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Minister for Science and Innovation

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Pre-Budget Report

Further to my letter to you of 8 January, I am now in a position to provide you further information about a difference of £555 million between planned and outturn science research expenditure for 2007-08, as indicated by the Science, Engineering and Technology (SET) Statistics (Table 3.2: Net Government expenditure on R&D by departments in real terms).


In the timescale available, investigations have necessarily focused on the three departments showing the most significant changes between their planned and outturn R&D expenditure for 2007-08: Department for Environment, Food and Rural Affairs (Defra), the Department for International Development (DFID) and the Ministry of Defence (MOD) – ‘Development’ line. Their explanations are summarised in the table below and indicate that the changes relate to differences in reporting in this recent issue of the SET Statistics rather than planned research not taking place. In the case of DFID and MOD, these departments previously included spend related to activities falling outside the definition of R&D set out in the OECD’s Frascati Manual. The drop in expenditure for Defra can mostly be attributed to an oversight by the Department resulting in the omission from the most recent return of R&D expenditure data for its Non-Departmental Public Bodies (NDPBs); there remains a small residual difference, of the order of £5 million, some of which reflects a small but real reduction in Defra’s R&D spending from what was originally planned.

I understand that when the outturn data for 2007-08 was collected last year, the Office for National Statistics (ONS), which compiles these statistics, refined the questionnaire issued to departments to improve the accuracy of reporting against the Frascati definition of R&D. This has improved reporting but has led to differences between outturn departmental R&D spend provided for the 2009 update and the planned figures previously provided for the 2008 update.

The impact of these issues on what can be inferred from the R&D expenditure data as a whole is unhelpful and there remains a level of uncertainty in relation to this data.

It is important that we have accurate information on this and can track changes in departmental expenditure on R&D over time – both to scrutinise whether there have been any reductions in investment in R&D by departments and to hold departments to account, as appropriate. I have therefore asked officials to work with departments and ONS to ensure that such inconsistencies are minimised in the future.

In addition, reflecting the importance of departmental investment in R&D, I have asked the GCSA to report regularly to ED(SI) – the Cabinet Sub-Committee on Science and Innovation that I chair – on departmental investment in R&D. ED(SI) has also agreed that 'Departments should consult the GCSA and HM Treasury, in advance, of any potential cuts to research budgets or expenditure, including those that have implications for the funding of cross-cutting research.'

Yours ever


LORD DRAYSON
MINISTER FOR SCIENCE AND INNOVATION

Department	Difference between planned and outturn figures for 2007-08	The difference in the SET figures relates to:
Defra	-£61m	<p>The apparent drop in the SET figures is largely due to inconsistent submission of data by Defra between the 2008 and 2009 updates.</p> <p>For earlier updates of the SET Statistics (i.e. up to and including the 2008 update), the annual R&D expenditure returns provided by Defra to ONS comprised the amount spent directly by the Department ('Core Defra'), its Executive Agencies and a number of NDPBs, such as Kew, the Environment Agency and Natural England. An error by Defra in its return for the 2009 update meant that the outturn figures for 2007-08 did not include those for its NDPBs. This created a shortfall of around £53m between planned and outturn figures for 2007-08.</p> <p>With the inclusion of data for its NDPBs, Defra's R&D expenditure is actually about £187m for 2007-08. The small residual difference between the planned and outturn figures for 2007-08 (in the order of £5m) is explained partly by a small reduction in Defra's R&D spending and partly by changes in reporting (e.g. on staff costs, where ONS guidance has both changed and been interpreted in different ways).</p>
DFID	-£111m	<p>There is a discontinuity in the DFID time-series on R&D spend resulting from the introduction of a new budgetary reporting system from 2007-08 which provides a more accurate reflection of spending levels consistent with the SET Statistics definition. Prior year figures are not directly comparable and the change in reported DFID R&D spend should not be interpreted as a reduction. On a like for like basis DFID R&D spending increased from £112m in 2006-07 to £134m in 2007-08: an increase of 20%. This is in line with DFID's commitment to double it's investment on research to £220m by 2011 to make the UK the largest government funder of international development research. DFID is working on providing a fuller historic time-series on the revised basis for inclusion in future SET statistics.</p>
MOD – Development	-£497m	<p>Methodological changes have taken place that reflect more accurate reporting using the definitions set out in the OECD's Frascati Manual. Some activities (for example, on pre-production, manufacture, software upgrades, refining existing designs) had previously been incorrectly reported against 'development'. The figures in this update have therefore been adjusted down to reflect this.</p>

