

The Government is committed to building and maintaining a world-class science base and encouraging innovation and entrepreneurship, in order to generate higher levels of sustainable productivity growth in a modern economy. As a result of this Spending Review, total spending by the Department of Trade and Industry (DTI) will be over £850 million higher in 2007-08 than in 2004-05, representing an average real growth rate of 3 per cent a year. This will deliver:

- key pillars of the ten-year framework for science and innovation, with the DTI science budget growing by an average 5.6 per cent a year in real terms over the 2004 Spending Review period. This will maintain and build on the UK's excellent science base, with more funding for research projects, skills and capital, to equip it better to underpin innovation in UK business and public services;
- increased support for innovation, ensuring business draws on technology from the science base, through collaborative research and development (R&D) between business and universities, and knowledge transfer networks across the UK;
- substantially increased resources and responsibilities for the Regional Development Agencies (RDAs) to provide an integrated approach to economic development, business support and knowledge transfer at the regional level; and
- safe, cost-effective treatment of the UK's historic nuclear liabilities with the establishment of the Nuclear Decommissioning Authority (NDA) from April 2005.

Key reforms that DTI will undertake over the 2004 Spending Review period include:

- implementing the Technology Strategy to lead improvements in business innovation with funding of at least £178 million a year by 2007-08 for collaborative R&D and knowledge transfer networks;
- regional delivery of a wider array of support for business and enterprise, through devolution to the RDAs of the Business Links service, R&D grant and some enterprise for disadvantaged communities funding;
- continuing reforms to UK Trade and Investment focusing on encouraging inward investment into the UK as well as export promotion and better capability at regional level to provide UKTI services to UK businesses, particularly firms who are new to export; and
- further reform, building on DTI's recent strategic reviews of its organisation and business support, to refocus resources towards top priority programmes and away from lower value business support and administration.

## INVESTING TO RAISE LONG-TERM PRODUCTIVITY GROWTH

**16.1** 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, DTI focuses on key drivers of productivity growth: science and innovation, increasing enterprise and strengthening competition. The resources for DTI in this Spending Review underline the importance the Government attaches to the productivity agenda.

**Box 16.1: Key Public Service Agreement (PSA) targets**

DTI has an ambitious PSA target, shared with HM Treasury, to demonstrate progress by 2008 in raising UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. DTI's new PSA also includes targets to:

- improve the performance of the UK research base and strengthen the innovation performance of the UK economy;
- help build an enterprise society in which small firms thrive and achieve their potential, including in disadvantaged communities;
- secure significant reductions in EU and world trade barriers, raising competitiveness in Europe and improving opportunities for developing countries; and
- make sustainable improvements in the economic performance of all English regions and over the long term reduce the gap in regional growth rates.

## TEN YEAR FRAMEWORK FOR SCIENCE AND INNOVATION

**Science 16.2** A strong science base, more actively engaged with the needs of business and public services, provides the necessary platform for future productivity growth through innovation in the UK. To achieve this, the Government is committed to raising the research and development (R&D) intensity of the UK economy over the coming decade through both public and private investment, and is publishing alongside the 2004 Spending Review, a ten-year investment framework for science and innovation.

**16.3** The Government's long term objective is to increase the ratio of total UK R&D spending to GDP from the current level of around 1.9 per cent to 2.5 per cent by 2014. **The 2004 Spending Review provides increased funding for the science base through DfES and DTI, such that spending on science will be over £1 billion higher in 2007-08 than in 2004-05.** This is consistent with the planned trajectory for investment over the coming decade, and must be accompanied by increased R&D investment by business for this goal to be achieved. The investment framework for science and innovation sets out key policy priorities for UK science and innovation for the next ten years. This Spending Review provides for:

- shaping the science base to be more responsive to the research and skills needs of the economy, including through **central funding of £35 million in 2006-07 and 2007-08 to enable Research Councils to respond more quickly and effectively to emerging priorities and opportunities;**
- **additional Research Council funding of grants in Higher Education Institutions of £80 million in 2007-08,** accompanied by further financial management reforms, to improve the sustainability of the UK's university research base;
- measures to enhance the supply of scientists and engineers, following the recommendations of the 2002 Roberts Review<sup>1</sup> in this area, by **raising the average PhD stipend to £13,000 in shortage areas; raising post-doctoral salaries by £4,000 and developing a new academic fellowship scheme;** and

<sup>1</sup>SET for success: The supply of people with science, technology, engineering and mathematical skills, April 2002.

- strengthening business-university collaboration, **responding positively to the 2003 Lambert Review<sup>2</sup> recommendations, including building support for knowledge transfer from universities to £110 million a year by 2007-08**, and enhancing the role of RDAs in encouraging effective links between business and the research base.

**Innovation 16.4** Following the DTI's *Innovation Report*<sup>3</sup> in December 2003 and the development of a Technology Strategy to focus Government support for business innovation, **this Spending Review allocates additional resources for DTI's knowledge transfer and innovation goals, with the budget for the new Technology Strategy set to rise to at least £178 million by 2007-08**. A new independent business-led Technology Strategy Board will set out the priorities for collaborative R&D programmes and knowledge transfer networks, ensuring that business has a strong input into the pull-through of scientific advances into useful technologies. This will lever benefit from the strong investment in the science base, impacting directly on productivity.

**Promoting enterprise 16.5** The Government is working to ensure that the UK can realise its full entrepreneurial potential by tackling specific barriers that inhibit successful enterprise. **To improve access to growth capital for small and medium-sized enterprises, the Government is making provision for a pathfinder round of Enterprise Capital Funds, worth up to £25 million for each fund**. Further funding will be available if the programme is successful. **DTI will expand its support to Manufacturing Advisory Service (MAS), with funding rising to £6 million a year by 2007-08**, alongside continuing RDA funding. This expansion builds on the successful work of MAS and allows it to continue to improve manufacturing performance in the UK. **The Government is committed to creating an enterprise culture in the UK and this Spending Review provides £5 million in 2006-07 and 2007-08 for a national campaign by Enterprise Insight**.

**New tools for regional policy 16.6** The Regional Development Agencies (RDAs) are the lead agencies for economic development in the regions, with an important role in delivering DTI's regional economic performance, enterprise and innovation objectives. Demonstrating the Government's continuing commitment to improving the economic performance of the regions, the 2004 Spending Review devolves additional resources and responsibilities to the RDAs. **As sponsor department, DTI's funding for the RDAs will increase from £234 million in 2004-05 to £483 million in 2007-08, in part to fund these important new priorities**.

**16.7** This additional funding will further equip the RDAs to ensure that business support and knowledge transfer policies are tailored to address regional and sub-regional needs. In line with the principles established in the Budget 2004 report *Devolving Decision Making Review: 2*, Business Link services will be devolved to the RDAs in April 2005. **RDAs will have responsibility for delivery of Business Link services in their regions, within performance targets and reporting arrangements set by the RDA tasking framework**. The RDAs will collectively work together with the Small Business Service to ensure that there is a mutually consistent framework for the application of Business Link branding across regional services and the national website, with very light central brand management. **The RDAs will also take on new responsibilities for R&D grants, for part of the successor to the Phoenix Fund focusing on enterprise in disadvantaged areas and supporting business-university collaboration**. Reflecting the increasing strategic policy responsibilities being devolved to the regions, the RDAs are being asked to build further their policy-making capacities, applying best practice in evidence gathering, economic analysis and regional policy-making. Full details of this Spending Review's announcements on RDAs are set out in Chapter 23.

<sup>2</sup> *Lambert Review of Business-University Collaboration*, HMSO, December 2003.

<sup>3</sup> *Competing in the global economy: the innovation challenge*, Department of Trade and Industry, December 2003.

**Sustainable energy 16.8** Funding for sustainable energy and security of energy supply of £85 million by 2007-08, in addition to a total of £60 million allocated in the Energy White Paper, will help the UK meet its Energy White Paper goal of putting itself on a path to cut UK carbon dioxide emissions by some 60 per cent by about 2050, with real progress by 2020. It will also put DTI on track to meet the Government's aim for renewables, which is to supply 10 per cent of UK electricity in 2010, subject to the costs being acceptable to the consumer. Spending here will be in line with the evidence base produced as part of the *Renewables Innovation Review*<sup>4</sup> in order to achieve our environmental goals in the most cost effective way. **In addition to DTI's own resources, the Department for Environment, Food and Rural Affairs will provide co-funding for the Technology Strategy of up to £20 million a year by 2007-08, from landfill tax revenues recycled to business, to support collaborative R&D aimed at waste minimisation and energy efficiency.**

**Nuclear de-commissioning 16.9** The Spending Review provides funding, subject to the successful adoption of the Energy Bill currently passing through Parliament, for the Nuclear Decommissioning Authority (NDA). The NDA will be a new body with responsibility for the planning, management and funding of nuclear liabilities and decommissioning on a long term basis. In line with the July 2002 White Paper, *Managing the Nuclear Legacy*<sup>5</sup>, the Energy Bill places a duty on the NDA to promote and develop a competitive market for clean up in the UK which should ensure that nuclear clean up is carried out more effectively, with strong leadership and direction.

**16.10** The Spending Review ensures that the NDA has the resources it needs from its inception to make real progress towards the Government's targets for nuclear clean-up. This means that **over the 2004 Spending Review period the NDA will have an annual budget of approximately £2 billion comprised of central government grant and income from its commercial activities.** Of this, over £1 billion per year will be provided through DTI's Departmental Expenditure Limit. Reflecting the importance of this new area of responsibility, **DTI will take on a new PSA target designed to reflect and secure the Government's strong commitment to the successful creation of an effective, safe and efficient market for nuclear remediation.**

**Competition and consumers 16.11** High levels of competition increase the productivity of the economy, with both businesses and empowered consumers driving better performance. The Enterprise Act has set the framework for a more competitive economy. This Spending Review ensures that, following a period of dramatic growth, the UK competition authorities have steady levels of funding, allowing them to embed the new system and deliver high quality outcomes. **The Office of Fair Trading will also promote consumer empowerment. This will be supported by the national roll-out of Consumer Direct, which will receive an additional £3 million per year by 2007-08, building on the £16 million provided in the 2002 Spending Review .**

**Export Credits Guarantee Department 16.12** The Export Credits Guarantee Department (ECGD) is the UK's official Export Credit Agency, with a mission to benefit the UK economy by providing insurance and guarantees to exporters. As announced by the Secretary of State for Trade and Industry on 1 July, **ECGD will be piloted as a capitalised trading fund from 1 April 2005 and will become a statutory trading fund on 1 April 2007.** The taxpayer will be further protected from unexpected losses by the improvements to risk management that capitalisation will bring, while ECGD's customers will benefit from the greater operational autonomy and flexibility that trading fund status offers to government agencies.

<sup>4</sup> *Renewable Innovation Review*, Department of Trade and Industry and The Carbon Trust, February 2002.

<sup>5</sup> *Managing the Nuclear legacy: a strategy for action*, July 2002.

**16.13** ECGD will maintain its existing pricing regime and balance of risks and rewards for the taxpayer, which will deliver a 5 per cent 'affordable' rate of return compared to a hypothetical 10 to 15 per cent 'commercial' rate, were it to maximise profits. The Government estimates the economic cost of operating at this lower rate of return is £85 to £150 million per annum. **From the inception of the statutory trading fund in 2007-08, this economic cost will be incorporated into DTI's resource budget, and Table 16.1 provisionally assumes the midpoint of £120 million will be added. The Government will finalise this estimate in Budget 2005 .**

**UK Trade and Investment**

**16.14** UK Trade and Investment (UKTI) works with firms to improve their export performance and promotes foreign direct investment (FDI) into the UK. **During the 2004 Spending Review period UKTI will continue its refocusing to achieve an optimal balance in resource allocation between its export promotion and FDI activity.** Consistent with other initiatives to strengthen regional delivery of business support, **there will be an increase in the resources UKTI contribute to the RDA Single Pot for inward investment. In addition, RDAs and UKTI will jointly sign off plans for trade development services, ensuring they support Regional Economic Strategies.**

**Box 16.2: Efficiency**

**Agreed target**

DTI will realise total annual efficiency gains of at least £380 million by 2007-08, of which at least half will be cashable, releasing resources to other priorities.

**Implementation plan**

As part of this programme DTI plans, by 2007-08, to:

- achieve a total reduction in civil service posts of 1,010 in core DTI, 200 in UKTI and 270 in other bodies, and be on course to have relocated at least 685 posts out of London and the South East by 2010;
- deliver around 80 per cent of total efficiency gains, principally by increasing the effectiveness of DTI's business support products and securing efficiency gains within the science budget. DTI will also secure recyclable savings from its agencies and non-departmental public bodies;
- rationalise back office functions, saving £20 million to deliver around 5 per cent of efficiencies through consolidation of finance and human resources functions;
- deliver around £20 million of savings through improved procurement, particularly through more effective procurement of external consultancy and information technology, and rationalisation of the DTI estate; and
- work with the Regional Development Agencies to ensure the efficient devolution of business support products and to minimise overlaps in service provision.

**Table 16.1: Key figures**

	£ million			
	2004-05	2005-06	2006-07	2007-08
<b>Trade and Industry</b>				
Resource Budget	4,932	5,858	6,110	6,249
<i>Of which Administration Budget</i>	427	449	414	404
Capital Budget	160	328	480	475
<b>Total Departmental Expenditure Limit<sup>1, 2</sup></b>	<b>4,971</b>	<b>6,062</b>	<b>6,453</b>	<b>6,582</b>
Department of Trade and Industry <sup>1</sup>	4,818	5,267	5,445	5,689
Other bodies <sup>1, 2</sup>	153	157	152	147
NDA transfer <sup>1, 3</sup>	n.a.	638	856	746
Memo: Support for ECGD <sup>4</sup>	n.a.	n.a.	n.a.	120

<sup>1</sup> Full resource budgeting basis, net of depreciation.

<sup>2</sup> Includes UKTI, Office of Fair Trading, the Office of Gas and Electricity Markets and Postcomm.

<sup>3</sup> The NDA is expected to be operational from 2005-06. This line reflects fiscally neutral adjustments to bring nuclear decommissioning spending within the DEL control framework. Total spending on nuclear decommissioning includes this line, expenditure within DTI and MOD DELs, and receipts from the NDA's commercial activities.

<sup>4</sup> When ECGD takes on Trading Fund status in 2007-08, a budget charge representing the economic cost of providing export credit support will be incorporated into DTI's Resource DEL. For Spending Review purposes an estimate of £120m has been used, which will be reviewed in Budget 2005. This estimate has not been added to DTI's resource DEL totals.