



House of Commons
Trade and Industry Committee

**Progress Towards the
Knowledge Driven
Economy: Government
Response to the
Committee's Eighth
Report of Session
2004–05**

**Third Special Report of
Session 2005–06**

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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Third Special Report

The previous Committee published its Eighth Report¹ of Session 2004-05 on 22 March 2005. The Government's response to this Report was received on 13 June 2005 and is published as an Appendix to this Special Report.

Government response

Introduction

The Department welcomes the Select Committee's Report.² The UK has made considerable progress on productivity in recent years and the Government is aware that the key to UK's continued success will be to develop and nurture innovative and enterprising businesses to build on recent success.

The Department is pleased to note the Select Committee's commendation of the Government's policy to extend the definition of R&D at the time of the 2004 Budget. The evaluation of the impact of R&D tax credits on UK business investment in R&D and inward investment in UK R&D from overseas is in progress. The Government continues to encourage any business not currently using R&D tax credit to claim its entitlement.

In considering the Committee's report, account needs to be taken of the results of the Government's knowledge transfer activities in the last four years; which shows that business investment in R&D collaboration with Universities has risen by 17% and collaborative research has also increased by 48%. The model intellectual property agreements developed in response to the Lambert Report's recommendation will also help remove barriers to University Business R&D collaboration.

Against this background, the Department would like to make the following comments on the conclusions and recommendations of the Committee's report on progress made towards the Knowledge Driven Economy.

UK Productivity

1. We conclude that the productivity gap, highlighted in the 1998 Competitiveness White Paper, between the UK and its main competitors, still exists, albeit at a reduced level. We believe there remains some way to go before the UK economy matches the productivity levels of its main competitors. The performance of the UK's knowledge-based industries will be crucial in raising the UK's productivity performance in the future. Evidence from the UK's relative position amongst the G7 in the knowledge-based goods and services trade data and the importance of knowledge-based industries

1 Eighth Report from the Trade and Industry Committee, Session 2004-05, *Progress towards the Knowledge Driven Economy*, HC 432

2 In this response, all paragraphs in bold font are quotations from the Committee's Eighth Report.

to the UK economy, as shown by the importance of these industries to UK output, suggests that the UK has a competitive advantage in knowledge-based industries. However, most of this advantage appears to be attributable to knowledge-based services. The UK still has a comparative weakness in high- and medium-high-technology manufacturing industries, relative to its main competitors. (Paragraph 14)

The UK has made considerable progress on productivity in recent years. In terms of GDP per hour worked, the UK has made significant progress against France and Germany despite having much lower unemployment. This is also the case for GDP per worker. On this measure the overall productivity gap is smaller compared to continental Europe, but wider in relation to the US. The difference between the two measures reflects the shorter working week, and longer holidays available in Europe, and the additional hours worked in the US. Moreover, since 2000, the UK has been at least as productive as Germany.

The key to UK's success going forward will be to develop and nurture high productivity businesses—in manufacturing as well as services. This will require all businesses to become more innovative and enterprising, and means that workers will need the skills to stay ahead of the curve. The Government has a key role to play in this agenda by setting the right market framework—macroeconomic stability, open markets, and a robust competition regime—and by correcting the market failures that act as a barrier to higher productivity.

R&D Expenditure

2. The UK Government stated at the time of the 2004 Budget that one of its long-term objectives for the UK economy was to raise gross domestic expenditure on R&D (GERD) as a percentage of gross domestic product (GDP) to 2.5 percent by “around 2014”. We find it inconsistent that it had previously endorsed the EU-wide Barcelona Summit target of “three percent of GDP by 2010”. We recommend that the Government clarifies by which of these targets its future performance for encouraging R&D will be judged. (Paragraph 20)

The EU's Barcelona target of 3% applies to the EU as a whole, not to individual Member States. The Government ten-year framework ambition is to raise public and private expenditure in R&D to 2.5% of GDP by 2014. Raising UK R&D intensity to 2.5% GDP is a challenging but realistic target, which will put the UK in a strong position to compete with leading EU Member States and close the gap with the US.

The actions set out in the ten year Science and Innovation Investment Framework are supported by clear targets; the Government will report on progress towards the 2.5% ambition in an annual stock-take, and in a more detailed assessment every two years.

This progress reporting will provide the basis for a continuing dialogue with business, the science base and other stakeholders about the impact of collective investment in UK science and innovation and inform periodic reviews of public spending.

Business Investment in R&D

3. It remains too early for us to draw any meaningful conclusions on whether tax credits can halt the relative decline in UK business investment in R&D. Their

introduction by the present Government has certainly enabled the UK to match the incentives provided by our competitors to overseas businesses looking to invest in R&D abroad. It is expected that this will have a positive effect on foreign businesses' decisions to invest in R&D in the UK, which ultimately could increase R&D intensity in the UK.

4. We note that the number of claims for R&D tax credits by SMEs in the UK peaked in 2002/03. This could, in part, be due to R&D tax credits in the past having been used by SMEs to replace their previously committed spending on R&D. If the Government is seriously committed to increasing R&D through SMEs it could do more to encourage those businesses which are not currently expecting to undertake R&D to do so. We recommend that the Government reassess the way in which it advertises the availability of tax credits to SMEs in the future to ensure that all SMEs that wish to carry out R&D are made aware that they can claim these tax credits. This could be achieved through the Regional Development Agencies and the Small Business Service.

5. We commend the Government for extending the definition of R&D at the time of the 2004 Budget. We agree with our witnesses that there remains scope for further extension of the R&D costs definition. For example, consideration should be given to include research facilities, such as costs for their establishment or rental costs, in the R&D costs definition.

An evaluation of the impact of R&D tax credits is in progress. This will include consideration of the impact of R&D tax credits on UK business investment in R&D and on investment in UK R&D from overseas.

It is anticipated further returns will be received for 2003/04, which are expected to increase the number of claims beyond 2002/03 levels. The latest data for R&D tax credits (at www.hmrc.gov.uk/stats/corporate_tax/randdtcmenu.htm) show that, although the number of claims continues to be highest in 2002/03, this is only by a small margin because the number of claims for 2003/04 has grown significantly since the previous data extract. This growth reflects the fact that tax returns continue to be received long after the relevant period has ended.

Initial forecasts when the SME R&D tax credit was first introduced estimated around 4,500 claims per annum would be made. Current numbers of claims are at around this level.

The Government continues to encourage any business not currently using the R&D tax credit to claim its entitlement. For example, Budget 2005 (HM Treasury, Budget 2005, HC 372, March 2005 at paragraph 3.71) announced that HM Revenue & Customs and the Small Business Service would be piloting new guidance to help smaller businesses claim their entitlement.

Capital expenditure on R&D already qualifies for generous tax treatment via R&D allowances, which allow a business to write off 100% of its capital R&D expenditure in the year it is incurred.

Changes to the range of qualifying expenditure were consulted on and considered in 2003 and early 2004. At that time, the Government took the view that the most appropriate way to support R&D was to give relief for the costs which have the greatest incentive effect on

the amount of R&D done. With the extension to software, power, fuel and water, the Government considers the range of costs now qualifying for relief represent those costs which have the greatest incentive effect.

In addition, the Government is currently examining the evidence on R&D activity in UK firms and reflecting on the early years of the R&D tax credit. It will publish a discussion paper in summer as part of the ongoing development of the scheme.

Science Research Infrastructure Investment

6. We are concerned that, eight years after the Dearing Report, which identified a backlog in science research infrastructure investment in the UK, this backlog still remains, despite Government funding through the Joint Investment Fund (JIF) and Science Research Investment Fund (SRIF) of almost £2 billion. (Paragraph 44)

7. We recommend that the Government should conduct a mid-term study of the current round of Science Research Investment Fund (SRIF3) to re-assess the extent of remedial investment required in higher education institutions. If such a survey finds that there remains a significant investment backlog, then the Government should consider committing itself to extending the Science Research Investment Fund for a further two years (2008/09 and 2009/2010) or until such time as the backlog has been cleared. However, if such a commitment is to be made, the Government must satisfy itself that SRIF awards are being used appropriately by higher education institutions to overcome the problems they were intended to solve (Paragraph 45)

The Government recognises that there remains a need for investment in university infrastructure following JIF and SRIF1 & SRIF2. For this reason Government announced in Spending Review 2004 that it is putting a further £1bn into this area in the form of SRIF3 which will provide infrastructure investment for two years from 2006 to 2008.

Beyond 2008, the Government will, as part of the Spending Review 2006, consider what level of investment is required in university infrastructure.

An independent report issued by JM Consulting 2004 noted that effects of SRIF investment are visible 3-5 years after funding, and hence the perceived backlog may be less than is currently visible. As part of a wider consideration on the future trajectory of SRIF, the Government seeks to undertake further studies into the impacts and effectiveness of SRIF on university infrastructure in line with the Committee's recommendation.

Research Assessment

8. We are encouraged that the latest guidance from the UK's Funding Councils for the panels which will carry out Research Assessment Exercises (RAE) in 2008 (from which quality funding for higher education institutions for the following six years will be determined), contains extensive advice on how to deal fairly with interdisciplinary and multidisciplinary research as recommended by both Sir Gareth Roberts' Review of Research Assessment and the Lambert Review of Business-University Collaboration. (Paragraph 53)

9. However, we are disappointed that the recommendation of the Lambert Review, that when research is assessed: “excellent research undertaken with industry or other users should be recognised as being of equal value to excellent academic research” has not been highlighted in this guidance. We therefore recommend that any future guidance provided to the panels should carry a section on the treatment of applied research with business or other outside institutions. This should provide that, given the work is of a sufficient quality, it should be considered in the same way as if it had been carried out in a purely academic environment. (Paragraph 54)

In the Ten-Year Investment Framework for Science and Innovation, the Government pledged a commitment to continue to implement and introduce further measures that are based on the recommendations made in the Sir Gareth Roberts Review, ‘SET for Success’ (April 2002).

The higher education funding bodies are committed to ensuring that the 2008 RAE provides for the proper assessment, on a sound and equal basis, of all forms of research including applied and practice-based research across the HE sector. To this end, in appointing the members of the assessment panels the funding bodies have made particular efforts to secure better representation of the commissioners and users of research, including individuals with experience both in conducting research and in its commercial, industrial and public service applications.

The funding bodies have also issued guidance to the panels on the assessment process requiring them to adopt processes and criteria, including an appropriate range of indicators for excellence, that will enable them to recognise and treat equally, excellence in research across the spectrum of applied, practice-based, basic and strategic research, wherever that research is conducted. For subject areas where applied and practice-based research is likely to feature quite highly, the panels are also asked to detail a brief typology for this within their field and appropriate criteria for excellence by which the sub-panels will judge it.

In taking forward the recommendations of Lambert Review, the guidance already reflects discussions with stakeholders particularly interested in applied and practice-based research, such as the CBI, the Royal Academy of Engineering and the Department of Health; and the panels’ individual draft criteria statements will be subject to consultation with a broad range of interested bodies during the summer of 2005.

Main panels are working closely together, as are sub-panels within their main panels to ensure consistency, which will enhance the assessment of multidisciplinary and interdisciplinary research.

In selecting panel members, at both Main and sub-panel level, the UK Funding Bodies have been working to engage users and commissioners of research from a wide range of organisations. (e.g. NHS R&D have nominated people to serve on the medical Main Panels).

Collaboration in research ventures

10. The evidence suggests that higher education institutions and businesses are collaborating more frequently in research projects in the UK. Both the proportion of

public sector R&D funded by business and the number of papers produced jointly by employees of higher education institutions and businesses have increased since the Competitiveness White Paper. The UK's higher education institutions have also improved their ability to exploit the intellectual property they create through the creation of spinouts and by transferring that knowledge to the wider economy through the greater use of intellectual property rights such as patents. However, since the White Paper the UK's knowledge exploitation performance against its main competitors has been disappointing. The UK's relative position against the rest of the G7 has remained unchanged, while emerging competitors' relative performance has improved. The proportion of higher education R&D expenditure sponsored by business in the UK is falling, the quality and value of spinouts from the research base remain in question and the UK's poor patenting performance in its main commercial markets has persisted. These are all areas in which we believe the Government has a greater role to play in raising the UK's relative performance. (Paragraph 68)

The Government is surprised by the Committee's concerns about the effectiveness of the Government's knowledge transfer activities. In the last four years for which full records are available, business investment in contract research at universities has risen from £242m to £282m (an increase of 17%) and collaborative research has increased by 48%. The recent introduction of the model Intellectual Property (IP) agreements, developed in response to the Lambert Report's recommendation will help to remove a significant impediment to University-Business research collaboration.

Over the same period patent applications rose by 71% and patents granted by 91%.

Research from Southampton University has shown that the market capitalisation of university spin-outs floated on the stock market in 2004 exceeds £600m, which is more than the total of £500m so far invested by the Government in 'Third Stream' activities.

Intellectual properties

11. We look forward to the results of the Lambert Working Group on Intellectual Property and the review of the Intellectual Property Advisory Committee. We believe that the working group, combined with the introduction of legislation to resolve disputes over intellectual property, are the first steps in reducing the barriers to knowledge transfer through higher education and business collaboration. However, these measures should be seen only as a starting point. We are convinced that further intervention in this area will be required in the future as we are unsure that these initiatives will be sufficient to remove all the barriers, which inhibit collaboration. More work needs to be done to enhance knowledge transfer and exploitation, especially in improving businesses' awareness of the benefits of collaborating with the research base. (Paragraph 77)

The Government recognises that there are no 'quick and easy' fixes to reducing barriers to effective collaboration between higher education and business, and that this will require continuing support.

Model research collaboration agreements devised by the Lambert IP Working Group were launched at a high profile innovation event on 21st February 2005. The Model agreements,

available in CD-Rom and internet formats as the Lambert Model Agreements Toolkit, cover all the issues that need to be taken into account by each collaborator both internally and during negotiations and will reduce time and cost of negotiations. The Toolkit has been very well received, with many subsequent requests from e.g. Higher Education Institutions and Regional Development Agencies to speak at conferences and events.

The Patent Office is committed to supporting innovation by promoting awareness and understanding of IP, improving access to IP rights, developing an affordable enforcement regime and contributing to knowledge transfer through the provision of IP information services. Also, the Patent Office is in the process of setting up an innovation support programme to provide a more structured and focussed approach in helping business realise and exploit its creative potential and make effective use of existing knowledge.

The final report reviewing the performance of the Intellectual Property Advisory Committee (IPAC) concluded that, although IPAC reported on and helped draw attention to important challenges in IP, the committee has not adequately fulfilled its role and has largely disappointed the expectations of both its members and other stakeholders. The report sets out a number of recommendations intended to correct IPAC's under-performance. These include: greater clarity of role; more balanced composition; more robust ways of working; and that greater resources be made available to the committee.

Following the Patent Act 2004, many significant provisions are now in force, which have been well received by users. They include measures to help with dispute resolution and enforcement e.g. reform of "threats" regime and costs awards in infringement proceedings. Provisions on "non-binding opinions" (see TISC Report Paragraph 76) will come into effect later in 2005. Public consultation on implementation of opinions is underway and will ensure the new procedure is taken forward as a dispute resolution means in the most helpful and accessible way possible.

For individuals and smaller organisations in particular, costs can be a barrier to exploiting their creativity. To speed up and reduce the cost of trademark oppositions, the Patent Office has introduced a system giving preliminary indications as to the likely outcome on specific types of cases. These are now resulting in about 40% of all oppositions being settled between the parties without the need for evidence, hearings or a decision by one of the Registrar's Hearing Officers. The estimated savings on the part of industry and commerce are suggested as being of the order of £3 million per annum.

To consider how to promote mediation as a means of solving (at lower costs) IP disputes, the Patent Office, in conjunction with the Department of Constitutional Affairs, is organising for 10 June 2005 a symposium involving the Judiciary, IP professionals and leading players in industry and commerce. As part of that, it will be seeking views on the Office taking an active role in terms of a mediation service, ranging from simply providing accommodation for the mediator and parties, to the Patent Office Hearing Officers being trained as and acting as mediators.

The Patent Office is working in partnership with the National Council for Graduate Entrepreneurship on a research project to establish existing levels of IP understanding amongst staff and students in preparation for an educational resource aimed at undergraduates within the FE/HE Business Schools arena.

The Patent Office will be leading a group of Member State experts in a project endorsed by CREST to look at IPR ownership regimes and cross-border collaborations. The group aims to produce guidelines to promote and inform such cross-border collaborations in summer 2006.

Knowledge integration communities

12. In our opinion, the Cambridge-MIT Institute (CMI) project represents a unique innovation in UK higher education. Although the Government has recognised that developing and disseminating models from the CMI is a long-term project, it has not yet committed itself to extending the contract with CMI or committed resources for the future. The Government has suggested that the CMI could bid for established Government funding through open competition. We do not believe this is the best way forward. We have no doubt that the CMI project would prove successful in bidding for such funds. However, this could preclude other research institutions from gaining valuable funding for projects, which could be of equal benefit to the UK economy. We recommend that future funding for the CMI project to continue its work be committed by the Government as soon as possible. However, we do not believe that this funding should be committed over the 10 to 15 year time horizon the CMI believes it will take for the full impact of its work to be realised. Funding for the next six-year period would seem appropriate, at which time the project should be reassessed. (Paragraph 92)

In line with the Committee of Public Accounts and the National Audit Office's recommendations the Department will undertake an on going assessment and evaluation of all CMI's work.

The Government does not believe that a further dedicated funding stream for CMI is the most appropriate mechanism for future funding. This would require that resources be diverted from other funding streams. Instead, the Department is currently working with CMI and its stakeholders to identify opportunities for CMI to compete for funds to help sustain and further develop key activities, and to help CMI disseminate effectively the models of Knowledge Exchange it is developing so that others learn from CMI's experience.

We have informed the Public Accounts Committee that we shall learn lessons from the CMI experiment through assessment and evaluation. Experience of other DTI programmes suggests that this will cost something in the region of £250K.

Beyond that, we see good prospects for CMI's work being embedded in the wider academic community. Indeed, the success of the CMI experiment will be determined by the uptake of their ideas by Universities (including Cambridge) and by CMI competing successfully for funding from various sources. The OST funding has a further 18 months of activity to run, in which CMI can position itself for a new phase of activity.

Government investment strategy

13. The Government has set out its investment strategy in programmes to enhance the science and innovation performance of the UK over the next ten years in its Science and Innovation Investment Framework 2004-2014 document. We recommend our

successor Committee to revisit the progress, which has been made towards the knowledge driven economy towards the end of the ten-year time frame, set by the 1998 Competitiveness White Paper. As part of this work, we expect that our successor Committee will also wish to review the progress which has been made with regards to the ten-year science and innovation strategy. (Paragraph 96)

The Office of Science and Technology (OST) supports the Government in taking forward one of its highest priorities, namely the 10 year Framework for Science and Innovation.

OST works across Government to achieve the aim and objectives of the 10 Year Framework, including: the UK Research Base performing to world class standards; financially sound, responsive research departments in higher education institutions and public sector research establishments; increased business innovation and R&D, with stronger links, knowledge transfer and exploitation of research; stronger supply of scientists, engineers and technologists; more effective use of research, science and technology by Government in developing and delivering policies and public services; more effective UK engagement internationally in science and technology; and the UK public more confident about and engaged in science and technology (including its regulation and use by Government), with young people leaving school equipped to engage in these matters as active informed citizens of the future

The Government gave a commitment to publish its first annual stock-take on progress against the measures and attributes outlined in Annex B of the Investment Framework. This report will be published in summer 2005.

The previous Hewitt Ministerial Group on Innovation took oversight of taking forward the Investment Framework. The Group was expanded and renamed as the Ministerial Group on Science, Innovation and the Knowledge Economy (SIKE) to reflect its wider focus. More recently, it was agreed with the Cabinet Office that SIKE would be converted into a Cabinet Committee, reinforcing DTI's commitment to promoting world-class science and innovation and providing an ideal opportunity to create a joined-up vision across Government.

ICT and workforce skills

14. Improving productivity from ICT investment requires more effective use of ICT through an improvement in the ICT skills of the workforce. We are aware that the Government has increased the resources and programmes for improving the UK population's basic ICT skills. These have ranged from the recently released e-learning materials to aid primary school teachers to plan across their curriculum using ICT to offering basic ICT skills as a third area of adult basic skills, alongside literacy and numeracy, within its main programmes for adult learning such as the Skills for Life programme. (Paragraph 106)

15. Improving the ICT skills of the workforce should not be left solely to the public sector. Businesses are the ultimate benefactors of a well-trained workforce and should encourage their employees to improve their ICT skills. This could be achieved through the development of businesses' own ICT skills strategies. Moreover, however well-trained the workforce, the benefits of ICT will be small unless senior managers have an

informed, well thought out strategy to deploy ICT to increase productivity. This is not the job of government. Companies themselves need to place more emphasis on managers formally improving their knowledge and understanding of the benefits and commercial opportunities offered by the effective use of ICT. (Paragraph 107)

The Government supports the Committee's recommendations of paragraphs 106 and 107. The Department along with the Devolved Administrations in Scotland, Wales and Northern Ireland jointly sponsors the Skills for Business Network through the Sector Skills Development Agency (SSDA), e-Skills UK, the Sector Skills Council (SSC) for the IT sector, is part of the Skills for Business Network (SfBN). e-Skills UK was one of the first SSCs to be established, receiving a 5 year licence to operate from DfES in March 2003.

The importance attached to improving the ICT skills of the workforce has been demonstrated by the inclusion as one of the four Pathfinder Sector Skills Agreement (SSA) of the employer-led SSA for IT, which will be formally launched by e-Skills UK in June 2005.

e-Skills UK, whose Board is made up of top-level representatives from the UK IT industry, is licensed by Government as the Sector Skills Council for IT, telecoms and contact centres. DTI and other partners are working closely with e-Skills UK on the development of its SSA and related IT skills initiatives.

As part of the e-Skills UK research for its forthcoming SSA, it published a study, which predicted that growth in IT would create a damaging skills gap in ten years time unless both private and public sectors addressed this issue.

e-Skills UK is taking action through its pathfinder Sector Skills Agreement and has consulted widely with industry and other key stakeholders, including DfES, LSCs, RDAS and DTI, to formulate a three year industry-led action plan.

e-Skills UK already has a number of activities underway, including the e-Skills Passport (a tool for defining development needs for both employees in the IT sector, regardless of skills level, and their employers), an IT User Skills Framework and the industry-led Skills for the Information Age (SFIA) framework (a common reference model for the identification of the skills needed to develop effective ICT-using information systems). DTI is supporting the development of, and dissemination of, SFIA to help meet the IT training and development needs of UK employers.

In December 2004 e-Skills UK appointed an e-learning champion for the IT industry, who will work in partnership with DfES and education and industry stakeholders to promote the use of e-learning among employers.

In addition, to help bring Higher Education supply closer to industry demand, a new IT degree is also being developed by e-Skills UK. The Computer Clubs for Girls (CC4G) initiative, originally developed by e-Skills UK and DTI, is a recent successful example of getting youngsters more involved in IT. Following a regional pilot supported by the South East England Development Agency, the DfES has now agreed to support a national roll out of this programme, which will be formally launched by DfES and DTI in June 2005.

The Information Age Partnership has been a key vehicle for the Government and business to recognise the key role of ICT in driving up UK performance in the knowledge economy. We are committed to developing this relationship further and agree that awareness needs to be raised of the opportunities at all levels. Intellect, the trade body for the UK based information technology, telecommunications and electronics industry, is also helping to address the issue of how to fully exploit ICT as a facilitator for increased productivity and innovation across all industries and government.

Public procurement

16. Governments which directly invest in the effective use of ICT, for example by offering successful on-line public services and ‘smart’ public procurement practices, can increase awareness, amongst businesses and the broader public, of the benefits of ICT. However, even if government provides all its public services on-line there is no guarantee that their use will be taken up by the whole population. On our visit to the US, the City of Chicago, an exemplar for the provision of on-line public services, suggested to us that only one-fifth of the population use the on-line public services they provided. (Paragraph 117)

The Committee seem to be making two broad points that the Government can act as an exemplar—(a) governments who invest in ICT by providing online services can raise awareness of benefits of ICT and that, (b) putting 100% of services online is no guarantee of 100% take-up.

The Government agree with point (a) in principle. The private sector does have things to learn from successful IT enabled business projects in Government—particularly when considering the scale of these projects in Government, but similarly the public sector has a lot to learn from the private sector particularly around designing services around customer needs.

Government is making progress in this area. One example is Directgov, which brings together information from across many Whitehall departments in one place, making it easier for people to find what they want from government, rather than having to search across several departmental sites.

On point (b), we do not have a 100% target for take-up of online services. We recognise that different services have different audiences with different predispositions (about how they would like to receive the service).

The challenge for Government is to provide public services across the appropriate mix of channels that are not only more effective but of a higher quality and also more efficient.

The government is working towards getting a good customer insight that informs the overall service strategy, service design, the actual service proposition, the choice of technology, channel and organisation to deliver it.

Impact of offshoring

17. The figures supplied to us by NASSCOM to show the benefits for the UK from offshoring CCCs to India appear to highlight only the positive aspects for the UK. Negative consequences to the UK economy from offshored jobs, such as the cost of laying off UK workers and currency transaction costs, were not included in their analysis. The analysis also assumed that the UK and World economies would continue to expand and no analysis was provided for the case if this is not so. Although we agree that there is evidence of a positive benefit to the UK from offshoring we remain unconvinced that the magnitude of the benefits is quite as high as suggested by NASSCOM. (Paragraph 133)

18. Outsourcing and, in particular, offshoring, provides UK businesses with the solution to specific needs, for example lower costs and the ability to expand operations quickly. However, businesses need to be sure that these benefits are weighed against the costs they could incur from poorer infrastructure and lower consumer confidence. (Paragraph 149)

19. We are aware that the Government is currently in the process of compiling a more detailed response to the issue of offshoring and we look forward to its results. We recommend that the Government keep this situation under review. If it becomes clear that job losses in the service sector are becoming a serious problem, we have no doubts that this will be one area our successor Committee will want to pursue in the future. (Paragraph 150)

The Government is continuing to monitor developments on offshoring to build up a better understanding of its implications. This includes: examining recent research and studies by international institutions, academics and consultancies; encouraging case studies to discover the experiences of companies who have offshored; and preparing a fuller response to the issues raised in the DTI's consultation exercise.

Currently the evidence suggests there has been no net adverse impact on UK employment. Service sector employment is at record levels—24.189 million in December 2004—and many service sector jobs cannot be undertaken abroad.

It is difficult to estimate how many jobs might flow out of or into the UK in future. Any estimate of the net impact of offshoring should take into account the inflows of jobs created through the UK's success in international markets. Also any estimate needs to be put in context. There are roughly 200,000 people leaving and joining the UK's claimant count each month.

Within this strong national picture, there can be difficulties in local areas. The impact on individuals who lose their jobs as a result of offshoring decisions is well recognised. So it is important that where jobs losses do hit a particular area the Government is ready to respond. RDAs will take the lead in working with companies to examine potential alternatives and where these are not found, working with agencies such as Jobcentre Plus to identify short and longer-term assistance. There is also a comprehensive package of support for those facing redundancy, including the Rapid Response Service operated by Jobcentre Plus, which tailors post redundancy solutions to the needs of the local economy

and labour markets. In addition there is a Rapid Response Action Fund worth £15 million available to pay for one off support to address individual barriers to re-employment.

The Government remains aware of the arguments of the potential benefits of offshoring to the UK economy from: increased competition, helping to drive up productivity; and lower costs, some which will be passed through to customers as lower prices. A lower cost base will enable UK firms to become more competitive in world markets; raises the potential for the introduction of new products and services; provides benefits to the UK from firms in other countries offshoring or outsourcing work to the UK. The UK is the world second largest recipient of foreign direct investment, and UK exports of services that include those that are most typically outsourced (computing & informational services and other business services) were £ 32.5 billion in 2003.