



House of Commons

Business, Innovation and Skills
Committee

**Risk and Reward:
sustaining a higher
value-added economy:
Government Response
to the Business and
Enterprise Committee's
Eleventh Report of
Session 2008–09**

**First Special Report of Session
2009–10**

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The Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills. On 5 June 2009, the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills become the Department for Business, Innovation and Skills. On 1 October 2009 the Business and Enterprise Committee was renamed the Business, Innovation and Skills Committee to reflect that change. The Committee retained the same membership as the Business and Enterprise Committee.

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/bis.cfm

Committee staff

The current staff of the Committee are: James Davies (Clerk), Ben Williams (Second Clerk), Janna Jessee (Inquiry Manager), Aruni Muthumala (Economist) Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

Contacts

All correspondence should be addressed to the Clerks of the Business, Innovation and Skills Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is biscom@parliament.uk

First Special Report

1. The Committee published its Eleventh Report of Session 2008–09 on 20 July 2009. The Government's response was received on Friday 11 December and is published as an Appendix to this Report.

Government response

The Government welcomes the Business and Enterprise Select Committee's Eleventh Report: of Session 2008–09 'Risk and Reward: sustaining a higher value-added economy'

The Report makes a valuable contribution to the discussions now taking place about the best way to support this critical part of the UK's economy now and in the future.

The background of the inquiry: history and circumstance

Higher value-added goods and services will be essential to the strength of the UK economy in the future. Encouraging the growth of such activities depends on a realistic and measured assessment of the United Kingdom's strengths and weaknesses. This does not mean refusing to acknowledge the very real economic difficulties which face the country. However, this should be balanced by more confident and better-informed acknowledgement of the economy's very real underlying strengths. (Paragraph 19)

1. The UK Government recognises that as competitive pressures from the emerging economies continues to grow British firms must continue to move into higher value-added activities based on sophisticated knowledge and skills.
2. In April 2009 the UK Government published the policy statement '*Building Britain's Future - New Industry, New Jobs*'. This set out the Government's strategy for ensuring that British firms are well placed to take advantage of the new opportunities which will exist after the downturn.
3. The paper contained a detailed assessment of the key strengths and weaknesses of British businesses and the UK economy as a whole and identified where targeted action was needed to help high potential UK firms.

Manufacturing

Any strategy for ensuring that the United Kingdom has a higher value-added economy must not look simply at new opportunities flowing from new technologies or new challenges, such as the move to a low-carbon economy, but must also identify, safeguard and build on existing manufacturing strengths. (Paragraph 28)

4. The Government's Advanced Manufacturing Strategy published in July 2009 recognised the important contribution existing manufacturers made to the economy and looked at ways they could be helped to transform themselves to deal with new competitive challenges.

5. The strategy also identified new areas of potential high growth where Government action could have an impact, particularly focusing on underpinning technologies such as composites and plastic electronics where the UK has strengths on which to build, including world class science. The government published its strategy for advanced composites on 26 November and for plastic electronics on 7 December.

6. The priorities of the Technology Strategy Board are identified at the level of addressing specific market or societal challenges or maintaining core expertise in leading edge technologies, where the UK has real strength, and there are opportunities for growth. While investing in and helping develop capability in emerging industries such as Plastic Electronics, it also recognises and invests significantly to continue to develop capability in key areas of UK strength such as Aerospace and Chemicals/Pharmaceuticals.

Services

Although we recognise and emphasise the importance of manufacturing, it is only part of the economy. In the manufacturing strategy published in September 2008, the Government stated that “our future lies in a mixed and balanced economy with manufacturing and services reinforcing each other”. We agree. We should celebrate the fact that the United Kingdom is the second largest exporter of services in the world. (Paragraph 32)

7. As the Committee notes, the Manufacturing Strategy recognised the growth of servicisation. UKTI is leading UK-wide sector marketing strategies on key areas of UK business strength including financial and professional services and the creative industries. These strategies mark a step change in delivery in partnership with business and aim to change perceptions and position the UK as the world's preferred trading partner and investment destination in the services field.

Creative business: branding and design

Branding is an area where the UK creative industries are strong but which is talked about far too little in public debate. Government policy must sustain the creative industries that are responsible for the successful development of brands in the United Kingdom, and must protect effectively the intellectual property of the brands themselves. (Paragraph 34)

8. The Government recognises the importance of the creative industries, including branding and design, to the UK economy—in 2006, the creative industries contributed 6.4% of the UK's Gross Value Added. Government is committed to working with industry and other organisations to increase the productivity of the creative industries, raise their profile, and support their development so that the United Kingdom can become the world's creative hub.

9. The Government welcomes the Committee's comment on the importance of branding and the need to effectively protect the intellectual property of brands. The Rt. Hon. David Lammy MP, Minister for Higher Education and Intellectual Property, recently instigated a conference to debate '*Branding in a modern economy*'. In November 2009, for perhaps the first time, government brought together leading brand owners, SMEs, legal representatives

and policy officials to discuss the United Kingdom's inherent strengths in brand building, and the role of public and economic policy in establishing and supporting the conditions in which brand-focussed businesses may thrive. A series of workshops took place during the conference to provide an open forum for all interested parties to see what can be done to help develop and foster branding in the UK. A report from these workshops, together with their recommendations, will be published in due course.

The higher value-added ecosystem

The United Kingdom cannot build a higher value-added economy on a single sector, or type of intervention. Many different factors come into play. For example, a wide range of skills is needed if we are both to sustain manufacturing and maintain our strength in services and the creative industries. Government undoubtedly has a role to play in creating the right environment for innovation, and responsibility for this spreads beyond the remit of the Department for Business, Innovation and Skills. However, central government cannot foster innovation alone. Local policy makers, academia and, above all, industry itself—of all sizes—need to be involved. (Paragraph 37)

11. To build and secure the UK as a high value-added economy, the UK Government has announced as part of its *New Industry New Jobs* agenda a wide-ranging number of commitments aimed at boosting investment and innovation in a variety of priority sectors and technologies with the potential for high growth.

12. The UK Government has also just published the *Skills for Growth* Strategy (November 2009) which announced a number of commitments including a joint investment scheme to boost skills in priority sectors.

13. The Department for Business, Innovation and Skills is working closely with other government departments and agencies, business, the Technology Strategy Board, the RDAs and the Devolved Administrations to identify suitable investment for support from the Strategic Investment Fund. Details of projects and technologies which have been supported are set out in the Strategic Investment Fund Interim Report which was published in October 2009.

14. Through the Technology Strategy Board, we also help develop opportunities for such joint working between Government (central, devolved and regional), industry and academe. Recent developments include the establishment of a Knowledge Transfer Network in the Financial Services, targeted programmes focused on the Creative Industries and £30 million of activity in support of the Digital Britain agenda including £10 million for Digital Test beds—these will use the next generation broadband networks as test-beds to enable infrastructure providers, content owners and consumers to come together to trial innovative projects on micropayments and other methods of monetisation of digital content, new rights models and new methods of ensuring personal digital security.

Government policies

Over the last year, the Government has produced a succession of strategy and policy papers related to innovation and industry. Their proposals cannot be implemented by the Government alone. All those involved now need to ensure that the emphasis is on

the actual delivery of policies designed to support innovation, rather than producing further policy documents. (Paragraph 38)

15. Budget 2009 established the Strategic Investment Fund to support a range of targeted investments across the UK economy intended to strengthen its capacity for innovation, job creation and growth. As part of this process, the Department for Business, Innovation and Skills has been working closely with industry, the Technology Strategy Board, the Regional Development Agencies and the Devolved Administrations to identify suitable projects for funding.

16. In October 2009, the UK Government published its interim report on the Strategic Investment Fund which set out details of the projects and technologies which have already benefited from SIF support. These include a range of new advanced manufacturing technologies, low carbon energy technologies, and an Innovation Investment Fund providing capital funding for high-tech companies. The UK government has also just published the Composites Strategy (November 2009) which announced £22 million in new investment to further advance the development of composite materials

17. The UK Government will also be reporting progress on the Innovation Nation and Sainsbury Review recommendations in the forthcoming Annual Innovation Report

Central government

At this stage, although we make no comment on the inclusion of higher and further education within the new Department for Business, Innovation and Skills, we acknowledge the vital importance of improved skills to all British industrial sectors. We believe that the new Department is a welcome opportunity to coordinate policy on innovation, and to ensure that policy is consistent. (Paragraph 42)

18. The Department shares the view that skills development is vital for the future of British business, and that the creation of BIS offers an opportunity to build on what has already been achieved in co-ordinating policies across skills, higher education, innovation and science.

Research and development

The United Kingdom's relatively modest rates of R&D relative to GDP are in part the result of the structure of the United Kingdom economy. Indeed, the proportion of R&D financed by government is not out of line with many comparable countries. If the United Kingdom is to grow as a higher value-added economy, the policy challenge will be to encourage companies to take advantage of the United Kingdom's strengths as a source of innovation. This includes promoting the strength of United Kingdom research and development capabilities, but also looking at innovation more widely. (Paragraph 57)

19. The Government welcomes this affirmation of the need to consider innovation in the broad. R&D remains important but is not the whole story. BIS has policies in place to enable innovation to draw on the strengths of the research base such as the Higher Education Investment Fund (HEIF) and the support for collaboration between business

and Higher Education through the TSB. BIS also supports innovation through our partners in the knowledge infrastructure, such as the work of the National Measurement Office, National Measurement Institutes and the British Standards Institute. BIS officials are active in international fora such as the OECD, in developing more complete innovation measurement frameworks, including non-technological dimensions and the extensions to the public sector, on an internationally comparable basis. “Innovation Nation” put considerable emphasis on better measuring and encouraging innovation in the public sector and services.

Wider innovation

It should be possible to produce wider measures of innovation than those currently in use, and we are delighted that the Government has asked NESTA to work on this. However, as well as knowing how the United Kingdom is doing internally, we need to be able to benchmark performance against other countries. We hope the Government will take a lead in encouraging the development of better international monitoring. (Paragraph 57)

20. BIS has in fact been producing wider measures of innovation, in the form of the UK Innovation Survey, for some years. The recently-completed 2009 Survey covers 14,000 firms, and collects data on sales from innovative products, expenditures on different categories of innovation inputs (design, training etc, as well as R&D), innovation collaboration patterns and a range of other metrics. This data is internationally comparable, since it is part of the EU’s Community Innovation Survey, and is published on the EU’s website. This and related SET data also feed in to the EU’s Innovation Scoreboard, which indicates that the UK does well in comparative terms. BIS also takes part in the OECD Microdata project, which undertakes major comparative work with innovation data across countries. We are therefore fully committed to improved international monitoring, and strongly engaged in it.

Education and skills

It is vitally important that British education and training is as good as it can be and we welcome the growing public debate about the necessary steps to improve it. We are particularly concerned about the continuing complexity of the skills system and the impact this has on the smaller companies who wish to engage with it. But ultimately, the skills available to the United Kingdom depend on the individual choices made by individual students and workers. They will create the demand for the training which will sustain the higher value-added economy. They will only do so if they have a realistic understanding of the opportunities available to those with particular skills. They will also need to know employers rewards the skills they say they need. (Paragraph 64)

21. We know employers, particularly smaller companies, find the skills landscape complex. We have made good progress simplifying the system, working with the UK Commission for Employment and Skills. For example, we have cut bureaucracy in Apprenticeships and Train to Gain so the programmes are more accessible; and we have made Business Link the main point of access for all government support and advice, including on skills.

22. But we know employers still find it hard to understand the array of qualifications available; the length of time it takes to develop new ones; and find the number of skills bodies bewildering. *Skills for Growth—the national skills strategy* published in November, outlines our proposals to tackle these specific issues:

- we will continue to reform and simplify the range of vocational qualifications available and reduce development times to an average of 6 months and maximum of 12 months;
- we accept the UK Commission's recommendation to reduce the number of separate publicly funded agencies by over 30 and are working with them to implement it; and
- and to simplify things further, we task Regional Development Agencies to produce single regional skills strategies, working in partnership with Local Authorities, Sector Skills Councils and other local partners such as local employers.

Government understands how important it is for individuals to understand the opportunities available to them so they can be confident about making the right choices to get into and on in work.

23. In the Higher Education Framework, *Higher Ambitions*, published in November we set out our desire to ensure that students have much better information before they choose their courses – both about what they will be taught and about the future employment prospects.

24. *Skills for Growth* also outlines how Government will ensure everyone can equip themselves with the right skills for the jobs of the future and with the skills employers find valuable. We will give people access to information about career prospects and wage returns of courses so they can make their own choices.

25. The new adult advancement and careers service will be launched in August 2010, providing high quality information, advice and guidance to help people make the best choices. We will also introduce new skills accounts, putting consumer choice firmly in the hands of individuals. We will more than treble the number of providers where learners can use their skills accounts; and use them to provide quality information on how well different courses and colleges can meet their needs.

Risk taking and entrepreneurialism

The Committee recognises that a successful higher value-added economy is influenced by factors stretching across many government departments. The role of education in giving young people the confidence, ambition and skills to be creative and entrepreneurial is vital. The Committee welcomes the Government's proposals to extend and develop entrepreneurial training. The Committee also believes that it is important to teach children from a young age to take appropriate risks and not to fear failure. We recommend that the Government incorporates this into education on entrepreneurship. (Paragraph 69)

26. Government's (DCSF) education strategy aims to develop 'can-do' attitudes in young people and to raise their aspirations. A key part of this strategy is to encourage young people to take risks and to manage them and to do this with determination and drive. We want to persuade and enable teachers to embed enterprise education into the curriculum so that young people learn to take and manage risks in their personal and working life and can cope with change and adversity. An 'enterprise learning environment' in schools allows students to take personal responsibility for their actions and to tackle problems which involve an element of risk as well as reward for the successful resolution of these risks.

27. As young people progress into Further and Higher Education, they are also becoming increasingly exposed to the different facets of enterprise, with more institutions recognising the importance of helping students make the transition into self-employment. Government is encouraging the institutions to work with the likes of Enterprise UK and the National Council for Graduate Entrepreneurship (both funded by BIS), and with Regional Development Agencies, to increase the opportunities for students to participate in enterprise-related activities and to learn business skills, in a controlled environment (and therefore one where risk can be experienced with less consequence) as part of their studies or as an extra curricula activity.

We also stress the importance of well-informed up to date careers advice in schools to encourage children to consider careers in business—especially in engineering—and in entrepreneurship, alongside balanced advice about other careers. Careers advice in most schools appear not to be of the standard required to enable young people to make properly informed choices and we urge the Government to consider how this serious shortcoming can be addressed. If our economy is to continue adding value and competing successfully internationally, it is essential that young people understand the true range of opportunities open to them (Paragraph 70)

28. On 26 October, the Department for Children, Schools and Families published the new 'Information, Advice and Guidance' (IAG) strategy which aims to modernise IAG and careers education to make it accessible for today's generation of young people and to keep pace with a rapidly changing economy. We want all young people to aim high and to be able to unlock their skills and talents. The principles underpinning this 21st century approach to excellent IAG are:

- Excellent, personalised and impartial careers information, advice and guidance in schools
- Support for parents to help them help their children to make the right decisions
- State-of-the-art on-line IAG resources, accessible 24/7 by young people and their parents, with links into one-to-one advice

The strategy includes extending excellent careers advice into primary schools because in order to raise aspirations of our young people, we need to ensure that they receive the right advice from an early age. A further part of the new IAG strategy is to encourage the take up of Science and Maths A-levels. The guidance provided places emphasis on the importance of these subjects and advice for students deciding what A-levels to take.

Shifting the United Kingdom’s culture to one which accepts that making progress may require taking risks, and that success is not always guaranteed, will take time, but will be vital to the future success of our economy. It will depend in large part on a more balanced approach from politicians and the media—two groups that too often seem to celebrate failure with more enthusiasm than success (Paragraph 73).

29. In promoting the opportunities available through enterprise, Government recognises the importance of ensuring that individuals get appropriate advice and guidance at every stage to enable them to make informed choices about whether self-employment is right for them. This includes a clear articulation of the risks inherent in such a decision – but also a realisation that such risks can be managed and that it is often necessary to take risks in order to succeed. The UK culture is typically seen as “risk averse” (when compared to the US), but much can be done through educational programmes and by highlighting role models for whom risk has not been a barrier, in order to change attitudes amongst the would be self-employed.

The public sector

In *Innovation Nation*, the Government announced that the National Audit Office will be conducting a study into the role of risk in public sector innovation. We welcome this development. We have no desire to waste money, but progress requires risk-taking. Some of those risks will lead to a project’s failure, in whole or in part. We believe that the United Kingdom’s culture is too risk averse. This needs to change in the public as well as the private sector. (Paragraph 74)

30. This is well recognised across government. The NAO covered the role of risk in public sector innovation within its report ‘Innovation across central government’ which was published in March 2009.

31. This report recognised that Britain has a long track record of public services innovation, from the creation of the National Health Service, the Open University and the BBC through to innovations in medical procedures like keyhole surgery. However, government recognises that against the background of a global economic downturn and tightening public finances, more needs to be done.

32. The report identified a number of critical success factors for innovation, including the need to ensure that risks are well managed. It also highlighted the importance of learning from testing and piloting when trying something new, and quickly identifying what is not working. A good understanding of risks also includes the risks of not innovating.

33. These factors are included in the package of measures that BIS is further developing to support innovation across central Government. A number of programmes have already been established to help build a culture of innovation and to support departments to work more openly and collaboratively and to create an environment where staff are both encouraged and incentivised to come up with and try out new ideas in a safe environment.

34. These include the Design Council’s Public Services by Design programme, which focuses on the use of design techniques to help public sector organisations transform service delivery. In addition, the National Endowment for Science, Technology and the

Arts (NESTA) Public Services Innovation Laboratory develops new methods for uncovering, developing, and testing new ideas and innovations.

Clusters

Strong academic institutions can play a key role in supporting valuable clusters of innovative industry. In the best examples, academics, entrepreneurs and public institutions understand and value one another's contribution. It is impossible to mandate such cross-fertilisation between universities and industry, but a great deal can be done to support it, by providing collaborative facilities, by supporting technology transfer and simply by promoting networking. Collaborations of this kind, formal or informal, offer a great deal to all parties concerned, and we have seen that universities, financial institutions and industry can all play an active part in supporting them. Public authorities should be aware of the benefits of this kind of clustering, and should actively look for ways in which they can act as catalysts to encourage it. (Paragraph 79)

35. We welcome the recognition that networking and collaboration can bring and we are working to facilitate such joint working through investments in Knowledge Transfer Networks, joint working between the Research Councils and the Technology Strategy Board, and through the Technology Strategy Board's increased focus on challenge-led innovation, which seeks to create the opportunity to bring together key partners (government, business and academe) and creating critical mass to address major challenges e.g. through activities such as its £150 million Low Carbon Vehicles Innovation Platform that brings its funding together with that of the Department for Transport, Regional Development Agencies and the Engineering and Physical Sciences Research Council (EPSRC), under which, the EPSRC is for example supporting a £7m Strategic Programme to develop a portfolio of university based research focussed on key longer term technologies for lower carbon vehicles that will inform future calls/activity by the Technology Strategy Board.

Collaborative research

Recognising and building on the research strengths both of the United Kingdom as a whole, and of particular areas, will be essential to sustain a higher value-added economy. In principle we strongly support developments such as the proposed UK Centre for Medical Research and Innovation. (Paragraph 81)

36. The Government agrees that strength of our research base should be a vital asset to help sustain a higher value-added economy. The UK Centre for Medical Research and Innovation represents an exciting prospect through creating a world-class centre for interdisciplinary medical research as part of a growing cluster of excellence and international renown in the heart of London. The centre will bring together a critical mass of expertise from the contributing partners and facilitate interdisciplinary research with UCL and clinical interaction with the many teaching hospitals in the area with a view to promoting greater translation of basic research into clinical benefit.

We applaud the development of centres of excellence such as Quantum Technology Partnership, and its approach of fostering collaboration among existing institutions rather than duplicating effort. (Paragraph 82)

37. The Government agrees that university business collaboration will be important for the higher value-added economy. Research Councils work with over 2900 businesses in sectors ranging from engineering to insurance, broadcasting to biotechnology. Furthermore, we know that the strength of the United Kingdom's research base can also help to attract inward investment of knowledge-intensive firms: UK Trade and Investment (UKTI) say that they have used the strength of the research base to attract more than 200 Research and Development (R&D) investments to the UK during 2008-09 alone.

Technology Strategy Board

The Committee supports the role of the TSB and its re-focus on driving innovation. We believe that the TSB can play a strong role in helping industry, especially developing sectors, to develop a higher value-added economy. The TSB should work on behalf of the Government to help to foster an enterprise culture within which risks can be taken and where fear of failure does not hinder innovation. However, although it is tackling a broad remit with enthusiasm, the TSB is a small organisation. We will be keeping the extent to which its remit is too broad, or its resources are adequate, under review. (Paragraph 88)

38. We welcome the Committee's strong support and endorsement of the valuable work of the Technology Strategy Board.

It is clear that there has been significant progress on university-business collaboration since the Lambert Report in 2003. It is also clear that much more needs to be done. Since this is a matter of building relationships between individual institutions and companies, progress will necessarily be slow. We are encouraged by the success of knowledge transfer partnerships, but recommend that the process of applying for such partnerships should be made faster and simpler. (Paragraph 93)

39. The process of applying for and supporting Knowledge Transfer Partnerships is kept under constant review and the Committee may wish to note that the Technology Strategy Board and its partners recently launched shorter, more flexible KTPs, over 100 of which have been funded to date, focused towards smaller companies not requiring a more in depth longer project. The shorter KTP application process was simplified when designed and is wholly electronic.

Innovation vouchers

The Committee recognises the vital importance of the small business sector to innovation in the private sector. We therefore welcome the recognition of the success of Innovation Vouchers as one way of achieving a better dialogue between SMEs and universities. We consider their effectiveness should be kept under review, and further support for them be given, if appropriate. (Paragraph 95)

40. Innovation Voucher pilot schemes have now been rolled out in eight of the nine English regions, with the South West looking to roll out their scheme from April 2010. By the end of June 2009, over 1,300 vouchers had been issued to SMEs with a total value of over £4.5 million.

41. BIS will be working with the RDA network over the remainder of the current CSR period to evaluate the impact of the vouchers and the different pilot voucher schemes. This evaluation will help inform considerations on whether Innovation Vouchers are developed into a formal product within the Solutions for Business portfolio of business support products.

Mission-led innovation

The Committee considers that mission-led projects can encourage greater innovation. However, as we saw at DARPA, such approaches work best in a culture which does not fear failure and which is not subject to obsessive accountability requirements. The Committee believes this method must be embraced and encouraged more by the Government and recognised in future policy formulation. Innovation will, by its very nature, always be elusive in a bureaucratic culture. (Paragraph 100)

42. We welcome the Committee's strong endorsement for Mission-led innovation and would like to draw the Committee's attention to the concept of challenge-led innovation which has been pioneered by the Technology Strategy Board, through activities such as the aforementioned Low Carbon Vehicles Innovation Platform. This particular platform seeks to:

- Accelerate industry investment in low carbon vehicle commercialisation;
- Build new partnerships to address technical challenges; and
- Increase UK-sourced products offered to the market.

And is also an integral component of the policy package outlined in *Ultra-Low Carbon Vehicles in the UK*, which will be delivered by the new Office for Low Emission Vehicles, and will seek to position the UK as one of the global leaders of Low Carbon Vehicle development, demonstration, manufacture and use.

43. The Technology Strategy Board is also rolling out of the Small Business Research Initiative (SBRI) more broadly across the public sector to help industry provide potential novel solutions to meet public service challenges in areas such as security and defence, healthcare, transport and retrofit demonstrators for low carbon buildings. To date, 25 SBRI competitions have been launched over the last six months, and 277 contracts awarded with a value of £9.3 million.

44. Furthermore, the Technology Strategy Board is also exploring innovative ways in which to support mission/challenge based activities. For example its recently launched Grand Challenge competition in Composites represents a unique approach that will see a £5m prize awarded to British business to develop innovative composite manufacturing techniques for high-performance, high-value products. It addresses a major barrier to the commercial exploitation of composites across all sectors and offers British companies the

chance to become world leaders in this area by developing cost-effective and rapid manufacturing processes.

R&D tax credits

On balance, the evidence available suggests that R&D tax credits have been successful and that they are becoming more so as awareness of them grows. Businesses take time to adjust to new policy instruments, so this increased awareness is not surprising. We recognise, then, that the policy needs time to produce its full effects, and welcome the Government's commitment to a full evaluation in due course. However, although we support the principle that business needs some basic certainty about the incentives available, this should not prevent improvements to the tax credit system before then. We particularly urge the Government to look at ways in which the scheme could be made more accessible to SMEs by reducing both the eligibility thresholds and the complexity of the scheme. (Paragraph 108)

45. R&D tax credits were introduced in 2000 for companies that are small or medium-sized enterprises (SME's) and extended in 2002 to large companies. The schemes are one of the Government's most important policies designed to promote innovation in the UK, playing an effective role in supporting business R&D expenditure.

46. The latest statistics show the continued success of the schemes. Since their introduction over 36,000 claims have been made for R&D tax credits with over £3.0 billion of relief claimed, supporting over £32 billion of R&D activity by companies.

47. Government has undertaken a number of measures to enhance and improve the schemes, and their accessibility for all companies. The rate of relief was increased from 125 to 130 per cent for large companies from April 2008, and from 150 to 175 per cent for SME's from August 2008. Additionally, to improve the claiming process for companies, HMRC established seven specialist R&D tax credit units in 2006 to deal with R&D tax credit claims, working alongside the Large Business Service where appropriate. The units provide consistency and certainty for companies making claims, and also play a role in raising awareness of the schemes.

48. The Government is committed to evaluating the effectiveness of the schemes, focusing first on the SME scheme, by the end of 2010.

The Committee strongly agrees that innovation is much broader than R&D and that wider innovation should also be encouraged. Nonetheless, we would be cautious in making radical changes to the R&D tax credits scheme, which is currently seen as a success, particularly before it has been properly evaluated. However, we strongly encourage the Government to think about how it might better encourage innovation beyond the current support for traditional R&D and particularly, how it will encourage innovation in the service sector. (Paragraph 111)

49. BIS firmly recognises the importance of services in the economy, including the role of business services in supporting wider business productivity and growth, including in the current, difficult economic circumstances. The importance of wider innovation in the Service sector and the Public sector was recognised in "*Innovation Nation*" which included a number of measures to support innovation beyond traditional R&D.

50. The report “*Supporting Innovation in Services*”, published by BERR and DIUS in August 2008, examined the nature of innovation in service sectors and confirmed, from discussions with service businesses, that traditional research and development is seen as less relevant to their innovation, which is markedly customer- or user-centric. BIS is following up “*Supporting Innovation in Services*” across Government policy delivery in key areas - including promotion of ICT and software to transform business processes, skills and standards for services - and it is coordinating implementation of a package of specific policy interventions identified in the report, which aim to improve the environment for innovation in service sectors.

51. In addition, BIS is working with ONS and DCMS to better understand the wider economic benefits of innovation in the creative industries sector and will report in early 2010.

Intellectual property

The Committee welcomes the fact that responsibility for IP within Government will lie within the new Department for Business, Innovation and Skills. All too often, intellectual property is seen as synonymous with patenting; one of the tasks of the department should be to raise awareness of the variety of ways in which such property can be protected. (Paragraph 114)

52. BIS has as dedicated Minister of State for Intellectual Property, the Rt. Hon David Lammy MP who is responsible for the Intellectual Property Office (IPO) which leads on the majority of IP policy for the government and also represents the statutory body for the administration of IPRs. In recognition of the role of IP in innovation and knowledge economy the IPO's activities are configured around four main themes;

- (i) Improving the understanding of the role intellectual property plays in Britain's economic life, and in the competitiveness of UK's businesses—the economic evidence issue;
- (ii) Shaping the policy environment on IP, particularly in Europe and internationally;
- (iii) Reaching out more effectively to individuals and individual companies in the UK to help them better understand, manage and benefit IP effectively and
- (iv) continued excellence in delivering individual rights: patents, trademarks and registered designs.

We believe that the British Library Business and IP Centre is providing an exemplary service to the SMEs and entrepreneurs of the capital and we would like to see this model replicated throughout the United Kingdom. The Committee recommends that the Government secure the Centre's long term funding to enable it to provide a service to business people across the United Kingdom and provide funding for similar centres in key business hubs within the United Kingdom. (Paragraph 115)

53. We agree that quality IP advice is an essential component in ensuring the UK's future economic prosperity. In the current economic climate, it is more important than ever for UK businesses to continue to invest in the future, to protect and make their ideas work, and be able to compete on the world stage when the economy begins to recover.

54. The IPO offers IP help to inventors and business through online information and advice including interactive IP Healthchecks, the IPO central enquiry unit, various business support literature including licensing templates, a programme of regional awareness events, IP Masterclasses, and training of intermediaries (public and private sector business advisors) including HMRC, UK Trade & Investment, British Standards and Patent information centres (PATLIB).

55. Various other bodies also provide IP advice and the British Library make a valuable contribution to this IP information and advice landscape.

56. The future provision of IP support for business will be considered within this wider context. The IPO will continue to provide advisory support. How that is supplemented by local delivery will continue to be a matter for local providers; the extent to which the government provides direct support for these providers falls to be considered in the wider context of future spending decisions.

Public procurement

The Committee highlights the vitally important role for public procurement in stimulating innovation in the United Kingdom. The Government has an obligation to use the large amount of money that it spends each year on public procurement to stimulate innovation. We welcome the Government's promise to accept the Glover Committee recommendations and look forward to monitoring the results this produces for SMEs. (Paragraph 120)

57. In the current economic climate, it is more important than ever that Government obtains maximum value from its expenditure on buying goods and services. The 2009 Pre-Budget Report (PBR) announced that the Government is prioritising its pursuit of certain policy agendas to stimulate economic growth, by harnessing its purchasing power. These agendas are apprenticeships, skills and youth employment, small businesses, and low carbon resource efficiency. The Government will in January publish a Policy through Procurement (PtP) Action Plan showing how it will use procurement to deliver against these policies.

58. Running through the action plan is innovation. Driving innovation through public procurement gives the Government the potential to create better value for money by contributing to better quality public services, reduced costs and faster achievement of benefits. The new OGC/BIS pamphlet 'Driving Innovation through Public Procurement'¹ shows Government departments the positive steps to take at the various stages of the procurement process to encourage innovation. Moving to outcome specifications is important. It also shows how they can encourage suppliers to use their capabilities and know-how to innovate in ways that will benefit both public services and the wider economy.

59. Innovation Procurement Plans have been published detailing the type of activities being taken forward by Departments to obtain innovative solutions and to embed

¹ The guidance can be found on the OGC website http://www.ogc.gov.uk/documents/OGC09-0679_InnovationBrochure.pdf

processes for the procurement of innovation in their procurement procedures. BIS and OGC will continue to work with Departments to further develop the Plans.

60. Linking the delivery of these plans to the PtP agendas will ensure we maximise the potential offered by public procurement to deliver innovation and key policy priorities. Innovation lies at the heart of the investment-led recovery and the 'green-jobs revolution'.

61. Good progress has been made against the recommendations of the Glover Committee's report *Accelerating the SME economic engine*, and the Government has also announced in the 2009 PBR that:

- online training aimed at increasing SME understanding of the public procurement process is being enhanced and will be free of charge when it is re-launched on Learn Direct in January 2010;
- the Government will increase the transparency of its spend and will in summer 2010 publish the level of central government spend with SMEs; and
- a free, online portal will be delivered by HMRC and accessed via the BusinessLink.Gov website by end 2010. This will enable all contract opportunities above £20,000 from across the public sector to be viewed in one place.

The Government will have delivered on the majority of the recommendations this financial year. The key challenge is now to institutionalise SME-friendly procurement across the public sector to enable SMEs to benefit from public procurement opportunities and to enable the public sector to benefit from their vfm, innovation and flexibility. To do that OGC is working with change agents in the local government, health and education sectors.

We welcome the OGC's guidance on innovation and procurement; the difficulty will be to ensure that departments and individual officials really understand the ways in which procurement can support innovation, and are supported in using procurement policy in this way. It will require the public sector, and those who monitor its effectiveness, to take a balanced approach to risk, rather than simply reaching for the tried and tested way of doing things, because it is safer. (Paragraph 121)

62. The Government continues to develop the procurement profession across Government to help ensure departments deliver procurement increasingly innovatively. Also, the procurement capability review (PCR) self-assessment process has the assessment of 'innovation' embedded in it.

63. The Government recognises that there can be a tendency for procurers to opt for low-risk solutions, low-margin players and mature technology and that innovation is not consistently welcomed or rewarded. In undertaking an innovative procurement, procurers should apply best practice consistently, including effective risk management because innovation and risk often go hand in hand. Risks can be embraced so long as they are effectively assessed and managed. For example, both the Forward Commitment Procurement (FCP) and Pre-commercial Procurement (PCP) approaches, such as the Small Business Research Initiative (SBRI), provide ways to manage the risk of procuring innovative products and services.

Small Business Research Initiative

The Committee welcomes the establishment of the SBRI in the United Kingdom and hopes that it will play its part in fostering a true spirit of innovation. The Committee also recommend that the Government use a larger part of the public procurement budget to invest in riskier, high payoff projects that will help to stimulate a change of culture within government departments and in the UK economy. Such a policy may be considered courageous in the prevailing climate, but the example of DARPA in the USA shows the value of such courage. (Paragraph 123)

64. Following the Sainsbury Report on science and innovation, SBRI has been reformed to ensure that it focuses on the objectives of supporting technology based innovations within SMEs while delivering solutions to government needs that result in improved delivery of public services at better value for money. The reformed SBRI programme is managed and supported by the Technology Strategy Board, thus ensuring that the buying body benefits from its expertise in framing competitions and in engaging with industry and from its increased outreach, particularly to SMEs.

65. The Technology Strategy Board ran SBRI pilot schemes in partnership with the Ministry of Defence and the Department of Health in 2008. Building on the lessons learnt from those pilots, the scheme was relaunched in April 2009 and has now been extended to include other public sector bodies, e.g. Department for Transport and Home Office have run competitions, and the Technology Strategy Board are engaging with RDAs and local authorities. Topics for competitions have come from a wide range of areas, addressing significant public service challenges—such as paediatric transport, modelling complex traffic systems on motorways, detecting intent in crowded places, low carbon buildings and patient safety. Proposed solutions have come from a wide range of industry sectors, with competitions effectively reaching out to companies that the procuring authorities would not have normally engaged with. The first 25 competitions generated 956 responses which resulted in the award of over 270 contracts with a total value of £9.3m. Whilst this represents dramatic growth since the rollout of the programme commenced in April 2009, growing the scheme at the same rate over coming years will be challenging, and BIS and TSB are working together to promote greater use of the scheme by central government departments and other public sector bodies.

Access to finance

We welcome the launch of the UK Innovation Investment Fund, although only time will tell whether the investment from the Government will leverage all the money required. (Paragraph 127)

66. We welcome the Committee's support of the UK Innovation Investment fund, which has been endorsed by the British Venture Capital Association and a number of trade associations.

67. We recognise that the climate for fundraising is difficult—that is why we are establishing the fund. But we are confident, firstly, that we will achieve the initial target of raising investment that matches the Government's £150 million and, secondly, that the

UKIIF will be one of the largest technology funds in Europe worth up to £1 billion over its 15 year life.

The future of the higher value-added economy

The Government needs to take a leading role in being prepared to experiment, to take more risks, to spread best practice, and to monitor and fund initiatives that are shown to work well. It must also be prepared to put in place a policy framework which supports successful industry, as well as encouraging new businesses to begin. We acknowledge, however, that this is a difficult task. We believe that the Government is saying many of the right things; it now needs to make sure its many policy documents are translated into action. (Paragraph 130)

68. The UK Government has followed up the policy documents which it has published with concrete action and support. For example, in recent weeks and months it has launched:

- The Advanced Manufacturing Strategy (July 2009) which announced a package of measures totalling £150m in targeted new investment in emerging technologies including plastic electronics and industrial biotechnology
- The Composites Strategy (November 2009) which announced £22m in new investment to further advance the development of composite materials
- The Skills for Growth Strategy (November 2009) which announced a number of commitments including a joint investment scheme to boost skills in priority sectors.