this by raising the annual average real terms increase in the Science Budget to 10 per cent per year between 2002-03 and 2005-06. The Government will set out shortly a comprehensive Science, Engineering and Technology Strategy, which will recognise the roles and responsibilities of other funders and users of research; and will show how extra resources and reforms will improve the sustainability of the research base, and will embed technology-based innovation within the Government's growth agenda.

15.5 **Infrastructure:** building on investment totalling £1.75 billion in the 1998 and 2000 Spending Reviews (jointly funded by the Government and the Wellcome Trust), the Government is now creating a dedicated capital funding stream worth £500 million per year by 2005-06 to tackle the effects of underinvestment in research infrastructure, of which £300 million will be provided by DTI.

15.6 **Research funding:** Research Councils are being provided, by 2005-06, with an extra £120 million a year over 2002-03 funding to make a greater contribution to the indirect costs of research projects, and an additional £400 million a year by 2005-06 compared with 2002-03 for investment in new areas of scientific development (such as proteomics and brain science).

15.7 Commercial exploitation: universities and public sector research establishments are responding to the challenge of knowledge transfer. An expanded Higher Education Innovation Fund, incorporating University Challenge and Science Enterprise Challenge, will benefit from annual funding of £90 million by 2005-06 (including £20 million from DfES).

15.8 Roberts review: human ingenuity is a key factor in creating new products, services, and processes. The UK's research and development (R&D) and innovation performance is therefore critically dependent on a strong supply of highly skilled scientists and engineers. In the 2002 Spending Review the Government is therefore taking forward the key recommendations of Sir Gareth Roberts' review of the supply of scientists and engineers, including improving significantly the pay and training offered to Research Council funded PhD students and postdoctoral researchers. These measures will lead to new resources of £100 million per year by 2005-06. Further details are in Chapters 2 and 25.

Innovation and knowledge transfer

15.9 The potential economic benefits of basic research in the form of higher productivity can be fully realised only if the knowledge and skills created in the science base translate into new products, services and processes. This Spending Review provides increased resources to stimulate knowledge transfer within the business sector and between business and the science community, including through support for collaborative research and development. Overall, resources will rise from £338 million in 2002-03 with an additional £50 million a year by 2005-06.

Sustainable energy

15.10 The Government is investing in innovation to meet its Kyoto obligations on climate change. It will make progress towards the 2010 targets of reducing carbon dioxide emissions by 20 per cent, and 10 per cent of electricity to be generated from renewable sources. In November 2001, the government announced an extra £100 million fund to support the development of renewable technologies. This Spending Review builds on that funding for renewables, providing an additional £38 million for energy policy objectives in 2005-06, compared with 2002-03.

Promoting enterprise for all

15.11 Small businesses account for over half of private sector employment and 45 per cent of economic activity. The sector is also a valuable source of competition and innovation, thereby promoting productivity growth. However, many small businesses, particularly new enterprises, face barriers to growth, such as lack of finance or poor information. This Spending Review provides funding to allow more firms to secure the finance they need to grow. Drawing on the conclusions of the cross-cutting review of government services to small business (see Chapter 26) and building on the Capital Modernisation Fund project, business.gov, this Spending Review provides funding which is £40 million higher by 2005-06 than 2002-03 to enhance e-delivery of services and to help small businesses to deal with government as simply and quickly as possible.

15.12 The Government is particularly committed to encouraging enterprise in disadvantaged areas and among groups of people under-represented in business. This Spending Review provides £50 million over 2004-05 and 2005-06 to extend the Phoenix Fund for a further two years in order to stimulate enterprise in deprived communities.

Regional economic development

15.13 The Regional Development Agencies (RDAs) are the key strategic drivers of economic development in the English regions, with an important role in delivering the DTI's objectives for regional productivity growth. In the 2000 Spending Review, the RDAs were given both extra resources and new financial autonomies through the 'Single Pot' (see Chapter 23) to meet regional needs. This Spending Review provides a further boost, resulting in a real terms average annual increase in funding of 4.5 per cent between 2002-03 and 2005-06. As lead sponsoring department, DTI's funding for the RDAs has been increased from £159 million in 2002-03 to £283 million by 2005-06. This additional funding will further equip the RDAs to take forward the enterprise agenda, engage industry with innovation, develop key sectors and clusters, support the economic rejuvenation of coalfield communites and stimulate workforce development among local employers. The Small Business Service (SBS) and the RDAs will pilot and evaluate different RDA-led approaches to achieving improved coordination of business support services at the local level and ensuring that local Business Link services promote Regional Economic Strategies. Examples of such approaches include piloting the setting up of RDA business support boards to coordinate business support activities, and piloting regional management of Business Link services in one or two regions. The SBS will work closely with pilot RDAs. These pilots should start by April 2003 and if possible, earlier. In the light of the evaluation of these approaches and the results of the SBS drive to improve the delivery of services from Business Link Operators over the next year, the Government will consider what further changes in the organisation and management of Business Link Operators might be appropriate. The RDAs are also being asked to give greater recognition to regional enterprise strategies in the context of their Regional Economic Strategies.

Consumers and competition

15.14 Strong competition regimes and informed consumers are critical to a dynamic and vibrant market place. The Government has increased the resources for the Office of Fair Trading (OFT) by 50 per cent from the level allocated in the 2000 Spending Review for 2002-03, from £34 million to £52 million. The Spending Review consolidates this step-change in core funding, and allocates an additional £3 million in each of the three years to 2005-06, raising the OFT's annual budget to £55 million. These resources will enable the OFT to enhance the expertise of its staff, assess the impact on competition of existing and proposed regulations, and strengthen its enforcement and market investigation activities. In addition, the Spending Review will enable the national roll-out of a new 'Consumer Direct' helpline and web-based service, with funding rising to £16 million in 2005-06.

Improving employment relations

15.15 Constructive relations between employers and employees can make a valuable contribution to improved productivity performance. But recent years have seen a rising trend in applications to employment tribunals, resulting in costs to employers, employees and government. The 2002 Spending Review expands the capacity of the Employment Tribunal Service and the Advisory, Conciliation and Arbitration Service (ACAS) to deal with workplace disputes effectively and efficiently, with an average increase of 4.7 per cent per year in real terms over the next three years. Importantly, this Spending Review will also enable ACAS and DTI further to spread best practice in employment relations, including among the small business community.

British Trade International

15.16 British Trade International (BTI) was created in 1999, bringing together the Government's support for export promotion (Trade Partners UK) and inward investment (Invest UK) into one organisation. BTI aims to foster business competitiveness by helping UK firms to secure overseas sales and investments, and to attract high quality foreign direct investment into the UK. The 2002 Spending Review provides increases in BTI's resources rising to £13 million in 2005-06 compared with 2003-04, which will enable it to help more small and new-to-export firms to break into foreign markets.

Post Office

15.17 At 31 March 2002, Consignia plc held £1.8 billion of investments on its balance sheet, representing accumulated past dividends and cash generated by the business. On 13 June 2002, the Secretary of State for Trade and Industry announced that these investments would be put in a reserve, to back the investment required in the mails business to implement the renewal programme and to support the nationwide network of post offices. The Government has agreed that the reserve can be used to clear the Post Office network's debts from past losses and to fund losses over the current year. Subject to Government approval of a new strategic plan, further amounts from the reserve will be made available, to help turn around the business and to support the rural Post Office network. This package represents a substantial commitment to the network.

Liabilities Management Authority

15.18 The Spending Review also provides funding for the establishment, subject to legislation, of the Liabilities Management Authority, which will enable the planning, management and funding of nuclear liabilities and decommissioning on a long-term basis. The White Paper *Managing the Nuclear Legacy – A strategy for action* (Cm 5552) provides further details

15.19 The new spending plans for trade and industry are shown in Table 15.1. Spending on trade and industry will rise by an annual average of 2.8 per cent in real terms between 2002-03 and 2005-06.

Table 15.1: Key figures

	£ million			
	2002–03	2003–04	2004–05	2005–06
Trade and Industry				
Resource budget	4,555	4,800	5,084	5,564
Capital budget	292	424	167	104
Total Departmental Expenditure Limit[1,4]	**4,726**	**5,106**	**5,129**	**5,542**
Department of Trade and Industry[1]	4,580	4,952	4,975	5,386
Other bodies[2]	146	154	154	156
Near-cash spending in Trade and Industry DEL[3]	4,494	4,868	4,904	5,299

[1] *Full resource budgeting basis, net of depreciation.*

[2] *Includes BTI, Office of Fair Trading, the Office of the Telecommunications Regulator (OFTEL), the Office of Gas and Electricity Markets (OFGEM), Postcomm, and the Export Credits Guarantee Department (ECGD).*

[3] *Consistent with previous control basis.*

[4] *Figures exclude coal health liabilities which have moved from DEL to Annually Managed Expenditure.*